



Manager's Message



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Manager's Recommended Budget Message
to City Council

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MANAGER'S MESSAGE

April 10, 2016

Mayor Wallace, City Council Members, and Citizens,

I am pleased to transmit the Fiscal Year 2017 Manager's Recommended Budget, totaling \$463,091,719, a 2.8% increase from the FY 2016 budget. Of this amount, the City's operating portion is \$183,323,388, or 39.6%; the school's operating portion is \$200,450,417, or 43.3%; and other items (debt/capital for city and schools, regional entities, etc.) is \$79,317,914, or 17.1%.

This is the seventh budget I have prepared since becoming city manager. Although this budget, like the previous ones, is austere, it represents Hampton's first meaningful uptick in property values in as many years. The property value improvement has – along with our strong sales and meals tax growth – enabled us to propose a budget that not only maintains current service levels but also reinvests in both our community and our employees, without the need for a tax increase. Specifically, this budget invests in education, public safety, neighborhoods and employee compensation.

Our top budget priority this year was to continue to address compensation by implementing adjustments to address wage compression in the workforce and provide a general wage increase for City staff. In Fiscal Year 2016, we began to implement the recommendations from the salary study that we commissioned in FY 2015, and this budget continues that implementation. I cannot adequately express how deserving our employees are of these adjustments. They continued to work hard and have been steadfast in their dedication and support of the community, even when the national, state and local economy did not support consistent salary increases. The recession's impact on them was significant, and as we continue to emerge from those challenging times it is important that we provide competitive pay for the great services they provide to our community.

Although our revenue has improved, we nevertheless looked for internal savings to ensure we could provide meaningful enhancements to our priority areas. Internal efficiency is a hallmark of the Hampton organization, and I am pleased we were able to generate some savings to enhance these investments. Other than in the case of the Parks, Recreation and Leisure Department, which was reorganized to enhance operations and in which there were savings from last year's closure of the Old Hampton Community Center, there are no employee impacts.

I am also pleased to report that this budget proposes no increases in user fees the City controls. There will be no increase in solid waste, wastewater or storm water user fees for residents or businesses this year.

Overall, I believe this budget represents the best work our staff could collectively deliver for our community, and I am proud to highlight each of these areas in more detail.

Community Budget Input

Unlike other localities, our organization seeks citizen budget input *before* finalizing a Manager's Recommended Budget. The product is better when we know what residents expect and want. Over the past six years, the public has been asked many questions and we continued to use their guidance as the budget has been developed. These sessions have been invaluable, particularly as hard choices had to be made.

Fortunately, this year, our revenue situation had improved sufficiently such that we did not project the need for significant service cuts or tax increases, so we took a different approach and held town hall-style input session online



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and in person. The feedback received generally centered around the desire to continue to reinvest in our community, especially in the areas of education, public safety, neighborhoods and employees. Thus, I believe you will find this budget aligns with the community input provided.

Education Funding

Throughout the challenging economic times, the City has maintained our commitment to our schools, and we continue to do so in the FY17 budget. Our local school funding formula calls for the City and School System to share residential tax base growth – or decline. Our residential property tax base is still continuing to recover from the national housing crisis; however, it rose enough to boost our contribution to our schools by \$359,193. In FY17, the City's operating budget contribution is \$33.8 million or 90% more than the required local contribution as determined by the state funding formula. Additionally, this budget maintains our capital commitments to our school division, with nearly \$5.3 million set aside for school maintenance and upgrades as well as \$2 million for the one-to-one technology initiative.

However, the most welcome news on the education front is that the State has finally started to take steps to increase education funding. Since the recession, the state has cut about \$24 million from our school system. However, the General Assembly's recently approved budget increases support to the Hampton City Schools by nearly \$5 million. While the state still has a lot of ground to make up to get back to pre-recession funding levels, the \$5 million in additional funds for our schools in FY17 is an important step in the right direction.

Strong schools are not only essential for the students who attend them, but they also contribute to the City's economic growth as businesses and families base their investment decisions, at least in part, on school quality.

Our schools consistently perform better than other urban school districts across all measures. Our schools have continued to make exciting advancements by focusing on career-based academics and becoming the first urban district in our area to commit to providing tablet devices to all middle school and high school students. These investments are paying dividends. Earlier this fiscal year, the Ford Next Generation Learning Institute selected Hampton City Schools as one of its Career Academy partnerships; and, just this month, Hampton City Schools was selected as the most technologically advanced school system in the nation.

These advancements would not be possible without our excellent teachers who prepare our youth for the future. I am pleased that – between the state and local increased revenue – the schools will be able to provide a 3% pay increase for our teachers and all support staff.

Public Safety

Over the last year, all Hampton Roads localities have experienced an uptick in crime, especially in youth violence and robberies. While our Police cannot be expected to solve this challenge on their own, it is critical that the City staff and equip our officers with the resources they need to do the part they can exceedingly well. There is also a need to work with neighborhoods so residents can unite to be strong partners with the Police.

Were it not for many projected retirements, this budget would have funded several new police officers. However, the Chief has indicated that he cannot fill new positions in addition to expected vacancies, due to the amount of training time the jobs require. Therefore, we have provided extra funding for the Chief to enhance patrols with retired officers who are willing to work part-time. Once the retirement-generated vacancies are filled, staffing will be expanded with permanent full-time positions.



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We continue to look for ways to maximize the efficiency of the force we have. When a captain who oversaw Animal Control retired, we converted to a civilian manager position. Having a professionally trained civilian will both improve animal control services and minimize the need for oversight from the Police Division, enabling them to focus exclusively on community policing and enforcement. Savings from this conversion was also used to add one patrol officer position to HPD's manning.

This budget provides funding to equip all of our police force on the street with body cameras and tasers, and cover the maintenance, replacement and data storage for these devices. The recommended budget also provides additional funding for equipping auxiliary officers and police vehicles, as well as leased space for expanded police operations. Through capital budget re-engineering funds, a real-time data center will be developed to unite all of our camera systems into one integrated analytics unit. Together, these investments ensure our officers have the necessary tools to continue to do their jobs even better.

To fund these FY17 police enhancements, this budget shifts \$500,000 from the City Council Strategic Priority funds in the capital budget to the operating budget. These funds come from a dedicated portion of the tax rate reserved for strategic investments and can be shifted for ongoing expenses such as these which clearly are in alignment with both Council and community strategic priorities. I am recommending this action so that the necessary investments can be made in public safety to combat the rising crime rate that is impacting cities across the nation, and to ensure our officers have the tools they need to be successful in today's environment.

The budget continues to transition the costs of the Youth Violence Prevention Initiatives to the General Fund. These initiatives were originally funded with the Alcohol Tobacco and Firearms funds on a pilot program basis. Due to the success of these programs, we have been gradually transitioning them to be fully supported by the General Fund. The budget also funds two Family Support Specialists previously covered with Court Services Unit departmental savings to permanent positions in the General Fund to continue the prevention and early intervention partnership with our schools.

The budget continues investment commitments in our Fire and Rescue Division by picking up ten medic-firefighter positions originally funded with a federal SAFER grant. These positions have enhanced coverage throughout the City, leading – in part – to our recent selection as one of only 148 fire divisions with the top ISO rating.

Strong neighborhood organizations can be a powerful tool in the fight against crime. During the recession, our neighborhood staff was downsized as a necessary budget-savings measure. With less staff, we have been unable to work with as many neighborhoods to do outreach, training and assist organizations in gaining the capacity to be strong partners. The improved revenue picture has allowed the restoration of one Neighborhood Development Associate in the Community Development Department to take on more of this work.

Finally, the backlog of neighborhood requests for additional streetlights will be addressed. There are sufficient streetlights for traffic safety, but greater lighting enhances a neighborhood's sense of safety and acts as a deterrent to criminal behavior. This budget includes an additional \$100,000 in recurring revenue to respond to public safety related street lighting requests.



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City Operating Departments

This budget also begins to reinvest in other City operating departments.

First, this budget institutes a computer replacement program. Addressing computer replacement was one of the top operational priorities identified by City department directors. Due to strong management by City department heads, each year City departments generate budget savings. In the past, 65% of this savings was made available to departments to address some of their needs. Departments often used this savings to make technology purchases, such as replacing old computers and investing in new technology. This program was suspended during the recession to provide additional flexibility to deal with financial challenges. Since the recession, the budget savings generated has been accruing as part of Committed Fund Balance and has been primarily used to support City departments and employees. For example, departmental savings has been used to cover one-time employee bonuses, often in years when we have not been able to give pay increases.

Because the economy has finally begun to improve, I am proposing that the savings program be reinstated. Previously departments retained 65% of any savings generated. Department heads have proposed, and management concurs, that the former program be modified to dedicate 15% of the savings to the computer replacement program that will refresh community based computers (such as those in the libraries and community centers) as well as those used by employees every five years. The changes to the program will still enable the departments to retain 50% of the savings they generate. The FY17 Budget begins this program by appropriating \$500,000 from departmental savings committed fund balance for the program.

This budget also proposes the addition of an Employee Relations Manager in Human Resources to enhance supervisory and leadership training for our workforce. During the recession, most of our training was outsourced and reduced in frequency. While this sufficed as a short-term savings strategy, we can only continue to excel as an organization when training is provided for our staff. Since our workforce is aging, and there are many projected retirements in leadership positions in coming years, an emerging leaders program will be instituted that will give our millennial workforce the opportunity to enhance their skills and prepare for future executive leadership.

Our departments have been excellent stewards of public funds, consistently finding innovative ways to stretch funding to meet community needs. However, most departmental budgets have been stagnant or declining since the recession – even in the face of rising costs. Had there been even more revenue growth, reinvestment in other city departments would have certainly been in order. However, by instituting the computer replacement program, making needed investments in public safety equipment and restoring some of the cuts we made during the recession, I believe this budget starts us on the path of addressing some of our most pressing needs. We will need to continue down this path of reinvestment in future fiscal years.

I must also note that Hampton consistently offers comparable levels of services at lower costs when compared to other jurisdictions, a testament to the commitment, hard work, and innovation of our managers and staff.

Employee Compensation

As noted above, employee compensation was our highest priority for the FY17 budget, after ensuring continued service levels without a tax increase. I am pleased to report that the recommended budget honors this commitment with a 3% increase for employee compensation. This will be distributed as a 2% general wage increase for all City employees, plus \$1 million to address compression. When the City was unable to give annual raises during the recession, many employees' salaries were stuck near the beginning of the scale, leaving some experienced workers making roughly the same as some employees new to their positions.



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The only way to fully address compression would be to go back and give everyone a raise for each of the years they missed. This is simply not realistic or financially feasible for any locality. The details of how the \$1 million for compression adjustments will be distributed are still being finalized; however, in general, employees will receive varying amounts based on their seniority and experience in their jobs. This will “feather” our employees within their new salary ranges and provide some spread for those who have worked here longer.

This budget also includes funding to once again cover the full projected 7% increase in employee health insurance premiums this year. By doing so, employees will receive a larger take-home pay increase than would otherwise be possible. The budget also continues to cover the employee portion of the life insurance premiums. Normal city practice would call for insurance premiums to be split between the City and employees. However, as we work to bring our salaries up after such a long period of inconsistent raises, we believe fully covering the premium changes is essential so that our workers feel the full effect of the salary increases being provided. Once our employees consistently receive salary increases again, the practice of shared premium increases will resume.

Last, but not least, this budget funds a mid-year citizen satisfaction bonus based upon the percentage of residents who express satisfaction with the way employees perform their jobs. This bonus will be funded out of end-of-the-year departmental savings, as was done this year. Doing so is appropriate, since it is our employees who generate these savings. Tying the bonus to citizen satisfaction provides a critical link between employees and the customers they serve.

Taken together, this compensation package exceeds a 3% pay increase for employees overall and will keep us competitive with our peer communities in the region. While some employees may receive more and some less than a 3% increase depending on how they benefit from the compression adjustments, this reflects the strongest possible commitment that could be made to our employees this fiscal year. These pay increases will go into effect in July 2016. Investments in our workforce are reflective of a shared management and Council commitment to consistent, sustainable wage increases as a primary budget priority as we exit the recession and return to more sustainable revenue growth.

Operational Efficiency Measures

Over the past six fiscal years, we have reorganized departments to streamline and create efficiencies (more than 125 positions were eliminated during the recession). Although Hampton ranks as one of – if not the – most efficient governments in Hampton Roads relative to population size, we have continued to work to identify opportunities to be more efficient. This year was no different.

Two initiatives that came out of last year's budget are coming to fruition this year. The first is the merger of the Hampton and Newport News Health Departments, which saved the City approximately \$150,000. The second is the implementation of an energy-efficiency initiative that will centralize temperature controls across City buildings, which is projected to save another \$150,000.

The City is also experiencing the benefit of investment earnings recovery in both the Hampton Retirement System (HERS) and the Virginia Retirement System (VRS). Stronger investment earnings for HERS and VRS more than offset the increase in employee health insurance and saved the City over \$2 million which was reinvested in employee salary and benefit enhancements.



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Two other savings measures taken include decreasing the subsidy to the Coliseum/Arts Commission by \$100,000 due to the strong performance since the merger of these two functions as well as \$108,000 in debt service savings from refinancing the Motorola radio equipment lease for public safety communications.

While we continue to work to identify opportunities for savings, budget cuts made since the recession have made more reductions extremely challenging. Additional cuts would result in significant service reductions, elimination of services the public highly values, or disinvestment in our infrastructure and economic development efforts.

Other Strategic Priorities

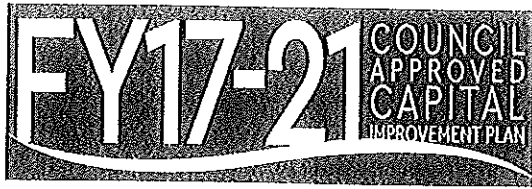
We also continue to invest in our strategic initiatives. In addition to the *Safe and Clean (Public Safety)*, *Education and Workforce* investments discussed above, this budget continues strategic investments in other Council and community identified priority areas. In addition to the employee compensation initiatives that help to foster *Good Government*, the budget supports the rollout of a new 311 smartphone application to enhance customer service as well as the expenses associated with an improved legislative management system. We have several projects in the capital budget that relate to *Living With Water*, including funding for continuing our Dutch Dialogues initiatives. Our capital budget also includes important investments in *Economic Growth*, such as funds for strategic acquisitions and redevelopment initiatives. Our past economic development efforts have clearly been effective in growing our tax base, as evidenced by the strong growth in retail sales and development momentum that is being seen in key areas of the City. These funds will help continue to build this momentum. *Place Making* initiatives such as streetscape projects are also included in the capital budget. A full-time place making coordinator to focus on Council's vibrancy efforts (such as activating our waterways) has been created by converting a vacant Parks, Recreation and Leisure position. Continued reinvestment in our community will ensure that Hampton remains a vibrant waterfront community in which people choose to live, work, play and invest and fulfill our strategic vision.

Looking Ahead

I am pleased that we have been able to recommend a budget that provides a meaningful raise to our employees, continues our strategic investments, and maintains our current service levels without increasing taxes.

As with last year's budget, there is reason to be optimistic about next year. Private investment in our community continues to grow as we come out of the recession. The new owners of the Peninsula Town Center continue to invest in their property. There are also continued signs of reinvestment and redevelopment in the City ranging from the \$60 million Riverpointe redevelopment to smaller projects like Cook Out and multiple Wawa openings. Coliseum Crossing has also announced an expansion which will bring new retailers and restaurants to Hampton. Langley Federal Credit Union is building its largest and most modern branch in Coliseum Central, and two German grocers have announced new stores in Hampton. NASA Langley continues to move forward with its \$330 million reinvestment plan, and Langley Air Force base is well positioned to benefit from future Air Force consolidation initiatives. Major economic development deals are also in the works and should be announced later this year.

Much of this new development is the result of investments the City has made to grow our economy and tax base. The recommended budget continues to make these investments by moving City Council's Strategic Priorities forward. I believe our momentum will continue to build as the economy improves and businesses and families continue to Choose Hampton.



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Closing Thoughts

Without a doubt, the recession made for many tough budget years. While I am pleased that there is continued improvement, we have not yet completely recovered from the recession. While there is some assessment growth, 1.1% is still small and well below the historic trend. Nevertheless, tax increases and service cuts have been avoided this year. We have also been able to continue to take steps towards meaningful pay increases to retain, attract, and reward our world-class staff and reinvest in our community. These are major achievements; however, they are but a beginning. There is more work to be done, but I know we can and will do it together.

As I reflect on those past years, and the ones ahead, I am proud of how our citizens, businesses, staff and elected officials have all consistently pulled together during difficult times to keep Hampton's quality of life strong. We have shown that we are willing to make tough choices when necessary – whether that is restructuring the staff or supporting a higher tax rate that offsets the decline in property values. We have committed to focusing on increasing growth in the commercial tax base, housing stock and reinvesting in our community. These tough decisions have served us well, and we are now beginning to reap the benefits of the sacrifices made. Our ability to reinvest in our employees is but one example.

Challenges remain as we are not yet back to the days with predictable solid revenue growth; however, I firmly believe that our financial picture will continue to improve in the coming years. Our City continues to have a bright future. *We are Hampton, a vibrant waterfront community celebrating and embracing 400 years of history and innovation to create an even more dynamic future.*

I would like to publicly acknowledge and thank the wonderful group of department heads, assistant city managers, and our budget team for meeting the challenge. I would also like to thank our residents for their continued participation and input into our budget development process. We look forward to working with each Council Member in the coming weeks to better understand the budget and its impact on our community and workforce. As always, we stand ready to assist you and the community in your deliberations.

Sincerely,

Mary B. Bunting
City Manager