

Summary of Financial Goals and Objectives

The City Council adopted a Vision Statement in 2004 focusing upon six Vision components. The adopted budget aligns the funding within the vision components focusing on education, financial strategies, improving the City's economic prosperity, transforming neighborhoods and communities, investing in our employees, leveraging technology to improve services, improving public safety capabilities, and strategically marketing Portsmouth.

These six areas serve as strategic initiatives to strengthen the City's infrastructure needs and the citizenry's quality of life. They also serve as the framework for developing the annual operating and capital improvement budgets. Utilizing the City's overall broad goals and specifically the City Council's financial objectives, the budget-spending plan has been evaluated. We propose this budget with the City Council's Vision as the incentive for change. The following six vision components were revisited and finalized with minor revisions based on City Council's Retreat in the fall of FY2007

1. *Bold New Directions*
2. *Lifelong Learning Community*
3. *Thriving Neighborhoods and a Sense of Community*
4. *Robust and Prospering Economy*
5. *World Class Maritime Center*
6. *Pride of Past, Promise of Future*

The vision components have been considered and incorporated throughout the FY 2012/2013 biennial operating budget development stages.

Financial Management Policies and Practices as adopted by City Council on September 22, 2009

How to Read the Document

Reader's Guide to the Budget Document

The purpose of the budget document is to provide information, data, and statistics pertaining to the City of Portsmouth's financial plans and operations to its citizens, elected officials, and interested parties.

The budget document is a summary document pertaining to all City government public service programs. The budget is the annual plan for coordination of revenues and expenditures. The FY2012- 2013 adopted budget represents the period of July 1, 2011 to June 30, 2012 and the FY2012-2013 planned budget represents the period of July 1, 2012 to June 30, 2013.

Section Explanation

Executive Summary:

The FY2012/2013 biennial budget overview includes the City Manager's Report to City Council outlining the adoption of all ordinances related to the FY2010-2011 budget and the City Manager's Budget Message.

Budget Overview:

Information pertaining to the financial goals and policies, fund structure, the relationship between budgeting and basis of accounting, legal requirements for adopting the budget, tax rates and fees, General Fund position summary, fund balance (budgetary basis) and the City's indebtedness schedules.

Revenues:

Revenue summary provides information regarding historical trends and projected impact of the City's General fund revenues.

Expenditures:

Expenditure summary provides information regarding comparative trends of the major expenditure categories per the "Comparative Report of Local Government Revenues and Expenditures" in the General Fund and includes the Fiscal Year 2012-2013 Adopted/Planned Budget Fund Summary.

General Government:

Departmental detail pertaining to the general administration of the City.

Nondepartmental:

Non-specific functional department services.

Judicial:

Civil and criminal detail pertaining to prosecution and adjudication.

Public Safety:

Departmental detail pertaining to citizenry protection.

Public Works:

Departmental detail pertaining to maintaining the City's infrastructure.

Public Health and Welfare:

Departmental detail pertaining to the health and welfare of the citizenry.

Parks, Recreation and Cultural:

Departmental detail pertaining to the City's recreation and cultural services.

Community and Economic Development:

Departmental detail pertaining to the City's community and economic development services.

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Education:

Departmental detail pertaining to Portsmouth's public education system.

Capital Improvement Program:

Major CIP projects within the five year plan. A plan for financing and construction of major municipal facilities and infrastructure such as roads, schools, buildings, leased vehicles and water and sewer lines are included in this section.

Ordinances:

Official budget ordinances reflecting City Council's formal actions for the adoption of the FY2012-2013 budget.

Supplementary Information:

The City of Portsmouth's statistical and comparative data.

Revenue Category Explanation

General Property Taxes:

Taxes on real and personal property. This includes both tangible and intangible property such as vehicles, real estate, and business equipment. Also included in this category are delinquent tax interest and penalties.

Other Local Taxes:

Approved Commonwealth taxes for use by municipalities to derive and collect revenues. Examples are sales tax, business licenses, vehicle registration fees, cigarette taxes, and lodging.

Utility Taxes:

Utility service taxes paid by citizens. The rates vary according to the type of utility including revenue from land line, cable TV, cellular telephone, E-911, electricity, gas, telephone, and water taxes.

State Aid:

Funding received from the Commonwealth of Virginia:

- *State Non-Categorical Aid* includes the municipality's tax share received by the State of Virginia. This would include, for example, vehicle rental taxes.
- *State Categorical Aid – Shared Costs* are contributions to municipalities for State mandated services. This would include the Constitutional Offices of the City Sheriff, Clerk of Circuit Court, Commonwealth Attorney, Commissioner of the Revenue and the City Treasurer.
- *State Other Categorical Aid* includes all other funding received from Virginia (funding for library books and street/highway maintenance).

Other Governments:

Funding from governments other than the Commonwealth of Virginia.

Federal Direct:

Federal Government funding such as FEMA reimbursements.

Charges For Services:

City fees charged to government service users such as recreation fees, court costs, and library fines.

Interest:

Interest received from investment of idle cash and other investment accounts.

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Recovered Costs:

Expenditure reimbursements received by a department.

Fines and Forfeitures:

Law Enforcement fees collected for law violations.

Licenses And Permits:

Fees charged to obtain a license or permit such as yard sale permits, building inspection fees, and sign permits.

Use Of Property:

Rent charged for use of City property.

Miscellaneous Revenue:

Donations and contributions made to the City and other non-recurring revenue.

Payment In Lieu Of Taxes (PILOT):

Revenue received in lieu of taxes under a contractual agreement.

Operating Transfers In:

Cash transfer from another City fund.

Expenditure Category Explanation

Salaries:

All full and part-time employee payrolls including overtime, supplemental pay and allowances.

Benefits:

City paid contributions for employee fringe benefits. This includes the City's portion of social security, retirement, health, and life insurance plans.

Other Operating Expenses:

Required expenses to include contractual services, printing, postage, stationery and books, telephone, computer software and travel expenses.

Internal Service Charges and Expenses:

In order to capture the full cost of certain specific functions, services are provided to departments by other departments at a set rate. These include risk management costs, fleet charges, information technology charges, and healthcare.

Capital Outlay:

Expenditures which result in the acquisition of, or addition to, fixed assets such as buildings.

Debt Service:

Scheduled annual principal and interest payments for outstanding debt.

Transfers:

Funds transferred between departments.

Financial Reporting Model and Fund Structure

Financial Reporting Model

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement, known as the “Reporting Model” statement, directs municipal financial information preparation and presentations. For state and municipal government annual financial reports, GASB Statement No. 34 established new requirements and a new reporting model. Statement No. 34’s objective was to develop easily understood annual reports and make them more useful to decision makers using governmental financial information.

Based on GASB Statement No. 34, budget methods have not changed substantially, but there have been changes to the underlying fund structure.

Budgetary Basis:

The budgets of the Governmental funds (for example, the General Fund, Enterprise Funds, Internal Service Funds) are prepared on a modified accrual basis. The expenditures/obligations of the City (purchase orders, direct payment, etc.) are budgeted as expenditures; however, revenues are recognized when they can be measured and are available.

In cases where goods and services are not received by year end, encumbrances are reviewed for valid year end adjustment entries. Based on the date of the purchase order for contractual services, encumbrances are carried over into the next fiscal year.

The Comprehensive Annual Financial Reports (CAFR) displays the City’s expenses and revenues according to General Accepted Accounting Principles (GAAP). This also conforms to the methodology in which the City prepares the annual budget.

Exceptions are identified below:

- Principal payments on long-term debt are applied to the outstanding liability on a GAAP basis, as opposed to being expended on a budgetary basis.
- Capital Outlay within the Enterprise Funds is recorded as assets on a GAAP basis as opposed to being expended on a budgetary basis.
- Depreciation expense is recorded on a GAAP basis only.
- Governments typically liquidate their accrued liabilities with expendable available financial resources. Accordingly, an expenditure is normally recognized in a governmental fund at the same time that a liability is incurred. Such is not the case with compensated absences. Under modified accrual accounting, these expenditures and liabilities are recognized when they mature (when due).
- The accrual basis of accounting is used to determine the amount of the liability related to compensated absences that should be presented on the balance sheet of a proprietary fund. In determining the amount, the total amount of the estimated debt should be presented as a liability (not just the portion of the debt that will use expendable financial resources).

Governmental Fund Types

Budget Process

Municipal functions are financed through the use of governmental funds. The municipality's acquisition, use, and balance of expendable financial resources and related liabilities are accounted for through governmental funds. This excludes proprietary funds and similar trust funds.

The municipality budgets the following major governmental funds:

General Fund - The general fund is the municipality's general operating fund. With the exception of financial resources required to be accounted for in another fund, the general fund is used to account for all financial resources.

Capital Projects Fund (Capital Improvement Fund) – With the exception of capital improvements financed by proprietary funds, the capital improvement fund accounts for major capital facility acquisition or construction financial resources.

The City budgets the following minor governmental funds:

Special Revenue Funds - Special revenue funds are used as legally restrictive revenue sources for expenditures having specified purposes.

Capital Projects Fund (Community Development Fund) – Pursuant to the 1974 Housing and Community Development Act, the community development fund is used to implement various capital project programs.

Permanent Fund (Cemetery Fund) – Cemetery fund revenues are derived from the sale of cemetery lots, perpetual care payments, donations and legacies. These funds are designated for the care of cemetery lots. The principal of such funds shall not be expended for any other purpose.

The City budgets the following major proprietary funds:

Enterprise Funds - Enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises. Upon providing goods or services to the general public on a continual basis, the governing body intent is to recover expenses, including depreciation, through user charges where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City has two major enterprise funds: Public Utility Fund and Golf Fund.

Budget Process

The City budgets the following minor proprietary funds:

Enterprise Fund (Port Facility and Economic Development Fund) – The port facility and economic development fund is used to account for the lease to a marine terminal facility and lease-purchase land sale to the Virginia Port Authority.

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department to other departments, City agencies, or some agencies external to the City on a cost-reimbursement basis. The City has three internal service funds: City Garage Fund, Computer Services Fund and Risk Management and Insurance Fund.

Fiduciary Fund Types

When the City holds assets in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds, fiduciary funds are used to account for the assets. The City maintains pension trust and agency funds. The Pension Trust Funds account for the City's retirement plan assets. Agency funds are custodial in nature (assets equal liabilities) and do not involve operational measurement results. Fiduciary funds are minor funds and are not included in the government-wide financial statements.

Formulation of the City Manager's Proposed Budget

According to the City Charter, the City Manager is required to prepare and submit to the City Council an annual budget. The annual budget process begins in the fall of the preceding fiscal year. In November, the department heads and the City Manager meet to discuss the upcoming year's priorities. The budget calendar is developed at this time. It establishes the budget development schedule and the formal schedule for City Manager presentations, public work sessions, public hearings, and the budget adoption.

Departmental requests are developed on a "needs" basis and must be related to the organization's program objectives. These requests are received and compiled by the budget staff. When developing proposals, due to revenue constraints, rather than seek additional funding, departments are encouraged to restructure and prioritize existing services. During the "balancing" effort, the Budget Office provides specific budget targets for each organization.

City Manager's Authorization

By City Code, during the course of the fiscal year, provided there is no increase in expense, the City Manager is authorized to effect office consolidations or make other changes for the City's betterment. Also, at any time during the fiscal year, the City Manager may transfer, within the same fund, any unencumbered appropriations less than \$100,000 from one department, project, or purpose to another department, project, or purpose.

Budget Implementation

Once the budget is adopted for the fiscal year, on July 1, it becomes each department's financial legal basis. No department or other City government agency may spend in excess of approved and appropriated amounts. To ensure conformity with the adopted budget, financial and programmatic monitoring of departmental activities occurs throughout the year. Copies of the Adopted Budget can be found in the Library and all City offices. A copy may be obtained from the Department of Finance (budget@portsmouthva.gov), or accessed on the Web at [www.portsmouthva.gov/Finance/2012Adopted budget/index.htm](http://www.portsmouthva.gov/Finance/2012Adopted%20budget/index.htm)

Amendment of the Budget

As prescribed by Section 15.2-2507 of the Code of Virginia (1997), amendments to the final adopted budget must follow the legal process. Any such amendment which exceeds one percent (1%) of the total revenue shown in the currently adopted budget must be preceded with a published notice of a meeting and a public hearing. The newspaper must have a

Budget Process

general circulation in the locality and must be circulated seven days prior to the meeting date. The notice must state Portsmouth's intent to amend the budget and include a brief synopsis of the proposed budget amendment. After first providing a public hearing, the amendment may be adopted at the advertised meeting.

Audit

In accordance with Generally Accepted Accounting Principles (GAAP), as set forth in the pronouncement of the Governmental Accounting Standards Board (GASB), the Specifications for Audit of Counties, Cities and Towns issued by the Auditor of Public Accounts of the Commonwealth of Virginia, Government Auditing Standards, issued by the Comptroller General of the United States and Audits of States, Local Governments, and Non-Profit Organizations as required by the U. S. Office of Management and Budget Circular A-133, the City's financial records will be audited each year by a firm of independent Certified Public Accountants.

Capital Improvement Program

The Capital Improvement Plan (CIP) adoption, by City Council, coincides with the Annual Operating Budget adoption. The process runs concurrently with the development of the Operating Budget.

Departments submitted FY2012/2013 Biennial Operating Budget requests, including capital requirements, to the Finance Department.

November – December, 2010

City Manager presented FY2012/2013 Biennial Operating Budget and Capital Improvement Program to City Council

March 29, 2011

Council and Citizen Work Sessions for FY2012/2013 Biennial Operating Budget and Capital Improvement Program

January and February, April and May 2011

Public Hearings – FY2012/2013 Biennial Operating Budget and Capital Improvement Program including Tax and Fee Rate Changes

April 5,9,11,12,19,25 and May 10 2011

Adoption of FY2012/2013 Biennial Operating Budget and Capital Improvement Program including Tax Ordinances and Appropriation Ordinances

May 10, 2011

Legal Requirements for Adopting and Amending the Budget and CIP

Subject	Code Sections	Public Hearing Requirement	Public Notice Requirement	Adoption Requirements and Limitations
Presentation by the City Manager of Proposed Operating Budget and Capital Improvement Program	VA§ 15.2-2503 City Code 2-29	None	None	City Manager shall submit a proposed budget to City Council on or before April 1.
Adoption and Appropriation of the Operating Budget and Capital Improvement Program	VA§ 15.2-2506 City Charter 3.15 City Code 2-29	One hearing, 7 days prior to adoption.	One notice, at least 7 days before the hearing, to include a brief synopsis of the proposed budget	The City Council shall approve a budget and fix a tax rate no later than July 1. Requires 4 votes. Public hearing at least 7 days prior to adoption of budget.
Adoption and Appropriation of the Schools' Budget	VA§ 15.2-2506 and 22.1-93 City Charter 3.15 City Code 2-29	One hearing, 7 days prior to adoption.	One notice, at least 7 days before the hearing, to include a brief synopsis of the proposed budget	The City Council shall adopt an annual budget for education by May 15 or within 30 days of receipt of State's funding estimates (whichever occurs later). Requires 4 votes.
General Taxing Powers, Including Real Estate Tax and Personal Property Tax, and Excise: Amusement, Cigarettes, Admissions, Room Rentals, Meals, and Campgrounds	VA§ 15.2-107, 15.2-1104, 58.1-3007, 58.1-3840 City Charter 3.15 City Code 2-29 58.1-3832 (cigarettes) 58.1-3819-Transient Occupancy	One hearing, 7 days after notice.	Once, at least 7 days before the hearing (specific advertising requirements found in statute: including the actual dollar amount or percentage increase, the specific state code providing authorization, and the	A City may raise annually by taxes and assessments on property, such sums of money as in the judgment of the City are necessary to pay the debts, defray the expenses, accomplish the purposes and

Legal Requirements for Adopting and Amending the Budget and CIP

Subject	Code Sections	Public Hearing Requirement	Public Notice Requirement	Adoption Requirements and Limitations
			designation of a place for viewing the completed ordinance and other relevant information; all to be available no later than the time of the first publication).	perform the functions of the City. Requires 4 votes.
Real Estate Assessments which result in an increase of 1% or more in the total real property tax levied	VA§ 15.2-1104, 58.1-3007, 58.1-3321 City Charter 3.15 City Code 2-29 58.1-3321	One hearing, 7 days after notice.	Once, at least 30 days before hearing (specific advertising requirements found in statute: including the actual dollar amount or percentage increase, the specific state code providing authorization, and the designation of a place for viewing the completed ordinance and other relevant information; all to be available no later than the time of the first publication).	Hearing cannot be held at the same time as the annual budget hearing but hearing and adoption may occur at the same meeting. Requires 4 votes.
Increase of Certain Fees for zoning and planning ordinances	VA§ 15.2-107 and 15.2-2204 for zoning ordinances City Charter 3.15 City Code 2-29	Not less than 5 days and no more than 21 days after the second notice.	2 times, once a week for 2 successive weeks (dollar amount or percentage change, and other specific information is required for the ad).	Zoning ordinances have specific requirements for planning and zoning related fees. Requires 4 votes.

Legal Requirements for Adopting and Amending the Budget and CIP

Subject	Code Sections	Public Hearing Requirement	Public Notice Requirement	Adoption Requirements and Limitations
Amendment of the Budget and Capital Improvement Program	VA§ 15.2-2506 City Charter 3.15 City Code 2-29	One hearing, 7 days after notice.	Once, at least 7 days before the hearing; to include a brief synopsis of the proposed amendment.	Required for any amendment that exceeds 1% of the total expenditures shown in the adopted budget. Requires 4 votes.
Budget Stabilization Fund	Council Resolution 5/11/2010 10-228	None	None	General Fund balance excess above 15% fund balance policy; may be used for one time, non recurring expenses. Requires super majority vote of members elected to Council.