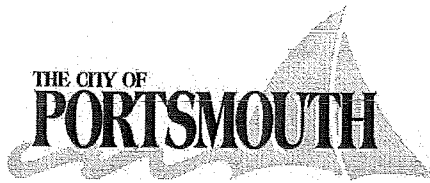




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THE CITY OF

PORTSMOUTH



City Manager's Report
Item Number: 09-259
Submitted by Betty J. Burrell, CFO
May 12, 2009

Issue: Adoption of the following ordinances recommending the proposed Operating Budget for the Fiscal Year beginning July 1, 2009 and ending June 30, 2010.

Background:

- On March 31, 2009 the City Manager presented the Proposed FY 2010-2011 Biennial Operating Budget to City Council. Through the process of several City Council work sessions and public hearings held on April 7, April 13, April 14, April 21, May 11 and 12, 2009, minor revisions to the Operating Budget will be incorporated and distributed to City Council along with a revised Operating Budget ordinance. Changes to be reflected in the Operating Budget ordinance will be identified as an attachment.

Discussion:

- The FY 2009-2010 Operating Budget increases the City's **real estate tax rate** by three cents from \$1.21 to \$1.24 per \$100 of assessed valuation. The increase of real estate value assessments from last year will lead to a generation of more revenue to cover Operating and Capital Budget expenses.
- The FY2009-2010 Operating Budget increases the City's **cigarette tax rate** by 10 cents per pack from \$.50 per pack to \$.60 per pack.
- \$557,381,803 is required for the operation of City Government during the fiscal year beginning July 1, 2009 and ending June 30, 2010.
- The new **Classification and Pay Plan** encompasses a new public safety step pay plan for sworn Fire and Police employees effective July 1, 2009.
- Chapter 11 and Appendix A of the City Code to establish or **amend fees and penalties pertaining to Erosion and Sediment Control** are amended by this Operating Budget.
- Sec 38-83 of the Code of Virginia and Appendix A relating to **Meter rates for water** supplied is amended by this Operating Budget in the following manner:
 - Water supplied to customers within corporate limits of City are increased from \$3.94 to \$4.03 per one thousand gallons or from \$2.9475 to \$3.0148 per one hundred cubic feet of water supplied.
 - Rates for water passing through meters, customers of the City of Chesapeake who are served by Portsmouth and whose rates are not set by contract are increased from \$5.91 to \$6.0450 per one thousand gallons or from \$4.4213 to 4.5223 per one hundred cubic feet of water supplied.
 - For the first three million gallons of water per day supplied during a billing period for all water through meters to the City of Chesapeake pursuant to contract, fees charged to the City of Chesapeake are increased from \$5.91 to \$6.045 per one

thousand gallons or from \$4.4213 to \$4.5223 per one hundred cubic feet of water supplied. For the amount of water supplied in excess of three million gallons of water per day, fees charged are increased from \$4.7280 to \$4.8360 per one thousand gallons or from \$3.5370 to \$3.6178 per one hundred cubic feet of water supplied.

- For all water passing through the meters of Suffolk pursuant to contract, the fee paid by the City of Suffolk is increased from \$3.6186 to \$3.7018 per one thousand gallons or from \$2.7071 to \$2.7694 per one hundred cubic feet of water supplied.
- Section 38-117 of the Code of Virginia and Appendix A relating to **sewage disposal rates** are amended by this Operating Budget in the following manner:
 - Charges for the disposal of sewage discharged into the city system are increased from \$3.09 to \$3.15 per one thousand gallons or from \$2.3116 to \$2.3565 per one hundred cubic feet. The minimum charge for such service is increased from \$2.67 to \$2.72 per month.
 - Charges for sewer service for dwelling units in premises with unmetered water connections are increased from \$15.44 to \$15.75 per month.
- An Ordinance to amend Chapter 31.1 and Appendix A of the City Code pertaining to **Stormwater Utility Fees** by increasing the equivalent residential unit (ERU) monthly rate for residential and non-residential accounts from \$6.00 to \$6.50 per ERU.
- An ordinance to amend Appendix A of the City Code by establishing or increasing certain fees and charges pertaining to **Buildings and Building Regulations, Fire Protection and Prevention, and Oversized Vehicles** are amended by this operating Budget.
- An Ordinance to amend Chapter 13 and Appendix A of the City Code by establishing certain fees for services pertaining to **Fire Protection and Prevention** are amended by this Operating Budget.
- An ordinance to amend Chapter 35 of the City Code thereof pertaining to **exemption and partial exemption from Real Estate Taxes for qualified elderly and disabled persons** are amended by this Operating Budget.
- These actions will contribute to all six of City Council's Vision Principles for the City of Portsmouth.

Financial Impact:

- By law, the operating budget must be balanced with estimated revenues and other funding sources equaling appropriations. The Proposed Operating Budget for fiscal year 2010 complies with this law.

Staff Recommends:

- **Adoption of the following proposed ordinances. *Vision Principles: Bold New Directions, World Class Maritime Center, Thriving Neighborhoods and a Sense of Community, A Robust and Prospering Economy, Lifelong Learning, and Pride of Past, Promise of Future:***


- a. **Adoption of an Ordinance imposing and levying taxes for each Fiscal Year beginning July 1st and ending June 30th, unless otherwise changed by Council, on real estate at a rate of \$1.24 per \$100 of assessed valuation, and on tangible personal property, privately-owned pleasure boats at a rate of \$.50 per \$100 assessed value, privately-owned camping trailers and motor homes, and machinery and tools within the City of Portsmouth, for the purpose of raising revenue for the support of governmental operations, the public free schools, and to pay principal and interest on the public debt.**
- b. **Adoption of an ordinance to increase the city tax on cigarettes at a rate of \$.60 per pack (30 mills for each cigarette) within the City of Portsmouth.**
- c. **Adoption of an ordinance to appropriate \$557,381,803 for the operation of City Government during the Fiscal Year beginning July 1, 2009 and ending June 30, 2010.**
- d. **Adoption of an ordinance adopting the FY 2009-2010 Classification and Pay Plan which encompasses a new public Safety Step Plan for sworn Fire and Police Employees of the City of Portsmouth, Virginia.**
- e. **Adoption of an ordinance to amend Chapter 11 and Appendix A of the City Code to establish or amend fees and penalties pertaining to Erosion and Sediment Control.**
- f. **Adoption of an ordinance to amend Chapter 38 and Appendix A of the City Code pertaining to rates for water and sewage disposal services.**
- g. **Adoption of an ordinance to amend Chapter 31.1 and Appendix A of the City Code pertaining to Stormwater Utility Fees by increasing the equivalent residential unit (ERU) monthly rate for residential and non-residential accounts from \$6.00 to \$6.50.**
- h. **Adoption of an ordinance to amend Appendix A of the City Code by establishing or increasing certain fees and charges contained therein pertaining to Buildings and Building Regulations, Fire Protection and Prevention, and Oversized Vehicles.**
- i. **Adoption of an ordinance to amend Chapter 13 and Appendix A of the City Code by establishing or amending certain fees for services provided by the Department of Fire, Rescue and Emergency Services.**
- j. **Adoption of an ordinance to amend Chapter 35 of the City Code pertaining to Exemption and Partial Exemption from Real Estate Taxes for Qualified Elderly and Disabled Persons.**

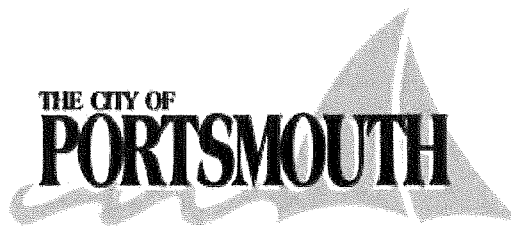
Next Steps Following Council Action:

- The City Manager has ultimate responsibility and authority for implementation of the Annual Operating Budget. The Chief Financial Officer has day-to-day responsibility for ensuring the budget is spent as appropriated by the City Council.

Attachments:

- Real Estate and Personal Property Tax Ordinance (a)
- Cigarette Tax Ordinance (b)
- Operating Budget Appropriation Ordinance (c)
- Classification and Pay Plan Ordinance (d)
- Erosion and Sediment Control Ordinance (e)
- Water and Sewage Disposal Services Ordinance (f)
- Stormwater Utility Fees Ordinance (g)
- Buildings and Building Regulations, Fire Protection and Prevention and Oversized Vehicles Ordinance (h)
- Certain Fees, Fire Protection and Prevention Ordinance (i)
- Exemption and Partial Exemption from Real Estate Taxes Ordinance (j)


City Manager



March 31, 2009

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

Dear Mayor Holley and Council members:

Introduction

Collaboration continues to be our hallmark uniting ordinary people towards a common vision for extraordinary service to the citizens of the City of Portsmouth. The essence of collaboration coupled with our principles civic engagement and transparency establish a spirit where Together Everyone Achieves More (TEAM). With this same spirit we offer the collective thoughts of this Administration for your consideration in the proposed FY2010-2011 Biennial Budget. The recommended balanced budget for FY10 is \$563,409,039 and \$566,718,568 for FY11. This recommended budget further represents our commitment to strong financial management practices despite the recent down-turn of our national, state, and local economies. Although we are directly impacted by declining local tax revenues and significantly reduced aid from the Commonwealth of Virginia, the recommended budget is balanced without the use of fund balance. Further, this is the first year in recent history for biennial budgeting for Portsmouth; FY10 budget is appropriated by Council and FY11 will be approved by Council as an operating plan, just as the City's multi-year capital improvement plan includes an appropriation of the first year and approval of the subsequent four years.

Budget Theme

The theme, "Sustaining our obligations in a sea of uncertainty" has been selected to reflect who we are as a city with respect to our financial DNA cast in a setting of a declining global economy second only to the Great Depression in United States history.

Our financial DNA

In our 250 plus year history our locality has evolved from a Town to a City and experienced population increases, declines, and now projections for increase again. Regardless of our historical trends, we still remain one of the most fiscally stressed, densely populated localities in the central core of America's First Region, Hampton Roads. Diminishing financial resources needed to sustain the traditional quality of life expectations of public education, public safety, and transportation infrastructure necessitated the need to implement unprecedented cost cutting measures uncommon to local governments in Virginia. Where we realize that the pendulum swing of the global economy does little to enhance the financial DNA of the City, the scarcity of financial resources has bound our City Council, our Administration, and our citizens in a partnership, not always by choice, but necessity to sustain an adequate quality of life.

Office of the City Manager

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The use of strategic planning and calculated risk taking strategies continue to be deployed in an effort to maximize our service delivery while shielding us from the potential financial, human, and catastrophic liabilities all localities may experience.

Our Obligations

Where our financial DNA establishes who we are as a City, it does not provide an excuse to escape from our obligations. A recent law suit brought by the Commonwealth of Virginia on the City of Portsmouth to provide adequate facilities for all courts will further stress the City's ability to levy enough revenue to provide service to our residents. This action combined with ongoing efforts to wrestle with an unpredictable solid waste disposal costs caused by the erosion of Southeastern Public Service Authority (SPSA), response to a Environmental Protection Agency (EPA) regional consent order for Sanitary Sewer Overflow (SSO), and long term commitments to funding public education and competitive public safety pay are all key elements that must be addressed in this budget and shall be required in most cases by law regardless of our financial hardship. Where our commitment to handling our affairs has been reaffirmed by our ability to sustain the grade of our financial report card (Standard and Poor's: AA-; Moody's: A1; and Fitch: AA-) tomorrow's challenges represent the perfect storm capable of wiping out our economic vitality as well as our core existence.

Historical Context

Even before the close of the first quarter in FY09, the Administration advised Council that FY09 would be yet another year of potential shortfalls. Council carefully deliberated on enacting certain measures to end FY09 with a balanced budget, many of which carried forward to the FY10/FY11 biennial budget. Our ability to present this balanced budget to Council is a direct result of Council's willingness to accept the following recommendations from the Administration: right-sizing the City's workforce through implementation of the Management Efficiency Study recommendations; restructuring of outstanding debt to achieve cash-flow relief; offering retirement incentives to further reduce the workforce; elimination of certain vacant positions; 11% across-the-board reductions for all departments and agencies other than public safety and public schools; elimination of take-home vehicles for out-of-City employees and non-essential personnel; and, reduction of work-hours or complete elimination of certain of part-time positions.

Revenues

In preparing our revenue forecasts for the biennial budget, staff took a different approach to first confirm our methodology for revenue forecasting. In this, adjustments were made to our collection rate previously budgeted at 100% now down to an industry standard of 96%. Staff retooled the revenue forecast for FY09 in order to develop a solid, dependable foundation on which to build the FY10 and FY11 forecasts. A by-product of this process yielded a modified collection rate of 96% in lieu of the unrealistic projection of 100%. Additionally, in order to be more transparent with actual revenues, tax relief is no longer netted from revenue projections. As such, revenues are reflected as the gross amount expected to be collected in each of the upcoming fiscal years and tax relief is

reflected as an expenditure, thereby clearly reflecting the amount of tax relief programmed each year.

This budget's real estate tax rate has a recommended increase of eight cents from \$1.21 to \$1.29. This increase reflects the additional unforeseen costs for solid waste disposal, the settlement of the courts facilities lawsuit requiring new facilities for all three courts in lieu of the original plan for only the circuit court, and the public safety retention pay plan.

Introduced in this budget is also a variety of small increases in certain excise taxes and fees, such as cigarette tax increase of ten cents per pack, increased development and permitting fees, as well as increased ambulance fees. This is expected to generate additional revenue in the amount of \$1.4 million.

Expenditures

In sustaining Council's long-term commitment to public safety retention, this budget includes \$2.3 million for the public safety compensation program. This program provides a market-competitive step increase salary scale for sworn police and fire personnel. Adjustments for compression in preparation for this program were granted in FY09. An additional 2.5% for anniversary increases relative to the new pay program are also programmed for FY11.

Although local revenues are declining coupled with one-time economic stimulus funding the Portsmouth Public School System request for level funding for the biennial budget is recommended to be reduced by only \$2.25%. Facing unprecedented cuts in funding from the Commonwealth for public education, we value the partnership with PPS through their initial efforts to trim more than \$5 million from their initial budget proposal. This measure coupled with the infusion of federal stimulus funding restores the basic foundation of public education revenues. In light of Council's commitment to public education this budget sustains or enhances PPS's resources.

This budget does not afford an opportunity to give general wage employees any pay increase. However, the proposed budget does not include any plans to furlough, lay-off, or require unpaid holidays based on the current financial forecast. Further, the City's method of overstating its potential vacancy savings has been more realistically proposed at 1% versus the traditional Portsmouth model of projecting savings of 6% or greater in vacancy savings. The impact of this change is an increase of approximately \$3.5 million in expenditures.

City pension plans continue to struggle with large unfunded liabilities that are further exacerbated by the recent tumultuous stock market activity. In FY09 City Council commissioned a Retirement Blue Ribbon Committee (BRC) to study the benefit structure of the internal systems and make recommendations for potential enhancements of benefits while sustaining the fiscal integrity of the plans. While their deliberations are believed to be in the final stages, formal recommendations have not been issued yet by the BRC in time for consideration for the first year of the biennium.

Capital Improvement Plan (CIP)

In FY09 staff worked with Council to restructure the current CIP in order to comply with our 12% debt-service-to-revenue policy. With this measure staff under Council's direction sought and used creative financing tools, such as working with a venture capitalist developer for construction of the courts facilities, use of PPEA for construction of future facilities relative to schools, behavioral health services, and public safety facilities. Where we may have made a commitment for no new projects that require use of general obligation bonds, these tools may allow the City to meet its obligation in a different format. The use of master leasing is the tool that may be recommended to finance the much needed enhancements to public safety communications systems.

Restructuring existing debt was accomplished in March 2009, giving cash flow relief in FY09, and the upcoming biennium. The administration recognizes this as a one-time opportunity to gain financial stability during the uncertain economic times.

Finally with respect to CIP, the increased cost of providing court facilities for all three courts absorbs any additional debt capacity for the next several years. Thus, it is unlikely that any new projects will be added to the plan over the next several years.

Other Expenditures

Real Estate Tax Relief for the Elderly and Disabled property owners is budgeted at \$3 million dollars, an increase of \$600,000 over the current fiscal year. The golf fund is expected to run a \$1.2 million deficit in FY10 and another \$1.2 million deficit in FY11 and as a result will require general fund subsidies each of the next two years. General Fund Debt Service payments for FY10 are \$20.7 million and \$21.1 million for FY11. The annual required contributions for City pension plans and VRS/LEOS amount to \$18.6 for FY10 and \$20.5 for FY11. The City opted to reduce its contribution toward the OPEB ARC based on the current economic condition; this transcends FY09, FY10, and FY11. The administration recognizes the importance of funding this liability and plans to ramp-up recommended contributions in future years.

Utilities

The Department of Public Utilities/Works strives to deliver quality environmental services while maintaining affordable rates. In preparation of this budget, staff conducted an external review of our current cost of service model. As a result of this action we are recommending a decrease in the projected FY10 rate of 8.5% to 2% and a decrease from the projected 2011 rate of 10.5% to 5.2%. We continue to manage our share in obligations to a regional consent order from EPA relative to Sanitary Sewer Overflow (SSO).

Status of FY09 Initiatives

The Page – This report has been prepared for its target release prior to the budget public hearing. It will be released via the City's website.

Biennial Budget/Budgeting for Outcomes – The biennial budget format is being introduced with this budget message. The budgeting for outcomes concept was used in collaboration with City departments and agencies as a tool for budget preparation.

Destination Portsmouth – This initiative continues to advance Council’s Destination 2025 award-winning comprehensive plan. A Design Week process was utilized to gain public input toward the implementation of form-based code development regulations.

Financial Policies – Finance has drafted a number of guiding principles that will be introduced for Council’s consideration prior to budget adoption.

Conclusion

The biennial budget process establishes a unique opportunity to advance Council’s vision in the area of fiscal policy two years at a time. This element combined with Destination Portsmouth and Budgeting for Outcomes will aid our efforts to establish sound administrative infrastructure capable of advancing the City towards its hopes, dreams and aspirations. Where the above referenced tools will serve as a lamp unto our feet and light unto our pathway, they can only serve as guidance. The decisions we make based upon such guidance shall determine our destiny.

Respectfully,

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

Kenneth L. Chandler
City Manager