



MANAGER’S BUDGET MESSAGE

Manager’s Message1

City Council Amendments to the Manager’s Recommended
Fiscal Year 2012 Budget.....11

This section includes the submittal letter from the City Manager which outlines the major changes in revenues and expenditures that significantly impacted the City’s operating budget and addresses any major policy decisions that impact this budget. The City Council amendments summarizes all changes made to the Manager’s Recommended budget submitted on April 15. Strategies utilized to balance the City’s budget along with their related impact on the General Fund departments and the City’s organizational chart including all funds is also included.



April 15, 2011

Mayor Ward, City Council Members and Citizens,

Enclosed you will find the FY 2012 Manager's Recommended Budget totaling \$428,539,903, a 3.89% increase over the adopted FY 2011 budget. Of this grand total, the City Operations budget is \$243,648,430 (6.86% increase) and the School System portion is \$184,891,473 (0.22% increase).

However, I must caution that these numbers are deceiving in that they do not, at first glance, convey the severity of the situation the City faced in this budget cycle. The total City budgeted revenues increased by nearly \$15 million. Yet, virtually all of this increase was not available for general fund/governmental purposes. The following revenues (in rounded amounts) had corresponding expense requirements that offset one another:

- Ft. Monroe payment in lieu of taxes for anticipated services 2,400,000
- Special tax assessments collected on behalf of & then transferred to CDAs 5,800,000
- Increased incremental taxes for the Peninsula Town Center CDA based actual performance of facility 340,000
- State Social Services revenue for mandated programs 1,025,616
- TOTAL NEW RESTRICTED REVENUES: 9,565,616**

Our budget also assumes the use of designated fund balance from departmental savings to accomplish two significant initiatives - one to assist homeowners suffering from repetitive flooding issues and the other to provide our hard-working employees with some merit-based compensation enhancement. Both of these initiatives will be elaborated upon later in this message. However, it is important to note that the \$4.1 million proposed for use comes from a one-time source of monies saved over many years by departments. These uses - also one-time in nature - are an appropriate use of monies that we have been carefully reserving for times such as these.

- Waterway investments/home elevation revolving loan program 2,500,000
- Employee one-time performance payment 1,600,000
- TOTAL NEW ONE-TIME DESIGNATED FUNDING USE: 4,100,000**

Together these two categories of revenues/expenses totaled nearly \$13.7 of the \$15.0 million City budget increase. While these revenues show up in the total revenue, they were



not available for general uses. Stated another way, if these revenues and expenses were removed, the City budget would be essentially flat. While real estate taxes continued to decline due to a weakened housing market regionally and nationwide, other revenues such as personal property, sales and meals helped to offset these losses.

The expenditure side of the equation was equally challenging. Although revenues were down, certain expenditures continued to grow faster than inflation. City health insurance and gas increases are but two examples of expenses which needed to be absorbed by the budget. Capital improvement plans called for a major infusion of additional dollars in FY 2012 for both maintenance and enhancement projects. Debt service increases were also required. New state mandates in the areas of youth and family services as well as increased local match requirements for social services impacted the budget as well.

Perhaps the largest single increase required was funding for the staff needed for the new Northampton Fire Station planned to open during FY 2012. Nearly \$1 million annually will be necessary to operate that facility on a 24 hour a day/7 day-per-week basis. When planning for this station began many years ago, no one could have predicted the worst recession the country has faced since the Great Depression. Yet, staffing now becomes a reality.

These unfunded expenditure pressures (as opposed to funded ones such as new staffing required for Fort Monroe as noted above) coupled with flat revenue demanded further expenditure cuts and some continued appropriate use of undesignated fund balance in excess of policy for one-time capital projects. While some use of fund balance is still included in the recommended budget for such projects, the amount is slightly reduced from past years. This reflects an ongoing commitment to gradually replace the use of one-time monies with recurring funds to the maximum extent possible without decimating the base city operations.

All of this is in the way of noting that this budget was exceptionally difficult to manage. While this budget was indeed somewhat less challenging than last year's, we were still facing tough choices and further reductions in city operations. And yet, as I read the regional, state and national news, I must also note that our community has weathered the recession better than many. Many cities and towns nationally are closing community centers, public libraries, etc. Other communities have cut first-responders like police officers and firefighters. While cuts to city services had to be made in this budget, we were able to avoid truly draconian reductions.



Hampton is blessed to have several economic projects that are coming to fruition at this critical time – projects long-planned that will reap major dividends for the community and the budget. Indeed, increased revenues from the Peninsula Town Center are included in this proposed budget. The meals, sales and admissions taxes paid at the Center are an instrumental factor in minimizing further reductions to city services. The Hampton University Proton Beam Institute is also now open and we are confident that as more patients come to the center, we will see improved lodging, sales and meals tax receipts from it as well. So while our challenges were – and remain – great, we should recognize and understand that the painful cuts we are enduring could have been much worse.

I am pleased that I am able to deliver a budget that I believe makes required cuts in the least damaging manner. This is not to say that the cuts are pain-free. On the contrary, all of the 16 permanent full-time positions that are recommended for elimination were warranted and would have been funded were the City's economic position different. All of the operating budget cuts will be felt by departments as they struggle to serve our citizens and there will be occasions when citizens may see a slight impact on service delivery. Certainly, there will be constituents who will bemoan the reduction of an important service to them. However, I believe we have protected the core services of the City to include police, fire, emergency management, infrastructure management, garbage collection, etc.

I cannot overemphasize the importance of citizen input in this budget process. Over the last several months, we have continued the extensive budget outreach we began last year. We even increased the numbers of residents who participated – no small feat, given last year's mass efforts. We undertook this outreach because we understand that a budget should, as much as possible, reflect citizen values. While all of our services are important, we understood that cuts needed to be made; that any cut we would offer would be disappointing to some; and, as a result, we needed to have as clear an understanding as possible about the services residents most valued.

While there is not a perfect correlation between the input received from citizens and our final recommendations, the citizens' voices and thumbprints are embedded throughout. Those services that rated the highest – such as fire, emergency services, police and public works – were largely untouched in this budget. Some even grew slightly, such as Police and Fire which added positions for the Fort Monroe transition and the new Northampton Fire Station.

However, even services that were highly rated, received a thorough review by my management team and me. We looked at each offering by each department to determine



the impact made for the city dollars invested. We asked questions such as: “Is this possibly an outdated mode of service delivery?” or “Do we need to make changes to improve the bottom line performance of this effort?” This critical examination led us to recommend some limited changes in either departmental services and/or the way we executed that business.

For instance, last year the Library was not affected by budgetary cuts. The decision not to cut it reflected strong citizen comments about the criticality of the public library. Yet, as we looked at the bookmobile function, we concluded it no longer served its original purpose at the same levels of community impact. When first created, the bookmobile was perhaps the only way young children got introduced to reading and the public library system. Today, many programs exist to take the bookmobile’s place. First, public school libraries have grown in number and collection size. The public library now has many branch locations, making access easier than ever. Day care centers routinely make field trips to the branch locations, reducing the need for the bookmobile to go to them. At-risk four year olds get books they can take home to their personal library each month in their school environment through the Mayor’s Book Club, a community-based partnership. Further, the regional non-profit First Books also works to get books in the hands of youngsters through a variety of means. Neighborhood learning centers are also more prevalent in our community. These learning centers provide the technology access students also need, and seek. While the bookmobile provides fond memories for many of us, it certainly becomes a less necessary governmental service when looked at in this context. Thus, this budget proposes the elimination of city government-provided bookmobile service. Assuming Council supports this recommendation; we will look for a suitable non-profit provider who may wish to continue the tradition in exchange for the donation of the vehicle and its materials.

Spay and neuter coupons are another example of the outdated approach in a nonetheless highly rated service area, animal control. For well over twenty years, the city has funded spay & neuter coupons to help reduce the cost of these procedures. The goal of the program – to help reduce pet overpopulation – is critically important. However, since the spay & neuter coupon’s inception, a superior service delivery model – which the city also funds – has emerged. Each month PETA provides low cost procedures in our neediest neighborhoods. This program costs less and impacts more people thereby minimizing the need for the original program. Accordingly, this budget zeros out the spay & neuter coupon program while retaining our monthly PETA partnership.



In other cases – principally in the highly rated Public Works and Parks & Recreation departments – we have also recommended some limited privatization/contracting out of services to both save money and, possibly, enhance service delivery. National experience teaches localities that it is important not to fully divest the community of capacity in any given service; otherwise, the private sector can have the community at a distinct disadvantage. However, we do believe there are opportunities to explore more active engagement of our private sector in some of these larger service areas. Service contracts will likely cost as much as the salaried public sector workers we would otherwise hire. However, by going this route, we avoid the long-term benefits costs typically associated with the public sector employee. This year’s budget proposes a piloting of efforts in Public Works streets operations and Parks landscaping. In these cases, we will not fill currently (or soon to be) vacant positions while engaging in contract operations over the first half of the fiscal year. After that period, we will be able to evaluate whether the quality enhancements and cost savings are as projected; and, if so, plan for more extensive privatization/contracting in future years.

These are but a handful of examples where the critical examination of even the most highly rated city services led to savings. I use these as illustrations of my management team’s commitment to assuring that we use the taxpayer’s dollars wisely and only ask – whether now or in the future – for additional dollars when we are fully convinced that the remaining needs are real.

In other cases, lower community ratings did lead to reductions and/or new approaches, as suggested by community polling and confirmed by our collective management evaluation. For instance, the Teen Center has not yet achieved attendance levels that support its annual budget. In examining contributing factors, we have concluded that dual management of the facility – by city staff and contract staff – is not ideal and leads to unnecessary, duplicative overhead. Accordingly, this budget proposes a restructuring of our approach. This budget eliminates the city staff and instead will rely entirely on a contracted service approach. By eliminating the extra layer of management, we will save over \$117,000 annually and yet assure the continued operation of the facility. During the next year, we will work with the successful contractor to modify operations to achieve higher levels of participation. Should we be unsuccessful in achieving this goal, we will proceed with planning other possible expanded uses of the facility including, but not limited to, offerings for seniors.

Some services – such as the History Museum and the Arts Commission – were rated low last year and again this. Interestingly, however, few residents actually supported



outright elimination. After last year's budget reductions, I felt deeper cuts would have rendered these programs so "beyond bare bones" as to be practically inoperable and thus akin to elimination. Instead, I am proposing some management changes that I believe will stabilize and even possibly improve performance. In the case of the History Museum, we will end the historian contract so that we can fund a full-time professional museum manager. Equipped with the right skill sets, a professional manager should be able to come in and greatly increase admissions, members, sponsorships and grants.

In the case of the Arts Commission, I have tasked the Coliseum Director and Arts Commission Director with finding a way to implement the successes of an integrated entertainment management organization here in Hampton, much as Norfolk does with its Scope, Chrysler Hall and other cultural venues. Through such a collaboration, some central business function and administrative overhead may be shared, thereby reducing some costs. Also, through the more widespread marketing arm of the Coliseum, we should be able to increase attendance at the American Theater over time. The combined effect of such changes would lead to stronger financial performance, thereby reducing the general fund support of the arts in time.

Youth prevention and early intervention services - which were less highly rated this year than last - were also largely held constant. We have opted to preserve them because of clear evaluative data that establishes that cuts in these efforts will result in larger long-term reactive services. We endeavored to not fall prey to the trap of being "penny wise and pound foolish" with regard to these important services and only made changes.

These are but a few examples of how citizen input shaped the development of this budget. Other management influenced cuts - such as the elimination of vacant positions, the retirement/separation incentive program savings, a handful of other contracting out decisions (such as for some information technology services as well as graphics and research support in lieu of filling permanent full-time positions) - all led to this balanced budget recommendation.

I am pleased to report that there is only one revenue recommendation in this budget. Like the Newport News City Manager, I am recommending an increase in the cigarette tax from the current 65 cents per pack to 75 cents per pack. This increase will generate about \$265,000 for us and is critically important in providing necessary funding for the Northampton Fire Station staffing. After completing all the reductions and management changes noted above, I simply could not recommend further, deeper cuts to city departments to completely fund the staffing of what is, effectively, a new service. As



cigarette usage leads directly and indirectly to both fire and emergency medical calls for service, this minor rate change to support these services is appropriate.

Thus far, I have focused on the major reductions or management shifts contained in this budget. However, there are a few enhancements of which I am particularly proud. Not only does this budget fully fund the necessary firefighters for the Northampton Fire Station but it also adds significant funding for waterway and flooding concerns. The signature piece of this additional funding is a Home Elevation Revolving Loan Program which will make affordable, low-interest loans available to homeowners wishing to elevate their residences. Priority will be given to those homes which have suffered repetitive flood loss. While details of the program (such as term, actual interest-rate, application process, etc.) still need to be finalized, the \$2.5 million provided in this budget would serve approximately 50 homeowners (based on an average \$50,000 per home elevation estimate). This program is to be structured as a revolving loan, meaning that as installments on the first loans are paid additional loans to other homeowners will continue. This program responds to a higher resident emphasis on the need for governmental efforts to address waterway management concerns of residents, doing so through a shared partnership between the public sector and the private homeowner. Other waterway investment opportunities can also be considered with this money. Certainly, there will be many worthy projects for consideration once our community group completes its work later this calendar year. In the meantime, this hazard mitigation need – discussed and endorsed by the Tidal Flooding Subcommittee – makes logical sense as a departure point.

To ensure the continued success of our waterway initiatives, this budget also proposes to fund – for the first time – a certified hydraulics engineer. Having such a staff specialist on board should help better guide city investments and assist in the design/evaluation of future waterway projects. The City needs this level of expertise on staff given the nature of our coastal community.

Other new investments are of a lesser dollar value but have the potential to make lasting impacts on the community. For instance, we have added extra funds (\$11,000) to extend our partnership for homeless housing via HELP. The successful Night's Welcome Program was expanded in FY 2011 to offer shelter on days and evenings during extreme weather events. In FY 2012, the next phase of our efforts to expand services will see an additional four weeks of service added to the program. HELP has agreed to work with us to add a month of service each fiscal year until we are serving this vulnerable population all year long. A five-year commitment of \$30,000 per year, for a total of \$150,000, is suggested to support the Sentara Nightingale campaign. We will also make technological



enhancements to our city computing system to enhance our boards and commission application and review process.

Altogether, these budgetary strategies have enabled us to give the community a balanced budget that, I hope you will agree, simultaneously makes appropriate cuts and investments in our community.

The most challenging aspect of this budget is the impact on our work force. All of the people who happen to be in jobs we will cut are good, hard-working folks. The most painful part of these downsizing decisions is knowing that wonderful people who put their heart and soul into serving the community each and every day get hurt. Let me assure you that I will personally work with Human Resources to do right by all of these employees. Fortunately, the numbers we will impact this year are significantly less than last year. The position eliminations this year total 16; but, because most are vacant, only 6 people will be personally impacted. As we did last year, we will do all we can to place folks into jobs for which they are qualified and interested. I am encouraged that, through our hiring freeze and retirement incentive, we already have many open positions in which employees may potentially be placed.

However, even the positions that do not have people in them will affect the departments from which they come. As I have already documented for you on several occasions, our workforce is very lean. Cutting any position makes a major impact on those left behind. These cuts will demand shared sacrifice organizationally. That sacrifice includes even my office which has contributed to the position eliminations.

Those who remain, however, deserve recognition. Whether it is the “big” things (like clearing our arterial roads of 12 inches of snow after Christmas better than any other city in the region) or the “little” things (like the day-in and day-out service delivery they execute most times so flawlessly), they continually excel. It is truly remarkable what we achieve in light of the tight fiscal situation in which we manage.

This budget did not afford me the opportunity to return to our annual recurring merit salary increases. However, I could not, in good conscience, fail to provide some measure of compensation enhancement for this workforce. Therefore, as noted earlier in this message, I am proposing a one-time performance payment to each employee who has earned a 3 or higher (out of 5 possible) on their annual merit review. This one-time performance payment will be equal to \$500, after taxes, for all permanent full-time



employees and \$250, after taxes, for all part-time/WAE employees. The payment will be made in the first paycheck of the fiscal year in a lump sum. In so structuring this compensation to employees, we are getting more money in the pockets of our lower-salaried employees than a 1% general wage increase might otherwise have provided. Employees making less than \$50,000 a year, net more funds from such a plan. Moreover, by providing the funds all at one time, at the start of the year, instead of over 26 pay periods, the effective buying power of the money will be stronger, sooner. This performance payment is being funded out of prior departmental savings that have accrued over the years. It is fitting to return a portion of the funds to the very employees who helped create those savings. While I wish I could have done more, this payment should assure our workforce that their efforts are noticed and appreciated.

I would be remiss if I did not note that, even as we go about the process of adopting the FY 2012 budget, staff is already looking ahead to FY 2013 and beyond. We endeavored to make our balancing decisions fiscally responsible not only for this year but also for the future. I believe we honored this need in virtually every recommendation we made. However, we have relied on a limited use of one-time revenues – such as the use of fleet management reserves to offset the increase in fuel prices which we hope will level off as the unrest in the Middle East subdues – that, while prudent now, MAY cause challenges next year if our assumptions prove false. Looking ahead, I plan to propose changes to the post-retirement health care benefits for new hires in the coming months after a complete examination of potential impacts to our grandfathered health insurance plan status. I am also actively engaged in conversations with our School Superintendant and fellow Newport News City Manager about potential joint purchasing and/or service delivery opportunities. By actively working on potential joint efforts early in the year, we should be poised to make more specific recommendations in the next budget cycle.

In closing, as previously stated, this budget required cuts, new ways of doing business and one minor tax increase to fund new service. I truly believe we have made the tough choices we were called upon to make in the least damaging manner possible and in a way that is respectful of the resident input. I want to publicly acknowledge and thank a wonderful group of department heads, assistant city managers and budget team for ensuring that this challenging budget accomplished these goals. I must also highlight a larger group of employees who last year helped me shepherd in a whole new level of civic engagement around the budget process. This year that same team enhanced our “I Value” campaign. Our time in the community has been incredibly uplifting and insightful. To demonstrate the impact of the citizen comments on this budget in an even more overt way, you will find that this budget document continues to feature the names, voices and



City of Hampton



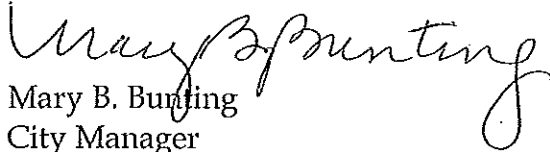
{ FY12 Manager's
Recommended Budget }



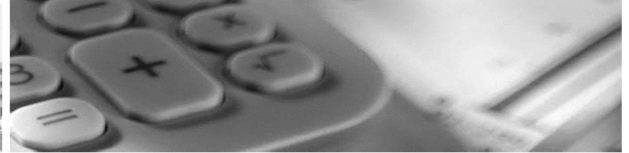
comments of our citizens. They have helped us to better illustrate for you that this budget is indeed a reflection of community values – that the budget is far more than numbers. Instead, it is the reflection of the things that matter most to our community. I trust the City Council and community will enjoy and appreciate these expressions as much as I do.

We look forward to working with each of you to better understand this budget and its impacts on our community and work force in the coming weeks. As always, we stand ready to assist you and the community.

Sincerely,



Mary B. Bunting
City Manager


 FY12 Council
Approved Budget


City Council Amendments to the Manager's Recommended Budget Fiscal Year 2012

General Fund	
Manager's Recommended FY 2012 Revenue Estimate	\$428,539,903
Amendments to FY 2012 Revenue Estimates:	
Increase in Revenues:	
Designated Fund Balance (End of the Year Savings)	250,000
Total Revenue Amendments	250,000
Total Council Approved Revenue Estimates	\$428,789,903
Manager's Recommended FY 2012 Expenditures	\$428,539,903
Amendments to FY 2012 Expenditures:	
Decrease Appropriations:	
Contingency	(734)
Fire & Rescue - Reduction for Firefighter's Gear (New Fire Station 11) to be purchased utilizing one-time EMS funding	(48,500)
Municipal Council - Reduction due to savings attributed to purchase of iPad technology	(10,000)
Outside Agencies/Support Contractual - HRT (additional true-up savings)	(29,904)
Youth, Education & Family Services - Reduction to the School-Age Program	(90,200)
Increase Appropriations:	
Non-Departmental - Disparity Study (revenue source - Designated fund balance)	250,000
Outside Agencies/Support Contractual - Peninsula Stadium Authority (safety and accessibility of the Stadium for a total contribution for this activity of \$25,000)	14,138
Outside Agencies/Support Contractual - Regional Air Service Enhancement Committee	58,000
Outside Agencies/Support Contractual - Sister Cities	12,000
Parks & Recreation - Recreation	
Newtown Learning Center	30,000
YH Thomas Community Center	20,700
Kids' Café - YH Thomas Community Center	16,500
New Life Learning Center	23,000
Youth, Education & Family Services - Neighborhood Youth Advisory Board	5,000
Total Expenditure Amendments	250,000
Total Council Approved Expenditures	\$428,789,903