

The City of Portsmouth

"Where the Ohio and Scioto Meet"

Department of Finance

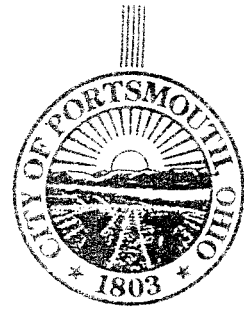
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M. Trent Williams
City Auditor



State of Ohio

February 23, 2007

Robert Forrey, Ph. D.
rforr1@roadrunner.com

Re: Your "Records request" email of February 20, 2007

Dear Dr. Forrey:

Thank you for your query regarding the financial issues of the City of Portsmouth. I am more than happy to answer these questions to help provide a better public understanding of the operations of city government as well as to provide you with the public records you have requested in the form of the enclosed attachments including the requested GFOA correspondence as well a copy of the most recent CAFR itself.

The Government Finance Officers Association (GFOA) reviews the City's submitted Comprehensive Annual Financial Report (CAFR) and makes awards to those who meet the standards of reporting prescribed by this national organization. The CAFR is prepared under the direction of the City Auditor based upon actual previous year data. The award given for the CAFR is therefore based primarily upon the City Auditor's fair representation of historical data. The report, as well as any award received in recognition of the report, is beneficial to those interested in the finances of the city (citizens, investors, lenders, grantors, state agencies, etc.) and is especially useful in establishing credit worthiness and obtaining the best possible interest terms when borrowing for major city projects.

The award, however, is not based upon the preparation of a draft of an operating budget prepared by the office of the Mayor. Keep in mind, per the City Charter, the entire budget is the sole responsibility of the office of the Mayor, a separately elected office. Neither the estimate of anticipated revenue or expenditures fall within the responsibility of the City Auditor. The role of the Auditor is primarily that of accurate reporting of City accounts and maintaining compliance for proper reporting. Thus the basis for these annual awards for "excellence for accounting and financial reporting" becomes clearer upon the explanation of the separate duties of separately elected offices under the authority of the City Charter.

Additionally under the City Charter, the office of City Auditor also acts as the City Treasurer. As such, I as the City Auditor/Treasurer collect all revenue coming into the various department of the City and as a result I make it a point to become quite familiar with the many, various streams of revenue. This revenue includes city income tax, property tax, local government funds, departmental collections, special revenue, enterprise fund revenue, etc. Having served on a daily basis for over 7 years in this role, I believe I am in the best position to advise the Mayor's office and City Council with a fairly accurate estimate of anticipated revenue. Although not required, I have been very willing to provide an estimate of revenue each year, with the first estimate provided in October, just after the end of each third quarter of revenue collection. This is followed up by an updated report given just after the end of the calendar year as early as possible in January. (The projected revenue given in October was \$9,700,000 with \$0 projected as an available carryover amount, while the January update was increased to an even \$10,000,000 with the actual carryover amount provided at \$45,000.)

These estimates include detailed General fund revenue as well as a fund-by-fund revenue projection of all the other 50+ separate funds. Obviously the word deficit (or surplus) has not been mentioned yet, since there has also not been an estimate of expenditure. This function, the expenditures or the budget, lies entirely with the Mayor and his staff. The Mayor at this point is free to rely on my expertise in revenue forecasting or to provide his own estimate. For the most part, Mayor's have traditionally relied upon the Auditor's estimate. However, this is not always the case. For example, as you may be aware, the last three years' budget (a document prepared by the Mayor and authorized by City Council) has included between \$125,000 and \$283,000 annually for a rental-licensing program that has yet to be approved by City Council. Without approval of implementation of this program, the City cannot collect the first dime of "anticipated program revenue". In each of the past three years, the Auditor included \$0 as the anticipated revenue for this program, yet at my written and verbal warning against the use of such revenue, it was submitted by the Mayor and approved by City Council as a budgeted, projected revenue without any authority whatsoever for its implementation and collection. This type of budgeted revenue without authority to collect through an approved program, certainly adds to the difficulty of the performance of this office, to say the least. Having said that, the City has been quite fortunate to have ended the past year with any surplus at all due to some better than anticipated performing revenue accounts in spite of this particular budgeted revenue without any hope of collection.

The point of this matter being simply that the Auditor submits projected revenue without the suggestion of any surplus or deficit at this point. The remainder of the budget process is left to the Mayor and Council. The Mayor, after compiling the City's draft of expenditure priorities will then provide both sides of the budget, revenue and expense, to City Council. At this point, any expected surplus or deficit can be discussed. Comparing the revenue given by the Auditor to that proposed by the Mayor and including the proposed draft expenditures also proposed by the Mayor, there would appear to be the possibility of a \$300,000 to \$600,000 potential deficit at this point of the budget process. (\$300,000 being related to the direct comparison of the two different revenue projections

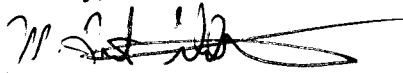
and another \$300,000 as a result of the proposed budget document itself reflecting expenditures exceeding revenue of nearly \$300,000, with that portion being proposed to be covered by a savings from city health insurance.)

I guess another way to easily explain how this award is given is this. Just because one office experiences difficulty in putting together a future budget doesn't mean that my office can't continue to maintain and provide accurate financial and accounting records. In answer to one of your questions, no the City does not report to GFOA that the Mayor is struggling to balance his upcoming budget, be it a potential deficit of \$300,000 or \$3,000,000. We do however do the job required of my office and prepare an annual report based upon the previous years' revenue and expense in a fair, accurate and comprehensive manner. We also keep in mind that the General fund, the one fund in question, is but one of many funds reported on by this office. Many of these funds, through the efforts of this office as well as the Mayor, Council and other departments of the City, are in excellent financial condition as evidenced by the substantial fund balances and completed and upcoming major projects achieved through these funds over the past several years.

Although I don't agree that there is "no good news in the city", I realize the City will continue to face an uphill financial battle until some long-term solution is affected or major upturn to the local economy takes place. I also realize this is not isolated to Portsmouth as many small cities throughout Ohio deal with similar issues.

I hope you can appreciate the different roles required of and performed by the separate offices of city government. I hope you can distinguish that the Auditor, Solicitor, Mayor and Council are all separate entities who contribute to the City in entirely different ways through vastly different methods and duties. As Auditor, I do not always agree with the decisions and actions of these different entities, nor should I. However, I am always striving to support and cooperate to the extent possible with these entities in an effort to provide the best overall government possible to the people of this City. I am very proud of the accomplishments of this office and its capable staff and very thankful for the recognition of its achievements. I am very happy to provide this information to you, and anyone else you would care to share with, in hope that this explanation will help to unravel any of these puzzling issues. Please do not hesitate to contact me if my staff or I may be of further assistance and thank you once again for your genuine interest in your city government.

Sincerely,



M. TRENT WILLIAMS, AUDITOR

Enclosures