



Fiscal Year 2013
Recommended Budget

POSITION PAPERS



City of Newport News

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Fiscal Year 2013 Budget Position Papers

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CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

March 27, 2012

TO: The Honorable City Council
FROM: City Manager
SUBJECT: Recommended FY 2013 Operating Budget

I am transmitting for your consideration, my recommended operating budget for the fiscal year that begins July 1, 2012 and ends June 30, 2013. We are all aware of the fiscal and budgetary trends of the last several years that impact this year's recommended City operating budget. It comes as no surprise that the development of this budget has been very difficult. To achieve balance and maintain the services that I believe City Council and our citizens expect, it was necessary to recommend some tax rate increases and make some additional expenditure reductions that will not please everyone. However, this budget sustains most City operations at close to current service levels, supports progress in strategic priorities, and does so with no increase in the real estate tax rate.

Before we held our first departmental budget hearing, we knew that we faced several structural operating budget challenges that would not be easily overcome. On the revenue side, real estate taxes will go down almost \$7 million and State funding will go down yet again, although in a smaller amount than in the past several years. On the expenditure side, we knew we must meet our employee pension reform contribution commitments, cover the cost of health care increases, support our schools, and deal with higher fuel prices. Stated simply, compared to the current budget year, and holding everything else constant, we started with a hole of \$13 million in the General Fund.

In terms of major non-General Fund, user fee-based activities, it was necessary to recommend fee increases. Many of these changes are driven by new Federal and State environmental regulations, along with the issue of declining water demand. On a positive note, for many residential property owners, the annual decline in real estate tax payments will exceed the cumulative increase of all recommended proposed taxes and fees.

Continued pressure from both the revenue and expenditure sides set the environment for the development of the Recommended Budget. The two largest sources of revenue, real estate property taxes and transfers from the Commonwealth of Virginia, will be down further in FY 2013. Despite other local taxes showing signs of stabilization or moderate growth, there will be a lower overall funding level to support our operations.

From an expenditure perspective, obvious and one-time expenditure cuts have already been taken. Over the past four years, we have applied reductions to materials, supplies, and training, and harvested personnel savings through increased attrition credits and elimination of positions. At this point the budget is in delicate balance and further reductions will have significant impact on our ability to continue to deliver the current scope of City services to our citizens.

As stressful as this prolonged economic environment continues to be, I continue to have confidence in this organization's commitment and capacity to deal with financial challenges. In this context, we set out to build a recommended operating budget that achieved certain limited objectives within certain broad parameters. On the revenue side, we have prepared a budget with a minimum of rate and fee increases. On the expenditure side, our priorities are to restore the prior funding reductions to local education funding as much as possible, meet our long-term commitments in terms of debt service and pension contributions, begin to align our operating budget with the City Council-endorsed Strategic 8 Priorities, and seek to fund a modest general salary increase for our excellent work force. I believe my recommended budget is consistent with these priorities.

OVERVIEW

I am submitting to you a budget that maintains the basic services that citizens expect of the City of Newport News. There are limited new initiatives, funding start-up costs for two larger projects that will become operational in the upcoming fiscal year. Other moderate increases were made to limit service reductions or address aspects of our Strategic 8 Priorities. The difficult aspect of balancing this budget was to provide for the necessary services that we have, while acknowledging the need to plan for the future and to be ready to move the City to the next level when the economic recovery is more robust. As a City, we must remain

invested in our Strategic 8 Priorities and ensure that they are not easy casualties to the shrinking budget, but rather are maintained at an affordable level.

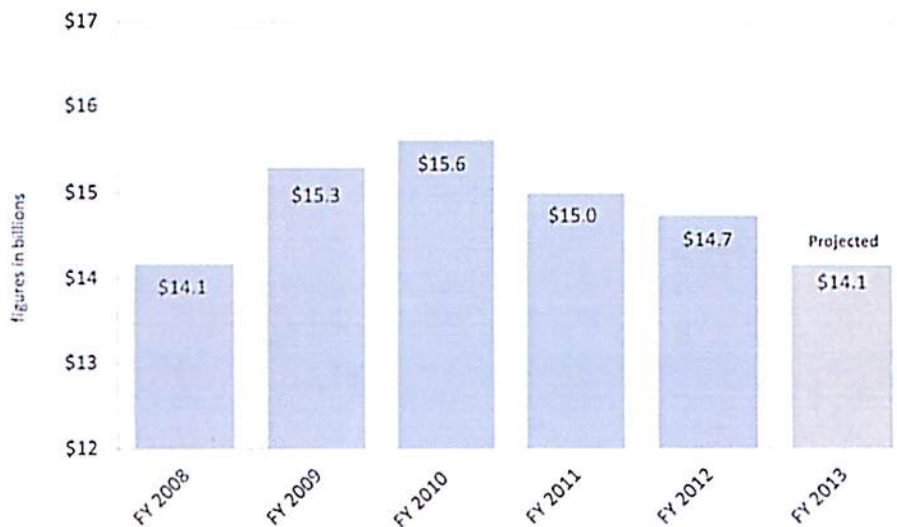
My total recommended FY 2013 budget is \$744,189,609, which is a decrease of (\$4,470,008) or (0.6%) lower than the current fiscal year. This total budget amount includes the General Fund, Schools, Public Utilities, and all Special Revenue and Trust Funds. One unique driver in the General Fund decrease is the State's assuming responsibility for the mandated Human Services Day Care program, and thereby eliminating the State reimbursement and a majority of the local costs. Other major operating funds that will be lower in the upcoming fiscal year are Schools and Public Utilities (Waterworks), as well as our Federal funds from the Community Development Block Grant.

Of this total budget amount, the FY 2013 Recommended General Fund Operating Budget totals \$414,200,000, which is a decrease of (\$380,000) or (0.1%) lower than the adopted FY 2012 Operating Budget. Yet again, our two largest revenue sources Real Estate Taxes and State reimbursements continue to decline. To offset revenue loss, adjustments in locally controlled rates of personal property, meals, and cigarette taxes are being proposed. These particular rates are recommended for increase because they are a combination of changes that will affect all citizens who own a vehicle (and not just property owners), and specific taxes that are based on a personal choice (meals and cigarette taxes). In addition, I am recommending that the cap amount of tax paid by industry for the consumption of electricity be changed. This rate has not been adjusted since 1984 and is currently at \$80 as the maximum level of tax paid monthly. Most surrounding localities either have no cap or a high maximum tax level. Based on monthly kilowatt usage, we anticipate that eliminating this cap will produce an additional \$750,000 in General Fund revenue.

Real estate property assessments, which are based on market values established for the 12-month period of October 1, 2010 to September 30, 2011, are expected to decrease for the third consecutive fiscal year. The final estimate on the assessment decrease was more significant than initially projected. The chart below illustrates the dramatic change in values, with the anticipated Real Estate Levy on July 1, 2012 to approximate that of FY 2008. In other words, we will be generally collecting the same amount of Real Estate revenue as we did five years

ago, while at the same time paying the same tax rate of \$1.10 per \$100 of assessed value.

Recent History of Real Estate Assessment Values (Adopted Budget)
FY 2008 - 2013



An average assessment decrease of approximately (4.23%) will be seen, with most residential property owners paying lower real estate taxes in FY 2013. To put this in perspective, this percentage decline in assessments equates to a \$7.2 million or (4.6%) loss from the City's single largest revenue source.

This decline in real estate tax revenue reinforces the decision made last year to shift our tax abatement program to a tax deferral for our elderly and disabled citizens. City Council will recall that prior to this change, the cost of the tax abatement program had grown to five times its size from 20 years ago. In FY 2012, tax relief represents close to a \$3 million loss in revenue to the City. This amount does not include the impact of the loss of \$475,000 in additional real estate revenue from the recently mandated tax relief for Disabled Veterans that took effect on July 1, 2011. Without a change to the tax abatement program, and with forecasts predicting that the elderly will make up nearly 40 percent of the Newport News population by the year 2030, the City would lose substantial and increasing amounts of Real Estate Tax revenue over time. To cover the gap in revenue created by the abatement program, the City would need to raise the real estate tax rate for all property owners, which is not an option that is equitable to the City's residents as a whole. It must be recognized, that the elderly citizens, both taxpaying and those in the

abatement/deferral program, use City services for which there must be a source of funds. While it was difficult, the decision to change to a tax deferral program was responsible, fair, and forward-looking. As a result of this action, our loss of revenue from the tax deferral program is anticipated to decline from \$2.8 million to \$2.2 million in FY 2013. Over time, this revenue loss will be completely eliminated, while the substantial benefit through deferral is maintained for most impacted individuals.

As you know, the State's payment to localities is anticipated to decline for the fourth consecutive year. While not of the scale previously experienced, the Governor's proposed 2013-2014 Biennial Budget did recommend some minor restoration of State funding to select activities, while at the same time cutting others. Shortly before this budget submission, the State General Assembly concluded its regular session without an adopted budget, causing significant uncertainty as to the impact of the State funding to localities in the near future. Most distressing of all is the late-breaking adoption of a conferee bill that requires municipal employees enrolled in the Virginia Retirement System (VRS) to pay a 5% contribution toward retirement and stipulates that those same employees receive a salary adjustment of 5% to offset the cost. This new State mandate comes at a time when a majority of localities are nearing completion with their budget processes. In addition, it does not recognize the innate inequity in employee salaries that it would create in localities such as ours that maintain both a local retirement system, as well as participation in VRS. Depending on what action the General Assembly takes in this matter in coming days, it may be necessary to adjust the budget to reflect this new mandate. I will keep you informed during your deliberation process of any changes in the revenue forecast that could affect the budget.

Other General Fund revenues for FY 2013 have been estimated based on a continued slow economic recovery. Our locally generated taxes of Machinery and Tools and Business, Professional, Occupational Licenses (BPOL) are showing moderate growth, with increases of \$500,000 and \$1 million over the current fiscal year, respectively. Sales Tax revenue remains on target for collections in the current year. Forecasting limited new retail development within the City for the full year in FY 2013, an additional \$400,000 in sales tax revenue, or 2% growth, has been added. Although these areas are showing consistently moderate increases in the current fiscal year, they will not close the entire gap resulting from Real Estate Tax loss.

The chart below shows the loss of the Real Estate Tax revenue and new revenue generated by the proposed rate increases.

FY 2013 Proposed Rate and Fee Changes

Revenue	(in Millions)		Difference	
	FY 2012 Estimate	FY 2013 Estimate	Amount	Percent
Real Estate Tax	\$158.7	\$151.4	(\$7.2)	(4.6%)
Meals Tax (1% rate increase)	17.6	20.3	2.7	15.4%
Cigarette Tax (10¢ rate increase)	4.6	5.2	0.6	13.3%
Personal Property Tax (25¢ rate increase)	40.5	42.9	2.4	5.9%
<i>Total</i>	\$221.4	\$219.8	(\$1.5)	(0.7%)

EXPENDITURE CHANGES

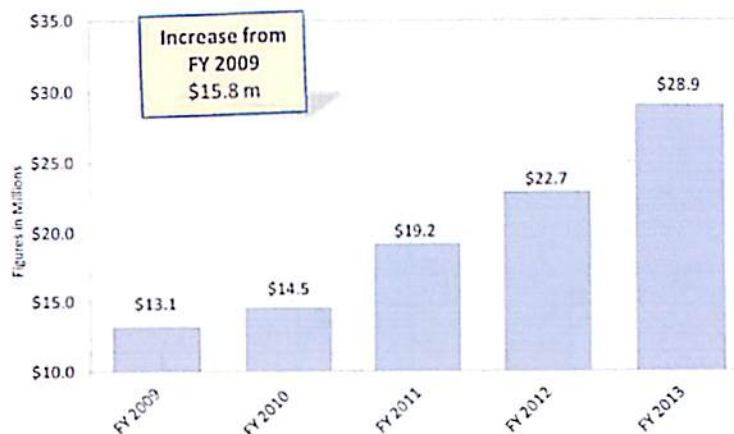
During the budget development for the current fiscal year, it was clear that we would be faced with even more critical fiscal challenges in FY 2013. In September 2011, after identifying the known expenditure drivers for the upcoming budget, I instructed my Management Team to review all of their departmental operations and provide me with intelligent, practical reductions that would focus on core functions, increase efficiency by reducing or eliminating non-essential operations, and reorganize staffing to accommodate the highest priority of those core services. The target reduction for all departments was initially six (6) percent. To achieve this magnitude of cuts without a revenue increase from taxes and fees, there would have had to be sustained reductions and program eliminations, the loss of a substantial number of City positions, and would have pushed unavoidable expenses into future years. Instead, with careful consideration of each line item expense, nearly every department sustained some level of reductions in operations. This was a difficult painful effort. As you will recall, operational expenses have been reduced in the General Fund from \$433 million in FY 2009 to the proposed level of \$414 million in FY 2013, all by gradually and marginally reducing the level of services over the years without changing the quality of that same service delivery. In some cases, prior fiscal year reductions proved to be all that could be achieved without threatening core missions or the operation of facilities. Reductions and other changes are summarized in the Recommended Budget document under the blue tab labeled *Expenditures*.

There are six general areas where this recommended budget reflects increased spending or funding of a new initiative. These areas include pension contributions, health care premiums, fuel costs, the City's contribution to the School Division, full-year operation of the Denbigh Community Center, partial-year operation of the 311 Customer Contact Center, and an employee salary adjustment.

Pension Contributions

We are firmly committed to an eight-year obligation to incrementally increase the City's contribution to the Annual Required Contribution (ARC) to the Pension Fund. FY 2013 will be the fourth year in this process. This is a fundamental expense of our operating budget and the recommended budget includes a substantial increase in our annual and sustainable contribution to the pension system. I recommend that our annual contribution increase from \$22.7 million to \$28.9 million City-wide, representing \$6.2 million in additional funding. This recommended amount is consistent with our plan to completely restore the actuarial position of our pension fund over time. The recommended contribution brings the ARC up to 65% from 59% and represents a cost increase to the annual budget that is almost equal to the amount of revenue loss from Real Estate Taxes. The Schools Division is a separate but important participant in this pension funding process and has budgeted for the same percentage increase in the Superintendent's recommended budget.

History of City Pension Contributions FY 2009 - 2013



As a member of VRS, we fully fund the annual contribution for those employees hired or rehired after March 1, 2010 or who elected to shift

from the City's pension system. As more of our work force participates in VRS, so grows our annual contribution. This fact, plus the change in the VRS actuarial assumptions for the upcoming fiscal year, increased the General Fund payment from \$1.5 million to \$2.8 million. In addition, we are required to participate in a Line of Duty Act program that provides benefits to first responders who die or become disabled in the line of duty. This cost has increased from \$221,727 in FY 2012 to \$450,000 in FY 2013.

As a point of reference, in FY 2013, a significant change occurred in the representation of retirement costs for City employees in the budget. The annual pension cost is a fundamental expense, whether through the City's independent pension program or through participation in VRS. For that reason, all costs associated with retirement have been moved from the individual departments of the General Fund and consolidated in the Nondepartmental cost center. (Retirement expense funding for all Special Revenue and Trust Funds remains in those Funds). This shift of expense allows for increased transparency as to the total cost of retirement expenses, an easier year-to-year comparison moving forward and better fiscal control.

Health Care Costs

Health care costs continue to rise, with an insurance increase anticipated in FY 2013 of 5% beginning in January. The annual increase is generally based on the prior-year claims and services provided to our employees. In order to maintain the ratio of 75% City/25% employee contribution toward the total premium cost, there is an additional funding of \$1.5 million for this item City-wide for the upcoming fiscal year. Without the benefit of eliminated positions contained in this recommended budget, the amount would have been higher. This continues to be an important benefit for our employees, as other employers have targeted this benefit as cost savings by reducing their contribution to this cost. For the City, it remains a strong recruiting tool and acts as additional leverage for soliciting qualified candidates when all other aspects of employment are equalized between the localities.

Increases in health insurance premiums have become an annual budget challenge for the City. Careful plan management and lower experience costs are the keys to keeping the premium increase responsibility low. If we continue to operate within the same health insurance decision-making context, we can expect to experience premium increases that will absorb a larger share of our revenue pool. For this reason, I have instructed the Director of Finance to form an employee committee to review our current

health care plan and possibly make recommendations for changes. This Health Committee will meet with our health care plan advisor to review available options and opportunities. As our health care contract is based on a calendar year, employees, as well as the City, will be faced with continued increases if we do not attempt to define an appropriate level of benefit.

Increased Fuel Prices

Rising fuel costs make it difficult to determine a year-long average of per-gallon costs. Vehicle fuel is an important part of our operations, supporting public safety functions, public works activities, and human services programs, among others. Our annual consumption has been nearly stable at 1.2 million gallons. With prices trending upward, we have raised our price-per-gallon estimate from \$3.45 to \$3.55, representing a 3% hike in costs. In the General Fund, this equates to a \$148,612 increase. One prediction is that fuel prices will continue to increase until mid-May 2012 and begin to decrease slowly afterwards. If fuel prices continue to trend upward, we may need to change the rate forecast for vehicle fuel closer to the final budget reconciliation for FY 2013.

Contribution to Schools

Local support for public education is a critical component in the budget. I am recommending a contribution of \$113,400,000, which is \$1.2 million, or 1.0% higher than the current fiscal year. The FY 2013 contribution includes \$12.1 million in City funding for Schools debt service.

It should be noted that the City has increased funding to Newport News Public Schools for the past two fiscal years, signaling our commitment to public education. In a time when the State has made massive reductions in its support to public education (from \$194.8 million in FY 2009 to a proposed \$158.6 million in FY 2013), Newport News Public Schools too has been faced with higher pension contributions. This additional contribution from the City of \$1.2 million will help to lessen the impact of the other very real pressures on the Schools budget.

Employee Compensation and Benefits

The recommended operating budget includes funding for a general across-the-board salary increase for City employees of 1.5%, effective January 1, 2013. The cost of this salary adjustment is \$1 million. While the percentage increase is not at the level that I had initially planned or hoped

for, it does allow for a small salary increase to coincide with the additional expense employees will see with higher health insurance premiums. In other salary issues, the City contracted with a consultant to conduct a compensation and classification study. The broad goal of the study is to improve internal equity relative to compensation and to ensure that the City is competitive in the marketplace for attracting and retaining qualified employees. The economic challenge, of course, is to find affordable levels of compensation adjustments as a result of the study. Full implementation of the findings of the study will require a multi-year approach.

Even in a difficult financial environment, we must be smart in our policies to recruit and retain a good work force. From a labor market perspective, most large, regional, private employers are planning for raises during the upcoming fiscal year.

Full-Year Funding: New Initiatives

There are two major initiatives that will come to fruition during FY 2013: the Denbigh Community Center and the 311 Customer Contact Center.

The Denbigh Community Center is a \$15 million capital project in the northern district of the City that represents the culmination of many years of planning and implementation. The 50,000 square-foot building includes classrooms, two full-size gymnasiums, and a teen center and will serve as our flagship development in support of our Upper Warwick Boulevard Corridor Strategic Priority. Initial funding of \$139,594 for four positions was included in the current year budget to allow for appropriately staffing, outfitting and equipping this facility. Funding of \$701,661 has been included in the Parks, Recreation and Tourism budget for a full year of operations, including three (3) new staff positions. This amount is inclusive of \$139,594 in the FY 2012 budget. When accounting for costs budgeted in the Departments of Public Works and Information Technology, the full cost of operations at the Denbigh Community Center is \$720,829 for FY 2013.

The operation of the 311 Customer Contact Center, anticipated to begin January 2013, is the second new initiative that will be funded in the upcoming fiscal year. Directly supporting our Customer Service Strategic Priority, the 311 operation will be housed in available space in the Peninsula Health District building. This location is optimal for several reasons. Situated in the center of the City, the space is remote from our current 911 Dispatch Center and can serve as an alternative dispatch site,

should the need arise. This building has its own generator and dedicated pump station and will be able to operate during times of emergency, eventually becoming our Emergency Information Center during crisis events. This new function will change the way that we communicate with our customers as a City, with the 311 Contact Center providing a “one-stop-shop” to answer questions and receive citizen concerns and issues. The amount of \$35,519 was included in the FY 2012 budget for partial-year funding of one position. The Recommended Budget includes \$332,508 for this operation, which represents an increase of \$296,989 over FY 2012. This includes funding for six full-time positions and part-time staff (\$304,582). Three positions will be shifted from the Information Technology, Codes Compliance, and Engineering Departments. Vacant positions in these departments were allocated to the 311 Customer Contact Center, as they represent a large portion of daily calls to the City in some manner. The remaining funds will be used for overall operating expenses such as Contractual Services, Telecommunications, and Supplies (\$27,926).

To be able to fund the six expansion areas, the FY 2013 recommended budget reflects reductions in most other operational expenses, as well as the recommended rate and fee increases. In other words, those reductions are net of these necessary increases. There are few enhancements based on contractual circumstances or specific needs. As expected, in response to falling revenues, it was necessary to reduce service levels in some areas, as detailed below.

SERVICE IMPACTS

Reduction in Force, Redirected Staffing

I am recommending a net reduction of 11 positions in the General Fund for FY 2013, with the elimination of two other vacant and filled positions City-wide. We have cut a net total of 158 positions City-wide over the past four years, with this reduction representing a 4.5% decrease of our work force. One position each is being eliminated from the Historical Services Fund and the Vehicle and Equipment Services Fund. Two positions are moving from the General Fund to the Stormwater and Wastewater Funds, as their duties primarily support those operations.

The net number of position reductions identified above does not represent the full number of reduced positions over the past years. Some of the

positions that have been eliminated have been repurposed to support efforts to improve efficiencies and/or to enhance our efforts and citizen responsiveness in critical areas. As an example, for FY 2012, Public Safety allotments increased with the addition of 12 firefighter positions to staff the new Brentwood Fire Station. Beyond Public Safety, the very limited number of position additions have come in highly critical (in some cases mandated) service areas or to support progress on our Strategic Initiatives.

My approach over past budget preparations has been to work to minimize layoffs of active employees. The exception to this practice is where the operational cost of a function is clearly no longer justifiable. It is only in those instances where I have recommended position eliminations. After four years of cutting allocations, in some cases employees that I know, it does not make those choices any easier. The number of actual recommended reduction-in-force positions is 11 full-time employees and 10 vacant positions, and two positions transferred to other operating funds. The chart below details the position changes for FY 2013.

FY 2013 General Fund Position Changes

<u>Position Type</u>	<u>Filled</u>	<u>Vacant/ Transfer</u>	<u>New</u>	<u>Net Change</u>
Front Line	0	2	2	0
Management	1	2	2	1
Professional	7	4	7	4
Support/Clerical	3	4	1	6
Total	11	12	12	11

Due to the partial hiring freeze that we have had in effect since the fall of 2009, we have been able to eliminate many resulting vacant positions. The functions of these vacancies are no less important, and those duties have been added to the workload of remaining positions. The Attrition Credit that was first instituted in FY 2009 at \$1 million is now \$6.2 million for FY 2013. (An Attrition Credit reduces a department's budget for salaries and fringe benefits based on an anticipated lag time between an employee termination and when a new employee is hired.) This budget can only be balanced due to these ongoing savings. As a reminder, the City has an

established Reduction-In-Force (RIF) policy that allows for any employee who would lose their current position due to a reduction in force to apply for, and if qualified, be placed in vacant positions over other applicants. I hope that most of the individuals affected by the RIF have the opportunity to find different employment with the City.

In preparing this budget, we continued to place great emphasis on public safety. We have more police on the street and more firefighter paramedics than at any point in our history. I am not recommending the elimination of any filled uniformed public safety positions. I am recommending the creation of one new system administrator position that will work with the Police and Information Technology Departments and is absolutely critical to maintaining our 911 communications system and 311 Customer Contact Center technology.

Service Reductions

Drastic service cuts have been avoided in this recommended budget by reducing positions, consolidating efforts where possible, leveraging technology, and increasing some fees and taxes. As a result of these efforts, there will be a minimum impact on service delivery to our citizens. Newport News continues to have an exceptional range of services, which is an important quality-of-life consideration for retaining current residents and attracting new businesses. However, there are some areas where reductions in service levels were necessary.

In the Libraries and Information Services Department, I must once again recommend eliminating the Bookmobile Service. It is time. Since the beginning of the fiscal year, the Bookmobile vehicle has experienced major mechanical failures and has been patched together to remain operational. The amount of time that it has been off the road has impacted service delivery to its patrons. The initial estimate last year was that the vehicle would function for two more years. That lifespan has been cut in half with the costly repairs that we are now facing. Elimination of this Library function will result in the reduction of one (1) filled Information Services Specialist position and part-time funding, with a savings of \$100,000.

The amount of funding for the annual replacement of vehicles, information technology equipment and infrastructure continues at a much-reduced level in this operating budget recommendation. In the case of our street maintenance program, an additional \$578,000 reduction in paving funds is included in FY 2013. While temporarily supported by

Federal stimulus funds, we cannot continue to underfund this and other aspects of our operations in future fiscal years. We will have to look to new revenue beyond the upcoming fiscal year if we are to avoid even more costly investment in our infrastructure. Though I believe that we can withstand this continued level of reduced funding for one more fiscal year, it will be one of the first areas that I would choose to restore if our revenue estimates improve. It is critical that we plan to take major steps to restore funding over time in these areas.

Parks, Recreation and Tourism functions are other areas impacted by this recommended budget. I have recommended that Special Event Funding be reduced by \$13,250. This reduction will not eliminate any current events, functions, or offerings. Rather, it requires the use of the Special Events fund balance reserves or private donations to fully fund the amount needed to maintain these annual events that have become greatly anticipated and that enhance the quality of life in the City. In the Historical Services Fund, one (1) filled Historic Site Curator (\$58,416) position has been recommended for elimination. By this action, tours of the Newsome House will be by appointment or event only. This decision was based on extremely low visitation experienced by the facility.

Innovations

I am recommending some exciting changes in the Fire Department. Through two major shared services efforts with the City of Hampton that will begin in the upcoming year, there is potential for substantial savings and improved citizen responsiveness for both localities.

First is the consolidation of Logistic Functions to combine the warehouse functions and personnel of both cities into one site to create efficiencies, reduce personnel, and create savings through bulk purchases. Savings here represents the elimination of one (1) Firefighter position (\$58,280) in a future fiscal year and anticipated bulk purchase savings in uniforms, supplies, and equipment of (\$23,000) in FY 2013. Second is the Automatic Mutual Aid between the two Fire Departments along the eight-mile common border of Hampton and Newport News to allow the closest available unit (fire or medic) response for calls for service by the public. Three stations in both cities mirror each other along the City line. Once implemented, the mutual aid response time will be reduced for both cities and, in time, could result in the elimination through attrition of twelve (12) Firefighter positions for an anticipated savings of up to \$700,000. For FY 2013, all positions are retained for both of these programs to allow for

the phasing in of operations. Combined, both initiatives could eventually generate savings of \$782,000. A full report to City Council on the status of these activities will be presented shortly.

As a companion piece for this mutual aid function to work with seamless fluidity to the citizens, it is recommended that both Hampton and Newport News have uniform Ambulance Fees. That way both localities will receive like payments for the same service, and the citizen will not be charged differing rates. To institute this, I am recommending the following changes for FY 2013:

AMBULANCE FEES	<u>FY 2012</u>	<u>FY 2013</u>
Basic Life Support	\$425	\$500
Advance Life Support - Level 1	\$525	\$600
Advance Life Support - Level 2	\$ 0	\$750
Patient Transport Mileage Fee - per statute mile	\$8.25	\$11.00
Emergency Medical Service -	\$0.00 per patient	\$125.00 per patient
Non-Transport Assessment Fee	assessment	assessment

These rates have been researched and fall within the usual, customary and regular charges reimbursed by most insurance companies. In addition, I am recommending that we only solicit reimbursement for these fees from insurance providers and do not pursue any residual unfunded payments from the individual user. If successfully implemented, the out-of-pocket expense to citizens will not increase.

Additionally, other outstanding efficiencies have been recommended. The Fire Department will eliminate one (1) Payroll Technician position and one (1) Administrative Assistant position, both vacant positions, and create one Staff Technician position that will provide greater functions and necessary activities for the department, with an overall savings of \$48,159. In the area of fire inspections, there has been a pilot project under way using uniformed personnel as Fire Inspection Specialists to provide inspections of City businesses. By eliminating one (1) vacant Assistant Fire Marshall II position (a savings of \$74,609) and replacing that position with an annual pay supplement of \$1,500 for twelve (12) current positions (a cost of \$18,000) to be certified as Fire Inspection Specialist, the City will save a net \$56,609.

The Juvenile Services Department is another area of strong innovation. The Department continues to reorganize positions to operate more efficiently and effectively. Part of the reorganization for FY 2013 focuses on a new Medical Service Contract for Secure Detention for a cost of \$386,580. This new contract will enhance the services provided to the juveniles in the facility and reduce the liability to the City. The funding for this contract would come from the elimination of two (2) filled Registered Nurse positions (\$144,644), and one (1) filled Licensed Practical Nurse position (\$51,499), and the elimination of the current Medical Service Contract (\$47,875) that is found in the Nondepartmental-Contingencies division of the General Fund. While I am reluctant to reduce any filled City position, it has been determined that most affected employees will have the opportunity to work for the contractor if they so desire. Reductions in Medical and Lab supplies, Prescriptions, Professional Health Services, and other healthcare-related items (\$114,613) complete the reductions and offset the cost of the new contract. Other departmental reductions include one (1) Laundry Worker position (\$31,738), one (1) Storekeeper position (\$44,739), one (1) Senior Custodian position (\$33,729), Part-time funding (\$169,845), and other operating expenses (\$228,863). These reductions will also offset funding that has been added to the Juvenile Services budget for a Human Resource Manager position.

With the operation of the South Morrison facility functioning for a year now, we are looking for other opportunities to invest in expanding similar City functions into this central location. In FY 2013, \$75,000 is budgeted for the South Morrison School Work Force Development Center. This will provide funding for a SNAP location, after-school programming for homeless children (those who are identified as living in hotels and other temporary housing), a small library outreach center, as well as an additional site for general work force development programs.

Additionally, after careful consideration, I am recommending that a new position be added to enhance the City's "Green" initiatives. The Public Works Department has created a Sustainability Division, adding one new position (\$46,606) and reclassifying another, which will improve energy efficiencies and enhance environmental causes and address our Sustainability Strategic Priority.

OTHER OPERATING AREAS

Debt Service and Cash Capital

General Fund support for the City's Debt Service will be \$34,630,325 in FY 2013. This figure includes payments for outstanding General Obligation Debt, Airport Debt Service of \$544,204, and a full-year expense for the \$42 million of bonds issued in July 2011. It also reflects the net reduction of \$1.2 million of debt service generated from the bond refunding that took place in early March 2012. The Recommended Budget assumes a General Obligation bond issuance during FY 2013, and includes one additional interest payment in the upcoming fiscal year. When all these elements are combined, this amount is only \$287,083 or 0.8% more than the current fiscal year. Even with a capital project of the magnitude of the Denbigh Community Center (at \$15 million), through prudent cash flow management of bond proceeds we expect to be able to stretch our bond cash for more than a year from the issue date.

Cash Capital, a component of the City's adopted Capital Improvement Plan, is budgeted at \$2,894,246. It is the intention to use funds from the Special Projects Fund to fully fund the total cash requirement of \$6,340,000 to satisfy our Capital Financing and Debt Management Policies requirement of 20% cash capital funding. If all Cash Capital and Special Reserve Funds are used for these types of projects, a total of \$8.9 million will be funded, reaching a 22.7% level of cash capital funding. Cash Capital allows for current operating funds to be used to fund less expensive and more regular capital investments (e.g., roof and HVAC replacements, and capital equipment) to decrease reliance on bond cash for shorter term capital projects.

Community Support and Regional Organizations

My recommended funding for the thirty-two (32) Community Support agencies that are supported by the City is \$2,311,252. The amount for the Regional Organizations that the City is a member or participant of is \$6,193,624. The FY 2013 combined Community Support and Regional Organizations amount is proposed at \$8,504,876. This represents an increase in funding of \$640,821, or 8.2% from FY 2012.

For FY 2013, the approach in formulating the Community Support and Regional Organizations recommendation was to identify opportunities to reduce the total level of grant awards while maintaining level funding for organizations that provide services to our citizens. For a majority of the Community Support agencies, annual reductions have been imposed on

them since FY 2010. Many of these organizations augment City functions, and by reducing them any further, we would stand the chance of losing services that we depend upon that are provided at a reduced cost.

For all Community Support agencies, funding will be equal to the FY 2012 level, with one exception. As per the recently adopted license agreement between the City and the Office of Human Affairs (OHA), OHA will begin paying for utility costs for space occupied in City facilities. The estimated cost for annual utilities is \$40,000 and has been included as part of the OHA Community Support Grant. Revenue from OHA to offset this cost for the utilities payment is reflected in General Fund revenue.

Regional Organizational Agencies are those where most of the City's contributions are based on a contractual agreement on a per capita support level. The Hampton Roads Planning District Commission, recognizing the fiscal stress that its member localities are under, submitted a FY 2013 request that was \$6,923 or 3.5% lower than the current year. No other Regional Agencies offered reductions voluntarily. I reduced the following three agencies by 5% each for a combined savings of \$23,381: Hampton Roads Partnership, Hampton Roads Military and Federal Facilities Alliance, and the Hampton Roads Economic Development Alliance. Funding in the amount of \$27,000 for the Hampton Roads Sports Commission has been eliminated. Payment for part of the Regional Air Service Enhancement Fund (RAISE) in the amount of \$72,288 has been shifted from the General Fund to the Economic Development Authority (EDA). Base support for Thomas Nelson Community College has been reduced by 2.5% or \$5,524 in the upcoming fiscal year.

Funding for Hampton Roads Transit (HRT) has been difficult to determine. At the outset of each year, HRT estimates its costs for the year and generates a budget for each of the participating localities. At year-end closing, HRT provides either a credit or an additional charge to each locality on a prorated basis based on the total cost of operations for the Agency as compared to the amount of the locality funding during the fiscal year. HRT requested \$4,981,812 from the City in FY 2012. This represented an increase of \$343,370 over FY 2011. However, HRT notified the City that it had a \$367,000 credit available to use (pertaining to 2010). In response to this, the City funded HRT at the FY 2011 level of \$4,504,410 in cash and used the available credit to fund the FY 2012 HRT request. The credit was used to keep the funding level flat.

Recently, HRT notified the City of a \$401,207 additional charge pertaining to FY 2011. These monies will need to be paid either in the fourth quarter of FY 2012, or throughout FY 2013. HRT has also requested an FY 2013 budget of \$5,450,640. This represents an increase of \$468,828 or 9.4% over the FY 2012 amount requested.

An efficiency study was conducted by HRT in FY 2011 resulting in some recent route changes which began in January of 2012. HRT uses a cost allocation approach to charge the localities, which mitigates savings or increased costs that a locality may have.

At this point, I have recommended funding of \$5,200,640 in FY 2013, directing that we consider both reducing and eliminating routes that have limited ridership to reduce our overall costs. I have directed staff to work with HRT in the ensuing weeks prior to final budget adoption to return with a plan for FY 2013. However, it has become very clear that regardless of the efficiencies that we desire and the level of funding we provide, there is no assurance that we will avoid a costly year-end reconciliation expense from HRT for operating cost allocation from the other participating localities.

The final expense recommended in Community Support and Regional Agencies is a Contingency amount of \$30,000. While not specifically designated, this amount would allow for four additional weeks of PORT sheltering activities for the homeless during the winter months. Traditionally, this effort has been coordinated through LINK. Food, shelter, and security are provided to these individuals using facilities owned by LINK partners. Bus transportation is also provided by LINK using its vehicles. In FY 2012 City Council approved funding from the City Council Contingency fund for four additional weeks of PORT sheltering provided by LINK.

Additionally, there were a total of five (5) agencies not funded in the current year that solicited support from the City for \$212,450 in requests. Some of these requests were for the restoration of funds eliminated in prior operating budgets and some were new grant requests. I am not recommending any new initiatives in such a challenging budget year that would require reducing funding to existing agencies that continue to provide important ancillary services to our citizens. In addition, I am suspending the program that allows for eligible agencies to request reimbursement for Real Estate Tax or Personal Property Tax payments

made in the preceding fiscal year. I cannot endorse further eroding our revenue base in the current budgetary environment.

RATES AND FEE INCREASES

A balanced budget has only been able to be achieved with some proposed tax and fee increases. While many localities feel that they have no other option than to raise the Real Estate Tax rate, I feel that by maximizing the stronger performing local revenues, we will be able to avoid an increase in that rate for FY 2013. To recap, I am proposing raising the Meals Tax by 1%, the Cigarette Tax by ten (10) cents per pack of 20 cigarettes, and the Personal Property Tax rate by twenty-five (25) cents. Combined, the new revenue generated will be \$5.7 million. With the lower assessment on real estate property, most homeowners will be paying less net taxes in FY 2013 than in the current fiscal year.

For the User Fund fees, there are increases that are unfortunately unavoidable. In the Wastewater and Stormwater Management Funds, these rate increases are driven primarily by the impact of the Consent Order and other environmental regulations. As detailed in the recent presentation to City Council, our requirement to reduce or eliminate sanitary sewer overflows and reduce the flow of pollutants into our waterways will require prompt studies and investment in system improvements. This is a long term and very costly proposition. To address these needs, I am recommending that both rates be increased: on Wastewater from a combined rate of \$2.53 per hundred cubic feet used to \$2.79 and on Stormwater from \$5.45 per ERU monthly to \$7.45 monthly. In the Solid Waste Fund, the \$0.10 per-week increase on the container rate is necessary to cover the cost of operations. These proposed rate changes are shown below:

	FY 2012		FY 2013	
SOLID WASTE USER FEE	Per Week		Per Week	
	<u>Container Size</u>	<u>(each)</u>	<u>Container Size</u>	<u>(each)</u>
	Medium	\$4.52	Medium	\$4.60
	Standard	\$5.65	Standard	\$5.75
STORMWATER MANAGEMENT FEE	\$5.45/ERU		\$7.45/ERU	
SEWER USER FEE - COMBINED RATE				
Rate/100 cubic feet	\$2.53		\$2.79	

I am also recommending that the Water Rates be increased in FY 2013. Waterworks has continued to reduce operating expenses where possible, but these savings do not make up for declining water consumption. The proposed rates are shown below:

Water Consumption Rates per one hundred cubic feet (HCF):

Fee	<u>FY 2012</u>	<u>FY 2013</u>
Single-Family Residential Bimonthly		
R1 Lifeline (0 to 6 HCF)	\$2.89/HCF	\$3.14/HCF
R2 Normal Use (Greater than 6 to 50 HCF)	\$3.32/HCF	\$3.60/HCF
R3 Conservation Tier (Greater than 50 HCF)	\$6.64/HCF	\$7.20/HCF
Industrial Monthly		
I1 Tier 1 (0 to 40,000 HCF)	\$3.32/HCF	\$3.60/HCF
I2 Tier 2 (Greater than 40,000 HCF)	\$2.89/HCF	\$3.14/HCF
General (All Other Consumption)		
G - All other usage	\$3.32/HCF	\$3.60/HCF

Meter Size (Inches)	<u>FY 2012</u>		<u>FY 2013</u>	
	Monthly Charge	Bi-Monthly Charge	Monthly Charge	Bi-Monthly Charge
5/8	\$6.00	\$7.50	\$6.60	\$8.70
3/4	\$7.20	\$9.40	\$7.90	\$10.90
1	\$9.70	\$13.40	\$10.60	\$15.50

The user fee increases are largely unavoidable, as they are driven primarily by regulatory requirements. If I were not confident that every effort had been made to reduce costs where possible, increase operational efficiencies, use reserves of the funds as appropriate, I would not have recommended 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. As you will see, with the average decline in real estate assessments, the typical homeowner will actually have an overall lower tax burden than in the current fiscal year, while retaining the current service level that they enjoy, as well as having the expanded services of the Denbigh Community Center and the 311 Customer Contact Center.

This table is based on the values associated with a household of four, two cars, and an average 2012 real assessment of \$200,000.

	FY 2013 Potential Impact
Real Estate Tax	-\$166.36
Personal Property Tax (Auto)	+\$6.25
Stormwater Fee	+\$24.00
Solid Waste Fee	+\$5.20
Sewer User Fee	+\$23.40
Water Rates	+\$27.96
NET IMPACT ON TYPICAL HOUSEHOLD	-\$79.55

MOVING FORWARD

Looking beyond the next fiscal year, there are many considerations and programs that warrant a more extended review to ascertain trends and opportunities for cost savings.

Over the next several years, the economic conditions that set the parameters of the City's fiscal environment are likely to be characterized by slow growth. Real estate values should stabilize, and cuts from the State should level off as the Commonwealth's income-tax-driven budget gradually improves. However, dynamic revenue increases from either real estate or State programs are unlikely. Local taxes should grow modestly, but any increase to fuel prices will have a dampening effect on any local recovery that may exceed national averages. While we all wish we could know for sure the future path the economy will take, current trends suggest that this community will largely be prepared to manage its fiscal challenges, meet its commitments, and take advantage of opportunities that arise.

Moving forward, we must maintain focus on our Strategic initiatives and use them as a guide in making judgments about where to invest our limited resources. In the FY 2013 recommended budget, there are operating costs for initiatives in such diverse areas as the new Denbigh Community Center (related to the Upper Warwick Boulevard Corridor Initiative), a new 311 Customer Contact Center (in support of our Customer Service strategy), and shared services initiatives and work force

development program expansion (building our Community Development capacity) just to name a few.

While the official scope of our Operational Efficiency Committee is complete, the work is not done. There were many suggestions from the Committee that require us to concentrate on the potential for future efficiencies in our operating budget. Some of these are additional shared services with Hampton, including radio communications services, consolidation of our warehouse functions, and the review of staffing of Boards and Commissions, as well as the necessity of those same entities. One of the most exciting elements resulting by the Efficiency Committee is the endorsement of the Balanced Scorecard process for measuring performance of City functions. We have taken the beginning steps of this process by training employees in the general concept, developing a prototype Balanced Scorecard, asking departments to use the concept to support development of budget requests, and committing City funds to the next steps of this developmental process. As the Balanced Scorecard will be the fundamental tool we use in creating our annual operating budget and capital improvement plan in future years, we will be committing more of our time, effort, and talents to developing this for our City.

CONCLUSION

In summary, I have submitted a balanced budget with a minimum of service delivery reductions. The Recommended Budget includes tax and fee increases necessary to achieve the level of City operations desired by our citizens and/or mandated by higher levels of government. This budget achieves the objectives of funding our pension and health care obligations, increasing funding to Schools, funds limited new initiatives in the midst of declining revenue, and provides a small salary adjustment for our valued employees. These are significant accomplishments, given all of the constraints that we face. I chose to recommend difficult but necessary sustainable reductions that were moderated in impact by adjusting our known revenue streams in a slowly recovering economy.


As challenging as this budget was to develop, it maintains the City's fiscal integrity. In conjunction with our highly successful bond refunding transaction, earlier this month the City's strong long-term ratings were affirmed by both Standard & Poor's Ratings Services (AA) and Moody's

Investors Service (Aa1). Effective financial management and prudent financial policies and practices were identified as strengths of the City.

My staff at all levels and I have worked very hard to develop a budget that is responsive to the current economic climate, while at the same time maintains essential core services for our citizens. I particularly want to acknowledge the staff of the Department of Budget and Evaluation for their diligence during this process.

While this memorandum highlights the budget in general, specific areas of interest will be detailed in Budget Position Papers, which will be delivered to you by April 2. All budget documents will be made available to the public on the City's web site and in all Newport News public libraries. We are also in the process of producing a NNTV program that will be the second in the series on the budget and will discuss much of the information in this memorandum. It will be available to the public in the immediate future.

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.



Neil A. Morgan

NAM:LJC

FY 2013 BUDGET POSITION PAPER

APRIL 2012

RETIREMENT FUNDING - SHIFT IN BUDGET ALLOCATIONS

In FY 2013, a significant change occurred in how Retirement costs for City employees are reflected in the annual operating budget.

The annual pension cost is a fundamental expense, whether through the City's independent pension program or through participation in the Virginia Retirement System (VRS). For that reason, all costs associated with retirement have been moved from the individual departments of the General Fund and consolidated in the Nondepartmental cost center. (Retirement expense funding for all Special Revenue and Trust Funds remains in those Funds.) This shift of expense allows for increased transparency as to the total cost of retirement expenses, an easier year-to-year-comparison moving forward and better fiscal control.

For this reason, the annual comparison of year-to-year activity between FY 2011, FY 2012, and FY 2013 is problematic. In the Table below, the values for FY 2013 are shown adjusted for retirement costs removed from the Department. The far column to the right of the page shows FY 2013 as if it included retirement costs, as in FY 2011 Actual and FY 2012 Revised columns.

FY 2013 General Fund Recommended Operating Budget Departmental Summary

Department	Retirement Costs Included		No Retirement Costs Included FY 2013 Recommended	Variance	Percent	FY 2013 if Retirement Remained in Departments
	FY 2011 Actual	FY 2012 Revised				
City Council	\$292,623	\$318,152	\$282,588	(\$35,564)	(11.2%)	\$329,068
City Clerk	365,637	367,772	326,731	(41,041)	(11.2%)	393,148
Legislative Total:	\$658,260	\$685,924	\$609,319	(\$76,605)	(11.2%)	\$722,216
City Manager	\$1,800,604	\$1,914,669	\$1,717,292	(\$197,377)	(10.3%)	\$2,131,853
Human Resources	1,272,783	1,411,206	1,158,850	(252,356)	(17.9%)	1,470,288
City Attorney	1,652,105	1,755,740	1,546,861	(208,879)	(11.9%)	1,927,623
General Administration Total:	\$4,725,492	\$5,081,615	\$4,423,003	(\$658,612)	(13.0%)	\$5,529,764
Internal Auditor	\$535,363	\$547,910	\$461,278	(\$86,632)	(15.8%)	\$559,849
Commissioner of Revenue	2,668,777	2,792,707	2,386,901	(405,806)	(14.5%)	2,832,847
Real Estate Assessor	1,719,364	1,733,765	1,487,385	(246,380)	(14.2%)	1,785,181
City Treasurer	2,106,085	2,229,735	1,963,808	(265,927)	(11.9%)	2,302,386
Finance	1,257,782	1,282,924	1,087,250	(195,674)	(15.3%)	1,341,894
Budget and Evaluation	695,614	748,071	616,463	(131,608)	(17.6%)	765,070
Purchasing	1,359,786	1,501,303	1,295,509	(205,794)	(13.7%)	1,595,271
Information Technology	8,006,617	8,452,547	7,391,154	(1,061,393)	(12.6%)	8,358,229
General Registrar	421,334	469,204	410,970	(58,234)	(12.4%)	471,749
Financial, Info Tech, and Elections Total:	\$18,770,722	\$19,758,166	\$17,100,718	(\$2,657,448)	(13.4%)	\$20,012,476
Judiciary	\$2,924,802	\$3,025,840	\$2,616,935	(\$408,905)	(13.5%)	\$3,031,692
Judiciary Total:	\$2,924,802	\$3,025,840	\$2,616,935	(\$408,905)	(13.5%)	\$3,031,692
Commonwealth's Attorney	\$3,728,889	\$3,819,422	\$3,278,725	(\$540,697)	(14.2%)	\$4,035,633
Commonwealth's Attorney Total:	\$3,728,889	\$3,819,422	\$3,278,725	(\$540,697)	(14.2%)	\$4,035,633
Police	\$45,524,700	\$47,139,454	\$39,437,659	(\$7,701,795)	(16.3%)	\$47,080,321
Fire	31,644,171	32,965,671	27,652,199	(5,313,472)	(16.1%)	33,057,071
Public Safety Total:	\$77,168,871	\$80,105,125	\$67,089,858	(\$13,015,267)	(16.2%)	\$80,137,392
Sheriff	\$18,798,848	\$19,436,230	\$17,200,949	(\$2,235,281)	(11.5%)	\$19,727,309
Adult Corrections	4,429,358	4,547,119	4,040,880	(506,239)	(11.1%)	4,691,151
Juvenile Services	7,703,527	8,217,145	6,915,951	(1,301,194)	(15.8%)	8,355,279
Corrections and Detention Total:	\$30,931,733	\$32,200,494	\$28,157,780	(\$4,042,714)	(12.6%)	\$32,773,739

FY 2013 General Fund Recommended Operating Budget
Departmental Summary - Continued

Department	Retirement Costs Included		No Retirement Costs Included FY 2013 Recommended	Variance	Percent	FY 2013 if Retirement Remained in Departments
	FY 2011 Actual	FY 2012 Revised				
Codes Compliance	\$2,795,944	\$2,944,800	\$2,530,090	(\$414,710)	(14.1%)	\$3,061,367
Engineering	7,006,207	7,305,495	5,866,434	(1,439,061)	(19.7%)	6,942,877
Inspections and Engineering Total:	\$9,802,151	\$10,250,295	\$8,396,524	(\$1,853,771)	(18.1%)	\$10,004,244
Public Works	\$21,692,958	\$20,685,601	\$18,162,689	(\$2,522,912)	(12.2%)	\$19,898,006
Public Works Total:	\$21,692,958	\$20,685,601	\$18,162,689	(\$2,522,912)	(12.2%)	\$19,898,006
Health	\$1,931,772	\$2,097,835	\$2,045,587	(\$52,248)	(2.5%)	\$2,045,587
Mental Health	1,523,521	1,523,521	1,523,521	0	0.0%	1,523,521
Human Services	41,037,496	43,022,857	31,637,634	(11,385,223)	(26.5%)	36,503,917
Health and Welfare Total:	\$44,492,789	\$46,644,213	\$35,206,742	(\$11,437,471)	(24.5%)	\$40,073,025
Parks and Recreation	\$13,279,016	\$13,176,793	\$12,614,176	(\$562,617)	(4.3%)	\$13,963,034
Libraries and Information Services	5,017,007	5,078,518	4,504,883	(573,635)	(11.3%)	5,175,219
Development	1,599,335	1,606,718	1,426,364	(180,354)	(11.2%)	1,726,497
Planning	1,121,399	1,182,806	935,621	(247,185)	(20.9%)	1,156,971
Customer Service - 311	0		332,508	332,508	0.0%	424,459
Parks, Libraries and Community Development Total:	\$21,016,757	\$21,044,835	\$19,813,552	(\$1,231,283)	(5.9%)	\$22,446,180
Community Support	\$2,248,744	\$2,271,252	\$2,311,252	\$40,000	1.8%	\$2,311,252
Community Support Total:	\$2,248,744	\$2,271,252	\$2,311,252	\$40,000	1.8%	\$2,311,252
Regional Organizational Support	\$5,419,535	\$5,592,803	\$6,193,624	\$600,821	10.7%	\$6,193,624
Regional Support Total:	\$5,419,535	\$5,592,803	\$6,193,624	\$600,821	10.7%	\$6,193,624
Nondepartmental-Contingencies	\$5,307,911	\$6,286,234	\$41,981,582	\$35,695,348	567.8%	\$8,173,060
Nondepartmental Total:	\$5,307,911	\$6,286,234	\$41,981,582	\$35,695,348	567.8%	\$8,173,060
Payments to Other Funds	\$184,324,106	\$157,263,701	\$158,857,697	\$1,593,996	1.0%	\$158,857,697
Payments to Other Funds Total:	\$184,324,106	\$157,263,701	\$158,857,697	\$1,593,996	1.0%	\$158,857,697
<u>General Fund Total</u>	<u>\$433,213,720</u>	<u>\$414,715,520</u>	<u>\$414,200,000</u>	<u>(\$515,520)</u>	<u>(0.1%)</u>	<u>\$414,200,000</u>

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FY 2013 BUDGET POSITION PAPER

APRIL 2012

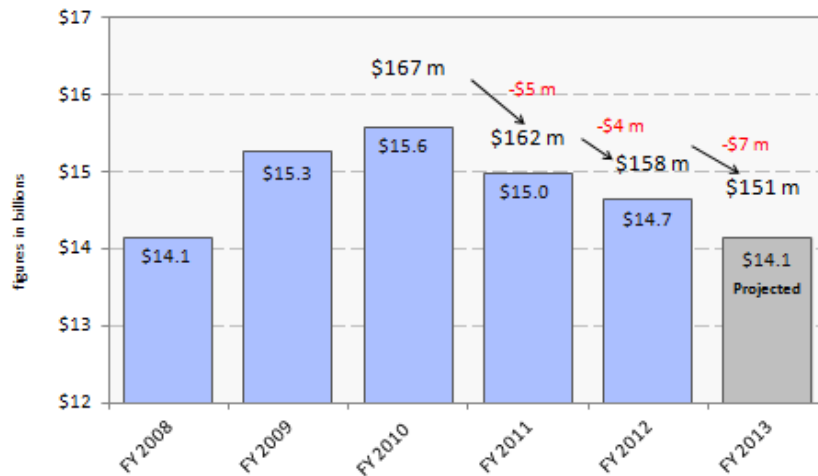
TAXES AND REVENUE GENERATION

Issues

There are many economic and structural factors that determine the amounts of revenue that the City can expect to receive in any fiscal year. Economic variables that drive many of the revenues include short- and long-term interest rates, employment, personal income, consumer confidence, retail sales, housing demands, and most notably over the past few years, fuel prices. Structural determinants include policies and formulas developed by the State to distribute educational, social service, and other funds as well as regulations it places on the establishment and administration of local taxes and fees.

This is all true for a “normal” fiscal year budget development process. Over the past six fiscal years, the national economy could hardly be described as normal. The extraordinary strength of the national and local housing markets that ramped up to late 2008 was reflected in the rapid rise in housing values and the associated increase in single family real estate assessment revenue. When the national recession hit hard and quickly in September 2008, the housing market failure connected with other fiscal conditions, impacting the City’s greatest source of revenue, the Real Estate Tax. Declining real estate values resulted in loss of funds for the City that was further complicated by additional revenue lost from sources that were impacted by job losses and home foreclosures. For fiscal years 2009 to 2012, the real estate levy dropped from \$15.274 billion to \$14.727 billion, or a loss of \$547 million or 3.6% in value. This resulted in a net revenue shortfall of \$16 million in current Real Estate Taxes as the General Fund’s largest single cash source between FY 2010 and proposed FY 2013. The General Property Tax category of revenue in the General Fund includes personal property and machinery and tools taxes, as well as monies generated from real estate taxes. This category of funds represents approximately 55% of the City’s revenue stream annually.

Real Estate Assessed Values



Further complicating a challenging revenue outlook, the City is anticipating additional revenue loss from the State. Reimbursements from the State represent the second largest revenue source to the City and are projected to be lower by approximately \$2 million for the fourth consecutive fiscal year. Despite revenue from other local taxes showing signs of stabilization or moderate growth (e.g., Business, Professional, License taxes and other consumer taxes) it was projected that there would be overall lower funding in FY 2013 to support City operations based on the FY 2012 rate and fee levels. With everything else constant, the City was expected to start the year with roughly a \$13 million gap between revenue and expenses.

Cost increases of \$9 million are anticipated and include the fourth year of the eight-year plan to increase the City contribution to the Pension system, higher health care and vehicle fuel costs, as well as preparing for opening the Denhigh Community Center, and partial-year operation of the 311 Customer Contact Center. Additionally, the FY 2013 Recommended Budget provides a moderate wage increase to employees (of 1.5% in January 2013) and increased local support for Schools, an important expense, given the significant State funding cuts in recent years.

Over the last four years, the City has largely balanced the budget through cost reductions. Nearly 5% of the workforce has been eliminated over the past four years, with an additional net reduction of 11 General Fund positions recommended for the upcoming fiscal year. Operating expenses have been reduced in every department, with more cuts recommended for FY 2013. However, the City is at the point where there are not enough cost decreases available to balance the budget without drastic service reductions. Accordingly, the City Manager is recommending modest and targeted tax increases.

With the real estate market still struggling, the City Manager is not recommending an increase in real estate tax rates. Instead, tax rate increases are recommended in the following areas: personal property, meals, cigarette purchases, and the elimination of the cap on taxes for industrial utility consumption. Ambulance fees are recommended to change to the same level as those of the City of Hampton, to facilitate the automatic mutual aid agreement that is being formulated to address fire and medical responses for citizens along the cities' eight-mile common border.

In response to new Federal and State environmental regulations, certain user fees are also recommended to increase. This is further detailed in a separate Position Paper on User Fees.

Funding Strategy

The proposed rate and fee changes are: raising the Meals Tax by 1%, the Cigarette Tax by ten (10) cents per pack of 20 cigarettes and the Personal Property Tax rate by twenty-five (25) cents. Combined, the new revenue generated will be \$5.7 million. With the lower assessment on real estate property, most homeowners will be paying less net taxes in FY 2013 than in the current fiscal year.

Current Real Estate Taxes

The real estate tax is the single largest source of income to the City providing over 37% of all General Fund revenues. Property values are based on market values established for the 12-month period of October 1, 2010 to September 30, 2011. The anticipated Real Estate Levy as of July 1, 2012 is expected to decline to a level that approximates FY 2008, valued at \$14.1 billion dollars. The average property assessment will decrease by 4.23%, resulting in a lower tax burden to citizens owning real estate.

This loss of real estate tax revenue reinforces the decision City Council made in May 2011 to change the tax abatement to a tax deferral program for elderly citizens. In FY 2012, tax relief through this program cost the City close to \$3 million in lost real estate tax revenue, with full City services provided to those participating in the tax relief program. With a longer view in mind, this cost would have escalated over the next five years substantially, due to the fact that an estimated 40% of the City's population will be considered elderly by 2030. However, as a result of the change, the FY 2013 estimate is only \$2.2 million for the tax deferral program.

Other Local Taxes (Meals, Cigarettes, Personal Property, Utilities)

The limited tax increases recommended are modest and not expected to materially impact citizens.

Personal property taxes represent approximately 10% of the revenue stream for the General Fund. Rates in FY 2013 are recommended to increase from \$4.25 to \$4.50 per \$100 of assessed value. This is expected to generate additional revenue of \$2.4 million. This tax affects all vehicle owners in the City and does not place a disproportionate tax burden on real estate property owners only.

Of the other tax increases recommended, the City's meal tax is recommended to increase from 6.5% to 7.5%, generating additional revenue of \$2.7 million. For perspective, a \$10 meal will cost citizens an additional ten cents in taxes. The City's tobacco tax is recommended to increase by ten cents from \$0.75 cents per pack of 20 cigarettes to \$0.85 cents. This is expected to generate an additional \$600,000 of revenue. Finally, the current \$80 monthly tax cap applied to industry for the consumption of electricity is recommended to be changed. This will allow for the industrial tax cap to be altered thereby incrementally growing this revenue source without excessive impact on any one business. This rate has not been adjusted since 1984. Most surrounding localities either have no cap or a high maximum tax level. Based on monthly kilowatt usage, this is expected to produce an additional \$750,000 in General Fund revenue.

Impact

Overall, the tax and user fee increases recommended are broad-based, not targeting any one specific segment of citizens. Additionally, on average, the combined increases are not expected to exceed the net decrease that homeowners will realize from reduced property assessments. Below is a chart that shows the potential impact on an average homeowner of all the rate and fee changes that the FY 2013 Recommended Budget contains. This table is based on the values associated with a household of four, two cars, and an average 2012 real assessment of \$200,000.

	FY 2013 Potential Impact
Real Estate Tax	-\$166.36
Personal Property Tax (Auto)	+\$6.25
Stormwater Fee	+\$24.00
Solid Waste Fee	+\$5.20
Sewer User Fee	+\$23.40
Water Rates	+\$27.96
NET IMPACT ON TYPICAL HOUSEHOLD	-\$79.55

As the economy begins to improve, real estate taxes should begin to stabilize making the City's fiscal challenges less onerous. Although difficult to recommend, these tax increases contribute to the prudent fiscal policies the City is known for as evidenced by the strong Standard & Poor's Rating (AA) that it receives annually. Finally, these

recommendations allow the City to continue making progress on the Strategic 8 Priorities, ensuring they do not become casualties of a shrinking budget.

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FY 2013 BUDGET POSITION PAPER

APRIL 2012

USER FEE CHANGES AND IMPACTS

Overview

The City was able to achieve a balanced budget for the upcoming fiscal year, after expenditure reductions were taken, and with some proposed fee and rate increases. For the User Fund fees, the rate and fee increases are largely unavoidable. Public Utilities (Waterworks) has continued to reduce operating expenses where possible, but these savings do not close the gap in revenue shortfalls due to declining water consumption. For this reason, a Water Rates increase is recommended in FY 2013. In the Wastewater (sanitary sewer) and Stormwater Management Funds, these rate increases are driven primarily by the impact of the Regional Consent Order and other environmental regulations. As detailed in the recent presentations to City Council, the City's requirement to reduce or eliminate sanitary sewer overflows and reduce the flow of pollutants into the local waterways will require prompt studies and substantial capital investment in system improvements over time. The City has made every effort to reduce costs where possible, increase operational efficiencies, and use the reserves of the funds as appropriate.

Waterworks (Public Utilities)

Background

During the FY 2012 budget process Waterworks presented information on customer demand reductions that have been experienced. This trend has accelerated in the current fiscal year and makes budgeting for FY 2013 more difficult than anticipated. Waterworks' expenses are roughly 90% fixed (that is, they do not vary with water production levels) but approximately 80% of revenues are derived mostly from volumetric charges (that is, based on actual water usage). The FY 2012 Budget achieved important goals of shifting some revenue from volume driven to fixed charges to reduce revenue sensitivity to changes in demand, eliminating the Summer Consumption Rate (SCR), and more equitably restructuring rates. Building on the FY 2012 base, important targets for Waterworks FY 2013 Budget include:

- "True Up" demand expectations and adjust rates accordingly
- Continue to shift revenues incrementally from volumetric to fixed charges
- Eliminate use of reserves to balance budget

- Maintain “austerity” approach to staffing, equipment, and projects

Waterworks’ FY 2013 proposed budget is (\$1,443,000) or (1.7%) lower than the FY 2012 budget. To meet the need for increased revenue to support core operations with declining water demand, a continuation of the innovative water rate structure implemented for the current fiscal year is proposed. Waterworks is recommending a moderate across-the-board increase to all customer class rates and to continue the second year of a multi-year program of raising monthly/bimonthly meter fees for small meter sizes to better reflect American Water Works Association (AWWA) hydraulic capacity ratios and include an adequate “readiness to serve” component. All large meter fees were increased to include “readiness to serve” considerations for the current fiscal year.

This proposed rate structure, associated fee increases, and reductions in the recommended operating budget allow Waterworks to meet all four goals listed above for FY 2013. It continues the past practice of regular, modest incremental increases that are highly favored by financial bond rating agencies, and are considered to be the key to long-term sustainability of an effective municipal water utility. This, combined with a number of other financial practices, has enabled Standard & Poor's Ratings Services to reaffirm its rating of Waterworks revenue-secured bonds outstanding as 'AAA'.

Issues

Demand continues to decline here and around the world due to a combination of:

- Federal regulations that reduce water usage in plumbing fixtures and appliances
- growing environmental/water conservation awareness by customers
- demand elasticity to rising water costs
- economic conditions
- climate change as wetter conditions that reduce outdoor water usage is experienced

Waterworks’ demand is the lowest it has been in 32 years. Demand is roughly the same today as in 1980 (around 37 million gallons per day or mgd) yet population served has increased from 344,000 to 421,000 (up 23%). Over the short-term, large industrial customer reductions have occurred (i.e., Giant refinery closure, and Anheuser Busch water efficiency improvements) causing usage per capita to drop from more than 108 gallons per day in 1980 to 88 gallons per day for all uses in FY 2012. Future demand is projected to drop annually.

For the current fiscal year, water sales are budgeted at 41.8 mgd but current expectations for annual sales are only 37.5 mgd, 10.3% below budget and the lowest level since 1980. Using the current fiscal year’s demand trends as a base, Waterworks’

operating budget for FY 2013 is proposed to decrease from \$82,843,000 for FY 2012 to \$81,400,000, a (\$1,443,000) or (1.7%) reduction. The estimated water sales volume for FY 2013 is 38.0 mgd, a 3.8 mgd reduction from budgeted sales for FY 2012, and close to actual sales expected for the current year. Although Waterworks' actual sales were routinely above 39.0 mgd each of the last twenty years, demand reductions are expected to continue for the near future at an estimated rate of 0.66% per year.

Strategy

Waterworks eliminated 17 positions over the past four years reducing its total personnel count from 381 to 364. Waterworks' staffing has not been this low for more than 20 years. In addition, Waterworks will continue the hiring freeze (approximately 30 equivalent full time positions are being held vacant) through the coming year and will closely monitor vacancies and budget progress throughout the year prior to filling any positions. Waterworks' recommended FY 2013 budget includes funding for the salary increase effective January 1, 2013. Even with the salary adjustment cost, Waterworks salary expenses decreased almost 2.0% due to the full-time position reductions and lower salaries for new hires.

The proposed FY 2013 budget includes substantial increases occurring in retirement (32.3%) and health insurance benefits (10.5%). Due to a refunding and restructuring of previously issued general obligation debt of 1998, 1999 and 2001 with lower interest rates, a savings in FY 2013 debt service will more than offset these fringe increases and was key to an overall budget reduction of \$1.4 million. Other than those noted above, all other expenses show a net increase of \$40,000.

This year Waterworks must "true up" water sales expectations. To forecast next year budget demand, Waterworks the history of the last 10 years actual sales activity coupled with FY 2012 expectations. Past sales data were adjusted to take into account permanent changes that affect the outcome such as the Refinery will not reopen and industry will not return to less water-efficient operations; and other long-term trends will continue. This resulted in a level of 38.0 mgd in water sales expected for FY 2013. To reinforce these results, modeling of other historical data by Waterworks' financial consultant (Raftelis) supported this projection.

Waterworks FY 2013 revenues at existing fees/rates and with demand budgeted at the 38.0 mgd level will not provide revenues sufficient to finance operating expenses or eliminate the current fiscal year's budgeted contribution from reserves of \$1.0 million. Modest across-the-board increases in water rates are recommended for all three customer classes to remedy this. In addition, the second year of a multi-year program of raising fixed bimonthly and monthly service fees for smaller meters (5/8", 3/4" and 1") is recommended to ultimately better reflect cost of service. Larger meters above 1" were brought up to cost of service levels in FY 2012. This process establishes a

reasonable and adequate rate structure and approach that allows maintaining reserves and to avoid major infrastructure failures in the future.

Recommended rates are:

- **Single-family Residential (bimonthly)**
 - R1 – lifeline rate – 0 to 6 HCF \$3.14/HCF
 - R2 – normal use – 6 to 50 HCF \$3.60/HCF
 - R3 – conservation tier – 50+ HCF \$7.20/HCF
- **Industrial (monthly)**
 - I1 – first tier – 0 to 40,000 HCF \$3.60/HCF
 - I2 – second tier – 40,000+ HCF \$3.14/HCF
- **General Rate (mostly monthly)**
 - G – All usage \$3.60/HCF

Waterworks' single family residential customers use an average of 162 gallons per day. For a 60-day, bimonthly billing cycle this equals a billable consumption of 9,900 gallons or just over 13 hcf. Waterworks is keenly aware of the financial constraints facing its customers and continues to emphasize sustainable approaches to minimize rate increase impacts on residents while maintaining reasonable rates for business and industry. Residential customers will experience:

- **Increase fixed meter fee - \$0.60/month**
- **"Lifeline" customers using 6 hcf or 75 gallons per day- \$1.35/month total increase for a new monthly "bill" of \$13.77 for water only**
- **"Average" customers using 13 hcf or 162 gallons per day - \$2.33/month total increase for a new monthly "bill" of \$26.37 for water only**
- **Block 3 continued with increase (>50 hcf or 623 gallons per day) for excessive water use in lieu of SCR**

Despite the FY 2013 rate/fee increases discussed, Waterworks still remains one of the lower cost water utilities in Southeastern Virginia and even with the proposed increases compares favorably to those of most other water and wastewater utilities in the region, state and nation.

Solid Waste Fund

Issues

Overall, the expenses in the Solid Waste Fund are decreasing; however, the cost of operating, maintaining and replacing equipment has risen significantly, thus keeping total costs up. On the revenue side, delinquency rates and non-payment of fees are significant problems.

Funding Strategy

The proposed increase of 10 cents per week will raise the fee for a 90-gallon container from \$5.65 to \$5.75 per week or \$5.20 per year. A focused effort will be made in the upcoming fiscal year to examine methods of minimizing delinquency rates and non-payment of fees.

Impact

The Solid Waste fund increase will provide the necessary funding to maintain current services. The average household with one 90-gallon container will experience an additional cost of \$5.20 per year.

Stormwater Fund

Issues

The Environmental Protection Agency (EPA) is exerting significant pressure on Virginia and other Chesapeake Bay watershed States to convert to much 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

The MS4 is the overall permit issued to Newport News by the State under EPA guidance for stormwater management. The last permit expired in 2006; the City has since been operating on annual extensions, largely because the region and state objected to proposed EPA requirements. A new draft MS4 permit will be issued sometime in 2012. The City has reviewed the draft permit for Fairfax County, VA and recently-issued permit for Washington, D.C. As a result, it is anticipated that many of the

provisions contained within these permits, including increased monitoring, inspection, record keeping, and enforcement will be typical for the permits issued to the Hampton Roads localities. These additional provisions will represent an increased cost of operations to the City.

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). The State and EPA were at odds over this approach for several years, but reached a consensus agreement in December 2010. TMDL agreements will eventually become part of MS4 permits and related regulations. The effort is multi-leveled; by working with the industry, the region, lobbyists, and the City Attorney, the intention is to minimize these impacts to the extent practicable. As with the MS4 requirements, the additional TMDL provisions will represent an increased cost of operations to the City.

Funding Strategy

The Departments of Engineering and Public Works have joint operations for the Stormwater Management Fund. The FY 2013 recommended Stormwater User Fee is \$7.45/ERU, which is a \$2.00 per month increase over the current rate of \$5.45/ERU. The average household cost will increase by \$24.00 per year to \$89.40.

The FY 2013 budget presents the best estimate of the necessary expenses to address the increased tracking and monitoring required by the anticipated MS4 permit including TMDL. The City will continue to evaluate existing and proposed operations to identify opportunities for cost control.

Impact

The Stormwater User Fee increase will provide the necessary funding to appropriately respond to the increasing regulatory requirements anticipated with the new draft MS4 permit. For the average household, there will be an increased cost of \$24.00 annually.

Wastewater Fund

Issues

Traditionally the Sewer User Fee has been based on operational costs, including capital project debt service and regulatory impacts. This year, however, it is necessary to

recommend a rate that is established solely by regulatory guidelines in the City's Special Order by Consent (SOC) with the Department of Environmental Quality (DEQ). The next phase of the SOC requires development of a Rehabilitation Plan for system repairs, upgrades and rehabilitation following the affordability clause of the SOC. The initial estimate for rehabilitation plan costs is \$240,000,000 over the next twenty years.

The DEQ has historically suggested that a sewer system is "affordable" if the annual cost to operate repair and maintain the sewer system does not exceed 1.25% of the locality's Median Household Income. The determination of how much a jurisdiction must invest in the sewer system is known as the Affordability Index (AI). In Hampton Roads, the AI includes costs charged by Hampton Roads Sanitation District (HRSD, a political subdivision of the State). The DEQ has recently indicated that it will set the floor of the AI at 1.5%. It is currently projected that the City's costs will exceed the limits of the AI. This means that the City will be required to set sewer rates at the limit of affordability and complete whatever projects can be accomplished within that limit.

Based on a DEQ required investment of 1.5% of MHI, a rate increase of 70% from the current average annual rate of \$198 per household to an average annual rate of \$332 per household will be required. The combined City and HRSD rate (a rate to be set by HRSD, and not by the City) would increase from \$424 per year to \$721.

Funding Strategy

The recommended Sewer User Fee for FY 2013 is \$2.79 per hundred cubic feet (hcf) of water consumption. (This amount represents the combined rate of the base rate plus the Surcharge rate. Beginning in FY 2013, the base and Surcharge rates will be represented as one unified rate.) This is a 10 percent increase over the existing rate of \$2.53 per hcf. The average increase per household is estimated to be \$1.95 per month or \$23.40 per year.

This will be the first incremental increase required to achieve the required investment of 1.5% MHI.

Impact

The Sewer User Fee increase will provide the necessary funding to begin to appropriately respond to the increasing regulatory requirements being established by the DEQ. The average increase per household is estimated to be \$1.95 per month or \$23.40 per year.

Conclusion

When taken in isolation from other actions in the budget, the user fee increases may be considered hefty. However, when balanced with the savings generated by lower real estate assessments for most homeowners, there are projected to be net savings to most citizens. Below is a chart that shows the potential impact on an average homeowner of all the rate and fee changes that the FY 2013 Recommended Budget contains. This table is based on the values associated with a household of four, two cars, and an average 2012 real estate assessment of \$200,000. With the average decline in real estate assessments, the typical homeowner will actually have an overall lower tax burden than in the current fiscal year.

	FY 2013 Potential Impact
Real Estate Tax	-\$166.36
Personal Property Tax (Auto)	+\$6.25
Stormwater Fee	+\$24.00
Solid Waste Fee	+\$5.20
Sewer User Fee	+\$23.40
Water Rates	+\$27.96
NET IMPACT ON TYPICAL HOUSEHOLD	-\$79.55

FY 2013 BUDGET POSITION PAPER

APRIL 2012

NEW INITIATIVES / PROGRAM CHANGES

Overview

During the development of the Recommended Budget, it was clear that the City would be faced with even more critical fiscal challenges in FY 2013. During a period of the fourth consecutive year of declining revenue, these challenges would include funding the start-up costs for two large projects that will come to be operational in the upcoming fiscal year. While there were necessary program reductions to fit within the smaller revenue picture, there were limited program enhancements. The implementation of program changes are for the most part both innovative and cost saving will have minimal or no impact on services, and addresses aspects of the Strategic 8 Priorities.

New Initiatives

There are two major initiatives that will come to fruition during FY 2013. The first new initiative is the Denbigh Community Center, a \$15 million capital project in the northern district of the City. The 50,000 square-foot building includes classrooms, two full-size gymnasiums, and a teen center and will serve as the flagship in support of the Upper Warwick Boulevard Corridor Strategic Priority. Partial-year funding for positions and initial startup costs are included in the current year budget of \$139,594 to allow for the appropriate outfitting and equipping of this facility. In FY 2013, funding has been added for a full year of operations for the Denbigh Community Center in the Parks, Recreation and Tourism budget in the amount of \$701,661, which includes three (3) new staff positions. This amount encompasses the amount of \$139,594 in the FY 2012 budget. Inclusive of the costs budgeted in the Departments of Public Works and Information Technology, the full cost of operations at the Denbigh Community Center is \$720,829 for FY 2013.

The operation of the 311 Customer Contact Center, anticipated to open in January 2013, is the second new initiative that will be funded in the upcoming fiscal year. Directly supporting the City's Customer Service Strategic Priority, the 311 operation will be housed in space that is available at the Peninsula Health District building. This location is optimal for several reasons. Situated in the center of the City, the space is remote from the current 911 Dispatch Center and can serve as an alternative dispatch site, should the need arise. This building has its own generator and dedicated pump station

and will be able to operate during times of emergency, eventually becoming the Emergency Information Center during crisis events.

This new function will change and improve the way that the City communicates with its customers, with the 311 Customer Contact Center providing a “one-stop-shop” to answer questions and receive citizen concerns and issues. The amount of \$35,519 was included in the FY 2012 budget for partial-year funding of one position. The Recommended Budget includes \$332,508 for this operation, which represents an increase of \$296,989 over FY 2012. This includes funding for six full-time positions and part-time staff (\$304,582). Three positions will be shifted from the Information Technology, Codes Compliance, and Engineering Departments. Vacant positions in these departments were allocated to the 311 Customer Contact Center, as they represent the majority of daily calls to the City in some manner. The remaining funds will be used for overall operating expenses such as Contractual Services, Telecommunications, and Supplies (\$27,926).

Program Changes - Innovations

The Fire Department is in collaboration with the City of Hampton on two shared service programs, with these areas being utilized for savings in both localities in FY 2013. First is the consolidation of Logistic Functions to combine the warehouse functions and personnel of both cities into one site to create efficiencies, reduce personnel, and create savings through bulk purchases. Savings here represents the elimination of one (1) Firefighter position (\$58,280) in a future fiscal year and anticipated bulk purchase savings of (\$23,000) in FY 2013. Second is the Automatic Mutual Aid between the two Fire Departments along the eight-mile common border of Hampton and Newport News to allow the closest available unit (fire or medic) response for calls for service by the public. Three stations in both cities mirror each other along the City line. Once implemented, the mutual aid response time will be reduced for both cities and in time could result in the elimination through attrition of twelve (12) Firefighter positions for an anticipated savings of up to \$700,000. For FY 2013, all positions are retained for both of these programs to allow for the phasing in of operations. Combined, both initiatives could eventually generate savings of \$782,000.

As a companion piece for this mutual aid function to work with seamless fluidity to the citizens, it is recommended that both Hampton and Newport News have uniform Ambulance Fees. That way both localities will receive like payments for the same service, and the citizen will not be charged differing rates.

The Juvenile Services Department is another area of strong innovation. The Department continues to reorganize positions to more efficiently and effectively operate. Part of the reorganization for FY 2013 focuses on a new Medical Service

Contract for Secure Detention at a cost of \$386,580. This new contract will enhance the services provided to the juveniles in the facility and reduce the liability to the City. The funding for this contract would come from the elimination of two (2) filled Registered Nurse positions (\$144,644), and one (1) filled Licensed Practical Nurse position (\$51,499), and the elimination of the current Medical Service Contract (\$47,875) that is found in the Nondepartmental-Contingencies division of the General Fund. The filled City positions being affected by this contract will have the opportunity to work for the contractor if they so desire. Reductions in Medical and Lab supplies, Prescriptions, Professional Health Services, and other health care-related items (\$114,613) complete the reductions and offset the cost of the new contract.

With the operation of the South Morrison facility functioning for a year now, we are looking for other opportunities to invest in expanding similar City functions into this central location. In FY 2013, \$75,000 is budgeted for the South Morrison School Work Force Development Center. This will provide funding for a SNAP location, after-school programs for homeless children (those who are identified as living in hotels and other temporary housing), a small library outreach center, as well as an additional site for general work force development programs.

The Public Works Department has created a Sustainability Division in an effort to enhance the City's "Green" initiatives, by adding one new position (\$46,606) and reclassifying another, which will improve energy efficiencies and enhance environmental causes and address the City's Sustainability Strategic Priority.

Service Impacts

The Bookmobile has been recommended to be eliminated from the Libraries and Information Services Department in FY 2013. Since the beginning of the fiscal year, the Bookmobile vehicle has experienced major mechanical failures and has been patched together to remain operational. The amount of time that it has been off the road has impacted service delivery to its patrons. The initial estimate last year was that the vehicle would function for two more years. That lifespan has been cut in half with the costly repairs that we are now facing. Elimination of this Library function will result in the reduction of one (1) filled Information Services Specialist position and part-time funding, with a savings of \$100,000.

In the Historical Services Fund, one (1) filled Historic Site Curator (\$58,416) position has been recommended for elimination. By this action, tours of the Newsome House will be by appointment or event only. This decision was based on extremely low visitation experienced by the facility.

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FY 2013 BUDGET POSITION PAPER

APRIL 2012

SCHOOLS FUNDING

Overview

The school divisions in Virginia have no taxing authority and are not fiscally independent. Therefore, they must rely on Federal, State, and local governments to fund their Operating Budget requirements. Deciding the level of local support for the City's public school system becomes one of the most significant budgetary policy points in the development and final adoption of the annual Operating Budget.

Issue

In Virginia, a significant portion of local schools revenue is State funding that is received through sales tax revenue apportionments, basic aid to support the Standards of Quality (SOQ), and other incentive-based or categorical revenues approved by the General Assembly during its biennial budget considerations. Under State policy, the local government is required to contribute at least a minimum level of funding that is determined by a Required Local Effort (RLE), which computes the locality's ability to pay for education. The RLE is calculated for Standards of Quality funding, based on March average daily membership (ADM) projections. For FY 2012, the minimum Required Local Effort required by the City of Newport News is \$41,588,948. However, the City actually will contribute \$112,200,000, which includes \$12.4 million in City-supported School Fund debt service. This additional \$70,611,052 in City funding represents the recognition that the State has not fully funded its SOQ obligations and, that even if it did, this amount of State funding would not be sufficient to support the level of educational services desired in this community.

In developing a recommended Operating Budget, the School Superintendent each year must determine new or changed funding the School Division can expect to receive from the State, from Federal Impact Aid, and from other miscellaneous revenue. The difference between the revenue sources and the School's base operating needs, plus additional funding for any new initiatives, becomes the foundation for the request for local funding. In reality, the amount of local funding requested is often tempered by the School Division's understanding of the extent to which the City's General Fund resources may change from one fiscal year to the next.

The process of determining a distribution of existing and new revenues between a locality's School Division and the municipal government becomes a fundamental decision in the annual budget process. In some Virginia localities this is accomplished by agreeing in advance on a funding formula, the complexity of which varies among jurisdictions. In most localities, however, this determination is made annually by the governing body by considering their City Manager's recommendation and the amount of the request made by the elected School Board. In arriving at a distribution decision, the City Manager and governing body evaluates the funding requirements for their municipal operation and weigh these against the financial needs of their School Division.

This would be the normal course of action prior to FY 2009. In early September 2008, the national economy changed course in a downward direction. National trends continue to directly impact State and local revenues to both the City and Schools in a constantly fluctuating manner, resulting in consecutive years of budget reductions made necessary by the ever-declining revenue picture. Rather than discussing the shared revenue growth, the analysis shifted to sharing the impact of lost revenue.

Prior to the 2008 recession, the greatest increase in State funding has come in the first year of the State's biennium budget. In the second year of a biennium budget, it would have been reasonable to project that the Superintendent's Recommended Budget would contain State revenues at least equal to the first year. Beginning in late 2008, reductions in State support have occurred annually, with the school districts sustaining deep reoccurring State revenue cuts. While a certain percentage of the reductions can be directly tied to declining enrollments in the City's school system, other cuts stemmed from the State reducing payments to Schools in order to balance their own revenue shortfalls. From the FY 2009 actual revenue to the FY 2012 adopted budget, Schools revenue from the State has declined \$34.0 million, from \$194.8 million to \$160.8 million. During the budget developmental process, the Governor's submitted revised budget for biennial years FY 2012-2013 again included additional losses for FY 2013 of approximately \$2.2 million.

In past fiscal years, an informal funding formula has been used to estimate the City's Local Share Contribution. In general, new revenue growth was shared between the City and Schools, after the amount was discounted by those General Fund revenue sources restricted for use for specific purposes, such as debt service. (Debt service obligations, whether for School or City projects, must be met before revenues can be legally used for any other purpose, and the funding for these obligations was subtracted from the formula before identifying what is available for discretionary School or municipal spending.)

With annual declining revenue during the recession, no attempt was made to apply a formula in the current fiscal year or for the proposed budget for FY 2013. Early in

budget development process, the City Manager advised the Schools Superintendent of the intention to recommend an increase in funding to Schools. The final amount of the increase is \$1.2 million more in FY 2013 than in FY 2012, or \$113,400,000, or a 1.1% increase. This additional funding from the City to Schools will help to support the increases in employee benefits costs, such pension costs associated with those employees in the City's retirement system, and increase health insurance costs. Other revenue amounts for Newport News Schools are minimally changed in Federal Funds, at \$4,791,582 (\$700,000 more than the current year) and a decrease in other locally generated revenues (tuition, athletic fees, etc.) of \$340,000, bringing the FY 2013 estimate for this source to \$1,605,500.

Funding Strategy

The City's total General Fund revenue for FY 2013 is projected to marginally decrease by \$330,000 or 0.1% from the FY 2012 Adopted Budget. Since FY 2009, General Fund revenues have declined 4.5%. Consequently, there is essentially no discretionary spending in the General Fund.

Below is a chart detailing Schools revenue and expenditure categories for FY 2013, displayed as the School Board Proposed budget. The total amount for the Superintendent's Recommended and School Board Proposed budgets remained the same, with some funding adjustments made by the School Board in the Instructional, Transportation, Operations and Technology categories. The overall revenue change between FY 2013 and FY 2012 reflects projected reductions in State revenue.

						FY 2013			
Revenue Summary Description	FY 2009 Actuals	FY 2010 Actuals	FY 2011 Actuals	FY 2012 Budget	FY 2013	FY 2013	School Board Proposed		Percent of Budget
					Superintendent's Recommended	School Board Proposed	Change from FY 2012 Amount	Percent	
State Revenue	\$194,780,910	\$169,295,642	\$157,186,030	\$160,789,416	\$158,592,707	\$158,592,707	-\$2,196,709	-1.4%	57.0%
City Revenue	113,800,000	113,200,000	109,200,000	112,200,000	113,400,000	113,400,000	\$1,200,000	1.1%	40.7%
Federal Revenue	5,712,064	6,148,526	5,216,293	4,091,582	4,791,582	4,791,582	\$700,000	17.1%	1.7%
Other Local Revenue	2,146,792	2,801,245	2,701,892	1,945,500	1,605,500	1,605,500	-\$340,000	-17.5%	0.6%
Revenue Total	\$316,439,766	\$291,445,413	\$274,304,215	\$279,026,498	\$278,389,789	\$278,389,789	-\$636,709	-0.2%	100.0%

						FY 2013			
Expenditure Summary	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013 Superintendent's	FY 2013		School Board Proposed	
						FY 2013 School Board	Change from FY 2012	Percent	Percent
Description	Actuals	Actuals	Actuals	Budget	Recommended	Proposed	Amount	Percent	of Budget
Instructional Services	\$212,011,965	\$203,767,042	\$189,246,044	\$197,495,696	\$196,300,676	\$196,299,676	-\$1,196,020	-0.6%	70.5%
Attendance, Admin, Health	13,593,624	11,932,630	11,306,766	12,096,014	12,462,708	12,462,708	\$366,694	3.0%	4.5%
Transportation	18,609,965	17,053,332	17,003,856	18,412,158	18,423,608	18,475,164	\$63,006	0.3%	6.6%
Operations	31,988,123	30,898,588	30,207,433	27,252,087	27,458,627	27,456,341	\$204,254	0.7%	9.9%
Facilities	6,125,996	889,979	1,779,130	477,500	477,500	477,500	\$0	0.0%	0.2%
Debt Service, Fund Transfer	14,692,786	13,634,073	13,182,902	13,144,158	12,557,736	12,557,736	-\$586,422	-4.5%	4.5%
Technology	19,417,306	13,269,770	11,578,083	10,148,885	10,708,934	10,660,664	\$511,779	5.0%	3.8%
Expenditure Total	\$316,439,765	\$291,445,414	\$274,304,214	\$279,026,498	\$278,389,789	\$278,389,789	-\$636,709	-0.2%	100.0%

Impact

The City Manager's Recommended FY 2013 City Operating Budget provides for \$1.2 million more than the FY 2012 level for Schools. The total FY 2013 Local Support for Schools is proposed at \$113,400,000. At the time of the final preparation of the City Manager's recommended budget, the Governor's Proposed biennial included a reduction in School funding of \$2,196,709. Once a final State budget is adopted, any funding changes from that source will be incorporated in the final budget slated to be adopted in May 2012.

FY 2013 BUDGET POSITION PAPER

APRIL 2012

EMPLOYEE COMPENSATION AND POSITION CLASSIFICATION

Annual Salary Adjustment

In the City's annual operating budget, the largest portion of funds is dedicated to salaries and fringe benefits, as it takes employees to deliver services to citizens. For FY 2013, this cost is approximately \$182.5 million or 44% of the Recommended Budget. During difficult financial conditions, employee compensation and benefits are areas where localities look to reduce or eliminate costs. This is evidenced by actions in some of the neighboring localities and in other areas throughout the nation. From FY 2009 to FY 2012, through attrition and a hiring freeze, the City was able to avoid massive layoffs, furloughs, salary reductions, and costly early retirement buy-out programs.

The last annual pay adjustment provided to regular full-time employees, effective July 1, 2011, granted a 2% general wage adjustment. This was the first salary adjustment that employees received in a 36-month period, or since July 1, 2008. In July 2010, a one-time payment of \$500 was provided to regular full-time employees hired prior to December 31, 2009, in recognition for continuing to provide efficient and effective services, both to citizens and to internal clients during this time of economic stress. It also was intended to help offset a rise in the employees' portion of health insurance premiums.

From FY 2009 to FY 2013 inclusive, 273 positions have been eliminated or are recommended to be cut from the operating budget. This represents a reduction in positions of almost 5%. At the same time there have been reductions in Part Time and Temporary staffing funds. While there have been some positions added to the complement, new position additions were limited in scope or were necessary for full operation of a facility (e.g., 12 positions were added for the opening of the Brentwood Fire Station in FY 2012). Ultimately, these personnel cuts required the remaining employees to perform additional duties with no increased compensation.

Departmental organizational restructuring has been encouraged throughout the City to accommodate the shifting of the workload. The City's employees have worked diligently in support of the organization's mission and goals despite the professional and personal challenges all have experienced in dealing with a troubling economy. The City's workforce has remained highly competent and motivated to provide efficient and effective services to citizens on a daily basis.

In recognition of the effort of employees to carry on the mission despite the challenges of reduced resources and greater personal workload and stresses, it is recommended that effective January 1, 2013, all regular full-time employees, including Constitutional Officers and Appointed Officials, receive a general wage adjustment of 1.5%. The General Fund expenditure budget increase for salaries in FY 2013 is \$1 million. All other operating funds (user fee and special operating funds) also incorporated a 1.5% January 1, 2013 salary increase for the upcoming fiscal year.

Compensation Study

While there are continuing economic challenges, it is important to address employee compensation to remain competitive in the marketplace, within the fiscal constraints of the City's budget. As a result, during FY 2012 the City contracted with the Archer Company, an outside consultant, to provide an objective review of the City's classification and compensation plan. The overall goal of the study is to ensure that there is internal equity and ensure the City is competitive in the marketplace for attracting and retaining qualified employees. The recommended implementation of the study's findings and the resulting cost will be a phased approach over multiple fiscal years, starting with FY 2013, as funding allows.

Reclassifying Positions

In order to accommodate the reductions in the workforce, departmental organizational restructuring continues to occur throughout the City to manage the workload and maintain existing service levels. The position classification of an individual is a means of evaluating a filled or vacant allotment to ensure the assigned duties and responsibilities are properly graded and grouped with similar level positions across the City.

For the FY 2013 budget, a proactive approach was taken and potential position reclassification changes were solicited from departments during the budget preparation process as a result of this restructuring. Potential pay grade changes to positions as a result of increased responsibilities were identified early in the process, enabling the Human Resources Department to review requests, and the Budget and Evaluation Department to calculate the cost of the potential changes. On an ongoing basis, operating departments will review positions to determine if efficiency and productivity can be gained through position reclassifications. As a result, \$153,681 has been budgeted in the General Fund Nondepartmental cost center to allow for the change in the value of positions as reclassifications are completed, and that may occur during the fiscal year. This pool is to be used in the event that the increased salary and fringe benefit costs could not be absorbed by the position's operating department.

Pension Contributions

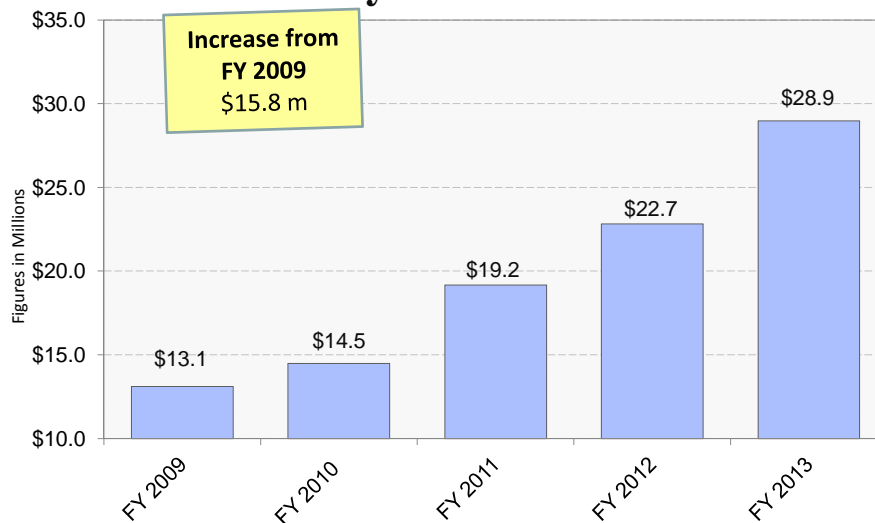
Consolidation of Pension Costs

In FY 2013, a significant change occurred in the representation of Retirement costs for City employees in the annual operating budget document. The annual pension cost is a fundamental expense, whether through the City's independent pension program or through participation in the Virginia Retirement System (VRS). For that reason, all costs associated with retirement have been moved from the individual departments of the General Fund and consolidated in the Nondepartmental cost center. (Retirement expense funding for all Special Revenue and Trust Funds remains in those Funds.) This shift of expense allows for increased transparency as to the total cost of retirement expenses, an easier year-to-year comparison moving forward and better fiscal control. For this reason, the annual comparison of year-to-year activity between FY 2011, FY 2012, and FY 2013 is problematic. In the Recommended Budget, in the numeric detail of the budget, the values for FY 2013 are shown adjusted for retirement costs removed from the Department. On page 46 of the document, under the blue tab *Expenditures*, the table shown displays the comparison of the departmental budget history, with and without the retirement costs associated with them. The far column to the right of the page shows FY 2013 as if it included retirement costs, as in FY 2011 Actual and FY 2012 Revised columns. This same table is found at the beginning of this series of Position Papers.

FY 2013 Pension Contributions

The City is firmly committed to an eight-year obligation to incrementally increase its contribution to the Newport News Employees Retirement Fund (NNERF) Annual Required Contribution (ARC) to the Pension Fund. FY 2013 will be the fourth year in this process. This is a fundamental expense of the operating budget and the recommended budget includes a substantial increase in our annual and sustainable contribution to the pension system. The annual contribution is recommended to increase from \$22.7 million to \$28.9 million City-wide, representing \$6.2 million in additional funding. This amount is consistent with the City's plan to completely restore the actuarial position of the pension fund over time. The recommended amount brings the contribution up to 65% of the ARC from 59% in the current year.

Pension City-wide Costs



In addition to the (NNERF) system, the City also participates as a member of the Virginia Retirement System (VRS). The City fully funds the annual VRS contribution for those employees hired or rehired after March 1, 2010 or who elected to shift from the City's pension system. As more of the work force participates in VRS, so grows the annual contribution. This fact, plus the change in the VRS actuarial assumptions for the upcoming fiscal year, increased the General Fund payment from \$1.5 million to \$2.8 million.

As the Recommended Budget was readied for distribution, the State General Assembly concluded its regular session without an adopted budget, causing significant uncertainty as to the impact of the State funding to localities in the near future. Most distressing of all is the late-breaking adoption of a conferee bill that requires employees of localities enrolled in the Virginia Retirement System (VRS) to pay a 5% contribution toward retirement and stipulates that those same employees receive a salary adjustment of 5% to offset the cost. This new State mandate comes at a time when a majority of localities are nearly complete with their budget processes. In addition, it does not recognize the innate inequity in employee salaries that it would create in localities such as ours that maintain both a local retirement system, as well as participation in VRS. Depending on what action the General Assembly takes in this matter in coming days, it may be necessary to adjust the budget to reflect this new mandate.

FY 2013 BUDGET POSITION PAPER

APRIL 2012

POSITIONS: ELIMINATED, TRANSFERRED, AND NEW

Overview

FY 2013 is the fourth consecutive year of reduced revenue from two of the City's largest revenue sources, Real Estate taxes and State revenue to localities. The City's Real Estate Assessed Valuations fell by nearly \$600 million from FY 2012 to FY 2013. This drop in valuations will result in a loss of more than \$7.2 million in revenue to the City. This reduction, coupled with necessary increases in funding to retirement and health care resulted in the need for significant budget reductions. Consequently, one of the City Manager's FY 2013 budget process directives to departments was to review their current staffing levels and structure with the intent of reducing personnel costs. Wherever practicable, greater use of part-time, temporary and contractual employees, job sharing and overtime was encouraged to save funds. Since the City has been under a partial hiring freeze for all of FY 2012, all vacant positions were scrutinized for elimination during the budget process and attrition credits were again utilized to achieve savings (an attrition credit reduces a department's budget for salaries and fringe benefits based on an anticipated lag time between an employee termination and when a new employee is hired). Minimizing layoffs was another objective.

Issues

Position Reductions

To offset the overall reduced General Fund revenue and coupled with necessary increases (to retirement, healthcare, as well as funding an additional \$1.2 million to Newport News Public Schools), the City Manager found it necessary cut over \$7 million from the City's General Fund expenditures. Personnel costs make up nearly 44% of City's General Fund overall budget. To achieve the required significant cost savings, reductions in personnel were unavoidable. In total, 21 positions are recommended for elimination from the General Fund with an additional two positions being transferred to other user fee-supported funds. Unfortunately, 11 of the 21 positions slated for elimination are filled with current City employees; the 10 remaining positions are vacant. In the user fee-supported funds, one filled position and one vacant position are also recommended for elimination bringing the total number of eliminated positions to 23. Table One below details, by department and position, specific changes made to the General Fund staffing for FY 2013. Regrettably, Personnel reductions are not new to the City. Over the past four fiscal years the City has reduced full-time staff by more than

200 positions with a net reduction of 138 after appropriately adding positions for strategic initiatives such as the new Brentwood Fire Station.

In accordance with City policy, the City Manager will announce a Reduction-In-Force (RIF) immediately after the FY 2013 budget is adopted by City Council. The process of implementing the RIF with respect to occupied positions will require coordinated activities between department heads and the Department of Human Resources. The Department of Human Resources staff will work with affected employees to determine if they can be placed in a vacant position in the City for which they are qualified. In situations where such a placement is unsuccessful, the Human Resources Department will offer additional placement services such as resume' writing assistance and employment counseling.

Public Safety Issues

A special situation exists in the Fire Department for FY 2013. The Manager is recommending instituting an automatic mutual aid agreement with the City of Hampton. As a part of this shared service, the agreement will dispatch the closest appropriate Fire/Medical unit to the party in need without regard to city of residence. Stations for both cities situated along the eight-mile common border will travel between cities as needed. As a result, the Newport News Fire Department will be able to eliminate 12 positions in time, once the dispatch system and response areas are fully implemented. For FY 2013, the Department has not eliminated any allotments for any sworn positions in anticipation of the plan coming to successful fruition during the year. After some time and experience with the new agreement, the Department plans to eliminate the allotments for the 12 firefighter/medic positions in the future.

New Positions in the General Fund

Given the financial challenges for FY 2013, the adding of new positions was limited and very specific in nature. Positions added were generally designed to meet the demands of State-required initiatives, the needs of City Council's Strategic 8 Priorities, or were public safety related. Positions were added at minimal expense.

In the Juvenile Services Department a position is being established primarily to prepare policies and procedures and manage the State's expansive juvenile facility regulations including audits, investigations and the new Prison Rape Elimination Act (PREA) requirements.

As Customer Service is an important aspect of the City and one of City Council's Strategic initiatives, the City Manager is recommending the establishment of six new positions to operate the City's new 311 Customer Service Contact Center. The 311 operation will be housed in available space in the Peninsula Health District building and will change the way that the City communicates with our customers. The 311 Contact Center will provide a "one-stop-shop" to answer questions and receive citizen

concerns and issues. The six positions are offset by reductions of staff support positions in the Engineering and Codes Compliance departments. A 311 Manager position that was originally established in Information Technology for FY 2012 but not yet filled will be shifted to the new 311 Customer Contact Center department. These three positions were eliminated from the respective department's budget for FY 2013 as indicated in Table One below.

Another new position that coincides with this initiative described above is the establishment of a Systems Administrator II in the Information Technology Department. This position will oversee the system database administration of the City's 911 communications system and the new 311 Customer Contact Center. This will further enhance City Council's Customer Service Strategic initiative.

Another City Council Strategic initiative addressed with a new position is that of Sustainability. The Department of Public Works will establish a Sustainability Division in the General Fund, including a new Sustainability Manager to oversee the City's "Green" and sustainability management.

The final department that is being recommended to add General Fund positions is Parks, Recreation and Tourism. With the completion of the Denbigh Community Center scheduled for the summer of 2012, funding is being established for three, new, full-time positions. A fourth full-time position for the Community Center was previously established in the department and partially funded for FY 2012, and will be shifted to the Center in FY 2013.

Positions in Other Funds

As stated earlier, two positions are being recommended for elimination in Other Funds. Table Two below details, by department and position, specific changes made to all other funds (other than General Fund) for FY 2013. There are a total of three new positions being recommended to be added in Other Funds and two additional positions that will be transferred in from the General Fund. The two positions being transferred from the General Fund are Senior Construction Inspectors, with both moving from the Department of Engineering. One will transfer to the Stormwater Fund and the other to the Wastewater Fund, which will better reflect proper funding allocation for the work now being performed by these positions. Two new positions will be established in Stormwater. An Environmental Inspector and an Environmental Specialist will provide necessary work required by the new and stringent Environmental Protection Agency regulations. In Wastewater, a new Wastewater Inspector will be established to help oversee and manage the Fats, Oils and Grease (FOG) program mandated by the Department of Environmental Quality's Regional Consent Order.

Impact

Even with the addition of a number of positions in support of strategic initiatives or state regulations, the total allotments (positions) in the General Fund are recommended to be reduced from 2,602 to 2,591. In addition, Attrition Credits will increase in most departments saving additional funds. Table Three below details Attrition Credits from the Adopted FY 2009 to FY 2013 Recommended Budget.

TABLE 1

FY 2013 General Fund Position Changes

	Eliminated	Transferred	Added
Human Resources			
Human Resources Specialist	-1		
Information Technology			
311 Manager	-1		
Systems Administrator II			1
Clerk of Courts			
Deputy Clerk I	-1		
Fire			
Administrative Assistant II	-1		
Assistant Fire Marshall	-1		
Adult Corrections			
Equipment Operator A	-1		
Juvenile Services			
Registered Nurse	-2		
Licensed Practical Nurse	-1		
Laundry Worker	-1		
Store Keeper	-1		
Senior Custodian	-1		
Accreditation Manager			1
Codes Compliance			
Administrative Assistant II	-1		
Engineering			
Architect III	-1		
Survey Technician	-2		
Administrative Assistant II	-1		
Senior Construction Inspector		-2	
Public Works			
Electronic Technician	-1		
Maintenance Specialist	-1		
Sustainability Manager			1
Parks, Recreation and Tourism			
Administrator - Financial Services	-1		
Recreation Program Supervisor			1
Recreation Center Supervisor			1
Staff Technician			1
Libraries			
Senior Information Services Specialist	-1		
311 Customer Service Center			
Contact Center Manager			1
Information Manager			1
Call Takers			4
TOTAL	-21	-2	12

TABLE 2

FY 2013 Other Fund Position Changes

	Eliminated	Transferred	Added
Historical Services Fund			
Historic Site Curator	-1		
Stormwater Fund			
Senior Construction Inspector		1	
Environmental Inspector			1
Environmental Specialist			1
Wastewater Fund			
Senior Construction Inspector		1	
Wastewater Inspector			1
Vehicle and Equipment Services			
Operations Manager	-1		
TOTAL	-2	2	3

TABLE 3

General Fund Attrition Credits

DEPARTMENT ¹	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Police	\$660,000	\$688,642	\$0 ²	\$750,000	\$1,000,000	\$1,350,000
Juvenile Services	\$340,000	\$340,000	\$336,856	\$271,956	\$271,956	\$291,956
Public Works		\$200,000	\$0 ³		\$350,000	\$350,000
Fire		\$375,282	\$560,062	\$630,000	\$830,000	\$500,000
Parks, Recreation and Tourism		\$367,092	\$382,029	\$515,000	\$654,594	\$600,000
Human Services		\$611,820	\$661,014	\$1,547,418	\$1,800,000	\$2,400,000
Commonwealth's Attorney			\$79,056	\$63,825	\$70,000	\$73,000
Sheriff				\$89,600	\$179,200	\$344,200
Libraries				\$50,000	\$50,000	\$50,000
Engineering					\$50,000	\$50,000
Nondepartmental					\$200,000	\$200,000
Total GF Attrition Credit	\$1,000,000	\$2,582,836	\$2,019,017	\$3,917,799	\$5,455,750	\$6,209,156
Other Operating Funds				\$2,247,600	\$3,077,600	\$2,982,600
Citywide Attrition Credit	\$1,000,000	\$2,582,836	\$2,019,017	\$6,165,399	\$8,533,350	\$9,191,756

Notes:

¹The attrition amount includes a value for an estimated number of vacancies, which may vary annually. The amount also includes the cost of fringe benefits. The retirement rate changes for each fiscal year and in part, accounts for the amount difference between fiscal years.

²Police Department Attrition Credit eliminated in FY 2010. Twelve (12) Police Officer positions were frozen/suspended to allow for application of Federal Stimulus Package funding.

³Public Works Attrition Credit eliminated in FY 2010 due to adding ten (10) frozen/suspended positions.

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FY 2013 BUDGET POSITION PAPER

APRIL 2012

COMMUNITY SUPPORT FUNDING RECOMMENDATIONS

Overview

Not-for-profit organizations fill an important role in improving quality of life by providing vital services to residents of Newport News. The Community Support Action Grant (CSAG) program provides the vehicle for qualified, non-profit organizations to apply for funding from the City for the establishment, expansion or maintenance of community service programs.

Within the Community Support category, the Operating Budget distinguishes between discretionary grant funding for Community Support Agencies and contributions the City makes to support the efforts of Regional Organizations.

For a *Community Support Agency* to receive a grant award, it must submit an application and meet the following criteria:

- The agency must be a not-for-profit, 501 (c)(3) organization meeting the legal requirements of the Commonwealth of Virginia, the Internal Revenue Service (IRS), and the City of Newport News.
- The agency must provide significant, measurable direct services to residents of Newport News.
- The agency cannot receive grants from other City resources for the same program for which Community Support funding is requested.

A *Regional Organization* is one in which the City is either a member of or a participant in. Funding is typically based on either a per capita rate or an existing contractual agreement. This category includes a broad range of organizations and represents the majority of funding within Community Support.

Issues

The City Manager has recommended FY 2013 Community Support funding of \$8,504,876. This is an increase of \$640,821 over FY 2012. The funding is comprised of \$2,311,252 for Community Support Agencies and \$6,193,624 for Regional Organizations. The categories have increased by \$40,000 and \$600,821, respectively. The most

significant increase pertains to Hampton Roads Transit (HRT), a Regional Organization, which is recommended for a \$696,230 increase.

FY 2013 funding requested by all Community Support Agencies and Regional Organizations was \$9,711,365, representing a \$1,847,310 increase over FY 2012, if fully funded.

Funding Strategy

Community Support

The City Manager is recommending that all existing Community Support Agencies be funded at FY 2012 levels, except for the Office of Human Affairs (OHA), which is recommended for a \$40,000 increase.

In January 2012, a License and Lease Agreement was arranged between OHA and the City, at City Council's direction, to formalize the leasing arrangement at four City owned properties in which OHA occupies space. These Agreements included the requirement that OHA reimburse the City for its share of utilities at these facilities beginning in FY 2013. The annual utility cost is estimated to be \$40,000. In exchange, the City increased its Community Support funding to OHA by \$40,000. This serves to provide incentive for OHA staff to manage their utility usage consistent with City operations, by allowing OHA to retain any city funding that represents utility savings. At the same time, OHA will be responsible for any utility costs that are over this additional \$40,000 funding, and must reimburse the City in full for those costs.

Five new Community Support Agencies applied for CSAG grant monies, with total new funding of \$212,450. All were considered eligible by the City Attorney's Office, except for one agency. The City Manager is recommending that no new agencies receive funding in FY 2013 given the City's difficult budget environment. New agencies were not funded in FY 2012.

In addition, during FY 2012, the City Manager suspended the City's program that allows for eligible agencies to request reimbursement for Real Estate Tax or Personal Property Tax payments made in the preceding fiscal year.

Regional Organizations

As noted previously, the majority of Regional Organizations base their annual funding request on either a rate per capita or on a contractual arrangement. Most of the Regional Organizations partner with the localities in joint efforts for betterment of the Hampton Roads area on several different levels. As partner agencies, impact of the national recession on the local governments should be readily recognized by the Regional Organizations. The Hampton Roads Planning District Commission (HRPDC),

recognizing the fiscal stress that its member localities are under, submitted a FY 2013 request that was \$6,923 or 3.5% lower than the current year. No other Regional Agencies voluntarily offered reductions to their FY 2013 request.

Three Regional Organizations are recommended for a 5% reduction in funding: the Hampton Roads Economic Development Alliance, the Hampton Roads Military and Federal Facilities Alliance, and the Hampton Roads Partnership, for a total reduction of \$23,381.

A 2.5% reduction is recommended for Thomas Nelson Community College's capital improvement request, which is a reduction of \$5,524 from the FY 2012 funding of \$220,962. However, Thomas Nelson's Workforce Development request is recommended to receive level funding at the current year's amount of \$94,247.

The Hampton Roads Sports Commission will not be funded beginning in FY 2013. This represents a reduction of \$27,000.

The General Fund support to Regional Air Service Enhancement Fund (RAISE) is recommended to be reduced by \$72,288; this amount will be provided by the Economic Development Authority (EDA) beginning in FY 2013. RAISE also requested a \$313 reduction, which is reflected in the City Manager's recommended amount.

Hampton Roads Transit (HRT) has requested an FY 2013 increase of \$469,000 more than was requested in FY 2012. This represents a 9.4 percent increase. In FY 2012, the City funded HRT at \$477,000 lower than what HRT had requested. This was due in part to the City applying a \$366,000 FY 2010 credit towards its FY 2012 obligation. With a higher FY 2013 base amount and no previous year credit to apply to the upcoming year, these factors result in a \$946,000 increase from FY 2012 HRT funding levels. The City Manager is recommending an increase of \$696,230, with total HRT funding recommended at \$5,200,640.

Also contained within the Community Support funding is a contingency amount of \$30,000. While not specifically designated, this amount is available to fund any eligible agency, based on City Council's approval.

The Table on the following pages details the FY 2013 CSAG award requests and recommendations, as well as the approved FY 2012 CSAG award amounts.

FY 2013 COMMUNITY SUPPORT REQUESTS

NO.		FY 2012 Budget	FY 2013 Requested	Amount Difference	Percentage Difference	FY 2013 Mgr Recommended	Amount Difference	Percentage Difference
CULTURE AND TOURISM								
1	Newport News Arts Commission	\$154,879	\$273,696	\$118,817	76.7%	\$154,879	\$0	0.0%
2	Newport News Public Art Foundation	43,733	55,000	11,267	25.8%	\$43,733	0	0.0%
3	Peninsula Fine Arts Center	84,230	115,000	30,770	36.5%	\$84,230	0	0.0%
4	Sister Cities	34,943	40,000	5,057	14.5%	\$34,943	0	0.0%
5	Virginia Arts Festival	66,263	70,000	3,737	5.6%	\$66,263	0	0.0%
6	Virginia Living Museum	528,007	875,000	346,993	65.7%	\$528,007	0	0.0%
HEALTH/EMERGENCY SERVICES								
7	American Red Cross	\$20,000	\$20,000	\$0	0.0%	\$20,000	\$0	0.0%
8	Denbigh House/Community Futures Foundation	31,000	31,000	0	0.0%	\$31,000	0	0.0%
INDIGENT SERVICES								
9	Center for Child and Family Services	\$18,500	\$20,000	\$1,500	8.1%	\$18,500	\$0	0.0%
10	Foodbank of Hampton Roads	75,000	75,000	0	0.0%	\$75,000	0	0.0%
11	LINK of Hampton Roads	75,000	75,000	0	0.0%	\$75,000	0	0.0%
MILITARY SERVICES								
12	USO of Hampton Roads	\$8,685	\$10,000	\$1,315	15.1%	\$8,685	\$0	0.0%
13	USS Newport News	8,685	10,000	1,315	15.1%	\$8,685	0	0.0%
MISCELLANEOUS SERVICES								
14	Adult Drug Court - HNNCSB	\$64,370	\$64,370	\$0	0.0%	\$64,370	\$0	0.0%
15	Insight Enterprises	26,439	26,439	0	0.0%	\$26,439	0	0.0%
16	Office of Human Affairs - OHA	110,000	150,000	40,000	36.4%	\$150,000	40,000	36.4%
17	Newport News Neighborhood Watch Coalition	18,101	20,500	2,399	13.3%	\$18,101	0	0.0%
18	Peninsula Literacy Council, Inc. (Peninsula READS)	21,469	21,469	0	0.0%	\$21,469	0	0.0%
19	Smart Beginnings (formerly Preschool Partners)	23,855	30,000	6,145	25.8%	\$23,855	0	0.0%
SENIOR SERVICES								
20	Peninsula Agency on Aging	\$52,800	\$52,800	\$0	0.0%	\$52,800	\$0	0.0%
21	Peninsula Foster Grandparents	20,000	20,000	0	0.0%	\$20,000	0	0.0%
22	RSVP - The Retired Senior Volunteer Program	7,000	7,000	0	0.0%	\$7,000	0	0.0%

NO.	FY 2012 Budget	FY 2013 Requested	Amount Difference	Percentage Difference	FY 2013 Mgr Recommended	Amount Difference	Percentage Difference
VICTIM SERVICES							
23	\$78,000	\$78,000	\$0	0.0%	\$78,000	\$0	0.0%
24	33,000	35,000	2,000	6.1%	\$33,000	0	0.0%
25	9,000	9,000	0	0.0%	\$9,000	0	0.0%
26	63,363	90,000	26,637	42.0%	\$63,363	0	0.0%
YOUTH EDUCATION							
27	\$88,350	\$100,000	\$11,650	13.2%	\$88,350	\$0	0.0%
YOUTH PROGRAMS							
28	\$164,285	\$164,285	\$0	0.0%	\$164,285	\$0	0.0%
29	292,640	292,640	0	0.0%	\$292,640	0	0.0%
30a	YMCA - Peninsula Metropolitan YMCA (Capital) ¹	0	(10,000)	(100.0%)	\$0	(10,000)	(100.0%)
30b	YMCA - Peninsula Metropolitan YMCA (Operating) ¹	0	10,000	100.0%	\$10,000	10,000	100.0%
31	YWCA Virginia Peninsula	55,000	15,345	38.7%	\$39,655	0	0.0%
NEW APPLICATIONS							
32	First Community Center (Not Eligible) ²	\$0	\$48,000	100.0%	\$0	\$0	0.0%
33	EVMS-Eastern Virginia Medical School	0	24,450	100.0%	0	0	0.0%
34	Soundscapes, Inc.	0	125,000	100.0%	0	0	0.0%
35	Center for Sexual Assault Survivors	0	5,000	100.0%	0	0	0.0%
36	Park Place School	0	10,000	100.0%	0	0	0.0%
Community Support Sub-Total		\$2,271,252	\$837,397	36.9%	\$2,311,252	\$40,000	1.8%

NO.	FY 2012 Budget	FY 2013 Requested	Amount Difference	Percentage Difference	FY 2013 Mgr Recommended	Amount Difference	Percentage Difference
REGIONAL EFFORTS							
1	\$0	\$0	\$0	0.0%	\$0	\$0	0.0%
2	170,195	171,683	1,488	0.9%	161,685	(8,510)	(5.0%)
3	81,828	90,360	8,532	10.4%	77,737	(4,091)	(5.0%)
4	15,210	15,210	0	0.0%	14,450	(760)	(5.0%)
5	148,600	144,575	(4,025)	(2.7%)	144,575	(4,025)	(2.7%)
6	6,183	5,783	(400)	(6.5%)	5,783	(400)	(6.5%)
7	38,642	36,144	(2,498)	(6.5%)	36,144	(2,498)	(6.5%)
8	27,000	27,000	0	0.0%	0	(27,000)	(100.0%)
9	4,204,026	5,185,102	981,076	23.3%	4,935,102	731,076	17.4%
10	300,384	265,538	(34,846)	(11.6%)	265,538	(34,846)	(11.6%)
11	92,775	92,775	0	0.0%	92,775	0	0.0%
12	108,744	108,431	(313)	(0.3%)	36,143	(72,601)	(66.8%)
13	41,657	41,657	0	0.0%	41,657	0	0.0%
14	94,247	94,870	623	0.7%	94,247	0	0.0%
15	220,962	238,588	17,626	8.0%	215,438	(5,524)	(2.5%)
16	17,350	25,000	7,650	44.1%	17,350	0	0.0%
17	25,000	30,000	5,000	20.0%	25,000	0	0.0%
18	0	30,000	30,000	100.0%	30,000	30,000	100.0%
Regional Efforts Sub-Total		\$6,602,716	\$1,009,913	18.1%	\$6,193,624	\$600,821	10.7%
Total - Community Support & Regional Effort		\$9,711,365	\$1,847,310	23.5%	\$8,504,876	\$640,821	8.1%

Notes:

¹FY 2012 was the final year of the City's \$10,000 Capital Commitment. Agency requested funding as Operating Funds beginning in FY 2013.

²The City Attorney's Office indicates that this agency is ineligible for funding.

³The Hampton - Newport News Criminal Justice Agency is requesting that the City office space it occupies is in lieu of local support.

⁴The City's FY 2010 true up credit balance of \$366,742 was used in FY 2012 to reduce the level of support required by the City.