



August 1, 2012

The Honorable Mayor Kenneth I. Wright and
The Honorable Members of City Council

Dear Mayor Wright and Members of Council:

On Tuesday, May 15, 2012, the Council Members of the City of Portsmouth by a unanimous vote approved the Fiscal Year 2013 Operating and Capital Improvement Budget. The General Fund Budget is \$223,225,100 and the Total Budget is \$544,492,199. These revenue sources and the expense allocations provide the financial plan that will facilitate the delivery of core and ancillary services to sustain and enhance the quality of life for citizens of the City. Our primary goal is to operate in a fiscally responsible manner while being cognizant of the City Council's vision.

The current economic environment continues to present certain challenges to the regional and local economies. Our ability to generate new revenue is limited while the cost of doing business continues to strain our existing revenue sources. With prudent financial management, this budget will allow us to sustain the core quality of life elements to include education, public safety, transportation and the utility infrastructure. The City is vigilantly tracking the unsolicited conceptual proposal for the operation of the Port of Virginia pursuant to the PPTA and the potential change in ownership of the APM Terminals of Virginia, Inc. This transaction has the potential of severely impacting the City's revenue stream in an adverse manner.

The following highlights from the Fiscal Year 2013 budget exhibits the City Council's commitment to funding the core and ancillary service demands required in the City. It is important to note, this is a selective sampling of the funding needs addressed by the adopted budget, but is not intended to diminish the importance of any items not mentioned.

- This budget held constant the real estate tax rate of \$1.27 per \$100 of assessed value. Where necessary, fees and rates were adjusted to address the city's replacement and enhancement of certain sewer and water infrastructure while the cost of providing trash and garbage service to the citizens was reduced. In consideration of the service demands on the public library branches by non-Portsmouth residents, a fee increase of \$10.00 was included in the budget.
- The new judicial facility's construction is nearing completion. With that in mind, twenty five (25) new positions were allocated for the Sheriff's Department to accommodate the increased demand for manpower in the approximate 200,008 square foot facility. An allocation of \$1,100,000 in additional funding was provided. With an anticipated opening date for the new judicial facility in October 2012, an additional \$125,000 was allocated to address anticipated operational and maintenance needs.

Office of the City Manager

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- The City Council reaffirmed its continuing commitment to fund education, thus, level funding in the amount of \$48,871,532 was appropriated to the Portsmouth Public School system. This funding will support the continuing development and enhancement of those strategic education assets, to include the human capital, educational tools and other supplies needed to provide a high quality education to the school age residents of the City.
- The senior and disabled veteran residents of the city were also given consideration by this budget. The Tax Relief program was continued. Funding in the amount of \$2,500,000 was allocated to continue this vital program of assistance.
- The City Council was cognizant of those social, cultural and recreational needs that add to the quality of life of our citizens. As such, the operational costs associated to the newly established Paradise Creek Park were included in the Parks, Recreation and Leisure Services department's budget. The Garage Fund was also identified as a potential funding source for those equipment needs necessary to maintain the park. Additionally, funding to various Civic Organizations in the amount of \$328,024 was appropriated. These organizations, singularly and collectively, address and deliver cultural and social services to the community. Another key element of the city's cultural environment, The Virginia Sports Hall of Fame, was provided funding of \$350,000 continuing the City Council's commitment of support for its operation. The budget also provides for the continued funding of a vital recreational amenity in the City, the Cavalier Manor pool.
- This budget, while addressing the everyday needs and demands, is also responsive to mandates imposed by the Commonwealth. The Virginia Retirement System's Plan 1 employees are now required to contribute 5% of their wages to the retirement system, a payment previously borne by the City. An increase of 5.7% to each Plan 1 employee's wage is provided to fully or partially offset this and related cost. Additionally, the Aid to the Commonwealth expense in the amount of \$1,124,394 is included in the budget. This mandated requirement by the Commonwealth for localities to provide a return to the state was instituted for a period that was initially not expected to exceed two (2) years, yet it continues.
- As a means of enhancing the supportive services provided to the City by the Constitutional Offices, the Treasurer's and Commissioner of Revenue's Offices were collectively awarded four (4) new positions. This addition of personnel to their respective offices is expected to enhance the revenue stream of the City.

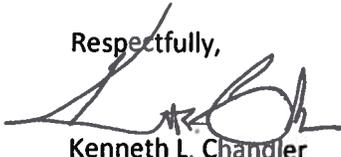
As resources were limited, certain funding needs were unaddressed, in whole or in part, by this budget. The City Council recognizes the importance of these budget components and is committed to identifying and providing the appropriate funding in the future. These needs include:

- a cash contribution to the City's Capital Improvement Program to sustain existing and supporting new projects;
- funding for the Other Post Employee Benefits (OPEB);
- increasing the funding for the Portsmouth Supplement Retirement System and the Fire and Police; Retirement System, funding in this budget was at the recommended ARC level;
- and the development of a general wage employee compensation plan with its associated funding.

The City Council recognizes the quality of and the ever increasing levels of work conducted by the employees of the City. In recognition of the employees' efforts and dedication, concurrent with the approval of the Classification and Pay Plan (effective July 1, 2011) by the Council, general employees were awarded a one-time 2% bonus and a one-time 1% bonus was provided to the retirees. On May 22, 2012 Council approved another one-time 3% bonus for employees (General wage, Constitutional Officer's staff and Grant Funded employees). Also included was a one-time 1.5% bonus payment for retirees of the Portsmouth Supplemental Retirement System and the Fire and Police Retirement System.

As with most budgets, not all initiatives and goals that we desire to achieve can be accomplished in consideration of funding constraints; however, most of the essential components are funded in this budget. We continue our vigilance in monitoring the cost of providing services to the citizens and conducting our daily operating activities. The Fiscal Year 2013 budget will facilitate our efforts to sustain the City's tangible state as we strive to advance economically and improve the quality of life for our citizens. These challenges though great can and will be accomplished in accordance with the vision and direction established by the City Council.

Respectfully,

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

Kenneth L. Chandler
City Manager