

CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

April 14, 2020

TO: The Honorable City Council
FROM: City Manager
SUBJECT: Recommended FY 2021 Operating Budget

I am pleased to transmit the City's recommended operating budget for the fiscal year beginning July 1, 2020 and ending June 30, 2021.

This recommended budget has been in development since September 2019. We have carefully aligned the proposed budget with the City's Strategic Priorities: *People, Places, and Government*. The fundamental focus of this FY 2021 recommended budget is placed on *People* including the four goals and objectives: Health, Safety and Well-being; Education and Learning; Opportunity and Economic Prosperity; and Fun, Entertainment, and Culture. Funding is also included to support the priorities, of *Places* and *Government*.

Prior to providing an overview of the proposed budget, it is important to recognize and acknowledge that the outlook for the FY 2021 Operating Budget will be greatly impacted by the current COVID-19 pandemic. Unfortunately, at this point, while we can make estimations and projections of the impact on revenues and expenditures, we are just not yet in a position to accurately reflect those unknowns in the proposed budget. The information contained in this transmittal letter primarily relates to the economic conditions forecasted prior to this pandemic. We did make some initial adjustments to the proposed budget. However, as the financial impacts of this event develop over time, we continue to prepare alternative budget scenarios that retain the fundamental aspects of this *People* centric approach. Our goal with the recommended budget is to maintain our investments in core areas that benefit all citizens and address important organizational needs within responsible revenue projections that are consequently subject to change due to the current COVID-19 pandemic.

OVERVIEW

The total recommended FY 2021 Operating Budget is \$936,221,578, which is an increase of \$36,794,612 or 4.1% 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 \$515,074,000, which includes \$3,200,000 in Federal and State grant funds. In a direct year-to-year comparison, the General Fund Budget is \$17,431,000 or 3.5% higher than the adopted FY 2020 budget.

REVENUE OUTLOOK

Prior to consideration of the economic effect of the COVID-19 pandemic, the General Fund overall revenue growth was projected to be strong for FY 2021. The principal revenue in the General Fund is Real Estate Taxes generated by assessed property values. For FY 2021, the Real Estate Tax revenue estimate is based on assessed values growing for the sixth consecutive year, with all property classifications experiencing increases in assessed values. For many years, the City's taxable levy has been split approximately as 60% residential properties, with the remaining 40% in commercial properties. For the current reassessment, there is a slight shift in this ratio; commercial properties are now in the 46% range of the total levy, demonstrating continued growth in commercial property values. The overall projected increase for all properties, residential, commercial, and industrial, and all other parcel types is 3.88%. This level of increase is indicative of higher property values, new development, and reinvestment throughout Newport News.

With a higher overall Real Estate Levy, current Real Estate Tax collections for FY 2021 are estimated to total \$195.6 million, which is \$8.7 million more than the current fiscal year, after adjusting for the tax deferral and tax relief programs.

For FY 2021, estimated revenues for the General Fund align closely with collections for the current fiscal year, with continued growth in some of the consumer sensitive revenues. Machinery and Tools Taxes revenue is continuing to grow to an estimated \$26.9 million, an increase of \$2.6 million over the current year. This growth is mainly attributed to industry expansion in the City. Personal Property Tax revenue is estimated to increase to \$58.1 million, which is \$1.8 million or 3.0% more than current year, based on FY 2020 revenue trend. Sales and Meal Tax revenues were steadily expanding as well and accordingly the budget includes increases in these categories consistent with current pre-pandemic projections. The projection for the Business, Professional, and Occupational License Tax (BPOL) revenue is higher than the current fiscal year by \$1 million or 6.1%

to reflect the collection trends for the past three fiscal years. BPOL revenue is estimated at \$17.9 million for FY 2021. We anticipate that these consumer sensitive revenue groups of Personal Property, Sales and Meals, and BPOL will be the most vulnerable to the economic impact of the pandemic and will be strictly monitored for performance as the economic recovery ensues. All other revenue sources are estimated close to the current year projections.

EXPENDITURE CHANGES

For the past two years, City leadership has been working in and developing Shared Leadership Networks to allow multiple team members to collaborate and engage as joint leaders in areas where their skills, knowledge, and expertise are most needed. Shared Leadership has become an emergent team philosophy of mutual influence and shared responsibility to achieve City goals and objectives. Working in this manner, the Shared Leadership Networks made several program development proposals for FY 2021. Integrating these proposals with the primary Strategic Priority of *People* is the fundamental base of this recommended budget. At its core, the proposed budget provides funding for all four goals of Health, Safety and Well-being; Education and Learning; Opportunity and Economic Prosperity; and Fun, Entertainment and Culture. The two Priorities, *Places* and *Government*, are recommended to be funded in some capacity as well.

A summary of proposed Expenditure changes for FY 2021 are in the Recommended Budget document under the section *General Fund Expenditures*. The FY 2021 Recommended Budget supports the Strategic goals of:

❖ *People*

- Health, Safety and Well-Being
 - creation of the CARE Program, to better address those with mental health crises, homelessness, and minor medical needs through the addition of two (2) Firefighter-Medics, one (1) Police Officer, and through the Community Services Board (CSB), two Qualified Mental Health Professionals
 - creation of the Family Violence and Abuse Response Team, with two (2) Law Enforcement Liaisons positions, working with the Police and Human Services

- Departments to provide on-scene crisis intervention targeted to events of domestic violence, child abuse, and child neglect
- addition of three (3) Police Officer positions, one per precinct
- addition of three (3) Commonwealth Attorney positions, one attorney and two paralegals, to meet the State mandated staffing ratios for evidence collection associated with body worn cameras
- addition of four (4) Single Role Paramedics to fill vacancies on medical transportations
- Increased funding for the Hampton/Newport Criminal Justice Agency, and expanding the Behavioral Health Docket program as the specialized court to better address those with legal charges who have serious behavioral health issues
- Investigating grant opportunities for a juvenile delinquency diversion and peer-justice program through a Youth Court setting
- funding of a stipend for Sheriff personnel working in Jail, recognizing the work differential in the hard to fill positions
- Education and Learning
 - additional \$2.5 million in City support to Schools, representing full funding of their request
 - establish Sunday service hours at Pearl Bailey Branch Library
 - purchase Wi-Fi hotspots for library system circulation to help bridge the digital divide across the City
- Opportunity and Economic Prosperity
 - investment in employee compensation
 - full year funding for the Brooks Crossing Innovation and Opportunity Center to create a workforce development center for in demand jobs
 - funding for the Jefferson Avenue Co-Working space
- Fun, Entertainment and Culture
 - additional funds to support Special Events, including pop-up events at the now demolished former Kmart site, and other locations throughout the City
 - funding for wind art to be established as electric vehicle charging station(s)

- addition of one (1) Lead Lifeguard position
- ❖ *Places*
 - Welcoming Communities with Connected Neighborhoods
 - Increased funding for Hampton Roads Transit, addressing route enhancements
- ❖ *Government*
 - Quality Government and Innovation
 - with vacancy realignments, create a team dedicated to mowing, litter management, tree care, and trash removal in the City's right of ways areas enhancing the City's overall appearance
 - addition of one (1) 311 Customer Service Assistant to assist with increased calls/service requests, decreasing call wait time
 - addition of one (1) Deputy Clerk I position in the Circuit Court Clerk's office to support the Case Information Division

Investment in Employee Compensation and Development

Since FY 2015, the City has been committed to a pay for performance, merit based system for making annual salary adjustments. The evaluation tool used for this practice is in transition to a new, more responsive instrument. For one year, as employees become more familiar with this new evaluation instrument, it is recommended that employee compensation be in the form of a general wage adjustment. It is the intention to return to pay for performance, in tandem with the use of the new evaluation format in the subsequent fiscal year.

To acknowledge the hard work and dedication of City employees, the Recommended Budget includes a 2.5% general wage adjustment increase, with the increase being no less than \$1,000 for those employees who have a salary of \$40,000 or less. While initially planned to be effective July 1, 2020 for eligible individuals, all consideration is being given to timing of this increase, so as it is sustainable within our revenue picture.

Pension and Health Care Costs

Pension

Retirement and Healthcare benefits are also an important component of our investment in our employees. Retirement and Health care contributions represent 10.8% of the total budget for FY 2021. For Newport News Employee Retirement Fund (NNERF), the recommended budget continues Council's commitment to fully fund the Actuarially Required Contribution (ARC) of \$40.7 million city-wide, with \$8.5 million of School Division support, and \$5.0 million from employees' contribution

The FY 2021 budget also includes increased funding to support the annual contribution to fully fund the Virginia Retirement System (VRS) plan. The City's VRS rate will increase from 5.6% to 6.32%.

Healthcare 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. With careful plan management, health and wellness initiatives and employee incentives, health insurance premium costs will still increase for FY 2021. Continuing cost containment efforts are important, as Health Insurance premiums for active employees alone are at \$26.5 million for FY 2021, representing 5.0% of the total General Fund expenses.

Debt Service and Cash Capital

Total General Fund support for all City Debt Service will increase by \$546,482 to \$46,911,953 in FY 2021. This amount is the General Fund payment for: outstanding City General Obligation Debt at \$38,558,563, City supported Schools Division Debt at \$8,057,126, and the Newport News portion of the Peninsula Regional Animal Shelter Debt at \$296,264.

Due to both cash flow and project management, the next bond issue is anticipated for late calendar year 2020. With this new bond issue timing, some principal and interest costs are included in the upcoming fiscal year. The greater overall debt change will occur in the subsequent fiscal year, FY 2022. With projected debt to be substantially higher, efforts will be made to mitigate the additional debt costs for FY 2022 by managing the amount issued, and reviewing repayment terms.

Cash Capital uses current operating funds for less expensive and more regular capital investments. This approach decreases reliance on borrowing monies for shorter term capital projects. The adopted FY 2020–2024 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. FY 2021 Cash Capital, a component of the City’s FY 2020 adopted Capital Improvement Plan, is \$9,030,000 or \$133,850 more than the current fiscal year. Of this amount, \$2 million or 22.1% of FY 2021 is dedicated to the School Division, for the purchase of school buses. At this point in time, Cash Capital funding will be held in abeyance as to ensure that there is sufficient revenue to implement these expenses.

Contribution to the Schools Division

The largest single funding component of the total annual operating budget is for education. To support Newport News Public Schools 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 grounds maintenance, and information technology program support. For Debt Service, the funding is based on City incurred debt to support School capital projects.

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. Based on the Governor’s proposed budget of December 2019, the Composite Index is calculated at 0.2842, resulting in a Required Local Effort of \$56,024,355. As the City’s contribution to the School Division is recommended at \$113,389,307, the City will contribute an additional \$57,364,952 or approximately more than twice the amount required by the State to the local school division. This calculation does not include annual Cash Capital support for school bus purchases in the amount of \$2 million.

When the City’s direct funding for School Operations and Schools Debt Service is combined, I am recommending a contribution of \$121,446,433. This total amount includes \$113,389,307 for School Operations, which is an increase of \$2.5 million or 2.3% in operating funds for FY 2021, representing

full funding of the School Superintendent's request for the upcoming fiscal year. The Recommended Operating Budget also includes \$8,057,126 for debt service for school capital projects.

Community Support and Regional Organizations

The FY 2021 combined Community Support and Regional Organizations amount is proposed at \$11,945,141. This represents an increase in funding of \$351,373 or 3.0%, from FY 2020.

RATES AND FEE INCREASES

This budget has been presented with practical, sustainable expenditures, again within the revenues anticipated to be generated, and with one user fee rate increase. This proposed budget is balanced budget without a real estate tax increase. This proposed budget is balanced and no tax rate increase is recommended. The rate will remain level with the current fiscal year at \$1.22 and this rate has been in effect since FY 2014.

For the User Fee funds, the expenses for the upcoming fiscal year reflects those of the General Fund: pension and health care costs, employee compensation, and state or federal mandates. As with the General Fund, every effort was made to reduce expenses where possible, increase operational efficiencies, and use reserves of the funds as appropriate.

One user fee rate increase is recommended for FY 2021. In the Stormwater Management Fund, this rate increase is determined mainly by the impact of the Consent Orders and other environmental regulations. This budget reflects investments in system improvements, and use of cash capital for projects where possible. To address the Stormwater Management Fund capital projects requirements, the Stormwater fee is recommended to increase monthly by 40 cents from \$11.85 per Equivalent Residential Unit (ERU) monthly to \$12.25. This equates to a \$4.80 annual rate increase for the average homeowner.

LOOKING FORWARD

This Recommended Operating Budget positions the City to be successful for today and the future. Every effort was made to continue to sustain and where feasible enhance the services provided to our citizens. To reiterate, the Recommended Budget was developed in advance of the current pandemic situation. However, since the onset of the pandemic, City staff

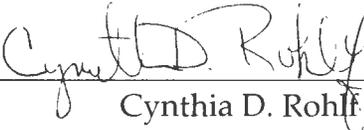
has evaluated and given careful consideration to actions that may have to be taken over the next few months to ensure that the current fiscal year as well as the upcoming FY 2021 operating budgets are managed in a financially responsible manner to maintain the City's fiscal well-being. For example, it is my intent as part of the management of the FY 2021 budget, to restrict certain programs and expenses that will be held in abeyance at least into the early months of the new fiscal year until the revenue picture and the financial impacts are more quantifiable.

In summary, you have for consideration a balanced budget focused on selected enhancements. 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 People Strategic Priority, and its associated goals. 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 Budget Committee and the various Shared Leadership Networks and Departments for their participation, support and commitment in identifying the opportunities and meeting the challenges in developing the FY 2021 Recommended Operating Budget.

All budget documents will be publicly available on the City's web site.

I believe the FY 2021 Recommended Operating Budget continues the substantial momentum our City is experiencing. It is responsive to your priorities, our community needs, and enhances 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. I thank you for your support.


Cynthia D. Rohlf

CDR:LJC