

CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

March 24, 2015

TO: The Honorable City Council
FROM: City Manager
SUBJECT: Recommended FY 2016 Operating Budget

I am transmitting for your consideration, the City's recommended operating budget for the fiscal year that begins July 1, 2015 and ends June 30, 2016.

This memorandum summarizes our proposed Fiscal Year 2015-2016 operating budget for the City of Newport News. This recommendation reconciles community needs and organizational necessities with continuing, significant financial constraints. The details of the Recommended Budget are necessarily complex, as are the needs of this community. While many important initiatives and priorities are included in the budget, the factors shaping its main features are fairly straightforward.

Expenditure requirements are driven by six factors: keeping our salary structure competitive and investing in our employees, continuing our planned efforts in bringing our pension system into sustainable balance, increasing funding for the Schools division, investing in infrastructure and equipment for efficiency savings, recognizing debt and other operational obligations that are General Fund responsibility, and providing support for our Strategic Priorities.

In September 2010, City Council unanimously endorsed eight strategic initiatives for the City of Newport News. Those were refined in December 2012 into five broad strategic priorities, each with several initiatives. In FY 2016, the City is introducing an outcome-based performance measurement framework to the budget process. Through the establishment of measures, senior managers and staff can use data to effectively manage and execute daily operations. Measurement is an important part of how we do business and provides an objective means for making budgetary and programmatic decisions. The outcome-based performance measurement framework is included for the operating

departments, and was part of our review of the Community Support agencies application process.

The City's effort emphasizes the development of 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.

As part of the Recommended Budget, you will see the foundational Outcome Measures for the City. Many of the measures already have baseline data, but some will require establishing a baseline, possible refinement and identifying new data collection tools prior to future targets being selected. With a focus on whether our residents are truly "better off" due to our work, there comes a shift in how we **measure** our work and **manage** our daily activities to improve customer end results.

OVERVIEW

We are submitting to you a budget that addresses the community's needs on several differing levels. First, the proposed budget maintains the services that citizens expect of the City of Newport News. Essential expenditure increases were made to maintain service levels and contractual agreements at the same level in the upcoming year. Second, no services will be eliminated (only one specialized fee for service), and we are able to increase infrastructure and equipment investments with funding that was reduced during the recession. Third, we are recognizing the General Fund's obligation for other associated debt management and facility maintenance that has been previously supported by the Economic Development Authority.

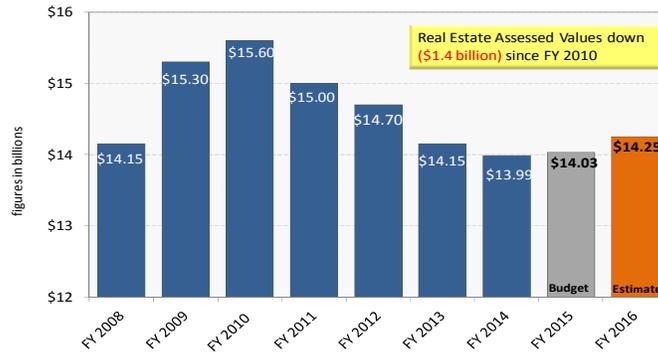
The total recommended FY 2016 budget is \$828,696,882, which is an increase of \$16,659,046 or 2.0% higher than the adopted current fiscal year budget. This total budget amount includes the General Fund, Schools, Public Utilities, and all Special Revenue and Trust Funds. For the first time in the General 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. Under long standing practices, any grant revenue that is awarded by

federal, state, or private entities would require a separate appropriation by City Council to be able to be used for the applied grant purposes as it was not part of the annual adopted operating budget. By estimating the total annual revenue leveraged by the numerous grants, the grant award can be readily accepted by the City, and we will save redundant processing of these items.

Of this total budget amount, the FY 2016 Recommended General Fund Operating Budget totals \$464,247,000, which includes \$4,150,000 in Federal and State grant funds, as noted above. Once adjusted for this singular change, the General Fund Operations Budget will be \$460,097,000, which is \$12,448,000 or 2.8% higher than the adopted FY 2015 Operating Budget. This increase allows us to meet contractual obligations, sustain and in some cases, expand services, and covers many mandated costs. It also allows us to meet Pension commitments, provides an employee salary adjustment and other employee investments, increases our contribution to Schools, and makes continuing strides in restoring equipment and infrastructure needs that have been reduced during the recessionary years.

As you know, Real Estate Taxes are generated from assessed property values. Real estate property assessments, which are based on market values established for the 12-month period of January 1, 2014 to December 31, 2014 (calendar year 2014), are expected to increase for the first time in six fiscal years. The overall projected increase for all properties, residential and commercial/industrial, is a combined 1.33%. This does not mean that all properties will see an increased assessment; in fact, the change is generated primarily by commercial property values. Residential parcels, while there are some types of properties that are increasing in value, will generally average 0.5% increase (that is one-half of one percent change in assessment). While the growth is moderate, it is exciting that property assessments are finally no longer declining and are on the upswing. The chart below illustrates the change in values, with the anticipated Real Estate Levy on July 1, 2015 to be higher for the first time than that of FY 2009.

Recent History of Real Estate Assessment Values



While each individual property may see a unique assessment change determined by its specific characteristics, the FY 2016 Recommended Budget was based on an average assessment increase of approximately 1.3%, with most residential property owners seeing only a 0.5% increase. Commercial and Industrial properties will be showing the most degree of change, and new properties that have come onto the City’s tax levy are included in this revenue growth.

In budgetary numbers, with a higher overall Real Estate Levy anticipated, and considering future growth, we are projecting our Real Estate Tax collections to be at \$169.9 million which is \$4.2 million or 2.54% higher than the current fiscal year by the close of the year in June 2016. The future growth component reflects projects that are occurring in the current fiscal year but are not fully been added to our levy, and anticipating certain other real estate growth over the next 16 months in various other retail and high volume residential projects.

The History of General Fund Real Estate Tax Revenue



The City remains committed to the tax deferral program for our elderly and disabled citizens. In FY 2012 under the tax abatement program, tax relief represented close to a \$3 million loss in revenue to the City, exclusive of the impact of the loss of \$475,000 in additional real estate revenue from the newly mandated tax relief for Disabled Veterans. Without a change to the tax abatement program, the City would have lost substantial and increasing amounts of Real Estate Tax revenue over time. As a result of changing from tax abatement to tax deferral, our loss of revenue from the tax deferral program is anticipated to decline from \$3.3 million in FY 2011 to \$1.3 million in FY 2016. Over time, this revenue loss will be completely eliminated, while the substantial benefit through deferral is maintained for most impacted individuals. It is important to note, as difficult of a decision as this was to make, Newport News was a leader in this programmatic change, with the City of Hampton following suit for the current fiscal year, and other Hampton Roads localities actively working to make the same change for their city. As the State-mandated tax relief for Disabled Veterans, which has now been extended to surviving spouses, continues to become more widely used, the City's liability has increased. For FY 2016, this highly specific tax relief will increase by \$150,000 to an anticipated \$950,000.

As you know, the State's payment to localities declined for five consecutive years, not including overall under-reimbursement for State programs as has been the pattern for many years. During this time period, the City has lost a cumulative \$7.9 million in direct State Aid to Localities. As the City absorbed these expenditures within its base

budget, the State experienced surpluses in its operating budget. The FY 2014 State Adopted Budget “restored” State funding to select activities, with restoration meaning that an additional reduction to the localities planned in FY 2014 did not occur, and that State funding continued at the reduced FY 2013 level. This “restoration” was short-lived and in FY 2015 an unanticipated round of reductions occurred. At this time, the General Assembly adopted a budget for the upcoming year that once again “restores” the State reductions. These “restored” amounts have been included in our operating budget.

Other General Fund revenues for FY 2016 have been estimated based on a continued slow but consistent economic recovery, coupled with optimism that the recovery will continue to expand with more confidence in the coming fiscal year. Locally generated Machinery and Tools Taxes revenues are showing impressive changes, with increases of \$775,000 over the current fiscal year. The Personal Property Sales Tax revenue estimate has been recalculated for a levy adjustment. With this adjustment, Personal Property Taxes are estimated to decrease by a net \$147,000 based on projected FY 2015 actual collections, and changes to the levy. The tax levy associated with Personal Property taxes for vehicles has again slowed, as the average vehicle value has decreased slightly over the current fiscal year. In contrast, business personal property values have increased over time. Sales and Meal Tax revenues continue to expand due in part to economic stability, expanded retail development in City Center, and potential future development. Sales Tax revenue is estimated to increase by \$651,000 and Meal Tax by \$925,000 respectively. As another indicator of economic steadiness, our Business, Professional, Occupational License Tax (BPOL) revenue is anticipated to increase by an aggregate \$609,000. While the Contracting segment will show a lower estimate by \$100,000, there will be revenue gains anticipated for gross receipts associated with Retail Sales, Wholesalers, Repairs, and Professionals.

No tax rates changes are recommended for FY 2016.

In order to balance the upcoming year’s budget, we did not look solely to increased revenue to meet our needs. We also again looked for ways to cut costs and operations, reduce services in a very limited fashion, and restrict our equipment needs to those that would bring us the best overall efficiency for the dollars invested. We still must manage daily operations of public safety and corrections, make contributions to public education and 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. And just as importantly we continue forward on restoring our infrastructure investment and our commitment to our employees. Yet our revenue stream is still insufficient in the recovering economy to meet all these issues. 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 2014, \$4 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 vehicle replacements, one-time equipment purchases, and one-time significant operating increases for FY 2016. This use of Fund Balance falls within our adopted Financial Management Policies.

EXPENDITURE CHANGES

Early in the budget development process, we were preparing to be affected by yet another year of potentially lower revenue streams. With this in mind, I instructed Department Directors to review all of their departmental operations and provide intelligent, practical, and sustainable budgets based on 97% of the revenue they had this year. The focus was to be 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 review if past reductions or program changes created an unfavorable or unanticipated result, and thereby hindered our ability to effectively operate. We also need to look forward, to anticipate citizen services and program development. In response to my request at the 97% 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; they would not have been within acceptable service levels. As you know, since FY 2009, operational expenses have been reduced substantially. Expenditure changes proposed for FY 2016 are summarized in the Recommended Budget document under the blue tab labeled *Expenditures*.

There are six general areas where this recommended budget reflects focused spending or 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 (vehicle and technology replacement equipment), and funding for General Fund responsible debt and operations.

Pension Contributions

We are committed to the eight-year plan to incrementally increase the City's contribution to the Annual Required Contribution (ARC). FY 2016 will be the seventh year in this process, with the end to large annual increases in sight. This is a fundamental expense of our operating budget; the recommended budget brings the ARC up to 91% from 82%. This next level brings the annual contribution to the pension system to \$28.5 million City-wide, with the Schools Division support at \$7.6 million, and \$5.6 million in additional funding from the 5% salary contribution of all NNERF employees. All combined, the total funding from City and employee contributions in FY 2016 will be \$41.2 million. This recommended amount is consistent with our plan to completely restore the actuarial soundness of our pension fund over time.

As a member of Virginia Retirement System (VRS), we fully fund the annual contribution for those employees hired or rehired after March 1, 2010 or who elected to shift from the City's pension system. As more of our workforce participates in VRS with each new employee hired, so grows our annual contribution. This fact increased the FY 2016 General Fund payment by \$303,230 from \$1.9 million to \$2.2 million. The VRS actuarial assumptions for the upcoming fiscal year did not change, and remains at 6.01% of salary cost.

Health Care Costs

Health care costs continue to rise, with a 6% increase anticipated in FY 2016 beginning in December 2015. The annual increase is generally based on the prior-year claims and services provided to our employees. The resulting impact to the General Fund is a health care cost increase of \$1.2 million, with an additional cost increase of over \$291,000 spread across the other operating funds in FY 2016. This particular benefit continues to be an important factor as part of our overall compensation package, and it remains a strong recruiting tool, acting as additional leverage for soliciting qualified candidates when all other aspects of employment (e.g., VRS retirement options) are equal between the Hampton Roads localities. While a critical element for employee compensation, increases in health insurance premiums have unfortunately become a large portion of the demands on the annual budget for the City.

For FY 2016, Health Insurance premiums now represent 4.5% of the total General Fund. Careful plan management and lower experience costs have kept the premium increase responsibility low, but these two aspects have their limits and will only contain costs but so far. To approach the long-term overall health care costs, the City actively engaged in various aspects of a Wellness Program, with incentives for participating in annual physicals and an upcoming health assessment screening, non-smokers health insurance premiums reductions of 20% this year, coupled with restricted smoking near City buildings, a no smoking policy on City paid time policy, and free smoking cessation programs, as well as Wellness at Work programs. The continued funding for this program in the Recommended Budget is \$200,000.

Fuel Prices

Fluctuating fuel costs make it difficult to determine a year-long average of per-gallon costs. For the current fiscal year and looking into the immediate 12-month period, the determination of the 'right' average price per gallon is complicated by the huge drop in finished product prices since June 2014. 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 a rate of 0.2% per month or about 2,000 gallons per month over the last twelve months. This due to greater fuel efficiency from new vehicles entering the fleet, as a result of renewed vehicle replacement investment. Consumption now hovers at the annual level of 1.160 million gallons level. The FY 2016 Recommended Budget assumes an average fuel purchase price of \$2.40 per gallon, falling from the FY 2015 budgeted per gallon rate of \$3.25. The resulting impact to the General Fund is a fuel cost decrease of (\$724,178) and an additional reduction of (\$252,576) city-wide. It would be extraordinary if these low fuel rates lasted beyond the upcoming fiscal year, so we will need to anticipate an fuel prices upward trend for FY 2017.

Contribution to Schools

Local support for public education is always critical indicator of the value the community places on education. I am recommending a contribution of \$118,300,000, which provides an increase of \$3 million in funding, or 2.6% higher than the current fiscal year. This amount includes \$11.2 million in City funding for Schools debt service. This additional funding was initially intended to fund a portion of salary increases at the 2% level for the upcoming fiscal year. As is often the case, the General

Assembly's adopted budget may include more in state support to the School Division than recognized in the Superintendent's proposed budget. While this unanticipated State funding can certainly be applied to many needs, I continue to support the City's contribution level as recommended.

Employee Compensation, Investment in Employee Development

The recommended operating budget includes funding for a merit increase for eligible City employees effective July 1, 2015. We are wholly committed to compensation based on performance as the most appropriate method of recognizing an individual's contribution to the City. While we have outstanding employees and most are totally dedicated, not everyone performs at the same level. We will be rewarding those that are exceptional performers, as well as providing guidance for those that may need additional direction for improvement. As each individual employee will receive an appropriate percentage increase based on their performance evaluation, the dollar value budgeted is an additional 3% of the total salaries. The cost of this merit increase in the General Fund is \$3.6 million, for a total of \$4.68 million City-wide.

One of the more serious issues that resulted from the impact of recession was the lack of employee compensation increases. No salary increases given in some years, complicated by across-the-board general wage adjustments caused highly compressed salaries in various job grades and types throughout the City. The end result is many of our employees are clustered around certain pay levels, with little or no contributing factors to address salary compensation, such as experience recognition, or time in grade. In the current fiscal year, we committed both time and resources to address this situation. FY 2016 represents the second year of a multi-year, phased process to review and correct our pay structure. The Human Resources Department has completed an initial phase of the long term plan, concentrating on the more serious areas of salary equity for FY 2015. For FY 2016 we have again budgeted \$950,000 to focus on the next level of salary compression issues. It is fully anticipated that similar amounts required in the next fiscal years to resolve this issue.

As a continuation of the effort of restoring funding in another form of employee investment, training and development, we are increasing Tuition Assistance reimbursement by \$50,000. This brings the recommended funding from \$150,000 to \$200,000. City-wide training was increased by reducing other expenditure line items where practical. This is one aspect of the operating budget that will we continue to focus on

increasing as the availability of funds grows over the next fiscal years. This is key to growing a skilled staff and our effort to develop new leaders to replace those that will retire.

Full-Year Funding, New Initiatives

The City made significant increased investment in three infrastructure areas in the current fiscal year: vehicle and heavy equipment fleet, information technology, and street paving. To continue this process, additional funding of \$500,000 will be added to vehicle replacements. The desired General Fund replacement investment for a 10.5-year lifecycle is \$3.375 million; currently the General Fund investment is \$2 million. We will continue to make efforts to reach this annual investment level to ensure the appropriate assets are available to provide City services and accomplish City initiatives while minimizing costs. One such effort will be for vehicles and equipment used by Street Repair. While there is \$2.05 million of Street Repair vehicles and equipment identified for replacement, only \$395,000 in funding was available in FY 2015. The proposed \$500,000 increase in FY 2016 to the General Fund replacement program will enable five (5) of the most problematic dump trucks to be replaced and will move the City closer to sustainable funding.

We will also be investing \$571,000 in replacing the current voting system used by the Voter Registrar; it is sixteen (16) years old and has routinely presented spotty malfunctions during elections. This system is costly to maintain, and needs to be replaced prior to the 2016 Presidential election.

Funding is included to support a reappraisal of Newport News Shipbuilding real estate assets, in accordance with a long-standing court settlement. This reappraisal is required every ten years. The Real Estate Assessor Department will engage an outside engineering firm to assist with the valuation of specialty real estate assets and marine structures. The Department will also engage an outside consulting firm to establish the economic obsolescence factor. This is required every five years. This study looks at economic conditions of the global shipyard industry. The total cost of both activities is \$400,000.

In FY 2016, the General Fund will be recognizing debt payments for the Apprentice School Parking Garage and maintenance and operating costs for the City Center Fountain Way Parking Garage. As you know, the City/EDA participated in a \$70.5 million mixed-use public/private partnership Apprentice School in the downtown area, funded by the Commonwealth of Virginia through a performance-based grant, City

contribution, and private investment. The project is approximately 197 market-rate/affordable workforce housing units, a 382-space parking garage and approximately 30,000 square feet of retail space in a campus-like setting on 6+ acres between Washington and West Avenues, and between 30th Street and 34th Street. The City is responsible for the payment agreement on the \$12.7 million debt associated with the Parking Garage. The FY 2016 General Fund cost is \$1,448,696.

The Fountain Way Garage operating and reserve expenses will shift from the EDA to the General Fund in the upcoming fiscal year. The original plan for City Center at Oyster Point was for the annual debt service and ongoing expenses of the garage operations to transfer from the EDA to the General Fund, as the project generated revenues in the General Fund increased. However, with the General Fund fiscal constraints of the past several years, as well as the sluggish economic recovery, implementation of the transition was delayed. In FY 2016, this cost will be \$402,777.

In support of an exciting new initiative, funding for a part time Police Aide program will be included in FY 2016 in the amount of \$214,000. This program will work to engage high school students in considering law enforcement as a career, with the additional goal of improving minority recruitment for sworn officers. These funds will support 12 part-time positions to work 24 hours per week.

There are two changes that are internally efficiency driven. In the FY 2016 Recommended Budget, responsibility for supervision of the Motor Pool will move from the Purchasing Office to the Vehicle and Equipment Services Department (VES). The overall functions will not change, but rather the availability of VES staff to assist in Motor Pool Operations. Second will be the transfer of the Graphics functions from the Purchasing Office to the new Communications Department. This will allow for uniformed branding, production and graphic services output that will be consistent throughout the City.

REDUCTIONS IN EXPENDITURES

To be able to fund the six focused expenditure areas, the FY 2016 recommended budget reflects reductions in other operational expenses, as well as the recommended rate and fee increases. As there are few enhancements based on contractual circumstances or specific needs, and

in response to directing revenue expansion to those needs, it was necessary to reduce service levels in some areas, as detailed below.

Closure of the City Farm

As has been reported to you in previous City Council work sessions, a formal operational study was conducted on our minimum security inmate facility under the Department of Adult Corrections, known as the City Farm. Without reiterating the findings of the study here, it is very clear that operationally, for the safety and well being of the inmates, as well as the cost avoidance of an immediate and substantial capital investment, the very clear path is to close the facility. Our challenge was to determine a plan to still be able to maximize the value of the inmate labor provided to the City through landscaping, site and debris clean up, special activity support, construction, and other such functions, while reducing operating costs. And we were committed to placing current City Farm employees who wished to continue working for the City in an appropriate endeavor. The end result is that by closing the facility, shifting the inmates to the existing capacity of the City Jail under the Sheriff, and directing the Road Services crews to Community Maintenance functions under the Public Works Department, we will be able to reduce costs by \$2.2 million and 30 positions. This action will be further detailed in a forthcoming Position Paper.

One service reduction will be seen by the general public. We are recommending that the public library branches of Grissom, Pearl Bailey and Main Street open one hour later, at 10 a.m. instead of 9 a.m. This change will reduce operational schedule by 18 hours per week, or 936 hours per year. Proposed change would decrease hours of availability by 9.1%, and is consistent with opening hours throughout Hampton Roads. The impact is the reduction of three part time positions, all currently vacant.

For FY 2016, it is recommended to end the Parks and Recreation year-round Therapeutic Recreation Program due to staffing challenges and low participation. Approximately 39 children with special needs are annually involved in the program, which has been subsidized by the General Fund and by the Recreation Revolving Fund, as the expenses have always exceeded the revenue. In addition, there is high demand for qualified employees for this type of program, and the City has been unable to appropriately staff the function for the majority of the current fiscal year. Program participants will continue to be served by the school age programs when able through an inclusion process, and the Department

will maintain staff to conduct assessments and provide additional support for school age programs.

New Positions and Redirected Staffing

As a service organization, it is clear that the majority of our operating costs are invested in our employees as salaries and fringe benefits. For FY 2016, the approach was to recognize the proper staffing levels for the services that we are able to accomplish and accomplish well, and to address the scope and scale of the Attrition Credit that has been established during the recessionary period. It is important to bring the Attrition Credit to a realistic and manageable amount, while recognizing the appropriate staffing levels and not hindering overall departmental operations.

I am recommending a net reduction of 11 positions in the General Fund in FY 2016, with a net reduction of 5 other positions City-wide, which includes the Schools Division. Thirty positions in the Adult Corrections Department will be eliminated. Thirteen new positions are recommended to be added in the following departments: one in Human Resources, one in Purchasing, one in Judiciary, three in Police, two in Public Works, one in Human Services, two in Development, and one in Planning, and one in Communications. In addition, eight part-time positions are recommended to be made full-time in the following departments: two in Commissioner of Revenue, one in Fire, three in Public Works, and two in Parks, Recreation and Tourism. Each of these positions is further described below.

We will now have cut a net total of 186 positions in the General Fund over the past seven years, with this reduction representing a 6.8% decrease of our workforce since the beginning of the recession. The net number of position reductions identified above does not represent the full number of reduced positions over the past years. Some of the positions that have been eliminated have been repurposed to support efforts to improve efficiencies and/or to enhance our efforts and citizen responsiveness in critical areas. Examples of these are the staffing of the 311 Customer Contact Center and Denbigh Community Center (in FY 2013), or the new positions at the Peninsula Regional Animal Shelter (in FY 2014), and for FY 2016, the shifting of 23 of the 24 positions for the Communications Department.

With the scale of eliminated positions in the past, and fewer employees performing essentially the same services as a workforce equal to 10 years

ago, it is hard to find positions where the operational cost of a function is clearly no longer justifiable. The only position reductions will be those associated with the City Farm closure, primarily those allotments in the Detention division. The actual employees will be employed in the Sheriff's Department filling 14 current vacancies, as well as other vacancies in the Public Works Security Division, and in Juvenile Services Secure Detention. It is only in that instance we have recommended position eliminations.

Shift of Functions, Responsibilities

City Farm Closure

In the current fiscal year, the Adult Corrections Department has 60 full time position allotments. As a result of the closure of the City Farm, 24 position allotments will be transferred to Public Works Department to establish the Community Maintenance division. This division will assume responsibility for the continuation of landscape maintenance and construction projects performed historically under the supervision of the Department of Adult Corrections. Operational expenses, including vehicle repairs and fuel, machinery and equipment, parts, and wearing apparel will be funded within the Community Maintenance operating budget. Four position allotments will be moved to the Sheriff's Office (two deputies, one Food Services Supervisor and one Laundry Worker), to recognize the workload change associated with the shift of the City Farm inmates to the City Jail under the Sheriff. Two Automotive Technician positions will be transferred to the Department of Vehicle and Equipment Services to continue to maintain the specialized mowing equipment (slope mowers, tractors, etc) associated with the landscaping effort. The Department's remaining 30 positions will be eliminated.

Communications Department

The new Department of Communications will oversee external and internal communications, video production services, graphics services, and the 311 Call Center. The Recommended Budget reflects the transfer of eight positions from the City Manager's Office (Video Productions and current Communications personnel), 10 positions from the 311 Call Center, two Graphics positions from the Purchasing Office, one position from Human Services, one position from the Public Utilities Fund, one from the Tourism Fund, and the addition of one Video Programming Coordinator position in order to enhance our video production.

New Positions

In the Human Resources Department, one Human Resources Generalist position is recommended to be added to be one of the current staff members that is responsible for recruitments, trainings, providing professional consultations, and assisting with the coordination of the centralization of medical certifications. In order to be able to manage the Print Shop in a fully functional manner, one Printer II position and temporary contractual support will be added in FY 2016. To cover the cost of the new position, Work Performed for Others charge back expenses will be increased and allocated to other Departments within the General and Other Funds. This amount reflects historical cost recovery from the Print Shop activities.

With all five Circuit Court judge allotments filled for the first time in almost four years, a new Law Clerk position is recommended to assist the Judges. This position was eliminated as part of the FY 2012 adopted budget as a cost savings. Partial year funding has been added for two new administrative assistant positions to support the operation of the new South Police Precinct building (construction is anticipated to be complete in FY 2016). Establishment of a new position to coordinate all secondary employment of Newport News Police officers is recommended. All costs associated with the Secondary Employment Coordinator position will be offset in the rate charged for contracted engagements.

The Engineering Department will transfer the remaining Environmental Specialist position in the General Fund to the Stormwater Management Fund which will create a net savings effect of (\$49,915) to the General Fund. In the Public Works Department there will be the establishment of an additional Supply Specialist position allowing for separation of duties related to ordering, receiving, and issuing of material and will provide for adequate coverage for vacation or sickness. A new business process analyst position is recommended with specific responsibility for the collection and maintenance of key performance indicator data and preparation of reports required for the Sanitary Sewer Consent Order/MOM project. Additionally, this position will support Asset Management functions including upgrades, maintenance, and troubleshooting of computers, network resources and mobile phones. The full cost of both the Supply Specialist and business process positions will be allocated to the Wastewater Fund with no net cost borne by the General Fund.

The Human Services Department underwent organizational and personnel changes in FY 2009 and 2010 to better manage workload growth and the increased complexity of fiscal and accounting tasks. As a result, several financial positions were reclassified, increasing the number of skilled financial personnel needed to interpret and comply with State and Comprehensive Services Act policy change. Due to the City's financial challenges some of these positions were eliminated through reductions in force. With progressively more rigorous internal and external reporting and audit requirements, the FY 2016 budget recommends the addition of an Accounting Specialist position.

Two positions are recommended to be added to the Development Department. The addition of one accountant position will improve the Department's ability to monitor, report, and remain in compliance with the several successful programs designed to encourage business development, including Enterprise and Tourism Zones, various Federal, State, and local opportunity grants and loan programs. Addition of a project development coordinator position will increase staff capacity and improve the ability to provide ongoing support to high-priority and complex economic development projects. Establishment of a Planning Coordinator position is recommended to expand the Planning Department's ability to provide dedicated focus and guidance to applicants in the development process (zoning, permits, etc.) for projects that require review and approval from multiple City departments and staff members.

In the other operating funds, the Recommended Budget assumes expanded responsibilities for the Vehicle and Equipment Services Fund in FY 2016. The City Motor Pool, supported by one position, is recommended for transfer from the Purchasing Office to VES for more appropriate alignment of organizational duties and responsibilities. For FY 2016, it is recommended to end the Therapeutic Recreation Program due to staffing challenges and low participation. Participants will continue to be served by the school age programs when able and the Department will maintain staff to conduct assessments and provide additional support for school age programs. The result of the termination of the program is the elimination of two full time positions that supported the activities, both of which are currently vacant.

In the Stormwater Management Fund, eight (8) positions are recommended to be added. Establishment of an additional crew supervisor position will support oversight of ditch maintenance,

barscreen, and ditch regrading crews, assist with day-to-day interactions with homeowners, and expand the evaluation of operational processes. The aforementioned transfer of the remaining Environmental Services Specialist position from the General Fund will complete the transition of environmental resources to the Environmental Services division of the Stormwater Fund. One Environmental Specialist position will be added to address inspection and monitoring requirements of the City's Stormwater (MS-4) permit. The establishment of three Survey Technician positions and one Engineer III position will allow for completion of stormwater mapping and modeling functions by City staff. Stormwater mapping and modeling has been a contracted effort. In-sourcing this effort will reduce cost and time required for completion.

In the Solid Waste Fund, two (2) additional Master Equipment Operator positions are recommended for establishment to expand the City's Community Maintenance effort and provide fill in capacity for refuse and bulk collection operations. In the Wastewater Fund, an additional FOG (fats, oils, grease) inspector is recommended to provide capacity necessary for annual inspection of each food service establishment in the City. An existing maintenance crew will be upgraded to a construction crew through the addition of a Master Equipment Operator, Pipelayer Specialist, and Senior Construction Worker to increase the number of projects completed with City resources. This effort will decrease the level and cost of work being contracted out and improve control over wastewater projects.

Part Time Conversion to Full Time

The City has long maintained an extensive part time labor force. A majority of these positions are seasonal in nature (specifically in the Parks and Recreation Department) and are justified to work less than the 40 hours full time standard. With the establishment of the City's policy that part time employees work no more than an annual average of 29 hours per week, it is evident that a number of employees are not making sufficient money to satisfy their needs. Many of these positions were actually working forty hours a week or more on a regular basis. In addition, the part time positions are increasingly difficult to fill as the labor market is resurging, and part time positions are fraught with frequent turnover as individuals secure jobs with full salaries and benefits. The repetitive retraining of each new part time employee certainly diminished our effectiveness. In order to recognize the appropriate staffing levels for certain duties or functions, I am recommending a total

of eight (8) current part time positions will be converted to full time. In the Commissioner of the Revenue Office, for the Business License Division, a part-time Accounting Assistant will be converted to full-time for the assessment and collection of business license taxes. In the Personal Property division part-time Accounting Technician will be converted to full-time to be responsible for the assessment of personal property and DMV Select service.

In the Fire Department's Emergency Management Division, the establishment of a full-time Emergency Operations Technician to replace the part-time administrative assistant currently supporting the Emergency Operations Center is recommended to expand the capacity of the EOC. Three part-time positions in the Security Services division of the Public Works Department will be converted to full time to support increased requests for security coverage and additional presence at City events and the division's staff retention efforts. In the Parks, Recreation, and Tourism Department, two current part-time positions in the Festival Support division will be converted to full time. The Department has relied on part-time staff to support a growing special events program and will be better served by having additional full-time staff.

The net average increase in cost of less than approximately \$30,000 per position certainly is offset by the increased productivity and consistent employment we will receive from these positions. We will certainly make this type of employment review an important practice as we work through each fiscal year.

Attrition Credit

As a compliment to position reductions in prior years, the City established an Attrition Credit as a means of reducing staffing costs, and instituting a hiring freeze. The Attrition Credit that was first introduced in FY 2009 at \$1 million is now over \$7.3 million City-wide, with 73% (or \$5.6 million) in the General Fund alone for FY 2015. Feeling that this was a much greater attrition credit in some departments than was realistic, we did reduce it in some areas in which it was the highest last year. (An Attrition Credit reduces a department's budget for salaries and fringe benefits based on an anticipated lag time between an employee termination and when a new employee is hired.) As this Attrition Credit has grown over time to balance the budgets, it has created an unrealistic representation of the true costs of both staffing and operating the City. While there are some areas of our operations that an Attrition Credit can be used to reflect a

representational hiring lag savings, in other areas it detracts from accurate budgeting for programs. I set our goal that over the next fiscal years to continue this process of identifying vacancies, considering the repurposing or elimination of those slots, and budgeting for a more appropriate level of the hiring lag, which will all result in a more accurate overall operating budget. A good effort towards that goal is represented in FY 2016, where the General Fund Attrition Credit was adjusted downward by \$236,000 to \$5,406,726 and additional change of \$142,000 is reflected in the other operating funds.

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. Happily I can say that this policy will not be needed in FY 2016.

OTHER OPERATING AREAS

Debt Service and Cash Capital

General Fund support for the City's Debt Service will be \$37,663,432 in FY 2016. This includes payments for outstanding General Obligation Debt. It also reflects the combined savings in debt service generated from bond refundings from May 2014. The Recommended Budget assumes one new General Obligation bond issuance during early fall 2015. We are anticipating upcoming capital projects in the order of magnitude of replacing an elementary school and other large scale capital investments like bridges, drainage, and public buildings. We will continue to pursue prudent cash flow management of bond proceeds in order 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 \$7,966,531 or (\$78,413) less than the current fiscal year. The adopted FY 2016 - 2019 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 24.0% 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 support for Hampton Roads Transit (HRT), Thomas Nelson Community College (TNCC), and portion of Hampton Roads Planning District Commission (HRPDC). The FY 2016 combined Community Support and Regional Organizations amount is proposed at \$10,426,824. This represents an increase in funding of \$744,713, or 7.7% from FY 2015.

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. During this year's application process, we specifically requested outcome measures from each organization to align their activities with our process. While the result was inconsistent in the information that was provided, it did initiate the conversation with the agencies, and will help to gear future discussions with them to more program outcome measurement.

For all Community Support agencies, funding will be equal to the FY 2015 level (which is essentially the FY 2012 level amount), with two exceptions. Additional funding in the amount of \$4,000 for the Denbigh House/Community Futures is recommended to bring their total funding to \$35,000 in FY 2016. This small but highly effective organization can deliver specialized services in a manner that is best leveraged by them with this supplementary investment. The Virginia Living Museum (VLM) has received base level Community Support funding in the amount of \$528,007 since FY 2012. This funding has been supplemented during that same time period by either City Council Contingency or by the FY 2014 Cultural Attractions fund. In the current fiscal year, VLM is a beneficiary of \$400,000 of additional support, subject to the completion of an in-depth review of their operations including a review of peer organizations and the role of local governments in funding these types of operations. A company that specializes in this type of organizational review was engaged in late fall 2014, and the study is near conclusion. A significant element of the review process was consideration of the Museum's current status, their investments on ensuring the best possible cash flow for their operations with a combination of grants, enhanced memberships and

donations, and programming in this continuing challenging economic environment. VLM has been an active partner in this process. Determining the appropriate level of City support for VLM is important, as the Museum holds a unique bond with the City. The facility is located on City property, is a cornerstone in the Schools SOL and other educational programming, and adds to the City's economic development with a multi-million dollar annual impact, while at the same time contributes to the City's quality of life of its citizens. Based on the findings of the report that we have seen to date, we have placed the additional funding of \$400,000 in the Community Support Contingency line item of the Recommended Budget, and will use it as a challenge grant to VLM for private fund raising efforts. The challenge will be a 3 to 1 ratio - that is for every three dollars of private investment or grants that VLM receives the City will match it by one dollar from the \$400,000 reserve.

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 other Regional Agencies offered reductions voluntarily, other than right-sizing their request to match expenses. Those two agencies were Hampton Roads Planning District Commission (HRPDC), with a request that was less than the current year by (\$2,764) and Thomas Nelson Community College (\$5,567).

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 14.3%) in funding 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.

During last year's budget preparation process, it became more apparent that the long gaps in bus service on some of heavily travelled routes needed to be addressed. In response to our concerns, we engaged Hampton Roads Transit (HRT) in November 2014 to develop route plans that would increase 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. This increased service would be weekdays, Saturday and Sunday route times. The cost for this one route change is \$307,120. 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 that the City is currently engaged. The FY 2016 is for \$6,222,747, which is \$334,824 or 5.7% higher than our current amount of \$5,887,923. In addition, we have been actively engaging with HRT on the increased service on Jefferson Avenue, from the Newport News Terminal Center on Washington Avenue to the Patrick Henry Mall area, increasing the service time, but without impacting the other associated routes.

The final amount recommended in Community Support and Regional Agencies is a Contingency amount of \$460,000. This level contains \$60,000 in the base contingency and the \$400,000 requested by The Virginia Living Museum to challenge grant funding, as described above.

There were seven (7) agencies that solicited support in the amount of \$267,995 that are currently not funded by the City. Some of these requests were for the restoration of funds eliminated in prior operating budgets and some were new grant requests. Of the new requesting agencies, three (3) were determined by the City Attorney's Office to be ineligible for City funds, due to incomplete submissions (generally the absence of financial documents, charter, or bylaws) or the organization appeared to be sectarian based, which the City would be prohibited from contributing. Of the remaining four organizations, each has received special funding from City Council Contingency in the past fiscal year. The recommended new agencies and their level of funding in the total amount of \$102,100 for FY 2016 are:

1. Southeastern Virginia Health Systems (SEVHS)	\$50,000
2. Soundscapes, Inc	\$30,000
3. The Center for Sexual Assault Survivors	\$ 7,350
4. Eastern Virginia Medical School	\$14,750

RATES AND FEE INCREASES

This balanced budget has been achieved with practical, sustainable expenditure reductions, and with limited rate and fee increases, and with planned savings from the current fiscal year. A Real Estate Tax rate increase is not recommended for FY 2016. The benefits of an increased Real Estate assessment, a stronger performing local economy and recognizing future growth, and using expenses reductions enable us to balance the budget without a tax increase. To recap, the Real Estate Tax

rate will remain level with the current fiscal year at \$1.22. We will be using \$4 million of anticipated FY 2015 year-end surplus (that first reverts to General Fund Balance) to support our Cash Capital efforts, to the support our expanded regional transportation costs, and one-time equipment costs and operations.

For the User Fund fees, there are increases driven by mandates and this makes rate increases unavoidable. In the Wastewater and Stormwater Management Funds, these rate increases are driven primarily 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 flow of pollutants into our waterways requires prompt studies and investment in system improvements, and to use a cash capital method 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 \$3.21 per hundred cubic feet (HCF) used to \$3.27 per HCF. The Stormwater fee a change from \$9.75 per ERU monthly to \$10.75 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 2015 Adopted	FY 2016 Recommended
SOLID WASTE USER FEE		
Medium Container per week	\$5.40	\$5.52
Standard Container per week	\$6.75	\$6.90
STORMWATER MANAGEMENT FEE		
Rate/Equivalent Residential Unit/Month	\$9.75	\$10.75
Annual Rate per 1 ERU	\$117.00	\$129.00
SEWER USER FEE		
Rate/100 cubic feet/month	\$3.21	\$3.27
Monthly Service Fee	\$4.00	\$4.00

For Public Utilities, after many years of decreased in water demand consistent with other water utilities nationwide, our water consumption appears to be stabilizing. Following several years of an observed decrease in demand, this trend prompted City Council in FY 2012 to begin 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. With the demand “right-sized” again for FY 2016, the revenue from water sales seems to be level, and thereby requiring a small water rate in the upcoming year, the first time since FY 2013. There will be no change to the fixed service charges to customers. While the revenue is falling within the predicted ranges, Waterworks’ expenses are impacted by the same cost drivers as the General Fund: pension increases, salary adjustment, higher health care costs, and the need to address aging infrastructure.

As part of the FY 2015 budget, City Council adopted rate increases fees for services that have been historically provided at no charge to the customer. These FY 2016 rate are summarized in the following table, along with the Water rate proposal:

	FY 2015 Adopted	FY 2016 Recommended
WATER RATES AND FEES (consumption rates per one hundred cubic feet (HCF))		
Single-Family Residential Bimonthly		
R1 Low Usage Lifeline (0 to 4 HCF)	\$3.08/HCF	\$3.17/HCF
R2 Normal Use (Greater than 4 to 50 HCF)	\$3.55/HCF	\$3.65/HCF
R3 Conservation Tier (Greater than 50 HCF)	\$7.10/HCF	\$7.30/HCF
Industrial Monthly		
I1 Tier 1 (0 to 40,000 HCF)	\$3.55/HCF	\$3.65/HCF
I2 Tier 2 (Greater than 40,000 HCF)	\$3.08/HCF	\$3.17/HCF
General (All Other Consumption)		
G - All other usage	\$3.55/HCF	\$3.65/HCF
MONTHLY SERVICE FEE (per meter size in inches)		
5/8	\$16.00	\$16.00
3/4	\$19.20	\$19.20
1	\$25.60	\$25.60
1 1/2	\$41.60	\$41.60
2	\$62.40	\$62.40
3	\$133.00	\$133.00
4	\$192.00	\$192.00
6	\$354.00	\$354.00
8	\$547.00	\$547.00
10	\$768.00	\$768.00

	FY 2015 Adopted	FY 2016 Recommended
OTHER SERVICE FEES¹		
After Hours Field Service Fee	\$70	\$85
Water Exam Fee	\$25	\$35
Bill Request Administrative Fee	\$5	\$10
Advance Fee	\$25	\$35
Field Service Fee	\$30	\$40
Fire Hydrant Meter Advance Fee	\$325/795	\$370/825
Fire Hydrant Meter No-Read Fee	\$25	\$25
Late Payment Fee	2% or \$4	2% or \$5
Meter Out - Customer Request	\$35	\$40
Meter Out - Non-Payment	\$45	\$55
Meter Testing Fee	\$45/65	\$65/80
New Account Fee	\$30	\$40
Re-Read - Customer Request	\$15	\$20
New Service Connection Fees - 5/8" Meter	\$300/860	\$325/1,030
New Service Connection Fees - 3/4" Meter	\$330/890	\$360/1,065
New Service Connection Fees - 1" Meter	\$400/985	\$440/1,170
New Service Connection Fees - 1.5" Meter	\$730/1,965	\$950/2,230
New Service Connection Fees - 2" Meter	\$900/2,200	\$1,100/2,500

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, use reserves of the funds as appropriate, and 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. 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 2015 real assessment of approximately \$169,100. (This same median assessment valuation was \$201,350 in FY 2009.)

¹ These increases for FY 2016 were approved as part of the FY 2015 Adopted Operating Budget.

FY 2016 Impact on Typical Household	<i>Weekly Increase</i>	<i>Monthly Increase</i>	<i>Annual Increase</i>
Real Estate Tax	\$0.20	\$0.86	\$10.32
Stormwater Fee	0.23	1.00	12.00
Solid Waste Fee	0.15	0.65	7.80
Sewer User Fee	0.08	0.33	3.96
Water Fees and Rates	0.13	0.53	6.36
Total Impact	\$0.79	\$3.37	\$40.44

MOVING FORWARD

I believe this operating budget recommendation positions the City and our community for the future, and places the emphasis on funding 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. In general, the local tax base should continue to grow modestly. Current trends suggest that this community will largely be prepared to manage its fiscal challenges, meet its commitments, and take advantage of opportunities that arise by creating a community and workforce that inviting to development.

CONCLUSION

In summary, I have submitted a balanced budget with very limited service delivery reductions. 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 again meets the objectives of funding our pension and health care obligations, maintaining funding to Schools and to our infrastructure, funds initiatives that supports our Strategic Priorities, and provides a salary adjustment and future investment for our valued employees. These are all significant accomplishments, given the constraints that we face. This Recommended Budget maintains 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 is responsive to the current economic changes, and maintains

essential core services for our citizens. 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 3. 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 2016 Recommended Operating Budget is responsive to our organizational and community needs and 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