

FISCAL YEAR  
**2018**  
RECOMMENDED  
OPERATING  
BUDGET

CITY OF  
**NEWPORT NEWS**  
VIRGINIA



POSITION PAPERS

Newport News   
Lithium From Things Not Happening

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# **Fiscal Year 2018 Budget Position Papers**

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# **Fiscal Year 2018 Budget Position Papers**

- 1. Tax Rate and User Fee Changes and Impacts**



# FY 2018 BUDGET POSITION PAPER

APRIL 2017

## TAX RATE AND USER FEE CHANGES AND IMPACTS

### Overview

The FY 2018 Recommended Operating Budget includes no changes to current General Fund tax rates and fees. For the third consecutive year, the City will experience an increase in the total value of real estate property located within city limits. The incorporation of practical and sustainable expenditure reductions in the Recommended Budget, along with revenue growth anticipated, in part from rising real estate property values, allows for continuance of the real estate tax rate at \$1.22 for the upcoming fiscal year.

Real estate property assessments are based on market values established for the 12-month period from January 1, 2016 to December 31, 2016 (calendar year 2016). Real estate assessment growth for FY 2018 for all properties including residential, commercial/industrial (includes apartments), and other property types is projected to total 1.07%. This estimated improvement in assessed values is driven primarily by increases in commercial/industrial properties, and the apartment and condominium markets. In contrast, approximately 80% of single family residential properties are anticipated to experience no change in assessed value for the upcoming year. While this statistic indicates that the residential market maintains an inventory of properties selling at assessed values, it also provides evidence that the residential market remains stabilized.

Rate increases are recommended in the Wastewater and Stormwater Funds to fund system improvements and operational enhancements to address Federal and State environmental mandate requirements, the proposed merit-based salary adjustment, and increasing costs associated with healthcare, pension benefits, and vehicle fuel. Effective response to environmental regulations will require expanded monitoring, investigation and data collection efforts, performance of correction actions, and development and execution of strategies to maintain, improve, and repair the infrastructure systems. Every effort will continue to be made to reduce costs, increase operational efficiencies, and apply fund reserves, where possible or necessary. No rate increase is proposed for the Solid Waste Fund.

The Waterworks Department continues to reduce operating expenses where possible, but will experience the same increases in personnel costs, pension, healthcare as the General Fund, and along with incurring initial costs associated with shifting residential billing frequency from the bi-monthly cycle to monthly.

## Waterworks Department

### *Issues*

After several years of decreased water demand, consistent with the experience of water utilities nationwide, local water consumption appears to be stabilizing. In FY 2012, this trend prompted City Council to begin to shift to a water rate structure with increased revenue from fixed service charges and reduced reliance on water consumption driven revenue. The Recommended Budget for Waterworks builds on this practice to shift revenue dependency from consumption-based charges to fixed fees and adjust other service fees to cover the cost of providing services.

This approach is consistent with the cost structure of the utility, which is predominantly fixed and nearly independent of volume of water sold. With the demand estimate revised for FY 2018 to reflect the best available consumption data, revenue from water sales is estimated to remain nearly level with the amount budgeted in FY 2017.

The Recommended Budget for Waterworks is \$90.7 million, which is \$2 million, or 2.2%, more than the FY 2017 budget. For FY 2018, consistent with the level of staffing in FY 2017, the Waterworks organization will include 352 full-time employees. Higher expenditures in FY 2018 include an increase in planned retirement contributions, an average 3% merit increase for eligible employees, increases in fringe benefit costs, and an increase to payment in lieu of taxes made to the General Fund. In addition, the proposed increase includes \$400,000 for the Department's initial phases of implementation of monthly billing for residential customers. Currently, residential customers are billed bi-monthly.

### *Funding Strategy*

In order to meet these needs, a revenue increase is proposed. For both the monthly and bi-monthly customer, the Service Fee, which is based on individual meter size for all metered connections, is recommended to increase. For the typical single-family residential connection (5/8" meter), the proposed increase is \$1 per month. Even with this minor increase, the cost of water service for the average single-family residential customer will remain at nearly one dollar per day. No change is proposed for volume based water consumption rates.

All current FY 2017 and recommended FY 2018 rates are detailed in the tables below (changes identified in **BOLD**):

#### *Water Consumption Rates per one hundred cubic feet (HCF)*

	<b>Adopted FY 2017</b>	<b>Recommended FY 2018</b>
Single-Family Residential Bimonthly		
Lifeline (0 to 4 HCF)	\$3.21/HCF	\$3.21/HCF
Normal Use (Greater than 4 to 50 HCF)	\$3.69/HCF	\$3.69/HCF

Conservation Tier (Greater than 50 HCF)	\$7.38/HCF	\$7.38/HCF
Industrial Monthly		
Tier 1 (0 to 40,000 HCF)	\$3.69/HCF	\$3.69/HCF
Tier 2 (Greater than 40,000 HCF)	\$3.21/HCF	\$3.21/HCF
General (All Other Consumption)	\$3.69/HCF	\$3.69/HCF

*Proposed Rate Changes: Monthly and Bi-Monthly Service Fees*

	Monthly Rate Adopted FY 2017	Monthly Rate Recommended FY 2018	Bi-Monthly Rate Adopted FY 2017	Bi-Monthly Rate Recommended FY 2018
Meter Size (inches)				
5/8	\$16.00	<b>\$17.40</b>	\$24.00	<b>\$26.00</b>
3/4	\$19.20	<b>\$20.80</b>	\$30.40	<b>\$32.90</b>
1	\$25.60	<b>\$27.75</b>	\$43.20	<b>\$46.80</b>
1 ½	\$41.60	<b>\$45.00</b>	\$75.20	<b>\$81.50</b>
2	\$62.40	<b>\$67.60</b>	\$115.20	<b>\$124.80</b>
3	\$133.00	<b>\$144.00</b>	\$256.00	<b>\$278.00</b>
4	\$192.00	<b>\$208.00</b>	\$376.00	<b>\$408.00</b>
6	\$354.00	<b>\$383.00</b>	\$699.00	<b>\$758.00</b>
8	\$547.00	<b>\$593.00</b>	\$1,086.00	<b>\$1,177.00</b>
10	\$768.00	<b>\$832.00</b>	\$1,529.00	<b>\$1,657.00</b>

Through constant efforts to increase operational efficiencies, along with recent and proposed adjustments to the water system rate and fee structure to reduce the impact of volume-driven variability within Waterworks revenue, have led to the elimination of budgeted use of fund balance reserve since FY 2014. The continued practice of regular, incremental increases, preservation of cash reserves (enhancement where possible), and development of a five-year financial forecast have been identified by bond rating agencies as key to the long-term sustainability of an effective municipal water utility.

***Impact***

Based on the recommended service fee changes and with average residential customer consumption remaining at 5.5 HCF per month, the typical household will experience an increase to the cost of water of \$1 per month, or \$12 per year. Even with the FY 2018 rate increases proposed for the Monthly Service Fee, the average daily cost for water service will remain nearly \$1 for the typical household.

**Solid Waste Fund**

***Issues***

The Solid Waste Fund provides residential and bulk waste collection services, manages the landfill and composting operations, administers the recycling and hazardous waste

programs, and plays an integral role in the City's strategic focus on community maintenance. The Community Maintenance Team, which responded to 1,290 service requests in FY 2016 (collecting more than 4,824 tons of brush, tires, and white goods), remains a heavily used resource, integral to community maintenance objectives throughout the City. Expanded efforts on illegal dumping investigation and enforcement have had a positive impact on the City's appearance, image, and public safety.

### ***Funding Strategy***

The budget recommended of \$14,962,000 for the Solid Waste Fund for FY 2018 reflects an increase of \$19,000, or 0.1%. For FY 2018, expenditure increases are driven by pension commitments, the proposed merit-based salary adjustment, and rising health care and vehicle fuel costs. There is no increase proposed for the Solid Waste User Fee, which will remain at \$5.64 per week for a medium container (60-gallon) and \$7.05 per week for a standard (90-gallon) container.

### ***Impact***

The current level of service provided by the Solid Waste fund will continue in FY 2018, with no increase proposed for the Solid Waste User Fee.

## **Wastewater Fund**

### ***Issues***

The Wastewater Fund provides for the operation, maintenance, design and improvement to the City's sanitary sewer system. Sufficient funding is required to maintain the wastewater infrastructure within the framework of regulations and standards established by the Virginia Department of Environmental Quality (DEQ), Hampton Roads Sanitation District (HRSD), and Hampton Roads Localities Special Order by Consent (SOC). The Engineering and Public Works departments work collaboratively to design, operate, and maintain city wastewater systems in the most effective and efficient manner possible.

In past years, the Sewer User Fee has been based on operational costs, including capital project debt service and regulatory impacts. More recently, it has become necessary to recommend rate adjustments that account for the impact of regulatory guidelines set forth in the SOC. Beginning in FY 2015, a fixed monthly fee of \$4 was established to provide a stable revenue source for the fund not susceptible to changes in water consumption trends. Revision to the monthly fee structure is recommended for FY 2018 to better account for wastewater service cost based on meter flow and capacity (more details provided below). As of December 2014, Wastewater Fund operations are regulated by the modified SOC entered into by the City, with requirements now limited to the implementation of a sanitary sewer maintenance, operation, and management program (MOM). The MOM requires that the City maintain and operate sanitary sewer

collection system assets in accordance with industry accepted practices related to sewer inspection, evaluation and repair of significant defects (not programmed to be addressed in the Regional Wet Weather Management Plan, which is now the sole responsibility of HRSD).

Investment in technology and an aggressive sanitary sewer maintenance plan have reduced the frequency and quantity of sanitary sewer overflows. Replacement of the outdated Supervisory Control and Data Acquisition with an integrated system that utilizes cell phone and radio technology provides more timely data related to sewerage flow, pump condition, and station wetwell levels. This information helps prevent sewerage overflows and improves future sanitary sewer design decisions.

### *Funding Strategy*

The Recommended FY 2018 budget for the Wastewater Fund is \$22,599,000, which is \$802,000, or 3.7%, more than the FY 2017 budget. Expenditure increases will fund the proposed merit-based salary adjustment, health insurance expenses, vehicle fuel costs, City and VRS pension requirements, and the establishment of one Senior Construction Inspector to support oversight of the increased number of wastewater projects expected to result from HRSD regionalization efforts. It is anticipated that HRSD's work requirements under the Regional Wet Weather Management Plan will have significant impact on the City's sanitary sewer system. All work performed by HRSD on City Facilities will require field inspection to ensure that work is performed in accordance with City standards and regulations, mitigating the impact of construction on citizens. The new position will also support the Wastewater Division in the performance of Maintenance, Operation, and Management Program sewer work.

### *Impact*

The Recommended Budget includes a proposed revision to the fixed monthly Wastewater Service Fee to change from a monthly fixed rate per meter (without regard to size) to a monthly fixed rate per meter size. The new Monthly Service Fee structure takes into consideration the area of pipe diameter serviced by a meter and increased flow capacity with larger meters. There is no proposed change to the volume based Sewer User Fee, which will remain at \$3.37 per HCF for FY 2018. The proposed revision to the Wastewater Monthly Service Fee will increase the cost of wastewater service for the typical household by \$6 per year, or 2.2%.

Proposed Rate Changes:

	FY 2017 Adopted Rate	FY 2018 Proposed Rate	Difference	Annual Impact
Sewer User Fee (rate per hundred cubic feet)	\$3.37	\$3.37	\$0.00	\$0.00
Monthly Service Fee (fixed per meter size)				
5/8"	\$4.00	<b>\$4.50</b>	\$0.50	\$6.00
3/4"	\$4.00	<b>\$6.12</b>	\$2.12	\$25.44
1"	\$4.00	<b>\$10.07</b>	\$6.07	\$72.84
1 1/2"	\$4.00	<b>\$16.40</b>	\$12.40	\$148.80
2"	\$4.00	<b>\$23.80</b>	\$19.80	\$237.60
3"	\$4.00	<b>\$32.05</b>	\$28.05	\$336.60
4"	\$4.00	<b>\$40.62</b>	\$36.62	\$439.44
6"	\$4.00	<b>\$49.43</b>	\$45.43	\$545.16
8"	\$4.00	<b>\$58.32</b>	\$54.32	\$651.84
10"	\$4.00	<b>\$67.25</b>	\$63.25	\$759.00

**Stormwater Fund**

*Issues*

The Stormwater Fund provides for monitoring, analysis, maintenance and improvements to facilities that support City efforts to minimize flooding and improve the quality of both actual stormwater and receiving bodies of water. The FY 2018 Recommended Budget for the Stormwater Fund reflects ongoing and significant changes in federal and state approaches to stormwater management. The Environmental Protection Agency (EPA) is exerting significant pressure on Virginia and other Chesapeake Bay watershed States to convert to more stringent and direct measures of discharged pollutants. These changes are embodied in two major components of the Stormwater Management Program:

- The Municipal Separate Storm Sewer System (MS4) permit
- Chesapeake Bay Preservation Act Total Maximum Daily Loads (TMDL)

*MS4 Permit*

At the start of FY 2017, a new MS4 permit, which is the primary regulatory document related to the City's stormwater system, was issued. The new permit has more rigorous field inspection, review, and reporting requirements. Correspondingly, staff has designed, developed, and implemented an integrated tracking, enforcement, and reporting system to address the nine areas of emphasis identified in the new permit. Each is associated with the related site plan, development plan or permit, inspection

intervals and forms, and enforcement processes. The new system collates reports from each of the areas and generates an annual report for documenting activities to the State. As of October 2016, all system modules are functional and have been used to generate the first annual report under the new permit. Staff is awaiting Department of Environmental Quality final comment on that report.

#### *Total Maximum Daily Load (TMDL)*

The Chesapeake Bay Preservation Act calls for increasing regulation of nutrients and sediment. EPA's approach is a "Bay Diet" prescribing limits on nutrients (phosphorous and nitrogen) and sediment. These limits are defined as Total Maximum Daily Loads (TMDL) and the TMDL program evaluates water quality on the basis of quantity (load) of pollutants. TMDL regulations have now been tied to the effective date of the MS4 permit (start of FY 17). The TMDL is described in the City's Watershed Implementation Program - Phase II (WIP-II) and is required to be funded at one of several specified rates. The WIP-II identifies approximately \$55 million of investment over a 15-year period. The most economical rate for the City requires 1% for each of the first five years (\$550,000 per year), 7% for each of the next five years (\$3.9 million per year), and 12% for each of the final five years (\$6.6 million per year). It is anticipated that WIP-II improvements implemented prior to the effective date of the new permit will be credited toward investment requirements of the permit.

#### *Funding Strategy*

The Recommended FY 2018 budget for the Stormwater Fund is \$21,783,000, which is (\$352,000), or (1.6%), less than the FY 2017 budget. The Departments of Engineering and Public Works operate jointly within the Stormwater Management Fund. The FY 2018 recommended Stormwater User Fee is \$11.60/ERU, which is a \$0.35 per month increase over the current rate of \$11.25/ERU. The average household cost will increase by \$4.20 per year to \$139.20.

The FY 2018 budget presents the best estimate of the necessary expenses to address the increased monitoring and evaluation efforts required by the MS4 permit including TMDL. Addition of one (1) Crew Supervisor B position will improve the management and coordination of grass cutting at major outfalls throughout the City. This position will supervise three (3) Senior Equipment Operators and will investigate service request calls from citizens and businesses. This supervisory position will also operate equipment to assist with grass cutting efforts.

In addition to improving staff, equipment, and facility capacity to manage and respond to mandate requirements and the transfer of responsibility for the issuance and enforcement of the Virginia Stormwater Management Program from the Department of Environmental Quality to the City, recommended increases include the proposed merit-based salary increase, continued requirements to properly fund the City's retirement system, and anticipated increases to health insurance and vehicle fuel costs. The City

will continue to evaluate existing and proposed operations to identify opportunities for cost control.

***Impact***

The Stormwater User Fee increase will provide funding necessary to respond to the increasing regulatory requirements associated with the new MS4 permit and implementation of the WIP. For the typical household, an annual increased cost of \$4.20 will be experienced.

**Conclusion**

The chart below details the projected impact on a typical household of the proposed rate and fee changes contained in the FY 2018 Recommended Budget. Calculations have been based on a household of four with a home assessed at \$174,827. The estimated impact of all proposed tax, rate, and fee increases equates to \$0.43 per week for the typical household. With no projected increase in residential assessed values for the upcoming fiscal year, the typical homeowner will face a lower real estate tax bill in FY 2018 than was paid in FY 2009.

<b>FY 2017 Impact on Typical Household</b>	<i>Weekly Increase</i>	<i>Monthly Increase</i>	<i>Annual Increase</i>
Real Estate Tax	\$0.00	\$0.00	\$0.00
Stormwater Fee	0.08	0.35	4.20
Solid Waste Fee	0.00	0.00	0.00
Sewer User Fee	0.00	0.00	0.00
Sewer Monthly Service Fee	0.12	0.50	6.00
Water Monthly Service Fee	0.23	1.00	12.00
<b>Total Impact</b>	<b>\$0.43</b>	<b>\$1.85</b>	<b>\$22.20</b>

# **Fiscal Year 2018 Budget Position Papers**

## **2. Recommended Position Changes**



# FY 2018 BUDGET POSITION PAPER

APRIL 2017

## RECOMMENDED POSITION CHANGES

### Overview

The City's primary function is to provide service to our citizens. To accomplish that, the operating budget is largely invested in salary and fringe benefits costs for employees to deliver the large array of services. Each budget development process provides us with an opportunity to review programs and services to determine if there are opportunities to achieve savings or become more effective by restructuring, reducing, or adding positions. FY 2017 represented the first increase in full-time positions since FY 2012 that did not result from eliminating other currently existing allotments. The Recommended FY 2018 Budget includes necessary increases in funding to annual retirement contributions and employee health care costs, but it also reflects a slow, continued, and consistent local economic recovery. This improved revenue outlook, along with proposed operational changes and associated position modifications, did permit us to recommend new positions to serve the City's highest priorities and contractual obligations.

### Issues

The Recommended Budget includes an increase of six (6) positions in the General Fund, with two (2) new other positions city-wide. No positions have been eliminated. The new recommended positions are detailed below, with Table 1 detailing the specific changes for FY 2018.

#### *New General Fund Positions*

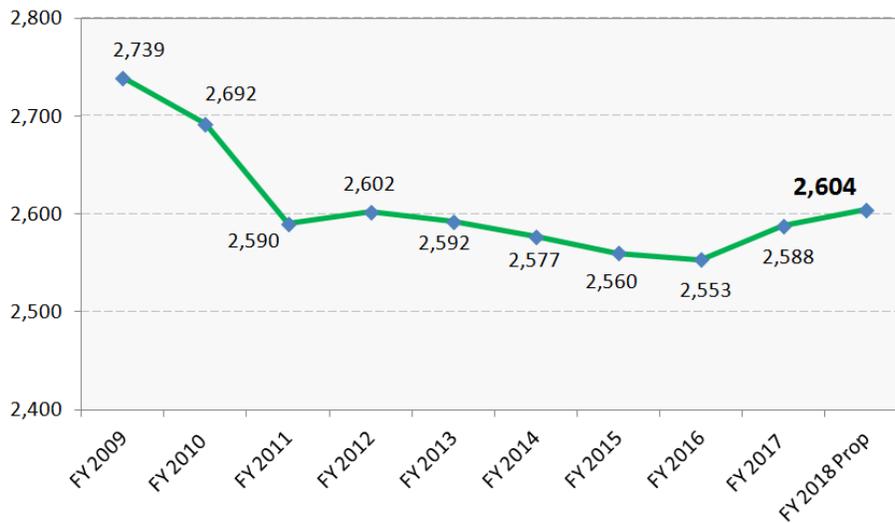
In the Juvenile Services Department, as part of compliance with the federal Prison Rape Elimination Act (PREA) and state staffing ratio mandates (of maintaining one staff member to eight juveniles), the Department is adding three (3) new Detention Specialists.

In the Fire Department, the addition of one EMS Supervisor position will assist in creating a third EMS Battalion District in the City. Currently there are two EMS Districts, one 'north' and one 'south' of J. Clyde Morris Boulevard, each an approximately 34 square mile district to which an EMS Supervisor responds. This new third supervisory position, in conjunction with allocating two current vacant positions, will decrease response times, provide the additional coverage necessary for the increased demand for Advanced Life Support calls, and better on scene supervision.

One Planner position is recommended to be added to the Planning Department. In FY 2017, a vacant planner position was repurposed to establish a Neighborhood Revitalization Coordinator. While the Neighborhood Revitalization Coordinator specializes in neighborhood engagement, the Department is still in need of a Planner to prepare reports and maps using statistical data, evaluate physical, social, and economic conditions for plans and studies, as well support the goals of the City’s Comprehensive Plan, City’s Choice Neighborhoods Initiative, and Joint Land Use Study. This new position fully supports the City’s strategic Community Maintenance and neighborhood revitalization efforts.

One executive management position in the Finance Department is recommended to be added to support the supervision needs of the department. The Department of Finance is responsible for the oversight of critical financial components of the City including annual financial reporting, payroll, both pension managements, Purchasing, and Risk Management. It is crucial for the City have positions in place to effectively manage these various functions.

### Total General Fund Positions



Note: Table reflects changes from Adopted Budget level

#### *Shift of Positions*

After the beginning of FY 2017, there were several shifts of operational functions with associated existing positions, to reflect a change in alignment of duties between departments. While the individual employees transferred to a different department during the current year, the position allotment change is reflected in FY 2018. These interdepartmental reallocations are described below.

The Recommended Budget reflects the transfer of five (5) positions associated with Geographical Information Services to the Information Technology (IT) Department to consolidating the function. Two (2) positions were moved from Public Works and three

(3) positions were from Engineering (2 positions from General Fund Engineering Department, 1 position from Stormwater Fund Engineering). These five positions will show as allotments in the IT Department for FY 2018.

During FY 2017, six (6) staff support positions in the Magistrate's Office were transferred to the Police Department and the Commonwealth Attorney's Office due to the City's requirement to have the positions supervised by City employees. The functions that were performed in the Magistrate's Office are still provided by three Administrative Assistant II positions transferred to the Police Department. One position was converted to a Police Technician allotment to support to the department's body-worn camera system. The two remaining position allotments have been reclassified as Assistant Commonwealth Attorney allotments to prosecute misdemeanor drug arrests. Separately, the Police Department reflects in FY 2018 full funding for the final four (4) police officer positions of the ten positions previously funded through the COPS Grant.

In late FY 2017, the Department of Human Services began the Comprehensive Health Investment Project (CHIP), to provide services through a home visiting model using a case management approach. CHIP's goals are to ensure that young children living in low income families receive consistent, quality health care prenatally through age six; and to provide a family-centered case management system that fosters health, stability, good parenting, and self-sufficiency. These services are provided by a CHIP team of a public health nurse and outreach worker. For FY 2018, the City will fully fund two (2) full time nurses, one (1) part time accounting specialist and the associated fringe benefits and supplies to support the program, combining these positions with existing Prevention Bureau outreach workers.

#### *Position Changes in Other Funds*

The total change in the Other Operating Funds is a net increase of 2 positions for the upcoming fiscal year. Table 2 below details specific changes for these funds for FY 2018.

In the Stormwater Management Fund, the establishment of one (1) new Crew Supervisor B position will improve the management and coordination of grass cutting at major outfalls throughout the City. This position will supervise three Senior Equipment Operators and will investigate service request calls from citizens and businesses. This supervisory position will also operate equipment to assist with grass cutting efforts. The addition of this position will greatly enhance the ability to carry out focused Community Maintenance efforts.

In the Wastewater Fund, one (1) Senior Construction Inspector position is recommended to be added. The position will provide support to address the increasing

number of wastewater projects anticipated from HRSD regionalization efforts. The additional projects will require field inspection to ensure that work is performed in accordance with City standards and regulations and to mitigate the impact of construction on citizens.

The School Division will see the net elimination of 36 positions due to declining enrollment in the school system. The FY 2018 School Superintendent's Proposed Budget includes the reduction of three (3) Administrator allotments, twenty-nine (29) teacher positions, one (1) math lab assistant, and the addition of two (2) Assistant Principals. These changes are separate from all other alterations noted above.

#### *Attrition Credits*

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, first introduced in FY 2009, was \$1 million and grew to a high of \$7.3 million City-wide, with the majority of the salary savings in the General Fund. In some cases, high amounts hindered overall departmental operations. Over the years the City has worked to bring the Attrition Credit to a realistic and manageable amount, while recognizing the appropriate staffing levels. However, due to the projected revenue to support a maintenance effort in the upcoming fiscal year, the FY 2018 Recommended Budget contains no reductions or increases to the Attrition Credit within the General Fund. In the other operating funds, Waterworks has a recommended decrease in their Attrition Credit of \$175,000. The City-wide Attrition Credit value is \$5,049,341 million. The City will continue to adjust the Attrition Credit to a realistic and manageable amount, recognizing the appropriate staffing levels over the next few years.

#### **Impact**

The total number of allotments (full-time positions) in the General Fund is recommended to be increased by six (6) the FY 2017 Revised Budget of 2,598 to 2,604 in the FY 2018 Recommended Budget. Including other operating funds, but not including the School division, the total number of recommended allotments is 3,388. The City's workforce declined over the many years of the recession, partly due to the scaling back of some programs and services. The City will continue to evaluate workforce demand and provide a level of service consistent with achieving the City's strategic priorities.

**TABLE 1 - FY 2018 Recommended General Fund Position Changes**

	Eliminated Filled	Eliminated Vacant	Transferred*	Added
<b>Finance</b>				
Executive Management Position				1
<b>Information Technology</b>				
Manager-Technical Support			1	
GIS Programmer Analyst			1	
Information Technology Analyst C			1	
GIS-Cartographic Specialist			1	
GIS-Cartographic Technician			1	
<b>Office of the Magistrate</b>				
Administrative Assistant I			-6	
<b>Commonwealth Attorney</b>				
Assistant Commonwealth Attorney			2	
<b>Police</b>				
Administrative Assistant II			3	
Police Technician			1	
<b>Fire</b>				
EMS Fire Captain				1
<b>Juvenile Services</b>				
Detention Specialist				3
<b>Engineering</b>				
Manager-Technical Support			-1	
GIS-Cartographic Specialist			-1	
GIS-Cartographic Technician			-1	
<b>Public Works</b>				
GIS Programmer Analyst			-1	
Information Technology Analyst C			-1	
<b>Planning</b>				
Planner				1
<b>TOTALS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6</b>

\*Reflects transferred or reclassified positions during FY 2017

**TABLE 2 - Recommended Other Funds Position Changes**

	Eliminated Filled	Eliminated Vacant	Transferred	Added
<b>Stormwater Management Fund</b>				
Crew Supervisor B				1
<b>Wastewater Fund</b>				
Senior Construction Inspector				1
<b>TOTALS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>

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# **Fiscal Year 2018 Budget Position Papers**

## **3. Employee Compensation and Investment**



# FY 2018 BUDGET POSITION PAPER

APRIL 2017

## EMPLOYEE COMPENSATION AND INVESTMENT

### Overview

One of the City's largest annual expenditures is employee compensation. For FY 2018, the cost to provide salary and fringe benefits is projected to be approximately \$218.1 million or 45% of the Recommended General Fund Budget of \$485.9 million. During difficult economic times, localities often look to the areas of employee compensation and benefits to reduce or eliminate costs. Newport News took such actions in recent years, including no pay adjustments for a period of time, one-time bonuses instead of salary increases, partial-year salary increases, and a hiring freeze. These actions allowed the City to avoid massive layoffs, furloughs, salary reductions, and costly early retirement buy-out programs. With the help of increased revenue from a slowly improving economy, the City continues to reinvest in employee compensation, training, and development.

### Merit-Based Salary Adjustments

The Recommended Operating Budget includes funding for a merit increase for eligible City employees effective July 1, 2017. This reinforces the City's commitment to compensation based on performance as the most appropriate method of recognizing an individual's contribution to Newport News. FY 2018 is the fourth consecutive fiscal year of merit-based compensation. Merit based salary adjustments provide salary increases that equate to each employee's level of performance, ranging from "outstanding" to "needs improvement." While each individual employee will receive an appropriate percentage increase based on their annual performance evaluation, the dollar value budgeted is 3% of the total salaries. The cost of this merit increase in the General Fund is \$3.8 million, exclusive of associated taxes. The total merit-based increase, including other operating funds, is \$4.8 million.

Newport News has been able to incorporate consistent salary adjustments over the past three years, as employee compensation continues to be a priority. Below is a comparison of other Hampton Roads localities FY 2018 proposed salary adjustments. Newport News is one of the first to present a recommended budget; information on other localities' salary adjustment proposals is limited.

**Table 1: Regional Comparison of Recent Salary Increases**

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018 Proposed
<b>Newport News</b>	1.5% <sup>3</sup>	2.0%	3% merit	3% merit	3% merit	3% merit
Hampton	0% <sup>2</sup>	1.0% + <sup>2</sup>	0% <sup>2</sup>	3.0%	2.0%	Unavailable
Chesapeake	0%	1.6%	3.0% <sup>5</sup>	0% <sup>6</sup>	2.5%	2.5%
Norfolk	2.0%	2.0%	2.0% <sup>5</sup>	2.0%	2.0%	Unavailable
Portsmouth	0% <sup>1</sup>	0% <sup>1</sup>	3.0% <sup>1</sup>	2.0%	0% <sup>7</sup>	2.5%
Suffolk	2.0%	0%	0%	0%	2.0%	Unavailable
Virginia Beach	1.0% <sup>4</sup>	1.66% <sup>5</sup>	1.66% <sup>5</sup>	4.0%	2.34%	1.0% <sup>8</sup>

<sup>1</sup> One-time 3% bonus

<sup>2</sup> Up to \$1,000 pay for performance bonus

<sup>3</sup> Average increase of 1.5%, but no less than \$1,000, effective January 1

<sup>4</sup> 1% for all employees, with only retirement non-contributors using increase to offset VRS costs

<sup>5</sup> Partial year increase

<sup>6</sup> Bonuses provided for top performers

<sup>7</sup> \$1,000 one-time compensation to full-time city employees (December 2016) and 2% proposed for Constitutional Officers and employees

<sup>8</sup> 1% general pay raise and a 1% merit raise for full-time employees

*Note:* Compensation increases offset by increased contribution requirements to VRS, general adjustments due to salary studies, and actions to relieve compression are not included.

### **Special Pay Adjustments**

The recession had a detrimental impact on City employees. The lack of salary increases in some years, complicated by across-the-board general wage adjustments, has limited salary progression in various positions throughout the City. The end result is that many employees are compressed around certain pay levels, with little to distinguish them for their experience or time in grade.

For the past three fiscal years, there has been a commitment of both time and resources to address this situation through Special Pay adjustments. Special pay adjustments are components of a larger plan that once combined with merit-based salary increases in July, aid to progress employees through their pay ranges. In FY 2015 through FY 2017, the City adjusted pay for positions identified with salary equity and compression issues. In FY 2018, \$450,000 has been set aside to contend with the next chapter of salary concerns in an effort to continue to address pay inequities in existing pay structures. It is anticipated that similar or increased amounts are required in the next fiscal years to help address this issue.

## **Training and Development**

The Recommended Budget includes a decrease of \$50,000 in Tuition Assistance reimbursement (bringing recommended funding from \$200,000 to \$150,000) to reflect actual use trends of prior fiscal years. After successful completion of a course, an employee may be reimbursed \$150 per credit hour for an undergraduate level course and \$250 per credit hour for a graduate level course. In FY 2017 to date, there have been 152 individual reimbursements from this program. Although there is a recommended decrease for the Tuition Assistance program, it remains a critical investment in the growth and development of the City's workforce. For many public safety and other positions, undergraduate course work and eventually a degree is required for progression through the ranks and for the most part, a prerequisite for supervisory status. Continuing education is a key to developing a skilled staff with new leaders prepared to replace those that will retire. With this in mind, there will be a concerted effort to increase employee awareness of this benefit and encourage more participation.

## **Wellness Program**

The City invests in an active Wellness Program to manage long-term growth in healthcare costs. Despite careful plan management and employee incentives to help drive claim experience costs lower, health insurance premium costs will increase for FY 2018; the total City estimated health insurance expenses is projected to be \$39.9 million, up \$4.8 million from the current fiscal year. Included in part of the overall cost is a premium rate for the employee, based on the individual plan selected. As of December 2016, the premium increase for the employee contribution was 3% and the City's share of the premium was increased 12%.

The Wellness Program provides full-time employees incentives for participating in annual physicals and health assessment screenings. Health risk assessments gather information on one's basic health data, lifestyle, and attitudes toward health improvement. These assessments help employees better understand their own health status and potential risks. The City can also recognize common risk factors in the employee population and look at potential ways to address them, through offering disease management programs. The City implemented policies and programs related to tobacco use, a significant health threat and contributor to high healthcare costs. Other programs include a no smoking policy on City paid time, a restriction on smoking near City buildings, increased promotion of free smoking cessation programs, and a health insurance premium reduction of 20% for non-smokers. The Benefits Division staff and employee Wellness Committee work on programs such as friendly fitness competitions to engage employees in wellness at work. The FY 2018 Recommended Budget includes \$200,000 for the Wellness program.

## Pension Contributions

The City remains committed to providing pension benefits to eligible employees. These benefits are offered through participation in either the Newport News Employee Retirement Fund (NNERF) or the Virginia Retirement System (VRS).

### **Newport News Employee Retirement Fund**

The City's retirement plan, which is primarily non-contributory (95% employer funded, 5% employee funded), covered the majority of City and eligible Newport News Public School (NNPS) employees. The NNERF plan was closed to new employee hires as of March 1, 2010. Employees that retire at or after age 60 (age 50 for police officers, firefighters, and deputy sheriffs) with five years of credited service are entitled to a retirement benefit payable for life. Benefits and contribution provisions are established by City Ordinance and may be amended only by City Council. An actuarial firm advises City Council and the Retirement Board on annually required pension contribution amounts.

In FY 2009, the City began efforts to meet the goal of funding 100% of the actuarially determined Annual Required Contribution (ARC) to NNERF in eight years. The objective to fund 100% of the ARC was achieved in FY 2016, one year ahead of the planned schedule. The FY 2018 Recommended Budget includes an increase of \$1,224,195, or 3.8%, to City-funded NNERF contributions to continue to fund 100% of the ARC.

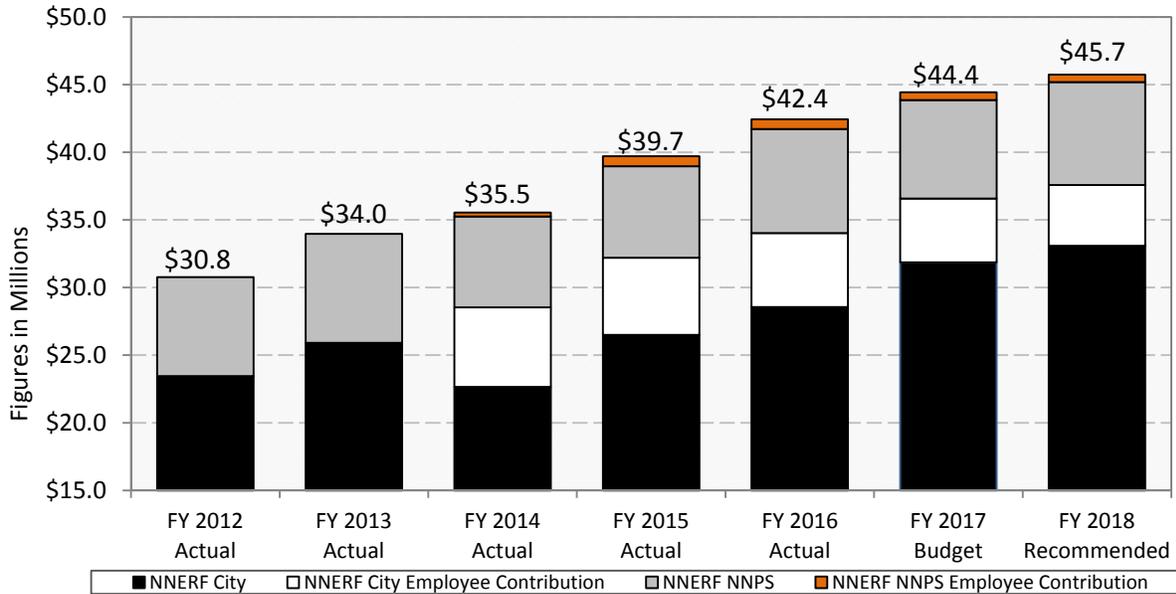
Annual required payments to NNERF are funded from City operating budgets, the School Division (NNPS) operating budget, along with contributions from City and eligible School employees. City and School employees contribute 5% of salaries toward the funding of NNERF pension benefits. The amount of employee contributions is estimated to decline for FY 2018 by (\$252,562) or (4.8%). This will be a continuing trend, as, over time, there will be fewer numbers of NNERF-eligible employees actively employed by the City. This lower employee contribution to NNERF will be one of the drivers impacting the annual adjustment of the amount of NNERF funding required from the City.

Table 2 below details the allocation of the \$45.7 million total amount required in Fiscal Year 2018 to meet the ARC requirement. The graph on page 5 illustrates the recent history of NNERF funding.

**Table 2: Sources of Annual Pension Fund Support (figures in millions)**

City Operating Budget	\$33.1
School Division Operating Budget	7.6
City Employees Contribution (5% of salaries)	4.5
School Division Employees Contribution (5% of salaries)	<u>0.5</u>
<b>Total FY 2018 Support</b>	<b>\$45.7</b>

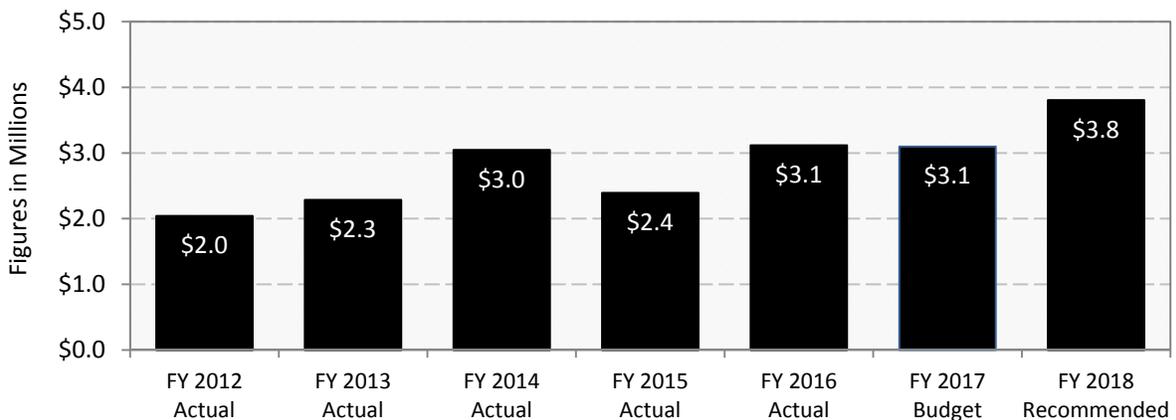
## History of NNERF Funding



### Virginia Retirement System

As a member of the Virginia Retirement System (VRS), the City fully funds the annual contribution for employees hired or rehired after March 1, 2010, or who elected to shift from the City’s pension system to VRS. As with the NNERF pension, employees covered by VRS are required to contribute 5% of their salary to VRS. As more of the City’s workforce participates in VRS with each new employee hired, so grows the annual contribution. The impact of this trend is evidenced by the FY 2018 citywide (all funds) payment to VRS increasing by \$707,635 (increasing from \$3.1 million to \$3.8 million). This amount includes the cost associated with the eight (8) new positions recommended for establishment in the upcoming fiscal year in the General, Stormwater, and Wastewater Funds. For FY 2018, the General Fund payment to VRS will increase \$523,797 (from \$2.4 million to \$2.9 million). The City’s current VRS rate for the upcoming fiscal year did not change, and remains at 5.44%. The graph below illustrates the upward trend in VRS expenses since FY 2012.

### City Payment to VRS



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