

September 14, 2004

The Honorable Mayor and  
Members of the City Council

Dear Council Members,

With great excitement, the City of Portsmouth presents the FY 2004-05 Operating Budget and Capital Improvement Program. The future is a very exciting one with emerging development opportunities and difficult financial challenges, but we stand poised to shepherd the City through its continuing renaissance. This year's budget addresses today's challenges and builds a strong foundation for tomorrow's lasting achievement.

Recently, the Urban Land Institute conducted a study of the City's downtown, waterfront, and High Street corridor highlighting many of the City's assets and strengths, as follows:

- *Civic Leadership* – the commitment and skill of the City's elected officials and staff,
- *Educational Leadership* – as proposed by Tidewater Community College's Superintendent and President, innovative new approaches creating linkages between business and education,
- *Cultural Heritage* – a long rich history of the City's neighborhoods, churches, and downtown buildings,
- *Vision 2005 Projects* – the fruition of major positive City initiatives, such as the Renaissance Hotel, Ntelos Pavilion, waterfront residential developments and streetscape improvements,
- *Stable Military Presence* – a stable economic base attributable to an extensive military partnership,
- *Business District* – a progressive downtown revitalization program bolstered by the Children's Museum of Virginia, the new Virginia Sports Hall of Fame, and other commercial developments,
- *The Waterfront* – the ongoing Waterfront changes and developments creating an exciting and attractive area, and
- *Positioned for a Bright Future* – recognition the City is on the verge of a great renaissance and the City's developable land offers the only real option for a Hampton Roads urban commerce location.

Emboldened by these assets and strengths, the City is ready for the next phase of its own renaissance. Five years from today, new streetscapes, major retail stores and boutiques, safer communities, family-oriented cultural and recreational activities, blossoming shipping and commercial enterprises, and an array of high-end downtown housing choices will reshape the City. These elements of the City's renaissance have been designed to complement the continued renovation of the historic downtown district and preservation of its rich historic tradition.

## *Achieving the Priorities*

The budget is the City's fiscal vehicle for directing the resources required to sustain its own renaissance. During a retreat in November 2003, the Council identified and focused on three priority areas:

- *Public Safety* – Providing citizenry safety is the City's core mission; all other services are underpinned by it.
- *Education* – Developing an educated and qualified workforce is essential; when combined with a safe community, it yields a high quality of life for citizens and serves as a catalyst for attracting new businesses and residents into the community.
- *Economic Development* – Building a strong local economy is fundamental; a thriving business community creates workplace opportunities and a significant revenue stream for providing City services and maintaining affordable tax rates.

Therefore, a fiscally sound budget has been developed, which focuses on improving the City's financial condition and achieving Council's three priorities for the City.

Public safety is fully funded to meet the service delivery needs, achieve the operational goals, and enhance the professional standards of both the Fire and Police departments. The Police Department is completing a reorganization aimed at realigning current departmental resources with the City's changing needs. In addition, the City is expediting its recruitment efforts to place more police officers on the street. These strategies should have a positive impact on the City's current crime reduction trends. As evidence, during 2003 property crimes were reduced by 21.5% and crimes against persons decreased by 8.6%. In addition, the Emergency Operations Center build-out is funded in the FY 2004-05 CIP and a new police station is proposed in FY 2007-08. These initiatives illustrate the City's ongoing commitment to law enforcement and public safety.

According to its strategic plan, the Fire Department continues to add additional equipment, training, and other resources. The Portsmouth Fire Department is a regional and national leader. They are one of six fire departments statewide and one of three hundred and fifty-one departments nationwide to receive the ISO 2 (Insurance Services Office) designation. This certification translates into lower insurance rates for citizens and businesses; moreover it demonstrates the City's firefighter skill level and commitment. For continued success and maintenance of the ISO 2 designation, replacement equipment is essential. In 2003, three new engines and a ladder truck were placed into service, and for FY 2004-05, there is a replacement Quint budgeted. Included in the FY 2004-05 and FY 2005-06 Capital Improvement Program is a new Truxton area Fire Station. The fire station will be staffed with existing equipment and personnel.

In prior years, the courts and jail facilities have gone unaddressed. In FY 2005-06, the Capital Improvement Program will provide for a new Court Complex. A "Blue Ribbon Panel" is currently assessing new jailhouse needs, and in the near future, it will produce a recommendation concerning the City jail.

An education continuum was the second Council priority. The education continuum encompasses more than compulsory and traditional K-12 classrooms. It includes student educational opportunities for all ages. The single largest budget expenditure is the School System funding. Proposed is a \$2.25 million transfer increase to Schools. The increase will provide for teacher pay increases. The adopted changes to the real property and personal property tax rates are fully funding these needs. Also, the CIP includes ongoing School

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project funding (\$29.7 million over the five-year period). The CIP is supported through City-funded debt.

The library system is another education component. In the \$1.6 million Capital Improvement Program, funding will provide for a new Churchland Library and a major Coleman Nursery Facility renovation. Taking advantage of the existing structure, a renovation of this historic Nursery icon is proposed. By utilizing this strategy, an expense reduction can be realized through renovation versus construction costs.

The City's partnership with Tidewater Community College (TCC) is the final educational aspect on the Council's continuum. The Portsmouth Campus, which is currently located in Suffolk, will be moving to the Victory Boulevard area. The addition of this project, joined with the New Port development and other commercial developments will revitalize the entire area. To make this development a success, the existing school in the old Fairwood Homes area will require significant renovation. In the coming months, a strategy for this community will be discussed with the City Council. Whether through funding or new development, education is a priority for the City, and this budget reflects it.

Perhaps the most exciting priorities, which will be discussed in depth later, are the economic development changes. At least eight major projects have broken ground or, within the next year, will break ground. For these projects, the total estimated private investment is more than \$1.388 billion. These residential, commercial, and industrial developments will generate more community jobs, new housing options, new educational opportunities, and additional revenue to fund City services.

This is an exciting time to be in Portsmouth. Accelerating the City into its next phase, these developments and achievements are clear and tangible renaissance examples.

## ***The Changing Face of Portsmouth***

With more than \$1.388 billion of new development occurring in the next couple of years, the Cityscape will change significantly. Portsmouth has become an urban homeowner and business destination. These new projects reflect a *neo - urbanism* migration.

- The New Victory Crossing Business Park will be a 135-acre mixed-use development. It will include office space, commercial space, residential developments, and a new TCC location including green space. This \$400 million development will generate local merchant revenues, and the City's real estate tax base will grow.
- The \$22 million investment in The Myrtles at Olde Towne will provide 246 high-quality rental units filling some of the unmet downtown living demand.
- Along with the Myrtles of Olde Towne, The Heights at Olde Towne (formerly the Fort Nelson Towers) will receive a much needed \$8 million renovation to the 148 existing units, the façade, and grounds.
- The River Pointe Village is a \$35 million community investment. Upscale single-family homes, retirement villas, and mixed-use commercial space will emerge. In the coming years, this project will continue to grow and will demonstrate the City's unmet upscale residential housing demand.
- Building on River Pointe's success, the King's Gate Residential Community will be a 49-unit \$7.6 million community. This neighborhood will provide additional quality middle income housing opportunities.

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- This fall, the New Port 1,600 home development (surrounding the Bide-A-Wee Golf Course) will break ground. It will be a 7-year project. This residential area is one of the largest in the City's history and represents a \$450 million investment. This 200-acre development will include single-family upscale homes and a middle-income multi-family development. Over the next few years, this residential community will represent a portion of the revitalization occurring.
- The Tidewater Community College – Portsmouth Campus will bring higher education and job skill training opportunities to the community. As an economic stimulus, the benefits will be far-reaching.
- In coordination with the Commonwealth and as they become finalized, several other major industrial/economic development projects will be announced. These new developments will infuse a minimum of \$500 million into the community.

These outside investments clearly indicate the City's changing nature. Portsmouth's assets are creating value for private sector investment. These new developments will positively impact the local economy and tax base.

### ***Addressing the Challenges***

Even with the future's positive direction, there is a significant challenge in constructing a budget. The citizens need to sense its equitable nature, and at the current level, the City must continue to provide core services.

For the City, approximately 13.9% of total revenues are comprised of State funding; moreover a large portion (61.15%) of the School's budget is derived from Commonwealth revenues.

Much like the Schools, maintaining a qualified workforce is a challenge. In public safety, full staffing will occur by the first part of FY 2004-05. While public safety is extremely important, the City's workforce is diversely complex. To keep pace with the growing salaries in the region, on January 1, 2005, a 3% pay increase, for all employees, will be implemented. To offset some of the increase, the municipal workforce was reduced by 18 positions. With the compensation increase and the positional reductions, the General Fund cost of personnel salaries grew by only 2.32% or a total of \$1.06 million. As part of the adopted budget an additional 10 positions will be eliminated over the FY 2004-05 year, to result in a savings of \$400,000.

Another significant issue plaguing all localities across the nation is climbing healthcare costs. While the General Fund budget (less the growth in the transfer to Schools) grew by only 2.41%, healthcare costs grew by more than \$2.2 million or about 26%. Over the next six months and prior to the January 1 plan year, the City will look for possible saving's opportunities.

The Portsmouth Supplemental Retirement System (PSRS) and the Fire and Police Retirement System (FPRS) expense is significantly more than past years. These two systems are closed to new members (all new employees are members of the Virginia Retirement System). Each year, more and more active members retire and begin drawing their pension. The PSRS employee contribution rate is slightly more than 34% of their total salary, while the FPRS cost is just over 71% of their total salary. Beyond these levels, to ensure solvency for the next fifty years, an additional \$372,000 contribution is budgeted to bring funding to a sufficient actuarial level. Monetarily, these programs are budgeted for an additional \$4.44 million over the previous year's budget. Included in this amount is the Virginia Retirement System's (VRS) contribution. Going from 1% to 4% between FY 2003-04 and 2004-05, it more than doubled. This represents an additional \$2.7 million expenditure. In addition, the City contributes the employee's 5% share.

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These government expenditure increases are necessitating the proposed tax rate increases. While a majority of the tax rate increase proceeds will go to Schools, the remaining amount will fulfill the City's commitment to its employees, to retirees by ensuring the solvency of the retirement funds, and to the healthcare fund.

### ***Achieving the Financial Strategies***

In the City Council's fall 2003 retreat, a 3-year financial strategy was derived establishing a financial foundation for the City's renaissance. In this, the first of the three years, we have implemented or are implementing all the strategies. They are essential to the City's future financial stability and success. These strategies include

- *Analyzing the benefits of converting the Utility System General Obligation Bonds to Utility System Revenue Bonds* – To establish the long-term planning model needed to make this transition, City staff members are currently working with financial advisors and utility consultants. During FY 2004-05, successful accomplishment is anticipated.
- *Eliminating cash flow deficits in the internal service funds by committing to annual funding from the General Fund* -- The internal service funds are the only increasing budgetary areas. Within the FY 2004-05 budget, the first of a three-year increase is being implemented. Funding to all the internal service funds has increased by 27.75% or slightly less than \$2.83 million. The funding for these funds may seem ambitious, but to ensure the future financial stability of these funds and the City as a whole, they are necessary. Utilizing a three-year deficit elimination plan for the internal service funds, the City will be able to reduce dependence on Revenue Anticipation Note (RAN) borrowing. The plan is to
  - *Increase Risk Management funding during the next three years* – Risk Management and Insurance funding increased 65.22% beyond the FY 2003-04 amount or slightly more than \$1.9 million. The increase should stabilize the fund's future, and within the fund, it is the first step in eliminating existing deficits. The funded amount is consistent with the actuarial analysis.
  - *Increase Health Insurance funding above the calculated rate during the next three budget years* – As mentioned earlier, growing healthcare costs are a challenge for every city. Much like the Risk Management and Insurance Fund, enough has been budgeted to stabilize the fund, and strides are being made to ensure the Health Insurance Fund's future solvency. Within two years, and perhaps by the end of FY 2004-05, the additional funding will clear the existing deficit.
  - *Increase the City Garage funding* – In FY 2003-04 and beyond, the City Garage vehicle replacement plan will be funded through a master lease program. With the current City departmental charge rates and the scheduled debt service, by the end of FY 2004-05, cash will build back into the fund, and the deficit will be eliminated.
  - *Increase the Information Technology funding* – In the Information Technology Fund, within the next three years, a charge back rate increase and use of the City's master lease program will eliminate the deficit.
- *Achieving a 12.5% General Fund revenue undesignated fund balance target to eliminate the Revenue Anticipation Note borrowing need; moreover after the internal service funding issues are resolved, a 15% target will be established* – In

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FY 2002-03, the undesignated fund balance ratio to General Fund revenues was 9.85%. In FY 2004-05, because the City is no longer budgeting for General Fund attrition or turnover allowance, the percentage will anticipatedly continue to increase.

- *Decreasing the Waste Management operational reliance upon a General Fund contribution* – In the FY 2004-05 budget, there will be no General Fund to Waste Management transfer, and the Waste Management Fund will begin contributing General Fund indirect cost payments. All of this will be achieved without a rate increase.
- *Decreasing the Golf Fund reliance upon a General Fund contribution* – Nationally, aggregate golf rounds played are declining; however, as the economy grows, and the national recovery increases personal disposable income, aggregate they should climb. This year, the City was unable to reduce the General Fund to Golf Fund transfer, but in the FY 2005-06 budget, a long-term plan to achieve this strategy will be anticipated.
- *Funding stormwater needs through an increase in stormwater rates* – With a \$.50 rate increase, the Stormwater Fund will balance. To systematically address the infrastructure needs of our aging stormwater system, the additional funding is necessary. In the Stormwater CIP, the pay-as-you-go major stormwater project funding is \$1,519,833.
- *Maintaining debt affordability by issuing debt with a “debt outstanding to assessed value ratio” cap of 5%; and General Fund supported “debt service to revenue ratio” cap of 12%* -- In the FY 2004-05 budget, these ratios are expected to be 5.2% and 12.1% respectively. Within a three-year window, through the prudent use of debt financing in the near future and older issues retiring, the City will achieve this strategy.
- *Prioritizing the Capital Improvement Program* – In the FY 2004-05 to FY 2009-10 Proposed CIP, the City has established annual priorities and has coordinated the CIP reflecting actual project schedules. The proposed CIP balances future new facilities and more current infrastructure needs. By July 1, 2004, 15 CIP projects were completed or closed. In the FY 2004-05 CIP, \$3,708,400 was reallocated. This represents closed project remaining bond authority. It will be allocated to new CIP needs such as the Churchland Library and the Hoffer Creek Nature Center. Consequently, in FY 2004-05, the new general obligation bond authorization of \$10,962,436 has been adopted, and state revenues will reimburse \$4,529,000.
- *Planning for Retirement* – As mentioned earlier, for the retirement funds, the FY 2004-05 budget fully funds the actuarially determined funding requirement. The additional funding will ensure future retirement fund solvency and will exemplify the City's retired employee commitment.

It is worth discussing, for a moment, the citizenry's impact, because they are funding government operations. As the strategies are implemented over the next three years, the City will be able to enjoy a stable credit rating and perhaps more significantly, a stable financial position. For many years, with limited funding sources available, the City of Portsmouth has struggled to meet service demands. Each of the aforementioned strategies will aid in mitigating the struggle. Confidently, the City will be able to look back at this budget and see a turning point. It will be a challenge to achieve the goals, but these strategies represent the best financial guidance for the citizenry.

**General Fund Expenditures**

| General Fund Expenditures              |                    |                    |                    |                    |                    |                    |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|  | FY 1999-00         | FY 2000-01         | FY 2001-02         | FY 2002-03         | FY 2003-04         | FY 2004-05         |
| Salaries                               | \$ 38,421,657      | 40,107,968         | 38,519,901         | 41,203,544         | 45,751,923         | 46,812,724         |
| Other Salary Expenditures              | 2,935,166          | 2,833,313          | 3,132,278          | 3,719,226          | 3,284,307          | 3,803,934          |
| Benefits                               | 10,688,082         | 12,810,214         | 12,172,034         | 14,302,176         | 16,012,676         | 22,083,658         |
| Contractual Services                   | 12,041,586         | 12,300,385         | 13,872,897         | 13,575,859         | 16,200,938         | 13,948,111         |
| Materials and Supplies                 | 2,895,800          | 2,876,921          | 3,186,314          | 3,448,091          | 3,041,285          | 2,852,679          |
| Other Operating Expenses               | 9,000,519          | 8,041,437          | 8,337,017          | 8,980,753          | 8,380,834          | 8,411,493          |
| Internal Service Charges and Expenses  | 6,791,610          | 7,261,507          | 8,458,809          | 11,035,362         | 10,191,673         | 13,019,523         |
| Capital Outlay                         | 608,259            | 16,074,880         | 1,611,091          | 1,940,816          | 270,013            | 93,144             |
| Debt Service                           | 16,775,571         | 20,196,273         | 19,733,422         | 19,648,709         | 21,839,528         | 20,539,049         |
| Transfers                              | 34,833,135         | 35,262,093         | 34,910,658         | 36,929,747         | 38,517,605         | 38,118,177         |
| <b>Total General Fund Expenditures</b> | <b>134,991,385</b> | <b>157,764,991</b> | <b>143,934,421</b> | <b>154,784,283</b> | <b>163,490,782</b> | <b>169,682,492</b> |

As the table above indicates, throughout the FY 2003-04 budget year, with mid-year amendments, the total budgeted General Fund expenditures grew by 3.79%. This is below the 4.68% five-year average annual growth rate. For FY 2004-05, the growth in expenditures is directly attributable to four areas:

- **Growth in the Schools' Transfer** – The School transfer will increase \$2.2 million. This additional funding will provide an additional increase in teachers' salaries.
- **Growth in the Cost of Retirement** – The retirement cost growth will be \$4.4 million.
- **Growth in the Cost of Healthcare** – With a total growth of 26%, healthcare costs grew by more than \$2.2 million.
- **Growth in the Cost of Internal Services** – As stated in the financial strategies, the internal service funds have cash flow deficits. To address these issues, funding increased by \$2.8 million.

Taking these factors into account and without any proposed increases in operational costs, an \$11.6 million or 7.9% expenditure increase was looming.

The revenue growth was clearly not going to keep pace with the expenditure growth. Working with the department heads, several strategies were employed.

- **Reduced the Number of Positions** – Positions were evaluated to determine organizational necessity. Vacant positions were reduced preventing a workforce reduction.
- **Reduced Discretionary Spending** – To determine the appropriate funding level, every line item was evaluated.
- **Reduced Cash Funded Equipment Replacement Through the Use of Master Lease Purchases** – Through the use of a master lease, the cost of equipment replacement was reduced. The use of a master lease renders minimal interest

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rates; moreover it is presently less than the rate of inflation. In deficit bound internal service funds, this will help replenish cash.

- **Reduced the Amount of Debt Service** – In FY 2003-04 and again in FY 2004-05, a bond refund reduced overall debt service. By doing this, the City will be able to take advantage of historically low interest rates. For FY 2004-05, the City refunded existing bond issues saving \$1.5 million.

With all of these reductions, the City was still left with a \$4.47 million budget gap. In order to be able to continue to provide current service levels and to be able to provide additional School funding, a real estate and personal property tax rate increase was adopted. An impact analysis pertaining to these taxes is discussed in more detail below. With reasonable expenditures and revenue estimates, the FY 2004–05 budget is balanced and reflects real service costs.

## General Fund Revenues

| General Fund Revenues (Thousands) |            |            |            |            |            |            |
|-----------------------------------|------------|------------|------------|------------|------------|------------|
|                                   | FY 1999-00 | FY 2000-01 | FY 2001-02 | FY 2002-03 | FY 2003-04 | FY 2004-05 |
| Property Taxes                    | \$ 62,436  | 65,962     | 68,434     | 74,158     | 77,981     | 86,429     |
| Other Local Taxes                 | 19,107     | 19,324     | 20,437     | 22,426     | 22,856     | 24,327     |
| Utility Taxes                     | 12,199     | 13,288     | 13,868     | 14,573     | 15,321     | 15,426     |
| Commonwealth of Virginia          | 21,775     | 23,873     | 24,757     | 23,597     | 24,305     | 23,603     |
| Federal Government                | 1,951      | 150        | 19         | -          | 19         | -          |
| Charges for Services              | 14,170     | 14,157     | 17,044     | 8,926      | 10,560     | 3,014      |
| Interest Income                   | 322        | 166        | 38         | 28         | 40         | 25         |
| Recovered Costs                   | 3,399      | 2,774      | 3,320      | 3,351      | 3,096      | 3,383      |
| Licenses and Permits              | 598        | 513        | 630        | 584        | 529        | 735        |
| Use of Property                   | 715        | 923        | 1,488      | 2,161      | 2,015      | 1,964      |
| Miscellaneous Revenues            | 1,122      | 1,317      | 1,272      | 1,436      | 1,429      | 1,491      |
| Operating Transfers In            | 3,557      | 3,803      | 3,752      | 3,775      | 4,083      | 9,286      |
| Fund Balance                      | -          | -          | -          | 1,800      | 1,345      | -          |
| Total Revenues                    | \$ 141,351 | 146,250    | 155,059    | 156,816    | 163,577    | 169,682    |

As the Table above indicates, revenues have increased 5.03% above FY 2003-04. A number of different trends are occurring within the various revenue categories. With the exception of property taxes, the City is estimating very little growth in other revenue categories. Looking at some of the major categories, a better understanding can be derived.

- **Property Taxes** – The property tax category is a culmination of real estate and personal property taxes (taxes on vehicles, machines, and tools). The overall category trend is positive with an estimated 10.83% growth rate or slightly more than \$8.86 million.
  - *Real Estate Taxes* – With assessed values in the City showing the highest positive growth in more than 15 years, aggregate assessments were up 10.01% over FY 2003-04. This translates into an estimated \$4.99 million. With the collection of delinquent taxes, the estimated real estate tax revenue growth is an estimated \$75,000 over FY 2003-04. This is based upon the City Treasurer’s increased delinquent collection efforts. The proposed rate change from \$1.42 to \$1.45 per \$100 of value and the increased assessments will generate \$5,437,570 or a 10.63% increase. For a citizen with a home having an average assessed value of \$113,188, their tax will increase \$36.96 per year or about \$2.83 a month.

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- *Personal Property Taxes* – Utilizing a normal growth rate for personal property's assessed value of 6.79%, the City will generate additional revenues approximating \$1.7 million. In FY 2003-04, due to a new delinquent collection process, there was a one-time collection increase. In FY 2004-05, expected delinquent collections will return to normal collection levels. The net impact of these effects, as stated before, is an \$800,000 estimated reduction below FY 2003-04. As part of the FY 2004-05 funding, there is a \$.65 adopted personal property rate increase to \$5.00 per \$100 of value. The increased estimated revenue will generate an additional \$3,326,439, combining with the increased value of assessments and other adjustments for a growth of 11.22% over the previous year. For a person with a FY 2003-'04 personal property tax bill of \$125, the new levy would be \$144 for a net revenue gain of \$19 a year or \$1.56 a month.
- **Other Local Taxes** – Other local taxes include the Lodging Tax, Admissions Tax, and other various taxes. In this category, the many positive trends indicate continued growth. This category's revenues are estimated to increase by 6.44% beyond FY 2003-04 or \$1,471,055.
  - *Business and Occupational Licenses Taxes (BPOL)* – Due to continued economic development, BPOL taxes are expected to grow by \$287,230 or approximately 5.85%. As important as the actual revenue growth is the positive economic growth indicator.
  - *Sales and Use Taxes* – New commercial area development is anticipated to increase the sales and use tax by \$457,500 or approximately 9%. The positive revenue growth is indicative of strong economic conditions and the City's retail center performance.
  - *Cigarette Taxes* – The cigarette taxes are showing positive revenue trends. The growth is estimated to be 12.29% or \$341,075.
- **Charges for Services** – In the past, bulk water sales, totaling almost \$7.7 million, were recorded in the General Fund. At first glance, this category is down by more than 71.22%, but this apparent revenue loss is a result of an accounting practice change. Bulk water sales are now shown as revenue to the Public Utilities Fund. The estimated bulk water sale revenues are anticipated to increase by 3.5% resulting in a General Fund return on investment (ROI) of \$8,961,087. This accounting practice change is reflected in the revenue category of "Transfers Into the General Fund."
- **Recovered Costs** – As part of the Public Utilities accounting change, indirect charges are no longer being paid to the General Fund by the Public Utilities Fund. In FY 2003-04, this represented \$564,000. This is not considered lost General Fund revenues. The funds have been moved to "Return on Investment Revenue." For those Internal Service Funds with existing deficits, a policy decision was made to provide a "holiday" from indirect charges. The holiday impact will render \$327,783.
- **Other Revenues** – The remaining revenues are staying fairly level from the previous year with minimal growth.

As discussed earlier, in FY 2005-06 and FY 2006-07, the City can anticipate good revenue growth and continuous citywide supported services.

**Ongoing Commitment to Schools**

Over the past several months, there has been considerable discussion about the City of Portsmouth's School contribution. Let's take a moment to discuss the available City operation funding. As the table below indicates, on average, only 73.34% of the total City revenues generated are available for funding the core services. The 26.66% of dedicated funding comprises service reimbursements (VDOT reimbursements, state funding for library books, etc.), dedicated funding for services (state funding for Constitutional Officers, rental of land and buildings), or debt service (a non-operational item). All of these items are specifically earmarked and cannot be redirected for other City operations and services.

| General Fund Revenue Available to Fund All City Services |                |              |              |              |              |
|--|----------------|--------------|--------------|--------------|--------------|
|  | FY 2000-01     | FY 2001-02   | FY 2002-03   | FY 2003-04   | FY 2004-05   |
| Total Revenue  | \$ 146,250,109 | 155,059,700  | 156,815,700  | 162,009,002  | 169,682,492  |
| Reimbursement for Constitutional Officers                | (7,590,121)    | (7,663,982)  | (7,042,924)  | (7,035,488)  | (7,035,488)  |
| Other Dedicated State Revenue                            | (15,097,929)   | (15,869,652) | (15,632,563) | (16,076,573) | (15,691,392) |
| Rental of General Properties                             | (922,594)      | (1,487,668)  | (2,161,343)  | (2,014,510)  | (1,964,225)  |
| Debt Service   | (13,719,358)   | (14,562,540) | (13,995,523) | (16,346,041) | (20,539,049) |
| Total Discretionary Funding Available                    | \$ 108,920,107 | 115,475,858  | 117,983,347  | 120,536,390  | 124,452,338  |

Given the past few years' funding challenges, public safety and School available funding has become the City's top priority. As the next table indicates, Schools have been the single largest expenditure. Since FY 2000-01, School spending represented, on average, approximately 29.4% of the City's available funding. In FY 2004-05, public safety and education utilize 66.38% of the City's available funding. The remaining 33.62% must be used to fund all the other City services (i.e. parks, libraries, museums, code enforcement, jails, and other essential core services).

| Spending Analysis of Available Funding |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|
|  | FY 2000-01 | FY 2001-02 | FY 2002-03 | FY 2003-04 | FY 2004-05 |
| Police                                 | 16.30%     | 14.71%     | 16.11%     | 16.84%     | 20.44%     |
| Fire                                   | 14.45%     | 13.29%     | 15.00%     | 15.41%     | 16.89%     |
| Schools                                | 31.38%     | 28.21%     | 28.47%     | 29.91%     | 29.05%     |
| Total                                  | 62.12%     | 56.20%     | 59.57%     | 62.17%     | 66.38%     |

| Total City Funding for Schools |               |            |            |            |            |
|--------------------------------|---------------|------------|------------|------------|------------|
|                                | FY 2000-01    | FY 2001-02 | FY 2002-03 | FY 2003-04 | FY 2004-05 |
| Transfer                       | \$ 27,685,022 | 26,951,550 | 27,379,813 | 29,799,743 | 31,649,743 |
| Debt Service                   | 5,994,602     | 5,136,142  | 5,682,536  | 5,754,687  | 3,994,122  |
| Grounds Maintenance            | 339,446       | 302,860    | 342,545    | 320,798    | 323,566    |
| City Indirect Cost             | 157,970       | 180,177    | 180,177    | 180,177    | 180,177    |
| Total City Funding for Schools | \$ 34,177,040 | 32,570,729 | 33,585,071 | 36,055,405 | 36,147,608 |

As the table above illustrates, City School funding is comprised of more than a General Fund direct transfer. It includes debt service, indirect costs, and grounds maintenance. Over this period, School debt service has represented 30% of the City's tax support general obligation debt service. This year's adopted transfer is 6.21% above the FY 2003-04 amount and 15.6% above the FY 2002-03 amount.

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This information clearly indicates the City Council's School funding dedication. To continue this commitment and, as discussed earlier, proposed funding for the climbing School costs, appropriations will be generated through tax rate increases. Much like the City, Schools are facing real challenges. These include growing healthcare, retirement, and compensation costs. Like the City, Schools should evaluate all spending areas and, collaboratively with the City, ensure the most effective and efficient resource use and develop an administrative service consolidation strategy.

### ***The Growing Asset of Public Utilities***

One of the most significant City assets is the Public Utilities System. Regionally, the City provides more than 7 million gallons of water a day to neighboring cities. Our Public Utilities System has been recognized for its management and innovative business practices.

Between FY 2003-04 and FY 2004-05, water sale and sewer usage growth is expected to grow by just over 2%. This growth will produce additional operational revenue approximating \$559,000 and will be allocated to debt service and capital improvement programs. The cities of Suffolk and Chesapeake account for some of the increase. Contractually, usage growth will increase by 3.5% or \$267,302. As proposed new developments occur in the FY 2005-06 year, a usage increase is anticipated to begin and will benefit the City in the same fiscal year.

To begin funding the \$58.9 million five-year public utility capital improvement program, a \$.10 water and sewer rate increase was adopted. To fund the ongoing maintenance and renovation costs, the City is committed to the third year of a long-term rate plan. Although the CIP appears to be significant, to ensure long-term Public Utility Fund fiscal sustainability, the rate increases will be necessary.

Public Utility operational costs decreased by \$1 million (due to debt refunding); moreover all other costs grew by a total of \$165,454. The latter increase, like the General Fund, is attributable to personnel costs and internal service funds. A new Utilities Business Office was created to manage utility customer service and billing. This function will be managed by the Department of Finance.

### ***Operating Budget Highlights***

The operating budget reflects City Council priorities and provides effective and efficient citizenry services. Here are some of the items adopted into the operating budget.

- **Additional \$2.25 million for School Funding** – To accommodate a 4.5% teacher wage increase; a \$2.25 million School transfer was adopted.
- **Achieving Full Staffing in Fire and Police** – This fall, the City expects the Fire and Police Departments to be fully staffed. This will put more public safety personnel on the streets.
- **Maintaining the Current Workforce** – More than 18 vacant positions were eliminated, and no filled positions have been eliminated. This will keep current workforce levels intact. A drive to fill all public safety, social service, and behavioral healthcare service vacancies is underway.
- **Maintaining City Services** – Despite the many challenges facing the City, there are no significant City service reductions.
- **Maintaining a Quality Workforce** – To keep pace with rising regional labor costs and to attract and maintain a quality workforce, on January 1, 2005, a 3% general pay increase will be implemented.

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- **Achieving the Financial Strategies** – Through prudent planning and financial management, within the next three years, the City's fiscal sustainability issues will be resolved; moreover within this budget, many will be resolved immediately.
- **Maintaining our Commitment to Retirees** – Full funding of the Portsmouth Retirement System and the Fire and Police Retirement System actuarial requirement ensures the system will remain solvent over the next 50 years.
- **Funding \$1,237,306 for Local Civic Organizations** – The City will continue to support local human services and cultural organizations who provide a higher quality of life to the City's citizens and are an intricate part of the City services continuum.

As these points indicate, the FY 2004-05 operating budget highlight is the City's ability to maintain current services. No significant current service or program additions have been adopted.

### ***Capital Improvement Program Highlights***

The final aspect of the FY 2004-05 Budget to be discussed is the Capital Improvement Program (CIP). Over the five-year plan, there are many exciting CIP plans. As mentioned earlier, in FY 2004-05, the City Council was able to reallocate \$3,708,400 of existing general obligation bond authority to new projects. This only required \$10,726,436 in new authority, and this included the annual Schools' allocation. Of the \$10,962,436, \$4,500,000 is allocated to a new Behavioral Healthcare Building. The CIP will be supported through State revenues reducing the City's contribution to \$6,462,436. This Capital Improvement Program reflects the City's needs while maintaining the necessary level of affordability.

- **Funding for the Schools' Request** – In FY 2004-05, the Schools' \$5,179,481 request will be fully funded. During the five-year program, \$29.7 million will be allocated.
- **Funding for a new Hoffler Creek Nature Center** -- In FY 2004-05, \$250,000 will be allocated to the Hoffler Creek Nature Center.
- **Funding for the New Churchland Library** -- In FY 2004-05, to bring the new Churchland Library total funding to \$1,600,000, \$820,000 will be allocated. The new Library's proposed location is in the renovated Coleman Nursery facility.
- **Funding for a Path of History** -- In FY 2004-05, to highlight the City's rich Naval tradition, \$180,000 will be allocated to the Path of History.
- **Funding for the new Truxton Fire Station** -- In FY 2004-05 and FY 2005-06, \$3,045,000 will be allocated to the new Truxton Fire Station construction. It will provide improved Truxton Area fire services.
- **Funding for City Gateway Project** -- To improve the aesthetic quality of the City's gateways, \$200,000 will be allocated for the City Gateway Project.
- **Funding for a new Police Station** -- In FY 2007-08, \$18,000,000 will be allocated for a new centralized Police Station/Headquarters.
- **Funding for a new Court Complex** -- In FY 2005-06, \$16,000,000 will be allocated for a new Court Complex.
- **Funding for continued Neighborhood Improvements** – Continued various neighborhood improvement project funding of \$800,000 a year was allocated.

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- **Funding for ongoing Public Utilities Improvements** -- Fully funded through Public Utility Revenue Bonds, \$5.3 million was allocated for ongoing maintenance and renovation projects.
- **Funding for ongoing Stormwater System Improvements** -- Fully funded through the stormwater rate, \$1,519,833 was allocated for Stormwater system improvements.

During the City's five-year plan, these projects will exemplify CIP future commitments to the infrastructure and public services. They will supplement the 15 projects completed in FY 2003-04.

### ***Final Thought***

As is now evident, during this upcoming year and beyond, there are many positive and exciting moments and opportunities that lie ahead for the City. The preparation of this year's budget was in itself a big challenge requiring difficult choices, clear leadership and a steadfast focus on the future. This budget reflects a diligent attempt to attain a fair and balanced allocation of resources for the operation of the City on behalf of its citizenry. Therefore, with a purposeful dedication to service and a constant eye towards the future, the City presents its FY 2004-05 Operating Budget and Capital Improvement Program.

*The City of Portsmouth is "The Right Place at the Right Time."*

James B. Oliver, Jr.  
City Manager