

CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

May 4, 2012

TO: The Honorable City Council

FROM: City Manager

SUBJECT: Final Adjustments to the FY 2013 Recommended Budget

I am presenting to you a final FY 2013 Operating Budget that reflects the adjustments to my original recommendation that have been made over the past seven weeks since its submission, and including changes from your work sessions. The total final budget before you for consideration is \$747,240,050, which is an increase from my recommended amount of \$744,189,609. The General Fund will increase by \$321,000 from the Recommended Budget of \$414,200,000 to \$414,521,000 for FY 2013.

As presented at the April 24, 2012 work session, there were expenditure increases made to the General Fund. The one particular change incorporated into the final budget is obligatory in nature; it is the State mandate that employees participating in the Virginia Retirement System (VRS) will be required to begin making compulsory contributions to their retirement beginning in FY 2013. This change was one of the key components in the 2012 General Assembly's adopted FY 2013 - FY 2014 biennial budget that affected local governments. The State mandate also requires employers to provide an offsetting salary adjustment to compensate employees hired prior to July 1, 2012 for this required contribution. In addition, all newly hired employees after this date will be required to pay the full five percent contribution upon hire; no offsetting salary adjustment is required from the employer. It was City Council's direction that VRS employees hired prior to July 1, 2012 contribute the full five percent, with the City offsetting the pension contribution with a corresponding salary adjustment as required by the bill. This

will affect approximately 532 employees City-wide, with a total cost to the General Fund of \$281,800. Major implementation costs to the City of the bill's requirements include paying additional VRS contributions on the higher salaries, as well as increases in taxes and insurance costs also associated with the higher base salaries. Social Security and Medicare taxes (FICA), Long-term Disability, and Group Life Insurance costs to the City will rise based on the five percent salary adjustment. Just as the cost to the City will increase for payroll taxes, the employee's payroll taxes will also increase slightly. For this reason, the total salary adjustment of 5.75% will effectively make the employee "whole" as far as the employee's FICA cost is concerned. All other operating funds will have the same expense based on the number of employees in those FY 2013 operating budgets.

Other than this major change, there were few adjustments to the Recommended Budget. Due to the restoration of State funds in support of Libraries, the amount of \$3,213 will be added to both revenues and the expense side of the Department of Libraries and Information Services for books and other materials. The last changes were some technical adjustments accounting for changes in salaries for filling vacancies above the base entry level, equaling \$36,000 in additional costs.

Based on these expense changes, revenue estimates were considered again based on FY 2012 Third Quarter activity, to close the gap on this increased cost of \$321,000. To balance the budget, the additional State revenue of \$68,000 is projected from the City's share of the State tax on deeds. At the same time, revised estimates for Business, Professional, Occupational License taxes (BPOL) allow us to increase this revenue item by \$100,000. Marginally stronger collections in Sales, Meals, and Rental Car Taxes are also anticipated for next fiscal year. When taken together, the net additional revenue above my initial recommended amount resulted in an overall increase of \$321,000 to the General Fund.

The revenue and expenditure changes are shown below:

FY 2013 Final General Fund Budget Adjustments

<u>GENERAL FUND</u>	<i>Amount</i> <u><i>Increase/Decrease</i></u>
<u>Revenues</u>	
Increased BPOL Revenue	\$100,000
Increased Sales Tax	\$80,000
Increased Meals Tax	\$50,000
Increased Car Rental Tax	\$18,000
Increased State Revenue - State Tax on Deeds	\$68,000
Increased State Revenue - Aid to Libraries	\$3,213
Miscellaneous Revenue Adjustments	<u>\$1,787</u>
General Fund Total Revenue:	\$321,000
<u>Expenses</u>	
VRS - 5% Retirement Salary Offset - Paid by City	\$913,502
VRS - 5% Retirement Payment - Paid by Employees	(\$802,719)
VRS - 5% Additional Cost to City and "Make Whole" Cost	\$171,017
Restore State Library Materials	\$3,213
Reclassifications and Miscellaneous Adjustments	<u>\$35,987</u>
General Fund Total Expenses:	\$321,000

Other Revenue Changes

At the beginning of this budget process the proposed water rates and fees were developed to continue the goal started in the current fiscal year of shifting some Waterworks revenue from volume-driven collections to fixed charges in an effort to reduce revenue sensitivity to changes in demand. In addition, the FY 2013 Waterworks budget was based on revenue estimates that balanced demand expectations based on historical trends and adjusting rates accordingly, plus eliminating the use of reserves to balance the budget. The initially proposed rate increase was moderated by expenditure reductions in staffing, equipment, and projects. Under the Recommended Budget,

water rates were proposed to increase in FY 2013 where the average homeowner would see a monthly increase in the water portion of their utility bill of approximately \$2.33. By proposing increases to the tier rate structure, there would have been sufficient revenue anticipated to be generated that would have allowed for the elimination of the use of Waterworks fund balance reserves as a revenue source for FY 2013. Upon City Council's direction to reduce the rate increase to the average homeowner from \$2.33 to \$2.00, the proposed rates were decreased for each of the water rate tiers. To maintain the operating budget at the same level proposed, combined with the lower rate structure, \$1 million of Waterworks reserves will be used to supplement the estimated revenues.

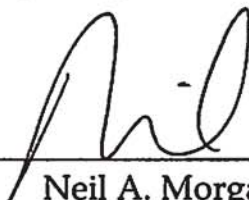
Other Budgetary Issues

The City's contribution to Newport News Public Schools of \$113,400,000 contained in the final budget ordinance remains at my originally recommended level of \$1.2 million more than the current fiscal year. The School Board adopted a final budget of \$281,041,170 on May 2, 2012. This budget is \$2,651,381 more than the School Board's proposed budget of \$278,389,789 of March 27, 2012. The revised amount is due to restored State revenue by the General Assembly for support of school operating costs. These funds will be used for eight (8) additional K-3 teachers (as designated by the State). Just as the City is required to provide a salary offset for its VRS employees for the pension contribution, so must the School system. However, with a much larger percentage of employees enrolled in VRS, the School Division will migrate to the full 5% contribution at a much slower pace. Beginning in FY 2013, Schools will provide a 1% salary offset adjustment and a 0.5% "make whole" salary portion for its employees, beginning on July 1, 2012. This cost of the total 1.5% will absorb the balance of the additional \$2.6 million in State revenue that is included in the final budget.

Conclusion

The FY 2013 Operating Budget that is before you for adoption represents a balanced and responsible financial plan for the upcoming fiscal year, and stays within the much-reduced revenue stream that we have experienced over the past three fiscal years due to lower real estate assessments. While there are some rate and fee increases, with some based on State mandates, it is a significant accomplishment that this budget was balanced without an increase in the Real Estate Tax rate. This budget continues to support City core services, uses no one-time revenues to balance it, and is sustainable for the year. Let us hope that the coming year brings renewed economic strength to our local economy and next year's budgetary prospects.

I recommend adoption of the ordinance which appropriates funds for the entire City, including the Schools Division, and all supporting ordinances for the FY 2013 Operating Budget.



Neil A. Morgan

NAM: LJC