

CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

March 26, 2019

TO: The Honorable City Council
FROM: City Manager
SUBJECT: Recommended FY 2020 Operating Budget

I am pleased to transmit the City's recommended operating budget for the fiscal year that begins July 1, 2019 and ends June 30, 2020. This recommendation provides balanced investing in core areas that benefit all citizens, furthers recent advancements, and addresses organizational needs within anticipated revenues.

A key component of the City's operating budget process involves the ongoing evaluation of business practices to identify cost-cutting opportunities and to enhance operational efficiencies. As a result, the service provision in this Recommended Budget is at the highest level possible within the City's current financial resources. Every year an outstanding effort is made to balance the multitude of service demands while maximizing the overall effectiveness of the dollars invested. The City is responsible for providing and supporting critical functions including public safety and corrections, public education, essential public works operations, payment of debt obligations, human services safety net programs, and quality-of-life opportunities for our citizens.

With this in mind, the primary focus of the proposed Fiscal Year 2019-2020 Operating Budget for the City of Newport News is to build and advance upon recent public safety enhancements, to promote community revitalization, and supports an environment that promotes financial stability and growth for all members of the community.

OVERVIEW

The total recommended FY 2020 Operating Budget is \$900,504,186, an increase of \$17,740,123 or 2.0% higher than the adopted budget for 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 \$497,643,000, including

\$3,200,000 in Federal and State grant funds. In a direct year-to-year comparison, the General Fund Budget is \$10,728,000 or 2.2% higher than the adopted FY 2019 budget.

REVENUE OUTLOOK

This Recommended Budget contains no tax rates changes. It does include some revenue growth, the reduction of expenses, and innovative realignment of some functional areas. Equally important, General Fund Balance (reserves) will not be used as a revenue source.

The principal revenue in the General Fund is Real Estate Taxes, generated by assessed property values. For FY 2020, the Real Estate Tax revenue estimate is based on assessed values growing for the fifth consecutive year. The overall projected increase for all properties, residential, commercial/industrial, and all other parcel types is 2.7%. This is a healthy signal that our City is expanding through higher property values as well as with new development and reinvestment throughout Newport News.

For the upcoming fiscal year, all property classifications will see some level of an increased assessment adjustment. The levy change growth is generated for the most part equally between both commercial and residential property values, with residential property assessments anticipated to be higher across all price points. As a reminder, the City's taxable levy is approximately split 60% residential properties, with the remaining 40% in commercial properties.

With a higher overall Real Estate Levy, current Real Estate Tax collections for FY 2020 are estimated to total \$186.8 million or \$3.096 million or 1.68% more than the current fiscal year, after adjusting for the tax deferral and tax relief programs.

For FY 2020, estimated revenues for the General Fund align closely with collections for the current fiscal year, with slight growth in some of the consumer sensitive revenues. Locally generated Machinery and Tools Tax revenue is continuing to grow to an estimated \$24.4 million, an increase of \$1.5 million over the current year. This growth is mainly attributed to industry expansion in the City. Personal Property Tax revenue, for both Current and Delinquent Taxes, is estimated to increase to \$56.3 million, which is \$1.7 million or 3.2% more based on projected FY 2019 actual

collections. Sales and Meal Tax revenues are steady. At this time, it is prudent to project limited revenue increases in the sales tax (an increase of \$950,000) as well as the meals tax (an additional \$775,000). The projection for the Business, Professional, and Occupational License Tax (BPOL) revenue is lower than the current fiscal year by \$185,000 or 1.08% less to reflect the collection trends for the past three fiscal years. BPOL revenue is estimated at an aggregate \$16.9 million for FY 2020.

EXPENDITURE CHANGES

In an effort to enhance the process for developing the operating budget, departments in conjunction with the Budget Department developed a base level budget for each functional area. This baseline budget evolved from a systematic review evaluating departmental operations, with an emphasis on identifying operational savings, on reexamining and assessing core functions, as well as finding opportunities to increase efficiencies by reducing or eliminating non-essential operations or personnel, and/or reorganization of staff. The Departments were also encouraged to develop their budget priorities and requests in collaboration with their colleagues to ensure that budget recommendations addressed issues and needs in a comprehensive fashion.

The baseline budget amounts represent the fundamental costs of providing the *existing* quantity and quality of services, right-sizing line item amounts (both increases and decreases) determined from current needs and historical trends, within existing budgetary levels. Departments were charged to look to the future, to anticipate citizen needs for responsible new program development and corresponding expenditures. It is an important goal to provide the types and level of services that citizens need and expect both now and in the future.

A summary of proposed Expenditure changes for FY 2020 are in the Recommended Budget document under the blue tab labeled *Expenditures*. The funding recommendations in the proposed budget can be primarily categorized into three focus areas: to build and advance upon recent public safety enhancements, to promote community revitalization, and support an environment to foster financial stability and growth for all members of the community.

Public Safety Enhancements: One of the primary responsibilities of local government is to ensure the health, safety and well-being of our citizens.

Over the years, the City has demonstrated its strong commitment to this responsibility. I am very pleased to report the budget as proposed continues that support and commitment with ongoing investments that build on the momentum and successes that have been realized in public safety. The FY 2020 Recommended budget supports:

- addition of three (3) Police Officer positions, one per precinct
- addition of one (1) Community Paramedicine Officer and one (1) Assistant Fire Chief
- addition of two (2) Commonwealth Attorney positions, with one dedicated for domestic violence cases
- addition of Police Freedom of Information (FIOA) Technician
- addition of one (1) Codes Permit Technician
- full year funding of the public safety position salary adjustments provided in mid-FY 2019
- fund annual cost of gun-shot detector system in the southeast community
- fund annual maintenance cost of replacement E911 telephone system
- creation of startup fund for prosecution augmentation based on victim security

Community Renewal and Revitalization: The City has been engaged in ongoing efforts to revitalize and renew our communities. The City has demonstrated its commitment to the revitalization of the Southeast Community through the Choice Neighborhood Initiative (CNI) program as well as other initiatives. We recognize that for the City to be successful all of our neighborhoods and communities must flourish. We are currently in the planning phase for the growth and redevelopment of the Denbigh-Warwick Corridor. We have already begun investing in that corridor and future budgets will support those efforts. The proposed FY 2020 operating budget includes the following community support initiatives:

- startup costs and operating support for Marshall-Ridley Choice Neighborhood health clinic
- full year funding of Homeless Day Service Center, continuing seven day a week operations

- continued funding for the Behavioral Health Docket as the specialized court to better address those with legal charges who have serious behavioral health issues
- addition of one (1) Parks Maintenance Specialist
- one year dedicated funding to repair existing fire stations throughout the City

Support Financial Stability and Growth Community wide: One of the City's ongoing challenges has been to promote economic opportunities and financial prosperity to benefit our communities and our citizens. The recommended budget provides funding to support this effort to include:

- full year funding for the Brooks Crossing Innovation and Opportunity Center to create a workforce development center
- increased local grant match for the TANF Navigation Wealth Building for the residents of the Marshall Ridley Choice Neighborhood (CNI)
- additional local funding for the Child Services Act (CSA) program under the Human Services Department
- addition of one (1) Grant Writer position

While the majority of the items listed above under these three primary focus areas are supported from redirected, repurposed funds, there are three major expenditure areas associated directly with the revenue generated for FY 2020. These three are additional debt payment (debt service) costs, employee compensation, and full year funding of public safety salary adjustments provided in the current fiscal year.

Investment in Employee Compensation and Development

Compensation issues are a focal point for the City. With historically low unemployment, and greater competition for applicants in the region, forming an appropriate compensation package to attract and retain talent in public service is more necessary than ever.

To acknowledge the hard work and dedication of City employees, the Recommended Budget includes an average 2% merit increase, effective July 1, 2019 for eligible individuals. While not at an optimum level, this is a manageable increase sustainable within the current revenue projections. A competitive employee compensation program is extremely important to

our operations and I will continue to monitor our salaries and benefits to ensure that we are remaining viable within the market and make any adjustments as necessary or appropriate.

Employee increases will continue to be based on individual employee performance. There is neither a general wage adjustment nor a flat salary increase, nor does the City provide step increases for any positions (except for limited entry level increases for sworn Police and Fire positions); this will be a merit based pay increase. The cost of this 2% merit increase in the General Fund is \$2.8 million and an additional \$990,499 for all other operating funds.

There are two other compensation components to the FY 2020 Recommended Budget. First, the pay grade ranges will be adjusted for the first time in six (6) years. The entry level of each grade will be increased by five (5) percent, with the top of the range increased by 1.5%. This action makes the City's salary ranges more viable in the local job market. The cost of this adjustment is \$211,682 for the General Fund, and \$97,373 for all other operating funds.

The final compensation item is full year funding of the public safety entry-level salary adjustments made in October 2018. The City found itself challenged by vacancies and recruitment and retention issues in our critical public positions. To mitigate some of these challenges, the City made a necessary mid-year salary adjustment for all public safety personnel to include Police, Fire and Sheriff's Deputies. The adjustments in the salaries and ranges has better positioned the City to recruit and retain qualified personnel. The City has seen positive momentum and success in filling the Police and Fire Academies. The salary adjustments coupled with more community based public safety efforts are proving to be very beneficial.

Debt Service and Cash Capital

Total General Fund support for all City Debt Service will increase by \$3.4 million to \$46,365,471 in FY 2020. This amount is General Fund payment for: outstanding City General Obligation Debt at \$34,482,206, City supported Schools Division Debt at \$8,848,024, and the Newport News portion of the Peninsula Regional Animal Shelter Debt at \$306,091. While projected to be substantially higher in the upcoming fiscal year, every effort was made to mitigate the additional debt costs for FY 2020 by lowering the

amount issued, changing the repayment terms, and receiving a highly favorable interest rate and premium return.

School Debt Service paid by the City will increase \$737,331, rising from \$8,110,693 in FY 2019 to \$8,848,024 in FY 2020. Beginning in FY 2019, the City incurred and paid debt service on behalf of the School Division for School capital projects and the debt service obligation is no longer a part of the City's annual funding calculation for direct School Division support.

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. The adopted FY 2019–2023 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. Cash Capital, a component of the City's adopted Capital Improvement Plan, was included for FY 2020 at \$8,896,150 or \$217,300 more than the current fiscal year.

Pension Contributions

Since FY 2016, the City has met 100% of the Actuarial Recommended Contribution (ARC) for fiscal soundness of the Newport News Employee Retirement Fund (NNERF). The Pension contribution is an elemental expense of the total operating budget; the Recommended Budget keeps the ARC payment at 100%. For FY 2020, the annual contribution to the pension system will be \$40.1 million city-wide, with \$8.7 million of School Division support, and \$4.7 million from the 5% salary contribution of all NNERF employees.

As a member of the Virginia Retirement System (VRS) since March 1, 2010, the City fully funds the annual contribution for those employees hired in one of the three VRS retirement plans. The City's VRS rate is 5.67% for the upcoming fiscal year, resulting in the FY 2020 General Fund payment being \$3.4 million.

Health Care Costs

Health care costs continue to rise, nationwide as well as for the City. The costs are primarily based on prior-year claims and services provided to employees. Despite careful plan management and employee incentives to help hold claim experience costs down, health insurance premium costs will increase for FY 2020, for both the employer's share and for the

individual employee. This will be the third consecutive year that employees will experience a higher monthly health insurance premium. While it was not desirable to impose this level of premium increase on employees in a year where there is a lower salary adjustment planned, the City is simply not in the position to absorb the full costs for the rate increase for employees in any given year.

Positions Changes and Redirected Staffing

The City is primarily a service provider, and as such, a majority of the City's operating costs are invested in employees' salaries and fringe benefits. For FY 2020, 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 decrease of thirteen (13) positions in the General Fund for FY 2020, with an increase of twelve (12) new positions. This is a net reduction of one (1) position in the General Fund, with no other new positions citywide. The General Fund positions that are recommended to be eliminated are based on careful review and consideration, with the intention of maximizing efficiencies and supporting public safety. With this in mind, beginning in the current fiscal year, the Sheriff's Department will supervise directly any inmate labor while performing community maintenance functions of mowing, debris collection, and other such work. This shift in direct inmate supervision allows for the elimination of correctional officer and associated positions that were shifted to Public Works for Community Maintenance when the City Farm closed in 2015.

While there is a strong need to provide many other new positions, without the revenue to support them we had to prioritize to address those that were the most pressing. The additional positions recommended support the effort to enhance Public Safety, Community Renewal and Building Community Wealth and maximize efficiencies. These positions are:

- +3 Police Officers - one per Precinct
- +1 Assistant Fire Chief
- +1 Community Paramedicine Officer
- +2 Assistant Commonwealth Attorneys
- +1 Police FIOA Technician
- +1 Codes Permit Technician
- +1 Parks Maintenance Specialist

- +1 Graphics Specialist
- +1 Grant Writer

Contribution to the Schools Division

The operation and performance of the School Division is critically important to the community. To support the School Division mission 'ensuring that all students graduate college, career and citizen ready' 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 funding is based on City incurred debt to support School capital projects.

For School Operations, I am recommending a contribution of \$110,889,307 that is level funding for operations. This total amount does not reflect the additional financial support the City is currently providing to Schools in FY 2019. Two examples of this are the purchase of approximately \$2 million in new furniture and fixtures for the new, state of the art SCOT facility (scheduled to open in the summer 2019) nor does it reflect the advance of \$6.3 million in funding for School capital projects to meet the time-sensitive construction deadlines. The Recommended Operating Budget includes increased debt service of \$737,331 for school capital projects.

Under State policy, the local government is required to contribute at least a minimum level of funding determined by a Local Composite Index (LCI) that computes the locality's ability to pay for education. The LCI is adjusted at the beginning of each biennium. For FY 2020, the minimum contribution required by the City of Newport News under this index was \$56,929,464. In FY 2020, the City will contribute \$110,889,307 that is \$53,959,843 or 94.8% above the Required Local Effort (RLE).

RATES AND FEE INCREASES

This budget has been presented with practical, sustainable expenditure reductions. The benefit of an increase in the Real Estate assessment, a stronger performing local economy, expense reductions, and repurposing existing funding enables the presentation of a balanced budget without a

real estate tax increase. The Real Estate Tax rate will remain level with the current fiscal year at \$1.22. This rate has been in effect since FY 2014.

For the User Fee funds, there are higher expenditures for the upcoming fiscal year driven by the same pressures as the General Fund for meeting pension and health care costs, employee compensation, as well as state or federal mandates. There is only one fee increase proposed and that is in the Stormwater Management Fund. This additional funding support required is determined mainly by the impact of the Consent Orders and other environmental regulations.

To address the Stormwater Management Fund operational requirements, the Stormwater fee is recommended to increase monthly by 25 cents from \$11.60 per Equivalent Residential Unit (ERU) monthly to \$11.85. This equates to a \$3.00 annual rate increase for the average homeowner. Reducing or eliminating sanitary sewer overflows and reducing the pollutants that flow into the City's waterways requires prompt studies and investment in system improvements, and use of cash capital for projects in these funds where possible.

LOOKING FORWARD

The City is experiencing growth and development and we are excited about the City's future. Our investments in critical areas are positioning the City for success. Investments in quality of life initiatives, infrastructure improvements, development opportunities and community transformation are ensuring that success.

Over the next year, growth is anticipated to continue. Real estate values and the local tax base should continue to increase. This will help mitigate fiscal challenges, help meet current commitments, and take advantage of opportunities that arise by creating a community and workforce that continues to be inviting to future development. It is through future development that the City has the capacity to bring quality services to all of our citizens.


In summary, you have for consideration a balanced budget with no service delivery reductions, and focused on selected enhancements. The Recommended Budget includes a single fee increase, tempered with sustainable reductions to achieve the level of City operations desired by citizens and/or mandated by regulatory agencies. This Recommended

Operating Budget meets the objectives of funding pension and health care obligations, support to Schools, debt payments, maintaining infrastructure, and providing a salary adjustment and investment in our valued employees. These are all significant accomplishments.

City staff at all levels have worked very hard to develop a budget that addresses the current economic realities and citizen needs. I 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 various Departments for their participation, support, and commitment in identifying the opportunities and meeting the challenges in developing the FY 2020 Recommended Operating Budget.

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 this FY 2020 Recommended Operating Budget for your consideration builds on the significant momentum currently experienced in Newport News. It is responsive to your priorities, our community needs, and works to enhance the quality of life for all our citizens. I look forward to working 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

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