22 Lincoln Street
Hampton, VA 23669
www.hampton.gov

City of Hampton

Council Approved Minutes - Final

City Council Work Session

Mayor Donnie R. Tuck
Vice Mayor Jimmy Gray
Councilmember Chris L. Bowman
Councilmember Steven L. Brown
Councilmember Hope L. Harper
Councilmember Billy Hobbs
Councilmember Martha Mugler

STAFF: Mary Bunting, City Manager
Steven D. Bond, Interim City Attorney
Katherine K. Glass, CMC, Clerk of Council

Wednesday, February 28, 2024 | **9:00 AM** | **Hampton Roads Convention Center - Ballroom E, Second Floor, 1610 Coliseum Drive, Hampton, VA**

CALL TO ORDER

Mayor Tuck convened the meeting at 9:08 a.m. All members of the City Council were present with the exception of Councilman Hobbs who had previously indicted that he would be arriving late.

Present 6 - Councilmember Chris L. Bowman, Councilmember Steven L. Brown, Vice Mayor Jimmy Gray, Councilmember Hope L. Harper, Councilmember Martha Mugler, and Mayor Donnie R. Tuck

Excused 1 - Councilmember Billy Hobbs

DONNIE R. TUCK PRESIDED

AGENDA

1. 24-0088 Fiscal Year 2025 Budget Development Workshop and Prioritization Exercise

Attachments: Presentation
FY2025 Capital Budget Tracking Sheet
FY2025 Operating Budget Tracking Sheet

City Manager Mary Bunting made opening remarks about the components of the discussion related to the budget. She reminded the public that there is much more information still to come in the future. The General Assembly has not yet finished its budget. In addition, budget sessions for the public begin next Thursday.

Assistant City Manager Brian DeProfio gave an orientation about the budget item ranking workbook which was before Council. He then began the presentation by reviewing the first group of slides which summarized the overview of the budget.

Historically, the highest expenditure of the budget has gone to education with over 44% going to the schools. The second highest expenditure is public safety because retirement and benefits get allocated to public safety and the other business team areas. Because the City is a service industry, over 53% of the budget is allocated to personnel.

The City experienced 11 years of stagnant revenues from 2010 to 2020 following the great recession and the sequestration which impacted the budgets for the military. Revenues began increasing right before the pandemic and have continued to grow.

Mr. DeProfio displayed a graph showing the history of real estate tax values. There was a period in the early 2010's where real estate values decreased followed by near inflation-level growth for several years. In about 2021, we started seeing better growth, which peaked in 2023 and has been steadily declining.

Mr. DeProfio provided a breakdown showing the locally generated revenues. He explained that 80% of local revenues come from what is called “the big five.” This includes real estate at 47.84%, personal property at 14.28%, meals at 8.15%, sales at 6.26%, and business licenses at 4.39%. Other local revenues account for the remaining 19.08%.

The next slide showed a graph comparing the City’s budget to inflation. Had the City adjusted the budget in line with inflation, it would be higher than it is currently.

He displayed a graph showing the comparison between Hampton’s tax rate and those of the other localities in the area. Hampton’s tax rate is the lowest at $1.16.

Financial resiliency is one of the key items of focus when the budget is being developed. The City has a longstanding history of financial resiliency which is achieved by its conservative budgeting and management practices, and economic diversification. Conservative budgeting and management practices include ongoing financial monitoring; continued operational improvements and adjustments when necessary; adherence to Council’s financial policies; and strengthening and maintaining public trust through engagement. Economic diversification includes generating additional jobs; increasing the retail tax base; growing housing values; and improving tourism in the City.

Mr. DeProfio explained this year’s budget challenges which include retaining and attracting employees; infrastructure maintenance; inflation; and an evolving tax base that is increasingly dependent on residential and multi-family.

Mr. DeProfio displayed a graph showing the total market-assessed value comparison of commercial, multi-family, and residential properties from 2000 to 2025. Single-family residential has stayed consistent at around 70% of the tax base. The commercial tax base has declined from 23% to 16% over the last 25 years. Multi-family has increased from 7% to 14% of the tax base.

Revenue growth is slowing in FY25. Real estate values are growing but at lower rates. Personal property taxes on vehicles are projected to be flat. Other local taxes are experiencing growth and interest earnings from investments are strong.

In response to Councilwoman Mugler, the other local taxes that are experiencing growth are the meals tax and retail sales tax.

Commissioner of the Revenue Ross Mugler provided an overview of the Real Estate Tax Reduction (relief) Programs. There are three local programs available which are the Freeze, Deferral, and Exemption programs. The state-mandated real estate tax exemption is for veterans who are 100% service-connected disabled.

The next few slides listed descriptions of each program, the requirements for each program, and the tax revenue impact of each program during Fiscal Years 22, 23, and 24. The total tax relief being provided to the citizens (794 applicants) is a little over $1 million.

The Tax Freeze program freezes the taxes the year the applicant enters the program, will not increase, and if there is a decrease, the homeowner will pay the lower tax.

The Deferral program is an interest-free loan on the taxes which is resolved after the house is sold or one year after the death of the owner.

Mayor Tuck asked several questions. Are more people entering the tax freeze program? For the deferral program, after the appropriate period and transition, are we able to collect the taxes? Mr. Mugler explained that, for the most part, they haven’t many problems but there have been a few issues where they were not notified, sloppy title work has been done, or the property has been transferred and not recognized.

Mr. Mugler explained the Disabled Veteran Real Estate Tax Exemption Program which is a state-mandated program through a referendum that provides a lifetime tax exemption for disabled veterans who have 100% service-connected disability. This program was grandfathered in 2013. He displayed a table containing the amount of tax relief based on the applicant's income level. Mr. Mugler would like Council to look into the use of a Cost-of-Living Adjustment (COLA) for the real estate exemption program because Social Security gave an 8.7% COLA last year. If a COLA adjustment is not used for the taxes, 67% of the applicants would be affected because it would change their bracket, and 20% would be eliminated from qualifying for the program. He recommends doing the same COLA that has been done for some of the other programs. He also proposes that each income level category be increased by $2,000.

Mr. Mugler provided the tax revenue impact for each of the programs for FY22 through FY24. The exemption program has seen a decrease in parcels and revenue. The freeze program has seen an increase in parcels and revenue. The deferral program has seen a decrease in parcels, however, it has had an increase in revenue. The total effect has been a decrease in parcels from 914 to 794 and a decrease in revenue from $1.2 million to $1 million.

Currently (in FY24), the disabled veteran annual real estate tax impact is approximately $6.5 million with over 1,800 parcels in the program, one of the highest in Hampton Roads. It grew by $1.2 million between FY23 and FY24. H stated that he anticipates another $1 million increase. This is 17 times more than what the state said we would have. They predicted it would cost the City no more than $375,000 in FY12. It ended up costing $700,000. A total of $33 million has gone into the exemption program since it started. When combined with the personal property tax exemption, over $8 million will go to exemption programs for veterans in FY2024. Mr. Mugler believes it is time to join the region and try to get a state budget law in place to reimburse localities.

Mayor Tuck asked if Northern Virginia is another region that is impacted to the point that an association of Commissioner of the Revenues would lobby to try to get the number changed or try to get reimbursement from the state. Mr. Mugler stated that he thinks this would be more of a Virginia Municipal League (VML) or Virginia Association of Counties (VACo) issue.

Ms. Bunting said all cities in Hampton Roads are struggling with the effects of this program. She stated that we want to avoid the misconception that we may be against veterans if we raise the tax limits.

Vice Mayor Gray suggested that the VML could take a look at other committees to see if any are willing to take up the issue.

In response to Vice Mayor Gray, Mr. Mugler stated that he does have comparative data for other cities in the region, but it is not included in this presentation.

In response to Councilwoman Mugler, Mr. Mugler explained that the $64,000 maximum household income is for the deferral and freeze programs while the exemption program is a tax credit program. If an applicant doesn't qualify for the exemption program, they will automatically be grandfathered and placed into one of the other programs.

Ms. Bunting explained that a cola-based program would be based on social security so that when a citizen's social security check increases, they are not getting pushed out of the program for exceeding the income limit.

Mr. Mugler shared that the Disabled Veteran Real Estate Tax Exemption resulted in a 13-year revenue loss of $32.4 million.

Ms. Bunting shared that we don't begrudge those who have served in the military, but it is important to note that the disabled veteran exemption program is equivalent to five cents on the real estate tax rate. If the City is successful in getting the state to provide reimbursement for the program, we would be able to provide five cents off the real estate tax rate as a benefit to the residents.

Mr. Mugler continued his presentation with the next topic, the City of Hampton's 2024 Personal Property Tax Assessment. Until two years ago, he had never done a presentation on personal property taxes for Council. At that time the City was considering an assessment ratio. In 2022 the average value of vehicles increased by 25-40%. Council did not want that to happen so they did an assessment ratio of 25%. In 2023 it was adjusted by 7%. Vehicles are assessed using the J.D. Power pricing guide. Mr. Mugler has selected to assess vehicles at 100% of the clean loan.

Mr. Mugler shared that used vehicle prices are down by 13.8%; luxury vehicles are down by 13.2%; SUVs are down by 13.5%; compact cars are down by 16.9%; mid-sized cars are down by 15.9%; and trucks are down by 15.6%. Used prices will continue to fall as a result of new vehicle inventory, higher incentives, higher interest rates, and weaker economic conditions.

Preliminary data shows the assessed value of the 112,000 vehicles in the City to be $990 million with taxes of $43.7 million. This data does not reflect an assessment ratio. Mr. Mugler shared that the personal property book has to be presented to the Treasurer by April 1. Tax revenue is anticipated to remain flat for 2024. The lack of growth is consistent with the other localities in the Hampton Roads region.

Mr. Mugler confirmed for Vice Mayor Gray that the sales tax revenue generated by online shopping is the same as in-store shopping. Mr. Mugler shared that the biggest taxpayer in the City right now is an online retailer and 20% of all shopping is done online. Sales tax revenue in 2025 is expected to be around $22.5 million with almost $5 million being online.

Ms. Bunting noted that there are other taxes associated with physical retailers, such as business licenses, that we don’t get from online retailers.

Mayor Tuck called a brief recess from 9:50 until 10:01 a.m. to determine if adjustments to the sound volume could be accomplished.

The next presentation was given by Finance Director Karl Daughtrey concerning the Real Estate Tax Stabilization Policy, also referred to as the Tax Revenue Guideline.

Mr. Daughtrey reminded everyone that this policy was adopted in 2006 and incorporated into the 2007 budget. Its purpose was to recommend how much revenue from real estate taxes should be incorporated into the budget process. The two factors for consideration when applying this policy were growth in resident income (personal income) and the consumer price index. In 2013, Council amended this policy to deal with the decline in real estate revenues. It also allowed more flexibility to deal with the tax rate factors of the consumer price index and personal income. The policy was also amended to reflect that when considering real estate increases, other revenue sources must also be considered before real estate tax revenues are increased.

Mr. Daughtrey explained that if budgetary needs require real estate revenue to grow faster than this factor, the Manager and Council must specifically explain the factors of the budget to the public.

Mr. Daughtrey reviewed the next few slides which included figures related to the tax equalization rate and actual tax rate for FY15 through FY25. The first slide had a table showing the impact the real estate tax rate reduction has on estimated revenues. At a tax rate of $1.16, the estimated revenue increase over FY24 would be $7.6 million. At a tax rate of $1.12, the revenue increase over FY24 revenue would be $1.5 million and the reduction in estimated revenues would be $6.1 million.

The second slide had a table showing the impact the real estate tax reduction has on public service corporation tax revenues. At a tax rate of $1.12, the reduction in estimated revenues is $164,196. A tax rate of $1.16 has a reduction in estimated revenues of $41,049.

The third slide had a table showing the impact of the real estate tax rate decrease on the Peninsula Town Center Community Development Authority (PTC CDA) real estate tax revenues. Mr. Daughtrey explained that as part of the funding for that, the City agreed to share certain incremental tax revenues, one of which is the real estate tax revenue. Everything over the base year of $831,294 would be shared with the PTC CDA. At a tax rate of $1.16, the estimated real estate revenue is $2.8 million but only the portion above the base year would be shared. In this case $1.9 million. As the tax rate lowers, the estimated revenue and incremental tax revenue lowers with it.

Mr. Daughtrey displayed a table showing the net increase in real estate revenues allocated to the City and the schools. Currently, the residential real estate tax, residential personal property tax, and residential utility taxes the City shares with the schools totals 61%. At a tax rate of $1.16, $3.8 million in revenue is allocated to both the City and the schools. As the tax rate decreases, the amount to the City decreases while the amount to the schools increases. So, at a tax rate of $1.14, the City would receive $2 million and the schools would receive $2.5 million. With a tax rate of $1.12, the City would receive $293,160 and the schools would receive $1.2 million. He explained that the reason there is such a big difference between the amounts is because the City receives 100% of the commercial revenues and at $1.12 it results in a net reduction of about $400,000.

Mr. Jason Mitchell explained that there would be several presentations, the first on the Solid Waste Program, the second on the Stormwater Program, and the third on the Wastewater Program. He gave an overview of the solid waste program. Solid waste services include but are not limited to, weekly trash and bulk collection, leaf collection, disability special collections, and many other programs.

The purpose of the steam plant program is to facilitate the incineration of Hampton's trash to generate steam that is utilized by the National Aeronautics and Space Administration (NASA) to meet energy needs. Trash is collected from residential customers and dumped at the plant. Cranes lift it into boilers and it is incinerated. This takes a large volume of ash and converts it into a few pounds of ash that is then taken to the landfill.

Mr. Mitchell explained the drivers behind the solid waste fee increase. Hampton trash disposal costs are impacted by the 10-year agreement with NASA and increased costs to replace and repair solid waste equipment. Recycling costs have increased as global recyclable demand has decreased. The last solid waste fee increase was in FY20.

Steam plant drivers include $6.2 million to replace two aging cranes and $8.8 million for major boiler rehabilitation. Ongoing annual maintenance does not include these major upgrades. The projects are anticipated to be debt-funded and will extend the useful life of the cranes and boilers through 2040.

Mayor Tuck asked if using debt funding would have less impact on the budget., Mr. Mitchell stated that it will have less of an impact on the rate as they move forward because they intend to debt fund them and pay for the debt over time.

Mr. Mitchell displayed a table of the solid waste fund projected fees from now through FY29. The current is $7.25 per week, or $31.42 per month. It increases each year and for FY29, the proposed fee is $10.08 per week, or $43.68 per month.

Mr. Mitchell displayed a monthly bill comparison for the localities in the area. The proposed rate for FY25 would put Hampton as the most expensive. He noted that Hampton provides more services than any other locality in the area, and the data does not reflect any proposed increases by other communities.

Ms. Bunting noted that Virginia Beach recently dealt with how to handle increased recycling costs, which is something all localities are struggling with.

Mr. Mitchell shared the solid waste cost increases. Since the last solid waste increase in FY20, there have been increases in the cost of equipment and maintenance, recycling, landfill disposal, steam plant operation, and retaining qualified Commercial Driver’s License (CDL) operators.

Ms. Bunting shared that the rate increase will also fund increased pay for Commercial Driver’s License (CDL) operators.

Mr. Mitchell shared solid waste options which include requesting legislation modifications to the overall recycling definition and exploring the possibility of technology to use “steam” to support power generation.

Mr. Mitchell shared the possible alternatives to reducing the rate. Reducing bulk collections from weekly to bi-weekly reduces costs by twenty-five cents while reducing bulk collections from weekly to monthly decreases costs by thirty-five cents. However, reducing collections would increase overall violations and the need for enforcement staff; impact the appearance of our neighborhoods; and increase flooding concerns.

Mr. Mitchell shared staff recommendations which are to increase the rate, explore cost participation with the National Aeronautical and Space Administration (NASA), and look for opportunities to maintain the lowest possible rate.

Ms. Bunting shared that the City has met with Congressman Scott and Senator Warner's aide, and will be meeting with Senator Kaine's aide to discuss options for federal participation in the funding for the steam plant. She expects it could be some time before anything comes from this so in the meantime, we need to prepare for the continued operation through the rate increase. She noted that if/when any funding comes through, the rate can be lowered at that time.

In response to Councilman Brown, Mr. Mitchell explained that recycling is collected bi-weekly so reducing collection to monthly would reduce the number of staffing and equipment which would reduce the rate.

Mr. Mitchell confirmed for Councilwoman Mugler that the options presented to change the collection frequency are options to consider if the rate were not changed. If the rate were changed, the options would not be necessary. He also explained that there is a cost-sharing model based on a 10-year agreement with NASA, which changes every year. It is based on natural gas prices.

Ms. Bunting explained that NASA used to pay a lot more of the costs but several years ago had federal financial pressures and considered ending the relationship. They renegotiated the agreement which caused the City to have to raise its rate. The City evaluated whether or not they wanted to continue with the steam plant and took into consideration how much landfill life would be lost. At that time, it would reduce the life span by 7-10 ten years.

In response to Vice Mayor Gray, Ms. Bunting confirmed that our costs are higher than other localities because recycling costs have already been taken to the public and they decided they want to keep recycling as well as bulk trash. She stated that they would probably poll the citizens at the public meetings. She said that the argument has been made to the state that Hampton is achieving the goals of reducing the waste stream by doing waste to energy, and could credit be given for that? Vice Mayor Gray pointed out that our prices are higher because we are providing some services that other localities do not.

Ms. Bunting confirmed for Councilman Brown that citizens have been asked in the past if they want to raise the rate or reduce services and will be asked again in the upcoming public meetings.

Mr. Mitchell provided an overview of the City's stormwater services which include the MS4 permit, capital projects, outfall maintenance, and many more.

The stormwater fee increase drivers include the increased cost of capital projects; increased operating and maintenance expenses; the reduction of neighborhood flooding with enhanced systems and maintenance; the last bond funding from the General Obligation Bond in 2019, and the last bond funding from the Environmental Impact Bond was in 2020.

Mr. Mitchell displayed a table of the stormwater projected fees from now through FY29. The fees for FY24 and FY25 are $11.83 per month and are proposed to increase by one dollar each year. For FY29, the proposed fee is $15.83 per month.

He provided a monthly stormwater bill comparison for the region showing Hampton is one of the lowest in the region with Chesapeake being the lowest at $11.35 and Virginia Beach being the highest at $14.79.

The recommendation is to maintain the current stormwater fee for FY25 and review projections of expenses and revenues for FY 2026 and beyond.

Ms. Bunting noted that we can keep the rates as low as they are because the City has been very successful in getting state-level grants. Without those grants, we would be looking at having to increase the fees. Hampton has been recognized as a leader in resiliency and stormwater management.

Mr. Mitchell provided an overview of the wastewater program which aims to protect public health, water quality, and the environment. The City conveys wastewater to Hampton Roads Sanitation District (HRSD) through a system of large pipes and networks to their treatment plants. Hampton deals with wastewater collection system maintenance, pump station maintenance, and construction projects.

The wastewater bill has a base rate for operations and a surcharge rate to support regulatory compliance.

Mr. Mitchell provided information on regulatory requirements. Before 2013 the City did a lot of assessment and inspection of its sanitary sewer system. In 2013 there was an estimated cost of approximately $165 million to do the known repairs and capacity upgrades. In 2014 Hampton signed a Memorandum of Agreement (MOA) along with its regional partners. It is a modified Consent Order highlighting all the things the City would do to its sanitary sewer system.

Between 2014 and 2020 when a Regional Wet Weather Plan was adopted, the City invested approximately $19.5 million in these projects. Because of inflation, the 2013 estimation of $165 million for repairs is now estimated to be $230 million. Between 2022 and 2030, the City needs to invest approximately $106 million to upgrade the sanitary sewer systems. Between 2030 and 2040, an additional $124 million is required to repair those systems.

Mr. Mitchell provided information on the regulatory requirements which haven't changed much between the old consent order and the current consent order and MOA. The only change is the flow reduction requirement which is the amount of flow sent to a pump station.

He provided information on the HRSD (Sustainable Water Initiative for Tomorrow) SWIFT initiative which deals with water quality discharge, aquifer replenishment, the MS4 permit, and the integrated Wet-Weather plans which are mandated by HRSD's Federal Consent Decree.

Mr. Mitchell displayed two images of a pipe damaged from directional drilling. The first is the pipe that was damaged when the utility provider drilled through it and then pulled it out. It left two holes in the pipe through which contaminants can enter and be sent to the wastewater treatment plant. The second image is of the pipe after it was relined so contaminants couldn't enter.

He displayed a graph showing the success of relining the pipes. There was a high amount of salinity entering the sewer system through the damaged pipe between November 13, 2023, and November 21, 2023. On November 21, the pipe was repaired and the salinity was reduced to almost none.

He provided statistics on wastewater fee history. From 2009 until 2021, the wastewater user fee was $1.48. In 2022 the rate was increased and is projected to increase again in 2024. The wastewater surcharge fee was created in late 2009-2020 to address a lot of regional wastewater issues. The intent is for that money to be used only for capital projects to repair the systems. It started at forty-four cents in 2010, increased to sixty-six cents in 2013, and remained flat until 2021 when it was increased to ninety-four cents. It is projected to increase again in the future.

A surcharge was added in 2010 for regulatory and capital projects. The worst defects are planned to be addressed before 2030 as required by the regional regulatory schedule.

The rate increase drivers include the drastic increase in the cost of construction with some costs rising faster than inflation. The recent Pump Station 148 project saw costs increase by 80% over 12 months. Ongoing work required by the regional MOA along with increased regulatory oversight by the Department of Environmental Quality (DEQ) also contribute to the rate increase.

DEQ continues warnings and enforcement and has implemented a point system involving fines for localities with overflows. Hampton received two warning letters in 2023. With a system as large as Hampton's there is no way to avoid an overflow, however, we try to repair them as quickly as possible.

He displayed maps showing the sanitary sewer's age. About 65% of Hampton’s system is 65 years or older, and by 2040, 33% will be 100 years old.

Mr. Mitchell showed projected wastewater fees from the current through FY30. For FY25, a forty-six-cent increase is expected for the wastewater user fee and a $1.18 increase for the wastewater surcharge fee.

Mr. Mitchell displayed a monthly bill comparison with localities in the region. For FY24 Hampton is one of the lowest at $19.10 per month. With the proposed increase for FY25, Hampton would be in the middle at $30.06.

Recommendations are to increase the operating and surcharge rates to meet maintenance regulations and regulatory capital costs.

Councilman Brown asked for the dollar amount throughout the increases from FY25 through FY30 and whether that would satisfy what is currently projected for the increased costs to repair and replace equipment. Mr. Mitchell said the model is based on the data we have today. He explained that the amount of fee increase needed to stay current with inflation and still allow needed projects to occur. Ms. Bunting added that the projected increases would allow the City to do all the DEQ-required work. Councilman Brown stated that his concern is for the citizens and whether or not they can handle the increases.

Mayor Tuck stated that solid waste and others are enterprise funds that are supposed to pay for themselves. If the concern is to try to reduce the impact on citizens, the other option is to take from the general fund. That puts pressure on the general fund.

With the age of most of Hampton’s wastewater system being 65 years old, needing infrastructure work, and the pressure from DEQ, Councilwoman Mugler asked if there are any federal programs or grants available for communities like ours that would help offset costs. Mr. Mitchell responded that he is not aware of any federal programs, but the state offers revolving loan programs.

Council participated in the solid waste fee increase polling exercise. The first item in the poll was the solid waste fee increase for FY25, all seven Council members agreed with the proposed rate increase of $6.63 per month for solid waste and the continuation of existing services.

The next item in the poll was the solid waste fee future projected increases. Six Council members voted for both options which are to explore processing recycling through the Waste to Energy Steam Plant which requires state legislation, and explore participation and debt funding options with NASA. One Council member voted on the option to explore participation and debt funding options with NASA.

The final item in the poll was the wastewater fee future projected increases. Five Council members voted for the option of a combined increase of $10.96 per month to be on pace to meet the state mandates. Two Council members voted on a smaller increase next year even though it may jeopardize the ability to advance projects and meet the state-mandated requirements.

Mayor Tuck called a brief recess from 10:57 - 11:05 a.m.

Ms. Bunting introduced Nicole Clark, Human Resources Director, to make the presentation on Compensation. Ms. Bunting shared that last year's compensation study focused on the public safety team and the step plan was implemented. She stated that because it was very expensive to focus on that, the compensation study for the general workforce would not be able to be done until this year. There will not be much conversation about public safety this year and she noted for Council and the public that this does not mean the City does not care about its public safety team. The City invested a lot of money this year in the public safety step plan. They move a step for every year of service for the first 10 years and then every other year after that. The public safety team is very pleased with how the plan is working.

Ms. Clark reminded everyone of Hampton's compensation philosophy which is to provide competitive pay to attract and retain quality employees. This is done by providing competitive wages; reviewing and updating Hampton's pay scales for hard-to-fill positions; addressing compression; and recognizing high performers with monetary and non-monetary awards.

The public safety step plan was implemented on January 12, 2024, and received their first check on January 26, 2024. There are 24 steps with a 2.5% increase between each step. Step advancement is based on completed months of service in rank as of January 1. Upon reaching the 10th year of service, those in the step plan will only receive an increase every other year. The funds of $1.3 million covering the step plan are included in the FY25 budget.

In working on this project, the City looked at what other localities are doing. Most localities are discussing a three percent increase for FY25. The General Assembly approved a three percent increase for certain school employees, pending the Governor’s approval. In order to address compression, the General Wage Increase (GWI) must be greater than the market adjustment. The options presented were a four percent GWI with a three percent market adjustment; or a three percent GWI with a two percent market adjustment. The costs to the general fund for the four percent increase are about $3.3 million and the costs for the three percent increase are about $2.5 million.

The civilian market study was conducted in-house and Ms. Clark shared that Mr. Victor Zepeda, Jr., Compensation and Classification Manager, would be explaining how the study was conducted. Ms. Clark noted that the City’s minimum wage of $15 per hour remains ahead of the Commonwealth’s minimum which is $12 per hour.

Mr. Zepeda shared the methodology behind the civilian market study. There are just under 500 unique positions on the City’s pay plan. The study reviewed 300 positions against the other localities in Hampton Roads, Richmond, and Greensboro, North Carolina to identify “matches”. He explained that compensation philosophy generally guides localities to look at cities that are larger in size, smaller in size, comparable in size, and any locality they may be losing talent to. This is the reason for the inclusion of Richmond and Greensboro.

He compared the salary grade minimums for the identified positions to the minimums of the market and made adjustments to the grades if necessary.

Mr. Zepeda provided comparisons for the positions of Office Specialist, and Plans Reviewer II with similar positions in other localities in the region. He explained the proposed changes in grades for each. He noted that these are two very specific examples for this presentation and is by no means an exhaustive list of all the positions that had grades changed.

In response to Mayor Tuck, Mr. Zepeda explained that they have proposed moving the Plans Reviewer II additional grades. This is a position that is hard to fill and the goal is to try to make the pay competitive.

Mr. Zepeda explained the proposed grade changes for the Plans Reviewer I, Plans Reviewer II, and Senior Plans Reviewer. Ms. Bunting noted that these are the ones that are particularly hard to fill and are hurting the City in the business community with our ability to turn plans around. She noted that Bonnie Brown, Community Development Director, is trying to fix the department so one of the things that will be instrumental is being able to get and retain top talent. Strategically, the City feels that this is an area where it should be on the upper end as opposed to being in the middle.

In response to Councilman Hobbs, Ms. Brown stated that there is currently one full vacancy. She is hoping to add a Planning Mechanical Engineer position.

Councilwoman Harper asked if the When Actually Employed (WAE) positions are effective enough to be hired for one of the vacant positions. Ms. Brown stated that they would prefer a full-time position but are working with what they have. It is possible that one of the WAE employees may be interested in full-time.

Mr. Zepeda confirmed for Councilwoman Mugler that the new grades would be the starting level for that position.

Councilman Brown stated that he noticed in some comparisons, all other localities were used and in other comparisons, only certain localities were used. He asked if that was because some localities were paying lower or higher, and how did he come up with these minimums and averages. Mr. Zepeda explained that the minimums that are listed in the examples can be found on their pay plans. When other localities hire for a position, whatever they have as the minimum is the starting point. For some positions that have more matches than others, he reviewed the job description and if it did not prove to be an accurate match, it was not included in the list.

Ms. Bunting stated that if there is nothing listed it is because the locality did not have a good match.

Mr. Zepeda continued the presentation with comparisons against other localities and recommended changes for the Inspector series positions, the Equipment Operator series, the Parks Technician series, and the Recreation Professional series.

Ms. Bunting noted that these are only a few of the positions reviewed. It would take several hours to go over all of them but the data is available if Council wants to see it.

Ms. Clark continued the presentation with information on the options for wage increase that Council will be polled on at the end of the presentation. The first option is the four percent general wage increase and three percent market increase which totals $4.1 million. The second option is the three percent general wage increase and two percent market increase which totals $3.2 million.

She explained that the City is looking for ways to space employees out within their particular job title and their grade based on their years of service. The options for addressing compression are providing one-quarter percent per year of service or providing one-half percent per year of service. The other component is whether it should be implemented over one year or over two years.

Mayor Tuck asked what the difference is between the general fund versus the non-general fund for the general wage and market increases. Ms. Clark explained that the non-general fund includes things like solid waste that are self-sufficient and do not have an impact on the general fund.

Ms. Bunting explained why compression has gotten bad over time. As we moved to a higher minimum wage, the starting rate has doubled for a lot of jobs. But it wasn’t possible to double everyone’s pay to keep the same relative spacing. When you move the minimums up by a certain percentage and you don’t move everyone else up by the same percentage, people bunch up in the same place.

Ms. Clark displayed a chart that gave a summary of the two options for the general wage increase combined with the options for compression relief. The costs range from $ 4.2 million to $7 million depending on which combination of options is chosen.

In response to Vice Mayor Gray, Ms. Clark explained that the 4% general wage increase would be applied first. If that doesn't bring them to the minimum of the new range, the 2% market increase would be applied. Then depending on their years of service, the compression adjustment would be made.

Ms. Bunting added that if someone is already here and at the minimum, they would get the 4% general wage increase and then the compression adjustment. They would not get the market adjustment.

In response to Councilwoman Mugler, Ms. Bunting stated that when capping the compression adjustment at 20 years, employees who have more than 20 years would get the 10% increase up to the maximum in the range, but there would not be any additional compression increases.

Council participated in a polling exercise to determine their preferences for the general wage increase. The first item was the preference for the combination of general wage increase and adjustment to range minimums. Six Council members voted for the 4% general increase for all employees plus the 3% market adjustment for those below the new minimums. The total cost for this option is $4.1 million. One Council member voted for the 3% general increase for all employees plus the 2%

market adjustment for those below the new minimums.

The next item was the preference for a compression adjustment. Four Council members voted for a compression adjustment of 0.5% per year of service. Three Council members voted for a compression adjustment of 0.5% per year of service but as 0.25% in FY25 and 0.25% in FY26.

The final item was the preference for the compression adjustment cap. All seven Council members voted for the compression adjustment to be capped at 20 years of service.

Ms. Bunting introduced Mr. Daughtrey to make the presentation on the health insurance increase. Mr. Daughtrey shared that the City worked with a benefits consultant to determine the projected increase in health insurance. For calendar year 2025, a 5.1% increase in premiums is projected.

Different models are used when considering the impact the increased premium will have. The 80/20 model is when the City picks up 80% of the increase and the employee picks up 20% of the increase. The increase has an annual impact of $103.20 on the employee-only tier; $157.44 on the employee-plus minor tier; and $360.24 on the family tier.

Historically the City has picked up 81% of the increase and the employee has picked up 19%. Using this model would result in an annual impact of $82.56 on the employee-only tier; $149.76 on the employee-plus minor tier; and $323.28 on the family tier.

The third option is the 50/50 model where the City and employee each pay 50% of the increase. This has an annual impact of $258.24 on the employee-only tier; $393.60 on the employee-plus minor tier; and $720.48 on the family tier.

The final option is for the City to pick up 100% of the premium increase which would have no financial impact on the employee.

He noted that the last time the City passed on an increase to the employees was 2% in 2019. In seven of the last nine years, only two increases have been passed to employees.

The impact the increase will have on the general fund ranges from $1.5 million if the City pays 100%, to $1.2 million if the City and employee share the increase 50/50.

In response to Mayor Tuck, Mr. Daughtrey said he does not have comparisons for the other localities in terms of what they do to pick up the health insurance increases. He stated that based on discussion with the schools, they are looking at a 20% rate increase and are looking to cover 100% of it.

Councilwoman Mugler asked why there is no category for employee and spouse. Mr. Daughtrey said it is based on the City's decision. They have talked about adding this category for years. One of the challenges of adding that tier is that the same level of revenue has to be collected so when that tier is added, its premium would be less than the family tier. That would cause the other tiers to increase unless the City agreed to pick up 100% of the increase. He stated that one of the benefits of choosing to cover 100% of the increase is that it would allow the employee and spouse tier to be added without impacting the employees.

In response to Vice Mayor Gray, Mr. Daughtrey said he does not have the numbers with him that tell how many employees are in each tier of the plan, but generally speaking, 80% of the City's permanent full-time workforce participates in the health insurance plan.

Ms. Bunting explained that it is inadvisable to have more than one health insurance plan. Having more than one results in adverse self-selection which is when healthier people go to the cheaper plans with higher deductibles and sicker people go to the richer benefit plans which drives up the costs for those. By putting all in one plan, you get the benefits of a larger pool. The decision was made more than 20 years ago to have one plan that has healthier and sicker people together. This results in better rates.

Council participated in a polling exercise to determine their preference for how the increase should be covered. Six Council members voted for the City to cover 100% of the increase. One Council member voted for the City to cover 80% and the employee to cover 20%. Mr. Daughtrey stated that with the poll results indicating the City would cover 100%, the employee and spouse tier can be added.

There was a lunch break that began at noon and concluded at 12:32 p.m.

Ms. Bunting introduced the Priority Project Ranking process. She explained that to maximize the time at today's meeting, Council was sent projects before today and asked to rank them either green, yellow, or red. Green was used to indicate projects with high priority to Council; yellow is a priority but not as high as green; and red is something Council is not interested in. The results from that poll determined the City's priority projects which will be further ranked today.

Council participated in a "dotting" exercise to rank their priorities on the operating budget items and the capital budget items.

Ms. Bunting shared the results of the operating budget exercise.

Ms. Bunting shared that she was asked if this exercise could be done electronically. She explained that the reason why it was not is because staff must have all of the preliminary polling results in a timely manner to get the programming set up.

At 1:24 p.m., as staff continued calculating the ranking of the Capital Budget items, Mayor Tuck called a ten-minute recess. The meeting resumed at 1:34 p.m., with Ms. Bunting presenting a summary of the Capital Budget items' rankings.

Councilwoman Mugler made the following statement for the record: I would like to request the Manager and staff, while I very much appreciate the process that was done here, and the energy and time staff put into this process, for the record I am requesting that the Manager and staff prepare this exercise as an electronic vote for future budget retreats just as we voted on other items. I know the Manager mentioned earlier that we need to get our items in to her in a timelier manner but I want this in the record that this process should be electronic.

Ms. Bunting stated that the results would be typed up and provided to Council.

Council participated in a polling exercise related to their overall philosophy about how the City approaches priorities overall this year. Three Council members voted to do as much compensation as possible even if it means the tax rate reduction or other operating budget adjustments are not made. One Council member voted to do a combination of compensation and operating adjustments even if the tax rate decrease is not done this year. Two Council members voted to do a combination of tax rate decrease, some compensation, and some operating expenses. Councilman Hobbs was not in the room to cast his vote.

Ms. Bunting stated that, in an ideal world, we would be able to do the tax rate decrease, some compensation, and some operating increases but that will ultimately depend on how much money is available. She said Council will be updated once the revenue estimates are in and a plan is set.

Ms. Bunting thanked Brian DeProfio, Hui-Shan Walker, and the staff for their hard work in putting this budget information together.

Present 7 - Councilmember Chris L. Bowman, Councilmember Steven L. Brown, Vice Mayor Jimmy Gray, Councilmember Hope L. Harper, Councilmember Billy Hobbs, Councilmember Martha Mugler, and Mayor Donnie R. Tuck

REGIONAL ISSUES

There were no regional issues to report on.

NEW BUSINESS

There were no items of new business.

CLOSED SESSION

2. 24-0054 Closed session pursuant to Virginia Code Sections 2.2-3711.A (.1) and (.8) to discuss appointments as listed on the agenda and to consult with legal counsel employed or retained by the City regarding specific legal matters pertaining to short term rentals requiring the provision of legal advice by such counsel

A motion was made by Councilmember Steven Brown and seconded by Councilmember Billy Hobbs, that this Closed Session - Motion be approved. The motion carried by the following vote:

Aye: 7 - Councilmember Bowman, Councilmember Brown, Vice Mayor Gray, Councilmember Harper, Councilmember Hobbs, Councilmember Mugler and Mayor Tuck

3. 24-0065 Consideration of an Appointment to the Athletic Hall of Fame

4. 24-0066 Consideration of an Appointment to the Board of Review of Real Estate Assessments

5. 24-0067 Consideration of Appointments to the Hampton Clean City Commission

6. 24-0068 Consideration of Appointments to the Hampton Federal Area Development Authority

7. 24-0069 Consideration of Appointments to the Mayor's Committee for People with Disabilities

8. 24-0070 Consideration of an Appointment to the Hampton Economic Development Authority

9. 24-0073 Consideration of Appointments to the Parks & Recreation Advisory Board

CERTIFICATION

10. 24-0080 Resolution Certifying Closed Session

Mayor Tuck departed the meeting shortly before it adjourned due to being needed at another event.

At 3:51 p.m., a motion was made by Councilmember Billy Hobbs and seconded by Councilmember Chris Bowman, that this Closed Session - Certification be approved. The motion carried by the following vote:

Aye: 6 - Councilmember Bowman, Councilmember Brown, Vice Mayor Gray, Councilmember Harper, Councilmember Hobbs and Councilmember Mugler

Absent: 1 - Mayor Tuck

ADJOURNMENT

The meeting adjourned at 3:51 p.m.

Contact Info:
Clerk of Council, 757-727-6315, council@hampton.gov

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Donnie R. Tuck
Mayor

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Katherine K. Glass, CMC
Clerk of Council

Date approved by Council _____________________