



Manager's Message

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Manager's Recommended Budget Message
to City Council

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April 11, 2018

Mayor Tuck, City Council Members, and Citizens,

I am pleased to transmit the Fiscal Year 2019 Manager's Recommended Budget, totaling \$471,165,931, a 0.71% increase from the FY 2018 budget. Of this amount, the City's portion is \$269,075,632, or 57.11% (which includes all city and school capital expenditures, CDA transfer payments for which the city acts as a collection agent, contributions to outside agencies, etc.) and school's portion is \$202,090,299, or 42.89%. This budget has been prepared without an adopted State budget. That leaves some uncertainties on city operations, and a greater potential impact to our school division. However, we have prepared the City's budget assuming no additional state funding than what we received in FY 2018, and we will prepare recommended amendments once the State situation is resolved.

This is the ninth budget I have prepared since becoming City Manager. While real estate property values showed an increase for the fourth straight year after several years of decline, modest growth in value and therefore tax revenue made this budget challenging. Nevertheless, I am pleased that we are able to recommend a budget that offers investments in some of our top priorities and maintains service levels to the citizens without any increases in tax rates.

This proposed FY19 annual budget invests in the key areas Council and community members highlighted in our annual I-Value input. Specifically, this budget includes:

- Increases to fight crime, including new positions for both the Police Division and the Commonwealth Attorney's Office, as well as additional funds for enhanced public-safety street lighting and surveillance systems;
- Recurring and one-time increases for our Hampton City Schools, which will facilitate employee raises and support their transformational College and Career Academy program; and
- A 2% salary increase for our dedicated and hard-working employees, both full and qualified part-time employees.

This budget also focuses on the future tax base, as it is imperative that we continue to grow our revenues and broaden our tax base, so that we are not as dependent on residential property taxes to fund the majority of our annual costs. Consequently, this recommended budget includes the City Council's Strategic Initiative Projects in our capital budget and five-year Capital Improvement Plan. These initiatives include investments designed to grow our economy and improve the quality of life in our community.

We have been able to fund these investments by once again streamlining and reducing costs to reallocate to these higher priorities. These internal measures totaled more than \$1 million with much of this savings coming from a voluntary early retirement package we offered eligible long-term employees. We continue to be committed to innovation and finding creative solutions to service delivery; however, I believe we are by far the most thinly manned local government in the region, and each year it becomes more difficult to find ways to trim staff and maintain the service levels our citizens expect.



As always, my staff and I were guided in this budget process by your input – City Council's hard work on setting a blueprint for strategic investments, guidance from those who volunteer their time to serve on our many boards and commissions, and those residents who take the time to offer their views, by attending meetings, responding to our input polling, sending emails, focusing on an issue at public comment, or speaking out on social media.

Residents expressed a desire for increased funding in a wide variety of areas, and there are many community priorities that could benefit from increased investments. Limited revenue growth meant we could not address them all. However, we are proud to submit to you a budget that maximizes every dollar and continues to invest in the future of our historic, innovative and vibrant city. Let me share with you now some of those details.

Community Budget Input

As it is my ninth budget as city manager, it is also the ninth year of a citywide outreach effort to obtain citizen budget input in advance, so that it can be used to help guide decisions on this recommended budget. This year, we went back to the beginning of the I Value process, looking at the changes we've made in response to those years of feedback.

Government officials at all levels consistently hear more from people who desire change than those who are relatively content. This year's input process largely showed that most of our citizens were relatively happy with the services they receive for the taxes that they pay.

We heard from more than 600 residents in the formal I Value input polling, asking about whether the city's service levels met their needs. In three-quarters of the areas, the majority of citizens responded, "This service level is right where it needs to be." There are six areas in which a majority of residents desired to see investments and improvements: Public schools; streets and bridges; drainage; attracting new businesses; reducing blight; and police uniform patrol. This budget recommends some measures to address those needs – some in the annual spending, and others in the capital budget. Those citizen priorities align with City Council's adopted strategic priorities as well as the Strategic Initiative Projects we have been discussing with Council.

Educated & Engaged Citizens

Our schools are one of this city's top priorities. Hampton has maintained our commitment to our schools through our agreed-upon local funding formula that gives the majority of our residential taxes to HCS, and we continue to do so in the FY19 budget. As we have done so, Hampton City Schools has maintained its commitment to "Every child, every day." The Standards of Learning pass rate for reading, math and science was at or above 75%, the on-time graduation rate was 91.4%, and two-thirds of our schools were fully accredited, as of the most recent school year.

This year's growth in residential taxes will increase recurring school funding by \$705,626 for FY19. The recommended budget also includes an additional \$350,000 in one-time funding above the funding formula to support the new investments needed for equipping the College and Career Academies.



Hampton is the first school system in Virginia to adopt a model program with the Ford Next Generation Foundation. While following a proven national model, Hampton's College and Career Academy initiative will also focus on the needs of our business community. I believe this approach will enhance student achievement and meet the most pressing needs of local businesses, resulting in a highly skilled and ready workforce to fuel growth. I do not believe it is an overstatement to say this effort will be truly transformational for our schools and community.

This increase in annual operating budget brings the city to a historic funding level for our city schools. In FY19, the City's operating budget contribution is \$73,827,042 (including the \$350,000 in one-time funding). That is **more than double** the required local contribution as determined by the state funding formula. While all localities in Virginia go beyond the state required amounts, this is the first time that Hampton's amount has crossed the threshold of providing more than twice the amount of required funding, which is a reflection of our strong commitment to our schools.

The state budget remains a challenge for our schools. Without an approved budget, there are funding questions that are in limbo at this time. Even in the best-case scenario, Hampton's schools will lose \$2.3 million from the state due to a projected enrollment decrease. While it is true that there can be some cuts when there are fewer students, enrollment ebbs and flows generally do not equate to the right number of students in a given grade at a given school to make cuts. In recent years, during these challenging economic times, the General Assembly has not met its obligation to our public schools, cutting about \$24 million from Hampton's school system. We believe it is time that the Commonwealth of Virginia finds a way to adequately fund schools.

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. As already noted, we believe that the Career Academy initiative will position our schools and the City for an even brighter future.

These advancements would not be possible without our excellent teachers who prepare our youth for the future. We have worked closely with the school administration and expect that they will be able to provide 2% raises to their teachers and other staff.

Additionally, this budget boosts our capital contributions to our school division. In addition to the usual \$5.3 million set aside for school maintenance and upgrades and the \$1 million for the one-to-one technology initiative, it provides an additional \$1 million in capital funding to allow the schools to accelerate its maintenance and improvement schedule. Over the five-year period of the Capital Improvement Plan, this will result in \$27.4 million worth of investments in the physical school buildings and another \$5 million for technology.

Safe & Clean Community

Even during the recessionary years, Hampton has maintained a strong commitment to public safety. It is the single area of the budget that has received increases beyond inflation over the past nine years.

Most recently, localities around the country have experienced an uptick in crime, especially in youth violence and robberies. While Hampton is still a very safe city – a person's chance of being a victim of violent crime in 2016 was less than 1/3 of 1% – we are very concerned with any level of crime.



Hampton has thus taken a number of steps to respond to the need for an increased focus on crime reduction and safety. We have been adding police officers to the streets in patrol positions and we continue to use community-policing strategies to partner with our residents to prevent and solve crimes. In FY17, the City received a COPS grant from the federal government that partially funded the costs of five new officers. In addition to picking up the City's share of these new officers in FY18, the City also funded the addition of seven new officers – for a total of 12 new officers on the streets this year. The FY19 budget continues to pick up an increased share of the costs of those officers as the grant funds decrease over time. Adding officers also requires some one-time costs to equip them with vehicles and other gear.

The amount of technology our officers use has also increased, enabling them to react more quickly and ensuring transparency. In addition to car cameras and body cameras, we added smart phones for officers in FY17.

Patrol officers on the street are an important and visible part of the fight against crime, but there are many less-visible actions the division is taking. To ensure a conviction – as anyone who watches TV crime dramas knows – it takes more than police officers to help solve crime and build cases for successful prosecution. Hampton, along with Newport News, has joined the National Ballistics Information Network. That effort traces bullets and guns used in crimes (across city lines). Hampton's Real-Time Crime Center, which we funded with re-engineering technology funds in FY18, will get a boost this year with the addition of three crime analysts as part of our crime-prevention initiative. The addition of these analysts will help us to keep eyes on the cameras to help prevent crimes from happening and/or to respond faster than we might otherwise if we had to wait for a call to come in. The analysts will also be able to use advanced analytics to help detectives more quickly catch criminals who have committed crimes. To further enhance the Real Time Crime Center, the capital budget also includes \$366,800 in funding for deploying additional public-safety cameras across the City, with \$150,000 each year thereafter programmed in the CIP. Our long-term goal is to partner with businesses to share video resources across the city to create a safer environment for all.

Attracting and training new public-safety employees is important to ensure that we continue to have top-quality officers, as well as dispatchers and support staff. Our new Public Safety Career Academy at Bethel High School will provide a future pipeline of applicants, benefiting both the City and the student with employment immediately upon graduation. To maintain or grow the level of staffing we have, we need to increase our capacity to train officers. As such, this budget recommends \$1 million to create a larger Police Academy. While we looked at a variety of sites, the most cost-effective site is one that we already own, formerly known as the Teen Center and now the Performing Arts Center. This former fitness center, located in Hampton Roads Center office park, has sufficient room for classrooms and physical training and is much less costly than leasing space or buying a new building. As a facility for teens, it has struggled with an out-of-the-way location, far from schools and residential areas. Arts programs currently run by the Parks, Recreation and Leisure Services Department will be consolidated with the Hampton Arts Commission, which already runs a variety of art and theater classes and performances. These programs will continue to reach youth and young adults, just at new locations. The pool at the Performing Arts Center will remain open to the public.



Addressing crime also means supporting criminal prosecution, and enhancing criminal prosecution has been a Council priority. Therefore, we have made a major investment in the Commonwealth's Attorney's Office over the past year. The FY18 Budget included adding an Assistant Commonwealth's Attorney position. Two additional positions were added mid-year in FY18, an Assistant Commonwealth's Attorney and a Paralegal. Two more positions were transferred to the Commonwealth's Attorney mid-year FY18 as well. The transferred positions included an Assistant Commonwealth's Attorney position previously in the City Attorney's Office and a Special Assistant Prosecutor. In addition to these positions provided to the Commonwealth's Attorney during FY18, the recommended FY19 budget also includes another Assistant Commonwealth's Attorney position. In total, we will have added six positions to support the Commonwealth's Attorney's crime prosecution efforts in little over a year. Additional operating costs were also added to the Commonwealth's Attorney's budget for software and supplies for the additional staffing he has received over the past year.

The budget also includes significant increases to the Hampton Roads Regional Jail and the City Sheriff and Jail to support increased inmate food and medical costs.

In continuing the City's comprehensive approach to fighting crime and improve safety, we have added another \$100,000 in FY19 to support additional streetlights. This is the third year we have been able to add funding for more streetlights to continue a neighborhood commitment to improve safety. Based on resident feedback in our I-Value budget dialogues, we started funding additional street lights in FY17 at \$100,000 per year, so this year gives us \$300,000 annually more than when we began this effort three years ago.

We have also funded a series of needs in the capital budget, including: replacement vehicles for officers; radio equipment lease; and blight abatement. We have added \$125,000 in FY19 Capital Budget and each year thereafter of the CIP for updating the personal protective equipment for our Firefighters. The new Wythe Fire Station and 911/EOC Center are also funded in the out years of the five-year Capital Improvement Plan.

Family Resilience and Economic Empowerment

This year we changed the name of our Youth Violence Prevention Office to the Office of Youth and Young Adult Opportunities. The Special Assistant Prosecutor previously funded in this Office has been transferred to the Commonwealth's Attorney, and the contract to support neighborhood capacity building has been transferred to the Community Development Department Budget where it has been housed and managed.

The name change and budget alignment are in recognition that much of the prevention and intervention work that must be done falls under the banner of family resilience and economic empowerment. While we would hope to continue expansion of these efforts, which have gradually shifted from one-time money to the General Fund over the past few years, we have been able to sustain funding but not increase it for next year.



In addition to continuing to fund our anti-poverty programs, the budget also converts an existing Family Support Worker to a Family Support Specialist to continue the prevention and early-intervention partnership (known as BASE) with our schools and the Hampton Juvenile and Domestic Relations Court. This year, the city will also assume the full cost of the Veterans Court. This program offers our military veterans who commit crimes due to an underlying cause, such as addiction, an alternative to jail. Adding these resources, which were initially funded by federal grants, will have two benefits: Effective treatment to help those who have fought for our country to become more productive and reduced costs to the taxpayer, as the cost of keeping someone in jail is much greater.

To make these and other investments needed in compensation, education and Police, we have continued to freeze a vacant Healthy Families Team, since we are meeting current demand with existing resources. This shift ensures that other needed services can be provided.

Economic Growth

During the recessionary years, we postponed many capital investments. As such, the five-year CIP became must-fund items, dominated by maintenance needs, roads, and mandated stormwater and wastewater improvements to help the Chesapeake Bay recovery. With the private sector holding off on investments and expansion, it was the right time to delay some of our Master Plan strategies to enhance growth.

Over the past year and a half, Council has created and refined a set of priorities for available bond capacity. About 80 percent of the new spending will go toward those projects designed for investments that will create new ongoing revenues for the city. Another 20 percent will go toward projects designed to enhance the quality of life for our residents.

Next year's capital budget sets out funds for the extension of Coliseum Drive, which is 100% state funded in FY19, through the very competitive SMARTSCALE program. The State split the funds across FY18 and FY19. The project will put us another step closer to fulfilling a vision that was set 30 years ago of providing a direct connection from the heart of our largest commercial corridor, Coliseum Central, to the road network serving the NASA/Langley Air Force Base area and one of the six shovel-ready "mega-sites" in the entire Hampton Roads Region and the last significant section of developable land in the City. A shovel-ready mega-site is a 100+ acre site that already has infrastructure in place that could be used to attract a major new employer to the region. Extending Coliseum Drive will also offer more connections to the amenities businesses seek such as the retail shopping, dining and entertainment available at Coliseum Central.

The Capital Budget adds funds for continuing redevelopment of the southern end of Coliseum Drive, where a new Hyatt hotel is under construction. It also sets aside \$2 million in investments for downtown in FY19.



Longer term, the Capital Improvement Plan provides additional funding for Council's Strategic Initiatives. These investments include another \$10 million for downtown, for projects stretching from the waterfront to the interstate, including supporting the continued viability and future growth of the Virginia Tech Aquaculture Research and Extension Center downtown and redevelopment of the largely abandoned industrial area adjacent to I-64 known as the Bright's Creek Area. Funds have also been set aside for Aquatics Center in FY20 and FY23 of the capital plan, should Council reach a consensus on size and wish it to go forward. The Aquatics Center is designed to serve the local need for fitness and water recreation; our local high school teams and youth swim leagues; and attract additional visitors to Hampton. Hampton has demonstrated that youth sports can be a boost to the local economy. The Boo Williams Sportsplex, increasing tournaments at the Hampton Roads Convention Center and events like the Crawlin' Crab bring out participants to help buoy our businesses and attract new ones. There is also funding to support additional development and redevelopment around the Coliseum and Convention Center.

Because housing and home values are a key to stabilizing and improving our neighborhoods, the capital plan continues funding for the Housing Improvement Grants along with the Housing Improvement Fund, Housing Redevelopment Fund and Infill Development Council Strategic Initiatives.

In total, the 5-year plan includes \$61 million in public investments designed to spur private investment, tax growth and job growth. Attracting new businesses was mentioned by our residents as one of their top areas for city investment in the I Value polling. Reducing blight, which helps spur investment as well as supporting a safe and clean city, was also in the top six areas of spending priorities for residents, and that is an important focus of our Economic Growth investments.

Living with Water

More than \$7.7 million is earmarked from capital funds next year for water projects. The bulk of those remain mandated improvements to our capacity to store water and filter it before it runs into waterways that feed the Chesapeake Bay. These are funded through the Stormwater Fee. Some waterway projects are for recreation, such as the more than \$1 million in FY19 for sand replenishment at Buckroe Beach, a top recreation site, and \$2 million to complete improvements to the Salt Ponds inlet to maintain recreational boat access (with additional dredging in later years).

This year, City Council adopted Resilient Hampton, the first step toward a unified way to look at how we live with the water in an era of sinking land and rising waters. As much as possible, we look to get the biggest bang for the taxpayer buck and seek to fund projects that accomplish multiple objectives through a process called the "Dutch Dialogs": reducing damage from flooding, enhancing water quality, boosting the economy, and increasing quality of life through public access to the water. About \$2 million is planned over the next five years for watershed studies and improvements based on those studies. Almost \$3 million is projected over the planned five-year period for neighborhood stormwater improvements.



Placemaking

The shift of our youth-focused arts programs out of the Performing Arts Center was largely driven by the need for a Police Academy, as described above. The move, nevertheless, makes sense for continued support for youth art programs. Aligning these programs with the Hampton Arts efforts, which already include classes for all ages and summer camps, will offer synergy for visual art, dance and performing arts. Therefore, we are moving the programming out of Parks, Recreation and Leisure Services (PRLS) – Recreation Division to the Arts Commission. We have temporarily placed the funding previously housed in the PRLS - Recreation Division in Non-Departmental as staff finalizes the plans for what the Arts Commission will need, net of expected revenues associated with the programs. Once these plans are finalized, staff will ask Council to transfer the needed funds to the Arts Commission.

We are also piloting a “Re-connect” program at the Phoebus Community Center in the FY19 budget. Current community center membership fees are \$15 per year, but this program will provide an easy alternative to earn membership through participating in two hours per year of enrichment programs or positive activities in our community. This earned membership program is a way we are exploring to provide opportunities for more of our youth to enjoy our community centers while achieving additional community engagement and ownership. Some examples of the activities that would qualify youth for membership would include:

- Complete an hour orientation about the center, its current offerings and policies as well as other opportunities the City has for youth;
- Participate in an hour focus group to tell us about the programs you would like to see offered in the Center;
- Bring three new friends age 18 and under to join the center (they too can also earn membership!);
- Help decorate the Center by donating personal artwork to hang on our walls - the artwork must be free of profanity, vulgarity and be appropriate for all ages; and
- Help spruce up the center - donate an hour of your time to helping staff clean up in or outside of the center.

The above list includes just some examples of activities that will enable youth to earn their membership. Additional opportunities have been developed by Parks, Recreation and Leisure Services staff. We will also encourage others to pitch ideas to us. If it helps us with our mission of growing youth memberships through positive contribution, we will consider it.

Countless residents and visitors enjoy the City's parks and other public recreational facilities each year. Therefore, one of the key Council Strategic Initiatives is to provide enhanced maintenance funding for these great community assets. Three million dollars have been added to the FY19 Capital Budget for investments in War Memorial Stadium to improve restrooms, concessions, field drainage and parking. Another \$6 million in Enhanced Parks Maintenance funding has been added to the five-year Capital Improvement Plan. The guidance we received from Council during our Strategic Initiatives conversations was to conduct a parks master plan as well as explore improvements to the Buckroe Boardwalk. Parks maintenance funds will be used to conduct the needed studies with the additional \$6 million dedicated for actual capital improvements in future years. These funds are all in addition to the \$13.6 million planned for Parks Recreation and Leisure Services Maintenance over the five-year CIP.



We also added \$40,000 to PRLS Maintenance to support restoring and bringing the Streetcar as a new historic amenity Downtown.

Buckroe Beach is one of the city's best-loved and utilized parks during the summer season. Watercraft rentals, provided by Hampton Watersports, LLC, and food trucks have been added amenities in recent years, which have increased the popularity of the beach. In FY19, Village Events, will be operating the Buckroe Beach Farmers Market from May 5 through November 17, which will include two specialty markets (fitness and pet markets). The market will be held at the gazebo and include vendors with items such as produce, meat, and fresh salsa. On November 3, Village Events will hold a beer festival at Buckroe Beach. We are also exploring adding pop-up retail sheds to Buckroe. Historically, Buckroe, and its neighbor Bayshore, drew residents and visitors to the area, and created a vital business economy that enhanced the beach experience. As we work to bring additional amenities back to the beach, we also recognize the importance of balancing the needs of the residents in the area with the visitors and have been working on short- and long-term plans to address the parking challenges that occur each summer.

Improvements will continue along King Street and Cunningham Drive. Because placemaking and livability begin in the areas closest to home – our neighborhoods – we are planning on funds for neighborhood improvements, neighborhood pools and parks placemaking in years beyond FY19.

Good Government

Maintaining our roads and bridges was another top priority for our residents. The amount we spend annually for street resurfacing is determined by the state's VDOT formula. We project it will total \$33 million over the next five years. In addition, the 5-year capital plan includes \$9 million to reconstruct Little Back River Road. Our Public Works engineers continue to project road needs for the future and work to secure as much state funding as possible. We have been very successful obtaining VDOT funding for many of our road extensions and improvements, with \$13 million expected over five years to offset the cost of both good government and economic development road projects.

The Capital Budget also includes funding for a new Human Resources and Payroll system. The existing system is outdated and operates on an old "green screen" platform. The new system will streamline several outdated processes and create efficiency that will allow for more effective management of critical human resource functions.

This budget also makes adjustments to the Fleet Services Fund to realign its budget to reflect the direct outsourcing of maintenance of refuse trucks by the Solid Waste Fund. Given the highly technical nature of maintaining the mechanized refuse trucks and the difficulty in retaining qualified mechanics to work on them, it was determined by the Fleet and Solid Waste managers that the best approach to ensure the future maintenance of the refuse truck fleet was to outsource the maintenance to a private vendor. Unfortunately, this realignment is resulting in two layoffs in Fleet Services. As we always do, we will work with the impacted employees to try to find them another place in the organization.



As you go through the budget, you will also notice that it has a different look this year. We periodically change the look of the budget to enhance the presentation of the information. On the surface, many of the changes are stylistic, but beneath the surface, a lot has changed. The budget staff has, for the first time; largely automated the production of the budget book by creating an Excel-based Budget Application. In the past, separate Excel spreadsheets and Word documents were updated manually. Now, historical and current-year budget data are pulled directly from the Financial System. This process enhances the efficiency and accuracy of the process since all budget tables are linked to the Financial System. Some things that are more noticeable include that the departmental sections are reorganized to show the summary/"big picture" information first, with the detail as you page through and the first page of each department's section of the budget has an embedded link to that department's webpage that you can click on in the electronic file. The Performance Indicators in the budget have also been updated, and we have also enhanced the graphs for the departments to visually show the breakdown of costs by personnel, operating and capital. We have also added some additional historical information in some sections and added icons at the top of each page that provide a visual cue for the different sections of the budget. We have also added a page to each section to summarize how much money is spent by Strategic Priority Area based on information we received from departments as part of the budget development process this year.

Employees

As noted above, employee compensation was one of our top priorities for the FY19 budget. I am pleased to report that the recommended budget honors this commitment with a 2% general wage increase for all full-time and eligible part-time employees. While we would like to return to a merit-pay system that offers the option for higher increases for top performers, we are not yet able to. However, we do plan to continue other programs that reward employees.

The budget once again funds a mid-year citizen satisfaction bonus of up to \$250 for full-time employees and \$125 for eligible part-time employees. The actual bonus is based upon the percentage of residents who express satisfaction with the way employees perform their jobs, as reflected in the Citizen Satisfaction Survey. This bonus will be funded out of end-of-the-year departmental savings, as was done in the previous two years. 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.

This budget also covers the City portion of the increase in health insurance premiums and the full employer/employee share of life insurance premiums. Employees participating in our plan will have a slight increase in their premiums as we projected last year. However, the premium increases are relatively modest and should be well less than full-time employees' 2% pay increase, ensuring that all employees should see an increase in take-home pay. For instance, the employee increase for the employee plan will be \$1.32 per pay period; for the employee plus minor plan, it will be \$2.40 per pay period; and for the family plan it will be \$5.18 per pay period.

The quarterly bonus personal days that began several years ago as a non-monetary incentive for employees when raises were not consistently provided also remains in this budget. Although we have returned to consistent raises, the workforce treasures this personal day benefit. Since our employees continued to work under stressful conditions, with manning that is lower than other cities, it is appropriate that we continue to reward them with this benefit.



Altogether, Hampton's compensation package will keep us competitive with our peer communities in the region. These general wage increases will go into effect in July, 2018. 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 continue to recover from the recession.

Taxes and Fees

I am pleased that the budget does not include increases in any taxes or fees. Being able to not ask for a general tax increase in the face of continued slow revenue growth is a testament to how efficient we are and how our staff works hard to stretch every tax dollar as far as possible. Our goal is always to avoid general tax increases unless absolutely necessary.

Operational Efficiency Measures

Over the past several 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 continue to work to identify opportunities to be more efficient. This year was no different.

The Voluntary Retirement Incentive Program (VRIP) will save over \$400,000. While only two positions were eliminated, several other positions were downgraded or will be filled by people at lower pay rates. Several department heads and one assistant city manager have chosen to leave. While we will not immediately be able to replace their experience and institutional knowledge, we know that change is inevitable and being able to plan for it well in advance of people leaving helps. Taking the proactive step to offer the program this past fall has positioned us to have a smoother transition. Also, without the recurring savings generated from the (VRIP), we would have had to cut even deeper into department budgets to balance without a tax or fee increase.

Including the savings from the VRIP, we have cut a little over \$1.1 million in the proposed budget as outlined in Appendix A. These cuts range from reducing the subsidy for the Hampton Roads Convention Center by \$100,000 to freezing positions in Healthy Families and Information Technology to reductions in departmental operations. While we continue to work to identify opportunities for savings each year, budget cuts implemented since the recession have made more reductions extremely challenging. Additional cuts in the future would likely result in service reductions and eliminations, or disinvestment in our infrastructure and economic development efforts. Through their participation in the "I Value" budget input process, our citizens have also indicated resistance to further service reductions, and that was reinforced this year.

Our departments have been excellent stewards of public funds, consistently finding innovative ways to stretch funding to meet community needs. Hampton consistently offers comparable levels of services at lower costs when compared to other jurisdictions, which is a testament to the commitment, hard work, and innovation of our managers and staff. However, most departmental budgets have been stagnant or declining since the recession – even in the face of rising costs. The only increase in operating funds for most departments has been fixed costs requirements. Thus, all such cuts are painful and come with some consequence. That said, these cuts were needed to invest in our top priorities.



In short, I believe this budget continues us on the path of addressing some of our most pressing needs, even in spite of the reductions we made.

Looking Ahead

I am pleased that we have been able to recommend a budget that provides a raise for our employees, continues our strategic investments, and maintains our current service levels without a tax increase. However, I would be remiss if I did not mention that – while we see many positive things happening in our community – we also face some uncertainty.

Property assessments have increased for four years, but in very small amounts. There are positive signs that show increases in home sales volume and home sale prices, but those gains have not yet consistently reached the general home value. I know many residents are eager to see the value of their largest investment trending in a positive direction.

About half of the increase in overall property values – residential as well as commercial – was attributed to new construction. The momentum that we have been building through our Strategic Economic Growth Initiatives to date has been significant. We are excited that we have successfully achieved a reuse of the Armory building with the opening of the VanGuard brewery, restaurant, distiller and entertainment venue this year. We are also continuing to see reinvestment in two of our largest properties in Coliseum Central. The Peninsula Town Center (PTC) has started construction on Floor and Decor, Sky Zone, Element Hotel and new apartments. SkyZone, which is a trampoline park, will offer our community a new family entertainment option. At Riverpointe, formerly Riverdale, At Home opened this year and the revitalization of that shopping center is moving forward with new tenants expected to be announced. The Hyatt Place has started construction on the former Motel 6 site. The Hyatt Place and the Element Hotel at PTC are the result of our hotel strategy that we put in place a few years ago. Together, they will expand our quality hotel room offerings in the City and better position us to compete for conventions at our Convention Center as well as enable us to take advantage of the tourists coming to the Boo Williams Sportsplex and other Hampton attractions who are currently staying in other communities because we lack sufficient quality hotel rooms.



Other business announcements, expansions and openings this year, include:

BUSINESS NAME	INDUSTRY	New or Existing
Access Aids Care	Healthcare	Existing
Aldi	Retail	New
Baked Bistro	Restaurant	New
Bowman's Soul-in-the-Wall	Restaurant	New
Chuck's Famous Chicken	Retail	New
Dominos Pizza #4230	Restaurant	New
Edward Jones	Financial Services	New
Fullers Raw Bar and Grille	Restaurant	New
Gabes	Retail	New
Good Steward Business and Benefits Consulting, LLC.	Consultant	Existing
Gymnastics, Inc.	Gymnastics Center	Existing
Harbor Freight Tools	Retail	New
Healthcare Training Solutions, Inc.	Health care	Existing
Investor's Securities Group	Finance	New
Juan's	Restaurant	New
Lidl	Retail	New
MAXIMUS	Professional Services	Existing
Patriot Tours	Retail	New
Peninsula Movie Bistro	Entertainment	New
Pioneer Vapes	Retail	New
Sly Clyde Cider	Retail	New
Stingee Midjit	Restaurant	new
Stuft	Restaurant	Existing
Team Fishel Engineering	Utility Engineering	New
The Hampton	Catering	New
The Skinny Dip	Restaurant	New
VA Air National Guard	Defense	New
Virginia Eye Consultants	Retail	Existing



As mentioned earlier, as I write this message, the State is still working to reach agreement on a new budget, and that creates a great deal of uncertainty for us, especially our schools. Our school system stands to lose \$2.3 million in state funding even under the best-case State budget scenario. Under the worst-case scenario, it could be around \$3.3 million.

One of the biggest challenges we have had is the sluggish recovery of the Hampton Roads region from the Great Recession. As wonderful a place this region is to live, work and play, Hampton Roads has been consistently ranked as having one of the slowest recoveries in the Country. One reason for the slow recovery is that the Hampton Roads' economy is still heavily reliant on the military. While the region has worked to diversify, what happens at the federal level affects spending, jobs and home sales in Hampton Roads. While the federal budget challenges continue to create uncertainty around federal spending, it is an encouraging sign that Congress has boosted spending for the military. With the investments in new infrastructure moving forward at the regional level, such as the widening of the Hampton Roads Bridge Tunnel, and I-64, along with continued investments and growth at the Port of Virginia, I am hopeful that the region is poised to start experiencing stronger growth.

If the region's economy begins to pick up speed, Hampton will benefit greatly. Much of the new development we are seeing is the result of investments the City has made to grow our economy and tax base in recent years. It can be difficult to see the need to build public infrastructure, such as roads and sewer pump stations, before any private investment, but it is imperative. When businesses are looking to relocate or expand, they want sites that are ready and are unwilling to wait. As I mentioned earlier, Hampton is home to one of six shovel ready mega-sites in the region. Our location in the heart of the region is also key. We are at the intersection of two interstate highways and on the mouth of one of the world's greatest natural harbors. We are home to such national assets as NASA Langley, Langley Air Force Base and Hampton University. All of these things position us for success, but only if we are ready for it. The recommended budget continues to make the necessary 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.

Closing Thoughts

Without a doubt, the recession and slow recovery has made for many tough budget years. While I am pleased that there is continued improvement, the City and the region, continue to recover.

We are not yet back to the days with predictable solid revenue growth and uncertainty at the federal and state level continue to leave us with questions. Yet we are taking steps to grow our tax base and a better future for our community. I firmly believe that our residents, businesses, staff and elected officials have clearly demonstrated that, working together, we can overcome our challenges and chart a bright future for the City of Hampton. ***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 challenges posed by this year's budget. I would also like to thank our residents for their continued participation and input into our budget development process – it is invaluable as we develop the budget.



Manager's Message

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



Appendix A: Operational Efficiency Measures

Departmental Reductions	Amount
Contributions to Outside Agencies: Hampton Roads Transit	\$114,417
311 Citizen Contact Center: Reduce Operating Expenses	2,530
Assessor of Real Estate: Reduce Operating Expenses	10,000
City Manager's Office: Vacancy Savings	13,809
Economic Development: Reduce Operating Expenses	12,890
Emergency Management: Reduce Operating Expenses	2,000
Fire and Rescue Division: Reduce Operating Expenses	12,100
Hampton History Museum: Reduce Operating Expenses	4,128
Health Department: Reduce Department Savings	55,462
Human Resources: Reduce Part Time Salaries	848
Hampton Roads Convention Center: Reduce City Subsidy	100,000
Youth, Educ. and Family Services: Continue to Freeze One (1) Vacant Healthy Start Team	154,885
Information Technology: Freeze one (1) Technology Position	39,585
Marketing and Outreach: Reduce Operating Expenses	10,000
Non-departmental: Reduce Operating Expenses due to savings from Legal Consultants	100,000
Parks, Rec and Leisure Services – Recreation Division: Reduce Operating Expenses	7,000
Public Library: Decrease Operating Expenses Resulting from Re-negotiated Lease	24,730
Public Works - Administration: Reduce Operating Expenses	2,376
Voluntary Retirement Incentive Program Savings ("VRIP") Total (see breakout below*)	435,944
TOTAL SAVINGS (including VRIP)	\$1,102,704

*Detailed Breakout of Total VRIP Savings (including Salary and Benefits)	
- Community Development - Downgrade two positions and hire new staff at lower pay	67,630
- Conventions and Visitor Bureau - Eliminate Admin Assistant Position	52,310
- HPD - New staff hired at lower pay	13,675
- Public Works - Engineering - Downgrade one position and hire at lower pay	32,317
- Fire & Rescue - Eliminate one Battalion Chief position and hire others at lower pay (9 total VRIP participants)	182,524
- 311 Call Center- Replacement at lower pay	6,799
- City Manager's Office - Hire replacement at lower pay	71,672
- Youth, Education & Family Services - Hire replacement at lower pay	9,017
TOTAL SAVINGS FROM VRIP	\$435,944