

## MANAGER'S MESSAGE

April 10, 2015

Mayor Wallace, City Council Members, and Citizens,

I am pleased to transmit the Fiscal Year 2016 Manager's Recommended Budget, totaling \$450,428,275, a 0.38% decrease from the FY 2015 budget. Of this amount, the City portion is \$255,179,021, and the school portion is \$195,249,254. Most of the budget decrease is due to a \$4.3 million decline in Total Transfers from Other Funds (one time funds from excess fund balance for one time projects). While we are using less money from these sources, our revenues from recurring sources have increased by nearly \$3.6 million, or 1.14%.

This is the sixth budget I have prepared since becoming city manager. Although this budget, like the previous ones, is austere, it represents Hampton's first uptick in property values in as many years. Though small, it is a very positive sign and bodes well for the city's future growth. I am happy to propose a budget that will maintain current service levels and continue to reinvest in our community, without the need for a tax increase.

My top budget priority this year was to provide a meaningful general wage increase for City staff, who have helped us maintain service levels during the national economic slowdown. I am also proposing that we begin implementing the recommendations from the salary study that we commissioned in FY 2015. I cannot adequately express how deserving our employees are of these adjustments. They are the backbone of our organization 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 it is most fitting that, as we emerge from those austere years, we re-invest in our most important resource – our people.

While our growth in real estate values has been relatively small, it is positive. We continue to also project strong growth in sales and meals taxes as investments in expanding our retail tax base continue to pay off. It is important to note that we surpassed our pre-recession peak in retail sales in FY 2011, while the Hampton Roads region just recovered this past September.

This fiscal year Hampton was recognized as an All-America City, in part for the community input process that has been conducted since 2010. As with all of recommended budgets since that time, this one was compiled with community input as well. Over the past six years, we have

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asked the public many questions and continued to use their guidance as the budget has been developed. These sessions have been invaluable, particularly as hard choices had to be made.

### Community Budget Input

In past years, citizen input on general fund tax policies and service levels has been sought and honored. Overwhelmingly, residents have supported our current level of service and have been willing to pay higher taxes to protect those service levels. They have also endorsed continuing investment to grow the City's tax base and maintain its quality of life. Every year we have continued to identify new savings measures to help generate budget efficiencies without impacting services. Those, plus some revenue growth, enabled us to focus our budget input sessions on our Solid Waste and Stormwater funds this year.

Because we have been trying to provide relief to our residents during a difficult economy, the Solid Waste Fund User Fee for trash collection has not been raised in ten years. During this time, the cost for a loaf of bread has gone up 44%, a dozen eggs 51%, and electricity rates 56%. We have kept the rates low for as long as possible. Similarly, our costs have also grown by nearly 34%. In order to maintain the current level of service, the rate will need to be increased from \$4.25 to \$5.88 per week. Even with this rate hike, our rate will still be among the lowest of the urban communities that offer a full complement of solid waste services – including some – like weekly bulk trash – that others do not offer. Other options we explored to potentially lower the rate increase included: reducing recycling pick up from bi-weekly to monthly, which would lower the necessary rate increase to \$5.73 (only 15 cents less); reducing bulk trash/leaf collection from weekly to biweekly, which would lower the necessary rate increase to \$5.41 (47 cents less); or reducing both bulk trash and recycling pick up, which would lower the necessary rate increase to \$5.26 (62 cents less). All of these options would have a negative impact on the appearance of our neighborhoods.

During our two public meetings and using our online survey, we asked our residents whether they support raising the rate the full amount necessary to maintain the current level of services or decrease the service level to mitigate the amount needed to raise the rate. The majority of our residents (58%) who participated in the public input process indicated they support raising the rate sufficient to maintain current service levels. Given this response, the general sentiment over the past few years of maintaining current service levels, and the potential negative effects of reduced bulk trash and/or recycling collections, I am recommending increasing the Solid Waste User Fee rate to maintain these valued services (\$5.88 per week). This represents a total annual impact of \$84.76 for residents who receive these services.

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Residents were also asked if they supported increasing the Stormwater User Fee from \$6.99 to \$7.83 per Equivalent Residential Unit (ERU) per month (a monthly increase of 84 cents). The implications of not raising the fee would be to delay projects that help mitigate flooding in our community and pollution runoff into the Chesapeake Bay. Delaying the fee increase would also result in larger increases in the future in order for the City to meet Environmental Protection Agency Chesapeake Bay pollution runoff requirements. Residents overwhelmingly (79%) supported raising the stormwater rate by the full amount to keep all projects moving forward. I have thus recommended increasing the Stormwater User Fee to \$7.83 per ERU per month. Even with this rate increase, our rate will be among the lowest in the region. This represents a total annual impact of \$10.08 for residents.

The effect of both of these increases for residents is less than \$100 per year, or \$7.90 per month.

### **Tax and Fee Adjustments**

In addition to adjusting the Solid Waste and Stormwater User Fees, I am also recommending increasing the cigarette tax by five cents a pack (from \$0.80 to \$0.85) and instituting a Boat License Fee of \$20 for motorized boats and watercraft less than 16 feet, \$40 for all boats and watercraft 16 to less than 20 feet, \$75 for all boats and watercraft 20 to less than 40 feet, and \$150 for all boats and watercraft over 40 feet.

The increase in the cigarette tax equalizes our tax rate with Newport News and is anticipated to generate approximately \$250,000. While this is a relatively small increase, it is necessary for us to be able to fulfill our budget priorities while maintaining current service levels. As a point of comparison, this amount of money is less than half of what is needed to provide a 3% pay increase for just our Fire and Rescue Division.

Many years ago, Hampton effectively eliminated its boat tax in an effort to attract the boating community to the City. While studies show this action has helped attract boaters to the City and increase the economic impact of our marinas, it has been controversial among segments of our community. We also continue to support maintaining our waterways and provide public safety services for our boaters. Given the service level provided to our boating community and the attractiveness of Hampton's waterways, we have continued to explore ways to strike a balance between securing a revenue stream to support those services while maintaining the economic impact of our boating industry. I believe a Boat License Fee, similar to the Motor Vehicle License Fee, is an effective way of achieving this balance and this relatively modest fee will be accepted by the boaters that enjoy our beautiful waterways. The proposed rate has been set to achieve approximately the same level of revenue from the boat personal property tax before the

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rate was changed. It is my hope that – if approved – this new fee will allow us to move forward without having to revisit the boat personal property tax conversation every year.

While we did not include these fee increases in our budget polling this year, they have been discussed in the past, and the public has expressed support for these targeted fee adjustments.

### **Operational Efficiency Measures**

Over the past five fiscal years, we have reorganized departments to streamline and create efficiencies (over 125 positions have been 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.

The most significant budget balancing measure taken this year was the implementation of the debt service management plan that our financial advisors presented to City Council at the March 11, 2015 meeting. This plan allows us to keep our debt service costs level in FY 16 and into the future, while continuing to make the necessary investments in maintaining our infrastructure, reinvesting in our community, and implementing City Council's Strategic Priorities. Refinancing old debt and locking in new debt at a favorable rate, has freed up recurring money to use on other priorities, most notably employee compensation increases.

Another efficiency measure was implemented in the Fire and Rescue Division, where the retirement of some senior employees resulted in the Fire Chief looking at ways he could expand training and mentorship opportunities to improve succession in the department. The retirements and the restructuring enabled the Fire and Rescue Division to keep more firefighters on duty with minimal financial impact on the General Fund. These additional positions were initially funded with Staffing for Adequate Fire and Emergency Response (SAFER) grants for a limited time.

Two other savings opportunities of note were implemented as part of this budget. First, increased efficiencies in the 911 Center allowed the elimination of a long-vacant supervisory position. Second, the decision by the state to not replace a judge in our Circuit Court has allowed for the elimination of a City-funded position that supported that judge.

This budget also takes advantage of savings from the closure of the Lincoln Park housing complex and the final payoff of the Hamptons Golf Course Clubhouse lease. Due to the closure of Lincoln Park, funding from the Recreation Division and Boys & Girls Club budgets were reduced. The payoff of the Hamptons Golf Course significantly reduces the City subsidy for that golf course.

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Budget cuts made since the recession have left precious little left to cut. Additional cuts would result in significant service reductions, elimination of services the public highly values, or disinvestment in our infrastructure and economic development efforts.

### Education Funding

The FY 16 budget has maintained our commitment to our schools. 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 continues to be on the road to recovery (it actually declined by 1% while overall assessments went up due to commercial growth). Thus, the funding formula would have yielded a lower contribution to our schools than the current year's adjusted amount which included an advance of the increased personal property revenues expected from the FY 15 tax rate change. However, because of our commitment to strong schools, we have provided additional funds beyond the formula to maintain the FY 15 adjusted amount.

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 I have noted before, 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. This initiative helps introduce all of our students to technology and gives them access to important research capabilities to help them succeed. Our schools also consistently perform better than other urban school districts across all measures. The success of our schools is the result of our excellent teachers who prepare our youth for the future. I am pleased that the schools will be able to provide a 3% pay increase for our teachers.

Our schools have been able to provide this pay increase in the face of continued declines in the state contribution. These declines have been partially due to lower enrollment in Hampton schools, but even more so to other state policy decisions. The state's underfunding of education impacts all localities statewide, but has impacted fiscally stressed localities more significantly. Recent data confirms that wealthy Northern Virginia communities have experienced growth in the amount of state aid per student while communities like ours have significantly declined. Our schools take in \$24 million less in state funding today than they did before the recession. This year alone, our schools lost another \$1 million in state funding and \$400,000 in federal funding. These declines in state and federal revenues continue to force schools to make tough choices.

In FY 16, the City's contribution is nearly \$33 million more than the required local contribution as determined by the state funding formula.

### **Public Safety**

This budget continues our commitment to public safety. In addition to making sure we are able to offer competitive pay for our public safety employees and maintaining our commitments to the Safe and Clean and Youth Violence and Prevention initiatives, we are also continuing other strategic investments. The capital budget includes money to outfit our police officers with body cameras. The recommended budget fully funds the prosecutor in the City Attorney's Office, added during fiscal year 2015 to prosecute misdemeanors, and converts two Family Support Specialists funded from 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 also continues investment commitments in our Fire and Rescue Division. As I mentioned earlier, the final 10 firefighters added as part of the SAFER grant are being absorbed into the general fund budget in FY 2016. The budget also provides funding to complete the purchase of self-contained breathing apparatus for our firefighters, design funds for the Wythe Fire Station, and operating funds to support the addition of a new fire truck to the fleet.

### **City Departments**

With the exception of adding a paralegal to the Treasurer's Office, to bring certain collection functions in-house and funding the maintenance of the Kronos timekeeping system, City departments were funded at a maintenance level this year with generally flat or declining budgets.

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. This is not sustainable over the long-term and will need to be addressed in future years. While our greatest resource is our people and our focus has been and will be on providing a meaningful pay increase, we will need to address general departmental operations in the near future.

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 earlier, employee salary increases were our highest priority for the FY 16 budget. I gave one explicit instruction to the budget development team: present a balanced budget that provides salary increases for all employees. I am pleased to report that my recommended budget

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honors this commitment with a 3% general wage increase for all City employees. Additionally, this budget sets aside \$1 million to begin implementing the salary study recommendations under development by an independent third-party consultant (Management Advisory Group - MAG). We will not have the final product until late summer/early fall; however, we believe that the \$1 million will be sufficient to make necessary pay scale changes. I am also pleased to recommend that employee health insurance premium increases be funded by the City this year, allowing employees to receive a larger take home pay increase than would otherwise be possible. The City also continues to pick up the employee portion of life insurance premiums.

The general wage increase will impact all full-time, part-time, and WAE employees in July, 2015. The second compensation adjustment will be the pay-scale changes that result from the compensation study. When pay scales are changed, employees who are below the new minimum will receive increases to adjust their pay to that new level. These adjustments are targeted for January 2016, as it will take time to implement all proposed changes in our information technology systems once the report is received.

To fund these FY 16 compensation enhancements, this budget shifts \$1 million from the City Council Strategic Priority funds in the capital budget to the operating budget. I am recommending we take this action so we can achieve a meaningful increase and because I believe that City Council agrees that retaining our loyal and talented staff is a strategic priority for our City.

Looking forward to FY 17, a third compensation adjustment will address compression based on MAG recommendations. The compression adjustments are targeted for July, 2016. A general wage increase is planned for July, 2016 as well. These 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.

### **Other Strategic Priorities**

All coastal communities are facing increasing flooding and we need to aggressively plan to mitigate more frequent flooding conditions. This budget includes seed funding – in the amount of \$100,000 – for a joint coastal resiliency partnership. Flooding and hazard mitigation is not confined to Hampton; it is a shared challenge for other communities in Hampton Roads, which is why I am pleased that we will be working with Poquoson to address this shared challenge. Furthermore, federal funds are available for localities who work collaboratively to address coastal resiliency, and it is believed that our two cities will be able to demonstrate an

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effective collaboration that attracts such federal funding for meaningful efforts to address this very real challenge.

The FY16 Capital Budget also includes \$6,071,119 to complete the \$20.2 million in funding for the Council Strategic Priorities identified this past fall. This funding will support economic development efforts in Downtown, Coliseum Central, and Buckroe. It is clear that our past economic development efforts have been effective in growing our tax base, as evidenced by the strong growth in retail sales and development momentum that we are seeing in key areas of the City. These funds will help us continue to build this momentum. They will also support quality of life initiatives, such as new neighborhood centers, parks, and smaller "Love Your City" projects, like porch swings in Downtown and Buckroe, paddleboats and other water recreation enhancements in the City, as well as other low-cost initiatives. Continued reinvestment in our community will ensure that Hampton remains a vibrant waterfront community in which people choose to live, work, play and invest.

### State Funding Impacts

I would be remiss if I did not address on-going State funding impacts. While the City has received some additional state funding to support certain operations like the Sheriff's Office and transportation for which we are grateful, there are other areas where the state has not lived up to its obligations.

The first among these is support for our Police through the HB 599 funding. This funding source has again been held flat. Back in the 1970s, the state committed to helping cities fund local police departments when they took away cities' abilities to annex territories in surrounding counties. The state has since not lived up to this commitment and has underfunded the City over \$25.6 million since FY 2000. If the state fully funded its commitment under HB599, we would have had over \$3.8 million more state support in the FY 16 budget.

Also concerning is Social Services funding. Because the State has capped its contribution to Social Services in recent years, localities are being forced to fully fund any increase in the match requirement to receive federal funds. Hampton has had to provide nearly \$100,000 this year to cover what was formerly a state responsibility.

Finally, despite the fact that the Governor included funding in his budget proposal that would have made good strides toward fully funding the state's Payment In Lieu Of Taxes (PILOT) for Fort Monroe, the General Assembly removed these funds in its final budget. As a result, the State has underfunded its PILOT payment to the City by nearly \$415,000 in FY 16. The good



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news is that our delegation has supported our efforts to correct these issues. However, more needs to be done at the state level to fully fund their obligations.

One other change at the state level has greatly impacted this year's budget: the collection for delinquent court fines. There has been a push in the General Assembly to remove local Treasurers' ability to collect delinquent court fines and have those collections done by the private sector. While they have temporarily grandfathered treasurers who are already doing this work – Hampton included – the State has limited the amount of money the locality can keep. This change cost the City \$211,000 in revenue in the FY16 budget.

### Looking Ahead

While we have not yet been able to reinvest in departments that have been stretched thin by past budget cuts and freezes, 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.

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 have announced – and already begun – major plans for the property. We continue to see high-value housing development in Farmington and Buckroe and have active requests for proposals for the Harbor Square and Pressey-Otley properties. New retail and restaurants continue to locate in Hampton. Businesses like Howmet, Faneuil, and Lockwood Brothers continue to expand, while new businesses like Federal Express and Liberty Source have located in the City, investing millions of dollars. 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.

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.

Additionally, implementation of strategies like the earlier referenced debt management plan will enable us to continue to make the investments in our infrastructure, economy, and community facilities without increasing our General Fund debt service requirements. These actions solidify our ability to dedicate future revenue growth to a continued reinvestment in our workforce and service levels.

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### Closing Thoughts

Without a doubt, the recession years were tough budget years. Each year, the Manager's Message began, "this year is the worst budget we have ever experienced." I am pleased that we are finally able to deliver a budget in which this is not necessary. We have been able to avoid major tax increases and cuts this year. We have also been able to take the first step towards meaningful pay increases to retain, attract, and reward our world-class staff. These are major achievements.

As I reflect on those past years, and the ones ahead, one thing is abundantly clear: our citizens, businesses, staff and elected officials have all consistently pulled together during the tough economy 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 we have turned the corner and our financial picture will continue to improve in the coming years. Although none of us can know exactly what the future will hold, I firmly believe the recovery we are experiencing will continue. I have no doubt that our city's future is bright and that Hampton will continue to be the All America City so many of us proudly choose as home.

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



**City Council Amendments to the  
Manager's Recommended Budget  
Fiscal Year 2016**

<b>General Fund</b>	
<b>Manager's Recommended FY 2016 Revenue Estimate</b>	<b>\$450,428,275</b>
<b>Amendments to FY 2016 Revenue Estimates:</b>	
<b>Decrease in Revenues:</b>	
Special Assessment - Peninsula Town Center CDA revenue estimate per the annual assessment report.	(174,000)
<b>Increase in Revenues:</b>	
Special Assessment Tax, H2O CDA revenue estimate per the annual assessment report.	10,025
Fee-Collecting Court Fines, Increase in fee collection	<u>200,000</u>
<b>Total Revenue Amendments</b>	<b>36,025</b>
<b>Total Council Approved Revenue Estimates - FY 2016</b>	<b>\$450,464,300</b>
<b>Manager's Recommended FY 2016 Expenditures</b>	<b>\$450,428,275</b>
<b>Amendments to FY 2016 Expenditure Estimates:</b>	
<b>Decrease Expenditures:</b>	
Departmental Support - Contractual: Decrease in Peninsula Town Center CDA Special Assessment per annual assessment report.	(174,000)
<b>Increase Expenditures:</b>	
Departmental Support - Contractual: Increase in H2O CDA- Special Assessment revenue estimate per the annual assessment report	10,025
Treasurer's Office - Funding to increase the collection of court fines.	49,500
Retirement and Employee Benefits - Funding to increase the collection of court fines.	17,500
Transfer to Capital Projects Fund - Neighborhood Support	100,000
Transfer to Capital Projects Fund - Other CIP Projects	<u>33,000</u>
<b>Total Expenditure Amendments</b>	<b>36,025</b>
<b>Total Council Approved Expenditures - FY 2016</b>	<b>\$450,464,300</b>



**City Council Amendments to the  
Manager's Recommended Budget  
Fiscal Year 2016**

**Capital Projects Fund - FY16**

<b>Manager's Recommended FY 2016 Revenue Estimate</b>	<b>\$50,562,219</b>
<b>Increase in Revenues:</b>	
General Obligation Bond Proceeds (BP) ~ City	3,000,000
General Fund Balance Transfer (GFB)	133,000
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<b>Total Revenue Amendments</b>	<b>3,133,000</b>
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<b>Total Council Approved Revenue Estimates - Capital Projects Fund</b>	<b>\$53,695,219</b>
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<b>Manager's Recommended FY 2016 Expenditures</b>	<b>\$50,562,219</b>
<b>Increase Expenditures:</b>	
Maintenance of Public Properties: Neighborhood Centers, Central Park (Newmarket Creek) & Love your City Projects	3,000,000
Neighborhood Support: Neighborhood Improvement Funding	100,000
Other CIP Projects: Contingency	33,000
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<b>Total Expenditure Amendments</b>	<b>3,133,000</b>
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<b>Total Council Approved Expenditures - Capital Projects Fund</b>	<b>\$53,695,219</b>

**Hampton Roads Convention Center - FY16**

<b>Manager's Recommended FY 2016 Revenue Estimate</b>	<b>\$9,989,261</b>
<b>Increase in Revenues:</b>	
Appropriation of 2+2 Operating Revenues	43,086
<b>Decrease in Revenues:</b>	
Transfer from General Fund 2+2 Taxes	(43,086)
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<b>Total Revenue Amendments</b>	<b>0</b>
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<b>Total Council Approved Revenue Estimates - HRCC</b>	<b>\$9,989,261</b>
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<b>Manager's Recommended FY 2016 Expenditure</b>	<b>\$9,989,261</b>
<b>Decrease Expenditures:</b>	
Personal Services Category	(12,240)
<b>Increase Expenditures:</b>	
Operating Expenditures	12,240
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<b>Total Expenditure Amendments</b>	<b>0</b>
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<b>Total Council Approved Expenditures - HRCC</b>	<b>\$9,989,261</b>