

March 30, 2015

The Honorable Mayor and Members of City Council
City of Portsmouth, Virginia

Dear Mayor and Members of Council,

I am submitting to you for your consideration my Fiscal Year 2015-2016 Proposed Operating and Capital Improvement (CIP) Budget.

This budget invests in our community, our Schools, and our employees. We have developed this budget in the context of City Council's priorities, the critical needs of our community, and the need for the City to be fiscally responsible in providing sustainable funding for its expenditures, especially its operating expenditures.

In this regard, this proposed budget matches ongoing expenditures of both the City and the Public Schools with ongoing revenue sources. This action also meets the requirements of City Council's Adopted Financial Policies regarding balanced budgets and the use of one-time funds. In order to meet this financial necessity, I reluctantly recommend that the City increase its real estate tax rate by seventeen cents, from \$1.27 per \$100 of assessed value to \$1.44 per \$100 of assessed value. This increase restores the City's real estate tax rate to its Fiscal Year 2005-2006 level, and corrects for years of tax revenue decreases caused by falling assessed values of property.

No City Manager likes to recommend a tax rate increase, but the only other option to close the \$11.7 million gap between revenues and expenditures is to cut services.

The City of Portsmouth is not a service rich city – we provide basic and essential services to our community, including Police and Fire protection, Parks and Recreation, Street Maintenance, Libraries, and Museums. Further, our departments are funded at a very lean level compared to other communities. Department budgets were cut repeatedly during the economic downturn, and they cannot sustain further cuts without a commensurate reduction in services. I cannot in good conscience recommend closing a library or recreation center, or reducing the size of our public safety staff, as I believe the long term consequences of doing so will harm both the City's economy and quality of life for our citizens.

For the past two years, the Budget team and I have scrubbed the City's budget, revising revenue estimates to ensure they are reasonable, cutting unnecessary spending and providing as lean and nimble an organization as possible. In addition, we looked

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strategically and recommended actions such as issuing pension obligation bonds to restore the City's underfunded pension systems to financial health, and restructuring our post-employment benefits to conform to best practices, reducing our health insurance costs by over \$2 million per year. As a result, I was able to propose budgets for the past two years that achieved the City's top priorities while maintaining a level tax rate. Last year, I told you that we had "*pulled all of the rabbits out of the hat,*" and that future budgets would require revenue adjustments in order to continue providing the same level of services to our community.

The proposed tax rate increase is comprised of the following drivers:

- Ten cents to make permanent the \$6.4 million in one-time funding that was appropriated to the Portsmouth Public School system in Fiscal Year 2014-2015. Last year's appropriation was made using one-time funds, and to make this funding level part of the Schools' base budget requires an ongoing revenue source. This additional funding supports Council's goal of providing quality education for our community.
- Four cents to equalize the tax rate to offset the consequences of the Great Recession of 2007-2008 and to restore tax revenues lost due to that recession. Many cities equalized the tax rate as assessed valuations went down, but Portsmouth has deferred doing that until now.
- One cent to provide an ongoing funding source for maintaining the City's critical capital infrastructure. This amount does not address deferred maintenance costs, and future budgets should strive to increase this ongoing commitment to adequately maintaining the City's infrastructure.
- Two cents to offset flat revenue projections, and to provide for normal cost increases in our budget.

This proposed budget does the following:

- Maintains core municipal services such as Police and Fire services, recreational programs, maintenance of City streets and bridges, and trash and recycling collection.
- Increases the City's support of its Public Schools by making \$6.4 million in one-time funding from Fiscal Year 2014-2015 a permanent revenue source for the School system.
- Enhances public safety in our City by providing funding for the construction of a critically needed Fire Station in the Truxtun community.
- Continues to invest in our employees, retirees, and Constitutional Officers by providing a cost of living adjustment, to ensure that our employees are paid fairly

and that we do not fall further behind other jurisdictions in overall compensation levels.

- Continues the implementation of the City's Parks and Recreation Master Plan to provide enhanced recreational opportunities to our citizens.
- Continues the funding for our regional and contractual obligations such as the Hampton Roads Regional Jail and Hampton Roads Transit.
- Implements a new personal property tax relief program for Veterans who are 100% disabled or their surviving spouses.
- Continues the City's current real estate tax relief programs for elderly and disabled persons.
- Equalizes the real estate tax rate to offset the consequences of the Great Recession and to restore tax revenues to their Fiscal Year 2009-2010 levels.

The overall budget proposal totals \$657.4 million for Fiscal Year 2015-2016. This amount includes \$242.4 million for the General Fund, \$56.6 million for the Capital Improvement Plan, \$43.2 million for Public Utilities, and \$167.7 million for Portsmouth Public Schools. Please note that at the time of the preparation of this budget proposal, we do not have the School Board's final budget proposal for Fiscal Year 2015-2016; therefore, the Proposed Budget includes a placeholder that is equal to last year's School Budget total.

This proposed budget also includes limited fee increases, to better reflect the cost of providing Inspection and Engineering services. In addition, ambulance fees will be indexed to 110% of the Medicare Allowable rate. This budget proposal does not recommend any increase in utility rates.

This proposed budget centers on investing in our community, our Public Schools, and our employees while strengthening Portsmouth's financial position for the future.

Major Budget Challenges and Drivers

In preparing this budget proposal, we faced some very significant challenges:

- A significant gap between General Fund revenues and expenditures

We started this budget with a gap between revenues and expenditures of approximately \$11.7 million. This amount does not include all the additional funds that the various City departments requested above and beyond their base Fiscal Year 2014-2015 budget. Many of these requests were justified, but I was unable to recommend them in this Proposed Budget due to other priorities.

The \$11.7 million deficit included a built-in gap of \$6.4 million between our General Funds revenues and expenditures that was a result of the adoption of the City's current operating budget for Fiscal Year 2014-2015. This gap equates to ten cents on the City's real estate tax rate. As you know, when City Council adopted the Fiscal Year 2014-2015 budget in May 2014, it adopted an ordinance to appropriate an additional \$6.4 million to the Public Schools' Fiscal Year 2014-2015 operating budget. At its May 27, 2014 meeting, Council voted to use the General Fund Undesignated Fund Balance as the source of funding for this appropriation instead of increasing the real estate tax to fund the same.

Although the language of the ordinance appropriating this additional \$6.4 million stated that this is a "*one-time appropriation*," my proposed budget assumes that this additional \$6.4 million is now part of the Schools' base budget for Fiscal Year 2015-2016. As such, this \$6.4 million expenditure must be supported by an ongoing revenue source. It is not financially responsible for the City to use the Undesignated Fund Balance of the General Fund to fund this ongoing expenditure. Further, City Council's Adopted Financial Policies require a balanced budget, with ongoing expenditures supported by ongoing revenue. This budget proposal accomplishes that requirement.

- Real estate values and the Great Recession:

It is a well-established fact that the recession that began in 2007 reduced real estate values nationwide. As a result, a pre-recession real estate tax rate does not generate the same amount of revenues in post-recession times. The City of Portsmouth did not fully adjust its real estate tax rate upward during the recession to maintain level real estate revenues for each budget year. In order to generate the same amount of revenue from the real estate levy as we did in 2010, we would need a tax rate of \$1.31. Therefore, we need to increase the real estate tax rate by four cents in order to restore revenue lost to the effects of the recession.

- Flat revenues and the impact of tolls on the City's economy:

We are experiencing flat revenues in our major sources of revenues, and the tunnel tolls are exasperating the matter.

The impacts of tolls upon Portsmouth have been substantially (though not totally) negative and, as predicted, this negative impact easily has exceeded that experienced by any other city in Hampton Roads. Vehicle traffic through the tunnels obviously has declined (though there are multiple causes for this). Tolls have had a demonstrable negative effect upon sales tax collections in the City of Portsmouth. Furthermore, some businesses in Portsmouth have been driven to the edge and are unlikely to survive long enough to see the completion of the overall Elizabeth River Crossing project. After taking into account other factors that likely influence sales tax collections in Portsmouth, we estimate that tolls

have reduced the City's taxable sales by approximately \$3.52 million quarterly; this is approximately three percent of the total.

Unfortunately, the tolls have been accompanied by "negative events" - - partial or full tunnel closures, severe weather, etc. These are almost as important quantitatively as the tolls themselves in terms of discouraging or eliminating tunnel traffic. Seemingly unpredictable and/or inadequately unpublicized tunnel closings have been particularly destructive. We estimate that these "negative events" such as tunnel closures have reduced taxable sales in the City by an average of \$2.49 million quarterly; this is approximately two percent of the total.

- A large backlog of deferred maintenance:

The City has not had the financial capacity for many years to fully fund needed maintenance of its public buildings and other infrastructure. This shortfall has resulted in a significant amount of deferred maintenance, which has not been fully quantified. The General Services Department plans to conduct a facilities assessment during Fiscal Year 2015-2016 with the support of its maintenance staff. We expect that future budgets will require a substantial ongoing capital investment to tackle the deferred maintenance issues.

Budget Priorities

While a tax rate increase is never popular, I sought to minimize the proposed impact by focusing on the City's top priorities. As noted previously, there were many requests for additional funding that were justified, but which I am unable to recommend. The budget team and I focused on the most critical funding needs, which are reflected in this proposed budget. Those priorities are as follows:

High Quality Public Education

In order to maintain quality education in Portsmouth, I am recommending that the City provide \$52.4 million in local funds for education. This recommendation makes permanent the one-time funds of \$6.4 million appropriated by City Council last year. As noted earlier in this message, the \$6.4 million was appropriated from one-time funds, and now requires an ongoing funding source in order to make this amount part of the Schools' base budget. That equates to a ten cent increase in the real estate tax rate. The \$52.4 million in local funds along with a projected increase in State funds should provide the Portsmouth Public School system with adequate funding to address its highest priority budget initiatives for Fiscal Year 2015-2016.

Quality Service Delivery

Portsmouth has a strong tradition of providing basic services to our citizens with the highest level of customer service. Although we are not a service-rich community, we have added new services to the menu in recent years without increasing taxes. Our

citizens lead the region in recycling participation, and our General Services team collects those recyclables with efficient and customer-friendly service. We have added two skate parks, a splash park, a 40-acre Nature Park, renovated and re-commissioned Pokey Smokey, ten new playground sets, and have acquired a new 33-acre park with great potential for recreational use by all Portsmouth citizens. We have added a new museum to our system that recognizes a challenging period of history that our African-American citizens overcame.

We have maintained the quality of basic services and added several new services that have enhanced the overall value for our citizens. This occurred during a period when the tax rate remained stable but, because of declining assessments, our tax revenue declined. Our goal with this budget is to continue delivering basic services with high customer service and to fully fund the operation of the new facilities.

This Budget also provides \$277,000 in funding for three new positions and supplemental salaries in support of quality service delivery:

- A new Real Estate Appraiser position is included to direct resources towards uncaptured real estate improvements. The cost of this position is expected to be offset by additional real estate tax revenue.
- A Contract Specialist position is recommended to provide resources to an understaffed procurement function, with particular focus on contract administration.
- A City-funded secretary is proposed to provide administrative support to the three judges in the General District Court. In addition, I recommend a 15% salary subsidy for employees of this Court, in order to ensure that their pay is competitive. Additional fines from new hearings for non-payment of tolls will offset 100% of the cost of these enhancements.

Enhanced Public Safety for Our City

We have a critical public safety need for a new \$4.5 million Fire Station to serve the Truxtun neighborhood and the area south of I-264, and this budget includes funding for the design and construction of this new Fire Station. Our former Fire Station Number Six used to serve this area; however, the City closed this station and tore down the facility approximately 15 years ago. I understand that it was the City's intention at that time to build a new Station Six, and the 2008 Truxtun Neighborhood Strategic Plan includes the location for such a station. Our calls for service south of I-264 are increasing, and the existing stations that are closest to this area of the City must negotiate railroad tracks in order to get to this neighborhood. It is unacceptable to have emergency response vehicles held up by a train in responding to a fire.

This proposed facility would include three apparatus bays and the support area needed to berth ten people at this station. In addition, it would include the necessary

administrative area for our entire Fire Administrative personnel. As such, we would relocate the "Fire Headquarters" from the rented office space on Crawford Parkway to this new Station Six. Its construction would be similar to that of the Broad Street Station Number Four. We will staff Station Six by relocating existing equipment and personnel, so the impact of this new station on future operating budgets will be minimal.

In summary, in addition to serving the Truxtun neighborhood, this new Station Six would be the first responders for emergency events on the new extension of the Martin Luther King Expressway, and it would provide overlap coverage for Norfolk Naval Shipyard, Cradock, the southern Victory Boulevard corridor, and the southern Effingham Street corridor. The National Fire Protection Association (NFPA) is the nationally recognized authority on fire and building safety. NFPA Standard 1710 requires that fire units respond to fires within four minutes or less, and this new station will ensure that we meet this life safety standard for this part of our City.

Quality of Life

You asked me to include exempting those veterans who are 100% disabled from the payment of Personal Property tax as part of this budget proposal, and I have done so.

According to the Veterans Administration, there are 205 disabled veterans in Portsmouth. We estimate that there are 95 surviving spouses of disabled veterans. We have a high level of confidence in this 300 person estimate because it is of the same order of magnitude as the 199 disabled veterans who currently participate in the real estate exemption program. In addition, not all of the disabled veterans who live in the City are homeowners.

We estimate that the annual cost of the program is \$225,000 in lost revenues. This estimate assumes the City will abate 100% of the personal property tax for one vehicle for qualifying veterans or for their surviving spouses. In addition, this estimate assumes the average taxable value for each vehicle is \$15,000. The amount of lost revenue increases as the vehicle value increase.

As you know, the City already has several real estate tax relief programs for certain qualifying veterans, for the elderly and for disabled property owners. These existing tax relief programs equate to \$2.25 million dollars in lost tax revenues. If the City implements this personal property tax exemption for disabled veterans, then the total cost of these programs is \$2.5 million. This is equivalent to 3.6¢ on the real estate tax rate.

Support of a Regional Public Transit System

Our regional transit organization is funded by a fragile framework of pledged member contributions based on the estimated service hours. There is no dedicated funding stream for transit from the sales tax or gas tax as in most metropolitan areas. The largest portion of Hampton Roads Transit revenue comes from local government, and

that portion increases proportionately to declines in state and federal grants. The nationwide average for the local share of transit is 9%. In contrast, the Hampton Roads cities contribute 40% of HRT total revenues.

HRT is facing a \$4.5 million loss in state revenues for Fiscal Year 2015-2016 and an additional \$500,000 reduction in federal grants. As a result, each member city will see corresponding increases in its share without increases in service. HRT's budget has not yet been finalized, but we expect Portsmouth's share will increase by \$349,116 in Fiscal Year 2015-2016.

The Cost and Benefits of Hosting the Regional Jail

As the host city, Portsmouth receives an annual Payment In Lieu Of Taxes (PILOT). Our most recent PILOT payment was \$486,556. We also benefit from a per diem discount that is currently 11.5% less than the per diems paid by the other four cities, which equates to a savings of about \$450,000 in this fiscal year. The combined PILOT and per diem discount is therefore worth almost a million dollars to the bottom line of our budget. Add to that the intangible benefits of cost-efficient inmate transport, economic benefits to local businesses supplying materials and services, the economy of scale cost advantage to the City Jail, its value as a major water and sewer customer; hosting the Regional Jail is a distinct benefit to the City.

The per diem rate will increase by \$10 in Fiscal Year 2014-2015; however, if you recall, we were all looking at a \$25 increase until the City of Chesapeake became a member and began contributing to total per diem revenue. The calculation of the Portsmouth per diem discount is complex and is prescribed in the Service Agreement that is executed by all member cities. It is not a straight percentage, but is based on equity in the facility and separate proportions of the debt service on the land and the project. The addition of the fifth member to the Authority reduced our equity share, which in turn, reduced slightly the host city per diem discount. Therefore, while the other member cities will not have any change to their per diem (\$63) for Fiscal Year 2015-2016, Portsmouth's will increase by \$1.58 to \$64.58, which increases the City's budgeted costs by \$112,237 for Fiscal Year 2015-2016.

Raises for Employees and Retirees

The City is a service industry, and our employees are our most important asset. They ensure that our residents receive a high level of customer service and responsiveness. As a result of the severe economic downturn, our general employees did not receive raises for four years, from Fiscal Year 2009-2010 through Fiscal Year 2012-2013. During that same time period, we implemented a new pay plan for our sworn Police and Fire employees. With that new pay plan, we gave our sworn public safety officers pay increases each year except for Fiscal Year 2011-2012 and Fiscal Year 2012-2013.

This Budget continues the efforts that Council initiated two budget years ago to improve the competitiveness of our employees' salaries. In this regard, this Budget proposes a

two percent increase for general wage employees, to include permanent part-time employees and the Registrar's Office, effective July 1, 2015. The State Budget includes a two percent raise for Constitutional Offices, effective September 1, 2015, with the State Compensation Board paying for the State portion of that cost. However, in order to be consistent with the date that our general employees will receive their increase, I am proposing that all of the Constitutional Officers and their employees receive the two percent increase on July 1. The Constitutional Officers and their employees provide a valuable service to our citizens, and we should compensate them for their outstanding service.

The budget also continues step increases for Sworn Police and Fire employees.

Just as important as taking care of our current employees, we must recognize the financial needs of our retirees – those persons who devoted a good part of their lives to the betterment of our City. In this regard, this budget includes a 1.0% Cost of Living increase for retirees of the Portsmouth Supplemental Retirement System (PSRS) and Fire and Police Retirement System (F&P).

As for our pay plan structure for our general employees, in addition to not giving our general employees a pay increase for a four-year period, we also did not adjust the structure of our pay plan as it relates to the marketplace. Consequently, our pay structure is still approximately three percent below that of the average in the marketplace. The general wage increase that I am recommending with this budget does not adjust the structure of the pay plan for our general employees as it relates to the marketplace. We will continue to study the relationship of the competitiveness of our pay plan during the next fiscal year.

Investments in Capital Infrastructure

The proposed CIP continues maintenance and improvement of vital City infrastructure, and it includes those projects whose products have a long life as opposed to maintenance-type projects. Prior to Fiscal Year 2013-2014, the City paid for a number of ongoing capital maintenance costs by issuing debt instead of cash funding the projects.

Prudent financial practices recommends that the City should cash fund those maintenance costs that occur each year and only debt fund projects that have a useful life that is at least equal to the amortization period of the bonds. We will continue to follow this recommendation with the proposed CIP. Instead of debt funding maintenance-type items, we will cash fund these items. In this regard, this budget proposes to use \$3.9 million of available General Fund balance to cash fund capital projects. In addition, this budget proposes to dedicate \$836,000 of ongoing revenue to support annual CIP maintenance projects and ongoing School bus replacements, which total almost \$2.1 million annually. Section 14 of this document provides a complete listing of these projects. Here are some highlights of this listing:

- \$1 million for an ongoing School Bus replacement program
- \$929,132 to replace the roof at Westhaven Elementary School
- \$800,000 to fund recreational activities delineated in the Parks and Recreation Master Plan
- \$4 million to complete the upgrade of the City's public safety radio system
- \$4.5 million to reinforce the Seawall
- \$150,000 for parking garage repairs

As noted earlier in this message, the proposed CIP includes \$4.5 million to build a new Fire Station in the Truxtun area of the City.

Revenues

As for the General Fund, one penny on the real estate tax rate generates \$685,000. It is very important to note the City did not equalize the tax rate in prior years when assessed valuations fell, so that total real estate tax revenue could have remained constant. As a result, the City has not fully recovered financially from the impacts of the recession. In Fiscal Year 2009-2010, the City's assessed valuation was almost \$7.7 billion. In Fiscal Year 2014-2015, it was \$7.2 billion, a drop of 6.5%. In order for the real estate tax rate to produce the same revenue today as it did in Fiscal Year 2009-2010, the rate would need to be equalized to \$1.31. The City will continue to face the challenge of limited revenue growth compared to expenditure demands.

As stated earlier in this message, in order to provide a budget that is structurally balanced and which provides resources for the City's top priorities, I am reluctantly recommending an increase in the real estate tax rate of 17 cents, which will bring the rate to \$1.44. This is the same rate as it was in 2006. The City's assessed values are not only low compared to Fiscal Year 2009-2010, but they are also low compared to surrounding localities. As of July 1, 2015, the average single family detached house in Portsmouth will have an assessed valuation of \$151,430. The impact of the proposed tax increase on the average taxpayer living in a single family detached home will be \$257 per year or \$21 per month. The impact for the average townhome and condo is lower, at \$16 per month.

As noted above, this tax rate increase can be broken down into several drivers, the largest of which is related to the City's Public School system:

- Ten cents to permanently provide \$6.4 million to the Portsmouth Public School System in support of quality education

- Four cents to equalize tax rate to offset the consequences of the Great Recession of 2007-2008 and to restore tax revenues lost due that recession
- One cent to continue investments in critical infrastructure and capital projects. As noted above, the City's ongoing capital maintenance costs are almost \$1.1 million each year. This amount funds replacement and repair of roofs, HVAC systems, traffic signals, bridges and other City infrastructure. There is a backlog of deferred maintenance in this area, and the ongoing funding needs are even greater than what has historically been allotted to these projects.
- Two cents to offset flat revenue projections, and to provide for normal cost increases in the City's budget

As noted earlier in this message, certain fee increases are proposed for Inspections and Engineering services, in order to recover more of the costs associated with these services. In addition, ambulance fees are proposed to be indexed to 110% of the Medicare Allowable Rate, consistent with recommended practices. The fee proposals are detailed starting on page 3-16 of this proposed budget document.

Again, this budget does not propose any increases in utility rates.

Our cash situation is such in the Utility Fund that we are able to cash fund some capital projects that we had previously planned to debt finance. Again, we are able to balance the Utility Fund budget without increasing the water and sewer rates as originally forecasted. It will be necessary to propose utility rate increases in future budgets in order to fund ongoing costs and debt service associated with planned capital improvements in the water and sewer systems.

Alternatives to a Tax Rate Increase

Spending Cuts

As I noted early in this message, the alternative to a tax rate increase would be to reduce funding to the Schools and to cut City services. During the economic downturn that resulted from the Great Depression, the City repeatedly cut department budgets without adjusting service levels accordingly. Departments suffered as a result, even though the impacts of these cuts were not immediately visible to the public. In addition to cuts to operating budgets, positions were eliminated and left vacant, again without a corresponding reduction in service levels. These departments cannot perform their missions without having adequate resources. The impacts of these cuts were tangible, if not immediately obvious. These cuts affect the City's bottom line, and show up in ways that cost us money – increased absenteeism, employee injuries, increased employee turnover and insufficient work flow.

In order to “cut” our way out of the deficit, we would have to eliminate services and the positions that support them. In addition, some General Fund positions are revenue

generating or State supported, such as Constitutional Offices, the Assessor's office, Museums, Recreation, and Permits and Inspections. Moreover, half of the 1,252 General Fund positions are in Police and Fire. Positions in Constitutional Offices, Courts, the Registrar and Assessor's offices represent 25% of the General Fund workforce. If you assume that cuts would not be made to either of these categories of positions, then that leaves 25% of our workforce. Assuming an average position cost of \$50,000, we would have to eliminate 234 positions in the General Fund, or almost 75% of the remaining work force. In addition, cuts to some of those positions will result in lost revenue, which will in turn require further cuts. This would devastate the City's ability to provide services and would create a downward spiral from which it would be difficult to recover.

Another way to look at the impact of cuts is by discretionary versus nondiscretionary costs. Over 47% of the City's budget is comprised of nondiscretionary costs, such as debt service, local contribution to the School system, the Annual Required Contribution to the City pension plans, and our cost of regional services such as the Jail and HRT. Constitutional offices, Courts and the Assessor and Registrar's offices make up 11% of the budget. Public safety is 24% of the budget, and 2% comes from fund balance to pay for CIP and the debt service sinking fund. In total, these nondiscretionary and high priority service costs represent 84% of the total General Fund budget. In order to cut our way out of the \$11.7 million shortfall, we would have to cut 30% of the remaining budget costs, and as noted above, many of those have revenues tied to them.

One cut that City Council could consider is to reduce or eliminate tax relief for the elderly and disabled, which currently costs \$1.7 million per year. However, I do not recommend this cut.

Other Revenue Increases

The City has few options for raising other revenues, particularly those that would generate millions of dollars. We could consider increasing the Personal Property tax rate, but that is a regressive tax that could disproportionately impact our most vulnerable residents. City Council increased the Cigarette Tax and the Motor Vehicle license fee last year. As noted earlier, this budget recommends some limited fee increases, but in total those will generate only around \$100,000.

Use of General Fund Balance

This proposed budget eliminates the City's dependence on the General Fund Balance for reoccurring operating expenses. The budget proposes to use \$706,481 of Fund Balance to continue the debt service sinking fund, which partially funds a temporary increase in debt service costs between now and Fiscal Year 2021-2022. In addition, \$3.9 million of fund balance is proposed to be used for one-time CIP expenditures.

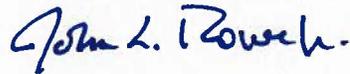
Conclusion

I recommend that you give this proposed operating budget and proposed CIP your favorable consideration by adopting the same. Despite our sluggish national economy and its impact on our community, this budget supports Council's 2030 Vision Statement, and it undertakes multiple bold initiatives that will have a lasting benefit on our City's quality of life and fiscal soundness.

I also want to recognize the high degree of professionalism, commitment, and effort of City employees to our community; without which, we could not continue to meet our overall goals and objectives. They are the best.

Again, I recommend that you adopt this budget as presented.

Respectfully submitted,

A handwritten signature in blue ink that reads "John L. Rowe, Jr." with a stylized flourish at the end.

John L. Rowe, Jr.
City Manager