



City of Newport News
Office of the City Manager

March 28, 2023

TO: The Honorable City Council
FROM: City Manager
SUBJECT: Recommended FY 2024 Operating Budget

I am pleased to present the recommended operating budget for the fiscal year beginning July 1, 2023 and ending June 30, 2024. This budget builds upon numerous transformative initiatives that are currently being implemented throughout the City while also taking into account the services, projects, and investments our city and residents need to continue to grow and thrive.

Newport News is a city built on breakthroughs. Approaching our work as a unified community allows the City to make the most of opportunities, industries, and our collective energy. As it was so aptly worded as part of our branding initiative, we are not a city that sits on the sidelines, waiting for our opportunity to shine. We are a city of dreamers and doers, innovators and inventors, scholars and singers, and everyone in between. As a result, we have become ***the best at what we do.***

Despite challenging economic conditions and the uncertainty of inflation-driven pressures, we are making strategic investments in *People, Places, and Government*. The heart of this recommended budget is the people and the lives that will be changed through our investment of resources.

This budget is not just about numbers, it is about the future of our residents, students, employees, businesses, and visitors. Our goal is to ***build a better future*** for every person in Newport News.

This spending plan will achieve this goal by:

- Investing in our schools, creating places where students can safely learn.
- Taking care of the city team.
- Building safe neighborhoods by investing in public safety initiatives.
- Continued engagement with community-based organizations that are addressing gun violence.

- Expanding access to human services programs, particularly for those experiencing mental health challenges.
- Providing efficient and quality city services.
- Funding partners that provide accessible healthcare to vulnerable populations and increasing outreach to the homeless community.
- Supporting innovation, creativity, and lifelong learning.
- Ensuring sound fiscal management.

OVERVIEW

The total recommended FY 2024 Operating Budget is \$1.1 billion, which is an increase of \$58.7 million or 5.6% higher than the current fiscal year revised budget. The total Operating Budget includes the General Fund, Schools, Waterworks, and all Special Revenue and Trust Funds. The Recommended General Fund Operating Budget is \$610.3 million, an increase of \$30.6 million or 5.3% higher than the revised FY 2023 budget.

REVENUE OUTLOOK

Current economic conditions are creating an increase in revenue, but we must adhere to our strong financial management and conservative budgeting practices to balance the uncertainty surrounding local and global inflationary pressures. Our proposed budget balances these concerns while leveraging assets to benefit the lives of our residents, businesses, and guests.

Real estate tax revenue is the largest single revenue source for the City and is the principal revenue in the General Fund. Real Estate assessments reflect current market demand for both residential and commercial properties. This year all property types experienced increases in assessed value. Overall, Real Estate tax assessment is estimated to increase 9.5% over the prior year. The Recommended Budget is based on maintaining the real estate tax rate of \$1.20 per \$100 of assessed value.

Personal Property Tax revenue is estimated at \$62.5 million for FY 2024. Last year, when the Calendar Year 2022 assessment was complete, values were anticipated to increase by an average of 33%. As a result, City Council adopted a resolution temporarily reducing the assessment rate from 100% to 75%. This assessment change was applied to the June 5, 2022 and December 5, 2022 billing cycles. Since then, vehicle values have stabilized. At this time, the Commissioner of Revenue is nearing completion of the Personal Property Tax levy. At the 100% assessment rate, it is anticipated that the average vehicle owner will see an increase of 5% above the tax paid in Calendar Year 2022. There are no recommended changes to the tax rate of \$4.50 per \$100 of assessed value nor the assessment level for FY 2024.

Self-supporting funds are anticipated to have sufficient revenues and no user fee rate changes are recommended for FY 2024.

EXPENDITURE CHANGES

While developing the FY 2024 Recommended Operating Budget, our primary focus was supporting residents, employees, businesses, and guests. The breakthrough initiatives we are proposing are built to change today and impact tomorrow.

To that end, the following highlights some of the major initiatives included in the FY 2024 Recommended Operating Budget. A summary of all the FY 2024 proposed expenditure changes is included in the Recommended Budget document under the section *General Fund Expenditures*.

Services for the people who make up our community, as well as new opportunities and initiatives that enrich our city, are the most important components of the FY 2024 Recommended Operating Budget.

Education and Learning

Educating our young people continues to be one of City Council's highest priorities. This commitment is reflected in the budget, with full funding of the School Operating request and the inclusion of cash capital to address school security needs. Specific contributions to Newport News Public Schools are addressed on page seven.

Birth to age five are the most critical, foundational years in a child's life. In fact, 90% of a brain's development occurs by age five. In Virginia, 40% of children enter kindergarten unprepared in literacy, math, self-regulation, or social and emotional skills. As a community, we are focusing on doing better for our children.

The Recommended FY 2024 Operating Budget is a commitment to building better futures and ensuring that our youngest citizens have the foundational building blocks for success. We will continue our public-private partnerships that are focused on early childhood learning.

To support lifelong learning and encourage residents of all ages to investigate the world around them, we will continue to enhance services at the Brooks Crossing Innovation and Opportunity Center. Funding for a project coordinator and additional part-time staff will allow for expanded Center operations in evenings/weekends, and for additional workforce development program enhancements.

Health, Safety, and Well-Being

Currently the City's Human Services Department provides an evidence-based home visiting service known as the "Parents as Teachers Program." The FY 2024 budget provides funding to expand this service to allow the Department to serve more than 80 new families with children experiencing behavioral challenges and emotional

disturbances, as well as those who have not had a preschool experience prior to entering kindergarten.

With a focus on Community Support, the proposed budget addresses the full funding request of the Community Services Board for personnel and healthcare support. Full funding is also provided for Lackey Free Clinic to provide accessible healthcare. In addition, funding is provided to support Menchville House's efforts to assist with emergency shelter for homeless families seeking permanent housing.

Opportunity and Economic Prosperity

In Newport News, we have a strong economic base with industry, manufacturing and innovation driven by Huntington Ingalls Industries – Newport News Shipbuilding, Liebherr, Cannon, and Riverside and the potential for the growth and development at Jefferson Lab is an unprecedented opportunity. Newport News is an economic driver for the Peninsula and the Hampton Roads region. The proposed budget continues the investment necessary to maintain a supportive business environment and economic opportunities.

In addition to investing in businesses, the proposed budget supports our ongoing efforts to promote individual wealth building for our citizens with workforce development opportunities through training and the creation of meaningful employment opportunities.

Fun, Entertainment and Culture

Newport News is a diverse city, with unique attractions, experiences, and breakthrough adventures. Public art across the City is a testament to our history as are distinguishing landmarks like The Mariners' Museum and Victory Arch. City investments in creativity can be seen in venues of all sizes, from the Ferguson Center for the Arts to the Downing-Gross Cultural Arts Center. A commitment to entertainment and culture is evident from one end of the City to the other, with fun a primary motivation for our work. Yet, we can and have to do more.

The FY 2024 budget supports increased culture and entertainment in the City through a variety of initiatives. Goals include:

- Increase Downing-Gross Cultural Arts Center funding for programming to address community needs.
- Provide additional funding for special events with the goal to further engage community organizations
- Create a Museum Curator from an existing position, and provide funding for professional conservation of City museum artifacts.
- Fund the Virginia Living Museum and Port Warwick Community Support requests.

Placemaking

A strategic emphasis has been placed on placemaking, shaping public spaces to harness the ideas and assets of people who use it. Examples are found in the Choice Neighborhood Initiative Plan and the Denbigh/Warwick Corridor Plan. An important aspect of successful placemaking efforts can also be gauged by the vitality and livability of our neighborhoods. Over the years, there has been much discussion about the importance of investing and supporting our neighborhoods. To that end, included in the proposed budget are two neighborhood services coordinator positions. The plan over the next fiscal year is to develop a new City division that will focus on supporting our neighborhoods whether it is housing, infrastructure, beautification efforts or revitalization. The effort will bring together existing resources and work to identify new initiatives to ensure that we are collaborating and maximizing the impact of our investment in our communities.

Investment in the City Team

Newport News is fortunate to have a skilled and dedicated team of public servants committed to supporting residents, businesses, and guests. An important part of our budget focuses on our team, many of whom have dedicated their lives and careers to building our city.

Remaining competitive in the market is critical to recruiting and retaining employees, especially in this extraordinary job market. Significant progress was made in this area with the FY 2023 budget by increasing the City's minimum wage for all positions to \$15 per hour. Investment in our employees continues to be a top priority in this recommended budget.

A general wage adjustment of 5% is recommended for eligible employees effective July 1, 2023. This investment represents \$8.1 million for the General Fund and \$10.5 million City-wide.

In addition, \$2.5 million is reserved to support ongoing position reviews and reclassifications and to conduct a compensation study. The goal of the compensation study is to ensure that organizational pay practices and strategies remain competitive, sustainable, and equitable.

Other employee-focused budget initiatives include:

- Full funding for mid-fiscal year adjustments for entry level salary for Public Safety positions (Police, Fire, Sheriff).
- Adjustments to Paramedic/EMT stipends and to existing shift differential pay for Public Safety midnight shift and field training officers.

- Addition of one (1) Talent Acquisition Specialist for Human Resources for targeted recruitment needs.

Retirement and Healthcare Costs

Retirement and healthcare benefits are companion components of our investment in our employees. Retirement and healthcare contributions represent 12.5% of the total budget for FY 2024.

Each of the City's retirement systems are designed to provide employees stable income in retirement. The Recommended Budget continues City Council's commitment to fully fund the Actuarially Determined Contribution for the Newport News Employees' Retirement Fund (NNERF) and the Virginia Retirement System (VRS). Due to market volatility last year, the City's contribution to both retirement plans will increase significantly in FY 2024. The General Fund contribution for NNERF will increase by \$5.5 million to \$28.8 million and the VRS contribution will increase by \$1.9 million to \$7.5 million.

Health insurance costs for active employees are \$30.4 million for FY 2024, representing 5% of the total General Fund expenses. Healthcare is a key recruitment tool for both attracting and retaining employees. While healthcare costs have grown annually across all employment sectors, the City has prioritized holding employee rate increases to a minimum. Strong plan management and health and wellness initiatives have helped mitigate significant increases in healthcare cost to the City.

Debt Service and Cash Capital

The City issues debt called General Obligation Bonds to support capital projects which are typically financed over 20 years. General Fund debt service will increase by \$2.6 million to \$47.7 million in FY 2024. This amount includes outstanding City General Obligation Debt and City supported School Division Debt.

We anticipate issuing bonds at the end of FY 2023 to support appropriated capital projects. To prepare for this, the FY 2024 Recommended Operating Budget contains \$4.2 million as a reserve to help lessen the impact of the first year of debt service with a new bond issue. With anticipated interest rates in the 4% to 5% range (as compared to below 2% rates with the FY 2021 bond issue), this reserve is essential to easing the impact of the debt burden on the operating budget.

Cash Capital uses current operating funds for less expensive and more regular capital investments. This approach decreases reliance on borrowing monies for shorter-term capital projects. Future Capital Improvements Plans (CIP) will continue to include the utilization of Cash Capital to satisfy the City's Capital Financing and Debt Management Policies requirement of 20% cash capital funding.

Contribution to the School Division

Funding for Education is the largest single component of the annual operating budget. To assist the Newport News Public School's (NNPS) mission to "ensure that all students graduate college, career and citizen ready," the City provides funding for School Operations and Debt Service.

For Operations, the amount of funding is comprised of support for general operations, grounds maintenance, and information technology programs. For Debt Service, the funding is based on City incurred debt to support School capital projects.

The School Board's FY 2024 adopted operating budget includes several initiatives related to school safety. Specifically, of the 51 new positions included in the budget, of those positions, 43 are devoted to school safety and supported by the increase in City funding. In total, the City's direct funding for School Operations and Debt Service is \$127 million. This total includes \$119.6 million for School Operations, an increase of \$3.4 million or 2.9% above the current year. The Recommended Operating Budget also includes \$7.4 million for debt service for school capital projects paid by the City. In addition the City provides separate annual Cash Capital support for school bus replacement in the amount of \$2 million.

In addition, to enhance school building safety and prepare for a safe beginning of the next school year, I am recommending \$1.5 million in cash capital funds *now* to support the FY 2024 School request for mobile radios, fire and building alarms, security cameras, and additional metal detectors. The safety of our students, teachers, and all school staff is paramount and we are collaborating with NNPS to make these safety enhancements happen immediately.

LOOKING FORWARD

In summary, you have for consideration a balanced budget focused on City Council's Strategic Priorities.

But more importantly, this budget has an intentional and deliberate focus on ***building a better future*** for the people of Newport News represented by:

- Students in Newport News Public Schools who deserve safe, supportive environments in which to learn and grow.
- Business owners and entrepreneurs who come to Newport News to realize their dreams.
- Our littlest residents, who count on us to provide the learning environments and resources to ensure their success.
- Those who are most vulnerable and in need of housing, mental health services, food, and other essential support.

- Motorists traveling our roadways every day to go to and from their jobs in our community.
- Residents in need of services, including dependable trash pick-ups, bulk waste and leaf collections, and more.
- Our city family, many of whom make sacrifices in their own families every day to protect and serve the people of Newport News, and to provide the excellent services for which our city is known.
- Visitors who come to our city to enjoy new experiences.

City staff at all levels work hard to maintain and improve services to our citizens. I want to specifically acknowledge the staff of the Department of Budget and Evaluation for their creativity and diligence in this process. I would also like to recognize the contributions of the Budget Committee and various Shared Leadership Networks and Departments for their participation, support, and commitment to identifying the opportunities to move our City forward in developing the FY 2024 Recommended Operating Budget.

I believe the FY 2024 Recommended Operating Budget is responsive on several levels: to your priorities and our community needs. I look forward to continuing to do what we do best – uplift, build, and break through.

Thank you for your support.


Cynthia D. Rohlf

CDR: LJC