

City Manager's Message





CITY OF SUFFOLK

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CITY MANAGER

June 4, 2012

The Honorable Council
City of Suffolk, Virginia

Dear Council Members:

I am pleased to provide City Council with the adopted Fiscal Year 2012-2013 Operating & Capital Budget. The FY 13' budget addresses the operational and capital needs of the 17 funds required for the operation of City services in the amount of **\$508,797,156**. The General Operating Fund Budget is approved for funding of **\$173,573,360**, an **\$4,214,266** or **2% increase** over the current fiscal year. The FY 13' budget provides **75%** of all new General Fund revenues for support of our **public school division**. In addition, the City Council elected to provide a **\$2M** "one time" contribution from FY12' funds to augment the FY 13' allocation to schools. The increase in school funding will afford the school system with the flexibility to prioritize their division needs.

Although the economy is showing signs of a slow recovery from the worst economic recession since the Great Depression, a number of challenges continue to confront our great and growing City including declining real estate revenues, the City's largest revenue source, and diminishing State and Federal aid despite the imposition of new costly mandates which have greatly impacted the City and Suffolk Public Schools. Additionally, our hard working and dedicated City employees and Council appointees have not had a salary increase in over four years. The results of the City's Employee Compensation Study also revealed that Suffolk's City workers are paid on average 9% less than other localities in the Hampton Roads region as well as significant salary compression issues. This must be addressed in order for the City to attract and retain a skilled City workforce and to ensure the continued delivery of high quality services to the citizens of Suffolk. Per City Council action, this budget provides for a 2% cost of living allocation for all full-time and part-time non-probationary employees and one-third of the funding required for implementation of the revised Employee Compensation Plan effective January 1, 2013, excluding City Council appointees, whose compensation will be evaluated at the time of their annual performance evaluations.

Notwithstanding these challenges, I understand that the City and our citizens do not have unlimited resources. We must be responsible stewards of taxpayer dollars and work within the limited resources available to us to achieve our

strategic goals and priorities, meet the growing needs of our community, and continue moving the City forward. As such, the real estate tax rate will remain unchanged at \$.97 per \$100 of assessed value in FY 13'. This equates to a **\$.02 tax decrease** to the average homeowner in our City due to the reassessment and decline in property values.

Strategic Priorities

The primary goals of the FY 13' budget are to:

- **Balance Competing Service Demands with No Tax Increase to Citizens** – The FY 13' budget maintains the citywide real estate tax rate at \$.97 per \$100 of assessed value. As previously discussed, although the tax rate is unchanged, this equates to a **tax decrease of \$.02** due to the reassessment and 2.23% decline in residential real estate values.
- **Protect Financial Compliance Progress and “Best Management Practices”** – The FY 13' budget achieves compliance with the City's adopted financial policies and continues the “Best Management Practices” adopted by City Council that have led to five rating agency upgrades since 2007.
- **Fund Increased Costs of State Mandated Expenses** – The FY 13' budget provides funding to address increased costs of State mandated expenses including higher retirement rates for City and School employees and costs associated with a new State mandate requiring local governments to provide a 5% salary increase to local employees with the transfer of the 5% local employee retirement contribution to employees. The transfer will be phased in at 1% per year over a five year period as allowed by the General Assembly. This mandate will ultimately cost the City approximately **\$1.6M** and employees will pay increased payroll taxes.
- **Maintain Critical Personnel Resources to Serve Citizens** – The FY 13' budget does not propose any layoffs, furloughs, or pay reductions. The City maintains 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. The FY 13' budget freezes 11 non-essential vacant positions and provides for a 90 day freeze on all vacated positions in an effort to provide “internal savings” to support the implementation costs of the updated Employee Compensation Plan.
- **Provide New Revenue to Support Education Priorities** – The FY 13' budget provides an additional **\$3M** or **7% increase** in local operating funding for schools to provide for increases to the retirement rate and additional local financial support. The \$3M represents **75%** of the \$4.2M increase in all new General Fund revenues realized in FY 13'. In addition, City Council provides

\$2M in a “one time” appropriation to achieve full funding of the School Board request.

- **Compensate Employees in Accordance with the Revised Compensation Plan** – As presented in the Employee Compensation Study, Suffolk’s pay lags in the region by 9%. In order to address salary deficiencies for our valued employees and Council appointees, City departments were asked to identify “internal reductions” to cover costs associated with the implementation of the updated Employee Compensation Plan. The FY 13’ budget provides funding for the first phase of a three phased approach to implement the updated Employee Compensation Study beginning January 1, 2013. Additionally, the FY 13’ budget provides a 2% cost of living allocation to all full-time and part-time non-probationary employees, Constitutional Officers, and Council appointees effective July 1, 2012.

In addition to the above priorities, the FY 13’ budget provides additional funding required for equipment and polling precinct needs in support of the 2011 Redistricting Plan.

Funding for local and regional organizations also has been adjusted to help absorb a reduction of \$131,258 in Federal Community Development Block Grant (CDBG) funding in FY 13’. The City’s contribution to the Suffolk Center for Cultural Arts (SCCA) has been reduced by \$100,000 to sustain funding for smaller community-based nonprofit organizations with limited resources that provide valuable health and human services to Suffolk citizens that could not otherwise be provided by the City.

The FY 13’ budget continues the implementation of cost reduction strategies from prior years which generated **\$17.3M in operational savings** and makes additional internal sacrifices including:

- Freezing 11 vacant non-essential positions;
- Implementing a 90 day freeze on all vacated positions that occur during the year and utilizing approximately **\$260,000** of anticipated vacancy savings; and
- Significant reductions and cost saving measures of **\$2.5M** in various department line items as internal sacrifices to redirect funds to address compensation deficiencies and compression concerns.

Capital Projects Fund

The adopted FY 13’ Capital Budget is **\$54,348,975** and reflects the projects included in the first year of the recently adopted Capital Improvements Plan (CIP) including the Whaleyville Community Center, Police Headquarters Expansion, Operations Maintenance Facility, E911 Equipment Upgrade and Tower, Local

Urban Roadway Construction and Intersection Improvements per the Comprehensive Plan, and Village and Neighborhood Improvements.

A deferral of debt service related to the delayed issuance of \$10M in bonds to FY 14' per the adopted CIP from \$20.9M to \$10.9M has been incorporated due to project delays impacting the cash flow requirements of the Southern Elementary School project. However, funding will be made available in support of the project should it be needed prior to the FY 14' bond issuance.

The FY 13' Capital Budget also provides for the issuance of \$24.9M in public utility revenue bonds for water and sanitary sewer needs and State compliance mandates as recommended by the adopted Capital Improvements Plan.

DBOD and Route 17 Special Taxing District Fund

Because of increased property values resulting from the reassessment, a reduction of \$.01 is necessary in the DBOD and Route 17 Special Taxing District to neutralize the impact on taxpayers and promote economic development competitiveness and business attraction in the central business district and northern Suffolk.

Utility Fund

The City's Public Utility Fund is budgeted at \$42,958,759 in FY 13' which represents a 15% 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 FY 13' budget does, however, require rate adjustments of **\$.70** and **\$.44** monthly per 100 cubic feet to water and sewer rates, respectively. These increases address the above noted challenges and the effects of the economic recession driving higher service delivery costs.

Transit Fund

The City ended its partnership with Hampton Roads Transit (HRT) on December 31, 2011 and has since outsourced its transit service for the two bus routes adopted by City Council to the Virginia Regional Transit Authority (VRTA). The FY 13' budget establishes a Transit Fund to account for and manage the operational revenue and expenditures of the City's transit service at a reduced cost from the previously outsourced arrangement with Hampton Roads Transit (HRT).

Schools Funding

Local funding for Schools is budgeted at **\$47,163,719** in FY 13', a **\$3M or 7%** increase in local operating contributions over FY 12'. This \$3M increase represents **75%** of the \$4.2M realized in new revenue in FY 13'. An additional **\$2M** in "one time" funds originally proposed for transportation needs will also be redirected for school needs in FY 13'.

As shared previously, \$10M of debt issuance for the Southern Elementary School project is deferred to FY 14' based on delayed cash flow needs resulting from project development delays. However, funding will be made available in support of the project should it be needed prior to the FY 14' bond issuance. The Capital Budget does provide \$100,000 for hazardous materials abatement via cash funding from the General Fund. The School Operating Budget is **\$138,314,412** and includes a **7% increase in local fund support** and **5% decrease in State and Federal funding** for an overall **1% decrease** in total funding for the school division. The City's local contribution to the school division represents **50%** of the citywide services budgeted.

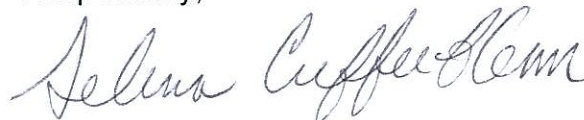
Closing Remarks

In closing, the adopted FY 2012-2013 Operating & Capital Budget is based on responsible budgeting and government practices using available resources while reducing the taxation impact on our citizens. In FY 13', we will address the strategic needs and priorities of the City by continuing the implementation of cost reduction strategies employed in prior years and making additional internal sacrifices for the greater good of the City as a whole.

The FY 13' budget balances competing service demands with no tax increase to our citizens, protects the financial compliance progress and "Best Management Practices" that have been made by the City, funds increased costs of State mandated expenses, maintains critical personnel resources to serve our citizens, provides new revenue to support critical education priorities, and compensates employees via a 2% cost of living allocation and in accordance with the updated Employee Compensation Plan.

I look forward to working with City Council, City staff, and our local service partners in FY 13' 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