



City Manager's Report
Item Number: 06-187
Submitted by Lance Wolff, Chief Financial Officer
April 25, 2006

Issue: Proposed Adoption of Ordinances Approving the Operating Budget for Fiscal Year Ending June 30, 2007

Background:

- On March 21, 2006, the City Manager presented the Proposed FY 2006-2007 Operating Budget to City Council. Through the process of several City Council work sessions and public hearings held on March 28th, April 11th and April 18th, 2006, minor revisions to the Operating Budget will be incorporated and distributed to City Council along with revised Operating Budget ordinance. Changes to be reflected in the Operating Budget ordinance will be identified as an attachment.

Discussion:

- The FY 2006-2007 Operating Budget also reduces the City's **real estate tax rate** by eight cents from \$1.44 to \$1.36 per \$100 of assessed valuation. This combined with 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.
- \$498,247,722 is required for the operation of City Government during the fiscal year beginning July 1, 2006 and ending June 30, 2007.
- The new **Classification and Pay Plan** for City employees encompasses a five percent general wage increase for full-time employees; decompression using the formula that was employed by the City of Portsmouth in 2002; and adjustments for certain jobs according to market survey. The general wage increase is to be given in two parts: 2.5 percent on January 1, 2006, and 2.5 percent on July 1, 2006.
- This Budget increases **stormwater utility fees** by increasing the equivalent residential unit (ERU) rate for residential and non-residential accounts from \$4.50 to \$5.00 per ERU. This shall be applicable to all bills rendered after July 1, 2006.
- The Proposed Operating Budget increases **solid waste collection fees** from \$19 to \$22 per month per dwelling unit.
- Sec 38-83 of the Code of Virginia 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 \$3.15 to \$3.38 per one thousand gallons or from \$2.3565 to \$2.5286 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 \$4.725 to \$5.07 per one thousand gallons or from \$3.5348 to \$3.7929 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 \$4.725 per one thousand gallons or from \$3.5348 to \$3.7929 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 \$3.78 to \$4.056 per one thousand gallons or from \$2.8278 to \$3.0343 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 \$2.8913 to \$3.1024 per one thousand gallons or from \$2.1630 to \$2.3209 per one hundred cubic feet of water supplied.
- Section 38-117 of the Code of Virginia 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 \$2.42 to \$2.65 per one thousand gallons or from \$1.81 to \$1.9825 per one hundred cubic feet. The minimum charge for such service is increased from \$2.10 to \$2.30 per month.
 - Charges for sewer service for dwelling units in premises with unmetered water connections are increased from \$8.61 to \$13.25 per month.
- 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 2007 complies with this law.

Staff Recommends:

Adoption of the following Ordinances recommending the Proposed Operating Budget for the Fiscal Year beginning July 1, 2006 and ending June 30, 2007. *Vision Principles: Bold New Directions, World Class Maritime Center, Neighborhood and Community Transformation, 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 \$1.36 per \$100 of assessed valuation, and on tangible personal property, privately-owned pleasure boats, 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 appropriate \$498,247,722 for the operation of City Government during the Fiscal Year beginning July 1, 2006 and ending June 30, 2007.**
- c. **Adoption of an Ordinance adopting the FY 2006-2007 Classification and Pay Plan for Employees of the City of Portsmouth, Virginia.**
- d. **Adoption of an Ordinance to amend Chapter 16 of the City Code pertaining to rates for solid waste collection services.**

- a. **Adoption of an Ordinance to amend Chapter 31.1 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 \$4.50 to \$5.00 per ERU.**
- b. **Adoption of an Ordinance to amend Chapter 37 of the City Code pertaining to miscellaneous towing fees.**
- c. **Adoption of an Ordinance to amend Chapter 38 of the City Code pertaining to rates for water and sewage disposal services.**

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)
Operating Budget Appropriation Ordinance (b)
Classification and Pay Plan Ordinance (c)
Solid Waste Collection Services Ordinance (d)
Stormwater Utility Fees Ordinance (e)
Miscellaneous Towing Fees Ordinance (f)
Water and Sewage Disposal Services Ordinance (g)



City Manager

(See ordinance section of the budget document for ordinances noted above)

**Revisions - FY 07 Proposed Operating Budget
General Fund**

General Fund	Proposed Budget March 21	Revisions	Adopted Budget April 25
All other departments	195,860,871	0	195,860,871
Finance	1,972,533	-45,324	1,927,209
Support to Civic Organ.	1,177,268	45,324	1,222,592
Total Budget	199,010,672	0	199,010,672

Support to Civic Organizations

Agency	Proposed Budget March 21	Revisions	Adopted Budget April 25
Endeppendence Center	25,000	25,000	50,000
Flag Association	0	2,500	2,500
Eastern Virginia Medical School	32,824	32,824	65,648
Tidewater Community College	62,500	62,500	125,000
Brighton Rock Senior Organization	0	5,000	5,000
Portsmouth Reads	5,000	5,000	10,000
Total	125,324	132,824	258,148

Funding Sources

Support to Civic Organizations(internal changes)	(87,500)
Finance	(45,324)
Total	(132,824)

March 21, 2006

The Honorable Mayor and
Members of the City Council
801 Crawford Street
Portsmouth, Virginia 23704

Dear Council Members,

I am very pleased to submit the City Manager's recommended 2006- 2007 Fiscal Year Operating and Capital Improvement Program (CIP) Budgets for your consideration.

This budget aligns the city's human and physical resources with the City Council's Vision Statement. It contains thousands of decisions that focus on what matters and puts forward strategies for execution that deal with making the vision happen. As a consequence, the budget recommendations attempt to allocate resources that balance short-term needs while meeting longer-term goals.

Fundamentally this budget addresses four organizational needs:

- Our financial health
- The growth and development of public employees
- Our relationships with citizens and community partners
- The quality of the services we provide

Ultimately we are looking forward, and are in the process of transforming our grand, historic city into "*the port city of the future*". The focus is on education and the maritime environment as the foundation of our social, political and economic wellbeing.

Restore, Maintain and Protect

Three words summarize the overall contents in these budgets; these are:

restore, maintain and protect.

One might call this a "catching-up" budget as we *restore* funding in a number of key areas in order to get caught up with overdue commitments in public education, City employee compensation, and capital projects. We are working hard to *maintain* basic

municipal services at current levels with two exceptions. In codes and law enforcement we have recommended modest expansions of service. We have also been aggressive in containing the size of the workforce. There are no net new positions in the General Fund of our Operating Budget though there are shifts in the use of personnel. And we are especially mindful to *protect* the City's financial health and strengthen our fiscal stability. In the recent past Portsmouth has managed under a "credit watch". We must to continue to demonstrate to the bond-rating agencies that we are working to develop our revenue streams as we strive to keep expenditures under control and maintain a healthy fund balance.

These three challenges -- *restore, maintain* and *protect* -- were in the forefront of our minds as we developed these budgets for your review, discussion and adoption.

Budget Highlights

Some highlights of this budget are:

- \$6 million increase in funding for Portsmouth Public Schools thus continuing the joint efforts of the City Council and the School Board to make significant progress in teacher salaries, modernizing school facilities and improving student achievement scores
- \$5.5 million increase in funding for City employees compensation thus fully implementing all the recommendations in the Compensation Study approved in December 2005
- \$3.2 million in additional debt service funding to support City Council's priorities for capital projects developed since the adoption of the FY06 budget
- Devoting two cents of the real estate tax (\$1.0 million) to initially fund the new courthouse complex project
- A \$0.06 reduction in the real estate tax rate from \$1.44 to \$1.38
- Increases in water and sewer rates, solid waste and storm water fees to address outdated facilities and strengthen financial operations at a cost of \$5.80 per month to the average residential homeowner

Budget Themes

There are six major themes that focused the formulation of this budget proposal:

- Funding City Council Priorities
- Commitment to Education

- Investing in Employees
- Citizen Engagement and Neighborhood Transformation
- Restructured Capital Improvement Program
- Lowering Real Estate Tax Rate

Funding City Council Priorities

All of the work performed in our city government is to support and implement the City Council's Vision Statement that was adopted in January 2005. Subsequently, City Council designated 17 priorities and 47 Vision projects. This budget continues to focus and execute tasks in the pursuit of these goals.

Our budget preparation process for FY07 actually began with City Council's adoption of the FY06 budget. We have attempted to align our work with each of City Council's six Vision themes in order to address major issues and concerns, broaden the involvement of our citizens through public dialogue, and make major decisions as early in the year as possible. As City Council made these decisions, they became the foundation and focus for the development of this budget proposal.

The following thematic areas further demonstrate the process we followed and the outcomes achieved in several major areas.

Commitment to Education

The City Council and School Board along with the City Manager, School Superintendent and both organizations' staffs have worked together all year. Both our Education Committee and the School Finance Committee met monthly to discuss education and financial issues in order to ensure a true partnership in addressing educational and financial concerns and the development of these educational budget recommendations. The development of a three-year master plan addressing teacher salaries, modernizing school facilities and improving the student achievement scores is the result of our collective efforts throughout the year.

We have jointly established a funding formula, and this budget holds true to that formula. Last year, the City fully funded the Superintendent's budget request, at the level of 30.1 percent, and I am recommending in this year's budget that we increase the percentage to 32 percent in FY07, making us well on the way toward achieving our goal of 35 percent by FY08. This budget increase should enable our school leaders to implement the second year of the three-year compensation increases to make Portsmouth teacher salaries competitive in the market.

The Capital Improvements Program budget includes continuing funding for modernizing school facilities, particularly the renovation and addition to Highland Biltmore Elementary School, the construction of the new Park View Elementary School, and the

addition of 20,000 square feet to the Portsmouth Campus of the Tidewater Community College for our School System's "*First College*" program. This program allows our high school students to enroll and take college courses for college credit while still in high school. This is a unique program that prepares our high school graduates for success in higher education.

Investing in Our Employees

In today's knowledge economy, our employees are clearly our most important assets, and this budget continues our goal of providing compensation, technology, and training that will improve our work force. In last year's budget message, I recommended an employee pay study that would take a comprehensive look at our compensation package, including salaries and benefits. We formed an Employee Pay Advisory Committee composed of two members of City Council and representatives of City departments and offices. Last December, the committee recommended increasing general wages by 5 percent, addressing compression, and adjusting pay ranges so that none of our starting salaries would be less than 90 percent of the market.

With all full-time employees benefiting from the general wage increases, we have already implemented half of the pay increase with a 2.5 percent general wage increase on January 1 of this year. This budget proposal includes funds for the other 2.5 percent general wage increase effective July 1, 2006.

Also in accordance with the committee's recommendation, we are addressing "compression"---whereby some positions and salaries have become misaligned within the compensation system over time. This FY07 budget proposes that 63 percent of the eligible employees will receive compression adjustments according to a methodology approved by the Committee. These adjustments cost in excess of \$1.3 million.

In another pay dimension, a consulting firm, Springsted, Inc., assisted this committee by conducting a market analysis. As a result of the consultant's analysis, 23 percent of the employees will benefit from market adjustments funded in the FY07 budget. The market addition will make the city's pay scale competitive with neighboring cities.

Beyond basic pay and benefits, the City continues to recognize our extraordinary employees through various employee recognition and professional development programs. These valuable programs consist of Employee of the Month, Team of the Quarter, Employee of the Year, Annual Service Award Recognition and the Employee Incentive Program, as well as our Tuition Assistance Program and personnel sponsored training for City employees.

For FY07, the City will increase its employee health insurance funding by 12 percent, effective January 1, 2007. The budget also includes a 2.5 percent cost of living adjustment for all retirees in the City of Portsmouth retirement systems effective July 1, 2006.

Lastly, we will continue the work of the Employee Pay Advisory Committee during the next fiscal year; in fact, the Committee will develop its 2006-2007 work agenda when it meets again this May.

Citizen Engagement and Neighborhood Transformation

Citizen engagement and neighborhood transformation is a major City Council theme that fosters community building. We encourage our citizens to become involved, and we seek to establish a variety of networks for citizens to participate and provide information in order to ensure our citizens are well informed. We value our citizens and the “social capital” that Robert Putman describes as the stock of social trust, norm and networks that people can draw upon to solve common problems as the framework we strive to create through citizen involvement and engagement.

There are a number of examples of engaging our citizens over the last year. These include:

- Hosting three community charettes on the Downtown waterfront, Effingham-High corridor and the Cradock neighborhood, allowing citizens to become fully integrated into every aspect of the planning for the redevelopment of these areas
- City Council hosted three community meetings in schools across the City including a Joint City Council-School Board Meeting where both City and school issues were discussed
- 11th annual NEAT Summit at Woodrow Wilson High School that was jointly planned by city staff and citizen organizations
- Conducted our biennial Citizen Satisfaction Survey of City services with many of our City departments receiving 90 percent or higher satisfaction ratings
- Our Neighborhood Academy which helps to modify and reflect the value of civic engagement and broaden citizens understanding of government
- City Council has hosted a multitude of public hearings thereby allowing citizens to express their views on many issues
- Hundreds of our citizens serve as volunteers on boards and commissions.

We are continuing to work on building broader citizen engagement in a more systematized and sustained effort to include our citizens in every aspect of governance. This budget includes a number of items to continue and improve efforts in neighborhood and community transformation, including a more aggressive and sustained code

compliance and enforcement program thereby improving the quality of life and livability in our neighborhoods.

Through discussions with City Council and with our citizens, we have made significant gains in the area of codes compliance, including adding four new inspectors, providing “in the field” technology for our entire codes compliance staff, and stepping up inspections including targeting specific neighborhoods for code violations.

Our Clean Community Program has dedicated weeks throughout the spring for all neighborhoods to host a clean-up campaign in order to ensure that all neighborhoods focus on beautification and keeping each community clean. The use of emerging technologies in Public Safety has allowed us to recently open a new public safety communications center. We are also developing “WI-FI” capability in our central business district. This budget expands the Summer Galaxy Program, an educational, fun-filled, stimulating recreational program for youth ages 6-12 along with special programs for teens and the disabled. Its activities include sports, group games, competitions, arts and crafts, music, dance, road trips, swim time, character development and complimentary USDA breakfast and lunch programs. We will offer Summer Galaxy at all recreation centers and selected school locations and expand the Kid’s Café.

Capital Improvement Program (CIP)

After several public work sessions, last fall the City Council prioritized its capital project for the next five years. The CIP component of this budget proposal continues to fund City Council’s priorities, including funding for the new Tidewater Community College Portsmouth campus, Churchland Library, neighborhood improvements related to the new APM Terminals port development, the Midtown corridor, downtown developments including the North Pier and Desk Inc. sites and the Crawford roundabout, McLean Street and Cavalier Boulevard infrastructure related to the New Port housing development, Seawall reinforcements, and the closure of the ditches in the Cavalier Manor neighborhood. The Cavalier Manor stormwater project is more than a “*ditch closure*” project; it is a comprehensive project that also includes the construction of new water and sewer lines within Cavalier Boulevard and rebuilding of the street.

Funding for New Court Complex

Our most significant capital challenge is the development of a new court complex, which is the largest capital project in Portsmouth’s modern history. We need approximately \$6.25 million to undertake the planning, preliminary engineering, and project design for this project. This phase of the project will span two budget years. The current estimate for courthouse construction and furnishings is another \$58 million, and this number is subject to change based on a number of variables. I am recommending that we designate two cents (\$0.02) of the recommended \$1.38 real estate tax rate in the FY07 and future budgets to provide the initial financial support for this project. With the implementation

of the courts complex, we must discuss the future of the Portsmouth City Jail, and I recommend that we initiate this discussion during the next fiscal year.

Cost of Priorities

Our priorities are both very noble and necessary, but they carry a cost. The work that we will undertake in the above priority areas will require significant new funding in the budget for the next fiscal year and beyond, including:

- \$6 million for increased funding for education
- \$5.5 million to support the employee compensation package
- \$3.2 million in additional debt service for capital projects
- \$1.0 million from the two cents on the real estate tax rate to support the courthouse development project

These are significant increases that we must include in the appropriations to support the FY07 budget. At the same time, we are taking a number of actions to contain costs. For example, the general fund budget includes no new net positions, our budget team trimmed \$2.2 million from requests submitted by our operating departments, and we have budgeted \$8.1 million in anticipated savings through projected employee turnover.

Revenue Resources

We can support the appropriation increase for priorities from a number of increases in revenues in our budget. These include natural increases in established taxes and fees through improvements in the economy and other forces, and new tax revenues as major projects come on line, such as New Port, the APM Terminals of Virginia (also known as Maersk), and the new Wal-Mart store scheduled to open later this year in Midtown. The proposed budget also includes increases in water and sewer rates, the residential solid waste fee, and the stormwater management fee to continue our investment in repairing and replacing these facilities and improving services.

Portsmouth's water and sewer system is one of our greatest assets, and it provides a strong foundation for implementing Council's Vision Statement, particularly the *Robust and Prospering Economy* and the *Neighborhood and Community Transformation* elements of the vision statement. Many of the components of our water and sewer system are beyond their useful life and are in need of replacement. This is especially true in our neighborhoods where some 75 percent are in such condition. Replacement of these lines is a long-term, costly endeavor that will require us to gradually increase water and sewer rates for years to come. To continue to meet our system's long-term replacement needs, this budget recommends that we increase both the water and sewer rates by \$0.23 per 1,000 gallons. For the average residential customer using just over 5,000 gallons per month, the average monthly increase is approximately \$27.60 per year or \$2.30 a month.

The condition of our stormwater collection and conveyance system mirrors that of our water and sewer system. In addition, many of the stormwater system components are inadequate to meet present day demands. Repair and upgrading of the existing system and the funding of a “*Lake and Pond Management Program*” requires us to steadily and gradually increase our stormwater fees. This budget recommends that we increase the Equivalent Residential Unit (ERU) by \$0.50 per month. The impact on a residential homeowner is an additional payment of \$6.00 per year.

We are recommending an increase in the residential solid waste fee from \$19 to \$22 per month, an increase of \$3 per month. This increase is necessary to cover the cost of operations so that the Waste Management Fund is not subsidized by the General Fund.

The total impact of these rate and fee changes on the average residential homeowner is \$5.80 a month.

Lowering Real Estate Tax Rate

Last year, at the request of the City Council, the City Assessor undertook a citywide reassessment of all real estate with the assistance of a national assessment firm. The resulting reassessment showed an average increase of 24.93 percent in commercial and residential property assessments across the City. As such, Portsmouth’s tax base increased in value at a rate approximately equal to that of our neighboring cities. As with all reassessments, there were significant variations from the average throughout the City, with some properties showing declines in valuation rather than increases. We took all of these factors into consideration in our budget calculations, in which one cent (\$0.01) on the real estate tax rate equates to about \$500,000 of revenue. In the face of the significant increases in real property values, our goal was to implement City Council’s mandate to reduce the real estate tax rate as much as possible. Therefore, we are recommending a six-cent (\$0.06) reduction in the tax rate, from \$1.44 to \$1.38. Please keep in mind that we are including two cents (\$0.02) in the recommended \$1.38 tax rate to support the courthouse development project. Because of the variations in values – from “declines” to “increases” – with the implementation of this budget proposal, some taxpayers will pay less in taxes and some will pay more. Under the proposed tax rate reduction, the theoretical average Portsmouth homeowner – whose home increased 24.93 percent in value to \$132,000 – will pay \$24.98 a month more in real estate taxes in FY07 than in the current fiscal year.

Fiscal Discipline

Portsmouth cannot afford to undertake everything that we would like to include in this budget. Consequently, we have made some conscious choices in developing this budget proposal. For example, although we have some departments requesting new positions, we continue to keep our work force small while enhancing our overall compensation

package. Although we are making strides to catch-up with funding for our employees, schools, and capital projects, we do so while continuing to focus on our financial health.

This budget proposal continues specific financial policies and objectives that are outlined in the city's Comprehensive Annual Financial Report, dated October 18, 2005.

- Elimination of reliance on Revenue Anticipation Notes (RAN's) used as short-term borrowing to meet current operating cash requirements
- Increase annual funding from the General Fund to eliminate cash flow deficits in the Risk Management and Insurance fund
- Achieve target of 15 percent as undesignated fund balance of General Fund after the cash flow deficits in the Internal Service funds are eliminated
- Maintain debt affordability by issuing debt with a debt outstanding to assessed value ratio cap of 5% and General Fund-supported debt service to General Fund revenue ratio cap of 12%
- Maintain contributions to the pension trust funds to fully fund the City's pension liability
- Develop a plan for converting the Public Utility General Obligation Bonds to Public Utility Revenue Bonds.

These budgets provide a detailed operating and capital "spending plan" that is directly connected to the City's strategic planning and serves as a one-year framework for achieving City Council's long-range goals.

FY07 Budget Summary

In summary, I am presenting to the City Council a recommended General Fund Operating Budget for FY07 that totals \$199.01 million, an increase of 8.64 percent over the adopted FY06 Operating Budget, and a Capital Improvement Program Budget that totals \$66.4 million.

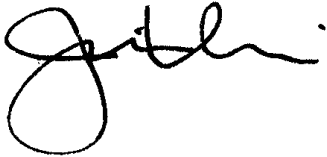
Budget Calendar

Over the next several weeks, we will have significant opportunities to discuss these budget recommendations in more detail, to have dialogue with the City Council and answer your questions and concerns, and to hear from the public in two public hearings. Here is the budget calendar, leading to adoption by the City Council on April 25:

- March 28 – Public Work Session: CIP

- April 4 – Public Work Session: Operating Budget
- April 11 – Public Work Session & Public Hearing: Operating & CIP Budgets
- April 18 – Public Hearing: Operating & CIP Budgets
- April 25 – Adoption of Operating and CIP Budgets

Sincerely,

A handwritten signature in black ink, appearing to read "J. Oliver Jr.", with a large loop at the beginning and a period at the end.

James B. Oliver Jr.
City Manager