



City of Virginia Beach

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Members of City Council

Subject: FY 2022-23 Operating Budget and Capital Improvement Program (CIP) Reconciliation

Dear City Council Members:

Even though the worst of the pandemic is likely behind us, the City continues to face new challenges and must position the FY 2022-23 Operating Budget and Capital Improvement Program (CIP) to remain flexible and manage baseline services during times of economic and inflationary uncertainty. Even still, the City has made it a priority to take steps to provide fiscal relief opportunities for taxpayers, businesses, and non-profit organizations during the last two years and, the budget for FY 2022-23 continues to address this as a priority area of concern communicated from City Council. With the Adoption of the FY 2022-23 Operating Budget, those fiscal relief efforts total more than \$144 million to date. A portion of this relief effort is associated with Virginia Beach's continued effort to provide personal property tax relief by mitigating the impacts of the valuations of vehicles for this calendar year and next. Even in the face of labor shortages and increased demand for services, the City of Virginia remains committed to offering tax relief.

As is the case every year, demand for services and articulated needs far exceed revenue projections. City Council heard the voice of the public and is reducing the tax rate of \$1.013 as recommended in the City Manager's FY 2022-23 Proposed Operating Budget to a tax rate of \$0.99. This is the same tax rate adopted by City Council in the current year FY 2021-22. Even though the tax rate is being reduced, City Council has not lost focus of flood protection needs throughout the City. The Adopted FY 2022-23 Operating Budget will reflect a new Flood Protection Fund with a real estate tax dedication equivalent of 4.1¢ to support the debt services

associated with the approved \$567.5 million bond referendum. This translates to an operating budget utilizing 94.9¢ in real estate revenue to support and maintain baseline services and dedicates 4.1¢ to the newly established fund.

Similar to the City, Virginia Beach City Public Schools (VBCPS) is in a good position to maintain core services and even grow in some areas in FY 2022-23. Through the use of expanded resources from the Commonwealth (\$21.5 million) and via the Revenue Sharing Formula (\$27.7 million), VBCPS has proposed an operating budget with a robust emphasis on staffing and compensation needs. The Schools' Proposed Budget includes nearly \$47 million in compensation-related increases, incorporating a 5% salary increase, adjusting various ranges for hard-to-fill positions, adding 58.48 FTEs, and reducing employee health care premium costs. The School's Capital Improvement Program (CIP) also includes a significant investment in school modernization needs with the full funding of Bettie F. Williams Elementary Schools (\$68 million) and Princess Anne High School (\$162.5 million) within the six-year CIP. Within the FY 2022-23 Operating Budget and CIP, VBCPS is able to sustainably support all of these initiatives, with reliance on less than \$1 million from their School Special Revenue Fund. The Adopted Budget meets all of the funding needs and requirements put forth by VBCPS in their Proposed Operating Budget.

Today, Virginia Beach remains a regional leader, with some of the lowest tax rates and a thriving local economy. These and other notable investments in the community will continue to make Virginia Beach a safe and welcoming city for citizens and visitors alike.

On March 22, 2022, the City Manager presented his Proposed FY 2022-23 Operating Budget and Capital Improvement Program (CIP). After several weeks of City Council workshops, departmental briefings, and public input at hearings and via social media, it is recommended that the Operating Budget and CIP be adopted with the following adjustments:

1. Reduce the real estate tax rate by 2.3¢ from the City Manager's Proposed tax rate of \$1.013 per \$100 assessed value to \$0.99 per \$100 assessed value and reduce estimated real estate tax revenue within the General Fund by \$15,705,412. The proposed budget included a 4.1¢ real estate tax dedication to support the Flood Protection Program bond referendum approved by over 72% of voters in November 2021. Of the total 4.1¢, 2.3¢ was to be supported through a proposed tax increase with 1.8¢ being absorbed through natural growth in real estate tax revenue. Eliminating this tax rate increase results in the City absorbing the full

cost of Flood Protection Program bond referendum with no change in the \$0.99 tax rate approved in the current year FY 2021-22. Of the total \$0.99 tax rate, 4.1¢ will remain dedicated to the Flood Protection Program within a stand-alone fund acting as a “lock box”, with the remaining 94.9¢ supporting other base operations and services.

2. Reduce the Sandbridge Real Estate tax rate by 2¢ decreasing the FY 2022-23 Real Estate Tax revenue within the Sandbridge SSD Fund by \$297,643. This reduction in revenue will be offset through an equivalent reduction in Sandbridge Special Service District (SSD) Fund reserve for contingencies. Due to the healthy performance of hotel tax revenues dedicated to the fund, this reduction in real estate tax revenue is not anticipated to negatively impact the sand replenishment cycle or prevent the current practice of ensuring two replenishments are funded at all times.
3. On December 14, 2021, City Council made a motion to defer two Personal Property tax relief initiatives and a BPOL tax relief initiative brought forth by the Commissioner of Revenue (COR) to a date certain of May 10, 2021. Subsequently, on March 15th, City Council acted, reducing Personal Property tax rates to one millionth of one cent (\$0.000001) on each one hundred dollars of assessed valuation on vehicles of individuals at least 65 years of age or anyone found to be permanently and totally disabled, as well as, on tangible personal property for new businesses that qualify for the Business License Incentive Program. Implementing this tax rate in FY 2022-23 results in the need to reduce the City Manager’s proposed Personal Property tax revenue by \$336,132. This reduction, when combined with applying the fair market value to vehicle assessments (cost avoidance \$42 million) and absorbing the Bond Referendum dedication within the current year’s tax rate of \$0.99 per \$100 assessed valuation (\$28 million), result in a significant amount of tax relief and cost avoidance for residents. To implement the BPOL recommendations of the COR would result in the need to reduce the Proposed Operating Budget by an additional \$2.2 million. Considering the relief initiatives already being put forth, and understanding the baseline needs for City operations, it is recommended that considerations to modify BPOL threshold reductions be deferred indefinitely.
4. Utilize the \$32.8 million General Fund compensation reserve included as a part of the City Manager’s Proposed budget to implement a hybrid pay plan system and a citywide minimum wage of \$15 per hour. The hybrid step includes a step pay plan for public safety and a portion of the general workforce. The step plan will be based on years of service with a goal of 3% separation between each step.

Implementation of this step plan will cover 80% of the City's workforce and is the largest change to the overall pay structure within the last 20 years. The goal is to provide every full-time and part-time City employee a minimum 5% compensation increase, which will be handled in accordance with City Policy. Of the total citywide cost to implement, the cost associated with Public Utilities and Stormwater enterprise funds reduces the burden on this reserve and allows for the implementation of \$15 per hour minimum wage with little additional impact to the General Fund. The total compensation reserve within the General Fund will not support only the General Fund but other funds should they not be able to absorb this increase such as Parks and Recreation Special Revenue Fund, Sheriff Office Special Revenue Fund, and the Waste Management Fund.

5. Increase General Fund Non-Departmental contributions by \$50,000 to provide one-time grant funding to support the SonRise Christian Music Festival to be held in Virginia Beach in September 2022.
6. Increase General Fund Non-Departmental contributions by \$50,000 to provide one-time grant funding to the Urban Renewal Center. These funds will be utilized to implement the IMPACT Youth Arts program in Virginia Beach which will consist of 15 week courses in dance, theater, and boating.
7. Reduce funding within General Fund Non-Departmental Operating Budget micro-grant line item and establish a line item for a one-time grant contribution of \$5,000 to Transgender Assistance Program of Virginia (TAP). These funds will be used to support ending homelessness within the transgender community in Virginia.
8. Increase General Fund Non-Departmental Regional Grants by \$8,646 for a one-time contribution to support the Great Neck Athletic Association Football Program, an all-volunteer organization directly affiliated with the Virginia Beach Department of Parks and Recreation, to support tackle football for Virginia Beach youth.
9. Increase the General Fund Municipal Council operating budget by \$3,000 to further support the Ignite Series.
10. Increase Cultural Affairs General Fund Operating Budget by \$50,000 for increased support to the Arts and Humanity Commission grant program and redirect \$115,000 of the Arts and Humanity Commission Grant funding to a separate line item to make a direct contribution to the Museum of Contemporary

Arts (MOCA) in the form of a grant. The \$115,000 being redirected is the FY 2021-22 amount awarded to MOCA through the Arts and Humanities competitive grant process. Providing these funds as a direct grant contribution to MOCA will reduce any burden placed on MOCA staff when applying for the grant.

11. Increase Cultural Affairs TIP Fund Operating Budget by \$25,000 for increased support to the Boardwalk Art Show. In FY 2022-23, the City will provide MOCA with a contribution amount totaling \$200,500 to support the Virginia Beach Boardwalk Art show. Support for this initiative will be provided through the appropriation of fund balance within the TIP fund.
12. Redirect funding within the General Fund Municipal Council's operating budget to support the Independent Citizen Review Panel through the use of contractual services. This results in the elimination of a proposed new FTE and redirects \$110,000 in funding to operating accounts to support the Independent Citizen Review Panel.
13. Increase the Tourism Investment Program (TIP) funding in the Department of Cultural Affairs Operating Budget by \$140,000 for a grant contribution to the ViBe Creative District. Support for this initiative will be provided through the appropriation of fund balance within the TIP fund. When combined with the \$60,000 typically provided through the Virginia Beach Arts and Humanities, total funding to the Creative ViBe District would be \$200,000. With these funds, the ViBe Creative District will improve branding, marketing, and advertising, provide programming and events, and supplement artists and contracted manpower for staffing support. On-going support at this level will be evaluated annually and be determined by TIP Fund capacity and the annual spend of these funds by the ViBe Creative District.
14. Increase the Open Space Fund authorized FTE count by 6.4 increasing salaries and operating accounts by \$431,023 and increasing the Open Space pay-as-you-go transfer to the CIP by \$1,000,000 to the Parks and Recreation CIP section. To balance the fund, \$1,431,023 is reduced from the Open Space reserve for contingencies.
15. Increase the General Fund Emergency Management Services (EMS) operating budget by \$150,000 to convert 12 new EMT FTEs included in the proposed budget to Paramedics.

16. Increase Town Center Special Service Fund Economic Development operating budget by \$300,000 for enhanced entertainment and security enhancements providing block-by-block security for the grounds and plaza. This includes ambassadors during the peak summer season, to address daily grounds cleaning and engage with patrons. Support for this initiative will be provided through the appropriation of fund balance within the Town Center SSD.
17. Increase the City of Virginia Beach Public Schools Grant Special Revenue Fund Operating Budget by \$14,432,365. This increase in appropriations are supported through an estimated increase of \$14,432,365 in federal revenue. These funds will be utilized for construction/renovation projects to replace entire HVAC systems in identified schools, additional funds for Title I personnel and benefits; additional teachers and counselors for summer school; additional teachers counselors, and bus drivers for before and after school programs, online STEM resources for before and after school programs, fuel for before and after school programs, stipends for reading and math teachers teaching online and face to face sections of the same course(s) at the same time(s), take home manipulatives for students to address unfinished learning, and funds to support transportation and counselors for homeless students.
18. Ahead of the FY 2023-24 Operating Budget process, the City Manager is to provide a report to City Council with options to establish a sustainable Parks and Recreation- Recreation Center plan. This report will not be a recommendation for support but instead will be used to provide City Council and the public with clarity and the overall facility maintenance and long-term replacement/modernization needs are for the existing City recreation centers. Per a consultant, based on current facility conditions and age the priority of modernization needs are in the following order Great Neck, Bayside, Princess Anne, and Seatack. Included within this report will be a projection of the cost for construction and operational needs as well as information of what funding gaps might exist.
19. To improve the effectiveness and efficiencies of government in the delivery of services, the City Manager is authorized to redirect long term vacancies and their associated salary and fringe benefit cost to make organizational adjustments necessary to implement the following initiatives:

- To improve existing technology services, applications, as well as, streamline the implementation of new technology applications and services throughout the City.
- To provide the members of City Council with administrative and clerical support staff and executive assistance.
- To provide an additional FTE to the Resort Management Office in their efforts to improve customer service and streamline service delivery with the public and business community.

Offsets and Revenue

20. To provide resources and offsets for the changes related to items 1-19, the following adjustments are made:

- Increase estimated revenue from the State Compensation board by \$1,182,634. Of this amount, \$339,481 is estimated within the General Fund and \$843,153 within the Sheriff’s Special Revenue Fund. The transfer to the Sheriff’s Special Revenue fund from the General Fund for a compensation increase is reduced by a like amount.
- Increase estimated 599 State revenue within the General Fund by \$1,208,536.
- General Fund Interest Income is increased by \$1,000,000.
- Reduce the “Emergent Need Reserve” within the General Fund by \$7,000,000.
- Eliminate 6.4 FTEs and reduce \$431,023 within the Parks and Recreation General Fund operating budget and reduce the General Fund pay-as-you-go transfer to the CIP by \$1,000,000.
- Reduce the General Fund pay-as-you-go transfer to the CIP by \$4,514,970 with \$2,000,000 of this reduction being offset by the use of General Fund Fund Balance in year one of the six-year CIP.
- Increase the use of attrition savings by \$185,414 within the General Fund.

CIP

21. Increase funding for CIP #100616 “MOCA Building Rehabilitation” by \$1,000,000 in year two of the six-year CIP and by \$1,362,488 in year three of the six-year CIP. The acceleration of this funding results in the reduction of \$2,362,488 programmed in year five of the six-year CIP. The funding source supporting the acceleration of this project is General Fund pay-as-you-go increases in year two and year three of the six-year CIP with \$2,362,488 in

General Fund Fund Balance reduced in year five of the six-year CIP.
Acceleration of this project will allow the City to begin maintenance work of the MOCA to better coordinate these efforts with the reaccreditation timeline.

22. Increase CIP#100058 “Centerville Turnpike Phase III” by \$6,000,000 in year one of the six-year CIP with Federal revenue increased accordingly. This funding was secured by the hard work of the federal delegation and will allow for the full funding of this project during the six-year CIP.

23. Since the presentation of the City Manager’s Proposed FY 2022-23 Operating Budget and CIP, the City was notified of additional funding to be provided by the State to support the six-year CIP. A total of \$16,578,625 in State revenue was secured through the hard work of the state delegation and the Chair of the Appropriations Committee. This funding is to be allocated within the six-year CIP by the following amounts and for the following projects:

- Increase CIP#100278 “Nimmo Parkway VII-B” by \$10,000,000 in year one of the six-year CIP with State revenue increased accordingly. This funding reduces the local obligation to this project reducing the need for local funding in year five of the six-year CIP. As a result, \$10,000,000 is reduced in year five of the six-year CIP with programmed charter bonds reduced by the same amount. The \$10,000,000 in charter bond capacity is preserved for future use by City Council.
- Establish CIP #100637 “Pungo Ferry Landing Park Improvements” in the FY 2022-23 six-year with \$2,585,625 programmed in year one of the six-year CIP. The means of financing for this project is \$2,585,625 in State revenue.
- Establish CIP #100638 “Owl Creek Boat Ramps” in the FY 2022-23 six-year with \$3,993,000 programmed in year one of the six-year CIP. The means of financing for this project is \$3,993,000 in State revenue.

24. Reduce \$2,514,970 in General Fund pay-as-you-go in year one of the CIP with appropriations to the following projects reduced accordingly:

- CIT #100107 “Network Infrastructure Replacement III” (\$1,000,000)
- CIT #100625 “Virginia Aquarium Security Camera” (\$551,345)

- CIT #100623 "Migration of Virginia Aquarium SCADA to the City Network" (\$403,000)
- CIT #100626 "Public Use Facility Unified Meeting Space Modernization" (\$560,625)

Should allowable state, federal, or local resources become available throughout the year, heavy consideration will be given to restoring these initiatives being removed as a part of reconciliation.

25. Reduce CIP #100631 "Resort Area Site Acquisition" by \$32,100,000 in year one of the six year CIP. From this reduction, a total of \$20,100,000, along with the programmed public facility bond funding, is being eliminated from the six-year CIP and preserved as future debt capacity within the TIP Fund. The remaining \$12,000,000 is being redirected to increase CIP #100146 "Atlantic Park Entertainment Venue" by \$8,000,000 and CIP #100606 "Atlantic Park Offsite Infrastructure" by \$4,000,000 both in year one of the six-year CIP. The need for these increases is the result of construction cost increases driven by supply chain issues and overall inflation. The split between the projects referenced above are estimates and should the amounts differ the City Manager is authorized to transfer between these two projects in an amount not to exceed \$12 million. Prior to the transfer, the City Manager will provide a report expressing the intent, reasoning, and amount to be transferred.

Details about the funding sources and appropriation adjustments outlined in this letter are identified on the attachments.

We want to thank the citizens who participated in public hearings or weighed in on social media to offer their comments on the FY 2022-23 Operating Budget and CIP and the staff members who made every effort to provide answers to our various questions and respond to our requests for information. If you have any questions, please contact us directly.

Sincerely,

Robert "Bobby" M. Dyer, Mayor

Rosemary Wilson, Vice Mayor

Attachments

- Attachment A- Operating Budget and CIP Change Summary
- Attachment B- CIP Detail Sheets

