

City Manager's Message





CITY OF SUFFOLK

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CITY MANAGER

June 21, 2013

The Honorable Council
City of Suffolk, Virginia

Dear Council Members:

I am pleased to provide City Council with the adopted Fiscal Year (FY) 2013-2014 Operating & Capital Budget. The FY 14' budget addresses the operational and capital needs of the 17 funds required for the operation of City services in the amount of **\$513,737,119**. The General Operating Fund Budget is approved for funding of **\$179,336,375**, an **\$5,763,015** or **3% increase** over the current fiscal year.

This was the fifth consecutive year of significant budget challenges for the City of Suffolk. While we are no longer in a recession, the City continues to feel the effects of the housing market downturn and the cleanup of previous years' assessments. As reported by the Assessor at your March 20th City Council meeting, real estate values have declined another 3.22% citywide resulting in a **\$2.7M** loss in revenue. Additionally utility tax revenues received by the City are also projected to decrease **\$500,000** in FY 14'. The decline of these local revenue sources was compounded by additional requests for funding by the school division (**\$9M**) and local and regional nonprofit organizations (**\$4.7M**). Given our limited resources, the City could not realistically fund these requests and the options to address our funding challenges were not pleasant.

During the budget development process, some people suggested that the City should eliminate positions, make deep cuts to services and programs, and downsize its fleet and equipment. However, balancing the budget by not filling positions and cutting corners would have significantly impacted the City's quality of life and resulted in mediocre service levels and higher costs in future years. The demand for services is very high, and the City is continuing to grow at a fast pace. Our City employees are already doing more with less having cut operating costs by **\$17.3M** since 2007. The City also boasts one of the lowest employee per capita ratios in the region at 15.2 employees per 1,000 citizens.

In looking forward, we must ask ourselves what kind of City do we want? Today, Suffolk is one of the **Top 100 Best Small Cities to Live In America**, the 9th Best Place to Live for Jobs, AA+ bond rated ... on the road to AAA, and a fast growing community with 86,463 residents. To do nothing in FY 14' would have impeded our progress and required an additional \$5.4M reduction from the proposed plan.

City Council held a public input meeting in March to solicit comments from citizens on the FY 14' budget. Our citizens responded that they would like to see the City fully fund schools, delay capital projects, and cut spending. City Council also shared its support for education and noted the need for realistic expectations. The input provided by our citizens and City Council has been incorporated in the adopted FY 14' budget.

The adopted FY 14' budget supports the requests from our citizens and City Council; provides responsible reductions to spending (-\$2.4M); invests in our schools (+\$3M) for strategic performance improvement; delays capital projects including the Bennett's Creek Recreation Center (-\$1.5M) and Central Library/W. Washington Street Plan (-\$1.25M); complies with the City's financial policies to keep us financially healthy; and sustains our quality of life and protects health and welfare for our citizens, public safety, and programs and services for youth and seniors. The adopted FY 14' budget continues the \$17.3M in operational savings from previous years and implements the following new cost reduction strategies:

- Reduces \$1.2M in annual claims funding in the Risk Fund as adequate reserves are available to address requirements;
- Freezes 8 vacant non-essential positions;
- Provides no funding for routine equipment needs and replacements;
- Reduces part-time/overtime funding for Fire & Rescue;
- Eliminates the City's membership in the Hampton Roads Partnership;
- Eliminates funding for contracted legislative service needs; and
- Increases fees for before and after school care programs and facility rentals.

The adopted FY 14' budget provides for a **\$.03 real estate tax increase** to support a **\$3M increase** for the school division and **neutralizes the tax loss of reassessed real estate values** with a **\$.03 rate adjustment** to maintain current service levels. The City's real estate tax rate remains the **2nd lowest in the region at \$1.03 per \$100** of assessed value.

Strategic Priorities

The primary goals of the FY 14' budget are to:

- **Provide New Revenue to Support Education Priorities** – The adopted FY 14' budget includes an **additional \$3M** for strategic solutions to address student educational performance.
- **Balance Competing Service Demands with Minimal Tax Impact to Citizens** – The adopted FY 14' budget provides for a real estate tax rate of \$1.03 per \$100 of assessed value to neutralize the impact of the decrease in real estate values in order to sustain a healthy quality of life for our citizens and a **\$.03 increase** in the tax rate to provide **\$3M** in additional funding for public education. At \$1.03 per \$100 of assessed value, the City's real estate tax rate will continue to rank second lowest among the seven major cities in Hampton Roads.

- **Protect Financial Compliance Progress and “Best Management Practices”** – The adopted FY 14’ budget achieves compliance with the adopted financial policies and continues the “Best Management Practices” adopted by City Council that have led to five rating agency upgrades since 2007. Compliance with our Financial Policies is critical to ensuring a strong financial position and helps the City save millions of dollars in interest payments on long-term debt required for capital improvements that sustain the quality of life for our citizens.
- **Maximize Business Retention and Expansion Opportunities** – The adopted FY 14’ budget provides the funding necessary to continue aggressively pursuing business retention and expansion opportunities that increase and further diversify the City’s tax base. The adopted DBOD tax rate was reduced **\$.01 to \$.105** per \$100 of assessed value to neutralize the impact of reassessment on taxpayers and promote economic development competitiveness and business attraction in the central business district.
- **Maintain Critical Personnel Resources to Serve Citizens** – The adopted FY 14’ budget does not include any layoffs, furloughs, or pay reductions. The FY 14’ budget freezes 8 non-essential positions and transfers an additional 1% of retirement contribution to employees (2nd year of 5 year phase-in) with an offsetting 1% pay increase per State mandate. The City continues to maintain one of the lowest per capita staffing levels in Hampton Roads. Without the hard work and dedication of our employees and Council appointees, the City would not be able to meet the increasing demand for services in our fast growing community.
- **Protect Public Safety, Health and Human Services, and Senior and Youth Programming** - The adopted FY 14’ budget provides funding to protect the City’s investments in public safety, health and human services, and senior and youth programming which are critical to sustaining the City’s quality of life.

Capital Projects Fund

The adopted FY 14’ Capital Budget is approved at **\$44,423,000** and reflects the projects included in the first year of the recently adopted Capital Improvements Plan (CIP) including the E911 Equipment Upgrade and Tower Relocation, New Southern Elementary School, Schools Hazardous Materials Management, Operations Maintenance Facility, Local Urban Roadway Construction and Intersection Improvements per the Comprehensive Plan. The adopted FY 14’ Capital Budget excludes **\$2.75M** for the Bennett’s Creek Recreation Center and Central Library/West Washington Street Plan, which were approved in the CIP.

The FY 14’ Capital Budget also provides for the issuance of \$16.145M in public utility revenue bonds for water and sanitary sewer needs and State compliance mandates as recommended by the adopted CIP.

Utility Fund

The City's Public Utility Fund is approved at **\$45,274,613** in FY 14' which represents a 5% increase over the previous year. The Utility Fund continues to experience challenges with the cost of providing safe drinking water and sewage treatment solutions to citizens as a result of increased State and Federal mandates requiring costly capital improvements to our utility systems. We have successfully mitigated anticipated water and sewer rate increases for the coming fiscal year with the recent restructuring of existing utility debt. The adopted budget does, however, require rate adjustments of **\$.71** and **\$.47** monthly per 100 cubic feet to water and sewer rates, respectively. These increases address the above noted challenges and the effects of the continued housing market downturn driving higher service delivery costs.

Schools Funding

Local funding for Schools is approved at **\$50,175,158** in FY 14', a **\$3M or 6%** increase in local operating contributions over FY 13' for strategic solutions to improve student educational performance. The School Operating Budget is **\$142,810,562 or 3% increase** in total funding for the school division. The adopted FY 14' budget also provides an additional \$1M for the New Southern Elementary School construction and \$75,000 for hazardous materials abatement in the Capital Budget, as well as \$10M of debt issuance deferred in FY 13' for the New Southern Elementary School.

Downtown Business Overlay District (DBOD)

Because of increased property values resulting from the reassessment, a reduction of \$.01 is necessary in the DBOD to neutralize the impact on taxpayers and promote economic development competitiveness and business attraction in the central business district. The approved tax rate in the DBOD is **\$.105** per \$100 of assessed value in FY 14'.

Closing Remarks

The adopted FY 2013-2014 Operating & Capital Budget is designed to maintain the progress made by the City and is based on responsible choices, prudent investments, and a balanced approach to budgeting. The strategic priorities of the adopted FY 14' budget are to: 1) provide additional revenue to support public education, 2) balance competing demands with minimal tax increase to our citizens, 3) protect the financial compliance progress and "Best Management Practices" that have been made by the City, 4) maximize business retention and expansion opportunities, 5) maintain critical personnel resources to serve our citizens, and 6) protect public safety, health and welfare, and senior and youth programming.

I look forward to working with City Council, City staff, and our local service partners in FY 14' to continue providing outstanding services to Suffolk's citizens and moving our City forward on the road to excellence.

Respectfully,


Selena Cuffee-Glenn
City Manager