



March 29, 2016

The Honorable Mayor Kenneth I. Wright, Vice Mayor Elizabeth M. Psimas, Members of City Council, and Citizens of Portsmouth:

I am pleased to transmit the FY 2017 Proposed General Fund Budget, totaling \$238,037,007, a \$2.26 million or 1% increase over the FY 2016 budget. The overall proposed budget total is \$651,558,103.

As the new City Manager, I am pleased to present the proposed FY 2017 budget which is **structurally balanced** with one-time revenues used for one-time expenditures and recurring revenues used for recurring expenditures. This has been achieved with NO NEW TAXES AND NO NEW FEES.

In accordance with the General Finance Officer Association (GFOA), *“The budget is a guide that determines the direction of Government. It is arguably the single most important document routinely prepared by governments.”*

One hundred years ago, in the city of Portsmouth, Mayor J.T. Hanvey presented the annual Mayor’s message discussing the adoption to the city-manager form of government and budget challenges. The guiding principles stated in that annual message are still relevant today. To quote Mayor Hanvey:

“A large majority of our people are anticipating wonderful improvements under our new form of City Government, and the Council should strive to accomplish for our City, with the assistance of the City Manager, the highest obtainable efficiency.

We do not know that a great many improvements can be made, as it will require a larger expenditure of funds than the City is able to supply in order to have all of the desirable and necessary improvements which the City Manager will, no doubt, see the necessity for. The budget of 1917 shows that he will have sufficient revenue only to meet the running expenses of the City, and, therefore, any saving of funds or additional services must be due to efficient cooperation between the Manager, the City employees, and the City Council.

We shall expect to see a more faithful attention to duty by the City Officials and other employees, under the supervision of the Manager, but must not look for the impossible and should give the Manager a fair chance and not be too impatient for results. There is probably not a single Department of the city which cannot be improved upon and he is expected to bring about better conditions in all of the Departments.”

Office of the City Manager

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Guiding Principles

In the development of the FY 2017 proposed budget process, we remained steadfast to the guiding principles outlined in my Oath of Office speech:

- To create a bright and prosperous future redefined by collaboration, unification and rededication through citizen and community engagement.
- The *New Portsmouth* where city employees work tirelessly to make the best decisions necessary to achieve our city's vision and move in a forward direction characterized by methodical deliberation and expediency.
- The *New Portsmouth* where employees are courageous decision makers with financial acuity, to ensure cost effectiveness, government efficiency, and protection over the city's financial resources.

The theme for the FY 2017 budget process is *Review, Reflect and Refocus*:

- *Review* – taking a formal assessment or examination of all aspects of department budgets with the possibility or intention of instituting change where necessary
- *Reflect* – think deeply and carefully about the department goals and formulate cost-effective plans with careful consideration for all budget recommendations
- *Refocus* – focus (attention and resources) on performing work differently, setting priorities in city programs or using different approaches to the delivery of services through combining services and collaboration

The guiding questions for the budget discussions were:

- Who benefits from the services?
- How we can improve the results?
- How are the results related to the Council's Vision Principles?
- How can there be interdepartmental collaboration for these services?

In addition, departments ranked the five (5) lowest services and potential impact to citizens to provide a blueprint for discussion at each of the thirty-seven budget defense meetings. This was done to eliminate duplication of services, to maintain financial acuity, and to ensure efficient service delivery.

In addition to NO NEW TAXES and NO NEW FEES, some of the highlights in this message are:

- Increasing the city's local share for Portsmouth Public Schools by \$1 million.
- Implementing an unprecedented approach to address the school's infrastructure needs through funding the top ten capital improvement projects in the first year of the Capital Improvement Program (CIP).

- Rewarding and recognizing the city’s public servants through a one-time bonus effective December 2016.
- Reserving funds for Governor McAuliffe’s proposed 2% increase for Constitutional Officers and their employees effective December 2016.

Collaboration among Stakeholders

As we work toward building “The *New* Portsmouth”, the proposed annual operating budget and proposed Capital Improvement Program (CIP) five-year plan are reflective of a multi-step process that involved the entire organization as well as the Portsmouth Public Schools, and citizens within our community. In working together, we identified savings through efficiencies and collaboration.

The value of this multi-step approach highlighted several areas: interrelatedness of activities, increased knowledge and appreciation of each other’s work within the organization, and a greater sense of cooperation and coordination. Because of this approach, it has led us to appropriately allocate resources driven toward the *Council’s Vision Principles for the Year 2030* and properly align goals and objectives.

Results of departmental collaborations are:

- City-wide procurement of common services such as concrete and asphalt contracts
- Consolidation of safety training
- Consolidation of purchases related to uniforms, safety equipment and traffic control materials
- Consolidation of monument maintenance under the Parks Division

Community Engagement

As City Manager, working closely with Dr. Elie Bracy, III, Superintendent of Portsmouth Public Schools, we engaged the citizens of Portsmouth, outlining the city’s and schools fiscal position and presented an overview of key strategic services and benchmarks.

This series of Community Budget Engagement Forums were held at the city’s three high schools – Woodrow Wilson, I.C. Norcom, and Churchland. The citizens participated in an interactive process to provide strategic feedback on programs and services for the city and schools. The information gathered from these sessions aided in the preparation of the FY 2017 proposed operating city and school budgets.

We continue to provide a robust process for engaging civic and cultural art organizations to support the vibrancy of our community and an enhanced quality of life. Based on our partnership with these organizations, we are recommending level funding to continue our cultural and humanitarian efforts.

New Executive Leadership Team

During my tenure, I have appointed ten (10) department heads who are laser-focused, compassionate leaders, and eager to diligently work toward creating the *New Portsmouth*.

These departments with new leadership are:

- Human Resource Management
- Economic Development
- Information Technology
- Parks, Recreation and Leisure Services
- Public Utilities
- Finance
- Social Services
- Behavioral Healthcare Services
- Police
- Fire

General Fund and Capital Improvement Program (CIP) Budget Highlights

- Total Proposed FY 2017 Budget - \$238 million which is a \$2.26 million increase
- NO NEW TAXES AND NO NEW FEES
- Structurally Balanced – one-time revenues for one-time expenditures and recurring revenues for recurring expenditures
- Community engagement and development aligned within all departments delivery of services
- Portsmouth Public Schools - \$1 million increase for local share

Adopted FY 2016 - \$51.4 million local share

Proposed FY 2017 - \$52.4 million local share

- One-time bonus for city employees effective December 2016
- Funding reserved for Governor McAuliffe's proposed 2% raises for Constitutional Offices and staff effective December 2016
- Fund Balance allocation: \$4 million for one-time capital projects and \$2 million for one-time bonuses for city employees
- Fund Balance is maintained at 15% or above General Fund revenues
- Maintains our AA bond credit rating
- CIP addresses top ten (10) capital infrastructure needs for Portsmouth Public Schools - \$4.6 million

- Realigned Neighborhood Advancement services within Permits & Inspections and Planning in accordance with State/City Code compliance
- Realigned Landscape and Cemetery maintenance within the Department of Parks, Recreation and Leisure Services
- Total Proposed FY 2017 CIP Budget - \$36.56 million
 - City-wide major project highlights:
 - \$11 million to complete the replacement of the Churchland Bridge
 - \$3.7 million for the replacement of ambulances, critical equipment and vehicle inventory
 - \$5 million for Seawall reinforcement

Financial Policies

The city's sound, conservative financial policies and guidelines ensures the long-term financial stability of the city. Adherence to these policies assures a competitive bond rating and the ability to borrow funds for long-term capital needs at an effective interest rate. The city's Capital Improvement Program supports projects that improve the economic development and infrastructure needs of the city and our schools. Projects with a long useful life are typically debt financed, allocating the cost over the useful life of the project.

Capital Improvement Program (CIP)

In developing the CIP, the city reviewed with our financial advisors current and future debt services costs, alternative funding streams, and the ability to cash finance projects. A five (5) and ten (10) year focus on the impact of debt funding projects was completed and strategic recommendations were made on the use of financing techniques and one-time use of fund balance to cash finance projects.

Low-interest financing opportunities to include Clean Water Revolving Loan Fund for sewer projects, Drinking Water Revolving Loan fund for water projects, and Qualified Zone Academy Bonds (QZABs) and literary loans for school projects are being actively sought. The current CIP has over 50% of non-debt financing sources.

Ongoing infrastructure projects, including bridge replacements and seawall reinforcement, were prioritized and alternative funding sources were aggressively pursued. Municipal and school buildings are essential in servicing both citizens and students. Projects to ensure the structural integrity and maintenance of these buildings have been added to the five-year CIP plan.

Short-term borrowing to take advantage of low interest rates will help maximize the number of vehicles replaced which will improve service delivery, reduce operational repair costs, and enhance safety. Highlights of the five-year plan include funding key city and school infrastructure needs are identified below:

- Churchland and Paradise Creek Bridges
- Seawall Reinforcement
- School buses and city vehicle replacement
- New Revenue System – City Treasurer & Commissioner of the Revenue
- School roof replacements
- Social Services new phone system
- County Garage replacement

The debt service sinking fund, previously established, will remain. However, the debt service cost spikes (previously anticipated) have leveled off as a result of refinancing and borrowing. Thus, the remaining reserve does not need to be increased and can be used in the upcoming years for financing costs and unique economic development opportunities.

Regional Economic Outlook/Revenues

The Hampton Roads' economy is expected to grow at a slightly higher rate (1.59%) in 2016 than in 2015 (1.14%). The deceleration of Department of Defense (DOD) spending has led to slow economic growth in Hampton Roads. We expect defense spending to increase slightly during 2016. The economic effects are likely to be realized in 2017.

Annual civilian employment in our region is expected to increase by about 7,100 jobs during 2016. Employment growth is likely to be concentrated in businesses providing professional and business services, construction, leisure and hospitality, and health care services. The region's unemployment rate is expected to fall from 5.07% in 2015 to 4.30% in 2016.

Retail sales in the region are expected to grow by 3.6% in 2016. During 2015, hotel revenues in Hampton Roads increased by 6.5%. Factors contributing to higher tourism revenue during 2016 will continue to be the same as those observed during 2015.

City Assessor's Report

The report from the City Assessor's Office revealed the following positive indicators:

- Increasing new construction starts – second consecutive year
- National market indicators positive for more than three consecutive years
- Market stability has increased significantly
- Continued strong growth in the multi-family sector of the commercial market

Restructuring of Municipal Services

In addition, to filling key positions, municipal services were realigned to create better, efficient and effective ways to deliver services.

The realignment of the core services of landscaping, cemeteries, outdoor recreation maintenance, and events logistics are now realigned to their core service delivery Department of Parks, Recreation and Leisure Services (PRLS).

In addition, events planning and oversight of Willett Hall are now realigned with PRLS from Marketing, Communications and Tourism with key emphasis on improved delivery of services and customer outreach.

The realignment of Permits & Inspections, Planning and Zoning consolidates the former Department of Neighborhood Advancement thereby properly aligning the city's Zoning Administration with Article 40 of the City Code.

“The *New Portsmouth*” – we are initiating a continuum of the neighborhood partnering and service delivery designed for all city departments to be engaged in improving neighborhood quality, advancement, and sustainability. Our Citizen Advocacy Services through our Ombudswoman daily engages with citizens, outside agencies, and all departments as it relates to neighborhood quality.

Commitment to Education

The future growth of the *New Portsmouth* is dependent on continuing to build a strong education system. As the level of education rises in a community, so does the economic viability and quality of life. Therefore, we are proposing:

- \$1 million increase for local share – Portsmouth Public Schools
- \$4.6 million for the top ten (10) CIP projects to include funding for design and roof replacement for several school facilities, replacement of bleachers, and school buses.

Partnering and Collaboration with Portsmouth Public Schools

The city and Portsmouth Public Schools (PPS) are committed to collaborative partnership to create cost efficiency, savings, and combining service delivery. Some examples of this collaborative approach are below:

- 1) Portsmouth Community Television (PCTV) and Portsmouth Schools Educational Television (PSET) – sharing of program broadcasting, community public service announcements, event information, and production services.
- 2) PPS and PRLS are sharing transportation resources to transport evening meals for school-aged youth through the Mobile Kids Meals Program.
- 3) Office Supplies (State/Federal Contracts) – continuing to explore opportunities to use contracts for optimal purchasing power.
- 4) Financing Options – use of low or no finance cost opportunities for school infrastructure projects.

Public Safety

Today, public safety is a top priority. No matter where we are or what we may be doing, the thought of safety and feeling secure daunts our minds. Portsmouth citizens possess the same perspective of public safety's importance, for it is also at the top of our citizen's agenda. The city's commitment in the *New* Portsmouth is to recognize that public safety is not something just randomly provided to the community by government, but rather public safety is a continuous engagement of people forming a community-based partnership built upon trust and legitimacy in an effort to ensure a safe and livable community.

In support of public safety, here are some examples of our commitment:

- As current vacancies are filled, allotted positions will be examined for funding based on service needs.
- Emphasis on filling vacant positions through an expeditious hiring process.
- The entry level examination for public safety will be administered on a frequent basis.
- Examples of various priority equipment needs are:
 - Support for the Body Worn Camera Program to include video storage
 - Maintenance support (Eagle Eye Surveillance System)
 - Final payment for SWAT Recon Robot
 - Replacement of vehicles
 - Purchase of two new ambulances

Economic Development Initiatives

Portsmouth's economy continues to experience a healthy increase in activities especially in critical sectors such as retail, multi-family, and port-related developments. Economic Development Initiatives include:

- Retail – \$10 million second phase construction of the Midtown Market Place, a 21-acre development, completed in May 2015, continues to revitalize the area with retail including T.J. Maxx, CATO Fashions, Hibbett Sports, Dunkin Donuts, Wendy's, Autobell, and WAWA.
- Multi-family Development – the last two years has brought nearly \$100 million of investment and nearly 800 multi-family units recently opened or under construction or under contract in downtown Portsmouth. These projects include:
 - Quarter at Park View, a \$17 million investment of 140 apartments completed in the summer 2015
 - Tower 507, a \$6.1 million redevelopment project on the site of the historic Governor Dinwiddie Hotel located in downtown Portsmouth featuring 46 apartment units and 9,000 square feet of commercial space to open spring 2016.

- Montgomery Square, a \$6.8 million investment for a 69-unit apartment community
- King's Court, a \$6.3 million investment for a 46-unit apartment community nearing completion by summer 2016.
- Sterling Court, a \$9.2 million investment for a 67-unit apartment building nearing completion by summer 2016.
- Harbor Vista Development, a \$17.1 million investment for a 2.5 acre apartment community with 134-units targeted to open in summer 2016.
- Seaboard Building, a \$6.8 million investment for a 81-unit apartment community to be completed late 2016
- North Pier, a \$25 million investment for a 187-unit apartment community under contract
- Port of Hampton Roads – is one of the world’s largest natural harbors, serving over 75 international shipping lines.
 - InterChange – investing over \$5 million to convert the Former Gwaltney Plant, a 200,000 square-foot facility into a logistics/distribution center development company.
 - Vane Brothers – a multi-faceted, marine transportation provider is expanding with a \$1.5 million investment.
 - Accurate Marine Environmental – a provider of marine and industrial tank/bilge cleaning services is investing \$700 thousand in improvements to its waterfront location.

Investment in Employees

I recognize the tireless work of city employees through the efficient service delivery to ensure cost effectiveness, government efficiency, and protection of the city’s financial resources. With NO NEW TAXES and NO NEW FEES, there are limited resources to provide a reoccurring salary increases. However, I am recommending a one-time compensation bonus of \$1,000 in December 2016 for full-time city employees (excluding department heads, employees of constitutional officers and part-time employees) hired on or before January 1, 2016.

Proactively supporting employees’ health and wellness is a major priority for the city. The *New* Portsmouth embraces the idea that health, happiness, and productivity at work are interrelated and the implementation of wellness programs bring all three of these components together. Research shows that wellness programs reduce health care costs, promote a healthy lifestyle, and improve employee productivity.

Our wellness program will take an integrated approach to meet the needs of our employees. Human Resource Management continues to evaluate the health care programs and benefits and look for innovative ways to reduce costs.

New Initiatives

Human Resource Management - One of the major initiatives in the *New Portsmouth* is leveraging technology to improve cost effectiveness and government efficiency. As a result, staff has diligently worked to implement and improve the following:

- **Online Applicant Tracking System** – a cloud-based system that allows for candidates to apply online for city positions, job notification feature, and allows department heads to submit job requests electronically to fill positions.
- **On-Boarding System** – new employees will complete new hire paperwork to include W-4s, I-9s, and benefit information in advance of their first day of employment. A welcoming video from the City Manager is part of the new process.
- **MUNIS** – continuing the implementation of the integrated system that manages the city's core functions which include financial reporting, procurement, human resources, employee self-service, and citizen services. The implementation of this new technology will improve and simplify human resources and payroll processes to support a paperless system.
- **Professional Development** – To attract, develop, and maintain a competitive workforce, supervisory and non-supervisory employees will be offered a variety of training opportunities. A skilled and knowledgeable workforce positively impacts organizational performance; therefore, as employees gain experience and knowledge, there is a direct correlation to the overall success of the city.
- **Tuition Reimbursement Program** - A tuition assistance program supports our investment in employees by providing an opportunity to continue their education thereby, enhance their skills and productivity.
- **Internships** - Internships are a valuable tool to explore career opportunities. They provide high school and college students with numerous opportunities to gain experience, develop skills, and make contributions to the Portsmouth community.

Information Technology – In today's changing world, technology in the 21st century integrates every facet of our daily interactions. To revitalize the technological infrastructure, our IT Department will implement the following new initiatives as a vital part of the *New Portsmouth*:

- **Automated help desk** – This remote support will provide reallocation of resources by spending less time away from the office and prioritization of tasks to better serve customers. This initiative is expected to save at least \$40,000 annually.
- **Restructuring usage of fax machines and office printers** –Through the elimination of fax machine lines and the consolidation of printers, we anticipate a savings of approximately \$100,000 annually.
- **Cell Phones** – An analysis of our cell phone usage to include a new cell phone provider, the city is projecting to save \$115,000 annually.

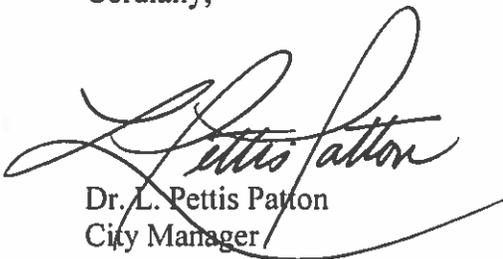
- **Wi-Fi** – Phase 1 of this initiative will include 100% secured coverage for city hall by the end of calendar year 2016. Phase 2 and 3, which encompasses Public Safety and remaining municipal facilities, are slated for completion by the end of calendar year 2018.
- **Infrastructure Improvements** – these improvements will enhance both physical and cyber security postures.
- **Website Redesign & Re-launch** - to provide optimization, navigation, and appearance which ultimately enhances citizen engagement.

Future Outlook

As I reflect on my 211th day as City Manager and review all of our accomplishments to include the hiring of my executive leadership team, I am encouraged that the *New* Portsmouth is getting better, stronger, and smarter. Based on the polling results from the Community Budget Engagement Forums and City Council's directives, I have accomplished the task before me in submitting to you the proposed FY 2017 structurally balanced budget with NO NEW TAXES AND NO NEW FEES.

There are endless possibilities and opportunities ahead of us as we continue our journey of creating the *New* Portsmouth. Over 100 years ago, Mayor J. T. Hanvey believed that our city would grow and provide for our citizens. It is our duty today, to ensure that 100 years from now in 2117, the future citizens of Portsmouth will look upon our work with pride and know that our pulse and focus was on looking to a *New* Portsmouth.

Cordially,



Dr. L. Pettis Patton
City Manager