

# **VIRGINIA BEACH**

**COMMUNITY FOR A LIFETIME**

**City of Virginia Beach  
Biennial Resource Management Plan  
Fiscal Years 2006-07 and 2007-08**

**Executive Summary**

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# CITY ORGANIZATION AND INFORMATION

The City of Virginia Beach adopted its first Charter on February 28, 1962; it was ratified by the State Legislature to be effective on January 1, 1963, thereby incorporating the City. In its Charter, the City established a Council/Manager form of government, in which an elected City Council establishes policy and the resulting programs are carried out by an appointed City Manager.

### Key Statistics

Total Square Miles of Land	248.3
Total Square Miles of Water	58.5
Population Estimate ( 07/01/05)	435,600
Number of Registered Voters	261,000
Number of Homes/Residences	163,976

### **Mayor Meyera E. Oberndorf**

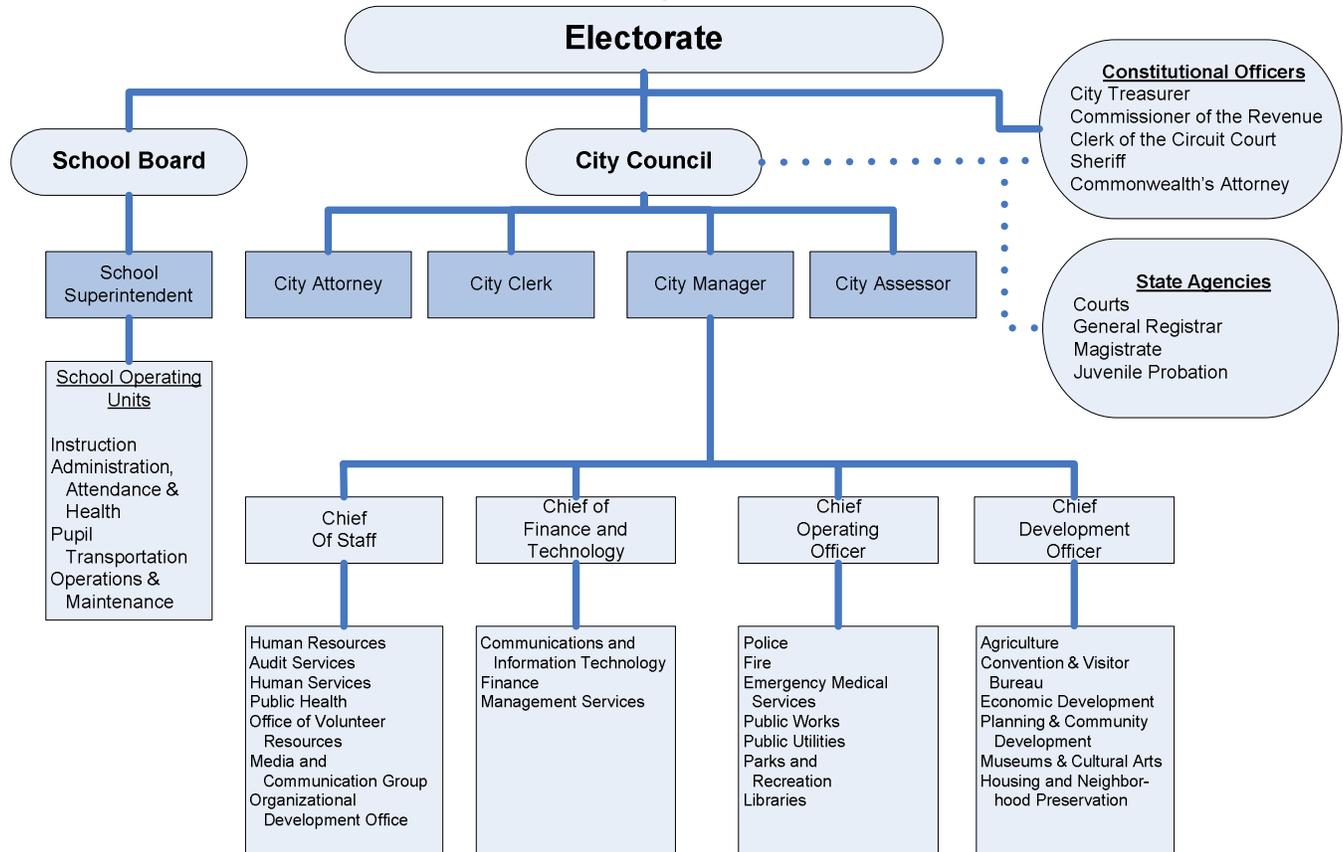
#### **City Council Members:**

Louis R. Jones, Vice-Mayor, District 4 - Bayside  
 Richard A. Maddox, District 6-Beach  
 Robert Dyer, District 1-Centerville  
 James L. Wood, District 5-Lynnhaven  
 Jim Reeve, District 7-Princess Anne  
 Harry E. Diezel, District 2-Kempsville  
 Reba S. McClanan, District 3-Rose Hall  
 Peter W. Schmidt, At-Large  
 Rosemary Wilson, At-Large  
 Ron A. Villanueva, At-Large

#### **City Council Appointees:**

City Manager – James K. Spore  
 City Attorney – Leslie L. Lilley  
 City Real Estate Assessor – Jerald Banagan  
 City Clerk – Ruth Hodges Fraser

### **Operating Structure**





# City of Virginia Beach

OFFICE OF THE CITY MANAGER  
 (757) 385-4242  
 FAX (757) 385-5626  
 TDD (757) 385-4305

**VBgov.com**  
 MUNICIPAL CENTER  
 BUILDING 1  
 2401 COURTHOUSE DRIVE  
 VIRGINIA BEACH, VA 23546-9001

June 9, 2006

The Honorable Meyera E. Oberndorf, Mayor  
 Members of City Council

**Subject: Adopted FY 2006-07 Resource Management Plan**

Dear Mayor and Council Members:

The Proposed FY 2006-07 and FY 2007-08 Biennial Resource Management Plan was presented to City Council on March 28, 2006. From discussions that occurred during five City Council workshops and the citizen input provided during two public hearings, the plan has been modified to address community concerns and issues. The adopted plan includes \$1,639,515,908 for the FY 2006-07 Operating Budget and \$214,569,984 for the FY 2006-07 Capital Budget of the Capital Improvement Program. You have also approved the second year of the biennium (FY 2007-08) at \$1,734,895,801.

**Operating Budget**

The Operating Budget is summarized in the table below, followed by City Council adjustments:

**Operating Budget Overview**

Categories	FY 2005-06 Adjusted Budget	FY 2006-07 Proposed Budget	FY 2006-07 Adopted Budget	FY 2007-08 Approved Budget
City Operations	\$ 623,706,201	\$ 675,595,699	\$ 675,995,699	\$ 721,159,869
BRAC Compliance	-	7,500,000	7,500,000	7,500,000
School Operations	705,740,599	779,249,046	779,249,046	816,531,802
Capital Projects	53,473,701	52,568,227	52,568,227	52,986,357
Debt Service	121,422,484	124,202,936	124,202,936	136,717,773
<b>Total Operating Budget</b>	<b>\$ 1,504,342,985</b>	<b>\$ 1,639,115,908</b>	<b>\$ 1,639,515,908</b>	<b>\$ 1,734,895,801</b>

**Operating Budget Adjustments**

- Increase the net worth limit in the Tax Relief for the Elderly and Disabled Program from \$200,000 to \$350,000 at a cost of \$515,000.
- Provide full-time support to the Human Rights Commission in the amount of \$29,000.

- Increase Patriotic Festival funding in the amount of \$600,000 with \$400,000 anticipated in revenue.
- Provide funding for a full-time Museum Educator for Lynnhaven House Operations in the amount of \$73,000.
- Increase debt service in the amount of \$536,035 in FY 2007-08 utilizing the Tourism Growth Investment Fund (TGIF) to support the 19<sup>th</sup> Street Corridor project. (See Capital Improvement Program adjustments below)

**School Board Adjustments**

On May 23, 2006, the School Board adopted a Budget Resolution to reconcile the funding provided by City Council on May 9, 2006 with the school categories of Instruction, Transportation, Administration, Operations and Maintenance, and to reconcile expenditure appropriations as listed below:

- The General Fund transfer to the Schools CIP was increased by \$4,661,100 and the local contribution to the Schools Operating Budget was decreased by that amount.
- CIP Project #1-195, Student Data Management System was increased by \$1,736,046.
- CIP Project #1-211, Schools Operating Budget Support was increased by \$2,925,054 for the purchase and replacement of equipment and general maintenance and repair.
- The School Operating Budget was increased by 3.0 FTEs.
- Other School Special Revenue Funds were reduced by a total of \$643,642 and revenue from other local sources was reduced accordingly.

We anticipate that an ordinance will be sent to Council on June 13, 2006 to reflect these changes.

**Capital Improvement Program**

The approved Capital Improvement Program is summarized in the table below, followed by City Council adjustments:

**Capital Budget and Capital Improvement Program Overview  
Total Including Appropriations-to-Date**

	<b>Approved FY 2005-06/ FY 2010-11</b>	<b>Proposed FY 2006-07/ FY 2011-12</b>	<b>Adopted FY 2006-07/ FY 2011-12</b>
City General Improvements	\$ 528,818,129	\$ 469,054,302	\$ 481,754,302
Acquisition of Land Surrounding Oceana	-	90,000,000	90,000,000
School Improvements	357,967,903	358,285,722	358,285,722
Utilities Improvements	202,786,609	193,476,723	193,476,723
<b>Total CIP</b>	<b>\$ 1,089,572,641</b>	<b>\$ 1,110,816,747</b>	<b>\$ 1,123,516,747</b>

### **Capital Improvement Program Adjustments**

- Provide funding for Alternative "A" of the 19<sup>th</sup> Street Corridor project in the amount of \$10,200,000 in FY 2006-07 and \$2,500,000 in FY 2007-08.

City Council identified five important capital projects to be considered if sufficient fund balance from the General Fund is available at the end of FY 2005-06. These projects are:

- \$12,250,625 for Capital Project #2-208 Constitution Drive Extended.
- \$1,000,000 for Capital Project #2-731 Shore Drive Interim Safety Improvements.
- \$2,972,821 for Capital Project #3-041 Virginia Aquarium Elevated Pedestrian Crosswalk.
- \$800,000 for Capital Project #4-044 Bayside Commons Community Services Facility.
- \$4,100,000 for Capital Project #4-064 City Bikeways & Trails Plan Improvements- Phase II.

City Council also adopted an additional \$1 in Court fees to support the public law library, an additional \$1 increase to the automobile license tax to support the 2007 Celebration and the Magna Carta exhibit, and a reduction from 12 cents to 6 cents for the Sandbridge Special Service District.

We continue our effort to address a variety of community needs and to sustain progress in meeting City Council's priorities, and we remain steadfast in our goal of making Virginia Beach a "Community for a Lifetime" for all of our citizens.

With Pride in Our City,



James K. Spore  
City Manager



# City of Virginia Beach

OFFICE OF THE CITY MANAGER  
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TDD (757) 385-4305

[VBgov.com](http://VBgov.com)  
MUNICIPAL CENTER  
BUILDING 1  
2401 COURTHOUSE DRIVE  
VIRGINIA BEACH, VA 23546-9001

March 28, 2006

The Honorable Meyera E. Oberndorf, Mayor  
Members of City Council

## **Subject: Proposed Resource Management Plan**

Dear Mayor and Council Members:

It is with pleasure that we submit the City Manager's Proposed Biennial Resource Management Plan. Like last year, we anticipate that the discussions, both at the City Council level and within the community, will revolve around the unprecedented growth in real estate assessments. The City Council must carefully consider rising cost of delivering quality services, increasing infrastructure costs and education while contemplating the burden to taxpayers.

Real estate appreciation is projected to grow by 19.3% in FY 2006-07 and 14% in FY 2007-08. The Virginia Beach City Council has been the leader in Hampton Roads and one of the leaders in the Commonwealth in recognizing the need for real estate tax rate reduction. The real estate tax rate has been reduced from \$1.22 in FY 2003-04 to \$1.0239 in FY 2005-06, or by almost 20 cents in just two years. For FY 2006-07, the Proposed Operating Budget includes a reduction in the real estate tax rate to 99 cents, which is a rate reduction of approximately 3.4 cents for a total reduction of 23 cents over 3 years. Even with this rate reduction, the average residential real estate bill will increase by 18.1%, and the total budget is proposed to increase by 9%. With both of these percentages increasing at a rate higher than the Consumer Price Index, the question is why couldn't the real estate rate be reduced further? The answer to that question is driven by the following factors:

- With the adoption of the Resource Management Plan in FY 2005-06, City Council reduced the real estate tax rate by 17.25 cents mainly through an \$11.6 million reduction in the first year of the Capital Improvement Program (CIP). This advanced the rate reduction that had been proposed in the second year of the biennium; however, the remaining years of the CIP were not also adjusted. In preparing this year's CIP, we made the necessary adjustments in all six years. These reductions primarily affected the Roadway and Building sections of the CIP given their reliance on local pay-as-you-go financing. Knowing the critical need for transportation maintenance and construction throughout the community, staff is making recommendations to adjust dedicated funding streams to help offset the reductions to the transportation program.
- City Council adopted a program to comply with the BRAC findings regarding Oceana. In response to the program, the Resource Management Plan includes \$15 million a year in a

capital project with half of the funding provided by the State. This is in addition to the \$3.7 million that City Council appropriated from the Agricultural Reserve Program Fund Balance in March for acquiring property in the Inter-facility Traffic Area.

- City Council provided direction regarding public safety compensation in February. While this direction should allow the City to attract and retain qualified employees in our public safety departments, it also requires significant additional funding in future years. City Council direction on public safety compensation requires an additional \$4.3 million in both FY 2006-07 and FY 2007-08. Other increased costs in compensation and benefits for the entire workforce requires an additional \$14.1 million in FY 2006-07.
- Fuel/energy costs are projected to increase \$4.3 million for next year. The CIP is experiencing increased cost of constructing capital projects, which requires an estimated \$4 plus million a year over the six years of the CIP in order to just maintain the Capital Improvement Program. Both of these issues were compounded by the aftermath of Hurricane Katrina. Our citizens are also experiencing these increases and need some measure of tax relief, which is why some capital projects are being delayed or not funded in the current six-year capital program. The School system is experiencing similar issues with their programs and capital projects, so school capital projects are also being delayed.
- Virginia Retirement System cost for both retirement and life insurance increased again this year. Retirement costs increased from 15.25% of payroll in the current fiscal year to 17.18% in FY 2007. In the new fiscal year there is an end to the life insurance holiday (the city has not had to make a contribution for several years), resulting in an increase of 1.22% of payroll. Overall these two issues added \$10.4 million to the FY 2007 Budget. Add in the increased contribution of \$2.3 million needed to keep pace with rising health insurance costs and VRS increases and health insurance increase the budget by \$12.7 million.

With the increases noted above, we have reviewed every dollar being spent on existing programs, and have developed a four-pronged strategy to address increasing service demands and capital project needs in the Proposed Resource Management Plan.

- (1) The staff has reviewed every dedicated tax to ensure that the rates City Council has adopted for these programs are needed at the same levels as originally dedicated. Not everybody is clear on the purpose of dedicated taxes. Generally, a dedicated tax is a specific tax rate to be used solely to fund a specific program. For example, 10 cents of the cigarette tax is dedicated to the Economic Development Investment Program (E.D.I.P.), and all of the amusement tax is dedicated to the Tourism Growth and Investment Fund (T.G.I.F.). A portion of the real estate tax (along with other revenue sources) is dedicated to the City/School Revenue Sharing formula. Parks and Recreation and the Agricultural Reserve Program (A.R.P.) have dedicated revenue streams. Other programs funded with dedicated taxes include Open Space Acquisition, Tourism Advertising, Beach Special Events, the Convention Center, and the Sandler Center for Performing Arts. A summary of the dedicated taxes can be found in the revenue section of the Operating Budget. After review, we are recommending the following changes to dedicated taxes:
  - Since saving Oceana is a critical community issue, the \$7.5 million of local funding for BRAC compliance should be dedicated BEFORE the City/School Revenue Sharing Formula is applied. This means that Schools will share in a portion of the cost. If Oceana relocates, there would be a major financial impact on the School system due to a decrease in student enrollment and the potential loss of over \$11 million in direct State and Federal revenue plus

the impact of the overall loss of revenue through the Formula. Therefore, sharing in the cost of keeping Oceana in Virginia Beach is equitable for both the City and Schools.

- That the current real estate tax dedication to the A.R.P. be reduced from 1 cent to .9 of a cent. This is in addition to the .5 cent reduction that occurred in FY 2004-05. Analysis of the A.R.P. program indicates that the long-term needs of the program can be met at the .9 cent level.
- That the 3.8 cents real estate tax dedication to recreation centers be reduced to 3.7 cents. In conjunction with the referendum approved by the voters in 1987, City Council adopted a real estate rate increase of 3.8 cents in FY 1988-89 to pay for the debt service associated with the construction of the recreation centers as well as long-term operation and maintenance expenses. We can meet all obligations and maintain the recreation centers even with this reduction.
- In FY 1989-90, the City Council approved .7 of 1 cent real estate tax dedication as part of an Outdoor Initiative Plan. Since that time, Council has adopted an Open Space Program. The Proposed Resource Management Plan includes a recommendation that the .7 of 1 cent be reduced to .5 of 1 cent. Given the recent increase in assessments, this will provide approximately \$2.25 million a year for this program, which still exceeds the amount provided just two years ago.
- With assessments growing at unprecedented levels, assessments in the Sandbridge area are growing at even higher levels than the City as a whole. Funding generated through the T.I.F. and Sandbridge Special Service District is projected to greatly exceed the needs of the beach restoration and replenishment program. In order to bring the funding back in line with program needs, we are proposing a series of inter-related adjustments. To provide additional relief to these residents, the real estate tax rate for the Sandbridge Special Service District is recommended to be reduced from 12 cents to 6 cents. In addition, a new CIP project (8-023) is proposed that will remove sand that accumulates on the roads and return it to the beach as well as provide improved access points along the beach. The proposed Operating Budget also declares \$9 million surplus from the Tax Increment Finance (T.I.F.) Fund and returns it to the General Fund – Fund Balance. Even with the reductions noted above, sufficient funding is available to fully fund sand restoration and replenishment with existing funds for the next 50 years. The next sand restoration project is scheduled for FY 2006-07. The T.I.F. fund will be monitored each year to ensure that \$9 million can be declared surplus, and rightfully made available for one-time only city-wide services and/or projects while still guaranteeing long-term sand replenishment. Federal participation is still needed because it was never the City's intent to keep the T.I.F. fund in place on a long-term basis. Once regular federal funding is secured, the T.I.F. fund will be eliminated as originally planned.

### Summary of Proposed Changes to Dedicated Rates

	Previous	Proposed
BRAC Compliance	n/a	\$7.5 million applied before City/School revenue
Agriculture Reserve Program	1 cent of real estate tax rate	.9 cent of real estate tax rate
Recreation Centers	3.8 cents of real estate tax rate	3.7 cents of real estate tax rate
Outdoor Initiative	.7 cent of real estate tax rate	.5 cent of real estate tax rate
Sandbridge TIF	All revenue applied to TIF District	\$9 million declared surplus at end of year
Sandbridge Special Services District	12 cents of real estate tax rate	6 cents of real estate tax rate

- (2) The Operating Budget and Capital Improvement Program generally do not add or expand programs unless a dedicated funding source is identified. There are positions added in the Water and Sewer, Storm Water, Parks and Recreation, and Human Services areas that are supported by previously approved rate increases, proposed fee increases or additional federal and state revenue. In keeping with the principle of dedicated revenue for new programs, the proposed Operating Budget is also recommending a \$1 increase to the automobile license tax (decals) for one year only to pay the City's costs for the 2007 Celebration and the Magna Carta exhibit.
- (3) The Resource Management Plan attempts to preserve current programs and capital projects where possible. As you review the Resource Management Plan, summaries will be provided that detail where programs and projects have been impacted.

Even with the changes noted above, we are not able to move forward on all of the goals identified by City Council at its August retreat. The following is a discussion of City Council's goals along with how the Resource Management Plan responds:

- NAS Oceana Strategy – City Council provided important leadership on compliance with BRAC's rulings and the adoption of the Joint Land Use Study. The input provided by our citizens, combined with City Council's ultimate decision, brought the entire community together for an appropriate response to BRAC's findings. The Resource Management Plan responds to City Council's policy that was adopted in December 2005 with a \$15 million commitment to address encroachment issues in APZ-1 area with \$7.5 million funded by the State.
- Congestion Relief/Safety Improvement Program and Roads – "pay as you go" funding plans – The Capital Improvement Program generally maintains the Roadways program at the same level as City Council adopted in May 2005. The State is also considering moving transportation forward in its biennial budget. The Proposed Capital Improvement Program does not include additional funding for roadways.
- Employee Compensation and Benefits – Like most service organizations, employee compensation and benefits make up 60% of City operations. In order to continue to attract and retain a quality workforce, a competitive total compensation package is vital.

The Resource Management Plan fully funds the public safety compensation direction adopted by City Council in February 2006. City Council has also received briefings on public safety staffing and deployment. The Proposed Operating Budget does not include additional public safety positions, but we should make progress on reducing the number of vacant positions, particularly in the Police Department by addressing salary compression.

The Resource Management Plan funds increased costs of VRS retirement, life insurance, and health care coverage of \$12.7 million in FY 2007. Also included is a 1.5% general increase and 3% merit increase to eligible members throughout the entire workforce at a cost of \$10.9 million for both years. Horizontal compression adjustments for members of workforce other than public safety employees, costs \$.97 million for FY 2007 with vertical compression funded at \$.63 million in FY 2008. As mentioned previously, \$4.3 million is provided in each year for public safety compression. Also, \$8 million is provided in FY 2008 to fund the anticipated results of the next market survey scheduled for this fall.

- First Class Beach Resort Initiative – At Council's request, information has been provided on a possible Resort Area T.I.F. Given the demands on the budget from both a tax rate reduction perspective as well as the need to maintain current services, the Proposed Operating Budget does not include a Resort Area T.I.F. If available at the end of this fiscal year, the fund balance could be used to address some improvements to the 19<sup>th</sup> Street Corridor, including property acquisition and sidewalk improvements to create a pedestrian friendly corridor. The availability of fund balance will be known in the fall. T.G.I.F. funds could also be used for resort initiatives if available.
- Economic Diversification Plan – The Department of Economic Development has developed a plan for economic diversification. Unfortunately, funding is currently not recommended. To begin implementing the plan, \$500,000 would need to be identified.
- Norfolk Southern Right-of-Way Acquisition – Staff, and the local General Assembly delegation, have worked diligently to obtain State funding for the acquisition of the Norfolk Southern Right-of-Way. Once the funding is approved in the State budget, information will be forwarded to City Council for further action.
- Open Space Program and Funding – No additional funding is recommended for the Open Space Program given the need to establish a funding program for acquiring property as part of the BRAC compliance program.
- Zoning Ordinance Comprehensive Review – The Planning Department and the City Attorney's Office have been working with the Planning Commission to update the City Zoning Ordinance. Amendments are being forwarded to City Council when completed by the Planning Commission. This effort has been delayed due to the significant work that had to be accomplished by the Planning Department, City Attorney's Office and the Planning Commission related to the BRAC/AICUZ amendments.

As noted above, the proposed Resource Management Plan does not advance all of City Council's goals; however, Council could dedicate a portion of the real estate tax above the 99 cents level to address transportation needs, the Economic Diversification Plan and Open Space Funding.

Please note some other important issues as you review this plan.

- (1) In order to affect the 99 cents tax rate and the BRAC compliance plan, we have made an \$11.8 million reduction to the School Board's adopted budget and have reduced the School Board's Capital Improvement Program in years 5 and 6 for a new high school project. Additional information is provided in the Operating Budget in the Education section.
- (2) This is the first Resource Management Plan that addresses the Base Budget ordinance adopted by City Council in March 2005, which was sponsored by Council Member Schmidt. A summary of all programs included above the base level are listed on page 14 of this Executive Summary.
- (3) With the adoption of the FY 2005-06 Resource Management Plan in May 2005, City Council adopted a series of water and sanitary sewer rate increases through FY 2009-10, and a storm water rate increase through FY 2007-08. The Resource Management Plan reflects these increases.
- (4) Elderly/Disabled tax relief increased by \$1.9 million in both FY 2006-07 and FY 2007-08, based on previously adopted City Council policy.
- (5) Last year, City Council reviewed the first biennial budget in the City's history. The funding included in the second year (FY 2006-07) of that budget became the foundation for the first year of this Resource Management Plan. This biennial budget is in sync with the State's biennial process. Based on the recommendations of the three City Council Members and two School Board Members who participated on the committee, it is anticipated that City Council will adopt this budget as a two-year plan. Next year, we do not anticipate submitting a full Operating Budget, but updated information will be provided for City Council to modify the second year appropriations as required.
- (6) As the State grapples with alternatives to fund important initiatives like transportation, it is important to note that they still are not meeting their funding commitments to localities. Beyond the typical examples like Standards of Quality funding from the City providing over \$161.4 million more than our requirement, there is a particular example that is troublesome and highlights the disproportionate approaches to compensation at the State and local level. City Council provided additional funding to ensure that public safety personnel are appropriately compensated to ensure that highly trained personnel are hired and retained in our workforce. An important component of public safety is the Juvenile Probation Office. Because of inadequate funding from the State, the typical Juvenile Probation Officer makes \$28,987 for a starting salary, and this office has over a 50% turnover rate. Juvenile Probation requested \$681,375 to bring their salaries in line with a City-paid Social Workers' starting salary of \$37,355. These additional funds are not recommended from local sources.
- (7) The State may adopt sweeping changes to telecommunications revenue. Although we anticipate that revenue in total will not be impacted, these changes could impact the way the City allocates revenue, particularly the allocations associated with the City/School Revenue Sharing Formula and the E-911 Fund. We will bring forward changes as they become known.
- (8) As the City Council is aware, the General Assembly has failed to adopt a biennial budget within the standard session. Major issues of transportation and how to pay for it drove the need for more time. The General Assembly returned to Richmond on March 27<sup>th</sup>. It is likely that the issues of transportation and the budget will not be resolved until late April or early May. Once a State budget is finalized it will be necessary for the City Council and School Board to make adjustments.

- (9) As discussed above, the Proposed Operating Budget and Capital Improvement Program do not move forward all of Council's goals, and several capital projects have been delayed or removed from the six-year plan. It should also be noted that current services are also being impacted. A complete listing of "Requested But Not Funded" items can be found in the Introduction sections of the Proposed Operating Budget and Capital Improvement Program documents.

As City Council reviews the Resource Management Plan, please be aware of three long-term issues that need further review and analysis:

- The aftermath of Hurricane Katrina has made all coastal communities review in more detail their emergency preparedness plans. While additional funding is not included in the Resource Management Plan, future budgets may require funds to ensure our City is safe in the event of such a catastrophe. Staff is reviewing our current plans and will work to ensure that our citizens can access the resources needed in case of a catastrophic event. It is always each individual's responsibility to provide for his or her own safety, but we can work with the community to address serious gaps.
- Changes in accounting rules will require changes to our accounting statements and may require additional funding or alterations to health insurance liability for retirees as well as liability associated with our retirement program with VRS. Some of these changes may impact the FY 2007-08 Operating Budget. More information on appropriate strategies should be available within the next twelve months.
- As mentioned previously, the City must develop creative methods to reduce our dependency on energy. Staff is developing recommendations that will help us cope with increasing energy costs over the long-term.

As you review the Resource Management Plan, it will be critical to ensure that the foundation of high quality programs and services established by this and previous City Councils can be maintained. Sustainability of programs and projects require that funding capacity is in place for the long-term. There is no doubt many citizens will request additional real estate tax reduction, while other citizens will demand additional services. Balancing these competing needs will be difficult at best, especially in light of the long-term need to maintain and sustain programs and infrastructure. Two public hearings have been scheduled, and your workshops will be structured around major policy issues. The schedule follows this letter.

We look forward to assisting City Council during the process of achieving a budget that strikes an acceptable balance between taxes and services.

With Pride in Our City,



James K. Spore  
City Manager

## **SCHEDULE OF WORKSHOPS AND PUBLIC HEARINGS**

<b>Date/Time</b>	<b>Event</b>	<b>Location</b>
Tuesday, March 28 <sup>th</sup> @ 6:00 PM	Presentation of the Proposed FY 2006-07 and FY 2007-08 Biennial Resource Management Plan	Council Chambers
Tuesday, April 11 <sup>th</sup> @ 1:30 PM	Council Workshop	Council Conference Room
Tuesday, April 18 <sup>th</sup> @ 3:00 PM	Council Workshop	Council Conference Room
Thursday, April 20 <sup>th</sup> @ 3:00 PM	Council Workshop	Convention Center
Thursday, April 20 <sup>th</sup> @ 6:30 PM	Public Hearing	Bayside High School
Tuesday, April 25 <sup>th</sup> @ 2:00 PM	Council Workshop	Council Conference Room
Tuesday, April 25 <sup>th</sup> @ 6:00 PM	Public Hearing	Council Chambers
Wednesday, May 3 <sup>rd</sup> @ 3:00 PM	Reconciliation Workshop	Council Conference Room
Tuesday, May 9 <sup>th</sup> @ 1:30 PM	Adoption of the FY 2006-07 and Approval of FY 2007-08 Biennial Resource Management Plan	Council Chambers

## **BASE AND ABOVE-BASE EXPENDITURES**

The following table illustrates the base and above-the-base expenditures for the Adopted Biennial Operating Budget. The base appropriations includes all sources of revenue, but limits real estate tax revenue to the FY 2005-06 estimate plus new growth. The base appropriations amount equates to a real estate tax rate of 85.82 cents in FY 2006-07 and reduces to 75.58 cents in FY 2007-08 using the formula prescribed by ordinance. The amounts listed in the above-the-base category shows the additional appropriations needed to maintain commitments that could not be absorbed at the base real estate tax rate. These costs include BRAC commitments, employee compensation increases, staffing needs and operating expenses for CIP projects, dedicated funding increases and Council initiatives. As required by the ordinance this list is shown in priority order with the highest priority listed first. In determining the priority we used the following criteria: the community's need to maintain Oceana made BRAC the logical first choice; second was the need to staff new facilities coming on line; sustaining current services and policies came next; the fourth criteria was the need to adequately compensate existing employees, and finally new programs or services not funded by dedicated revenues. In total, the needs requested in the Adopted Biennial Budget equate to a new real estate tax rate of 99 cents, a reduction of 3.39 cents in Year 1 and maintaining a level rate in Year 2.

It is important to note that the above-base expenditures are not a comprehensive list of cost increases or even new programs. For example, within the base amount, the City and Schools absorbed:

- Significant increases in fuel and utilities necessary to maintain current services and facilities
- Additional public safety overtime
- About one-third of the increase for tax relief for the elderly
- Enhancements to the school bus transportation program
- Increased contractual obligations, such as SPSA and the jail's food and medical contracts
- Costs to reduce class sizes for 4<sup>th</sup> and 5<sup>th</sup> grades
- Increases in the City contribution to Hampton Roads Transit, mental health services and Comprehensive Services Act
- Expansion of Special Education services
- Almost \$5 million in merit and health insurance rollover costs in Year 2
- Increases in the Virginia Retirement System rates for retirement and life insurance

Just this short list equals almost 5 cent on the real estate tax rate in Year 1 and additional 2 cent on the tax rate in Year 2.

## Explanation of Base and Above-Base Expenditures

	FY 2005-06	FY 2006-07		FY 2006-07	FY 2007-08		FY 2007-08
	Adjusted Budget	City	Schools	Real Estate Tax Rate	City	Schools	Real Estate Tax Rate
<b>Base Appropriations:</b>							
Public Safety	\$ 172,311,470	\$ 181,783,981	\$ -		\$ 184,147,716	\$ -	
General Government	39,910,695	41,707,586	23,398,443		40,986,676	23,448,782	
Transportation	19,763,980	18,523,869	32,418,091		19,086,308	33,382,217	
Trash Collection	28,360,845	30,589,912	-		30,221,464	-	
Building Maintenance	26,084,604	23,317,671	87,144,323		24,610,501	91,160,066	
Arts, Recreation, Open Space	48,859,372	53,685,066	-		54,006,759	-	
Community Support	115,437,021	121,015,541	-		125,561,335	-	
Economic Vitality	54,067,494	59,746,274	-		58,403,282	-	
Financial Systems	17,997,825	18,348,154	-		18,395,699	-	
Learning	739,042,872	16,495,393	596,508,865		16,573,316	598,485,420	
School Athletics	-	-	4,346,048		-	4,243,978	
Debt Service	121,422,484	83,919,969	40,282,967		94,202,509	41,979,229	
Infrastructure Maintenance	101,841,084	108,242,849	-		107,509,690	-	
School Food Services	-	-	24,797,746		-	25,037,539	
City Manager Adjustment	-	-	(7,116,408)		-	(8,207,973)	
Outstanding Encumbrances	-	-	-		-	-	
Reserve for Contingencies	19,243,239	20,706,425	-		31,687,661	-	
Council Adjustments							
Patriotic Festival		400,000	-		400,000	-	
<b>Total Base Funding</b>	<b>\$ 1,504,342,985</b>	<b>\$ 778,482,690</b>	<b>\$ 801,780,075</b>		<b>\$ 805,792,916</b>	<b>\$ 809,529,258</b>	
		Base Real Estate Tax Rate		<b>\$ 0.8582</b>			<b>\$ 0.7558</b>
<b>Real Estate Tax Revenue - Above the Base:</b>							
BRAC	-	7,500,000	-	0.0167	7,500,000	-	0.0147
Existing Commitments							
Increase in Tax Relief for the Elderly	-	1,278,096	-	0.0028	1,278,096	-	0.0025
Agriculture Reserve Program	-	309,070	-	0.0007	857,198	-	0.0017
Recreation Center Dedicated	-	2,433,301	-	0.0054	4,686,716	-	0.0092
Outdoor Initiative Dedicated Funding	-	(368,110)	-	(0.0008)	(63,595)	-	(0.0001)
Military Liaison	-	172,000	-	0.0004	175,440	-	0.0003
Compensation							
Health Insurance	-	1,936,365	-	0.0043	4,950,066	-	0.0097
Salary Compression							
Public Safety	-	4,300,000	-	0.0096	8,600,000	-	0.0168
General Employees	-	970,000	-	0.0022	1,600,000	-	0.0031
School Compensation	-	-	30,688,246	0.0683	-	34,941,217	0.0684
Merit Increase	-	8,854,841	-	0.0197	18,113,182	-	0.0355
Market Adjustment	-	-	-	-	8,000,000	-	0.0157
New Facility Openings							
Theater Operations	-	470,000	-	0.0010	936,382	-	0.0018
Convention Center Phase 1B- Staff	-	68,375	-	0.0002	273,489	-	0.0005
Aquarium Renovation - Staff	-	-	-	-	118,476	-	0.0002
Lynnhaven House Operations	-	100,000	-	0.0002	102,000	-	0.0002
Prenatal Care for Indigent Mothers	-	181,000	-	0.0004	160,938	-	0.0003
Restore Landscape Services	-	359,959	-	0.0008	367,158	-	0.0007
Existing School Programs	-	-	-	-	-	26,976,864	0.0528
Council Adjustments							
Full-time Staff for Human Rights Commission	-	29,000	-	-	29,870	-	-
Patriotic Festival	-	200,000	-	-	200,000	-	-
Full-time Museum Educator for Lynnhaven House	-	73,000	-	-	75,250	-	-
Increase net worth limit in Tax Relief for the Elderly	-	515,000	-	-	670,000	-	-
Reduction to Reserve for Contingencies	-	(117,000)	-	-	-	-	-
Reduced Costs for Public Safety Compression	-	(700,000)	-	-	(975,120)	-	-
<b>Subtotal Above the Base</b>	<b>\$ -</b>	<b>\$ 28,564,897</b>	<b>\$ 30,688,246</b>	<b>\$ 0.1318</b>	<b>\$ 57,655,546</b>	<b>\$ 61,918,081</b>	<b>\$ 0.2342</b>
<b>Total Proposed Budget</b>	<b>\$ 1,504,342,985</b>	<b>\$ 807,047,587</b>	<b>\$ 832,468,321</b>		<b>\$ 863,448,462</b>	<b>\$ 871,447,339</b>	
		Adopted Real Estate Tax Rate		<b>\$ 0.9900</b>			<b>\$ 0.9900</b>

Note: The Base Appropriations include all revenue sources and is not limited to Real Estate Tax Revenue

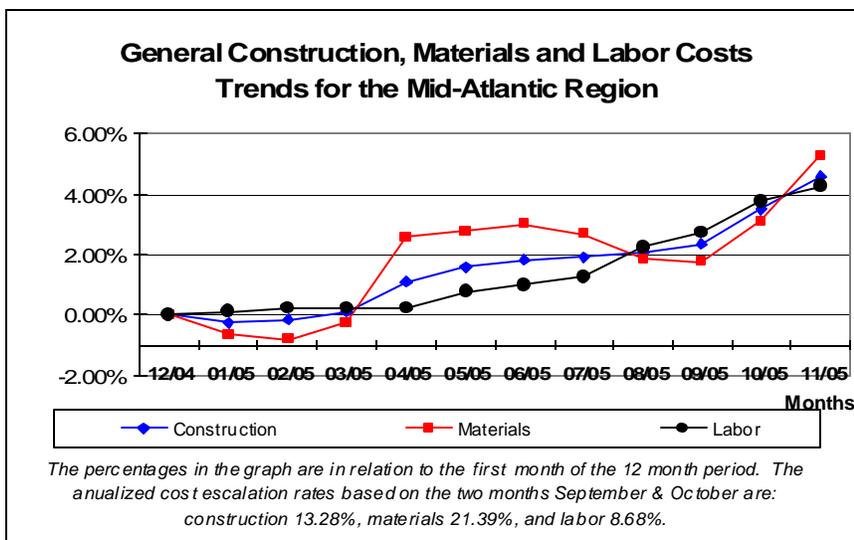
# CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program identifies the funding needed for construction of city facilities, acquisition of major pieces of equipment and computer systems, roadways, infrastructure maintenance, and economic development projects. This program covers the years from FY 2006-07 through FY 2011-12, although only the first year is actually appropriated. The remaining years are for planning purposes. As the table below illustrates, the resources allocated for City improvements are decreasing by 8.9%, Schools are increasing at .1%, and Utility programs are decreasing by 4.6%. Overall, the program increased by only 3.1% even with the inclusion of BRAC costs.

## **Capital Budget and Capital Improvement Program Overview Years 1-6 only**

	Approved FY 2005-06 FY 2010-11	Approved FY 2006-07 FY 2011-12	Percent Change
City General Improvements	\$ 528,818,129	\$ 481,754,302	-8.9%
Acquisition of Land Surrounding Oceana		90,000,000	
School Improvements	357,967,903	358,285,722	.1%
Utilities Improvements	202,786,609	193,476,723	- 4.6%
<b>Total:</b>	<b>\$ 1,089,572,641</b>	<b>\$ 1,123,516,747</b>	<b>3.1%</b>

As stated in the City Manager's transmittal letter, pay-as-you-go financing related to General Fund supported projects decreased to sustain reductions made by the City Council with the adoption of the FY 2005-06 and FY 2006-07 Resource Management Plan. The reductions are reflected in the funding identified above as City General Improvements. To respond to City Council's goal of improved transportation, the roadways section is generally not impacted by the reduction, but municipal buildings, coastal, and economic development projects experienced significant reductions. As an adjustment to the budget, City Council identified funding for Alternative "A" of the 19<sup>th</sup> Street Corridor project in the amount of \$10,200,000 in FY 2006-07 and \$2,500,000 in FY 2007-08.



Increased costs are attributable to the impact on the construction industry of hurricane recovery efforts as well as rising fuel costs. The graph to the left displays the increasing costs of construction, materials, and labor costs in the Mid-Atlantic region.

In certain cases, due to construction cost increases, projects are eliminated to cover the cost increases associated with similar projects. For example, capital project 3-041

Virginia Aquarium Elevated Pedestrian Crosswalk is eliminated from the six-year program to help offset increased construction costs for capital projects 3-292 Virginia Aquarium Animal Care Annex and 3-322 Virginia Aquarium Original Exhibit Gallery Renovation. Two fire and rescue stations, capital projects 3-244 Chesapeake Beach and 3-248 Blackwater, are eliminated to provide additional funding for two other fire and rescue stations, capital projects 3-107 First Landing and 3-021 Thalia.

Other notable projects are eliminated as well, including 3-344, Police Fourth Precinct – Replacement, 3-369 Leroy Drive Master Plan and Facility Replacements, 3-418 Beach Maintenance Facility, 8-002 Beach Profile Monitoring Program, 8-004 Various Minor Dredging Projects, 9-034 Neighborhood Revitalization Strategy Program, 9-035 Town Center Pedestrian Bridge, and 9-076 Economic Development Initiatives. All of these projects are now shown as requested but not funded projects. Several computer related projects that were supported by General Fund dollars are also eliminated.

In specific instances, new capital projects are established where specific funding could be identified. Funding has been accumulating in the Information Technology Internal Service Fund – Fund Balance to address specific, immediate computer software and infrastructure needs. Generally, these projects are limited in scope and funding needs, but they will help increase efficiency. The Sandbridge Special Service District and Sandbridge Tax Increment Financing District have sufficient funding to provide an additional \$7.5 million over the six years for capital project 8-282 Sandbridge Beach Restoration and \$1.3 million for a new capital project 8-023 Sandbridge Beach Access Improvement and Sand Management. Sand is expected to be restored at Sandbridge during FY 2006-07.

One very notable capital project is 9-060 Oceana and Interfacility Traffic Area Conformity and Acquisition Program. This project includes \$15,000,000 a year with the State funding \$7.5 million of that each year. This funding is in addition to \$3.7 million that City Council appropriated on March 7<sup>th</sup> from the Agricultural Reserve Program's Fund Balance to provide funding for property acquisition in the Interfacility Traffic Area.

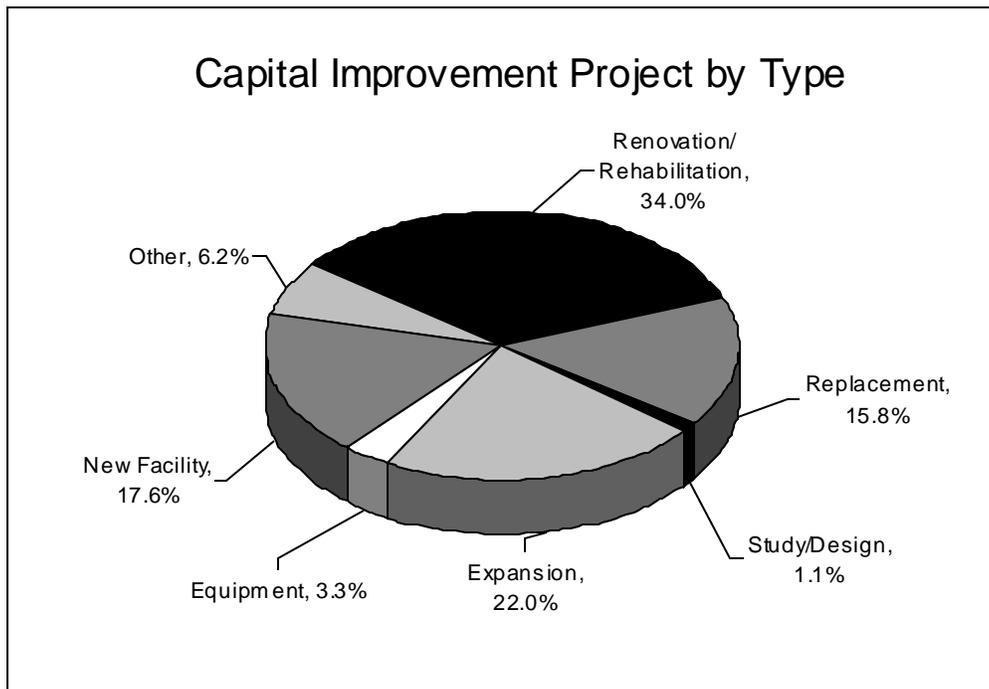
The School's program generally remains constant from a funding standpoint, but construction cost increases impact this program as well. Increases in construction costs have necessitated a delay or change in scope of several projects. Funding for some projects previously funded in the six years of the CIP has been shifted to other projects. The modernization of Bayside Middle, Fairfield Elementary, Green Run Elementary, and Plaza Middle Schools are reflected in this CIP as Requested but Not Funded. The projects to modernize College Park Elementary and the Old Donation Center have been delayed three years, and the modernization of Thoroughgood Elementary has been delayed one year. It was also necessary to not fund the School Board's request for additional funding for the replacement of one of the high schools. This \$99.5 million project had funding requested beginning in the fifth year of the Capital Improvement Program.

In some cases where the cost to modernize a facility approaches the cost to replace the facility, the decision has been made to tear down the existing school and rebuild. The FY 2006-07 CIP includes funding for the replacement of four schools that were previously scheduled for modernization. Kempsville Middle is now scheduled for replacement, but the project has been delayed five years. North Landing Middle will also be replaced, but the funding has been pushed back two years. Independence Middle is scheduled for replacement, with design beginning in 2010. Conversely, funding for the replacement of Princess Anne Middle has been accelerated by two years.

Although Utilities' projects show a reduction of 4.6%, the water, sewer, and storm water sections all benefited from rate increases that were approved by City Council in May of 2005. The reduction is due to a lower amount of funding being proposed for water and sewer projects in FY 2011-12 (the sixth year of the proposed program) as compared to the first year of the previous program (FY 2005-06) because

the rate increases provided funding in the early years of the Capital Improvement Program to address immediate capital needs.

Another notable aspect of the Capital Improvement Program is the change in focus of capital projects as the City has grown older. In the 1970's and 1980's, the focus of the Capital Improvement Program centered on building new capital projects to respond to the rapidly growing population. The population is growing at a much slower rate, and it is time to replace and renovate many of the projects built during the high growth years. As shown in the following graph, approximately 50% of the capital projects identified in the six-year plan are related to replacement, rehabilitation, and renovation, while only 40% of the capital projects are new and/or expansion needs. It is anticipated that future capital improvement programs will continue to shift the focus towards maintaining existing infrastructure.



The charts and tables on the following pages detail the sources of revenue and the business areas where funding is programmed. The proportion of State revenue is increasing as a result of the State's commitment to acquiring land surrounding Oceana as well as the funding related to the City's participation in the First Cities' program. Quality Education and Lifelong Learning reflects the City's priority on education, while the Quality Physical Environment section reflects the emphasis on roadways.

## **CAPITAL IMPROVEMENT PROGRAM RESOURCE SUMMARY**

### Sources of Funding

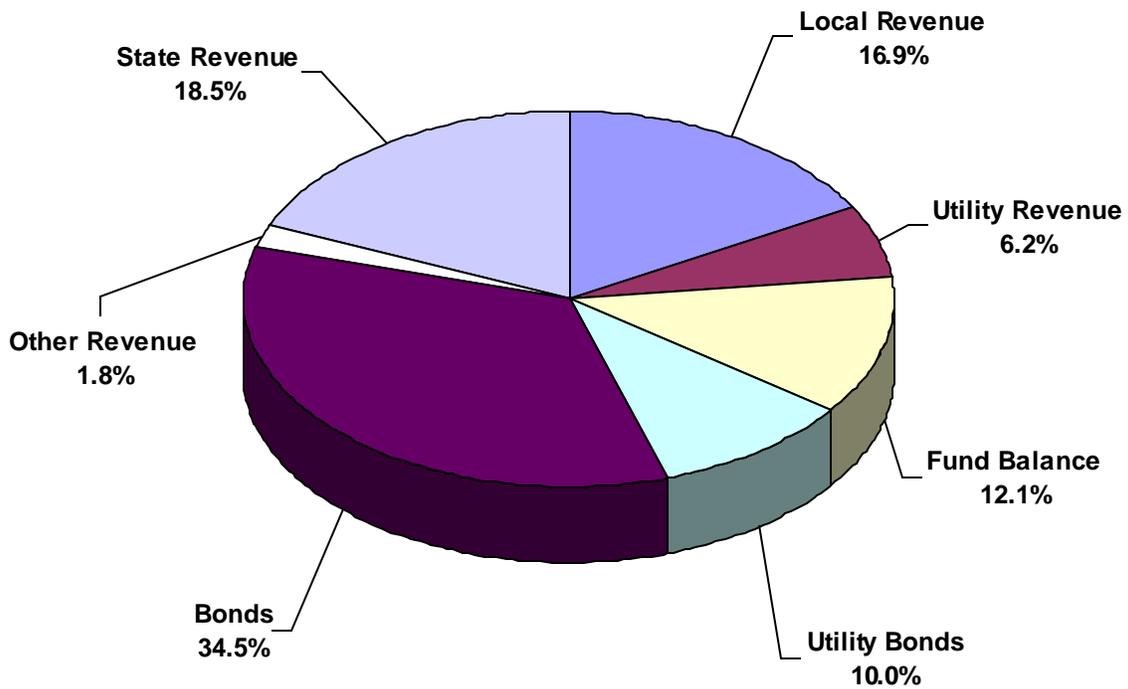
<b>Type of Financing</b>	<b>Total Resources</b>	<b>Appropriations to Date</b>	<b>Capital Budget</b>	
			<b>Year 1 FY 2006-07</b>	<b>Years 2 thru 6</b>
Local Revenue	\$ 376,836,193	\$ 138,425,739	\$ 36,216,934	\$ 202,193,520
State Revenue	444,886,770	220,173,695	39,751,357	184,961,718
Federal Revenue	10,577,852	10,577,852	-	-
Other Revenue	63,644,967	48,460,738	3,977,779	11,206,450
Bonds/Lease Purchases	904,666,193	522,556,669	74,089,276	308,020,248
Utility Bonds	169,145,996	62,874,531	21,460,465	84,811,000
Fund Balance	258,947,416	185,458,787	25,829,024	47,659,605
Utility Fund Revenues	145,042,358	61,702,987	13,245,149	70,094,222
<b>Total Financing - All Sources</b>	<b>\$ 2,373,747,745</b>	<b>\$ 1,250,230,998</b>	<b>\$ 214,569,984</b>	<b>\$ 908,946,763</b>

### Summary of Project Estimates

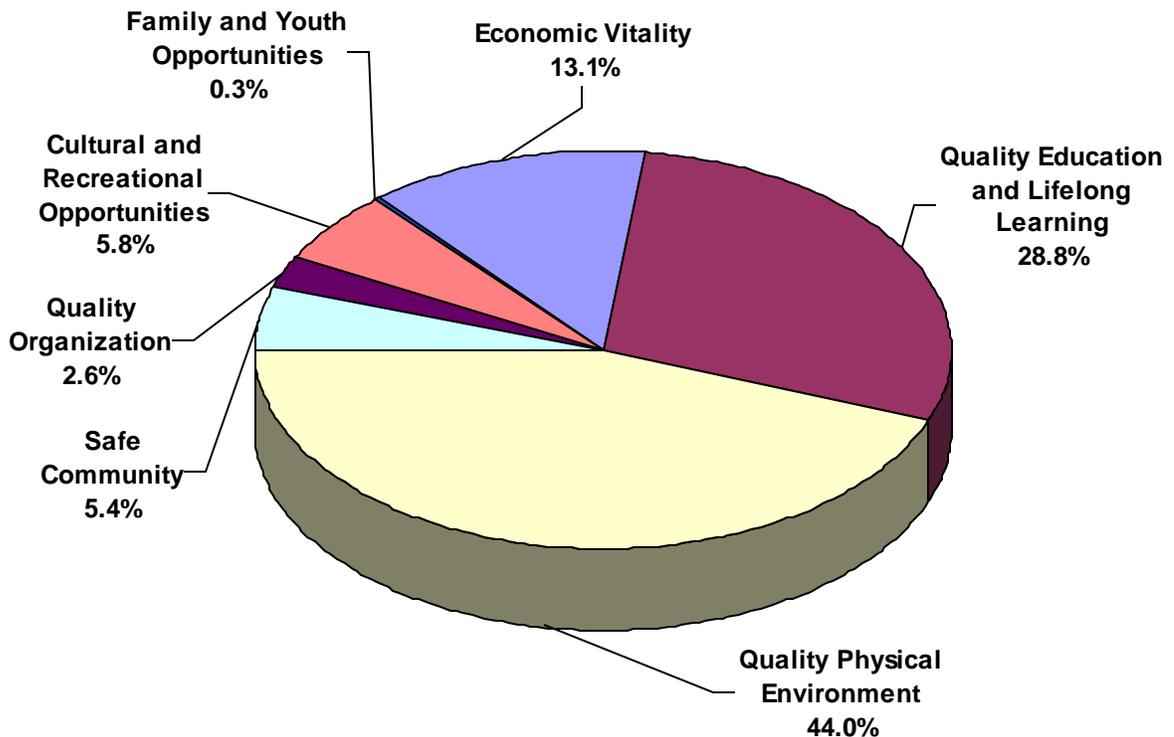
<b>Project Class</b>	<b>Estimated Total Cost</b>	<b>Appropriations to Date</b>	<b>Capital Budget</b>	
			<b>Year 1 FY 2006-07</b>	<b>Years 2 thru 6</b>
Economic Vitality	\$ 361,867,943	\$ 245,607,214	\$ 28,022,224	\$ 88,238,505
Safe Community	154,265,832	97,576,921	11,482,139	45,206,772
Quality Physical Environment	1,014,108,923	511,564,615	94,521,499	408,022,809
Cultural and Recreational Opportunities	209,156,686	133,896,791	12,331,849	62,928,046
Quality Education and Lifelong Learning	599,248,051	233,652,796	61,997,273	303,597,982
Family and Youth Opportunities	3,240,500	2,540,500	700,000	-
Quality Organization	31,859,810	25,392,161	5,515,000	952,649
<b>Total Capital Improvement Program</b>	<b>\$ 2,373,747,745</b>	<b>\$ 1,250,230,998</b>	<b>\$ 214,569,984</b>	<b>\$ 908,946,763</b>

# **CAPITAL BUDGET DISTRIBUTION FOR FY 2006-07**

## **Where the funding comes from . . .**



## **. . . and where it goes**



## OPERATING BUDGET

The table below illustrates the growth in the Operating Budget in comparison to the FY 2005-06 Adjusted Budget:

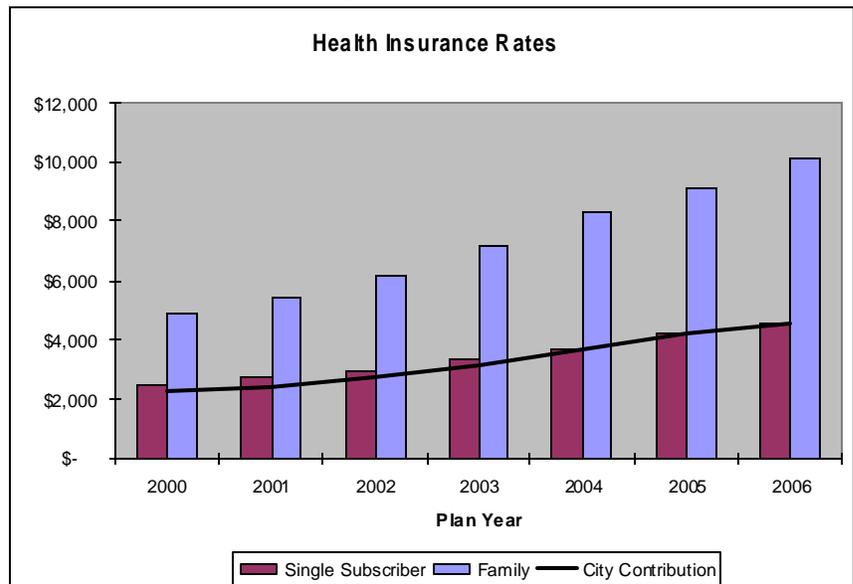
	<b>FY 2005-06 Adjusted Budget</b>	<b>FY 2006-07 Adopted Budget</b>	<b>% Change FY 06 – FY 07</b>	<b>FY 2007-08 Approved Budget</b>	<b>% Change FY 07 - FY 08</b>
City Operations	\$ 623,706,201	\$ 675,995,699	8.4%	\$ 721,159,869	6.7%
BRAC Compliance	-	7,500,000	-	7,500,000	-
School Operations	705,740,599	779,249,046	10.4%	816,531,802	4.8%
Capital Projects	53,473,701	52,568,227	-1.7%	52,986,357	0.8%
Debt Service	121,422,484	124,202,936	2.3%	136,717,773	10.1%
<b>Total</b>	<b>\$ 1,504,342,985</b>	<b>\$ 1,639,515,908</b>	<b>9.0%</b>	<b>\$ 1,734,895,801</b>	<b>5.8%</b>

As reflected in the above table, the Adopted Operating Budget grows by 9.0% from FY 2005-06 to FY 2006-07 with the Schools' portion of the budget growing at a rate of 10.4%. The Approved Operating Budget is only expected to grow by 5.8% from FY 2006-07 to FY 2007-08. City Council additions to the FY 2006-07 Operating Budget include: increasing the net worth limit in the Tax Relief for the Elderly and Disabled Program (\$515,000); providing full-time support to the Human Rights Commission (\$29,000); funding for the Patriotic Festival (\$200,000); and providing a full-time Museum Educator for Lynnhaven House Operations (\$73,000). In FY 2007-08, comparable amounts were accounted for and debt service was increased for Alternative "A" of the 19<sup>th</sup> Street Corridor project.

City Operations are growing at 8.4% with several primary drivers associated with that increase.

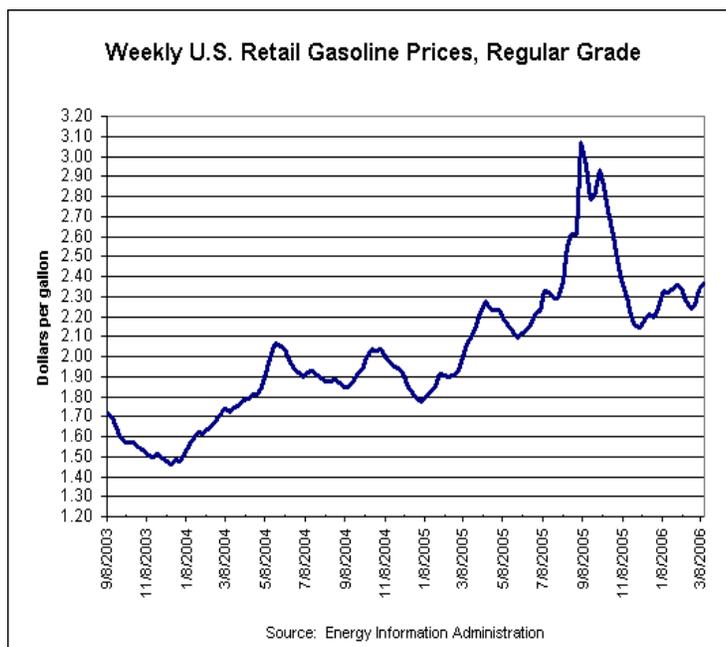
First, compensation from FY 2005-06 to FY 2006-07 is anticipated to increase by approximately \$19.9 million. This amount includes the rollover costs of annualizing merit and health insurance increases provided in FY 2005-06. The City's contribution to the Virginia Retirement System, including life insurance, is increasing by 3.2%, and health insurance costs are expected to increase by \$53 per month per subscriber on January 1, 2007. This biennial budget also plans for a second increase of \$48 per month per subscriber on January 1, 2008.

The graph on the right shows that the City's contribution since 2004 has fully covered the increases in single subscriber costs and has maintained a roughly 45%



coverage of the family rates over the seven years. However, health insurance costs continue to follow national trends and are expected to continue to rise.

The Adopted Operating Budget also includes funding for a 1.5% structural increase to all pay ranges effective on July 1, 2006 and a 3% merit provided on eligible employee's merit dates. This change requires an increase in funding as compared to FY 2005-06 when employees received a 4.5% increase on their anniversary date. Beginning on July 1, 2006, all employees will receive a 1.5% general increase on July 1 with the remaining 3% on their anniversary date. From a funding standpoint, this will reduce the rollover amount going into FY 2007-08, but it increases the amount of funding required in FY 2006-07. In addition, City Council adopted a public safety pay plan in February 2006, which requires an additional \$3.6 million to be included in both years of the Adopted Operating Budget. Included in the FY 2007-08 Operating Budget is funding related to the potential findings of a market salary survey.



The second issue impacting City Operations is the increasing cost of fuel and energy anticipated in FY 2006-07. An additional \$3.3 million is budgeted with a \$1 million reserve for any future spikes in fuel and energy prices. It should be noted that Public Works and the Convention and Visitors Bureau are receiving additional funding beyond the amounts identified above for higher than originally estimated costs for energy at the new Convention Center, and in Public Works' budget, for lighting our streets and higher energy costs related to heating and cooling our buildings. According to the Energy Information Administration, during 2006 regular gasoline prices are projected to average \$2.42 per gallon, up 15 cents from the previous year, and \$2.36 per gallon in 2007. Heating fuel demands have been down this winter due to the relatively warm

overall weather conditions. However, due to higher energy prices, the average increases in expenditures this winter over last winter by fuel are: natural gas 17%, heating oil 16%, propane 12% and electricity 47%.

The third issue impacting City Operations is the increased costs of opening facilities. Some of these costs were included when City Council approved the FY 2006-07 Operating Budget last May. These costs include the opening of the Biznet facility for Virginia Beach adult citizens with profound mental retardation and other co-occurring disabilities (costs have been moved to FY 2007-08), the Sandler Center for the Performing Arts, and for phase 1B of the new Convention Center.

The second year of the Adopted Operating Budget for City Operations only includes a 6.7% increase.

The Capital Projects category reflects reduced pay-as-you-go funding appropriated to fund current capital projects. An additional commitment of \$7.5 million of pay-as-you-go financing has been programmed for compliance with the BRAC findings. The \$7.5 million is appropriated for funding capital project 9-060 Oceana and Interfacility Traffic Area Conformity and Acquisition Program.

Finally, Debt Service is only increasing by 2.3% in FY 2006-07 due to a bond sale that occurred in September 2005, but the next bond sale is not anticipated until the spring of 2007, which will increase debt service by 10.1% in the FY 2007-08 Operating Budget .

The School Operations' budget is increasing at 10.4%, which reflects the City's commitment to education. The Schools' portion of the Operating Budget is also expected to receive significant increases in State funding.

Based on the School Board's Adopted Budget approved on March 7, 2006, the Virginia Beach School System is receiving an additional \$68.2 million in funding over the current year's adjusted amount:

	<b>Adjusted FY 2005- 06</b>	<b>FY 2006-07</b>	<b>FY 2007-08</b>
<b>School Operating Fund</b>			
Instruction	\$ 477,897,715	\$ 538,700,909	\$ 568,836,285
Admin, Attendance, Health	20,913,234	22,984,779	24,003,243
Operations and Maintenance	77,542,313	89,415,253	95,742,004
Pupil Transportation	26,058,974	33,553,556	35,797,022
City Manager Adjustments:			
Real Estate Tax Reduction		-7,893,258	-8,984,823
BRAC Reduction		-3,884,250	-3,884,250
Decreased Transfer to CIP		4,661,100	4,661,100
<b>Subtotal Operating Fund</b>	<b>\$ 602,412,236</b>	<b>\$ 677,538,089</b>	<b>\$ 716,170,581</b>
<b>Other School Funding</b>			
Cafeteria Fund	\$ 22,754,582	\$ 25,411,511	\$ 26,275,901
Instructional Technology	6,636,000	6,636,000	6,636,000
Vending Operations	1,751,000	1,365,000	1,365,000
School Textbooks	9,087,856	7,477,925	7,410,643
School Athletics	4,277,656	4,499,489	4,553,568
Communications Tower	1,250,000	400,000	500,000
Grants	57,571,269	55,921,031	53,620,109
<b>Subtotal Other Funds</b>	<b>\$ 103,328,363</b>	<b>\$ 101,710,956</b>	<b>\$ 100,361,221</b>
Capital Improvement Program	\$ 17,597,408	\$ 12,936,308	\$ 12,936,308
Debt Service	40,912,433	40,282,967	41,979,229
<b>Total School Funding</b>	<b>\$ 764,250,440</b>	<b>\$ 832,468,320</b>	<b>\$ 871,447,339</b>

Of this \$68.2 million, \$37.9 million is additional funding provided by the City through the Revenue Sharing Formula. This local funding is split between three uses: pay-as-you-go financing to the CIP, debt service costs for school capital projects, and funding to the School Operating Fund. For FY 2006-07, the pay-as-you-go financing to the CIP from the operating budget decreases by \$4.7 million, offset by a transfer from the City's General Fund balance to the CIP. The local contribution to the School Operating Fund increases by \$43.2 million and the debt service financing is reduced by \$0.6 million. For FY 2007-08, the City/Schools Revenue Sharing Formula provides \$37.7 million more than in FY 2006-07. This is made up of an increase to the School Operating Fund in the amount of \$36 million and an increase of \$1.7 million to the debt service financing.

In addition to the increased City funding, the School System will receive an additional \$21.7 million in State funds, \$9.9 million in State Share Sales Tax, and increased Federal funding in the amount of \$0.4 million, in FY 2006-07. Grant funding is decreased by \$1.6 million.

The budget for Schools, approved by the School Board on March 7, 2006, was within the initial City/School Revenue Sharing Formula at a full \$1.0239 real estate tax rate. The Adopted budget for the City shows an \$11.8 million reduction in School revenue, due to a decrease in the real estate tax rate by 3.39 cents, and the implementation of BRAC compliance funding before the application of the City/School Funding Formula. A decrease in the pay-as-you-go financing for the CIP results in increased funds available for the School Operating fund. The loss of funds to the CIP is replaced by a General Fund Balance contribution within the School's CIP.

On May 23, 2006, the School Board adopted a Budget Resolution to reconcile the funding provided by City Council on May 9, 2006, and reconcile expenditure appropriations. These changes are not reflected in the final adopted budget but City Council is expected to act on the resolution before July 1, 2006.

Another way to review the Total City Biennial Budget is by expenditure category. As would be expected in a service driven organization, personnel related costs are a large proportion of the Operating Budget. Education expenditures are the largest funding category in the Operating Budget, and it should be noted that personnel costs are also imbedded in this category. Although Reserves appear to be growing at a high rate, compensation reserves make up \$17.7 million of the reserve in FY 2006-07 and \$45.8 million of the reserve in FY 2007-08 (increased amount due to rollover compensation amounts from FY 2006-07).

### **Fiscal Years 2006-07 and 2007-08 Total Operating Budget Expenditures by Category**

Category	FY 2004-05 Actual	FY 2005-06 Adjusted Budget	FY 2006-07 Operating Budget	% Change Over FY 06	FY 2007-08 Operating Budget	% Change Over FY 07
Personnel *	\$ 334,595,484	\$ 367,467,047	\$ 388,147,651	5.6%	\$ 391,642,631	0.9%
Operations	254,502,088	263,754,459	290,767,281	10.2%	299,228,342	2.8%
Capital	7,414,019	9,167,749	8,262,055	-9.9%	6,399,191	-22.5%
Debt Service	68,388,595	80,510,051	83,919,969	2.3%	94,738,544	10.0%
Education	703,764,524	764,250,440	832,468,321	10.4%	871,447,339	4.8%
Reserves	-	19,193,239	35,950,631	86.8%	71,439,754	98.4%
<b>Total</b>	<b>\$ 1,368,664,710</b>	<b>\$ 1,504,342,985</b>	<b>\$ 1,639,515,908</b>	<b>9.0%</b>	<b>\$ 1,734,895,801</b>	<b>5.8%</b>

Note: Reserve for Contingencies includes reserves dedicated for the payment of future debt service and other long-term commitments regarding the E-911 emergency system, sand replenishment at Sandbridge, the Agriculture Reserve Program, Town Center infrastructure, open space, and transition area infrastructure. These reserves for future commitment total \$10,910,475 in FY 2006-07 and \$16,169,234 in FY 2007-08. Debt service and pay-as-you-go funding related to Schools is included in the Education category.

\* Amounts for Personnel include costs for full-time and part-time personnel, fringe benefits, various Council approved salary supplements, and contracted manpower. Not included in this amount are the reserves set aside in reserve for contingencies for merit increases and compression adjustments.

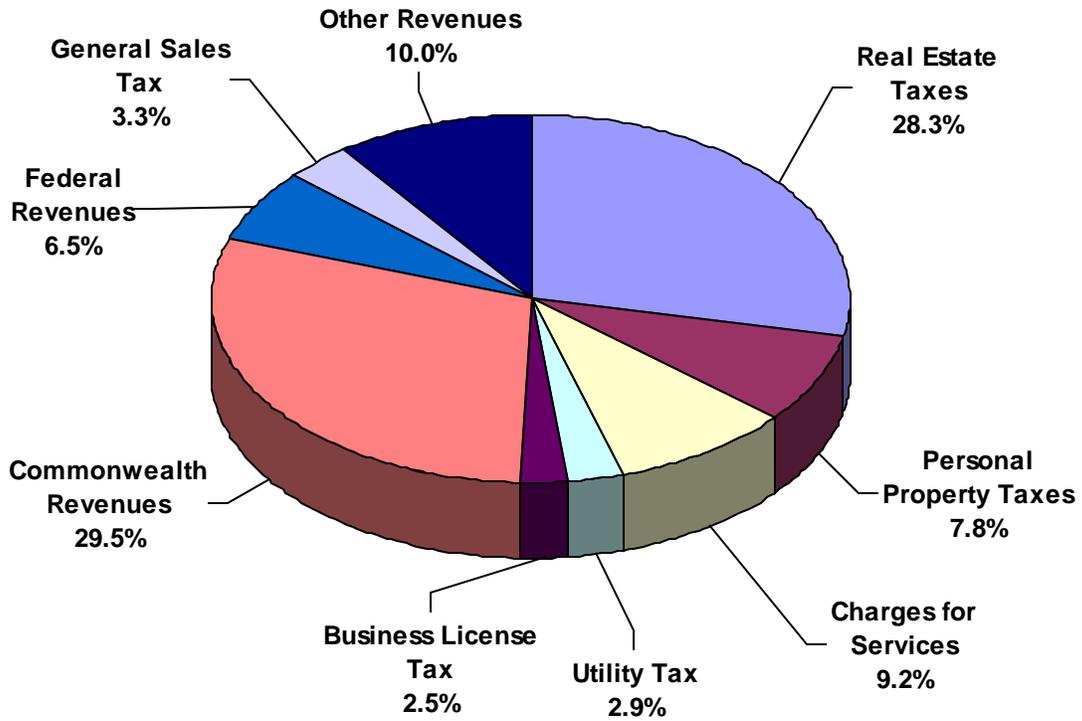
The table on the next page provides the traditional breakdown of the budget by departments. The pie charts on page 25 illustrate where the revenue to support the budget comes from and the major business areas where it is expended.

## Expenditure Summary

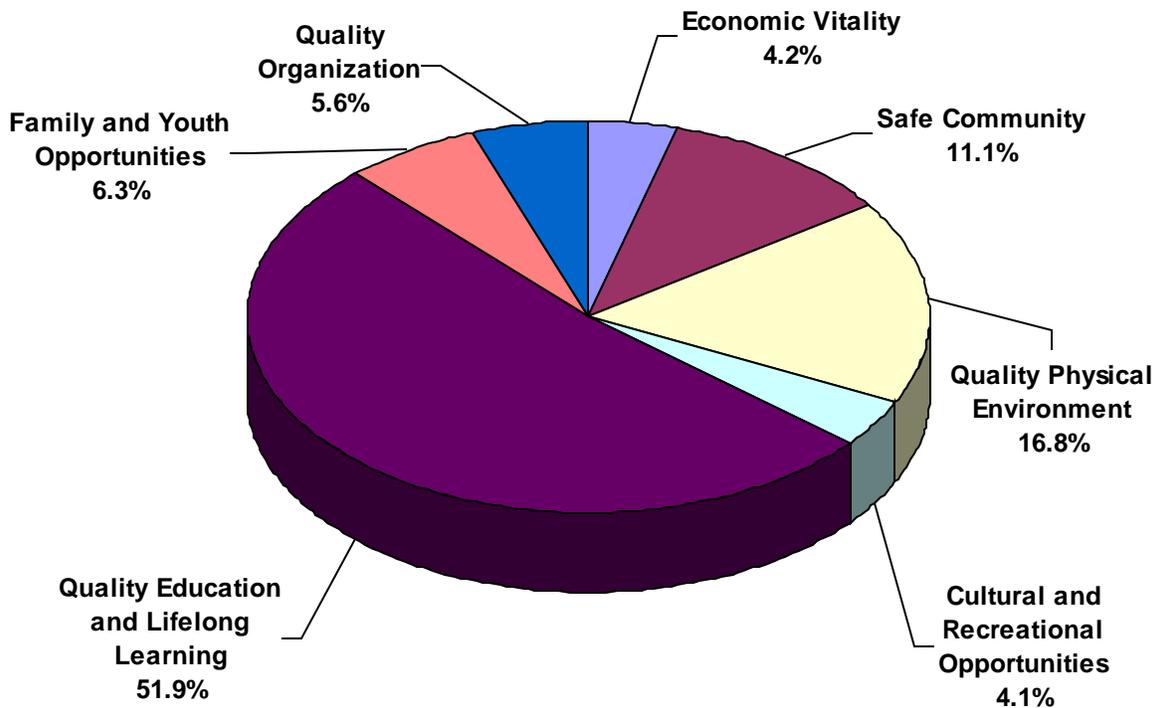
<b>Department Name</b>	<b>FY 2004-05 Actuals</b>	<b>FY 2005-06 Adjusted Budget</b>	<b>FY 2006-07 Total Adopted</b>	<b>% of Total</b>	<b>FY 2007-08 Total Approved</b>	<b>% of Total</b>
Agriculture	965,250	1,126,204	1,105,434	0.07	1,111,984	0.06
Audit Services	458,129	476,764	498,130	0.03	498,526	0.03
Capital Projects	57,351,368	53,473,701	60,068,227	3.66	60,486,357	3.49
City Manager	3,323,557	3,477,931	3,605,189	0.22	3,618,477	0.21
City Real Estate Assessor	2,425,311	2,649,974	2,688,347	0.16	2,693,496	0.16
City Treasurer	4,453,375	4,672,353	4,891,375	0.30	4,906,867	0.28
Commissioner of the Revenue	3,310,370	3,923,396	3,736,493	0.23	3,742,226	0.22
Commonwealth's Attorney	5,940,077	6,335,593	6,679,081	0.41	6,683,088	0.39
Communications and Information Technology	9,096,353	10,483,785	30,330,467	1.85	30,442,471	1.75
Communications and Information Technology - FY 05 and FY 06	12,992,739	15,330,585	0	0.00	0	0.00
Community Corrections	452,931	0	0	0.00	0	0.00
Convention and Visitor Bureau	19,222,208	22,117,360	24,090,901	1.47	24,812,142	1.43
Courts and Courts' Support	4,799,760	6,482,210	6,520,110	0.40	6,542,743	0.38
Debt Service	109,692,247	121,422,484	124,202,936	7.58	136,717,773	7.88
Economic Development	2,218,558	2,223,478	2,840,077	0.17	3,197,181	0.18
Education	644,863,464	705,740,599	779,249,046	47.53	816,531,802	47.07
Emergency Medical Services	5,759,312	6,621,857	6,598,363	0.40	6,659,587	0.38
FY 2005 Outstanding Encumbrances	8,233,217	0	0	0.00	0	0.00
Finance	4,121,564	4,621,471	4,791,062	0.29	4,805,035	0.28
Fire	34,717,752	37,553,655	39,303,087	2.40	39,439,521	2.27
General Registrar	1,004,117	1,282,693	1,213,808	0.08	1,450,472	0.08
Health	2,835,391	2,929,710	3,272,500	0.20	3,294,300	0.19
Housing and Neighborhood Preservation	17,898,263	19,561,236	18,417,165	1.12	18,621,276	1.07
Human Resources	3,534,199	4,195,610	4,490,424	0.27	4,489,969	0.26
Human Services	80,379,068	90,492,549	96,753,000	5.90	101,041,667	5.82
Law	3,070,499	3,522,388	3,647,015	0.22	3,650,765	0.21
Legislative	984,091	1,094,580	1,169,057	0.07	1,171,893	0.07
Library	14,496,363	15,704,865	16,495,393	1.01	16,573,316	0.96
Management Services	2,975,534	3,516,453	3,739,484	0.23	3,819,970	0.22
Museums and Cultural Arts	7,159,657	8,001,308	9,405,337	0.57	10,157,176	0.59
Non-Departmental	10,693,221	18,869,633	20,861,131	1.27	23,504,396	1.35
Parks and Recreation	34,513,517	37,340,113	39,206,672	2.39	40,099,073	2.31
Planning and Community Development	10,985,529	12,213,495	12,459,825	0.76	12,539,359	0.72
Police	70,746,514	74,499,647	79,084,177	4.82	79,196,025	4.57
Public Utilities	62,388,210	65,019,988	67,414,416	4.11	65,788,303	3.79
Public Works	83,728,599	88,412,012	93,762,079	5.72	93,914,616	5.41
Reserve for Contingencies	0	8,141,753	25,040,156	1.53	55,270,520	3.19
Reserve for Future Commitments		11,051,486	10,910,475	0.67	16,169,234	0.93
Sheriff and Corrections	26,874,396	29,760,066	30,975,469	1.89	31,254,195	1.80
<b>TOTAL EXPENDITURES</b>	<b>1,368,664,710</b>	<b>1,504,342,985</b>	<b>1,639,515,908</b>	<b>100.00</b>	<b>1,734,895,801</b>	<b>100.00</b>

# OPERATING BUDGET DISTRIBUTION FOR FY 2006-07

## Where the funding comes from . . .



## . . . and where it goes



# REVENUE

## Revenue Source Summary

	FY 2004-05	FY 2005-06	FY 2006-07	%	FY 2007-08	%
	Actuals	Adjusted	Total Adopted	Increase	Total Approved	Increase
<u>Base Revenues:</u>						
Non-Local Revenues:						
State	\$ 417,822,338	\$ 445,028,880	\$ 483,053,667	8.5%	\$ 488,346,430	1.1%
Federal	95,325,472	109,801,688	106,881,122	-2.7%	107,956,429	1.0%
From the Use of Money and Property	13,823,377	9,176,288	13,238,896	44.3%	15,044,921	13.6%
Non-Revenue Receipts	19,471,556	4,007,750	3,788,043	-5.5%	3,791,723	0.1%
<b>Total Non-Local Revenues</b>	<b>\$ 546,442,743</b>	<b>\$ 568,014,606</b>	<b>\$ 606,961,728</b>	<b>6.9%</b>	<b>\$ 615,139,503</b>	<b>1.3%</b>
Non-Tax Revenues:						
Permits, Privilege Fees, and Regulatory Licenses	\$ 5,100,219	\$ 5,839,293	\$ 5,198,181	-11.0%	\$ 5,215,634	0.3%
Fines and Forfeitures	5,663,288	5,092,414	5,608,205	10.1%	5,718,855	2.0%
Charges for Services	134,875,727	143,584,120	151,018,253	5.2%	156,945,764	3.9%
Specific Fund Reserves	19,817,639	15,889,853	13,317,952	-16.2%	14,693,394	10.3%
Miscellaneous Revenue	16,067,526	16,337,767	16,213,561	-0.8%	16,401,389	1.2%
<b>Total Non-Tax Revenues</b>	<b>\$ 181,524,399</b>	<b>\$ 186,743,447</b>	<b>\$ 191,356,152</b>	<b>2.5%</b>	<b>\$ 198,975,036</b>	<b>4.0%</b>
Local Taxes:						
Real Estate	\$ 381,704,658	\$ 395,961,749	\$ 404,391,929	2.1%	\$ 409,305,730	1.2%
Personal Property	114,952,390	113,389,566	127,582,769	12.5%	134,325,608	5.3%
General Sales Tax	49,315,425	50,833,174	53,390,260	5.0%	55,045,358	3.1%
Utility Tax	47,105,890	50,375,660	47,214,659	-6.3%	47,638,512	0.9%
Business License	36,444,397	37,140,370	40,794,218	9.8%	43,037,900	5.5%
Automobile License	8,845,748	8,896,973	9,562,477	7.5%	9,831,471	2.8%
Cigarette Tax	11,747,980	11,203,160	10,476,120	-6.5%	10,088,503	-3.7%
Amusement Tax	4,595,065	4,596,930	4,673,180	1.7%	4,857,948	4.0%
Hotel Tax	19,175,967	20,026,688	21,697,915	8.3%	22,658,519	4.4%
Restaurant/M meal Tax	41,565,553	42,628,705	47,333,185	11.0%	49,651,829	4.9%
Other Local Taxes:						
Franchise Taxes (Cox Cable)	\$ 4,644,304	\$ 4,612,615	\$ 4,941,085	7.1%	\$ 5,039,906	2.0%
Bank Net Capital Taxes	1,427,672	1,404,137	1,677,672	19.5%	1,677,672	0.0%
City Tax on Deeds	10,663,918	8,053,776	7,737,846	-3.9%	7,537,846	-2.6%
City Tax on Wills	78,938	68,797	78,938	14.7%	78,938	0.0%
Transient Occupancy Tax-Sandbridge	511,562	392,632	392,632	0.0%	431,895	10.0%
<b>Total Local Taxes</b>	<b>\$ 732,779,467</b>	<b>\$ 749,584,932</b>	<b>\$ 781,944,885</b>	<b>4.3%</b>	<b>\$ 801,207,635</b>	<b>2.5%</b>
Subtotal Base Revenues	\$ 1,460,746,609	\$ 1,504,342,985	\$ 1,580,262,765	5.0%	\$ 1,615,322,174	2.2%
Remaining Real Estate Tax			59,253,143		119,573,627	
<b>Total Revenue</b>	<b>\$ 1,460,746,609</b>	<b>\$ 1,504,342,985</b>	<b>\$ 1,639,515,908</b>	<b>9.0%</b>	<b>\$ 1,734,895,801</b>	<b>5.8%</b>

Revenues show an overall growth of 9% in FY 2006-07 and 5.8% in FY 2007-08. In FY 2006-07, State Revenue represents the largest revenue source within the budget at 29.5%. Real Estate Taxes, adopted at 99 cents, represent the second largest revenue source at 28.3%.

Real Estate Tax revenue is projected to grow by 17.1%. The Virginia Beach City Council has been at the forefront of real estate tax rate reduction. The Adopted Operating Budget includes a real estate tax reduction of 3.39 cents, which will result in an overall real estate tax reduction of 23 cents since FY 2004-05. Over the three year period, the average effective total property appreciation (taking into consideration the tax rate reduction) is 9% overall and 10.3% for homeowners. As an example, a home valued at \$150,000 in FY 2004-05 would have increased to \$247,929 by FY 2006-07 (based on average residential assessment growth). If the tax rate would have remained unchanged, the home owner would have paid \$1,008 more dollars in real estate taxes over the three year period.

### Real Estate Taxes Paid by Homeowner

Fiscal Year	Residential Assessment Growth	Home Value	Taxes Paid @ \$1.22 Rate	Adopted Tax Rate	Taxes Paid @ Reduced Rate	Difference in Taxes Paid
		\$ 150,000	\$ 1,830		\$ 1,830	\$ -
FY 2004-05	11.15%	\$ 166,725	\$ 2,034	1.1964	\$ 1,995	\$ (39)
FY 2005-06	21.74%	\$ 202,971	\$ 2,476	1.0239	\$ 2,078	\$ (398)
FY 2006-07	22.15%	\$ 247,929	\$ 3,025	0.99	\$ 2,454	\$ (571)
<b>Total</b>						<b>\$ (1,008)</b>

Revenue from the Use of Money and Property is growing at the fastest rate (44.3%). The increase in this category is mainly a result of rising interest rates and cash balances (influenced by bond sales). Two other categories that will experience double-digit growth are Personal Property Taxes and Restaurant Taxes. Both of these revenues reflect the favorable local economic climate. State revenue is projected to grow by 8.5% in FY 2006-07 with Schools and Human Services receiving the majority of the additional funding to address service needs.

Four revenue categories are also showing decreases of 6% or higher. Specific Fund Reserves represents planned fund balance usage in dedicated funding streams like the Major Projects Special Revenue Fund. It fluctuates year to year depending on its planned usage. Permits, Privilege Fees, and Regulatory Licenses are decreasing by 11%. This category has fluctuated over the past five years, which is greatly influenced by construction activity. The Cigarette tax is also decreasing, which is a result of people refraining from smoking, and sales over the Internet. The Utility Tax is decreasing mainly as a result of the telecommunication portion of this revenue stream. Literature suggests that some people are canceling their land line service in favor of mobile service, while others are using Internet phone service (VOIP – Voice Over Internet Protocol). One major change in telecommunication related revenue that requires monitoring relates to anticipated changes at the State level. The State is proposing changes to Telecommunication and cable service related revenue that will require changes to the way these revenues are estimated and allocated within the budget when passed.

Several rates and fees were adopted in the FY 2006-07 Operating Budget. A \$1 increase in the Automobile License Fee for one year is included in the Adopted Operating Budget to pay for costs associated with the 400<sup>th</sup> anniversary of the first landing at Cape Henry and subsequent settlement of

Jamestown and for the Magna Carta exhibit. A \$3 to \$4 fee applied to court cases that is used to support the local law library was adopted in the operating budget. Several fee increases were adopted in Parks and Recreation. The Water and Sewer and Storm Water Funds reflect City Council approved rate increases. Finally, the Special Service Real Estate Tax Rate at Sandbridge was reduced from 12 cents to 6 cents. The rate can be lowered while still meeting the projected long-term sand restoration and replenishment needs.

**COMPARISON OF ANNUAL TAX IMPACT ON THE “AVERAGE FAMILY”**

The following table illustrates the impact of all municipal taxes on an “average” family of four in each community. The table is provided for information purposes. City Council lowered the City’s real estate tax by 3.39 cents to 99 cents from \$1.0239 per \$100 of value. As can be seen with the 99 cents rate, Virginia Beach has the second lowest tax burden of any Hampton Roads Community.

Adopted FY 2006-07 Budget for Virginia Beach and Other Cities							
Taxes	Virginia Beach	Chesapeake	Norfolk	Portsmouth	Suffolk	Hampton	Newport News
Real Estate Tax	\$2,182.95	\$2,447.55	\$2,800.35	\$2,998.80	\$2,072.70	\$2,513.70	\$2,646.00
Personal Property Tax	461.76	509.18	499.20	624.00	530.40	530.40	530.40
Electricity Utility Tax	36.00	45.00	45.00	40.80	36.00	36.00	36.96
Gas Utility Tax	36.00	22.56	18.00	36.00	36.00	28.80	18.12
Telephone, E911, Right of Way	67.20	105.00	110.40	96.00	66.00	74.28	73.49
Water Utility Tax	36.00	None	67.50	84.00	None	None	None
Restaurant Tax	209.69	209.69	229.66	229.66	209.69	229.66	229.66
Admissions Tax	27.00	27.00	27.00	27.00	27.00	27.00	20.25
Vehicle License Tax	52.00	46.00	52.00	50.00	40.00	56.00	52.00
Storm Water Utility Tax	62.42	30.60	91.20	60.00	None	43.20	52.20
Residential Refuse Fee	None	None	208.74	264.00	None	204.00	211.92
Cable Franchise & Utility Tax	18.00	18.00	43.20	43.20	10.80	43.20	43.20
<b>Total Tax Impact</b>	<b>\$3,189.02</b>	<b>\$3,460.58</b>	<b>\$4,192.25</b>	<b>\$4,553.46</b>	<b>\$3,028.59</b>	<b>\$3,786.24</b>	<b>\$3,914.19</b>

Assumptions:  
 Real Estate Rate based on the average sale price of \$220,500 that may represent a typical home value for the respective cities based on fourth quarter, 2005 sales data from the National Association of Realtors; Chesapeake taxes reflect mosquito control district rates since majority of residents reside in one.  
 Personal Property Rate on 2 cars: \$10,000 and \$6,000 (retail while tax rates are applied to loan value, estimated as 78% of retail).  
 Utility Taxes: Based on following monthly bills: Electric at \$100; Gas at \$50; Telephone at \$25; Water and Sanitary Sewer at \$70 bimonthly; Cable at \$30.  
 Restaurant and Admissions: Based on the national average household spending for these items-reported by the Bureau of Labor Statistics.  
 Telephone Utility: includes E911 tax and Right-of-Way fee for Telecommunications.  
 Vehicle License: 2 cars, each under 4,000 pounds.  
 Residential Refuse: Average of all rates for Hampton and Newport News.  
 Sources: “A Survey of the Level of Major Local Revenue Sources in Thirteen Virginia Cities and Counties for Fiscal Year 2005-06, City of Chesapeake and the Bureau of Labor Statistics. (Suffolk’s rates are proposed until an official vote by City Council)

# TOTAL RESOURCE MANAGEMENT PLAN

The following tables combine the Operating Budget and Capital Budget (the amount appropriated in the 1st year of the Capital Improvement Program). Quality Education and Lifelong Learning is the City's highest funding priority within the Resource Management Plan receiving more than twice the amount of funding as the next highest business area. In each table, the Net Combined Operating Budget/Capital Budget column is the total of the two documents less the transfer to the CIP, which is recorded in both documents. To avoid double counting when totaling the two documents, the Transfer to the CIP amount must be extracted to formulate an accurate total.

## Fiscal Year 2006-07

### Total Resource Management Plan Appropriations

Business Area	FY 2006-07 Capital Budget	FY 2006-07 Operating Budget	Total	Less: Transfer To The CIP	Net Combined Operating Budget/ Capital Budget
Economic Vitality	\$ 28,022,224	\$ 69,390,390	\$ 97,412,614	\$ (9,953,677)	\$ 87,458,937
Safe Community	11,482,139	181,497,218	192,979,357	(1,490,300)	191,489,057
Quality Physical Environment	94,521,499	275,732,746	370,254,245	(26,196,735)	344,057,510
Cultural and Recreational Opportunities	12,331,849	66,598,827	78,930,676	(9,241,207)	69,689,469
Quality Education and Lifelong Learning	61,997,273	850,124,349	912,121,622	(12,936,308)	899,185,314
Family and Youth Opportunities	700,000	103,144,270	103,844,270	-	103,844,270
Quality Organization	5,515,000	93,028,108	98,543,108	(250,000)	98,293,108
<b>TOTALS:</b>	<b>\$ 214,569,984</b>	<b>\$ 1,639,515,908</b>	<b>\$ 1,854,085,892</b>	<b>\$ (60,068,227)</b>	<b>\$ 1,794,017,665</b>

Note: The Operating Budget totals for each business area include reserve for contingencies and charges for debt service where appropriate. However, interfund transfers are subtracted from each business area's total. Transfer of \$390,000 to the CIP from the Telecommunications Internal Service Fund is excluded.

## Fiscal Year 2007-08

### Total Resource Management Plan Appropriations

Business Area	FY 2007-08 Capital Budget	FY 2007-08 Operating Budget	Total	Less Transfer To The CIP	Net Combined Operating Budget/ Capital Budget
Economic Vitality	\$ 20,167,701	\$ 75,678,842	\$ 95,846,543	\$ (9,517,701)	\$ 86,328,842
Safe Community	7,232,690	188,728,453	195,961,143	(2,503,781)	193,457,362
Quality Physical Environment	78,971,248	296,376,410	375,347,658	(25,555,670)	349,791,988
Cultural and Recreational Opportunities	11,972,897	73,509,926	85,482,823	(9,972,897)	75,509,926
Quality Education and Lifelong Learning	63,768,715	890,998,892	954,767,607	(12,936,308)	941,831,299
Family and Youth Opportunities	-	111,054,136	111,054,136	-	111,054,136
Quality Organization	390,000	98,549,142	98,939,142	-	98,939,142
<b>TOTALS:</b>	<b>\$ 182,503,251</b>	<b>\$ 1,734,895,801</b>	<b>\$ 1,917,399,052</b>	<b>\$ (60,486,357)</b>	<b>\$ 1,856,912,695</b>

Note: The Operating Budget totals for each business area include reserve for contingencies and charges for debt service where appropriate. However, interfund transfers are subtracted from each business area's total. Transfer of \$390,000 to the CIP from the Telecommunications Internal Service Fund is excluded.

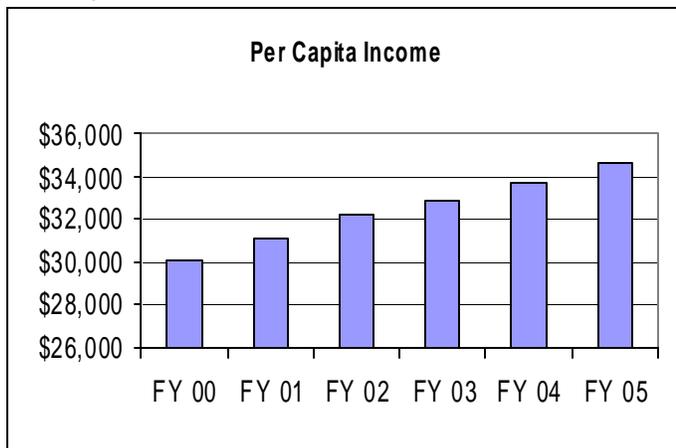
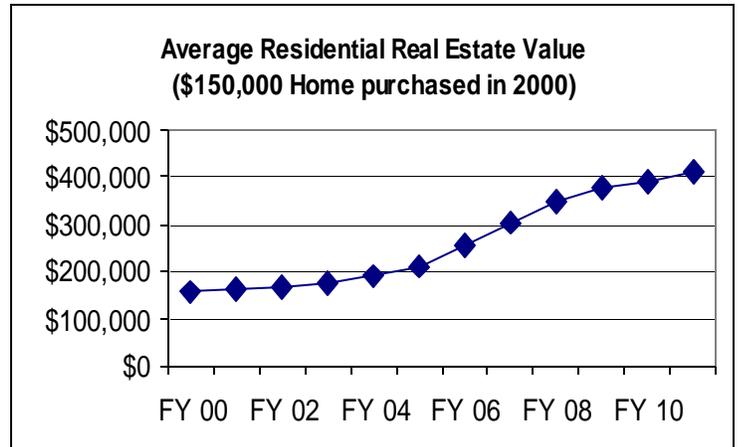
# PERFORMANCE MEASUREMENT TRENDS

Evaluating the performance of any organization has intuitive appeal, and has long been a staple of public and private industries. There are many ways to measure or evaluate the performance of a local government, and Virginia Beach has been proactive and thorough in its efforts to measure and monitor the performance of our government. The City Government of Virginia Beach has seven Strategic Issue Teams (SITs) to help identify and target issues facing the City. The following section looks at performance measures and trends categorized by SIT as they develop strategies for the City.

## Economic Vitality

The City's economy continues to grow. One of the most significant economic indicators for a family is whether their home is increasing or decreasing in value. The graph to the right shows that home values in Virginia Beach have increased dramatically over the past five years.

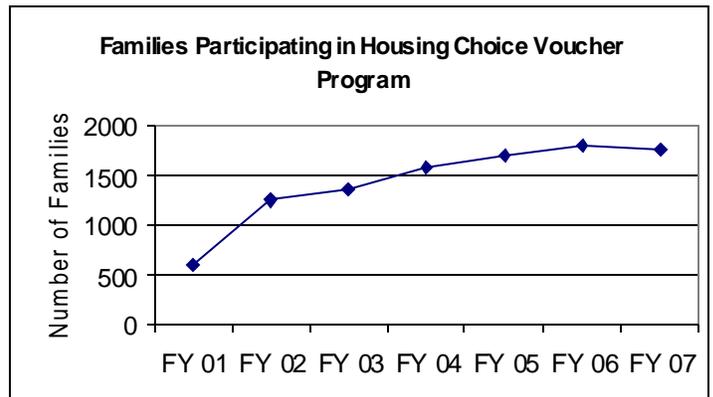
Buying a house is usually the largest investment that a person makes, and for those that have "invested in" Virginia Beach, they continue to see their asset grow. While an increase in home values can be attributed to the interest-rate market, it is also influenced by a city's community investments, services and development.



Beyond the benefits, such as increased home values, these investments can also be attributed to the increasing per capita income in the City. Virginia Beach has the highest per capita income level in Hampton Roads.

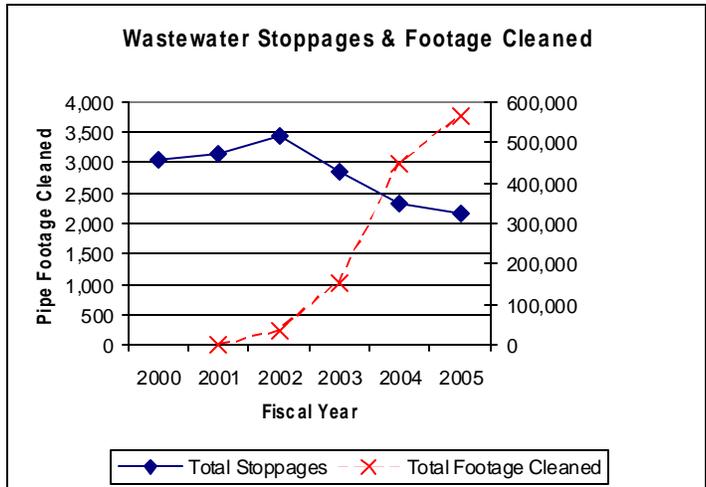
The downside to rising property values is the market creates a lack of affordable housing. The Federal Section 8 Housing Choice Voucher Program allows very low-income families to choose and lease safe, decent, and affordable privately owned rental housing. Since FY 01,

the number of families participating in the program has tripled. Due to a change in federal policy that results in other localities not allowing participants to move to high cost areas such as Virginia Beach, a decrease is projected in the number of families assisted by the voucher program, although the number remains significant.

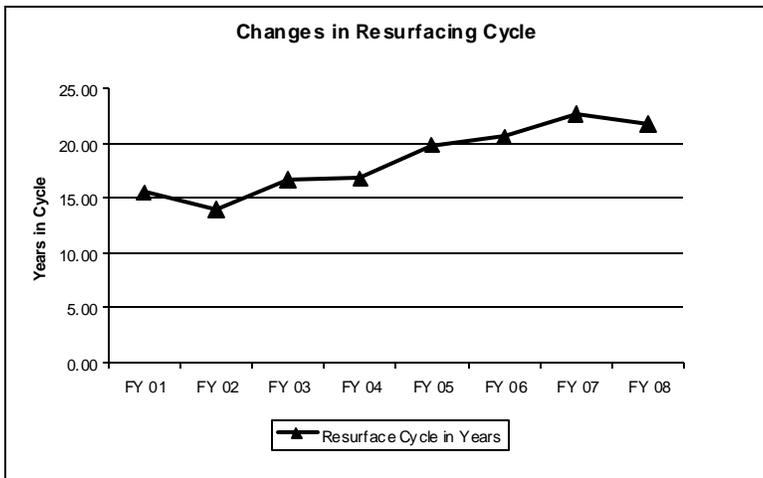


**Quality Physical Environment**

The main indicator for success in this area continues to be the backlog of projects and reduction in wastewater pipe blockages. In Public Utilities, the City Council authorized rate increases in FY 2005-06 and as a result there has been a decrease in the number of blockages in wastewater pipes. The graph to the right shows the City Council's investment has resulted in more footage of pipe cleaned and as a result the number of total stoppages has decreased.



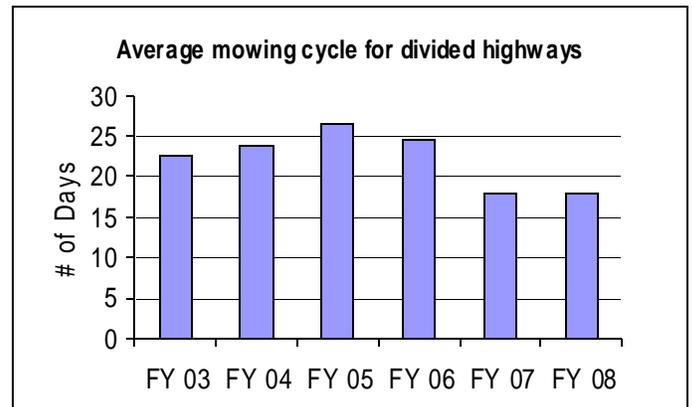
An area where the City is working to make improvements is the resurfacing of roadways. The graph below shows the increasing time (in years) since the last road resurfacing. In FY 02, for roads selected, the average time since the last resurfacing was under 15 years. In FY 07, the average time since the last resurfacing is expected to be over 21 years. The City is working to address this problem by allocating additional funding for road resurfacing in FY 07 and FY 08. Due to this funding, the time from the last road resurfacing is expected to decrease in FY 08.

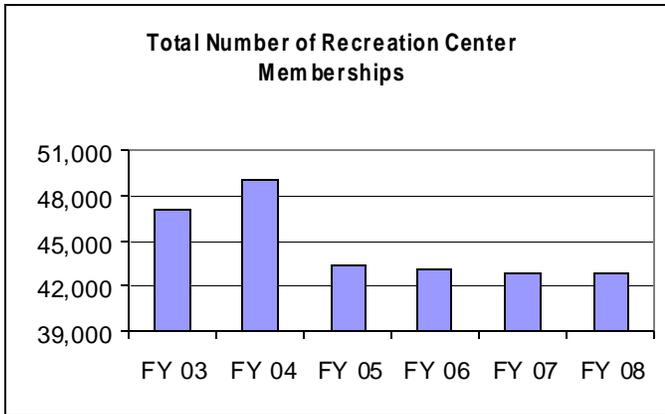


**Cultural & Recreational Opportunities**

The City has made a significant investment in recreational opportunities through the dedicated tax for recreation centers, open space initiatives, and funding for various trails and outdoor activities such as the new skate ramp at Mount Trashmore. The City's commitment to cultural opportunities will be strengthened even further with the opening of the Sandler Performing Arts Center, a 1,200-seat theater at Town Center scheduled to open in Fall 2007.

An area that has received attention recently is landscape services and the length of time in a mowing cycle. There have been concerns surrounding this measure, and the City is working to address this issue as the graph on the right shows. For FY 2006-07 the average mowing cycle for divided highways is expected to be the lowest it has been in five years. This can be attributed to an additional \$300,000 budgeted for landscape services in Parks and Recreation.

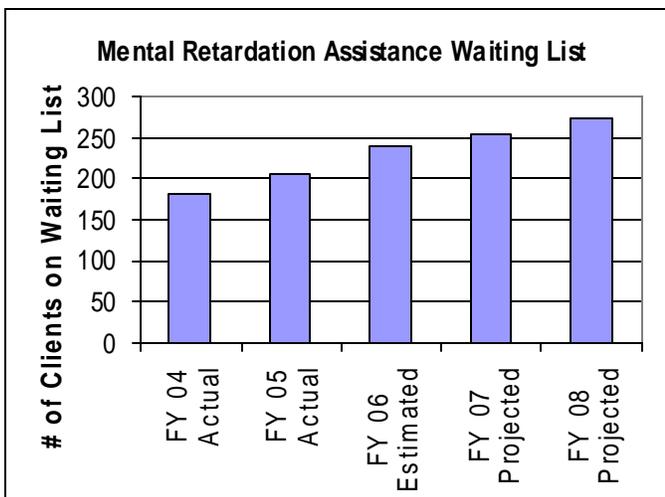
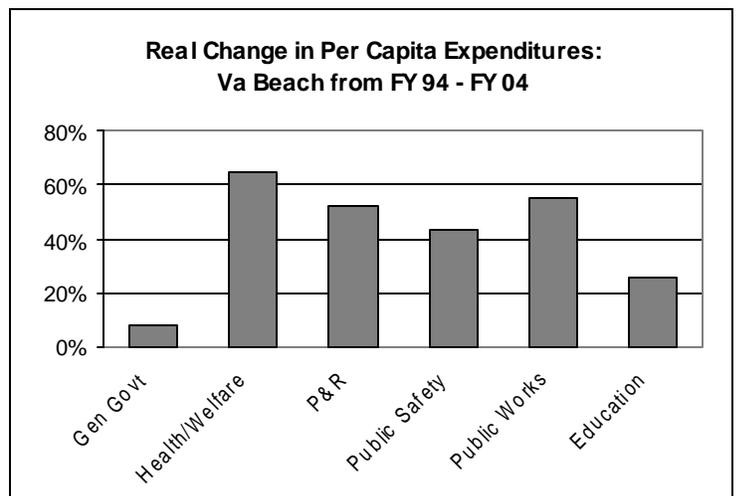




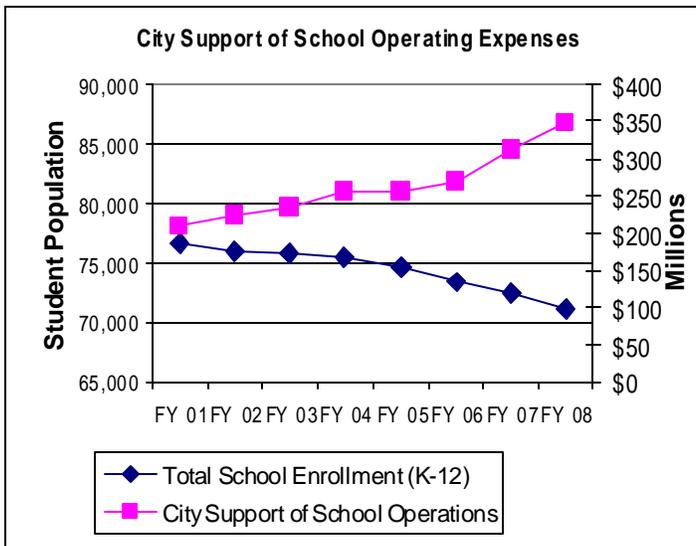
Another area of concern is the declining number of total recreation center memberships. There may be a number of explanations for this decrease including the fact that there is an increase in private sector competitiveness, a diminishing population in school age children, or possibly the population as a whole is becoming less active.

**Family and Youth Opportunities**

The City, State and Federal Governments continue to increase funding to Health and Human Services as the graph to the right shows. The Auditor of Public Accounts divides government spending into these six categories and shows the increases in the respective fields over time. As the graph shows, Health and Welfare are receiving the largest increase in expenditures over the last ten years.



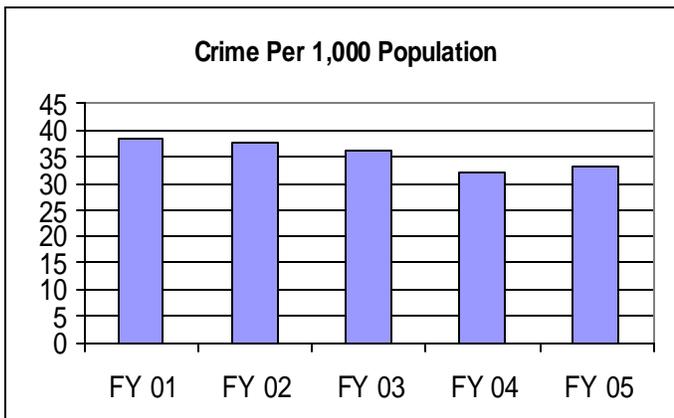
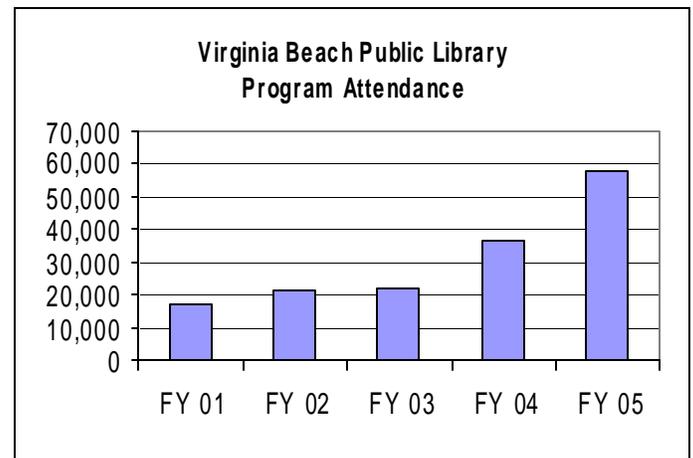
Despite this increased funding, there are still waiting lists for services. One example is the waiting list for mental retardation assistance such as: day support, employment assistance, supportive living assistance, crisis stabilization, and assistive living support.



### Quality Education and Lifelong Learning

The City's commitment to this area is reflected by the fact that 100% of all schools in Virginia Beach are fully accredited. In addition, the graph shows the City's support to education over time. Also plotted in this graph is total school enrollment. While total enrollment is declining over time, the City is increasing the contribution to schools by more than 10% for FY 07 and FY 08 allowing for smaller class sizes and other special education programs.

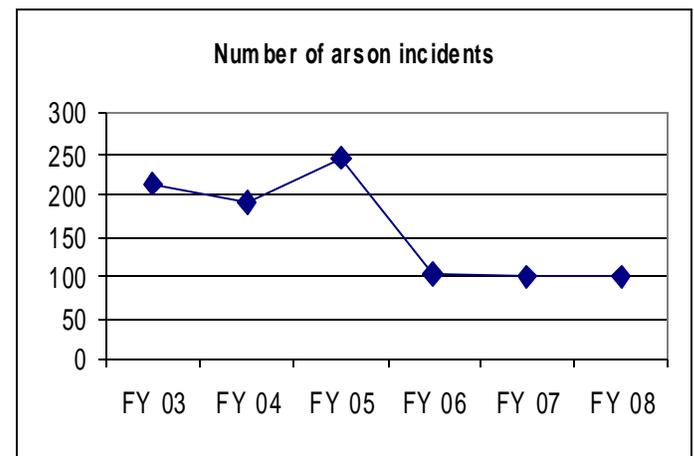
Another positive sign in the Quality Education and Lifelong Learning business area is that the City opened a new library at Bayside and renovated a library at Windsor Woods. The Library Department has increased its focus on planning and presenting programs geared toward children and teens, as well as computer skills for senior citizens. The value of these programs to citizens is demonstrated by the increase in attendance each year.

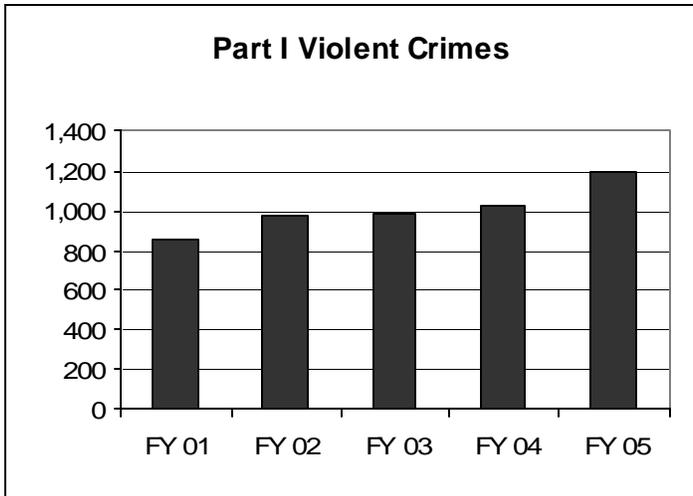


### Safe Community

The City continues to be a safe place with the lowest crime rate per 1,000 population in Hampton Roads. The graph to the left shows an overall decline in crime rate over the five years even as population is increasing.

Another positive indicator of community safety is the decrease in the number of arsons. The decrease in arsons between FY 05 and FY 06 is due to a decrease in juvenile arsons. The Fire Marshall's Office attributes this decrease to educational programs along with success in clearing current juvenile arson cases.

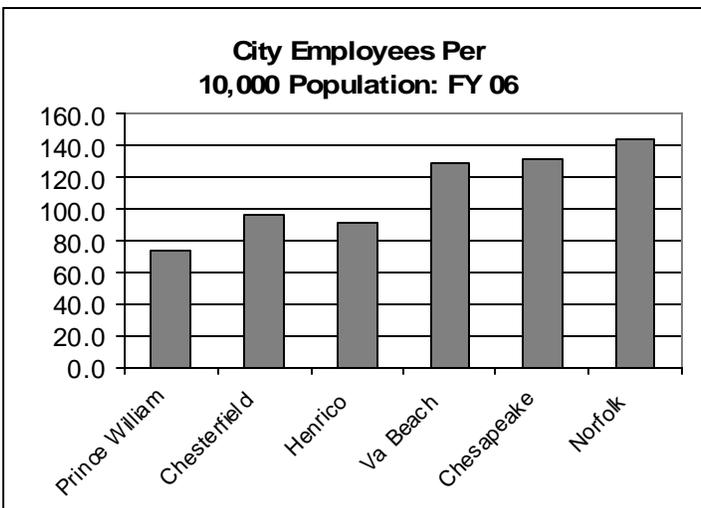




One indicator of community safety that is cause for concern is the increase in violent crimes. The graph to the left shows that violent crime has increased steadily since 2001 and increased by 18% between 2004 and 2005. In 2005, most of this increase is due to an increase in robberies which increased from 477 in 2004 to 670 in 2005. The City is working to address this problem as the percent of violent crime cases cleared in 2005 was 52% which is again above the national average (39%) for cities with populations of 250,000 or more.

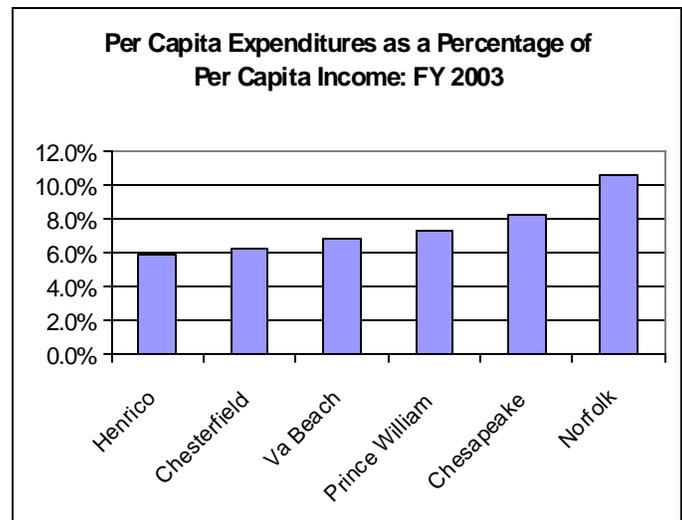
### Quality Organization

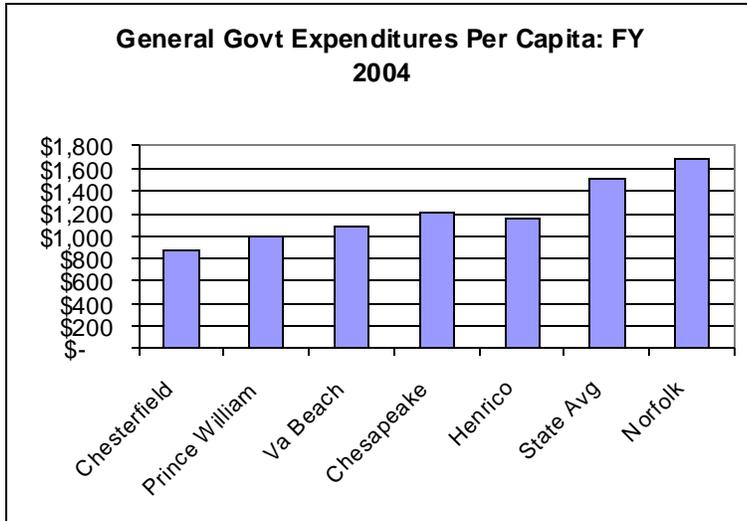
The City continues to be a well run organization with recognition from a variety of sources. The FY 2005-06 Operating Budget and the 2004-05 Comprehensive Annual Financial Report (CAFR) both received the distinguished presentation award from the Government Finance Officers Association.



The graph to the left illustrates the number of employees per 10,000 population in relation to other localities. While Virginia Beach currently fares better than Chesapeake and Norfolk, we trail Prince William, Chesterfield and Henrico. Some of this may be related to the fact that county governments (except Henrico) do not pay for roadway services and employees since the State assumes most of that responsibility. Also worth noting is that even though Virginia Beach, Chesapeake and Norfolk all have a similar number of employees per 10,000 population, Virginia Beach has a lower tax rate than both cities.

Sometimes citizens argue that governments spend too much on administrative overhead and not enough on service areas themselves. Looking at total expenditures on a per capita basis, the graph to the right shows that Virginia Beach compares favorably to other localities. This includes comparisons against the State average. It should be noted that the APA's definition of General Government does not include administrators working in a service department (such as a Director of a Department, or an administrative assistant within a department). However, this holds true for all localities in this comparison.





As the graph on the left indicates, Virginia Beach has the fourth lowest general government per capita expenditures among the comparison localities, and is well below the State Average. Of the five other jurisdictions profiled, only Chesterfield and Henrico have a lower percentage of expenditures versus income. Again, some of this could be attributed to the fact that the State handles roadway services for Chesterfield and Prince William which keep their expenditures down. Also contributing to this factor is that Virginia Beach has higher per capita expenditures on schools than either Henrico or Chesterfield. The City's favorable relative position reflects

the low tax burden, economies of scale issues (Virginia Beach is larger than the other localities), fairly favorable demographics, and the efficient nature of the City's service delivery.

Overall, each Strategic Issue Team has areas of success and challenges facing them. The proposed Operating Budget attempts to target those areas where SITs have identified concerns and looks to make improvements that will benefit our citizens.

On the following page there is a comparative table which examines how the City of Virginia Beach compares to other Hampton Roads cities. This table examines several key measures across all Strategic Issue Team areas and shows in many cases that Virginia Beach offers an excellent value for our tax dollar.

## **COMPARATIVE SERVICE INDICATORS**

	Year	Virginia Beach	Chesa-Peake	Norfolk	Ports-mouth	Suffolk	Hampton	Newport News
Crime Rate Per 1,000 Population	05	33.4	43.0	65.1	52.5	41.5	40.1	51.3
Percentage of Violent Crimes Solved	05	51.5	42.8	26.9	37.3	43.2	47.2	50.5
Average Daily Jail Population	06	1,342	943	1,780	480	789	437	687
Square Feet of Full Service City Recreation Center Space / 10,000 Population	05	8,886.4	0	318.5	0	0	2,061.9	4,391.8
Acres of Parkland per 10,000 Population (survey from state in 2000)	00	144.1	68.6	100.4	73.9	1,123.5	126.1	615.4
Library Book Circulation per Capita	04	6.4	8.7	4.1	3.5	3.1	4.6	3.3
Library Books per Capita	04	2.1	2.9	3.1	3.4	2.3	2.0	2.4
Percentage of Population Receiving Food Stamps	05	3.8	5.5	13.8	14.6	10.7	9.2	10.8
Infant Mortality Rate per 1,000 Births	04	7.8	10.4	10.5	12.8	10.1	14.2	10.3
Household Participation Rate for Recycling	05	75	38	55	0	27	90	61
Percentage of 5 <sup>th</sup> Graders who Passed the English Reading Standards of Learning	05	90.1	86.3	81.6	77.6	82.9	80.8	79.4
School Drop-Out Rate	05	1.3	1.9	1.0	1.7	2.0	0.5	0.3
City Employees per 10,000 Population	06	146.9	156.2	183.0	172.2	108.3	124.6	156.0
Real Estate Assessment to Actual Property Sales Ratio	03	82.4	95.6	80.2	80.9	81.0	89.1	86.2
Voter Participation Rate (November)	05	37.7	41.9	40.7	43.9	42.3	42.9	37.0
Municipal Debt per Capita	05	\$1,887	\$1,615	\$1,807	\$1,291	\$2,010	\$1,422	\$2,408
Unemployment Rate (December 2005)	05	3.0	3.0	4.6	4.8	3.6	4.2	4.3
% Job Growth (2 <sup>nd</sup> qtr 04-2 <sup>nd</sup> qtr 05)	05	2.5	2.1	0.6	0.3	3.8	2.9	0.6
Per Capita Income	03	\$32,848	\$30,401	\$25,895	\$25,171	\$26,975	\$27,236	\$25,233
Moody's Bond Rating for Municipalities	06	Aa1	Aa2	A1	A1	Aa2	Aa2	Aa2

## **CITY SERVICES AND TAXES**

It helps to think of taxes in terms of what city services they provide. The average single family home in Virginia Beach was valued at \$266,200 by the Assessor's Office in FY 2005-06. This means with a tax rate of \$.99 per \$100, the average household pays \$2,635.38 in real estate taxes. Currently with the City/School revenue sharing formula, this equates to \$1,364.40 of the real estate tax distributed to Schools while \$1,270.98 goes to the City.

If we assumed that the average household could spend all of their real estate taxes on one service area and nothing else, below are examples of what \$2,635 could pay for:

- Two and a half weeks for one Firefighter; salary and benefits included
  - This assumes that the position is at the minimum salary and would only cover the basic uniform. This does not cover any costs for station construction or rehabilitation, protective gear when fighting a fire, maintenance or fuel of the fire engines, hoses or other equipment, overtime when the position takes leave, and positions within the Fire Department that support this Firefighter (scheduling, administration, department payroll, etc.).
- Two weeks for one Police Officer; salary and benefits included
  - This assumes that the position is at the minimum salary and would cover salary, benefits, uniform, a radio, a bulletproof vest, and a gun. This does not include costs for a vehicle, in-car radio, and basic maintenance on the vehicle. This also does not include support positions (administration, payroll, etc.) or special functions within the Police Department such as SWAT teams and any of their equipment.
- Two and a half weeks for one Teacher; salary and benefits included
  - This assumes the position is making the minimum salary. This does not include classroom equipment such as computers, books, paper, cost of school construction, administrators, special programs, etc.
- 1% of the total for a new automated garbage truck or eleven and a half weeks of weekly garbage collection
  - A new garbage truck costs about \$185,000 which covers only the purchase of a truck and not any new personnel to operate the vehicle or maintenance or standard repairs to the truck. The current cost per household trash collected is approximately \$230 based on 125,000 collection points served with overhead included.
- 1/20<sup>th</sup> of a mile of road resurfacing (264 feet).
  - This includes the salary of employees, and the cost of the equipment. This is a service the City contracts out for and the cost per lane mile resurfaced is about \$50,000.
- Four and a half weeks of one Groundskeeper position; salary and benefits included.
  - This assumes the position is at the minimum salary and would only cover salary and benefits. This does not include any equipment such as weed trimmers, spray, hedge clippers, etc.

## **DEMOGRAPHIC INFORMATION**

The table below highlights available information from the last three census for Virginia Beach:

<b>Demographic Characteristic</b>	<b>1980</b>	<b>1990</b>	<b>2000</b>
Population:	262,199	393,089	425,257
Compound Annual Growth Rate from Previous Census	4.3%	4.1%	.8%
Sex: Male	50.8%	50.8%	49.5%
Female	49.2%	49.2%	50.5%
Age: Below 18	30.7%	28.0%	27.5%
65+	4.5%	5.9%	8.4%
Median Age	26.9	28.9	32.7
Dependency Pop. (Under 18 and 65+)	35.2%	33.9%	35.9%
Race: White	86.5%	80.5%	71.4%
Black/African American	10.0%	13.9%	19.0%
American Indian/Alaska	.2%	.4%	.4%
Asian/Hawaiian/Pacific	2.5%	4.3%	5.0%
Other Race	.7%	.9%	1.5%
Two or More Races*	N/A	N/A	2.7%
Hispanic**	2.0%	3.1%	4.2%
Households:			
Family Household	79.2%	75.4%	71.8%
Married Couple Family	66.6%	62.9%	55.7%
Female Householder	10.3%	9.5%	12.4%
Non-Family Household	20.9%	24.6%	28.2%
Households with Children under 18	N/A	44.8%	42.1%
Housing Occupancy: Owner	64.2%	62.5%	65.6%
Renter	35.8%	37.5%	34.4%
Housing Vacancy Rate	6.7%	7.8%	4.8%
Average Household Size	2.97	2.82	2.70
Migration:			
% who lived in VB 5 years ago	56.0%	59.9%	70.1%
Marital Status:			
Single, Never Married	26.5%	24.7%	25.5%
Married	61.0%	58.4%	57.1%
Separated	3.0%	5.4%	3.2%
Widowed	4.0%	4.0%	4.7%
Divorced	5.5%	7.6%	9.5%
Median Household Income	\$20,203	\$36,271	\$48,705
Median Family Income	\$21,809	\$39,112	\$53,242

<b>Demographic Characteristic</b>	<b>1980</b>	<b>1990</b>	<b>2000</b>
<b>Poverty:</b>			
Persons	8.9%	5.9%	6.5%
Families	7.7%	4.3%	5.1%
Children under 18	13.0%	7.6%	8.6%
65+	10.3%	8.0%	4.7%
Female Householder	38.9%	20.2%	18.9%
With Children	45.8%	26.5%	23.1%
<b>Education Attainment:</b>			
High School Grad	80.0%	88.0%	90.4%
College Grad	22.4%	25.5%	28.1%
<b>Labor Force:</b>			
Labor Force Population Rate	71.2%	76.8%	72.9%
Female Participation Rate	55.8%	65.9%	65.5%
% of Labor Force in Armed Forces	18.2%	18.6%	13.3%
% Unemployed	5.3%	4.7%	4.1%
Percent Who Drive Alone	67.5%	78.4%	82.0%
Percent Who Car Pool	21.2%	12.0%	10.8%
Mean Travel Time	21.9 min.	22.7 min.	23.9 min.
<b>Industry of Employed Person:</b>			
Agriculture, Forestry, Fishing	1.2%	1.2%	0.2%
Mining	0.0%	0.1%	0.0%
Construction	7.9%	8.4%	7.4%
Manufacturing	8.9%	8.5%	6.5%
Transportation, Communications and Public Utilities	7.3%	6.9%	7.9%
Wholesale Trade	4.0%	3.8%	3.0%
Retail Trade	21.1%	21.0%	13.7%
Finance, Insurance, Real Estate	7.8%	7.7%	8.6%
Services	31.8%	34.0%	45.5%
Public Administration	10.0%	8.4%	7.1%

\* new category in 2000; \*\* can be of any race

Note: Totals may not equal 100% due to rounding.

# **FINANCIAL MANAGEMENT**

The following policies have been employed by the government to be used as the basis for guiding short- and long-term budget and Capital Improvement Program planning:

## **RESOURCE DIRECTION AND GUIDANCE**

The City's Current fiscal condition is excellent. City Council continues to improve that condition, allowing the community to look toward strategic goals from a position of strength. Indicators of our excellent fiscal condition include: a healthy fund balance; an Aa1 bond rating; and relatively low per capita spending. The Resource Management Plan will continue City Council's basic fiscal policies for fiscal years 2006-07 and 2007-08:

- Maintain, to the extent possible, existing services, levels of service, and infrastructure.
- Position the City to withstand local and regional economic disruptions.
- Meet the demands of natural growth, decline, and change.
- Help maintain the City's ability to shape its fiscal and community future.
- Ensure that the citizens understand and support the need for fiscal sustainability and the policies through which it is achieved.
- Maintain a diverse tax structure that provides for quality basic services and minimizes the need for future real estate tax rate increases.
- Maintain the debt policies established by Council and monitor them, making recommended changes as circumstances demand.
- Provide for special services and projects through special dedicated revenue generation (i.e., Tourism Growth Investment Fund, Economic Development Investment Fund, Golf Courses, and Tourism Advertising Program).

## **RESOURCE PROCESS**

The City uses a modified zero base budget approach centered on programs with supporting performance measures. During the budget process, departments are asked to submit their budget.

Once the budget is submitted to the Department of Management Services, account clerks audit the budget proposal for mathematical accuracy. Then, analysts review the budget to determine if the amount of funding requested is appropriate based on the following criteria: Is the request supported by the change in performance measures? Does it further a Council goal? Does it further the City's strategic plan? Is it a State or Federal mandate? Is it supported by other revenue sources? Is it a public safety or health issue? Will it provide savings in the future?

Once the budget has been thoroughly reviewed by Management Services, a recommendation is forwarded to the City's seven strategic issue teams that are formed around business areas. Each of the teams review Management Services' recommendation, and they provide a recommendation to the Budget Caucus based on whether the requests further the City's strategy. A budget caucus, made up

of all members of the strategic issue teams, reviews each of the strategic issue teams recommendations, and provides a final recommendation to the Management Leadership Team (the City Manager and the four chiefs). The MLT makes a final decision on what items are included in the budget that is presented to City Council.

The capital improvement program follows a similar process.

## **OPERATING BUDGET POLICIES**

- The budget will be balanced on current revenue to expenditure basis.
- Unencumbered budget appropriations, except for those for capital projects and grants, will lapse at the close of the fiscal year.
- The appropriation ordinance establishes the legal level of budgetary control. Other levels of budgetary control may be set by the City Manager (see the appendix section of the operating budget for a current copy of this policy).
- The City will seek to provide for adequate maintenance and replacement of capital equipment and facilities over time.
- The City will seek to maintain a diversified and stable revenue system so that it can mitigate short-term fluctuations in one type or source of revenue and avoid over-dependency on any single source.
- The City will set fees and user charges for each self-supporting enterprise fund (e.g., Water and Sewer, Storm Water, Golf Courses) at a level that fully supports the costs of the fund to include operation, maintenance, capital replacement, indirect cost, depreciation, renewals, and debt service. It will also regularly review all fees/charges, including those in the General Fund, and will seek where appropriate, to base fees/charges on costs and/or on the rates charged by the private sector.
- The City shall annually prepare a five-year forecast of revenues and expenditures and its implications for services and policies.
- The City Manager may include in the budget a general fund regular reserve for contingencies of ½ or 1% of the General Fund budget.

## **FUND BALANCE POLICIES**

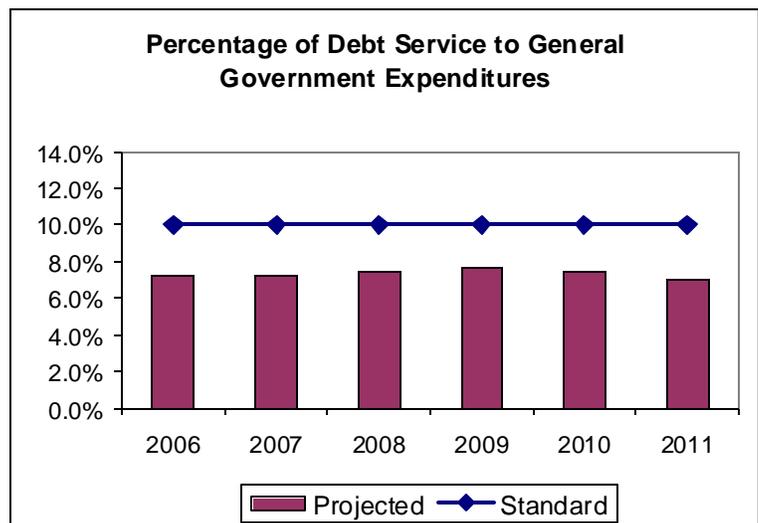
- The budget will include an estimate of the Undesignated Fund Balance.
- The Undesignated Fund Balance or retained earnings of any fund shall not be used to finance continuing expenditures.
- Following the Government Finance Officers Association recommendation that general-purpose governments maintain unreserved fund balance in their general fund of no less than 5% to 15% of regular general fund operating revenues, the City shall maintain an undesignated fund balance of 8% to 12% of the following year's projected revenues. This level equates to approximately one month of operating expenses.

## **CAPITAL IMPROVEMENT PROGRAM POLICIES**

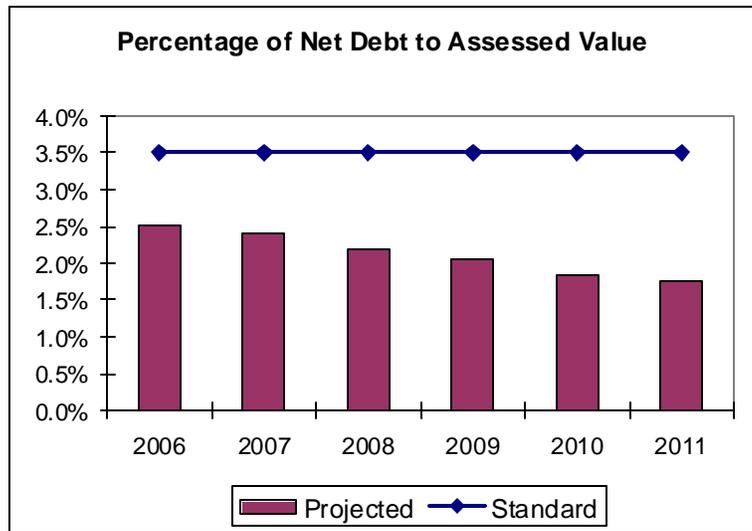
- To qualify as a capital project, a project must be a major expenditure for: design and/or construction of fixed works, structures, additions, replacements, major alterations, modernizations, or renovations; or purchase of land and existing structures, including rights-of-way, title searches, and similar activities, such as acquisition of major pieces of equipment. Other specialized projects may also be considered for the CIP if it is ongoing in nature or requires multi-year funding. The project must have a cost over \$50,000 or be of such a significant nature as to prevent its funding through the Operating Budget.
- In reviewing competing needs above those which can be met with legally available Charter Bond capacity, the decision to fund a capital project with bond referenda rather than Charter bonds is based on the following criteria: 1) the project is not considered to be in an “essential” category (roads, schools, and public safety); 2) there is no prior commitment by the government; and 3) the project exceeds \$2 million in local costs.
- A project is eligible for lease/purchase financing if it is considered an essential project or is a non-essential project not requiring referendum funding, and when the City Manager believes that costs are not prohibitive and that the interest of the government is served.
- The City will program \$6.25 million from non-borrowed funds and approximately 25% of the annual capital program for the Water and Sewer system for the financing of capital improvements. The City will seek to increase those amounts where feasible.
- Any tax rate increases adopted in conjunction with voter-approved bond referendums or by dedicated City Council policy will be structured and used to support all costs associated with the projects, including debt service, and appropriate operating and maintenance costs.

## **DEBT MANAGEMENT POLICIES**

- The City issues bonds for capital improvements with a cost in excess of \$250,000, or which cannot be financed from current revenues.
- When the City finances capital projects by issuing bonds, it will retire the debt within a period not to exceed the expected-useful life of the projects. The City has not historically issued, and does not anticipate issuing short-term debt in the form of tax or revenue anticipation notes. Rather, the City shall maintain sufficient cash balances. Such short-term debt may be issued where normal cash flow has been disrupted due to natural disaster or unexpected delays in the receipt of Federal or State revenues.

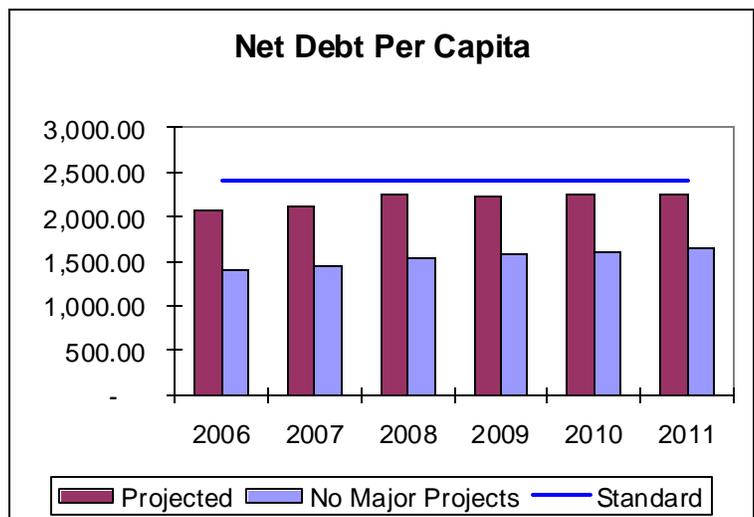


- The threshold of debt service for general government supported debt as a percentage of general government expenditures is 10%.
- Total General Obligation Net Debt will not exceed 3.5% of assessed value.
- Where possible, the City will develop, authorize, and issue revenue, special fee, or other self-supporting debt instruments instead of General Obligation Bonds.



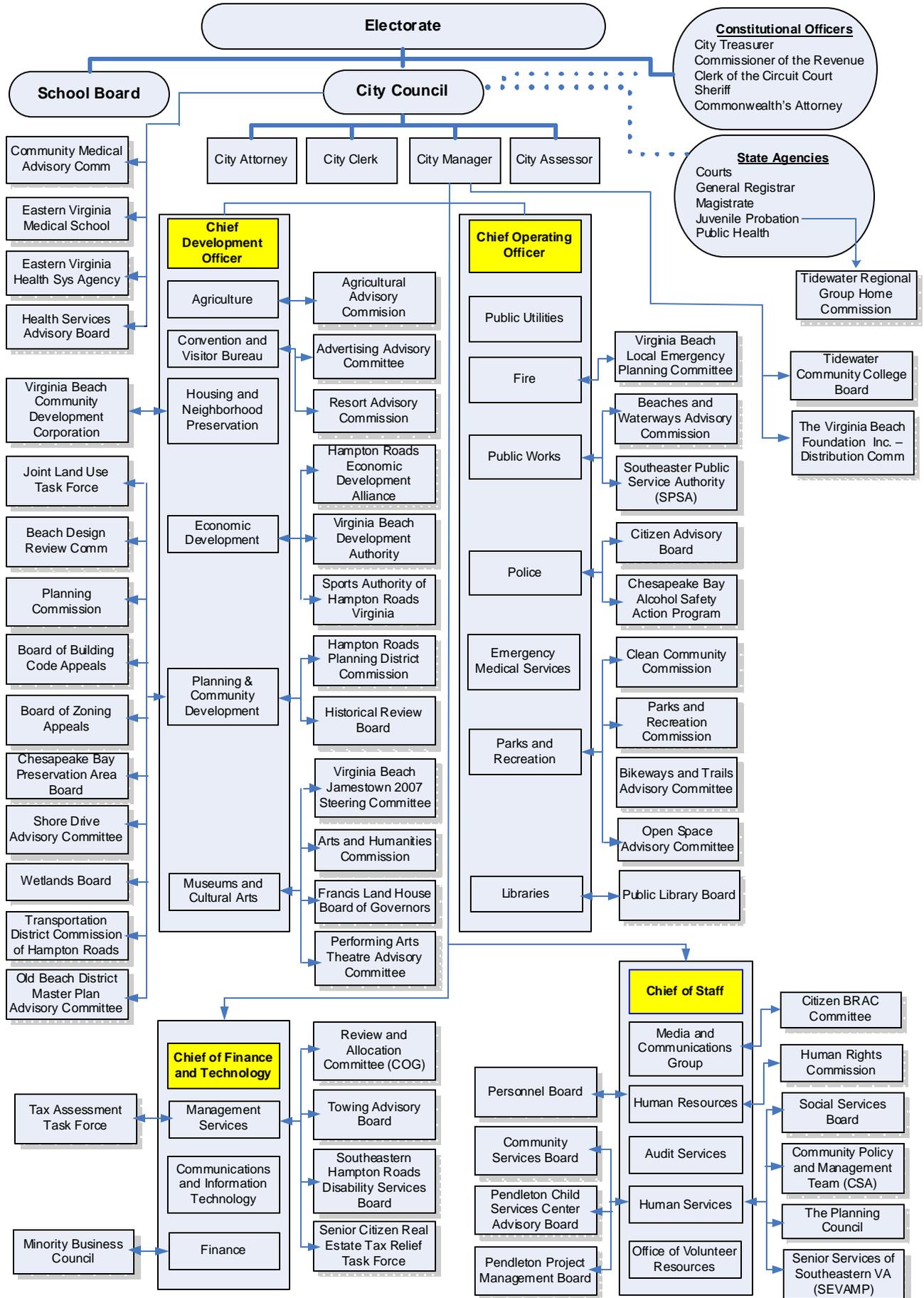
- The debt structure of the government will be managed in a manner that results in minimal deviation from the indicators listed in this policy.
- The City will regularly evaluate its adherence to its debt policies. It will promote effective communications with bond rating agencies and others in the market place based upon full disclosure.

- Total Net Debt per capita will not exceed \$2,400 per capita. As a result of the issuance of debt for the Major Projects and Open Space Initiatives, the City is approaching the debt level to the limit. However, these issuances were discussed with Bond Council and bond rating agencies. Given the bright prospects for both of these initiatives as well as the City's historical record of prudent financial management, this level of debt can be supported without negatively impacting the City's bond rating. It is further important to note that the City's population growth has unexpectedly slowed considerably since the initial policy decision was made to issue this debt. This affects this calculation in that debt is spread over a smaller than anticipated population. As noted in the graph, if debt associated with the Convention Center, Theater, and Open Space Program are excluded, the City would barely exceed its old, very conservative threshold.



- Also, Net Debt to Income Per Capita should not exceed 6.5%, and is comfortably below this threshold for each year (data not displayed in a graph).

# Relationship of Boards and Commissions to Departments



# Local Revenues

