



March 30, 2010

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

Dear Mayor Holley and Members of Council:

As we transition into the second year of the FY10-FY11 Biennial Budget, “Sustaining our obligations in a sea of uncertainty” continues to be the theme. Since we are a city committed to its citizens, we recognize that the uncertainties of resources and revenue streams should not ill-effect our obligations for municipal service to the community or to our financial prudence.

This budget, which reflects direct impacts of declining local tax revenues and record-breaking reductions in aid from the Commonwealth of Virginia, is balanced without a real estate tax increase or establishing a stabilization tax rate, nor the use of fund balance. This proposed Operating Budget for FY11 is a supplement to the Biennial Budget approved by City Council as an operating plan in May 2009. The recommended balanced budget is **\$547,938,307** inclusive of all funds.

In approaching the second year of the biennial budget cycle, we are focusing on the development of key performance measures. The long view that is inherent in a two-year plan insists on *outcome-based budgeting*, which links available dollars to priorities. Clearly, as available resources are even more scarce this fiscal year, it is imperative that the City evaluates the performance of each governmental service and dedicates resources for only those which produce the desired results. As an initiative for FY11, the City is installing a Performance Management program to accomplish this by more precisely evaluating services to attain the best outcomes from the shrinking revenues.

### **State of the Economy**

In Portsmouth, we are but an example of the reality of the volatile state of the current economy. As the national debt continues to soar and as the state has experienced a \$6 billion decrease to the general fund and, in turn, reduces funding to localities for education and many state-mandated programs, an increased demand is being placed on local dollars. Even as we brace for the federal and state funding reductions, in Portsmouth, our revenue-generating building projects and real estate valuations decline. At the time of this presentation, there are state and federal programs and revenue streams that have the potential of being reduced significantly or eliminated. We can make educated and calculated projections, yet we realize that continual state and federal funding is no longer a surety.

As a city of limited developable land, we continue to work together to reinvent ourselves and to make better more efficient use of our available resources. As economic development has always been important to this City Council, your recent adoption of a resolution of priority stresses its importance even more. In concert with this new priority and strategic focus, economic development strategies are being planned for implementation in phases over the next 36 months. Per City Council's direction, an initiative that staff will undertake is the creation of an Economic Development Incentive Fund.

In pursuing economic development, City Council recognizes that incentives are necessary to be competitive in a global economy. The use of incentives to stimulate economic development is a primary benefit of the City and is directly related to its interest in creating employment opportunities, increasing the tax base, and diversifying the mix of businesses in Portsmouth.

**Office of the City Manager**

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The vision of a more comprehensive approach to development is being realized as a result of this Council adopting the innovative smart-growth development strategies, plans, and initiatives of Destination Portsmouth. With the input of our citizens, we are proactively planning for our continued progress by building the foundation necessary to make Portsmouth the “Destination of Choice”. We expect that our viability and attractiveness will be increased in areas including quality of life and economic vitality.

The mixed-use development, Victory Village, which will be one of the largest of its kind in Virginia, has gained more notoriety and momentum with the January 2010 opening of the Tidewater Community College Portsmouth Campus. This Portsmouth corridor is expected to experience exponential growth within the upcoming years.

One of the strategic initiatives of this administration is to connect Council's vision to service delivery through ANCHOR: Attaining Council's Vision; Neighborhood Preservation; Civic Engagement; Historic Preservation; Operational Excellence; and Regional Cooperation. Staff is building the administrative infrastructure that will support initiatives and spur progress.

### **Our Obligations**

In the midst of our financial challenges we have still been able to maintain services and meet most of our funding obligations. Our sound financial policies coupled with prudent financial watch have resulted in our ability to forge ahead even in these grim economic times. In addition to meeting the expenses associated with the day-to-day operation of city government, our commitment is to pay our obligations, first, which include our debt service payments, Other Post Employment Benefits (OPEB), and pensions, and then move toward programmatic responsibilities.

As a result of strategies implemented in FY10, City Council and this administration have been able to implement a plan that exceeds our obligation to provide adequate facilities for all courts. A unique financing opportunity between the city and the land developer and a continued contribution to the Courts' Complex Capital Reserve fund of one cent of the real estate tax rate in FY10 and almost three cents in FY11, have initiated the design and construction of a new \$78 million courts facility at Port Centre.

Due to excessive debt, the Southeastern Public Service Authority (SPSA) increased its tipping fee that was passed on to our residents in FY10. To reduce their debt and to liquidate assets, SPSA and its member localities voted to sell the Waste-to-Energy Facility which will in turn reduce the city's financial obligation to satisfy SPSA's outstanding debt. This sale is expected to be finalized in FY10. Although reduced, our SPSA debt continues as does the Environmental Protection Agency's regional consent order for Sanitary Sewer Overflow.

### **Our Progress and Our Successes!**

Major accomplishments have been made in areas where City Council and staff have collaborated and placed major focus and priority. In September 2009, City Council adopted financial policies that are serving as our roadmap for sound fiscal responsibility.

While retaining our bond ratings, Standard & Poor's has elevated our outlook to AA- stable, and Moody's has issued a stable outlook to their A1 rating from none before. In their rating summary, Fitch issued Portsmouth an AA- rating and statement citing our improved financial management.

Over the last few years, City Council priorities of education and public safety were earmarked for improvement and resources. You have demonstrated consistency in funding for education and in FY10 you committed to a public safety pay increase that has positioned our public safety compensation to be highly competitive in the Hampton Roads region. In addition, we celebrate the successful achievements of the school system and full accreditation of all schools. The return on these investments will be far reaching and will continue to have tremendous benefits for our citizens.

The Government Finance Officers Association (GFOA) presented the Distinguished Budget Presentation Award to the City of Portsmouth for our FY10-11 Biennial Budget document. The Association of Government Accountants has awarded us a certificate of achievement in citizen-centric reporting for our FY10 Initiative, The Page. Another award, the 2009 Excellence in Development Design Award for the new Churchland Library, was presented by the Hampton Roads Association for Commercial Real Estate (HRACRE); and in December, HRACRE featured the Planning Department and the innovative Destination Portsmouth at a regional event.

### **Revenues**

Overall, the FY11 General Fund revenue projection is \$218,361,390 from all sources. The projections are conservative estimates based on a slower economy and significant reductions of revenue from the Commonwealth of Virginia.

Proposed FY2011 General Fund, Stormwater, Public Utility, and Golf Fund revenue include the following:

- No use of equalization tax rate despite declining assessed values
- Reduction of \$1.193 million in State Revenue (Aid to the Commonwealth) which will be passed to the affected Agencies and Constitutional Offices
- \$1.2 million of additional state reductions with only 50% passed to the affected Agencies and Constitutional Offices
- Inclusion of \$470,750 for FY11 Federal Inmate revenue
- Modest change in Recreation fees – Summer Galaxy Program
- Modest change in Golf fees - Winter Package
- Modest changes in fees – Public Utility fee increase of 5.2% and Stormwater fee increase of 50 cents to \$7.00 per Equivalent Residential Unit

### **Expenditures and Other Expenditures**

Proposed FY2011 General Fund expenditures totaling \$218,361,390 include the following:

- The undesignated, unreserved fund balance was **not** used to balance this budget
- Continued funding of the public safety retention pay plan including the anniversary step increase of 2.5%
- Level funding for Portsmouth Public Schools despite restoration of Composite Index initially passed
- Continuation of 11% reductions from FY09 funding for all departments except Schools and Public Safety; restored funding for Cavalier Manor Pool and Cradock Library for biennium.
- Continuation of 5% reductions directed by City Council in FY10-FY11 deliberations
- Tax Relief for the Elderly and Disabled, set at \$3 million, to be allocated among qualified applicants; a \$600,000 increase over FY09
- No general wage increase for employees or cost of living increase (COLA) for City-owned pension plan recipients
- Restoration of the parking fee for employees at 50% of the current rate for all Parking Authority owned facilities
- Realistic projection of vacancy savings (down from 6% in FY09), up from 1% in FY10 to 4.4% for FY11 based on current vacancy trend of 7%
- Reduction of \$2 million cash transfer to CIP to be recovered from FY10 year-end results
- Reduction of funding for the Virginia Sports Hall of Fame of \$250,000 over FY10 funding. FY09 funding was \$900,000; FY11 funding is proposed at \$550,000
- Reduction of \$1.3 million for budgeted pension ARC, use of excess FY10 contributions that resulted from revised ARC
- Fully funding the Courthouse Capital Reserve fund of \$1.8 million
- Reduction of OPEB contribution from the proposed \$3.5 million to \$2.5 million; level funding from FY10
- Reduction of \$400,000 of General Fund subsidy to the Golf fund
- Expectation of retirement incentive salary savings
- Additional \$415,000 per diem for Hampton Roads Regional Jail

- Additional cost included to address operational, non-discretionary mandated costs (ex. Food services at Portsmouth Jail, Humane Society contract, Mobile Data Communication equipment maintenance contract, etc.)
- FY2011 debt service payment increase of \$1.9 million over FY10

### **Capital Improvement Plan (CIP)**

The City continues to design and restructure the current CIP in order to comply with our Debt Capacity and Affordability Policy – 1) the ratio of net tax-supported debt service to general fund revenues should not exceed 12%, within the six-year CIP projection; 2) the ratio of net tax-supported debt service to market value should not exceed four percent (4%) within the six-year CIP projection; and 3) the 10-year debt payout ratio of net tax-supported debt service should be greater than or equal to 50%.

This proposed FY11 budget does not include new CIP funding requests as any additional debt capacity was absorbed due to adopted projects in FY10. Projects that will continue into FY11 include the \$78 million courts facility, \$14.8 million Children's Museum of Virginia renovation and expansion project, \$1.1 million Ebony Heights Drainage Project, \$13.1 million Prentis Park Water and Sewer Rehabilitation Project, \$3 million Crawford Parkway Seawall Bulkhead Project, \$1.2 million Admiral's Landing Seawall Bulkhead Project, and the \$200,000 Cradock Skate Park. In the fifth year of the plan, two new projects were added - Victory Boulevard/Paradise Creek Bridge and the County Street Parking Garage replacement.

The City was successful in its pursuit of stimulus funds under the American Recovery and Reinvestment Act of 2009. We received \$29.4 million to fund eight projects and programs. The largest of these is the construction of the new Simonsdale Elementary School that encumbers \$18 million of the stimulus funds and is currently underway.

### **Utilities**

The Department of Public Utilities delivers high quality water and sewer services while maintaining affordable rates. During FY11, we will continue significant capital improvement projects with the completion of new water and sewer lines in Prentis Park as well as construction of a new raw water pump station at Lake Kilby Water Treatment Plant. We continue to manage our obligations of the EPA consent order regarding Sanitary Sewer Overflow (SSO). A rate increase of 5.2% is recommended. This same rate proposal was affirmed with the recent financing plan and sale of utility bonds, and is the same rate proposed for FY11 when the biennial budget was adopted in May 2009. Portsmouth will continue to have one of the lowest rates within Hampton Roads.

### **FY10 Initiatives – Achievements**

The Page: A Report to Our Citizens - A comprehensive overview of the capital projects and finance structure of the City of Portsmouth was completed and launched on [www.portsmouthva.gov](http://www.portsmouthva.gov).

Biennial Budget/Budgeting for Outcomes – The biennial budget format was introduced for FY10 and has served as a tool for greater short-term and long-term oversight of city operations and appropriations decisions. The performance measures methodology program, Budgeting for Outcomes, was introduced to staff in FY10 for agency-wide implementation.

Financial Policies – In September 2009, City Council adopted the financial policies as drafted by the Finance Department staff.

Destination Portsmouth – City Council has adopted all of the FY10 initiatives of Destination Portsmouth, advancing the Destination 2025 award-winning comprehensive plan. Civic engagement was fundamental as citizens partnered with the Planning Department in shaping the framework and direction for the city's land-use plans and policies and vision for smart growth.

### **FY11 Initiatives**

Budgeting for Outcomes/Performance Management – Key performance measures will be developed that will assist in linking resources to desired service delivery results.

Budget Stabilization Fund and Policies – The Finance Department will draft a policy for City Council's consideration that establishes a separate and distinct fund from the Undesignated, Unreserved Fund Balance. The Budget Stabilization Fund will be a mechanism for capturing unplanned excess revenues above the 15% fund balance level at the close of each fiscal year. Citizens will not be taxed to build the fund; only excess revenues will be contributed after the books are closed for the prior fiscal year. These funds may be used only for one-time (non-recurring) expenditures and will require a super-majority vote of Council.

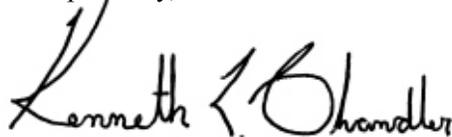
Economic Development Incentive Fund – As a result of City Council's new priority, Economic Development, an initiative to develop policies, procedures, and funding governing the equitable use of incentives will be developed and will have clear and quantifiable standards.

### **Conclusion**

This budget, which reflects conservative revenue and expenditure projections, is being recommended to City Council for consideration. It reflects the three Cs of this administration, Collaboration between City Council and staff, transparent Communication with our citizens and stakeholders, and Customer Service that will be maintained even where resources may diminish.

Recognizing our challenges, yet, placing greater focus on our opportunities is the charge for this administration. Through key initiatives and the application of sound management principles, we will guide Portsmouth through the turbulent economic times that our nation, state, and city face. A commitment to fiscal and operational excellence, comprehensive planning, and resource management will yield greater results and is our duty in governance. The expected outcome: decreased challenges and increased opportunities in a city where the quality of life is second to none.

Respectfully,

A handwritten signature in black ink that reads "Kenneth L. Chandler". The signature is written in a cursive style with a large initial "K".

**Kenneth L. Chandler**  
City Manager