

CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

March 28, 2017

TO: The Honorable City Council
FROM: Acting City Manager
SUBJECT: Recommended FY 2018 Operating Budget

I am pleased to transmit the City's recommended operating budget for the fiscal year that begins July 1, 2017 and ends June 30, 2018. This recommendation provides a balance in addressing community and organizational needs within financial constraints.

The details of the Recommended Budget are many, reflecting the diverse requirements of a dynamic City. This memorandum summarizes the proposed Fiscal Year 2017-2018 Operating Budget for the City of Newport News. The recommended expenditures for the new fiscal year are primarily driven by four factors:

- Investing in employees by maintaining a competitive salary structure
- Fully funding our annual pension obligations
- Supporting our Public School System
- Investing in infrastructure and equipment for safety and efficiency

OVERVIEW

For your consideration, the total recommended FY 2018 Operating Budget is \$866,865,256, representing an increase of \$8,277,943 or 0.96% higher than the current fiscal year. The total Operating Budget includes the General Fund, Schools, Waterworks, and all Special Revenue and Trust Funds. The Recommended General Fund Operating Budget is \$485,976,000, including \$3,450,000 in Federal and State grant funds. The General Fund Budget is \$7,178,000 or 1.5% higher than FY 2017.

It is important to note that the Recommended Budget fully satisfies Pension commitments, provides an employee salary adjustment, supports the School Division's proposed employee raises, and continues city services at the current level, with limited new initiatives.

This Recommended Budget contains no tax rates changes. The principal revenue source in the General Fund is Real Estate Taxes, generated from assessed property values. For FY 2018, the Real Estate Tax revenue estimate is based on assessed values increasing for the third consecutive year. The overall projected increase for all properties, residential, commercial/industrial, and all other parcel types is 1.07%.

All properties will not see an increase or assessment adjustment. For residential parcels, approximately 80% of the homeowners will experience level property values. The change is generated primarily by commercial property values, as well as those for apartments and condominiums.

It is anticipated that the Real Estate values will continue to show steady growth in FY 2018 and the budget estimates reflect that growth. With a higher overall Real Estate Levy, current Real Estate Tax collections are estimated to total \$179.4 million or \$4.1 million (2.4%) more than the current fiscal year, after adjustment for the tax deferral and tax relief programs.

For FY 2018, estimated revenues for the General Fund are closely aligned with trends for the current fiscal year, while reflecting moderate growth. Locally generated Machinery and Tools Taxes revenues are continuing to grow and are estimated at \$22.6 million. Personal Property Tax revenue, for both Current and Delinquent Taxes, is estimated to increase by \$1.4 million, or 2.7% based on projected FY 2017 actual collections and changes to the levy. Sales and Meal Tax revenues continue to show growth due in part to economic stability and expanded retail development throughout the City. However, at this time, it was deemed fiscally prudent to project modest revenue increases in the sales tax as well as the meals tax. Currently, the projection for the Business, Professional, and Occupational License Tax (BPOL) revenue is anticipated to be level with the FY 2017 at an aggregate \$17.3 million.

For FY 2018, there is a marginal increase in the State's revenue to localities, centered on reimbursing the City for Constitutional Officer state-supported salary expenses. One area of positive note is that there have been no encroachments on the City's ability to self-direct Machinery and Tools taxes and Business, Profession, Occupational Licenses (BPOL) rates. These are critical revenue streams to the City, without which a substantial Real Estate Tax or severe programmatic changes would have to be incurred to offset the loss of revenues. Increased revenue is never solely relied upon to balance the budget and address operational needs.

As the economy continues to recover, 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 2018, \$4.7 million will be used from General Fund Balance as a revenue source. This use is not anticipated to be detrimental to the City's ability to meet extraordinary emergencies, and will be used to offset the increased cost of cash capital investments as outlined in the City Council Adopted FY 2018 Capital Improvements Plan. This use of Fund Balance falls within our adopted Financial Management Policies.

We remain committed to evaluating the way we do business to identify cost cutting opportunities and operational efficiencies. The provision of services focuses on providing the highest level of service to our citizens while maximizing the overall effectiveness for the dollars invested. The role of the City is to manage the daily operations of public safety and corrections, make contributions to public education, perform essential public works operations, pay outstanding debt obligations, provide the human services safety net programs, as well as offer quality-of-life options to citizens.

EXPENDITURE CHANGES

In preparation for developing the FY 2018 Operating Budget, as in past years, Department Directors were required to evaluate their departmental operations and provide workable and sustainable budgets based on a 2% budget reduction of their current operations. The focus was on core functions, increasing efficiency by reducing or eliminating non-essential operations, and/or reorganization of staffing to accommodate the highest

priority of those core services to determine if additional savings could be achieved. Requiring the Departments to examine their operations provides a framework to build the proposed budget.

While developing the operating budget requires a focus on the provision of existing services, it was also incumbent on the Departments to look to the future to anticipate citizen needs, new program development and corresponding expenditures. It is our goal to provide the types and level of services that our citizens need and expect both now and in the future.

Expenditure changes proposed for FY 2018 are summarized in the Recommended Budget document under the blue tab labeled *Expenditures*. There are six general areas where this Recommended Budget reflects focused funding for specific initiatives. These areas include pension contributions, health care premiums, the City's contribution to the School Division for employee compensation, City employee salary adjustments, maintenance of basic operational funding, and obligatory increases for contractual arrangements for costs such as technology support and services. The largest of those expenditure areas will be outlined as noted.

Pension Contributions

In FY 2009, the City developed an eight-year plan to incrementally increase the City's contribution to the Annual Required Contribution (ARC) to restore the actuarial soundness of the Newport News Employee Retirement Fund (NNERF). With prudent fiscal management, the goal to meet 100% of the ARC was achieved one year early, in FY 2016. With the accomplishment of meeting this goal, the funding requirement shifts to meeting the ARC based on the actuarial valuation of the Pension Fund. The Pension contribution is an elemental expense of the total operating budget; the Recommended Budget keeps the ARC payment at 100%. For FY 2018, the annual contribution to the pension system will be \$45.7 million city-wide (an increase of 3%), with \$7.6 million of School Division support, and \$5.0 million in funding from the 5% salary contribution of all NNERF employees. The amount of employee contributions is estimated to decline for FY 2018 by (\$252,562) or (4.8%). This will be a continuing trend. Over time, there are fewer NNERF employees, therefore making the annual employee pension contribution

portion lower. This lesser employee contribution will be one of the drivers for the annual adjustment of the amount of the City payment.

As a member of the Virginia Retirement System (VRS) since March 1, 2010, the City has fully funded the annual contribution for those employees hired under one of the three VRS retirement plans. The City's current VRS rate is 5.44%, down from 6.01% in FY 2017. The FY 2018 General Fund payment will be higher by \$478,750, from \$2.4 million to \$2.9 million, reflecting the additional personnel being added to VRS and the relative increase in employee compensation.

Health Care Costs

Health care costs continue to rise and are primarily based on prior-year claims and services provided to employees. Despite careful plan management and employee incentives to help drive claim experience costs lower, health insurance premium costs will increase for FY 2018. For the employee, based on the individual plan selected, the premium increase will be 3%. For the City's share of the premium, the increase will be 12%, as of December 2016. The resulting impact to the General Fund for health care costs is an increase of \$3.3 million or 15.3%. Likewise, for the other operating funds, the increased health insurance cost for the City's share of the premium is \$1.5 million, or 11.1% higher than the current year. Continuing cost containment efforts in this area are important, as Health Insurance premiums now represent 5.1% of the total General Fund.

To reduce the long-term overall health care costs, the City has a Wellness Program, encouraging annual physicals and health assessments screening, health insurance premium reductions of 20% for non-smokers, free smoking cessation programs, as well as Wellness at Work programs. The continued funding for the Wellness program in the Recommended Budget is \$200,000. By identifying, addressing, and monitoring overall wellness issues amongst employees, the goal is to facilitate a healthier and more productive workforce at the lowest cost possible.

Contribution to Schools

Funding for public education is the single most significant expenditure in the City's annual operating budget. As you know, the City provides

funding to Schools dedicated to two specific areas: Operations and Debt Service. For Operations, the amount of funding is comprised of support for general operations, for School grounds maintenance, and for School information technology program support. For Debt Service, the amount of funding is based on the required payment for the year, and is provided to Schools and the debt service amount fluctuates annually. The Schools Division is made whole for this amount, and is not required to make any operational adjustments for debt service if it changes. However, it has been the practice for many years that if the debt service funding changes, primarily decreases, that savings is included as additional funding to any new City funding as determined for each fiscal year.

Using FY 2008 as a base, from FY 2009 to FY 2017, the City's support for NNPS operations funding has increased by \$6.1 million (or 5.5%). With respect to new dollars from Debt Service savings, the City's funding has increased by almost \$3.6 million (or 24.2%), for a total combined new dollar amount of \$9,761,646 or 10.0%.

For FY 2018, there is no change to budgeted funding for the School Technology Program or Schools Ground Maintenance. School Debt Service paid by the City is projected to decrease (\$2,380,433), declining from \$11,210,510 in FY 2017 to \$8,830,077 in FY 2018. The Recommended Operating Budget includes the reallocation of debt service savings to enhance funding for Support for Operations. The proposed addition of \$2,380,433 is to Support for Operations, specifically salary adjustments, representing a 2.2% increase to the amount budgeted in FY 2017, bringing funding for School operations to \$109,469,923.

Under State policy, the local government is required to contribute at least a minimum level of funding that is determined by a Local Composite Index (LCI), which computes the locality's ability to pay for education. The LCI is adjusted at the beginning of each biennium. For FY 2018, the minimum contribution required by the City of Newport News under this index was \$55,625,356. However, the City actually will contribute \$109,469,923 which is \$53,844,567 or 96.8% above the Required Local Effort (RLE).

When the City's funding for School Operations and Schools Debt Service is combined, I am recommending a contribution of \$118,300,000, which on the surface appears to be level funding with the current fiscal year.

However contained within this total amount is almost \$2.4 million of new dollars to support the School Division operations.

Employee Compensation, Investment in Employee Development

To acknowledge the hard work and dedication of City employees, the Recommended Budget includes funding for an average 3% merit increase, effective July 1, 2018. Employee increases will be based on individual employee performance with higher performing employees earning larger percentage increases. There is not a general wage adjustment or a flat salary increase. Only the dollar value of 3% of total salaries is budgeted. The cost of this merit increase in the General Fund is \$3.8 million and a total of \$4.8 million City-wide.

For the past three fiscal years, there has been a concerted effort to resolve employee compensation issues. Due to the application of salary increases over the prior years, compressed salaries in various job grades and types have resulted throughout the City. FY 2018 will be the fourth year that both time and resources will be committed to address this situation by adjusting the City's pay structure. For FY 2018, the amount budgeted for this long term effort is \$450,000.

Fuel Prices

Vehicle fuel is an important part of our operations, supporting public safety functions, public works activities, and human services programs, among others. For the past three fiscal years, the City has been fortunate to experience lower fuel costs. However, as with all cycles, declining fuel rates are predicted to have reached bottom, and increasing costs are on the horizon. In addition, our annual consumption that had been declining is now anticipated to increase by a marginal 1.3% for the upcoming year. Annual fuel consumption now hovers at 1.141 million gallons. The FY 2018 Recommended Budget assumes an average fuel purchase price of \$2.15 per gallon, increasing from the FY 2017 rate of \$1.80 per gallon. The result to the General Fund is a fuel cost increase of \$301,673 and an additional increase of \$148,204 city-wide.

New Initiatives

As we continuously evaluate the changing needs and demographics of our community, we must be responsive to identified critical needs by adapting existing services or recommending new programs and initiatives. For FY 2018, included are two new program initiatives. In each of these initiatives, the planning for implementation was already underway in the current or prior fiscal years, and these programs will become fully functional in the upcoming year.

Homelessness is a complex and ever changing issue and the City is sensitive to the needs of our homeless population. As part of the diverse effort necessary to take on this issue, we are proposing funding for the Day Service Center in FY 2018. In November 2016, City Council was updated on the City's efforts to obtain the vacant Marine Reserve Center at 7401 Warwick Boulevard to be used as a Day Services Center for the homeless. The Center will provide shelter and access to basic human needs for the homeless, which includes health services, integrated case management, housing assistance, training, employment counseling and learning opportunities. The City's application to have the property conveyed as a public benefit was approved by the U.S. Department of Health and Human Services. At the present time, we are working with the Navy Real Estate Contracting Office to secure use of the Center. For FY 2018, there is \$320,273 for funding 8.5 months of operations for the facility to function seven days a week.

For the Human Services Department, the City began working in the current fiscal year towards implementing 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.

EXPENDITURES CHANGES

To be able to fund the focused expenditure areas, the FY 2018 Recommended Budget reflects some reductions in other operational expenses, as well as the recommended rate and fee increases. There are minimal restorations of funds for enhancements based on contractual circumstances or specific needs.

Positions Changes and Redirected Staffing

As a service organization, the majority of the City's operating costs are invested in employees as salaries and fringe benefits. For FY 2018, all departments were asked once again to review position allotments and functions to identify the proper staffing levels for existing services.

There is a recommended net increase of six (6) positions in the General Fund in FY 2018, with an increase of two (2) other positions city-wide. No positions have been eliminated. The new recommended positions are outlined as follows:

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 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 key that the City have positions in place to effectively manage these various functions.

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 our ability to carry out our 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.

Separately, FY 2018 represents the final year that the City will assume full salary and fringe benefit responsibility for the final four Police Officer positions added to the workforce under the COPS grant, which is a condition of the grant award accepted four years ago. While not new positions, all ten formerly grant funded Police Officer positions will now be part of the City's workforce complement.

OTHER OPERATING AREAS

Debt Service and Cash Capital

Total General Fund support for all City Debt Service will be \$44,005,996 in FY 2018. This amount is General Fund payment for: outstanding City General Obligation Debt at \$34,850,491, City supported Schools Division Debt at \$8,830,077, and the Newport News portion of the Peninsula Regional Animal Shelter Debt at \$325,428.

School Debt Service paid by the City is projected to decrease (\$2,380,433), declining from \$11,210,510 in FY 2017 to \$8,830,077 in FY 2018. The Recommended Operating Budget includes the reallocation of debt service savings to enhance funding for Support for Operations. The proposed addition of \$2,380,433 for Support for Operations represents a 2.2% increase to the amount budgeted in FY 2017.

The FY 2018 total General Fund Debt Service amount is \$4.1 million lower or 8.06% less than the current year amount. The Recommended Budget assumes a new General Obligation bond issuance during late FY 2017.

Cash Capital, a component of the City's adopted Capital Improvement Plan, is budgeted at \$9,199,000 or \$182,424 more than the current fiscal year. The adopted FY 2018-2022 Capital Improvements Plan (CIP) anticipates using Cash Capital to satisfy the City's Capital Financing and Debt Management Policies requirement of 20% cash capital funding. This amount of Cash Capital funding reaches a 24.4% level of cash capital funding, exceeding the debt management policy limits. Cash Capital allows for current operating funds to be used to fund less expensive and more regular capital investments to decrease reliance on borrowing for shorter term capital projects.

Community Support and Regional Organizations

The FY 2018 combined Community Support and Regional Organizations amount is proposed at \$11,182,521. This represents an increase in funding of \$34,651, or 0.3%, from FY 2017.

The Community Support and Regional Organizations recommendation primarily maintains level funding for organizations that provide services.

Many of these organizations augment City functions, as they provide services to specific populations or for a reduced cost. For the third year as part of the application process, outcome measures from each organization were required as part of the City's overall measurement process.

For all Community Support agencies, with one exception, funding will be equal to the FY 2017 budget, which is fundamentally at the same level as FY 2012 for a majority of the agencies. For the Virginia Arts Festival (VAF), this is a reduction of \$25,000. This funding will be shifted to the Special Events Fund to support the annual city-sponsored World Arts Celebration. Total Community Support funding for all 35 agencies for FY 2018 is \$2,451,089.

Regional Organizational Agencies are those where most of the City's contributions are based on a contractual agreement on a per capita support level. No Regional Agencies voluntarily offered reductions; no agencies are funded less than the current fiscal year. There are three exceptions to level funding: Hampton Road Planning District Commission (HRPDC), Hampton Roads Economic Development Alliance (HREDA), and Hampton Roads Transit (HRT). The increases for HRPDC and HREDA are formula driven, based on per capita rates.

The City has made major investments over the past two years in making bus service on some of heavily travelled routes more responsive to the rider's needs. In addition, HRT requested that in FY 2017 all six localities provide a one-time increase for an additional capital contribution, above the standard calculation to leverage \$62 million in State and Federal funding for new buses. For FY 2018, total support for HRT is \$7,628,718, which is \$92,493, or 1.2%, higher than the current amount of \$7,536,222.

RATES AND FEE INCREASES

This budget has been presented with practical, sustainable expenditure reductions, with limited rate and fee increases, and with planned savings from the current fiscal year. For the fourth consecutive year, a Real Estate Tax rate increase is not recommended. The benefits of an increased Real Estate assessment, a stronger performing local economy and redirecting expense reductions enable a balanced budget without a tax increase. The

Real Estate Tax rate will remain level with the current fiscal year at \$1.22. We will be using \$4.7 million of anticipated FY 2017 year-end surplus to support our Cash Capital efforts.

For the User Fee funds, there is some higher expenditure for the upcoming fiscal year driven by the same pressures as the General Fund, such as increasing pension and health care costs, employee compensation as well as state or federal mandates. Regrettably, increased financial obligations make rate and fee increases unavoidable. In the Wastewater and Stormwater Management Funds, these rate increases are determined mainly by the impact of the Consent Orders and other environmental regulations. The requirement to reduce or eliminate sanitary sewer overflows and reduce the pollutants that flow into the city's waterways requires prompt studies and investment in system improvements, and to use cash capital for projects in these funds where possible. To address the Wastewater and Stormwater Funds operational requirements, it is recommended that both rates be changed.

For the Wastewater Fund, the volume based Sewer User Fee rate of \$3.37 per hundred cubic feet (HCF) remains the same for FY 2018. The Monthly Service charge, currently at \$4.00 per connection per month would change from a flat rate per month to a rate based on meter size. This recommendation takes into consideration the area of pipe diameter serviced by a meter and accounts for increased flow capacity with larger meter sizes. The Stormwater fee is proposed to increase 35 cents from \$11.25 per Equivalent Residential Unit (ERU) monthly to \$11.60 monthly. For the Solid Waste Fund user fees, there are no proposed rate increases. A summary of these two user fee rate changes are below:

	FY 2017 Current Rate	FY 2018 Proposed Rate	Change	Annual Impact
Stormwater Management Fee				
(per ERU/month)	\$11.25	\$11.60	\$0.35	\$4.20
Annual Rate per 1 ERU	\$132.00	\$139.20	\$4.20	\$4.20

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	FY 2017 Current Rate	FY 2018 Proposed Rate	Change	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	\$4.50	\$0.50	\$6.00
3/4"	\$4.00	\$6.12	\$2.12	\$25.44
1"	\$4.00	\$10.07	\$6.07	\$72.84
1 1/2"	\$4.00	\$16.40	\$12.40	\$148.80
2"	\$4.00	\$23.80	\$19.80	\$237.60
3"	\$4.00	\$32.05	\$28.05	\$336.60
4"	\$4.00	\$40.62	\$36.62	\$439.44
6"	\$4.00	\$49.43	\$45.43	\$545.16
8"	\$4.00	\$58.32	\$54.32	\$651.84
10"	\$4.00	\$67.25	\$63.25	\$759.00

After years of decreased water demand consistent with other water utilities nationwide, regional water consumption continues to stabilize. Following years of decreased demand, this trend prompted City Council in FY 2012 to shift the Water rate structure to collect more revenue from fixed service charges and less from the volume of water use. This approach is consistent with the cost structure of the utility, as operational costs are predominantly fixed and nearly independent of volume of water sold. For FY 2018, projected water sales will be level based on consumption of 33 Million Gallons per Day (MGD).

Waterworks' expenses are affected by the same cost drivers as the General Fund: pension increases, 3% average salary adjustment, higher health care costs, and the need to address aging infrastructure. Additional expenditure increase includes \$400,000 for the Department's implementation of monthly billing for residential customers. Currently, residential customers are billed bi-monthly. As a result of the operating cost increase, there is no recommended change to volumetric water rates and fee, based on individual consumption use.

The proposed change for FY 2018 is to the fixed service charges to customers (the Monthly and Bi-Monthly Service Fee based on meter size), as shown below. 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 would average about one dollar a day.

WATER RATES AND FEES - Proposed Rate Changes:
(Monthly and Bi-Monthly Service Fees)

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

The user fee increases are largely unavoidable, as they are driven primarily by regulatory requirements and higher operating costs. Every effort had been made to reduce expenses where possible, increase operational efficiencies, and use reserves of the funds as appropriate. Yet there are no other options under the burden of these mandates except for recommending these increases.

Below is a chart that shows the potential impact on an average homeowner of all the rate and fee changes that this Recommended Budget contains. The example makes a general assumption that the average real estate assessments change in the upcoming year will be flat for the residential sector. It is anticipated that the typical homeowner will still have lower Real Estate Tax burden than in FY 2008, while retaining the current service levels that they enjoy.

The table below is based on the values associated with a household of four with an average 2017 real assessment of approximately \$174,827. (This same median assessment valuation was \$201,350 in FY 2009.)

	<i>Weekly Increase</i>	<i>Monthly Increase</i>	<i>Annual Increase</i>
Real Estate Tax	\$0.00	\$0.00	\$0.00
Stormwater Fee	0.08	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
Total Impact	\$0.43	\$1.85	\$22.20

LOOKING FORWARD

I believe this Operating Budget recommendation positions the City and our community to be successful for today and the future, places emphasis on critical areas of concern, and looks forward to a prosperous future.

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

In summary, you have for consideration a balanced budget with no service delivery reductions, and that is focused on selected enhancements. The Recommended Budget includes necessary rate and fee increases, tempered with sustainable reductions to achieve the level of City operations desired by our citizens and/or mandated by regulatory agencies. This Recommended Operating Budget meets the objectives of funding our pension and health care obligations, increasing support to Schools, maintaining our infrastructure, and providing a salary adjustment and investment in our valued employees. These are all significant accomplishments. This Recommended Budget embodies the City's well-deserved reputation for strong financial management.

City staff at all levels have worked very hard to develop a budget that addresses both the current economic realities and citizen needs. I particularly want to acknowledge the staff of the Department of Budget and Evaluation for their diligence during this process. I would also like to thank the Budget Committee and the various Departments for their participation, support and commitment as we worked to identify the opportunities and meet the challenges in developing the FY 2018 Recommended Operating

As we go through the process and get feedback from Council and our citizens, we can provide additional information. 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 2018 Recommended Operating Budget is responsive to your priorities and our community needs. I am pleased to present it for your consideration. I will work with you and the citizens of Newport News to finalize this budget through upcoming work sessions and public hearings. I thank you for your support.


Cynthia D. Rohlf

CDR:LJC