



April 1, 2008

The Honorable Mayor James W. Holley III and  
Members of City Council

Dear Mayor and City Council Members:

I hereby submit for your consideration and approval the Proposed Annual Operating Budget and Capital Improvements Plan for FY08-09. We expect FY09 to be among the most economically challenging years that Portsmouth has faced in recent times. As we prepare to address the needs of FY09, we continue to manage the projected \$5.5 million revenue shortfall in our current fiscal year budget in addition to the use of \$3.9 million of fund balance that was used last year to balance the budget.

Through Council and Manager collaboration our FY09 preparation assumptions considered: 1) Post FY08 Education funding, 2) Public Safety and General Service employees, and 3) tax relief. Council asked for a budget that provided for additional compensation to public safety personnel while sustaining our funding for schools. You also asked for consideration of real estate tax rates that produced revenue neutral, five cents and three cents reductions. At the date of this submission we have seen three other jurisdictions in Hampton Roads proposed budgets with no tax decreases. This budget proposes a five cents real estate tax rate reduction which will result in a leaner, more efficient, right-sized organization designed to provide mission-critical government services.

#### **Revenues**

In preparing general fund revenue forecasts, realistically conservative revenue projections were used. The downward-trending national and state economies were taken into consideration and we are bracing for a declining local economy as well. Moreover Portsmouth remains the fourth most fiscally stressed City in the Commonwealth.

The real estate tax rate was reduced to \$1.21, the boat tax rate to one cent, and Planning Department fees were increased modestly. All other general fund tax rates remain the same. Rates for utility and other enterprise funds will be discussed later in this document.

#### **Office of the City Manager**

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## **Expenditures**

### **Public Safety**

In strengthening our commitment to public safety, this budget includes a 5% increase in compensation for sworn personnel in the combined form of market increases and compression adjustments. We also included an additional 3% compensation for the Sheriff's Deputies as well as the State mandated requirement of \$1.75 million for Deputies inclusion in LEOS.

### **Schools**

The City's three-year funding commitment to Schools is complete in FY08. Unlike other City departments, agencies, and offices, schools were not asked to reduce expenditures in FY08 to offset the projected revenue shortfalls. Further, all departments, agencies, and offices other than Schools were required to submit FY09 budget requests at 5% less than their respective FY08 adopted budgets. Having satisfied Council's three year commitment, this will be the fourth year in which slightly more than 31% of local tax revenue is allocated to fund our schools. In addition to this action limited CIP dollars have been earmarked for Park View Elementary opening at \$1 million. Your commitment to education is demonstrated despite not fully funding the budget submitted by the School Superintendent.

### **General Service Delivery Personnel**

We included a 3% market wage adjustment for service delivery personnel in order to retain and reward the highly valued members of our workforce. We are also positioning ourselves to be attractive to potential hires as we compete for talent.

### **City-operated Retirement Systems**

Also included in this budget proposal is a "13<sup>th</sup> check" for pension recipients. For the vast majority of recipients, the 13<sup>th</sup> check will equate to 1.5% of their annual pension amount. However, we recommend capping the benefit at \$1,000 and setting the minimum at \$100. Some recipients would receive as little as \$14 if the minimum were not established. This 13<sup>th</sup> check does not become a component of the base benefit and therefore does not further erode the level of funding in our retirement systems.

### **Capital Improvements Plan (CIP)**

Given the need to stay within our debt-to-revenue policy limit, developing the five-year CIP required us to delay beyond the 5-year CIP many of the capital projects previously programmed. City Council's need to provide adequate facilities for Circuit Court is the major component that drives the decisions related to CIP planning. \$5 million for the Circuit Court is proposed in FY2009 which will allow the project to move forward as other options for financing are evaluated. The \$3 million per year programmed in the out years of the CIP for the Circuit Court are deemed to be sufficient placeholders for funding until financing plans are finalized. The other major driver in the CIP is the Holiday Inn Redevelopment Project as it is proposed in the initial development agreement agreed to by Council. A total of \$11.3 million is programmed in the first year of the CIP for the redevelopment of the Holiday Inn Site. The Churchland Bridge repairs are considered high priority given the level of degradation of the west-bound lanes of

the bridge and \$500K was programming in FY2009 to address immediate structural issues. Additional funding for the bridge totaling \$20 million has been programmed in the remaining out years of the CIP.

Projects that were delayed beyond the 5-year CIP include the Children's Museum renovation; the Cradock Neighborhood Revitalization project; a component of the Midtown Corridor project to implement corridor and gateway improvements; the renovation of both the Cradock and Cavalier Manor recreation centers; and improvements to McLean Street and Cavalier Boulevard. Projects that were delayed, yet still included in the future years of the CIP include the rotating neighborhood improvement projects that address stormwater drainage and curb and gutter issues (delayed until FY2013), and the City's reoccurring capital maintenance projects (delayed until FY2010). We have incorporated \$1 million of cash funding to conclude the Park View School construction project, but have delayed our contribution towards *other school* construction projects until FY2013.

The Proposed FY09-13 CIP moves the City closer to our 12% debt to revenue policy limit, and by FY2013, we are under the 12% debt affordability ratio. Remaining within policy limits demonstrates to the credit rating analysts and our citizens the commitment to being fiscally conservative while forward thinking.

### **Other Expenditures**

Real Estate Tax Relief for Elderly and Disabled property owners is budgeted at \$2.3 million. The golf fund is expected to run a \$600,000 deficit in FY08 and a \$1.1 million deficit in FY09 and as a result general fund subsidies are required in both years. Debt service payments for FY09 are \$26.6 million. The annual required contributions for City pension plans and VRS/LEOS amount to \$22.6 million. GASB 45/OPEB funding will be in the form of a contribution to an Internal Service Fund rather than an irrevocable trust fund. GASB 45 only requires that the liability be reported, not funded. Particularly in unstable times, and since most other localities in the Commonwealth have not established trust funds, it is not fiscally responsible for us to set aside millions of dollars now for what may become obsolete if National Health Care were to become a reality.

### **Balancing the Budget**

We have commissioned a management study in order to structure the best workforce management and reduction strategy. This is an essential element in attaining a balanced budget and to achieve the necessary savings of \$7.1 million as a result of this tax rate reduction. We will continue into FY09 the hiring freeze for other than public safety personnel and mission-critical positions. We have programmed an elimination of approximately 205 general fund positions in addition to the 16 positions already eliminated in the current fiscal year. Approximately 70 of the 205 positions that will be deleted are those positions required to attain the salary savings that in recent years was achieved solely through attrition. We believe our more conservative approach to balancing our budget is essential, particularly during periods of economic uncertainty.

## **Omissions**

Staff has identified programs of Council interest targeted for funding. A *Key Elements* section has been developed to aid Council's review of such programs and services in an effort to determine the best level of program service delivery.

## **Utilities**

The Department of Public Utilities/Works strives to deliver quality environmental services while maintaining competitive and affordable rates. The overarching theme in the Fiscal Year 2009 budget is continuing progress in maintaining, renewing and rehabilitating Portsmouth's aged utility infrastructure in the face of rising operational costs and ever more stringent environmental regulations including the Regional Sanitary Sewer Overflow (SSO) Consent Order and reissuance of Portsmouth's stormwater permit.

Portsmouth's utility systems represent a substantial investment and are among our communities most valuable assets. Safe, reliable utility systems are central to:

- Our health and safety
- Our quality of life
- Our communities vision of prosperity

The Fiscal Year 2009 budget includes increases in the residential water rate from \$3.65/1,000 gallons to \$3.94/1,000 gallons; in residential sewer charges from \$2.86/1,000 gallons to \$3.09/1,000 gallons and in the stormwater fee from \$5.50/month per equivalent residential unit (ERU) to \$6.00/month per ERU.

Combined these three increases in water, sewer and stormwater charges is expected to cost an average household (using 4,500 gallons per month (or 6 hundred cubic feet/month) and having 1 ERU) an additional \$2.84 per month or \$34.08 per year.

## **New initiatives**

### **Budget Stabilization Fund**

We recommend establishing a Budget Stabilization Fund, which would be separate and distinct from the Undesignated, Unreserved Fund Balance, preserving it at the current 15% of general fund disbursements. The Budget Stabilization Fund would be a mechanism for capturing any unplanned excess revenues above the 15% fund balance level at close of each fiscal year. The fund would earn interest and continue to increase up to 3% of general fund disbursements in any given year. Citizens would not be taxed to build the fund; only excess revenues would be contributed to build this reserve. The Budget Stabilization Fund is a tool by which a balanced budget can be achieved without resorting to tax increases, expenditure reductions, or tapping into fund balance during uncertain economic times.

## **The Page**

After the FY09 budget is adopted by Council, a high-level summary of the budget will be produced for public consumption, allowing for transparency and easy understanding of our budget.

## **Biennial Budget / Budgeting for Outcomes**

Planning for implementation of a biennial budget for FY10/FY11 will begin this summer. Simultaneously, working toward budgeting for outcomes / performance based budgeting will be in progress. Our focus is to improve how we conduct business as a municipal corporation.

## **Destination Portsmouth**

From Portsmouth City Council's vision came Destination 2025 – the award winning Comprehensive Plan for the City. This document is Portsmouth's strong vision statement. A vision that directly reflects the values, aspirations and priorities expressed by citizens during an extensive two-year planning process – a vision that has laid the framework for the City's future and the foundation for over \$1 billion investment in new development projects throughout the city.

However, the text of the vision statement is not the final product. The Plan document itself is not the final product. To be a livable and achievable vision, a real commitment to implementing the plan must be made, for ultimately, the Plan will be judged by its results not its processes.

*Destination Portsmouth* is that commitment to implementing the Plan – to implementing the citizen's vision for the City. *Destination Portsmouth* is a Series of Adopted Development Strategies, Plans and Initiatives which will implement the 2025 vision by proactively planning for our continued renaissance and completing the ground work necessary to make Portsmouth the **Destination of Choice**.

## **Financial Policies**

Comprehensive financial policies are needed. Currently, our policies provide insufficient guidance for appropriate financial planning and management. The CFO is already working with Public Financial Management, the City's Financial Advisors, to develop a cash flow/forecasting model. A revenue forecasting model was developed and used for FY09 budget planning. Additional financial policies will complement these efforts.

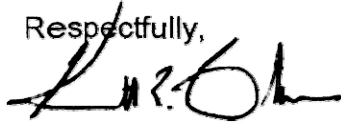
## **Greater Regionalism**

Particularly in this era of a looming national recession, it behooves the cities in Hampton Roads to coordinate, collaborate, and cooperate on issues of a regional nature. Regional participation in developing light rail is a prime example of a tremendous opportunity to multifaceted improvements in the quality of life for our citizens. Exploration into achieving economies of scale through other joint ventures is another priority initiative for City Management during the next fiscal year.

### **Conclusion**

This budget represents a holistic approach to providing the appropriate level of government services at the lowest possible cost. While it may be unrealistic to expect savings and/or efficiencies in every aspect of our operations during a single year, we believe this budget demonstrates that we are committed to being fiscally conservative, citizen focused, and good stewards of our taxpayers' dollars. I am excited about working with Council in accomplishing our goals and sustaining the Renaissance.

Respectfully,

A handwritten signature in black ink, appearing to read "K. Chandler", written over a horizontal line.

Kenneth L. Chandler  
City Manager