

CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

March 22, 2016

TO: The Honorable City Council
FROM: City Manager
SUBJECT: Recommended FY 2017 Operating Budget

I am pleased to transmit the City's recommended operating budget for the fiscal year that begins July 1, 2016 and ends June 30, 2017.

This memorandum summarizes our proposed Fiscal Year 2016-2017 operating budget for the City of Newport News. This recommendation provides a balance in addressing community needs and organizational necessities within ever present financial constraints. The details of the Recommended Budget are certainly complex, which reflects the complexity of our community. Many important initiatives and priorities are included in the budget.

As in the past, the planned expenditure for the new fiscal year are driven by six factors: keeping our salary structure competitive and investing in our employees, meeting our planned efforts to fully fund our pension system, annual support for the Schools division, investing in infrastructure and equipment for safety and efficiency, recognizing our contractual obligations, and providing support for our Strategic Priorities.

City Council unanimously endorsed five broad strategic initiatives for the City of Newport News in 2012. In FY 2016, the City introduced an outcome-based performance measurement framework to the budget process. Measurement is important, as it provides an objective means for making budgetary and programmatic decisions and holds us accountable for the results of what we do. The City's effort emphasizes a series of high-level outcome measures in order to focus on *why* services are performed, as opposed to *how* services are performed. Outcome measures focus on the results as demonstrated in the community by connecting our work to the City Council's Strategic Priorities. Outcome measures focus on the overall organization, as opposed to a particular line of business, or functional units.

The outcome-based performance measurement framework is included in the Recommended Budget for the operating departments, and is part of our review of the Community Support agencies application process.

OVERVIEW

We are submitting to you a budget that addresses the community's needs on many levels. First, the proposed budget maintains the services that citizens expect of the City of Newport News. Essential expenditure increases were made to maintain or restore service levels in the upcoming year. Second, no services will be eliminated (only one limited, specialized service will be reduced). Third, we are recognizing our contractual obligations to maintain our capital investments and the tools we use to conduct City business.

The total recommended FY 2017 budget is \$858,137,322, which is an increase of \$29,440,440 or 3.6% higher than the adopted current fiscal year budget. This total budget amount includes the General Fund, Schools, Public Utilities, and all Special Revenue and Trust Funds. Continuing what began in FY 2016 for the General Fund, federal, state, and local/private grant funds that are awarded to the City during the course of the fiscal year are included as both revenue and expense line items in the Recommended Budget. By incorporating the total annual revenue leveraged by numerous reoccurring grants, grant awards are readily accepted by the City, saving us the duplicate process of appropriating grants through a separate City Council action during the year.

Of the total budget amount, the FY 2017 Recommended General Fund Operating Budget totals \$478,798,000, which includes \$4,150,000 in Federal and State grant funds, as noted above. The General Fund Budget is \$14,551,000 or 3.1% higher than the adopted FY 2016 Operating Budget. This allows us to fulfill contractual obligations, primarily in our information technology functions, sustain services at the current level, and fund mandated costs to meet our legal responsibilities. The Recommended Budget fully satisfies Pension commitments, provides an employee salary adjustment, reserves funds for an increase to our School Division, and continues reinvestment in equipment and infrastructure that was reduced during the recessionary years.

Let me begin by saying there are no tax rates changes recommended for FY 2017.

As you know, our principal revenue source in the General Fund is Real Estate Taxes. These are generated from assessed property values. Real estate property assessments are based on market values established for the 12-month period of January 1, 2015 to December 31, 2015 (calendar year 2015). Inclusive in our estimate for the upcoming year is real estate values resulting from the reappraisal of Newport News Shipbuilding real estate assets, in accordance with a long-standing court settlement. This reassessment includes the ten-year valuation cycle on specialty real estate assets and marine structures, and the five-year valuation cycle to establish the economic obsolescence factor. With the combined activity of routine market activity and Shipyard valuations, real estate assessed values are expected to increase for the second consecutive year. The overall projected increase for all properties, residential, commercial/industrial, and all other parcel types a combined change of 1.75%. This does not mean that all properties will see an increase or similar assessment adjustment; in fact, the change is generated primarily by industrial and commercial property values. For residential parcels, it is estimated that the majority of property values will be level with the current year. While this indicates that the residential market still has an inventory of properties selling at assessed values, it is a good sign that properties are not declining and are on the upswing. New properties that are anticipated to come onto the City's tax levy during the upcoming fiscal year are included in this estimate, anticipating certain other real estate growth over the next 16 months in various other retail and residential projects. The chart below illustrates the history of real estate assessed values. It is anticipated that the Real Estate will continue to show strength in recovery in FY 2017.

Recent History of Real Estate Assessment Values



With a higher overall Real Estate Levy anticipated, and considering future growth, we are projecting our current Real Estate Tax collections to total at \$175.2 million or \$7.5 million or 4.49% more than the current fiscal year, after adjustment for the tax deferral and tax relief programs.

The History of General Fund Real Estate Tax Revenue



The City remains committed to the tax deferral program for our elderly and disabled citizens. Prior to the conversion of the tax abatement program, tax relief represented a substantial and increasing amount of lost Real Estate Tax revenue over time. As a result of changing to tax deferral, our loss of revenue from the tax deferral program is anticipated to decline from \$3.3 million in FY 2011 to \$950,000 in FY 2017. Tax deferral provides a substantial benefit for the homeowner while the deferral is maintained. The State-mandated tax relief for Disabled Veterans, which extends to surviving spouses, continues to become more widely used, increasing the City's liability. For FY 2017, this highly specific tax relief will increase by \$50,000 to an anticipated \$1 million.

There has been considerable media attention given to the Governor's proposed new biennial budget with the increased State revenue funding to localities. The majority of any new State monies will be directed to the School Division. There is a marginal increase in the State's payment to localities, centered on reimbursing the City for Constitutional Officer state-supported salary expenses. The General Assembly is in the final stages of closing the current session, and further budgetary impacts will be known after this Recommended Budget is submitted. One area of positive note is that our delegates were again successful in warding off

any encroachments on our ability to self-direct Machinery and Tools taxes and Business, Profession, Occupational Licenses (BPOL) rates. These are critical revenue streams to the City, without which a substantial Real Estate Tax or severe programmatic changes would have to be incurred to offset the loss of those revenues.

Other General Fund revenues for FY 2017 have been estimated based on continued consistent growth, coupled with anticipation that real estate and business opportunities within the City will continue to expand in the coming fiscal year. Locally generated Machinery and Tools Taxes revenues are showing impressive advancement, with increases of \$1,075,000 over the current fiscal year. The Personal Property Tax revenue is estimated to increase by \$525,000, or 1% based on projected FY 2016 actual collections, changes to the levy, and projected growth in the next year. Sales and Meal Tax revenues continue to climb due in part to economic stability, expanded retail development in Tech Center, and potential future development. Sales Tax revenue is estimated to increase by \$722,000, or 3.0%, and Meal Tax by \$800,000, or 3.3%, respectively. As another indicator of economic steadiness, our Business, Professional, Occupational License Tax (BPOL) revenue is anticipated to increase by an aggregate \$310,000, or 1.8%. Three license types, including Contractor, Retail Sales, and Professional, will show the entire growth projected for the upcoming fiscal year. Revenue for gross receipts associated with Wholesalers and Repairs is projected to be level with FY 2016.

As our local economy adjusts to new ways of doing business, we will experience some declines in revenue anticipated for next year. Those areas are in fines, telecommunications tax and cigarette tax. Our collection of court fines and fees has been showing a markedly lower rate since the beginning of the current fiscal year. This revenue category is comprised of various fines or fees applied to court actions, including parking fines, traffic, juvenile/domestic, and criminal court fines. As a smaller General Fund revenue source of the total budget, this revenue category as a whole is projected to be below the current year's estimate. While there are various reasons for this trend, we are being responsive, and reducing our FY 2017 estimate by \$516,000, or 23%, less than FY 2016. For Telecommunications Tax, which is primarily based on the number of telephone land lines in the City, the revenue continues to be lower each year as more individuals divest themselves of a 'home phone' and rely more on cell phones. For FY 2017, this estimate has been reduced by \$200,000, or 1.7%, to a level of \$11,700,000. Cigarette Taxes, based on 85

cents per pack of twenty cigarettes, generates on average \$413,000 per month in revenue. We have seen a slight declining movement over the past two years in this revenue stream, and are estimating \$200,000 less revenue that is 3.9% lower than the current year.

In order to balance the operating budget, we never rely on just increased revenue to meet our operational needs. We are committed to consistently looking for ways to cut costs, improve efficiencies, reduce services in a manner that impacts the fewest number of citizens, and restrict our equipment needs to bring us the best overall effectiveness for the dollars invested. We still must manage daily operations of public safety and corrections, make contributions to public education, perform essential public works operations, pay outstanding debt obligations, provide the human services safety net programs, as well as offer quality-of-life options to our citizens. Just as importantly, we continue forward on restoring our infrastructure investment, recognizing our contractual obligations and our commitment to our employees. Even as we are advancing with economic recovery and new economic development, our revenue stream is still insufficient to meet all these fundamental needs. This budget anticipates using the projected surplus from the current fiscal year to help meet the upcoming fiscal year gap in revenue and expenses. For FY 2017, \$4.7 million will be used from General Fund Balance as a revenue source. This use is not anticipated to have any detriment on our ability to meet extraordinary emergencies, and will be used to offset the increased cost of cash capital investments as outlined in the Adopted FY 2017 Capital Improvements Plan. This use of Fund Balance falls within our adopted Financial Management Policies.

EXPENDITURE CHANGES

Regardless of the pace of the local economic recovery, we must continuously review and consider how we conduct business. I challenged Department Directors to evaluate all of their departmental operations and provide intelligent, practical, and sustainable budgets based on 98% of the revenue they had this year. We must persistently focus on core functions, increasing efficiency by reducing or eliminating non-essential operations, and/or reorganize staffing to accommodate the highest priority of those core services. Equally important, we needed to recognize that some past reductions or program changes created an unfavorable or unanticipated result, and thereby hindered our ability to effectively operate. While

adjusting our current practices, we need to look forward, to anticipate citizen services and program development. In response to my request at the 98% budgetary level, the magnitude of cuts that would have to be sustained, and the potential reductions and program eliminations could only be categorized as very significant; many were not acceptable in providing base service levels. As you know, since FY 2009, operational expenses have been reduced substantially. Expenditure changes proposed for FY 2017 are summarized in the Recommended Budget document under the blue tab labeled *Expenditures*.

There are six general areas where this recommended budget reflects focused funding for specific initiatives. These areas include pension contributions, health care premiums, the City's contribution to the School Division, employee salary adjustment and development, an enhancement, where possible, of basic operational funding, and funding our contractual arrangements, primarily for technology support and services.

Pension Contributions

As you know, we have maintained our eight-year plan to incrementally increase the City's contribution to the Annual Required Contribution (ARC), to restore the actuarial soundness of our pension fund over time. FY 2017 would have been the final year in this process. With prudent fiscal management, we were able to meet 100% of the ARC one year early, in FY 2016. With meeting this goal, this ends large annual increases in the Pension contribution for an extended period of time. This is an elemental expense of our operating budget; the recommended budget keeps the ARC payment at 100%; we will not go backwards on this rate, ever, under my leadership. For FY 2017, the annual contribution to the pension system will be \$31.8 million city-wide, with \$7.2 million of the Schools Division support, and \$5.3 million in funding from the 5% salary contribution of all NNERF employees. All combined, the total funding from City and employee contributions in FY 2017 will be \$41.4 million.

As a member of Virginia Retirement System (VRS), we have always fully funded the annual contribution for those employees hired or rehired after March 1, 2010. With each new employee hired, so grows our annual VRS contribution. However, due to a favorable rate decrease for the City (based on VRS actuarial assumptions as we meet 100% of the VRS ARC), from 6.01% to 5.44%, the FY 2017 General Fund payment will be lower by \$299,493, from \$2.6 million to \$2.4 million.

Health Care Costs

Health care costs continue to rise, but at a substantially lower rate than experienced in prior years, with a bit less than 3% increase anticipated in FY 2017 beginning in December 2015. We believe that our very proactive Wellness program is a big reason for the smaller increase than in the past. The annual increase is generally based on the prior-year claims and services provided to our employees. In a step to contain costs, a dependents audit was conducted. We did this to ensure that those individuals covered by our health insurance policies are legally eligible to use our resources. By reducing the number of participants to those who have been verified as legitimate, we were able to reduce today's cost for health insurance premiums by \$327,000. The resulting impact to the General Fund health care costs, after accounting for vacant positions, is a net decrease of \$67,000, even with the additional rate increase for FY 2017. Cost containment in this area is important, as Health Insurance premiums now represent 4.5% of the total General Fund. Careful plan management and lower experience costs have kept the premium increase low. To reduce the long-term overall health care costs, the City is actively engaged in a Wellness Program, with incentives for participating in annual physicals and in health assessments screening, non-smokers health insurance premium reductions of 20% this year, free smoking cessation programs, as well as Wellness at Work programs. The continued funding for this program in the Recommended Budget is \$200,000. By identifying, addressing, and monitoring overall wellness issues amongst our employees, we have a better tool to facilitate a healthier and more productive workforce.

Fuel Prices

We continue to be fortunate in experiencing lower fuel costs. Lower costs have stimulated the local economy, spurring consumer activity, and also cause the City to have lower expenses. This enables us to redirect currently budgeted funds to more needed areas, at least in the short run. Vehicle fuel is an important part of our operations, supporting public safety functions, public works activities, and human services programs, among others. In addition, our annual consumption continues to decline at an overall rate of 2.93%, or about 2,800 gallons per month, over the last twelve months. This is due to greater fuel efficiency from new vehicles entering the fleet, as a result of renewed vehicle replacement investment. Annual fuel consumption now hovers at 1.125 million gallons. The FY 2017 Recommended Budget assumes an average fuel purchase price of \$1.80 per gallon, falling from the FY 2016 budgeted per gallon rate of

\$2.40. The result to the General Fund is a fuel cost decrease of \$519,989 and an additional reduction of \$167,219 city-wide. Worldwide and market conditions appear to indicate that some level of low fuel rates will last through the upcoming fiscal year, but beyond that it is highly speculative. We do need to anticipate a fuel price upward trend after FY 2017.

Contribution to Schools

Local support for public education is a critical indicator of the value the community places on education. I am recommending a contribution of \$118,300,000, which provides level funding with the current fiscal year, as well as an additional \$1 million in the General Fund reserved for the School Division. This funding increase is predicated on the City being able to access the School Division's fiber optic system for some critically important City needs. The base amount exceeds our required local contribution as calculated by the State. This overmatch funding can certainly be applied to many School Division needs; I continue to support the City's contribution level as recommended by City Council. Included in the base amount is \$11.2 million in City funding for Schools debt service payment.

Employee Compensation, Investment in Employee Development

The recommended operating budget includes funding for a merit increase for eligible City employees effective July 1, 2016. This will continue to be compensation based on performance and this is the most appropriate method of recognizing an individual's contribution to the City. We will recognize outstanding and dedicated employees and encourage improvement of others through the merit salary increase. Though each individual will receive an appropriate percentage increase based on their annual performance evaluation, the dollar value budgeted is 3% of total salaries. The cost of this merit increase in the General Fund is \$3.6 million and with a total of \$4.67 million City-wide.

As you know, we have been making a highly concerted effort working to resolve employee compensation issues. Due to the application of salary increases given over the prior years, we have identified compressed salaries in various job grades and types throughout the City. In FY 2017 we will again commit both time and resources to address this situation in an effort to correct our pay structure. We have completed the first two stages of the long-term effort, concentrating on the more immediate need areas of salary equity in FY 2015 and FY 2016. For FY 2017 we have again budgeted \$950,000 to focus on the third level of salary compression issues.

It is fully anticipated that this amount required in the next fiscal years to resolve this issue.

Restored and Full-Year Funding, New Initiatives

Many of the services that the City provides or requires for its own internal needs have been determined to be more efficiently and less costly provided by independent vendors. Examples of some of these contracted services are for street paving, medical and food services for inmates at the City Jail and juveniles in Secure Detention, the adult dental clinic in the Peninsula Health Department, annual bridge inspections, and various specific equipment testing and maintenance contracts. One of the largest groups of contracted services is almost invisible in daily operations, but so critical we could not function without it - information technology hardware and software maintenance. Almost everything we touch, perform, and provide in service to our citizens is automated through computers and related hardware. Not only do our computers require annual hardware and software maintenance, but the tools we use to communicate through telephones and through radio services also need to be maintained. Recently the City completed a more than \$10 million project to meet federal radio communications standards, known as 800MHz re-banding and P25 radio compliance. To ensure its effective and efficient operation, we do need to invest in maintaining this city-wide system that is the backbone of communications for our public safety, (Police, Fire, Corrections), Public Works, Waterworks, Park Rangers, and Codes Compliance, to name a few. For FY 2017, we will be adding \$660,500 in new contractual services costs for annual maintenance and periodic system upgrades, and to keep the City current and responsive for these critical City functions. In routine computer hardware and software maintenance increases, we will be adding \$464,000 in FY 2017.

Our Youth and Gang Violence Reduction initiative has been funded at a \$1.1 million level for the past three years. We are now making a significant difference in the lives of our at risk youth. Our Summer Training & Experience (STEP) program has in two short years become a very important part of our overall strategy. From the initial effort to involve 100 youth ages 16 to 24 (both in-school and out-of-school young people) from the Southeast Community in a ten-week paid work experience, we are now embracing 600 individuals, and expanding to the North District for the summer of 2016. To be able to provide this enhanced program, \$400,000 will be included in the FY 2017 Recommended Budget, bringing the level of funding up to \$1.5 million. We will use part of this additional

City funding to continue the same level of service for community-based violence prevention from our Human Services Department that we had been providing from a soon to expire three-year federal TOP OJJDP grant. This funding will be used for art, sports, club and music-related community activities for the clients to help build the skills of youth and make connections with supportive adults.

The Human Services Department serves the most vulnerable citizens in our community. Due to the nature of the work, this department has had significant vacancies, placing additional pressures on existing staff, with excessive caseload management in all areas. We have been aggressively filling some of the most difficult to recruit and retain positions during the past year, and as a result, need additional space to provide a proper work environment for employees. As such, we will be leasing additional space in Rouse Towers to accommodate full staffing, to organize functions to better serve clients with increased efficiencies, and to meet federal and state mandates. The cost of the additional property rental is \$306,018, with one-time furnishing estimated at \$218,200. Approximately 30% of the annual rent and a portion of the furniture costs are State reimbursable.

Also for Human Services, we will be restoring the City contribution level for the Children's Services Act funding (CSA). Since FY 2010, the City has relied on the positive CSA Newport News fund balance to offset reductions to both state reimbursements and to assist in funding annual local support requirements. CSA City costs were increased by over \$1.1 million in the past two fiscal years to restore our required matching funds. An additional \$300,000 is required for the City portion of the CSA fund in FY 2017 for projected costs.

We will be investing \$112,000 in one-time expenses in preparation for the 2016 Presidential Election. The City cycles through different types of elections annually (Councilmanic, party primary, state General Elections), however, the voter participation volume once every four years demands extra resources to accommodate turnout on Election Day.

There is one internal efficiency change for the upcoming year. In the FY 2017 Recommended Budget, the scale and services of the Central Warehouse function will be reduced to essential, core and emergency activities only, with routine supply needs to be provided by outside sources. This will reduce the staffing immediately in the new fiscal year by one position, with the remainder of the positions being migrated to other warehouse functions throughout the City for consolidation.

EXPENDITURES CHANGES

To be able to fund the six focused expenditure areas, the FY 2017 recommended budget reflects reductions in other operational expenses, as well as the recommended rate and fee increases. There are restorations of funds or enhancements based on contractual circumstances or specific needs. In response to directing revenue expansion to those needs, it was necessary to reduce some service levels in limited areas, as detailed below.

One minor service reduction may be seen by the general public. We are recommending that Virginiana Room (Main Street) weekly operation be reduced by 20 hours per week, from 70 hours to 50 hours. This reduction will close public access to the collection earlier Monday through Saturday, and open by appointment on Sunday. This change decreases collection availability hours by 30% (during periods of lowest use) with minimal impact to patrons. The result of this service modification allows for the elimination of one full time position dedicated to the collection, and redirecting the salary savings to security staffing needs and contractual maintenance on existing software.

Positions Changes and Redirected Staffing

As a service organization, the majority of our operating costs are invested in our employees as salaries and fringe benefits. For FY 2017, I again asked all departments to review our position allotments, to identify the proper staffing levels for the services that we are able to accomplish and accomplish well. This also included addressing the scope and scale of the Attrition Credit that has been established during the recessionary period.

I am recommending a net increase of 21 positions in the General Fund in FY 2017, with an increase of 16 other positions city-wide, excluding the Schools Division. The new recommended positions are described below.

Prior to FY 2017, we have cut a net total of 186 positions in the General Fund over the past seven years. This reduction represents a 6.8% decrease of our workforce since the beginning of the recession. This net amount of position reductions does not represent the full number of eliminated positions over the past years. Some abolished positions were repurposed to improve efficiencies and/or to enhance our efforts and citizen responsiveness in critical areas (e.g., staffing for the 311 Customer Contact Center, the Denbigh Community Center, the Peninsula Regional Animal Shelter, and shifting of 23 positions for the Communications Department).

We have reached the point where we cannot continue to sustain large scale position reductions as in the past. With fewer employees performing essentially the same services as a workforce equal to 10 years ago, we are at risk of being at the point of losing our capability to be efficient, pragmatic, and innovative. While some of the new positions recommended to be added are a response to a state or federal mandate and the conclusion of grant funding, some of the new positions are proposed to address burgeoning needs and operational demands, as well as to restore functions in service areas previously reduced.

New Positions

In the Human Resources Department, one Senior Benefits Coordinator will be added to assist with the shift of employee benefits management from the Pension Fund (Finance Department). We have had a substantial issue with the timeliness of providing information to employees on potential retirement decisions. In the Commonwealth Attorney's Office, three Paralegals will be added to assist with caseload preparation and presentation for attorneys, with the goal of more directed prosecution of minor drug cases that has been foregone in recent years. The Commonwealth's Attorney's office is experiencing a large work increase due to the very time consuming activity of reviewing police body camera video. FY 2017 represents the first year that the City will be assuming full salary and fringe benefit responsibility for the Police Officers added to the workforce under the COPS grant, as part of the grant award conditions accepted three years ago. Six of the ten Police Officer grant positions will now be part of the City's workforce complement.

In the Juvenile Services Department, as part of compliance with the federal Prison Rape Elimination Act (PREA) and state staffing ratio mandates (of maintaining one staff member to eight juveniles), the Department will have new five (5) Detention Specialists and one (1) Detention Supervisor. Codes Compliance will increase by two (2) Codes Compliance Inspector IIIs to enforce the High Impact Code Enforcement Program (Rental Inspection) which has been discussed with City Council. These positions will be responsible for building and property inspections of residential and commercial properties to ensure compliance with the Virginia Maintenance Code of the Uniform Statewide Building Code and local ordinances pertaining to zoning issues, conditional use permits, certificates of occupancy, and the City's property maintenance codes or special exceptions. The addition of a Licensed Architect in the Engineering Department will help manage the increasing number of City Architectural

projects, Capital Improvement Plan (CIP) and private development projects, and markedly increased number of significant maintenance and repair projects necessary to maintain aging City facilities.

The Human Services Department will have three new positions: two Administrative Assistants will support the Financial Services programs and a paperless record retention process. VaCMS document imaging and scanning was implemented by the State in September 2015 with SNAP, TANF and Energy Assistance migrating to the state mandated system in early 2016. In addition, one Senior Family Services Specialist will expand the existing Resource Unit to provide intensive case management for specialized foster care families.

One position is recommended to be added to the Development Department to focus on redevelopment activities, including residential properties in the Southeast Community. One current part time Customer Service Assistant will be converted to full time to address the increased citizen contact volume associated with the City's new mobile apps (*My NNVA* and *NNVA 311*), web and email inquiries, and phone calls.

In the Stormwater Management Fund, four (4) positions are recommended to be added. Implementation of the MS-4 permit dictates the need to expand annual infrastructure inspection and cleaning capacity. The addition of two (2) Senior Equipment Operators will increase the ability to haul rock and clay material to work sites and move excavated spoils to DEQ approved disposal locations. Increased frequency of inspections and a robust program of maintenance of City-owned stormwater management facilities (BMPs) have been identified as the primary mechanism for achieving regulatory compliance with objectives and targets in the permit of Total Maximum Daily Loads (TMDLs). The recommended Environmental Specialist position will have the botany skill set to allow for both specialized BMP inspections and advising operational crews on maintenance techniques for BMPs, retrofits, etc. The City Vector Control Plan is designed to provide the citizens with a proactive program to reduce or eliminate nuisance and mosquito borne diseases. A Biologist is needed to incorporate in-house arbovirus testing to enhance and expand the mosquito control program. Currently, there are no local or State facilities that test mosquitoes for diseases.

In the Solid Waste Fund, four (4) new positions are recommended to be added. One new Staff Technician position at the Recovery Operations

Center (ROC) will double administrative support for the Recycling, Landfill, Composting and Household Hazardous Waste divisions. The two (2) new Master Equipment Operator positions included in the Bulk Waste Collection division will allow for adequate coverage of collection routes. The recommended Special Investigator position supports the City's Community Maintenance and Renewal and Maximum Emphasis on Public Safety priorities by reducing illegal dumping and changing the public's perception that illegal dumping faces no repercussions or consequences.

In the Wastewater Fund, four (4) new positions are recommended to be added. An Instrumentation and Control Crew in the Pump Station division (one Instrumentation and Control Specialist and one Electrician II) will help manage the large number of new flow meters, control and communication devices located throughout the City from expanded number of pump stations that monitor the sewerage system. One Engineer III position will be added to address the increasing number of wastewater projects expected to result from HRSD regionalization efforts requiring field inspection to ensure that work is performed in accordance with City standards and regulations and to mitigate the impact of construction on citizens. One new Operations Supervisor will address the increasing wastewater project load as part of the Management Operations and Maintenance (MOM) program and the HRSD regionalization effort. This position will manage the four heavy construction crews that perform sanitary sewer system repairs and replacements.

Eliminated Positions

Offsetting the new positions is a reduction of three (3) positions in the General Fund. In the Real Estate Assessor's Office, one Staff Technician position will be eliminated, with the reallocation of administrative support functions to the three remaining Staff Technician positions. In the Purchasing Office, the mission of the Central Warehouse will be refocused by reducing the number of items stocked to primary use or more critical items. Third party contracts will be established for the items that will no longer be carried. This allows for the reduction of one Senior Supply Stock Clerk position. In Libraries and Information Services, one Library Technician position will be eliminated in the Virginiana Room at the Main Street Library Branch.

In the Other Operating Funds, the Vehicle and Equipment Services Fund will have a reduction in one Automotive Welder position.

Shift of Functions, Responsibilities

The Recommended Budget assumes the six (6) positions associated with the Pension Fund will be transferred to the General Fund, three each to the Human Resources and Finance Departments. While these positions were established years ago when the City had a single retirement plan (NNERF), the position responsibilities have evolved to benefits management (health (under twelve different options for employees), dental, life insurance, vision care, etc.), and expanded retirement plan responsibilities (NNERF, and four different VRS plans). For best service to our employees, I have directed that the Human Resources Department manage employee benefits, and that the Finance Department will continue to process retirement functions. To offset the cost of these positions moving to the General Fund, the Pension Fund will continue to pay for salary and fringe benefits costs associated with the employees. In FY 2017, this amount will be \$565,000.

In a better placement of duties and functions, a total of four (4) Senior Equipment Operators from Public Works General Fund (Community Maintenance) will be transferred to the user fee funds. Three positions will be moved to Stormwater to better align the Major Outfall Maintenance function and more appropriately budget for the work that is being completed. One position will be moved to the Solid Waste Fund consolidate positions in the bulk collections section.

Attrition Credit

In prior years, the City established an Attrition Credit as a means of reducing staffing costs, and instituting a hiring freeze. (An Attrition Credit reduces a department's budget for salaries and fringe benefits based on anticipated vacancies.) The Attrition Credit was first introduced in FY 2009 at \$1 million and grew to a high of \$7.3 million City-wide, with the majority of the salary savings in the General Fund. While I understand the reason for doing this, the Attrition Credit has proven unrealistic in some areas and inhibited our flexibility to hire staff when needed. A prime example of this restriction is in the Human Services Department, where we have had targeted and aggressive recruitment for many positions that have been long vacant. Recognizing this, we have reduced the value of the credit over the past two fiscal years. While there are some departments where an Attrition Credit can be used to reflect a hiring lag savings, in other areas it detracts from accurate budgeting for programs. For FY 2017, to reflect a more appropriate level of the hiring lag across the City, the General Fund Attrition Credit was adjusted downward by

\$1,032,385 (or a 19.1% decrease) to \$4,374,341 and \$663,000 downward by in the other operating funds. This is a significant change in our approach to Attrition, but we are not finished with this process. I fully expect in FY 2018 to continue to adjust the Attrition Credit to a realistic and manageable amount, recognizing the appropriate staffing levels.

As a reminder, the City has an established Reduction-In-Force (RIF) policy that allows for any employee who would lose their current position due to a reduction in force to have the opportunity to apply for, and if qualified, be placed in vacant positions over other applicants. We will ensure that anyone who is in one of the very few filled positions in this Recommended Budget identified for elimination will be offered another City position.

OTHER OPERATING AREAS

Debt Service and Cash Capital

General Fund support for the City's Debt Service will be \$37,268,683 in FY 2017. This is payments for outstanding General Obligation Debt. This amount is \$394,749, lower or 1.05%, less than the current year amount. The Recommended Budget assumes no new General Obligation bond issuance during FY 2017. We will continue to pursue prudent cash flow management of bond proceeds to stretch our bond cash and delay going to bond market for as long as possible.

Cash Capital, a component of the City's adopted Capital Improvement Plan, is budgeted at \$9,016,576, or \$1,050,045 more than the current fiscal year. The adopted FY 2017-2021 Capital Improvements Plan (CIP) anticipates using Cash Capital to satisfy our Capital Financing and Debt Management Policies requirement of 20% cash capital funding. If all Cash Capital Funds are used as adopted, we will reach a 21.3% level of cash capital funding, exceeding our debt management policy limits. Cash Capital allows for current operating funds to be used to fund less expensive and more regular capital investments (e.g., roof and HVAC replacements, and capital equipment) to decrease reliance on borrowing for shorter term capital projects.

Community Support and Regional Organizations

The recommended funding for the thirty-five (35) Community Support agencies that are supported by the City shows an increase over the current fiscal year. Regional Organizations in which the City is a member or participant will receive level funding, with the exception of four agencies, detailed below. The FY 2017 combined Community Support and Regional Organizations amount is proposed at \$11,147,870. This represents an increase in funding of \$721,046, or 6.9%, from FY 2016.

The Community Support and Regional Organizations recommendation maintains level funding for organizations that provide services to our citizens. Many of these organizations augment City functions, and we depend on the services they provide to specific populations or for a reduced cost. For the second year during the application process, we required outcome measures from each organization to align their activities with our process. The result continues to be mixed with inconsistencies with the measurement tools used across the agencies; however it did provide sufficient information to enhance our internal review process, and facilitate a more directed conversation with the agencies, helping to gear future discussions with them to more program outcome measurement.

For all Community Support agencies, funding will be equal to the FY 2016 budget, which is fundamentally at the same level as FY 2012 for a majority of the agencies. There is one exception. LINK of Hampton Roads, through its PORT Winter Shelter Program, provides overnight homeless sheltering for the months of November through March. The sheltering is done through partner churches. LINK has received base level Community Support funding in the amount of \$75,000 since FY 2011. This funding has been supplemented during FY 2015 and FY 2016 due to the loss of Virginia Homeless Solutions Program grant funding by LINK, as the mandatory Continuum of Care eligibility requirements were not met. The United Way of the Virginia Peninsula is currently conducting a performance review of LINK. Pending the final United Way report, we have placed the base funding for LINK of \$75,000 in the Community Support Contingency line item of the Recommended Budget.

Regional Organizational Agencies are those where most of the City's contributions are based on a contractual agreement on a per capita support level. No Regional Agencies voluntarily offered reductions; no agencies are funded less than the current year. There are four exceptions to level funding: Hampton Road Planning District Commission (HRPDC),

Thomas Nelson Community College (TNCC), Hampton Roads Transit (HRT), and Williamsburg Area Transit Authority. The increases for HRPDC (in the amount of \$31) and TNCC (\$9,660) are formula driven.

For the two transit agencies that support the Newport News citizens, increased funding is recommended. The Williamsburg Area Transport Authority (WATA), that provides bus service between James City County and HRT's Lee Hall stop in Newport News, is recommended to increase by \$5,000 (or 12.5%) over the current fiscal year amount of \$35,000. This additional funding supports our share of capital replacement and the loss of federal and state transportation funding grants. This is an important service that connects our citizens to their employment just beyond the City's northern boundaries.

In the current year's budget, we invested in making bus service on some of heavily travelled routes more responsive to the rider's needs. We worked with Hampton Roads Transit (HRT) to develop route plans that would decrease the headways for existing Routes 106 and 107 along the length of the Warwick Boulevard corridor reducing the wait for riders from 90 minutes to 60 minutes. In addition, beginning in January 2016 we have increased service on Jefferson Avenue from the Newport News Terminal Center on Washington Avenue to the Patrick Henry Mall area. For FY 2017, there are two enhancements included in the budget. First, in an effort to enhance service connections, two routes are recommended to have modified service to improve timed connections. The Route 108 (Patrick Henry Mall to Lee Hall via Warwick Boulevard) and the Route 116 (Patrick Henry Mall to Lee Hall via Jefferson Avenue) both would have their service times improved by ten (10) minutes to afford better connections (i.e., shorter wait time) for five different routes at the Patrick Henry transfer station, as well as connecting the WATA station in Lee Hall. There would be one eliminated route due to low ridership; a single midnight service from the Newport News Transit Center to the Denbigh Fringe park and ride lot. The increased combined service change is \$485,499. The second increase is for additional capital contribution of \$88,687 above the standard calculation. With all six HRT localities participating in an additional capital contribution, this enables the region to leverage \$62 million in State and Federal funding for new buses and achieve a State of Good Repair for the entire HRT Bus Fleet. For all other regular routes and operations, HRT has submitted an increase in operating costs and capital contributions, while maintaining the same level of service and routes for the City. The FY 2017 amount for HRT for

all route changes, additional capital contribution, and full funding for changed service during the current fiscal year is \$7,536,222, which is \$889,450, or 13.4%, higher than our current amount of \$6,646,772.

The final amount recommended in Community Support and Regional Agencies is a Contingency amount of \$185,000. This level contains \$60,000 in the base contingency, \$75,000 requested by LINK, and \$50,000 for potential expansion of regional economic development efforts.

There were seven (7) agencies not currently funded by the City that solicited support in the amount of \$5,222,782. One has received special funding from City Council Contingency in the past fiscal years. This agency, the Community Free Clinic, is recommended to be funded in the amount of \$50,000 for FY 2017.

RATES AND FEE INCREASES

This balanced budget has been achieved with practical, sustainable expenditure reductions, with limited rate and fee increases, and with planned savings from the current fiscal year. For the third consecutive year, a Real Estate Tax rate increase is not recommended. The benefits of an increased Real Estate assessment, a stronger performing local economy and using expense reductions enable us to balance the budget without a tax increase. The Real Estate Tax rate will remain level with the current fiscal year at \$1.22. We will be using \$4.7 million of anticipated FY 2016 year-end surplus to support our Cash Capital efforts, to support our expanded transportation costs, and for one-time costs for operations.

For the User Fund fees, there is some higher expenditure for the upcoming fiscal year, primarily driven by state or federal mandates. This makes rate and fee increases unavoidable. In the Wastewater and Stormwater Management Funds, these rate increases are determined mainly by the impact of the Consent Orders and other environmental regulations. As you know, our requirement to reduce or eliminate sanitary sewer overflows and reduce the pollutants that flow into our waterways requires prompt studies and investment in system improvements, and to use cash capital for projects in these funds where possible. To address the Wastewater and Stormwater Funds needs, and those expenses that are common to all operating funds in the upcoming fiscal year (pension contribution increase, merit increase, health insurance coverage, for

example), I am recommending that both rates be changed: for the Wastewater Fund, the rate would increase from \$3.27 per hundred cubic feet (HCF) to \$3.37 per HCF. The Stormwater fee increase is 50 cents from \$10.75 per ERU monthly to \$11.25 monthly. In the Solid Waste Fund, the \$0.15 per week increase on the container rate is necessary to cover the cost of operations. These proposed rate changes are shown below:

	FY 2016 Adopted	FY 2017 Recommended
SOLID WASTE USER FEE		
Medium Container per week	\$5.52	\$5.64
Standard Container per week	\$6.90	\$7.05
STORMWATER MANAGEMENT FEE		
Rate/Equivalent Residential Unit/Month	\$10.75	\$11.25
Annual Rate per 1 ERU	\$129.00	\$135.00
SEWER USER FEE		
Rate/100 cubic feet/month	\$3.27	\$3.37
Monthly Service Fee	\$4.00	\$4.00

After years of decreased water demand consistent with other water utilities nationwide, our water consumption continues to stabilize. Following years of decreased demand, this trend prompted City Council in FY 2012 to shift the Water rate structure to collect more revenue from fixed service charges and less from the volume of water use. This approach is consistent with the cost structure of the utility, as cost of operations is predominantly fixed and nearly independent of volume of water sold. For FY 2017, the revenue from water sales seems to be level, and thereby requiring a small water rate adjustment in the upcoming year. As you know, the Waterworks' expenses are affected by the same cost drivers as the General Fund: pension increases, salary adjustment, higher health care costs, and the need to address aging infrastructure. There is no change to the fixed service charges to customers (the Monthly Service Fee based on meter size).

	FY 2016 Adopted	FY 2017 Recommended
WATER RATES AND FEES (consumption rates per one hundred cubic feet (HCF))		
<i>Single-Family Residential Bimonthly</i>		
R1 Low Usage Lifeline (0 to 4 HCF)	\$3.17/HCF	\$3.21/HCF
R2 Normal Use (Greater than 4 to 50 HCF)	\$3.65/HCF	\$3.69/HCF
R3 Conservation Tier (Greater than 50 HCF)	\$7.30/HCF	\$7.38/HCF
<i>Industrial Monthly</i>		
I1 Tier 1 (0 to 40,000 HCF)	\$3.65/HCF	\$3.69/HCF
I2 Tier 2 (Greater than 40,000 HCF)	\$3.17/HCF	\$3.21/HCF
<i>General (All Other Consumption)</i>		
G - All other usage	\$3.65/HCF	\$3.69/HCF

As part of the FY 2015 budget, City Council adopted rate increases for fees for services that have been historically provided at no charge to the customer. FY 2017 represents the third and final year of a three step approach to implement these specific rate changes. For example, some of these specific fees are an afterhour's field service call, a duplicate bill request administrative charge, and a customer request rereading of the water meter.

The user fee increases are largely unavoidable, as they are driven primarily by regulatory requirements and higher operating costs. I am confident that every effort had been made to reduce expenses where possible, increase operational efficiencies, and use reserves of the funds as appropriate. Yet there are no other options under the burden of these mandates except for recommending these increases. Below is a chart that shows the potential impact on an average homeowner of all the rate and fee changes that this recommended budget contains. This does make a general assumption for the average real estate assessments change in the upcoming year will be flat for the residential sector. It is anticipated that the typical homeowner will still have lower Real Estate Tax burden than in FY 2008, while retaining the current service levels that they enjoy.

The table below is based on the values associated with a household of four and had an average 2016 real assessment of approximately \$169,100. (This same median assessment valuation was \$201,350 in FY 2009.)

	<i>Weekly Increase</i>	<i>Monthly Increase</i>	<i>Annual Increase</i>
Real Estate Tax	\$0.00	\$0.00	\$0.00
Stormwater Fee	0.12	0.50	6.00
Solid Waste Fee	0.15	0.65	7.80
Sewer User Fee	0.13	0.55	6.60
Water Rates	0.06	0.22	2.64
Total Impact	\$0.45	\$1.92	\$23.04

LOOKING FORWARD

I believe this operating budget recommendation positions the City and our community to be successful for today and the future, places emphasis on critical areas of concern, and plans for a prosperous future.

Over the next year, we expect steady growth with emergent optimism. Real estate values should continue to moderately increase. The local tax base should continue to grow modestly. Current trends suggest that we are prepared to manage our fiscal challenges, meet our commitments, and take advantage of opportunities that arise by creating a community and workforce that is inviting to development.

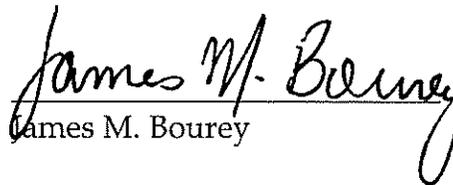
In summary, you have for consideration a balanced budget with virtually no service delivery reductions that is focused on restoration and selected enhancements. The Recommended Budget includes necessary rate and fee increases, and additional reductions to achieve the level of City operations desired by our citizens and/or mandated by higher levels of government. This recommended budget fully meets the objectives of funding our pension and health care obligations, maintaining funding to Schools and to our infrastructure, funds initiatives that support our Strategic Priorities, and provides a salary adjustment and investment in our valued employees. These are all significant accomplishments, given the constraint of relatively slow revenue growth. In every way, this Recommended Budget embodies the City's hard-earned, well-deserved reputation for strong financial management.

My staff at all levels and I have worked very hard to develop a budget that addresses both the current economic realities and citizen needs. I

particularly want to acknowledge the staff of the Department of Budget and Evaluation for their diligence during this process.

While this memorandum highlights the budget in general, specific areas of interest will be detailed in Budget Position Papers, which will be delivered to you on or around April 4. All budget documents will be made available to the public on the City's web site and in all Newport News public libraries.

I believe that this FY 2017 Recommended Operating Budget is responsive to your priorities and our community needs. I am pleased to present it for your consideration. I will work with you and the citizens of Newport News to finalize this budget through upcoming work sessions and public hearings. I thank you for your support.


James M. Bourey

JMB:LJC