

General Fund Mid-Year Budget Update

*City Council Presentation
March 15, 2016*



Presentation overview

- The presentation provides an update of the city's financial condition
- The presentation reviews
 - FY 2015 General Fund year-end results
 - FY 2016 General Fund mid-year review
 - Outlook for FY 2017 and beyond
- No City Council action required at this time

Where we have been: FY 2015 General Fund year-end results

Recap: FY 2015 budget highlights

- Achieved a structurally balanced budget, four years ahead of schedule
- Implemented Attraction, Retention, Motivation and Development (ARMD) Initiative
- Increased support for Norfolk Public Schools
- Fully implemented city-administered healthcare
- Real estate tax rate held steady

General Fund FY 2015 Year-End Results

\$8.2 million variance (1.0 percent)

Final Budget*

\$821.7 million

**Actual
Revenue**

\$820.0 million
0.2% under budget

Revenue

**Actual
Expenditure**

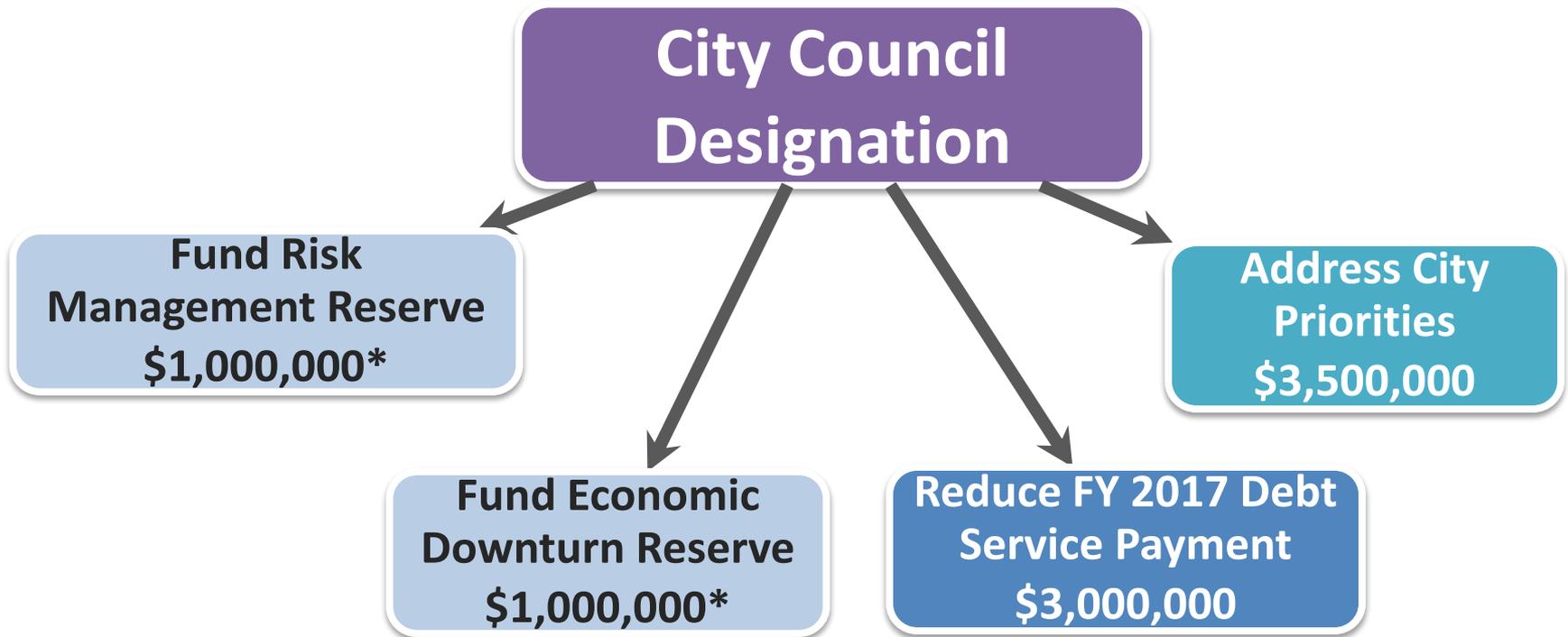
\$802.4 million
2.4% under budget

Expenditure

Notes: Amounts are rounded. Variance remaining is \$8.2 million after accounting for carryforward and designations.

** Amounts reflect final amended budget. Adopted budget was \$817.8 million.*

A recap of City Council use of surplus



** City Council designation met reserve goal of \$5 million each*

Where we are now:
FY 2016 General Fund
mid-year review

Mid-Year FY 2016 budget update

General Fund revenues and expenditures are tracking the budget year-to-date

Preliminary FY 2016 Year-End Estimate

- General Fund Revenue: 0.0 percent
- General Fund Expenditure: 0.5 percent less
- Budget Variance: 0.5 percent less

Economic backdrop and outlook

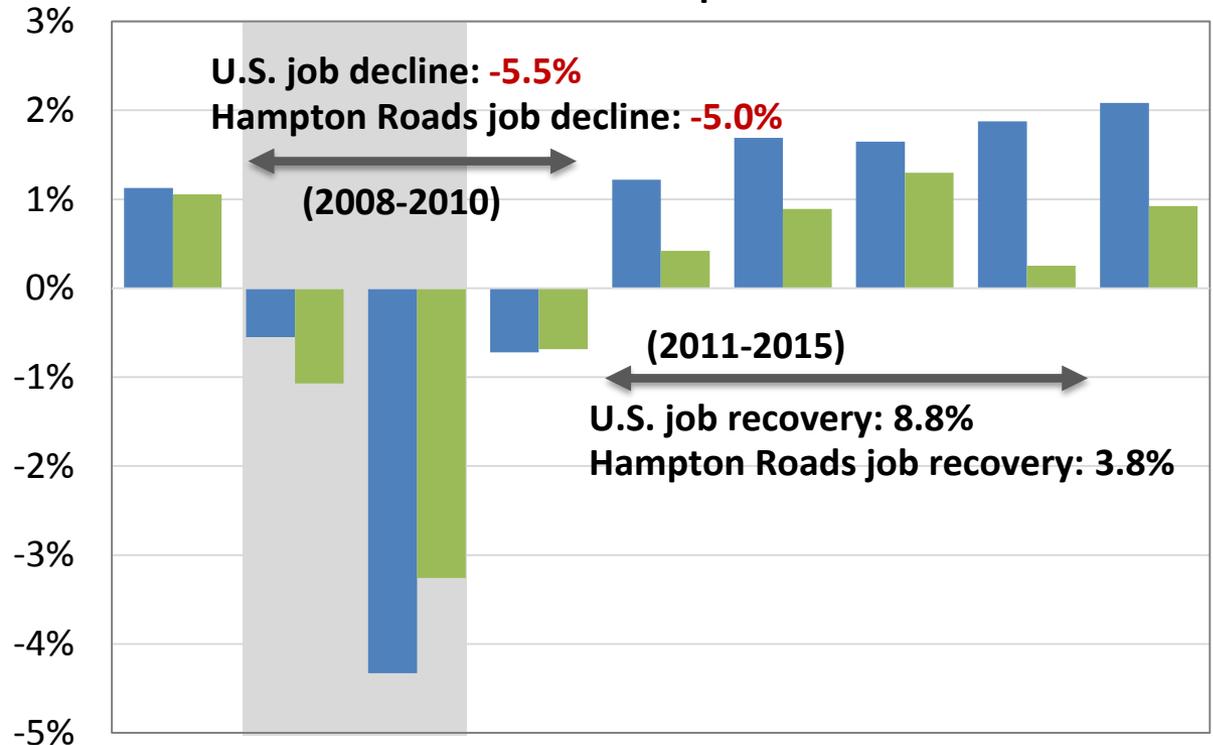
Lookback: Local job recovery has been slower than the nation

During the recession, the local rate of job decline was slightly less than the nation (U.S.)

Since the recession, the local rate of job growth has lagged the nation

Percent Growth in Average Number of Jobs

■ U.S. ■ Hampton Roads



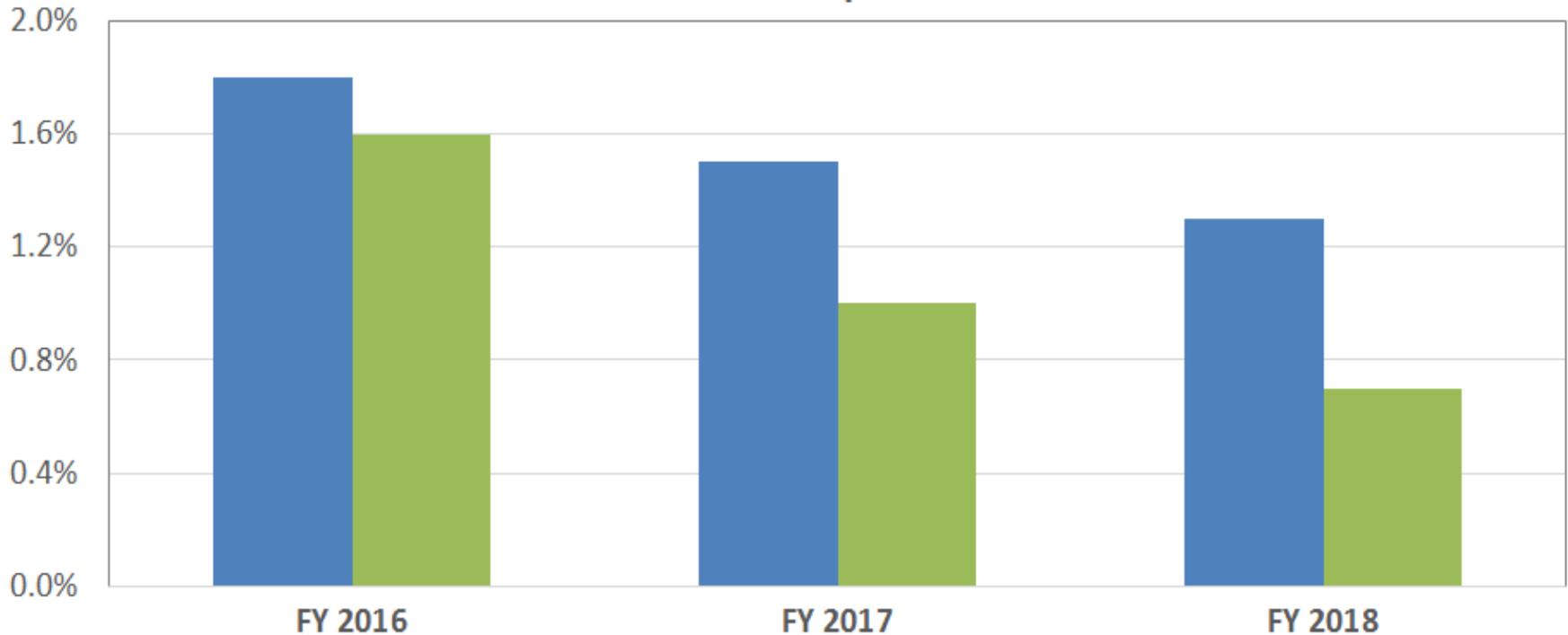
	2007	2008	2009	2010	2011	2012	2013	2014	2015*
U.S.	1.1%	-0.5%	-4.3%	-0.7%	1.2%	1.7%	1.6%	1.9%	2.1%
Hampton Roads	1.1%	-1.1%	-3.3%	-0.7%	0.4%	0.9%	1.3%	0.3%	0.9%

*U.S. and Hampton Roads data reflect annual revision by U.S. Bureau of Labor Statistics released in February and March 2016, respectively. Shaded area denotes recessionary period.

State outlook is positive: Local and national economy expected to continue moderate job growth

Projected Growth in U.S. and Hampton Roads Employment
FY 2016 - FY 2018

■ U.S. ■ Hampton Roads



Source: Virginia Department of Taxation October Standard Forecast (Local) and Governor's Introduced Budget (U.S.)

Regional economists' outlook of moderate growth in 2016

2016 Economic Forecast for Hampton Roads and U.S.		
Economic Indicator	ODU	HRPDC
U.S.:		
Real gross domestic product growth	2.03%	2.5%
Employment growth	1.5%	N/A
Hampton Roads:		
Real gross regional product growth	1.59%	1.3%
Employment growth	0.9%	0.8%
Regional unemployment rate	4.3%	4.7%
Taxable sales growth	3.6%	4.1%
Housing permit value growth	3.4%	2.3%

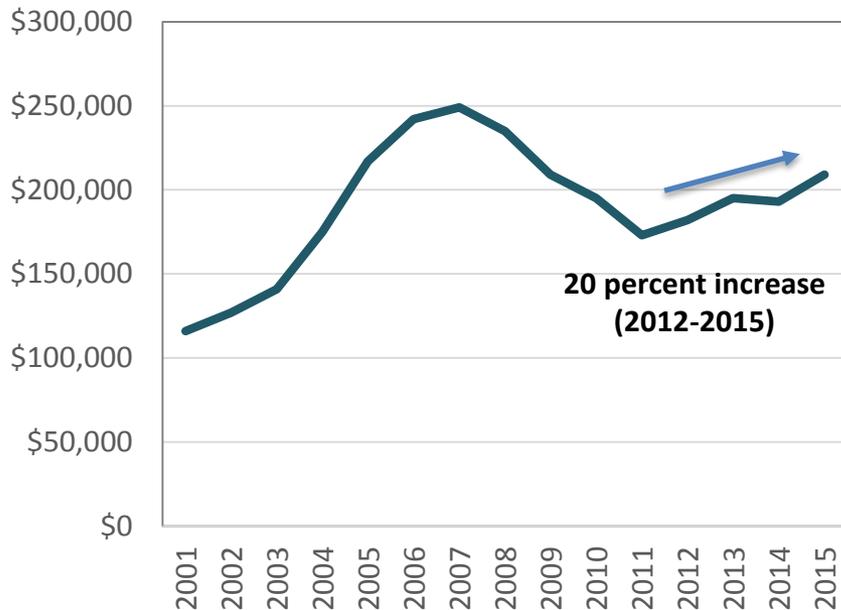
Source: Old Dominion University (ODU) Forecasting Project, and Hampton Roads Planning District Commission (HRPDC).

Local housing market recovery on track

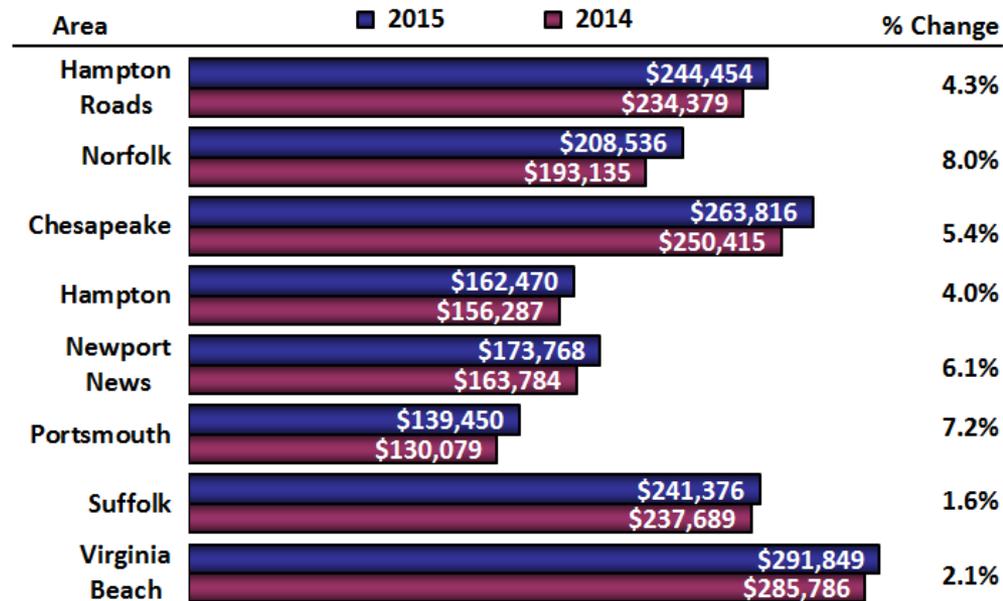
Average sales price of homes in Norfolk have risen 20 percent, from the previous low point reached in 2011

Norfolk had the highest percentage growth in the average sales price among the seven major cities in 2015

Average Sales Price of Homes Sold in Norfolk



Regional Comparison of Growth in Average Residential Sales Price



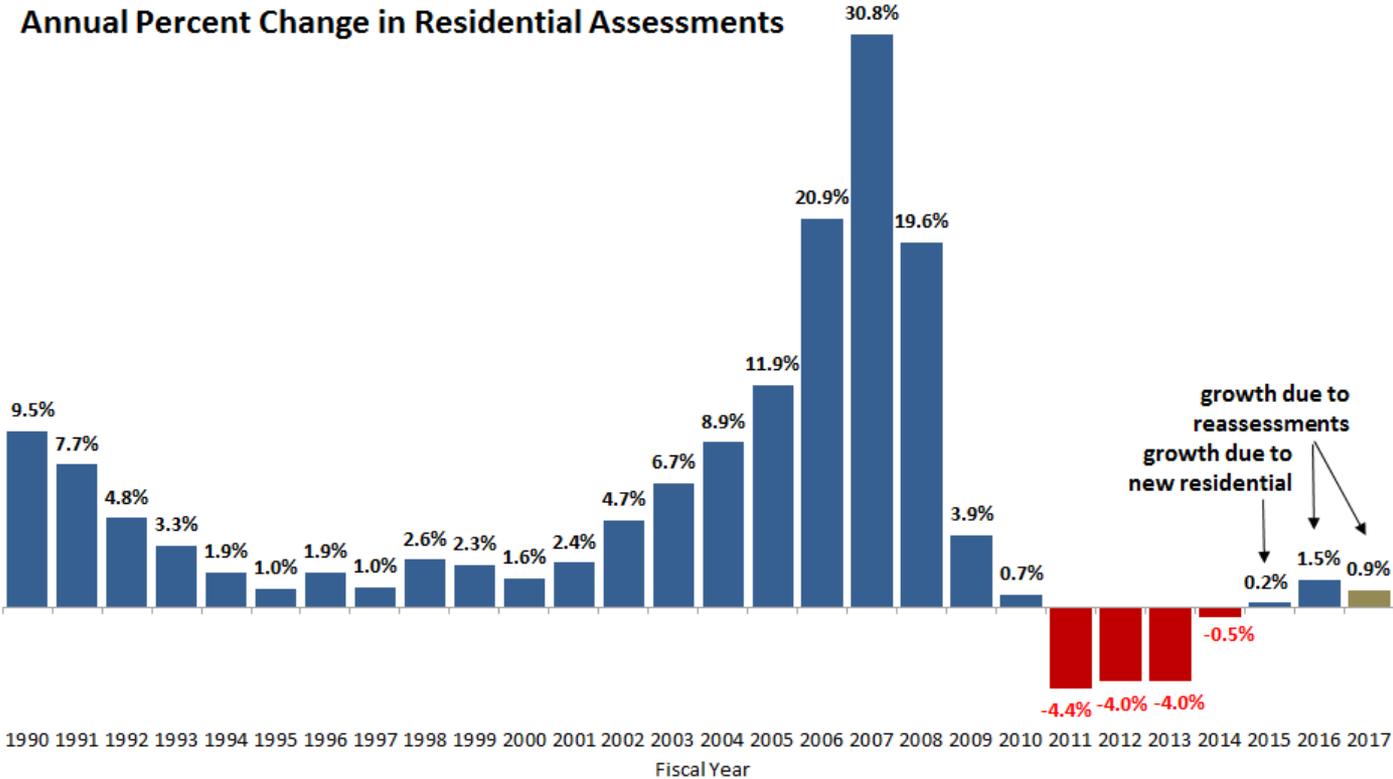
Source: Real Estate Information Network



Housing market downturn led to an unprecedented decline in Norfolk home values

Due to the housing market recovery, Norfolk is seeing growth in real estate assessments

However, assessments have been growing below historical averages of four to five percent and are still below its pre-recession peak



Historical Growth in Overall Assessments	
10-Year (2006 - 2016)	4.3%
20-Year (1996 - 2016)	5.0%
30-Year (1986 - 2016)	4.9%

Source: Real Estate Assessor's annual reports. FY 2017 (preliminary) based on annual reassessment.

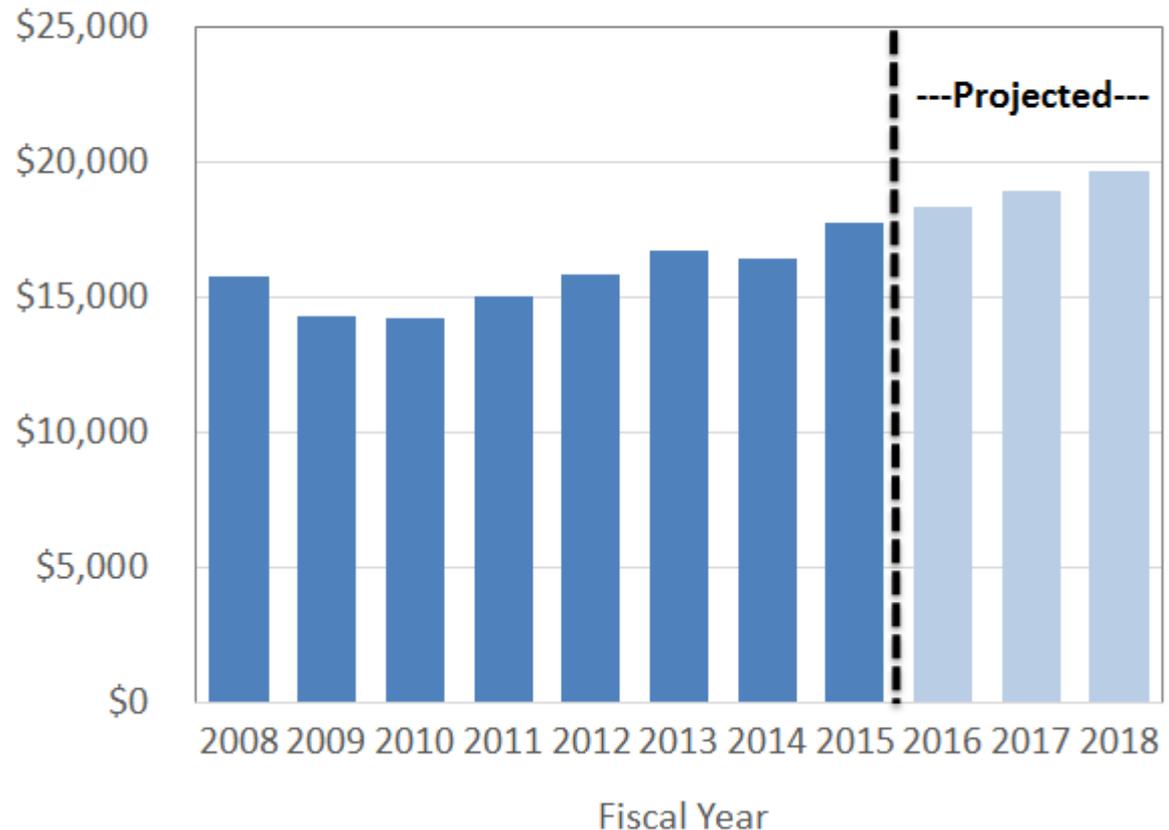
Growing and stable Virginia economy

The Commonwealth's General Fund revenues have been above the pre-recession peak since FY 2012

The Commonwealth's revenue growth was eleven times greater than Norfolk over the last five years

State revenue makes up nearly 40 percent of Norfolk's General Fund

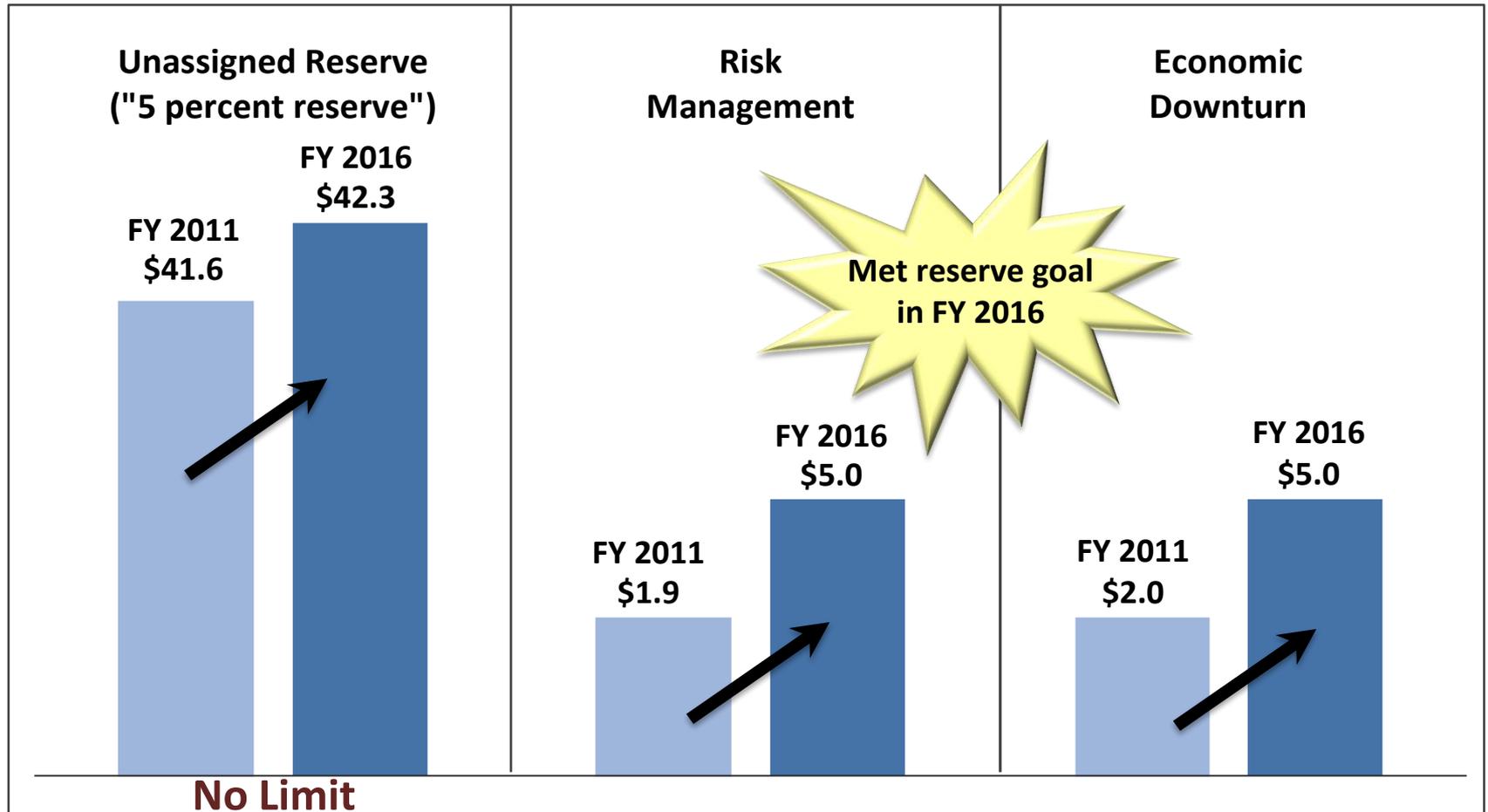
Virginia General Fund Revenues
(excludes transfers, amounts in millions)



Note: Projected amounts are based on conference report.

Norfolk increased its financial resilience

General Fund reserves have grown steadily



amounts are in millions and are rounded

Outlook for the FY 2017 budget

- Virginia fiscal outlook - stable over the next biennium
- Local economy projected to grow moderately
- Local housing market recovery taking hold
 - Housing market recovery has led to the growth in real estate assessments in Norfolk
- Local economy has underperformed the nation
 - Regional employment continues to be below pre-recession peak while nation has exceeded pre-recession peak for nearly two years

Developing the FY 2017 budget

- Continue to utilize:
 - the two-year lens to account for the impact of actions on both FY 2017 and FY 2018
 - the five-pronged approach continues

Raise Revenue

Reduce Expenditures

Become More Efficient

Grow Economy

Share Services

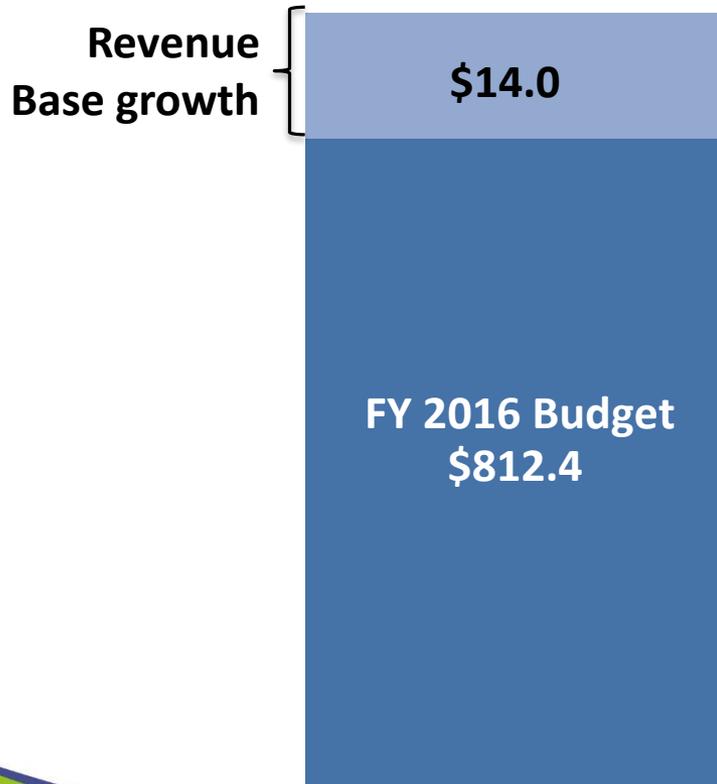


Preliminary Budget Outlook: FY 2017 and Beyond

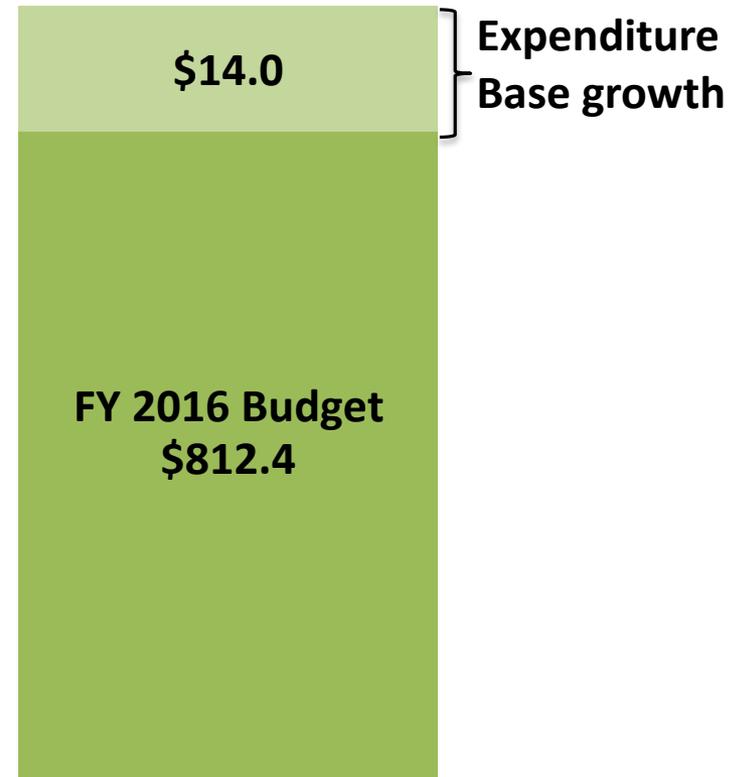
Overview of preliminary FY 2017 General Fund base budget gap

(base = no tax/fee increases, no enhancements or salary increase)

FY 2017 Revenue Base

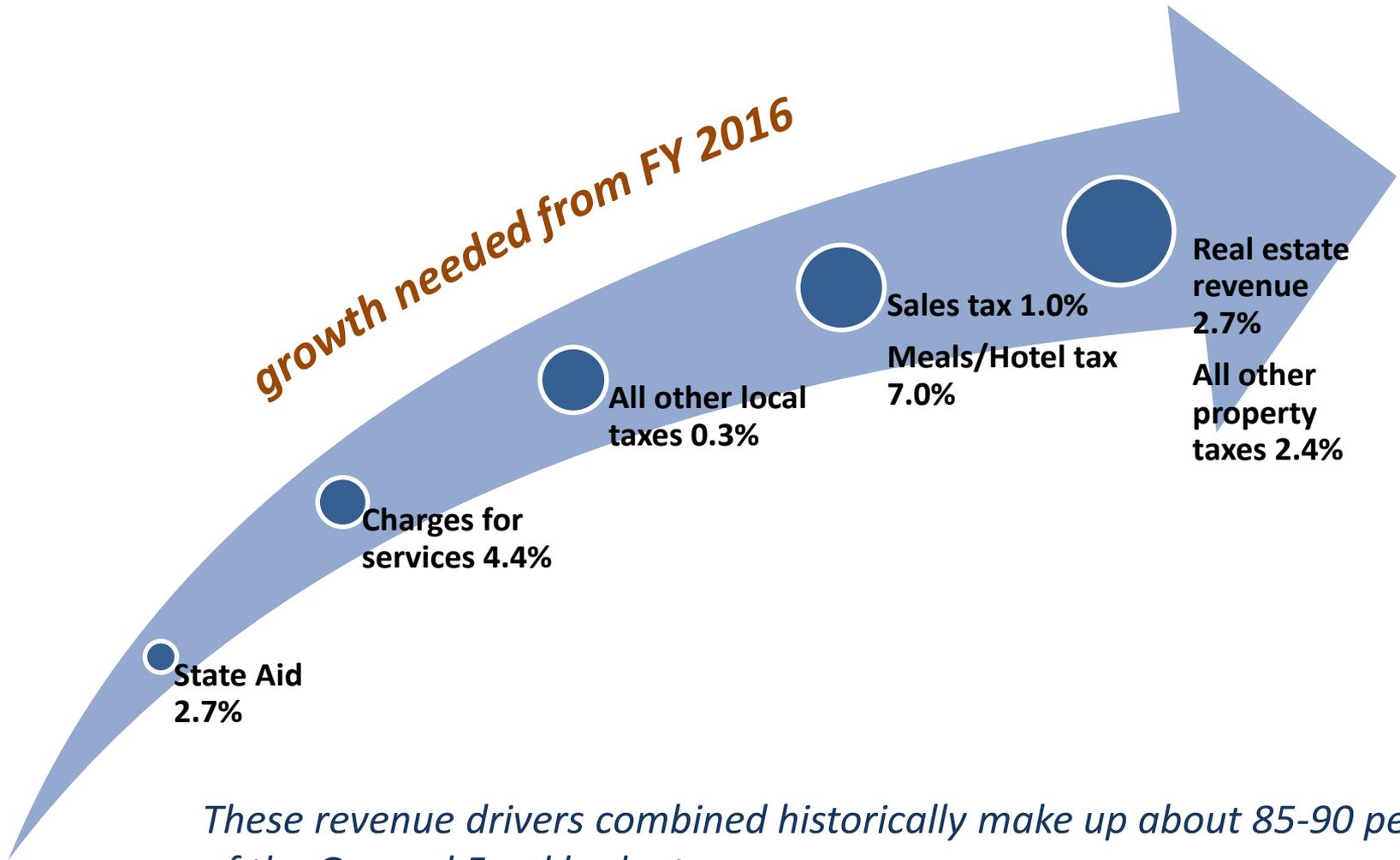


FY 2017 Expenditure Base



amounts are in millions and are rounded

Revenue growth needed to meet FY 2017 estimate

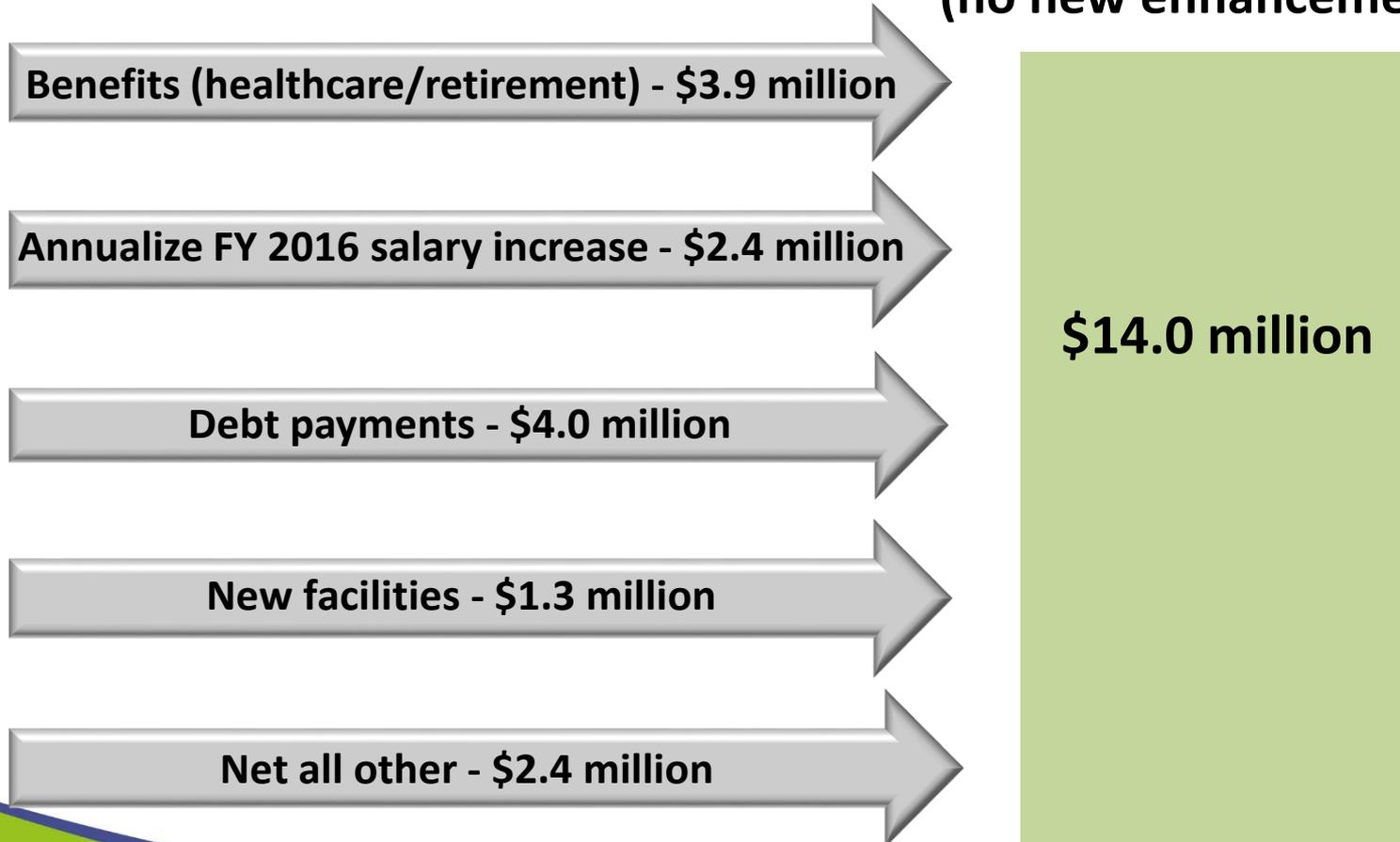


These revenue drivers combined historically make up about 85-90 percent of the General Fund budget

Overview of FY 2017 expenditure base growth drivers

Compensation and debt make up majority of growth

FY 2017 Expenditure Base Growth (no new enhancements)



amounts are rounded

Preliminary biennial base budget gap is manageable at present conditions and current level of services

FY 2017
no base gap



FY 2018
\$1.5 million



\$1.5 million
base gap
over the
biennium

Feedback from the City Council Retreat

- At the retreat, Council expressed the desire to provide:
 - Compensation increases
 - Support for neighborhoods
- These will be addressed in the FY 2017 Proposed Budget

Compensation increases will bring about a budget gap

1. Salary increases for city employees

- Increase starting January 2017: \$2.5 million*
 - Two percent general wage increase and step increase

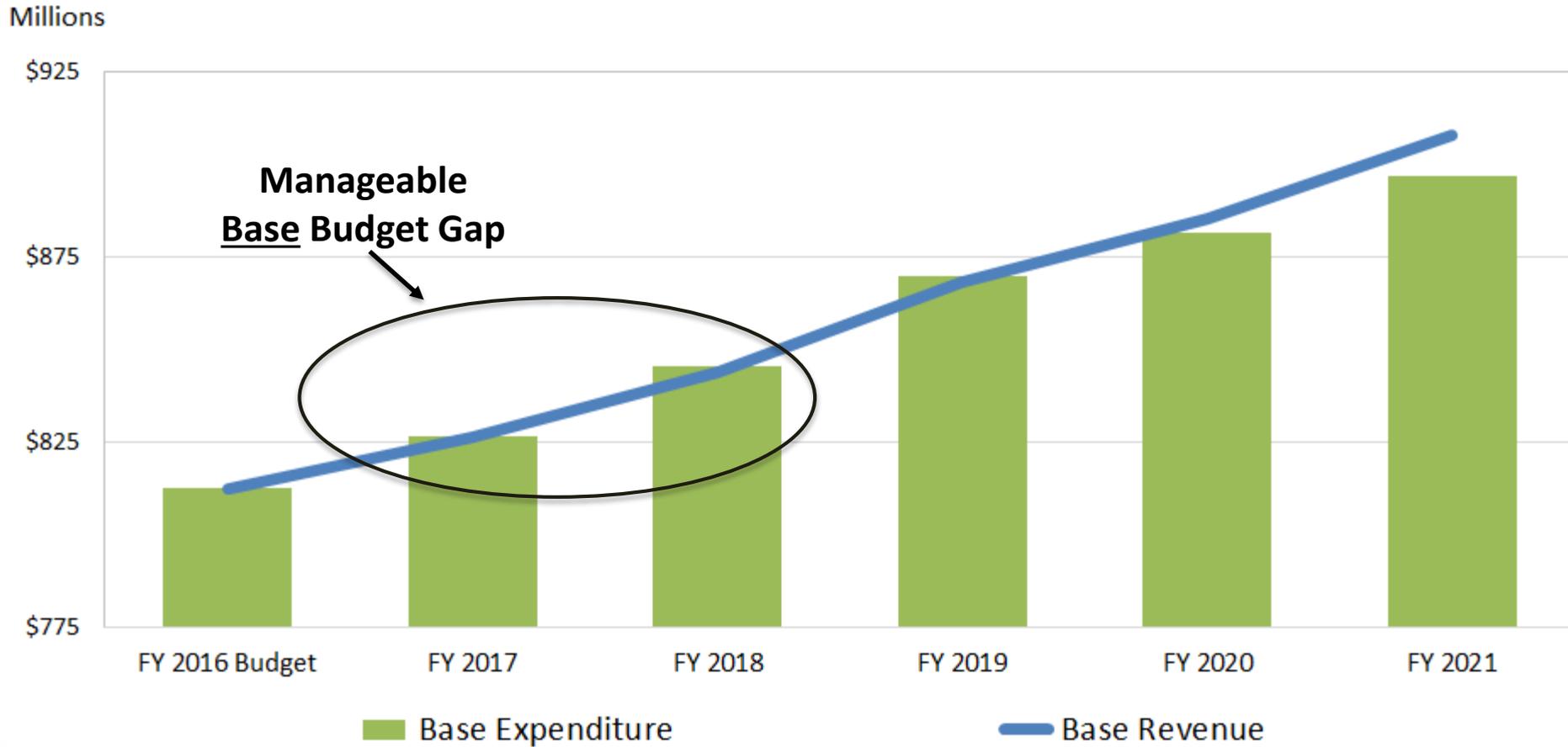
2. Salary increases for school employees

- Two percent increase starting July 2016: \$5.0 million

** Amount based on 50 percent of the annual cost*

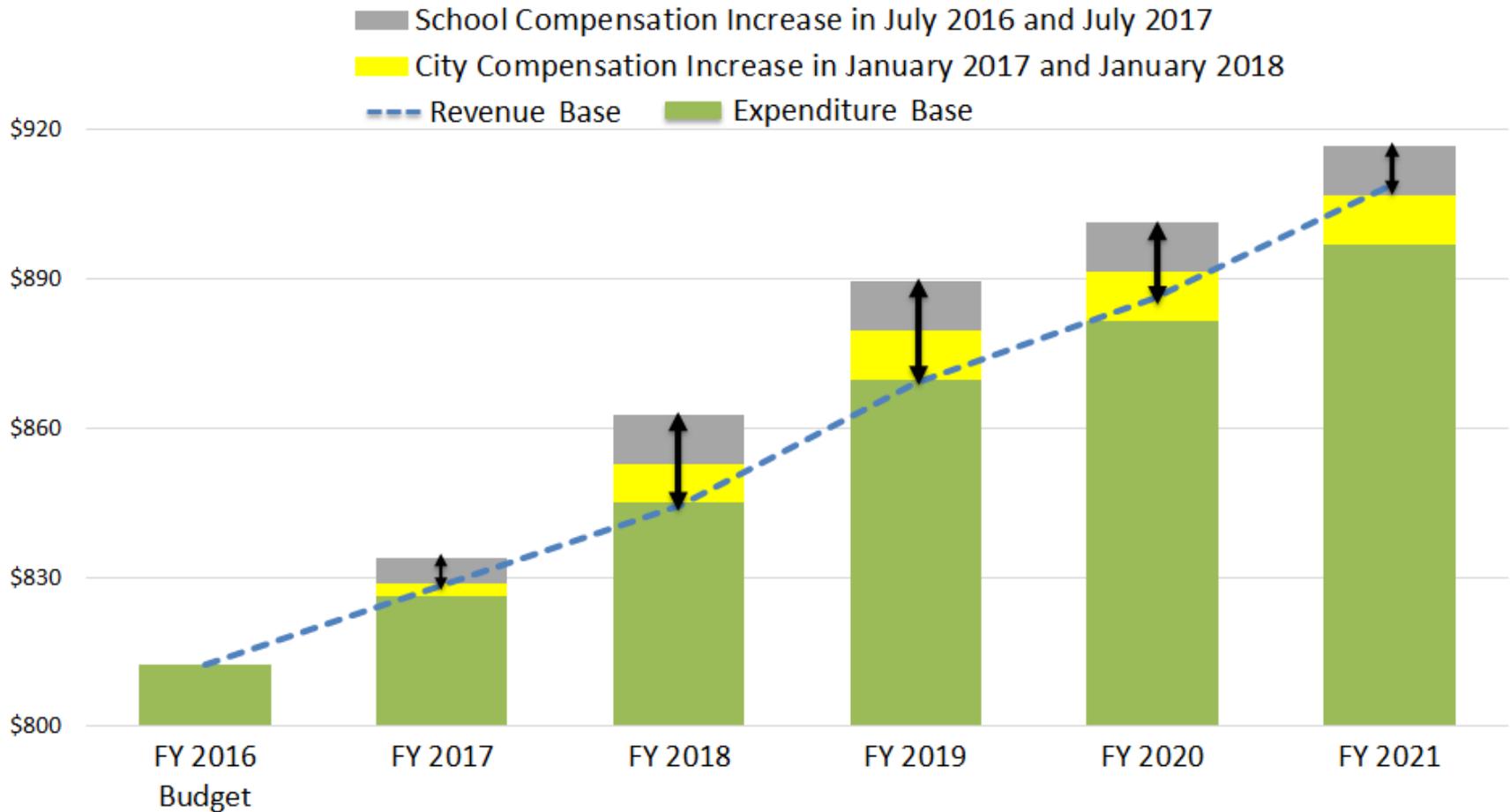
Preliminary five-year base outlook at present conditions and current level of services

Preliminary Base Forecast of General Fund Revenue and Expenditures



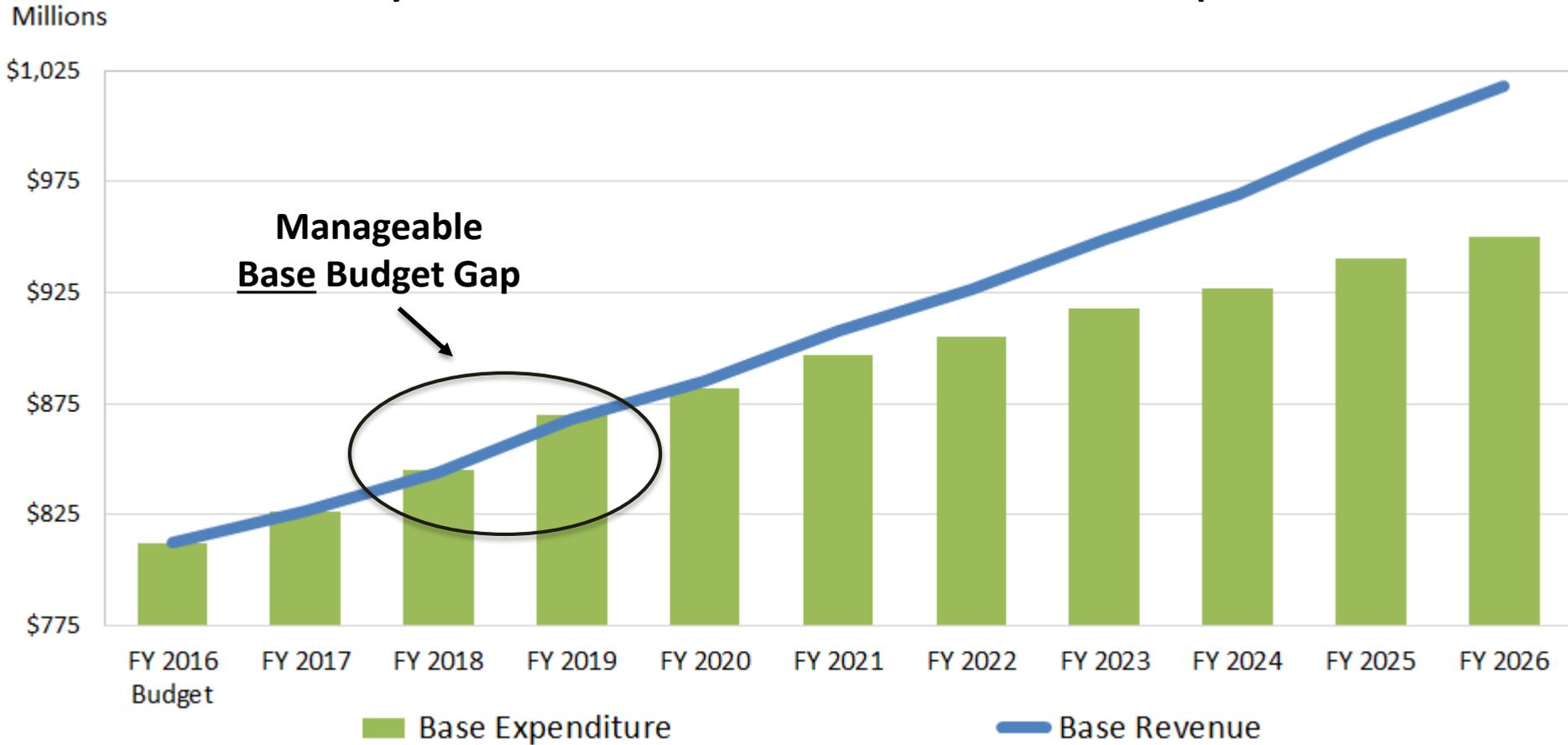
Outlook with Compensation Increases

With **city** compensation increase in **January** of FY 2017 - FY 2018, budget gap exists through FY 2020
Adding **school** compensation increase starting **July** of FY 2017 - FY 2018, budget gap exists through FY 2021



Preliminary ten-year base outlook at present conditions and current level of services

Preliminary Base Forecast of General Fund Revenue and Expenditures



Other needs will increase gap further

- Technology upkeep
- Program expansion
- Infrastructure needs
- Unforeseen events

Other factors that could affect budget outlook

- Changes in the economic outlook
- Retirement returns below assumed growth
- Healthcare – Affordable Care Act excise tax
- Funds to maintain “five percent reserve” will be needed
- Other new initiatives/programs
- Unforeseen needs

Final thoughts

- City Council commitment to financial policies have raised the city's financial resilience
- Continued conservative budgeting and finding ways to contain costs are vital to maintaining the city's fiscal health and stability
- Ensuring revenue sustainability concurrently with additions to the base budget should be considered

Council Strategy Discussion, Direction and Setting Priorities for FY 2017 Budget Development