

# **Budget Overview**

## **Introduction**

The City of Portsmouth was settled in 1752 and incorporated by the Virginia General Assembly in 1858. The City lies in Hampton Roads, one of the world's great natural harbors, situated at the confluence of the James and Elizabeth Rivers where they empty into the Chesapeake Bay. The City is located in the center of the Hampton Roads region, bordered by the cities of Suffolk, and Chesapeake, respectively to the West and south, and Norfolk lies across the Elizabeth River to the East. The City's land area of approximately 29 square miles is mostly developed, with an estimated population of 96,205 in 2013.

With 78.5 miles of shoreline at the zero milepost of the Intercoastal Waterway, which runs from Boston to Florida, Portsmouth's location on navigable waterways has proven a dominant force in the City's history and economy. Its location on the 40 plus foot deep Hampton Roads shipping channel, and the presence of both the CSX and Norfolk Southern Railroads supports the national and international port commerce activities and military presence in the region. Portsmouth is home to the Norfolk Naval Shipyard, a government facility with approximately 9,000 employees, the U.S. Coast Guard Fifth District Headquarters with approximately 2,200 employees, and the Naval Regional Medical Center (U.S. Naval Hospital) with approximately 5,300 employees. Although economic activity in the City has been historically associated with the port and military activities in the region, Portsmouth's economy has diversified in recent years with increasing employment in the service, manufacturing and professional sectors.

Portsmouth is an independent, full-service city with sole local governmental taxing power within its boundaries. It derives its governing authority from a charter granted by the General Assembly of the Commonwealth of Virginia. The governing body of the City is the City Council, which formulates policies for the administration of the City. The current charter provides for a Council-Manager form of government.

## **Overview of Government Organization**

Portsmouth operates under the Council – Manager form of government, with the City Council consisting of a mayor and six other council members. The mayor is elected directly by the voters on an at-large, nonpartisan basis, as are the remaining members of the City Council. The City Council is the legislative policy-making body, and the City Manager, who is appointed

by the City Council, serves as the City's chief executive officer. The City Manager reports directly to the City Council, appoints department heads, conducts the financial business of the City, and performs other duties as required by the governing body.

The operation of public schools in Portsmouth is the responsibility of the School Board, consisting of nine members elected by the citizens at-large for four-year terms. By State law, the School Board operates independently from City Council, but is fiscally dependent on it. The School Board sets policies, hires the School Superintendent, and determines the use of its funds subject to legal restrictions. The City Council appropriates an annual sum for education, which may be appropriated by category; however, the School Board determines how the funds are spent. Taxing and appropriation authority remain with the City Council.

### **Overview of Governmental Services and Selected Functions**

The City provides general governmental services to meet the needs of its citizens, including police and fire protection, collection and disposal of refuse, water and sewer services, parks and recreation, libraries and cultural resources, health and social services, and street and highway maintenance. Other services provided by the City that receive partial funding from the Commonwealth include public education in grades kindergarten through 12, and certain technical and special education, mental health assistance, and judicial assistance.

The City's main municipal complex includes the City Hall Building which houses nearly all of the City's operational departments, the Civic Center which includes the City Jail and Police Headquarters. The City has eight fire stations, one central library with three neighborhood branch libraries, 52 city parks totaling over 402 acres, seven community centers, two municipal golf courses and 25 public education facilities located throughout Portsmouth.

#### *Portsmouth Public Schools*

The Portsmouth Public Schools program is designed to provide quality instruction to all children who enroll. The School System has 2,058 employees, including 1,007 teachers and 1,051 support staff and administrative staff. The system operates 27 public education facilities as described in the following table and during the 2014 academic year had an average daily membership of 14,809. The City's three high schools are operated as magnet schools with each focusing on one of the following areas: math, science and technology; performing arts; and international studies.

**Public Education Facilities**  
**2013 - 2014**

4	Preschools
13	Elementary Schools
3	Middle Schools
3	High Schools
<u>4</u>	Centers
<u>27</u>	Total

*Public Safety*

The Police Department is responsible for enforcing the law, maintaining public order, protecting the constitutional rights of individuals, and providing a wide variety of public services in partnership with the community. The Police Department currently consists of 284 sworn officers. Uniform Patrol is deployed on a 24/7 basis and provides the immediate response to the daily calls for police services in the City. These officers handle a wide variety of service requests in both emergency and routine categories. Command personnel are charged to closely evaluate changing conditions on the street and deploy personnel in an effective manner in order to maintain public order. In addition, the Police Department has a number of support positions filled by both sworn and civilian personnel who are assigned various tasks that include animal control, security guards, communications dispatchers, administrative, and property/evidence personnel. These support functions play a major role in providing effective police services to the community.

The Police Department has implemented a Community Policing Program, which includes initiatives such as the Police Service Areas that coincide with the neighborhoods in the City of Portsmouth. Neighborhood Impact Officers work with the community stakeholders throughout the city in order to improve the quality of life of residents, business owners and visitors.

The Police Department has also implemented a School Resource Officer program which assigns police officers to specific schools in order to: (1) provide a positive role model for the students, (2) build strong working relationships with the faculty and administration; and (3) investigate criminal activity occurring on school grounds.

The safety of the citizens of Portsmouth is a core focus of the department, and the efforts of the department strive to make Portsmouth a safer city. Key results of these efforts include:

- A reduction in overall crime of 11% from the previous year.
- Crime decreased by 14% compared to the City's 5-year weighted average level.
- The most significant change as a result of crime reduction efforts was a 19% decrease in violent crimes (homicide, rape, robbery, and aggravated assault).

The Portsmouth Department of Fire, Rescue and Emergency Services provides fire protection, emergency medical care, hazardous materials response, disaster preparedness services, arson investigation, fire prevention, inspection and training for the citizens and businesses of Portsmouth. The Department currently has authorized 226 sworn firefighters serving the City from 8 stations. The Department also operates five ambulances. The Department also currently has 22 non-sworn and part-time members who provide administrative clerical and support duties.

In May 2014, the department was the recipient of the American heart Association's Mission: Lifeline® EMS Bronze Award which recognizes the department's commitment and success in implementing specific quality improvement measures for the treatment of patients who suffer a severe heart attack known as a STEMI (ST Elevation of Myocardial Infarction).

### *Public Works*

The Department of Public Works provides various services related to the operation and maintenance of the City's infrastructure. The Public Works Department repairs and maintains the approximate 395 miles of primary and secondary streets in Portsmouth. Additionally, the Department is responsible for operation of the City's stormwater management and mosquito control programs.

### *Social Services*

The Department of Social Services, staffed by 248 full-time employees, carries out responsibility for the administration of federal and state mandated human services programs for the City including Child and Family Services (Child Protective Services, Foster Care, Adoption

Services, Adult Services, Adult Protective Services and Generic Service Intake) and Financial Services Administration including initial and on-going case management for Temporary Assistance to Needy Families (TANF), Medicaid, Food Stamps, Energy Assistance Program (EAP), Virginia Independence Program(VIP), and Virginia's Initiative for Employment not Welfare (VIEW). Additionally, the Department is responsible for eligibility determination for the Tax Relief and Tax Assistance Program.

### *Department of Public Utilities*

The Portsmouth Department of Public Utilities ("DPU") operates the City-owned water and wastewater utilities, distributing water to over 120,000 customers in Portsmouth, Chesapeake and Suffolk. DPU also provides sewage collection and conveyance services to approximately 100,000 customers in Portsmouth and part of Chesapeake. DPU is responsible for the installation, operation, and maintenance of the water and sewerage systems as well as billing and collection. In carrying out these responsibilities, DPU employs 137 full-time personnel, distributed among its three major operating divisions: Administration and Fiscal, Water Treatment and Operations.

The water system includes approximately 3,300 acres of land including four interconnected reservoirs and five deep wells located in the City of Suffolk. In addition, the water system includes a water filtration plant, raw water and finished water pumping stations, elevated and ground storage reservoirs, and distribution systems with associated appurtenances and meters. The lakes and wells provide a total safe yield of 29.6 million gallons per day ("mgd") of water. Present consumption is estimated at 18 mgd. The water is treated in a single treatment plant located in Suffolk with a 33 mgd capacity and is then pumped approximately 18 miles through underground pipes to storage areas in Portsmouth which are capable of storing nine million gallons. The treatment plant facilities have undergone several modernizations and upgrades, the last having been completed in November 2011.

### **Independent Commissions and Authorities**

A number of independent commissions and boards participate in the performance of various governmental functions in Portsmouth, including housing and economic development. Selected entities are described below.

### *Portsmouth Redevelopment and Housing Authority*

The Portsmouth Redevelopment and Housing Authority consists of seven commissioners appointed by City Council for a four-year period and subsequent four-year periods. This semi-independent agency has responsibility for administration of three public housing projects 13 redevelopment projects, three tax credit developments, a City-wide conservation program and physical improvements funded by the Community Development Block Grant Program.

The Authority has 92 employees. The Authority was established in 1938 primarily to oversee the housing parks then under construction. Since 1960, under the former Urban Renewal Program, 13 separate redevelopment projects have been undertaken. Since 1975, the Authority has carried out similar activities for the City under the Community Development Block Grant Program.

Since 1972, as a result of redevelopment projects, the City and the Authority have helped obtain more than \$350 million in private funds or commitments, in addition to nearly \$200 million in Federal and state funds. The Authority has received two HOPE VI Revitalization Grants since 1997 totaling \$45 million. In four of the City's historic districts, these activities have concentrated on rehabilitation of existing residential structures. Other projects have included clearance of blighted structures to make land available for new residential, commercial, industrial or mixed-use development.

### *Economic Development Authority*

The Economic Development Authority of the City of Portsmouth ("EDA") is a public body corporate and politic existing under the laws of the Commonwealth of Virginia. The EDA was created on December 20, 1968, by an ordinance adopted by the City Council. The EDA is governed by a publicly appointed board of seven directors and functions in a dual capacity as landholder/marketing agent for various publicly owned lands throughout the City. The EDA is directly involved with many of the economic development and redevelopment activities within the City.

### *Portsmouth Port and Industrial Commission*

The Portsmouth Port and Industrial Commission ("PPIC") also serves to foster economic development within the City. The PPIC focuses its efforts on stimulating the waterfront

development and closely related industrial and commercial activities. The Commission has the authority to condemn property for public reuse and the power to acquire the necessary capital. The Commission is composed of seven members appointed by City Council to serve four-year terms. The PPIC is working with PER Properties to develop a previously vacated water-front site upon completion of certain environmental remediation. This project is expected to create approximately 35 jobs. The company has indicated that it has spent more than \$1 million to date and expects to spend more than \$5 million to develop this site.

#### *Portsmouth Parking Authority*

The Portsmouth Parking Authority was established in 1964 by the General Assembly of Virginia for the purpose of providing and operating parking facilities within the corporate limits of the City. The Parking Authority currently owns and operates four parking garages and eight surface parking lots. These combined facilities provide 1,948 parking spaces for rental on a monthly basis. In addition, there are 179 on street parking meters and 194 meters in off-street lots operated and maintained by the Authority, 238 spaces in Olde Towne parking lots and an additional 678 spaces on the street including handicapped parking spaces. The construction of the Renaissance Hotel and the adjoining public parking garage structure on the City's waterfront provide approximately 250 additional public parking spaces and 200 additional private parking spaces. All parking facilities and parking meters are located in the City's downtown business district.

#### *Hampton Roads Planning District Commission*

Hampton Roads Planning District Commission ("HRPDC"), a regional planning agency authorized by the Virginia Area Development Act of 1968, was created by the merger of the Southeastern Virginia Planning District Commission and the Peninsula Planning district Commission on July 1, 1990. HRPDC performs various planning services for the cities and towns of Chesapeake, Franklin, Hampton, Newport News, Norfolk, Portsmouth, Poquoson, Smithfield, Suffolk, Williamsburg and Virginia Beach, and the counties of Gloucester, Isle of Wight, James City, Southampton, Surry and York. Revenue of HRPDC is received primarily from member contributions and various state and federal grant programs. The participating governments do not have an equity interest in HRPDC and accordingly, no equity interest has been reflected in the City's financial statements. Complete financial statements of HRPDC can be obtained from HRPDC.

### *Hampton Roads Transportation Accountability Commission*

The Hampton Roads Transportation Accountability Commission (“HRTAC”) was created effective July 1, 2014, as a political subdivision of the Commonwealth in accordance with the provisions of Chapter 26, title 33.2 of the Virginia Code (the “HRTAC Act”). HRTAC’s purposes include assessment and prioritization of regional transportation projects to be funded with, among other potential sources of funds, the Hampton Roads Transportation fund (“HRTF”). HRTF is a fund generated by the assessment and collection of fuel and sales tax in the Hampton Roads region by the Commonwealth. HRTAC is comprised of 23 members, which include locally elected officials and ex-officio members of several state agencies. The Mayor of the City, as the City’s chief elected officer, is a member of HRTAC. HRTAC is expected to consider multiple transportation projects for funding, and eventually, to issue bonds to finance the costs of such transportation projects. Repayment of any bonds issued by HRTAC will be made from the sources described in the HRTAC Act, including without limitation the HRTF. Bonds of HRTAC will not be obligations of the City or any other jurisdiction in the Hampton Roads region.

## Economic and Demographic Factors

### *Population*

Calendar Year	Population	Percent Change
2013	96,205	-0.37%
2012	96,564	0.74%
2011	95,857	0.38%
2010	95,495	0.12%
2009	95,384	-0.44%
2008	95,802	-2.07%
2007	97,831	-1.39%
2006	99,213	1.17%
2005	98,069	0.66%
2004	97,428	1.00%

Source: U.S. Bureau of Economic Analysis. 2013 is the most recent year for which this information is available from the Bureau of Economic Analysis.

### *Income*

The following table shows the per capita income in the City. Wealth levels in the City are impacted by the high proportion of military-related incomes, which are characterized by low absolute levels of salaries and wages, but offset by comprehensive benefits.

Calendar Year	Per Capita Income	Percent Change
2013	\$39,047	1.86%
2012	\$38,333	0.60%
2011	\$38,105	3.59%
2010	\$36,783	1.78%
2009	\$36,138	1.02%
2008	\$35,773	4.55%
2007	\$34,216	5.41%
2006	\$32,460	4.21%
2005	\$31,148	3.53%
2004	\$30,086	1.00%

Source: U.S. Bureau of Economic Analysis. 2013 is the most recent year for which this information is available from the Bureau of Economic Analysis.

*Commercial and Residential Construction*

The following table shows the trend in commercial and residential construction in the City for the last ten fiscal years.

Fiscal Year	Commercial Construction		Residential Construction		Total	
	Value of Permit	Percent Change	Value of Permit	Percent Change	Value of Permit	Percent Change
2014	\$41,446,346	177%	\$47,037,715	58%	\$88,484,060	99%
2013	14,392,602	-36	29,717,658	5	44,560,260	-14
2012	23,332,190	-47	28,332,580	-25	51,664,770	-37
2011	43,929,362	16	37,731,565	8	81,660,927	12
2010	37,737,447	1492	34,945,155	32	72,682,602	151
2009	2,370,831	-84	26,563,508	11	28,934,339	-25
2008	14,595,206	-64	23,840,334	-49	38,435,540	-56
2007	40,828,022	-6	46,822,980	-66	87,651,002	23
2006	43,299,556	-59	28,174,419	74	71,473,975	-42
2005	106,824,400	737	16,165,160	-26	122,989,560	256

Source: Department of Permits and Inspections

*Employment*

Historically, the employment base in Portsmouth has been composed of federal government positions related to the local military presence. The largest employer in Portsmouth is the Norfolk Naval Shipyard, a government facility with approximately 9,000 employees. Other major federal employers in the City include the United States Coast Guard Fifth District Headquarters with approximately 2,233 employees and the Naval Regional Medical Center (U.S. Naval Hospital) with approximately 5,347 employees.

The following table shows the distribution of these positions by sector:

**2014 Annual Quarterly Census of Employment**

<b>Industry</b>	<b>Average Employment</b>	<b>Number of Establishments</b>
Manufacturing	10,353	59
Health Care and Social Assistance	9,163	334
Public Administration	3,488	40
Retail Trade	3,127	242
Educational Services	3,013	12
Administrative Support and Waste Management	2,428	117
Accommodation and Food Services	2,330	149
Construction	2,314	166
Transportation and Warehousing	1,857	73
Other Services (except Public Administration)	1,774	176
Professional, Scientific & Technical Services	1,632	172
Wholesale Trade	654	50
Finance and Insurance	563	80
Real Estate and Rental & Leasing	479	81
Arts, Entertainment and Recreation	456	19
Information	334	15
Utilities	216	4
Management of Companies and Enterprises	65	7
<b>TOTAL</b>	<b><u>44,246</u></b>	<b><u>1,796</u></b>

Source: Virginia Workforce Connection, Second Quarter 2014

### Principal Employers

Employer	2014			2005		
	# of Employees	Rank	% of Total City Employment	# of Employees	Rank	% of Total City Employment
Norfolk Naval Shipyard	9,000	1	20.49%	7,600	1	17.80%
Norfolk Medical Center, Portsmouth	5,347	2	12.17%	5,463	2	12.79%
US 5 <sup>th</sup> Dist. Coast Guard Command	2,233	3	5.08%	1,500	6	3.51%
City of Portsmouth	2,416	4	5.50%	2,542	3	5.95%
Portsmouth Public Schools	2,055	5	4.68%	2,500	4	5.86%
BonSecours Maryview Medical Center	1,991	6	4.53%	2,200	5	5.15%
Tidewater Community College	506	7	1.15%	-	-	-
General Dynamics – NASSCO (Earl Industries)	-	-	-	425	10	1.00%
Gwaltney of Smithfield	-	-	-	440	9	1.03
Wal-Mart Supercenter	378	8	0.86%	380	11	0.89
Hampton Roads Regional Jail	364	9	0.83%	300	12	0.70%
Alternative Behavior Services (FHC)	-	-	-	800	7	1.87%
Southeastern Public Service Authority	-	-	-	473	8	1.11
Fairlead Integrated	200	10	0.46%	-	-	-
<b>TOTAL</b>	<b>24,490</b>		<b>56%</b>	<b>24,623</b>		<b>58%</b>

Source: Portsmouth Comprehensive Annual Financial Report, June 30, 2014

## **Budget Process**

### *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 based on projected needs and must be related to the organization's program objectives. These requests are received and compiled by the budget staff. The City Manager prioritizes requests and recommends a Proposed Budget to City Council based on available resources.

### *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, the Budget Ordinance authorizes the City Manager to transfer, within the same fund, any unencumbered appropriations 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](mailto:budget@portsmouthva.gov)), or accessed on the Web at [www.portsmouthva.gov/Finance/2016ProposedBudget/](http://www.portsmouthva.gov/Finance/2016ProposedBudget/)

*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 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.

**Budget Calendar**

Departments submitted FY2016 Operating Budget requests, including capital requirements, to the Finance Department. November – December, 2014
City Manager presents FY2016 Operating Budget and Capital Improvement Program to City Council March 30, 2015
Council and Citizen Work Sessions for FY2016 Operating Budget and Capital Improvement Program April 13, and 27, and May 11, 2015
Public Hearings – FY2016 Operating Budget and Capital Improvement Program including Tax and Fee Rate Changes April 28, 2015
Adoption of FY2016 Operating Budget and Capital Improvement Program including Tax Ordinances and Appropriation Ordinances May 12, 2015

## **Financial Policies**

### *Policy Purpose*

The financial integrity of our City government is of utmost importance. To that end, the establishment of appropriate financial management, debt administration, budget and capital plan development, and long-range planning policies (“Financial Policies”) promote the fiscal health of Portsmouth, as well as the cost-effective and efficient delivery of services to our citizens.

Written, adopted financial policies have many benefits, such as assisting the elected officials and staff in the financial management of the City, saving time and energy when discussing financial matters, engendering public confidence, and providing continuity over time as elected officials and staff members change. These policies are reviewed annually and reaffirmed by City Council at least once every three years.

### *Financial Policy Linkages*

The City has developed these Financial Policies, with input from its Financial Advisor, based upon municipal finance “Best Practices” as promulgated by the Government Finance Officers Association and the National Advisory Council on State and Local Budgeting. The City and its agents will regularly monitor the evolution of such “Best Practices” and update these Financial Policies and the City’s operating practices accordingly.

### *General Financial Principles*

The City will continuously evaluate programs and operating practices as a means of ensuring the City’s residents an efficient and highly effective local government.

The City will strive to utilize technological advances as a means of increasing employee productivity and reducing the need for new positions.

The City will allocate new dollars (after meeting fixed commitments such as debt service requirements and benefits changes) to the key priority areas as established by Council.

The City will attempt to utilize benefits of new economic development successes as a means of maintaining an adequate tax rate for services rendered to our residents coupled with our ability to manage expectations with the long term operational needs of the City.

## **REVENUES**

### Revenue Diversification

The City will strive to maintain diversified and stable revenue streams to protect the government from problematic fluctuations in any single revenue source and provide stability to ongoing services.

### Fees and Charges

All fees established by the City for licenses, permits, fines, services, applications and other miscellaneous charges shall be set to recover all or a portion of the City's expense in providing the attendant service. Fees and charges will be reviewed annually in connection with the development of the operating budget.

### Use of One-Time Revenues

The City will not utilize one-time revenues for recurring operating expenditures. One-time revenues include, but are not limited to: proceeds from the sale of land or surplus equipment, legal settlements, or revenue windfalls (i.e.; unusually large building permits, etc.).

### Conservative Estimation

Revenues will be budgeted conservatively so as not to introduce regular shortfalls in individual revenue accounts. Revenue estimates shall be reviewed and validated, whenever possible, by an independent outside professional engaged by the City. The Budget Officer shall utilize appropriate collection percentages in estimating revenues for each account or class of accounts based upon historical collection patterns. Unusual economic circumstances shall require adjustments to collection assumptions.

## **BUDGET**

### *Balanced Budget*

The City's budgetary policies are based upon guidelines and restrictions established by State and City Codes and Generally Accepted Accounting Principles for Governmental entities. These provisions set forth the City's fiscal year, public hearing and advertising requirements, restrictions on taxation, and also stipulate that the City must maintain a balanced budget.

The City will annually adopt and execute a budget for such funds as may be required by law or by sound financial practices and generally accepted accounting principles. The budget shall control the levy of taxes and the expenditure of money for all City purposes during the ensuing fiscal year.

The City's budget may be considered balanced if estimated revenues meet planned expenditures.

### *Contingency Appropriation*

The budget shall strive to include in the annual budget a contingency appropriation of at least 0.5% of budgeted expenditures. The contingency appropriation is designed to meet unanticipated revenue shortfalls or emergency expenditures.

### *Use of Fund Balance*

While accumulated fund balance in the General Fund may legally be used as revenue to support the budget, the City's intention is not to use fund balance to fund recurring operating expenditures. Accumulated fund balance over and above the City's fund balance target may be considered for funding one-time expenditures.

### *Quarterly Budget Monitoring*

Staff will provide City Council with a quarterly update of actual revenues and expenditures for the Fiscal Year and comparisons will be made in such report to: (1) the

adopted budget, and (2) revenues and expenditures through the same period of the immediately prior Fiscal Year. Tabular presentations will be supplemented by sufficient narrative to explain material variances from budget and the prior year. These reports are intended to provide sufficient information to City Council to allow for mid-year budget adjustments necessary to avoid operating budget shortfalls. As appropriate, Staff will provide recommendations for amendments to the budget to ensure budgetary balance.

### **Multi-Year Operating Budget Forecast**

The City will prepare and annually update a long range (5 year) financial forecast of the operating budget utilizing trend indicators and projections of annual operating revenues, expenditures, capital improvements, associated debt service and incremental operating costs, and fund balance levels. This forecast is intended to be an internal planning tool for Staff and the City Council, but will be shared with the rating agencies each year, as well as interested citizens upon request. The Forecast should be prepared with the intention of showing projected results based on programs, trends, and policies then in effect and without undue influence on its outcome.

### **FUND BALANCE**

#### **Policy Minimum**

The City will maintain an Unrestricted, Unassigned General Fund Balance equal to 15% of General Fund revenues.

If the Unrestricted, Unassigned General Fund Balance falls below the minimum level described above, Staff will submit a detailed plan (“Staff Plan”) to City Council that proposes actions necessary to return the fund balance to the policy minimum over not more than two succeeding Fiscal Years. City Council shall act upon the Staff Plan by taking the actions necessary to implement same or substituting alternatives that achieve the same objective.

If, upon the effective date of these Financial Policies, the City is not in compliance with this Fund Balance Policy Minimum, the City Staff will prepare a Staff Plan to restore the fund

balance to the policy level and such plan will be presented within not more than three (3) months from the effective date.

## **DEBT MANAGEMENT PRINCIPLES**

All long-term financings shall comply with Federal, State, and City Charter requirements.

Accompanying each long-term financial obligation will be a cost benefit analysis, the identification of the funding source, an assessment of the ability to repay the obligation, the impact on the current budget, commitments to the future budgets, maintenance and operational impact of the facility or asset and the impact on the City's credit rating.

The project should be incorporated into the City's multi-year capital and equipment improvement plan.

The term of the long-term obligation for the acquisition, replacement or expansion of physical assets, will not exceed the useful life or the average life of the project or projects being financed.

Long-term financial obligations will not be used to meet current operations, or for recurring purposes.

Variable rate obligations shall not exceed 15% of the City's outstanding long-term obligations and must be approved by the Chief Financial Officer.

The City Council may consider conduit financing on behalf of the EDA, PRHA, and PPIC upon recommendation of the Debt Advisory Committee. Initial contact will be directed to the Chief Financial Officer. Council will consider whether the conduit is feasible, financially and economically prudent, coincides with the City's objectives, and does not impair the City's creditworthiness (All expenses related to the conduit financing will be borne by the applicants).

Except as noted below, long-term obligations issued through the City must qualify for an underlying (i.e.; rated on the basis of the security for the loan) investment grade rating by one of the nationally recognized rating agencies or qualify for alternative credit enhancement. An

exception to this requirement would be debt issued via the Virginia Resources Authority, a political subdivision of the Commonwealth of Virginia. In the case of long-term obligations that are privately placed as bank qualified investments by the City, such obligations would not be required to qualify for an investment grade rating.

The City shall encourage and maintain good relations with credit rating agencies, investors in the City's long-term financial obligations, and those in the financial community who participate in the issuance and sale of our long-term obligations. A policy of full and open disclosure on every financial report and long-term obligation transaction will be enforced and credit rating agency presentations/updates shall be conducted at least annually.

The City shall comply with all on-going disclosure requirements and shall file such documents in a timely manner.

The City shall monitor earnings on bond proceeds and rebate excess earnings as required to the U.S. Treasury to avoid the loss of tax-exempt status.

The City will enforce filing notices of completion on all projects within five years of their financing.

The City shall continually review outstanding obligations and aggressively initiate refinancing's when economically feasible and advantageous.

The Chief Financial Officer will periodically report unspent capital project funds to the City Manager and City Council not less than annually.

#### Debt Administration

The City shall comply with the Internal Revenue Code Section 148 — Arbitrage Regulations for all tax-exempt debt issued. An annual estimate of arbitrage liabilities shall be obtained by the City and recorded on the financial statements.

A good faith deposit of 2.0% of the par amount of the bond sale shall be presented by the underwriter in the form of a check or surety acceptable to the City and Bond Counsel prior to the

approval of the bonds by the Mayor and City Council.

The City shall use a competitive bidding process in the sale of debt unless the use of a negotiated process is warranted due to market timing requirements (refunding), or a unique pledge or debt structure. The City will award competitively issued debt on a true interest cost (TIC) basis.

The City welcomes ideas and proposals from investment bankers and will seek to give first consideration to those firms that submit unique and innovative ideas that benefit the City. Unsolicited proposals should be submitted to the City's Chief Financial Officer.

The selection of an underwriter or group of underwriters for a negotiated sale shall be based on the following factors:

- Participation in the City's competitive sales;
- Submission of unique or creative proposals;
- Qualifications of firm;
- Size and geographic distribution of their sales staff.

All professional service providers selected in connection with the City's debt issuance and management program shall be chosen through a competitive process such as request for proposals (RFP's) on an as needed basis.

The use of reimbursement resolutions shall be encouraged as a cash management tool for debt funded projects. Reimbursement resolutions may be used for any project that has been approved in the City's Capital Budget. Reimbursement resolutions may be used for other projects if the projects are revenue supported or fund within departments' operating budget.

The City shall obtain a clear opinion from qualified legal counsel that the City is not liable for the payment of principal and/or interest in the event of default by a conduit borrower. If no such opinion can be obtained, the conduit borrower will be required to purchase insurance or a letter of credit in the City's name in the event of default. Examples of a conduit issuer are special authorities, tax-increment financing districts, public improvement districts, or industrial development issuers.

### Debt Capacity and Affordability

A long-term debt capacity and affordability analysis will be completed on an annual basis as a means of ensuring that the City does not exceed its ability to service current and future debt requirements. This analysis will verify that the City is maintaining the following ratios and will be performed in conjunction with the City's Capital Improvement Program (CIP) process. The guidelines that are utilized for direct City debt are as follows:

1. The ratio of All Net Tax-Supported Debt Service to Total Combined General Fund and School Revenues should not exceed 10%, within the six-year CIP projection;
2. The ratio of Net Tax-Supported Debt Service to Market Value should not exceed four percent (4%), within the six-year CIP projection;
3. The 10 Year Debt Payout Ratio of Net Tax-Supported Debt Service Should Be Greater Than or Equal To 50%.

### Utility Fund Debt

The City will adopt annual water and sewer rates that will generate sufficient revenues to meet the legal requirements of Enterprise Fund bond covenants. These rates will also allow for adequate capital replacement in water and sewer systems.

### Refunding Bonds

The City, with the assistance of its Financial Advisor, shall monitor the City's debt portfolio on a regular basis for refunding opportunities. When contemplating a refunding, the City will have a minimum of 3.0% economic savings (as expressed on a net present value basis) as a benchmark to proceed with a refunding. This policy is not intended to preclude the possibility of refunding one or more maturities of existing debt that generate a lesser amount of net present value savings if conditions warrant, but it is the intention to generate overall net present value savings equal to at least 3.0% of refunded par amount on any given transaction.

The City may from time to time consider a restructuring of its existing debt. Such restructurings are not subject to the net present value savings threshold identified above, but should be undertaken only rarely and the rationale and possible ramifications explained fully to the City Council.

## **CAPITAL IMPROVEMENT PROGRAM GUIDELINES**

The City will develop a Five-Year Capital Improvement Program annually. The first year of this plan will be approved and appropriated by the City Council after legal advertising and public hearing requirements have been met.

The City will continue to enhance the level of pay-as-you-go funding in the annual Capital budget as a means of reducing reliance on debt financing for capital projects.

The City will maintain its physical assets at a level adequate to protect the City's capital investment and minimize future maintenance and replacement costs. The operated budget will provide for the adequate maintenance of these facilities and infrastructure.

## **RETIREMENT SYSTEM FUNDING**

The City will use an actuarially accepted method of funding its City managed pension systems to achieve a fully funded status and will continually strive to attain fully-funded pensions.

## **OTHER POST-EMPLOYMENT BENEFITS (OPEB) FUNDING**

The City will implement the accounting precepts of the Governmental Accounting Standards Board's Statement #45 and, if required, Statement #43. A funding strategy will be developed that sets aside resources to pre-fund OPEB liabilities on an actuarially sound basis over time, although as of the effective date of these Financial Policies, the City has no plans to establish an irrevocable trust fund to accumulate assets. In light of ongoing discussions regarding national health care, the City will determine the utility of a trust fund at a later date and amend these Financial Policies as necessary once a final decision regarding the establishment of a trust fund is made.

## **INVESTMENT POLICY**

By State statute, the City Treasurer is responsible for the investment of the City's operating and bond funds consistent with the Code of Virginia. The Treasurer operates under a written investment policy that provides policy guidance on the placement of investments.

In addition to the functions of the City Treasurer, City Staff will annually review the investment program of the City. The City's Financial Advisor shall prepare, in consultation with Staff, an "Annual Investment of City Funds" report to be delivered within three months of the close of the Fiscal Year. This report will analyze, amongst other items:

1. Compliance with adopted investment policy guidelines;
2. Diversification of investments;
3. Concentration of trades with broker-dealers; and
4. Benchmarking of investment return performance against relevant peer comparisons.

## **SPECIAL REVENUE / ENTERPRISE FUNDS**

It is the general policy of the City to avoid designation of discretionary funds in order to maintain maximum financial flexibility. The City may, however, create dedicated funding sources when there are compelling reasons based on state law or policy objectives. Policies will be developed for the use of each fund.

## **OVERSIGHT**

### *Independent Audit*

The City will be audited annually by an independent external auditing firm that specializes in independent financial and compliance auditing services. The audit will comply fully with the Code of Virginia, Generally Accepted Accounting Principles ("GAAP"), and federal requirements for "Single Audit."

The City will competitively procure external auditing services not less than once every five (5) years.

## Fund Structure

### *Governmental Fund Types*

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.

Debt Service Fund – The debt service fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest on debt obligations. All debt service of the City is accounted for through the Debt Service Fund, except the debt service related to Public Utility Debt (proprietary fund debt) which is accounted for within the Public Utility Fund.

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 three major enterprise funds: Public Utility Fund, Parking Authority and Golf Fund.

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.

### **Basis of Budgeting**

The budgets of the Governmental funds (for example, the General Fund, Special Revenue Funds, Capital 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.

### **Basis of Accounting**

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).

### **Capital Improvements Program**

The City's Capital Improvements Program (CIP) is a five-year plan, which addresses both repair and replacement of existing infrastructure as well as the construction or acquisition of new facilities and equipment to accommodate current and future demands for service.

Capital expenditures are accounted for in their respective funds, including the General Fund, the capital improvements funds, the internal service funds and the enterprise funds. The General Fund contains projects related to general governmental services in areas such as general administration, facilities maintenance, public safety and parks and recreation. Vehicle

maintenance is accounted for in an internal service fund. Its customers are user departments of the City and these projects are funded primarily from user charges. Solid waste, water and sewer projects may be found in the Enterprise Funds section.

Financing of the CIP is provided on a pay-as-you-go basis or through debt issuance. Pay-as-you-go funding is provided from several sources including current tax revenues, interest earnings, revenue from other governmental agencies and user fees. Debt funding may include general obligation bonds, revenue bonds or lease financing.

Prioritization of the City's capital needs is essential in the development of the City's CIP. The City created the CIP Development Team in order to review and analyze existing and future capital projects as well as potential funding strategies and options which must align with City Council's prioritization and with the City's vision. This team utilizes benchmarked evaluation criteria to prioritize and recommend the capital budget and the five-year CIP.

Year one of the five-year CIP is the Capital Budget for FY2016. Some projects are multi-year projects and will be carried over from prior years. The CIP categories of Drainage and Street Improvements, Education, Industrial and Economic Development, Leisure Services, Municipal Facilities and Parking Authority primarily reflect projects being sustained from prior fiscal years. These projects are all vital to the continuing quality of life enjoyed by the citizens of the City of Portsmouth.

The availability of funding limits the number of new projects; however, certain asset investments are essential to continue operating activities of certain departments and divisions. Some new projects included in this budget are highlighted:

- Truxtun Fire Station - This new station will serve an area which has the greatest demands for fire and medical services. In addition this station will fill a response void and assist in events in Cradock, West Cradock, Newtown, Prentis Park, Douglas Park, and Highland Biltmore.
- Victory Blvd./Paradise Creek Bridge Replacement – This bridge was originally built in 1949. It carries Victory Blvd. over Paradise Creek and serves as a main entrance to the Norfolk Naval Shipyard. We anticipate a mixture of City and State funding sources.
- 801 Water Street – This building was purchased in FY2014 for the Police Department Headquarters. The Police currently occupy the 3<sup>rd</sup> and 4<sup>th</sup> floors. This funding will provide for the remaining technology needs, as well as the sally port and floor reinforcement.

- Seawall Reinforcement – This is the first of three years of funding to complete the reconstruction of the city seawall. This phase will address the replacement of the seawall on the Elizabeth River side from the North Landing, north to the Tidewater Yacht Marina.

