NORFOLK

Office of the City Manager

April 22, 2014

Honorable Mayor and City Council
City of Norfolk, Virginia

I respectfully submit to you the Proposed Fiscal Year (FY) 2015 Financial Plan for the City of Norfolk, which is comprised of the General Fund, Enterprise Funds, Special Revenue Funds, Internal Service Funds, Capital Budget, and the Annual Plan for the Housing and Urban Development Block Grant programs. A summary of the Proposed Financial Plan is shown in the table below.

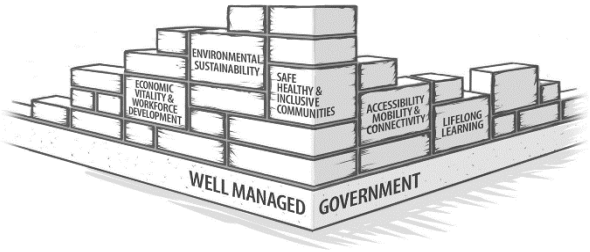
Fiscal Year 2015 Financial Plan	
Fund	**Proposed Budget**
General Fund	**$812,386,625**
Enterprise Funds	**$131,354,377**
Special Revenue Funds	**$59,104,682**
Internal Service Fund	**$100,117,027**
Total Operating Funds	**$1,102,962,711**
Capital Improvement Plan	**$104,053,800**
Total Operating and Capital Funds	**$1,207,016,511**
Annual Plan for HUD Block Grants	**$5,421,897**
Total Financial Plan	**$1,212,438,408**

The Proposed General Fund Budget is $812.4 million. The total General Fund budget decrease is $5.1 million or 0.6 percent from the Approved FY 2014 budget. This is the first budget decrease since FY 2012. During the past year, we looked at programs and services and have identified ways to make our city more efficient without cutting services that directly impact residents. The Proposed FY 2015 Budget includes a total of 34 fewer permanent positions than FY 2014. The thorough analysis resulted in a more efficient and effective government at a lower cost.

This budget builds upon the City Council approved financial policies. Our commitment to these policies further strengthens the city's long-term financial sustainability. The first tenet of the financial policies was to achieve a structurally balanced budget within five years. I am happy to report that we have reached that goal four years ahead of schedule and the budget presented to you today is structurally balanced. Unlike some of our neighboring localities, the structural balance was achieved without raising real estate taxes or cutting direct services to residents. The budget is highlighted by the following:

- Focuses on three priorities: Well-Managed Government; Safe, Healthy, and Inclusive Communities; and Lifelong Learning
- Utilizes two in-house analysis teams to evaluate current programs, services and department structures that led to efficiencies and the implementation of best practices in the areas of financial management and maintenance operations
- Transitions Waste Management to a self-supporting and self-sustaining operation
- Transfers all Norfolk Community Services Board operations into the General Fund
- Continues efforts to become an Employer of Choice with implementation of the three-year Attraction, Retention, Motivation, and Development (ARMD) Initiative to attract and retain qualified employees
    - Provides all permanent General and Constitutional employees with at least a two percent salary increase by January 2015
    - Provides a step increase for sworn police and fire employees
    - Provides a Deferred Retirement Option Program (DROP) for sworn police and fire employees
- Creates the Department of Neighborhood Development that brings together existing city resources with goals to advocate for neighborhoods, strengthen partnerships, and improves the quality of life for residents in all Norfolk neighborhoods
- Invests in human capital by increasing funds for homeless programs and housing assistance
- Expands support for quality early childhood education through community partnerships
- Continues the city's commitment to build five additional schools, Campostella, a school in the Broad Creek Area, Ocean View, Larchmont, and Camp Allen
- Enhances service levels with the opening of the Colonel Samuel L. Slover Memorial Library and the first phase of the consolidated courthouse complex

How did we get here? – Guiding Principles



In 2011, we came together and identified six priorities to move the city forward. Focusing on priorities will lead Norfolk into the future as *America's heritage port city where people are transforming their neighborhoods, economy, and culture into the most fun and livable waterfront community in the world.* The foundation of this vision is building a Well-Managed Government. This budget continues the focus of building a data-driven organization that provides effective and efficient

programs and services that are responsive, accountable, inclusive, and customer-focused. The Proposed FY 2015 Budget is the culmination of initiatives, strategies, and tough decisions that we made over the past few years. Each year, we take a five-pronged approach to balance the budget. We analyze ways to raise revenues, reduce expenditures, become more efficient, grow the economy, and share services.

We changed the way we do business since the recession. We methodically reviewed our current operations. We collaborated with Virginia Beach, Chesapeake, Norfolk Redevelopment and Housing Authority (NRHA), and Norfolk Public Schools to share services. We evaluated contracts, renegotiated rental agreements, evaluated leased space, outsourced recycling, and reduced consultant use to save over $9.0 million. We are utilizing new technology and we replaced outdated servers that resulted in service contract and personnel savings. We implemented a best practice by transitioning to a city-administered healthcare plan that contained costs for the healthcare consortium by more than $6.0 million. Citywide, we saved over $2.3 million by reducing discretionary spending on travel, supplies, printing, and memberships. In order to better forecast fuel costs throughout the year and to shelter the city from market increases, we changed the way we pay for fuel by locking in a fuel price at the beginning of the year.

We are constantly evaluating how we provide services externally and internally. We implemented a Voluntary Retirement Incentive Program (VRIP) to begin right-sizing the organization, removed silos, encouraged cross department collaboration, and consolidated departments and services for increased efficiencies. We achieved savings through eliminating vacant positions. We restructured our departments to become more efficient. We created the Department of General Services by combining five functions for better coordination of essential functions. Due to the changing nature of technology and our communication with residents, we consolidated the Department of Information Technology with the Department of Communications and Public Information to reduce operating redundancies. The city successfully integrated Norfolk Community Services Board (NCSB) into the city structure to promote more oversight. We evaluated departments who receive federal and state reimbursement to more effectively leverage resources.

Strategic Planning and Stakeholder Meetings

Planning the Proposed FY 2015 Budget began with the City Council retreat where you told us to focus on our neighborhoods, employee compensation, and education. The direction provided at the retreat guided planning throughout the year. The city also hosted the Second Annual Economic Roundtable to help plan for immediate and future needs. Economists provided short and long-term forecasts on the local economy. This year we extended the roundtable to include more of our community partners and neighboring localities. The information shared at the meeting has been vital to developing our city's five-year forecast.

As promised, we explored compensation reform. Throughout the year, we held nine meetings with employees on compensation. Our recommendation for the ARMD Initiative is based on the input we received from our most valuable resource: our employees. This year we also reached out to the community and Team Norfolk in a new way. We held Budget Exercises with our Civic League leaders and employees where they had an opportunity to balance the budget. They were faced with realistic cuts and requests for funding and were asked to provide input and rationale for reducing, continuing, or expanding services. The participants commented that it was very difficult to cut services once they heard of competing needs from other groups. The exercise was an eye-opening experience for our residents and

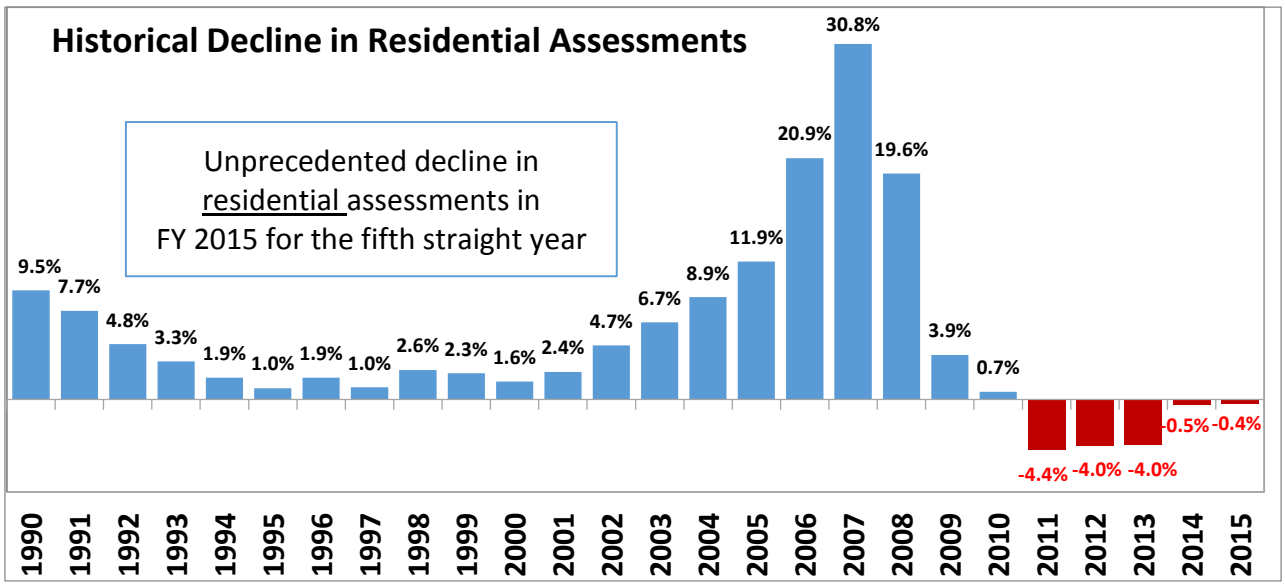
employees. We look forward to holding more events such as these and having year-round conversations on the plan for Norfolk.

Financial Backdrop

We are now nearly five years out from the official end of the Great Recession, but we have not seen pre-recessionary revenue growth. The recovery of cities lags behind the state and federal governments and we are still experiencing slow growth. During this period, the city has received less revenues, but we did not significantly decrease service levels to residents. Even as city expenditures have increased, we have implemented only modest tax increases. Our expenditures continue to outpace our revenue growth in our five-year outlook. A common theme we heard from the Economic Roundtable's state, local, and federal economists is that the current slow growth may become the new normal, especially with such a large portion of our economy based on defense spending. This indicates that we must adjust our way of thinking and operating.

The political stalemates at the federal and state level directly impact the economy of the Commonwealth and of our city. With over 36 percent of the city's budget coming from the state, the inability of the General Assembly to adopt a budget impacts our projections for state revenue. The budget presented to you today, is for the most part, based on the Introduced Budget of Former Governor Robert McDonnell. Additional support was provided for the city in both the House of Delegate and Senate amendments. Overall, the Senate version of the budget would provide more resources to Norfolk, specifically in regards to Pre-Kindergarten education and public safety, HB 599. However, depending on the final action of the General Assembly, there is the potential for adjustments. We will continue to track the state legislative process and analyze how the decisions at the state level impact our budget for FY 2015 and FY 2016.

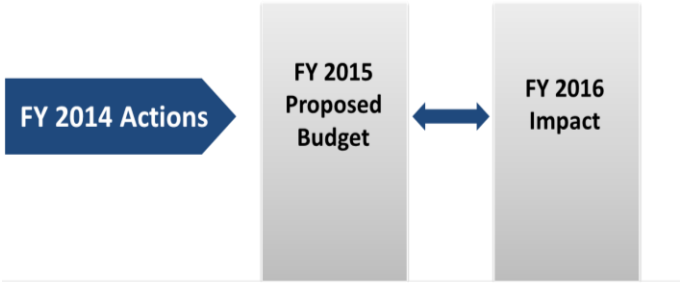
While other cities such as Virginia Beach and Chesapeake are only seeing their first post-recession increase in FY 2015, Norfolk's overall real estate assessments are projected to increase for the second consecutive year by about one percent. However, not all properties can expect an increase. Residential assessments are projected to decline in FY 2015 for an unprecedented fifth straight year. Homeowners will on average see a decrease in their assessments and tax bills from last year. Moreover, on average, homeowners will still be paying about $260 less than in FY 2010 when residential assessments were at their peak.



Real estate revenue is our largest source of locally generated revenue and supports nearly 26 percent of our operating budget. Without consistent and substantial growth in real estate assessments, revenues are not able to keep up with the growth in expenditures. Sustainable revenue growth is essential to maintaining and expanding our level of services and providing competitive compensation adjustments. In order to maintain or expand the level of service, we will need to establish a policy to ensure there is sufficient revenue. Stabilizing our revenue growth over the next three years should be a focus.

Two Year Lens – FY 2015 and FY 2016

At the City Council Retreat and at the Mid-Year Review we provide you with a fiscal outlook. In addition to the forecast this year, we analyzed each budget action through a two year lens. For example, the Colonel Samuel L. Slover Library is planned to open mid FY 2015. While costs related for the library are less in FY 2015 to account for the mid fiscal year opening, the city will bear the cost of a full year of operation in FY 2016. In order for the city to maintain a structurally balanced budget, we must look at not only how an addition of a program or service will impact the city in one fiscal year, but also in the following years.



"…taking the guesswork out of the second year of the biennium"

In the past, we added new initiatives, restored programs, provided compensation increases, or increased support for Norfolk Public Schools (NPS) using one-time revenues. These practices led to future financial instability. The FY 2012 budget included $17.7 million in on-going expenditures that were not backed with ongoing revenue. Once the increase in costs were included, the gap increased to $25 million in FY 2013. Similar to FY 2013, the budget included $19.3 million in on-going expenditures that were not backed with ongoing revenue. This continued practice created a gap of nearly $22 million in FY 2014.

The use of one-time sources to fund ongoing expenditures equates to future reductions to maintain the same level of service. Although, our budget is structurally balanced this fiscal year, it is not sustainable in FY 2016. We are projecting a preliminary gap of approximately $9.0 million to maintain the same level of service because of the annualization of costs, such as the salary increase, and from inflationary costs rising faster than our revenue growth. The gap of $9.0 million is smaller than prior years. Our previous gaps ranged from $20 to more than $25 million. By looking at the budget with a two year lens, we are not taking short-term fixes to balance our budget. In the past, we would reduce budgets, but sometimes the cuts were not sustainable. Now reductions or changes in service delivery are evaluated to see how they will impact the organization in future years.

In alignment with our Well-Managed Government priority, our goal is to provide a structurally balanced budget going forward. Solving a gap for only one fiscal year creates more problems in the future. A continuous structurally balanced budget shows the true cost of government. A structurally balanced budget also ensures long-term financially stability.

We are making strides towards this goal. Wall Street upgraded Norfolk's bond rating this past September. This is Standard & Poor's (S&P) first upgrade for the city in 50 years. S&P is the second of three rating

agencies to give Norfolk an "AA+" rating, which is one notch below the highest grade possible. The upgrade reflects the city's strong financial management and strong management oversight practices. The other two rating agencies reaffirmed the city's existing ratings; Moody's (Aa2) and Fitch (AA+). In order for the city to continue capital investments in our neighborhoods and for our schools, we must continue to improve our financial stability.

Increased Accountability

As a tenet of Well-Managed Government, we focused on a new level of accountability from our executive team and within departments. We streamlined processes and put more onus on departments to manage their own budgets. We are assisting departments by providing quarterly financial reports to alert departments if they are tracking within or over their budget. The quarterly tracking encourages departments to continuously evaluate their programs and processes to ensure that they are good financial stewards of public money.

Two strategies to increase accountability and encourage departments to evaluate their programs and services occurred this past fall. One strategy was that all city departments were told the FY 2015 budget will include level funding. For example, if a department decided to replace a vacating employee at a higher salary level, they would need to create savings within their department to do so. Each department had to submit strategies on how they would create efficiencies and savings within their department. Submissions were vetted to understand the impact to direct services. Departments had the flexibility to repurpose existing dollars to meet the core services. The increased accountability initiative is saving the city over $3.7 million in ongoing costs.

In addition to level funding, another strategy was that all departments (except for Norfolk Public Schools) were asked to reduce their budget by an additional one percent. Similar to the level funding, departments submitted strategies for review. Based on the potential impact to services, not all reduction strategies were accepted. This initiative made departments dissect their budgets and made them accountable to analyze whether there was a more efficient and creative way to provide the same level of service. This initiative saved over $3.2 million in ongoing costs.

In-House Analysis Teams

This past winter, we formed two in-house analysis teams, the Executive Strategic Evaluation Team (ESET) and Strategic Workforce Analysis Team (SWAT). Rather than utilizing external consultants who are not familiar with city processes or the needs of our community, we created interdisciplinary teams using existing resources and staff. The teams pulled together expertise across departments to analyze our current service models. ESET and SWAT evaluated selected programs, services and the make-up of departments. The analysis resulted in some departments getting back to their core mission and functions. The teams identified duplicative services functions across departments, analyzed the self-sustainability of Waste Management and analyzed the transfer of NCSB into the General Fund. The recommended reorganizations and realignments were done to create efficiencies, enhance services, and initiate best practices.

Centralizing Maintenance Operations

The Approved FY 2012 Budget combined departments and offices that provide internal and centralized services into the Department of General Services. Since FY 2012, we restructured General Services into the following divisions: Facility Maintenance, Fleet Operations, Parking Facilities, and Animal Care and

Adoption. Even though General Services has a facility maintenance division, three other departments had maintenance functions. ESET analyzed the maintenance function within the Zoological Park, Cultural Facilities, Arts and Entertainment, and The National Maritime Center and recommended the centralization of maintenance services. The centralization of maintenance responsibility is considered an industry-wide best practice that will promote enhanced coordination of responsibilities citywide. As a result of this action, maintenance funding and positions will be transferred to the Department of General Services. This initiative results in eight fewer full-time positions and improves the efficiency and effectiveness of service delivery.

Expanding Privatization of Custodial Service

In 1996, the city began to privatize its custodial services, and in FY 2012 we expanded the privatization. ESET analyzed the current contracts and the custodial functions that remain in the departments of Human Services, Libraries, Recreation, Parks and Open Space, and the Clerk of the Circuit Court. ESET recommended that the city expand privatization of custodial services. This action moves oversight of custodial services throughout the city to the Department of General Services. The initiative results in five fewer full-time positions, five fewer part-time positions, no impact to services and fewer resources spent to maintain the cleanliness of city buildings.

Centralizing Financial Operations – Getting our Financial House in Order

In FY 2014, the city transferred the Office of Purchasing to the Department of Finance. The transfer resulted in better coordination of purchasing, accounts payable, and accounts receivable. In FY 2015, the Department of Finance will streamline internal purchasing and payable processes, and will centralize the payment of utility bills, travel vouchers, and collection processes. The consolidation of financial operations eliminates redundancies across departments and will enhance financial management throughout the city. Previously, these financial functions were decentralized which led to varying financial processes across the organizations. Centralization will establish consistent accounting policies, shore up vulnerabilities, and strengthen our central Finance Department. The initiative results in an increase in positions to the Department of Finance to address the enhanced financial responsibility and offsetting reductions in other departments for a net reduction of one permanent position citywide.

Streamlining Public Safety Financial Management

We conducted an internal analysis on Norfolk Police Department and Norfolk Fire-Rescue's administrative processes. We analyzed similar functions in the two departments. In FY 2015, Police and Fire's financial functions will be consolidated under one umbrella. This initiative combines two units and eliminates redundant positions. Employees of the Bureau of Public Safety Financial Management will be housed within the organizational structure of the Police Department, but will serve both departments' financial needs. The initiative results in six fewer civilian positions and will improve the efficiency and effectiveness of service delivery.

Streamlining Human Services Administrative Services

ESET analyzed the administrative structure of NCSB, Human Services, and Office to End Homelessness. Within the analysis, the team reviewed research on the staffing size of other comparable cities, finding opportunities for Human Services to streamline the administration of the department without impacting services. The department is eliminating redundant positions and will streamline processes. The initiative results in eleven fewer full-time permanent positions in Human Services.

Enhancing Employee Recruitment and Retention

An internal analysis of Human Resources resulted in the recommendation to enhance employee recruitment for the city to become an Employer of Choice. Recruitment within NCSB and Public Works will be centralized within Human Resources to remove a duplicative function in these departments. Due to the specialized nature of Public Safety, the function of promotional testing will be transferred to Norfolk Fire-Rescue. The initiative results in a net reduction of one position citywide.

Transitioning Waste Management to Self-Supporting

The SWAT analyzed the potential movement of Public Works' Waste Management Division to a self-supporting Special Revenue Fund. The Proposed Budget transitions Waste Management from the General Fund to a self-supporting Special Revenue Fund. As the cost and complexity of disposing of solid waste has increased, local governments have transferred the function to a Special Revenue Fund to provide a clear relationship between the cost for collection and disposal of solid waste and fees for this service. The transfer provides transparency of all costs associated with the provision of Waste Management services and ensures the long-term sustainability of solid waste operations. The initiative also creates a sustainable vehicle replacement program to address the aging fleet, while building capacity in the General Fund to address the current city fleet and technology backlog. The city's Waste Management program is nationally recognized, having been recently acknowledged by the American Public Works Association for outstanding management. We would not have received this recognition without all the dedicated hardworking employees in Waste Management.

Transitioning NCSB to the General Fund

NCSB was transitioned into the city structure in FY 2013 as a Special Revenue Fund within the city's operating budget. The SWAT team analyzed the city's current fund structure, the structure of similar CSBs across the state, and governmental accounting standards, and recommended that NCSB transition to a General Fund department. Like Human Services, both departments are primarily funded from intergovernmental sources and the General Fund. Transition to the General Fund will provide consistency in the budgeting of services to our most vulnerable residents and may serve as a precursor to the potential consolidation of administrative functions.

Budgeting based on priorities

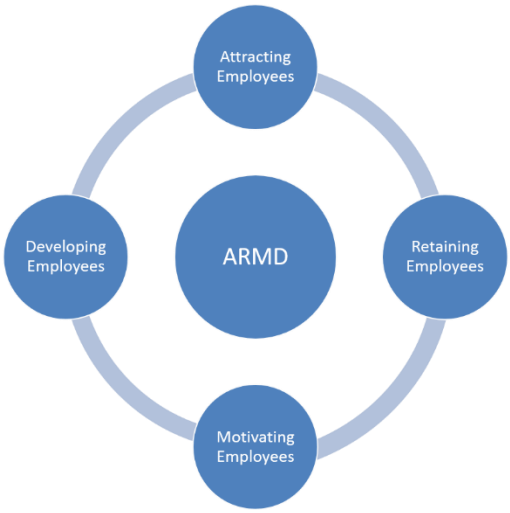
We planned year round, achieved a structural balance, analyzed budgets through a two year lens, increased accountability, and created in-house analysis teams in order for the city to focus on its priorities. The foundation of each priority is Well-Managed Government and without the efficiency and accountability initiatives, we would not have the resources to support our priorities. While all priorities are equally important, this budget highlights three priorities: Well-Managed Government; Safe, Healthy, and Inclusive Communities; and Lifelong Learning.

Well-Managed Government

The budget presented to you today reflects months of research and analysis from our in-house analysis teams: ESET and SWAT. The centralization of maintenance, custodial, and finance creates efficiencies throughout the organization. The implementation of these best practices results in savings that allows

the city to increase funding for our neighborhoods, and provide compensation increases to the city's employees while still achieving the goal of a structurally balanced budget.

Becoming an Employer of Choice



During the first half of FY 2014, we held a series of meetings with employees on the topic of compensation. Employees had a chance to voice their concerns. We discussed the financial challenges the city has faced over the last several years. Although the employees understood that we could not solve all of our problems at once, we made a commitment that in FY 2015 we would take a step in the right direction.

In FY 2015, the city will begin implementation of the three-year ARMD Initiative. The goal of the ARMD Initiative is both to ensure that Norfolk attracts and retains high quality employees, and to help them grow as professionals. Without our high quality employees, we would not be able to deliver high quality service to our residents. In FY 2015, we plan on taking a number of first steps. The FY 2015 ARMD Initiative includes:

- All permanent employees will earn at least a living wage.
- Permanent General and Constitutional employees will receive at least a two percent general wage increase (GWI) by January of 2015. Unlike past years, this will be accomplished without moving the pay ranges. This will reduce compression by allowing some separation between current employees and employees hired in the future.
- Sworn Police Officers and Firefighters will receive a step increase in January 2015. Awarding the first step increase since FY 2009 will help alleviate compression problems in the Police and Fire ranks and help the city retain its officers.
- We will offer a DROP program for eligible sworn Police and Fire employees in January of 2015. This program will help the city retain its most experienced sworn police and fire fighter employees.
- Job classifications with salary ranges more than six percent below that of our neighboring localities will begin to be re-graded to ensure that Norfolk remains competitive. Classifications more than 20 percent below the regional market will receive an additional grade. The market adjustments are based on the Department of Human Resources' annual review of the pay grades and classifications of regional localities.
- In January 2015, all city employees who do not currently contribute five percent to the Norfolk Employee's Retirement System (NERS) will contribute to NERS and receive a corresponding five percent salary increase. Two years ago, the Virginia Retirement System (VRS) implemented a similar program. While this does not increase the employee's take home pay, it will raise their base salary by five percent which will increase the value of their pension. By doing this, we will increase future retirement benefits for nearly 2,000 current city employees.

Some of the ARMD Initiatives are made possible by our efforts to simplify the Compensation Plan and the city's compensation structure. Currently, we are the only locality in the region with a step system for General Employees. Beginning in FY 2015, steps for General Employees will be restructured to an open range system. An open range pay structure allows for more flexibility and is considered a best practice model nationally.

We are able to implement phases of the ARMD Initiative earlier than we planned due to the increased accountability and efficiency initiatives. While the first year of ARMD does not address all our compensation issues, it is our most comprehensive compensation package in a number of years and our hope is that Norfolk employees take it as a sign of how much we appreciate their patience and hard work. FY 2015 is only the first year of the three year ARMD Initiative. FY 2016 will be dependent on sustainable revenue, and although the annualization of FY 2015 ARMD actions will result in an additional $2.0 million in FY 2016, we will still work towards providing another GWI and sworn step increase in January of 2016. Additionally, the city proposes to continue setting aside funds for market adjustments. By 2017, the intent is to tie sustainable compensation increases to sustainable revenue growth.

Norfolk Healthcare Consortium

The city transitioned to a city-administered healthcare model in January of 2014. FY 2015 will represent the Norfolk Healthcare Consortium's first full year as a self-insured entity. In February of 2014, the city's healthcare consultant concluded that in calendar year 2014 the Healthcare Consortium (which includes Norfolk Public Schools) avoided $6.0 million in cost from this change.

This cost avoidance helped prevent deeper reductions to departments and also helped prevent substantial increases in the healthcare premiums paid by employees. An employee with family coverage in the city's base healthcare plan is paying $515 less annually than they would have if the city had continued under the fully insured model.

As recent as this past February, the city's healthcare consultant sampled a group of Virginia localities and found that Norfolk covers a higher share of the employee healthcare premiums. Employees will pay the same healthcare premiums through November of 2014. This represents 15 straight months without an increase. However, due to continuously rising medical costs, beginning in December of 2014, employees will be asked to contribute an additional $5 to $25 per month depending on their healthcare plan choice. The city will continue to offer two plan options with a similar level of benefits, allowing many employees the opportunity to reduce their overall costs in 2015 by switching plans. As we have done in the past, the city will again cover the majority of the premium increase.

Enhancing Strategic Planning and Policy Analysis

The Proposed FY 2015 Budget includes a reorganization of the Office of Budget and Grants Management. Beginning last winter, the office has coordinated ESET and SWAT. The in-house analysis teams will

continue in FY 2015. The department will reorganize into three divisions: a budget division, a citywide grants division (that will help leverage city resources with grant funding opportunities), and a strategic planning and policy division (that will lead research and policy analysis for the city). The office will be a research-focused environment where staff will analyze best practices on programs and activities and make recommendations on ways to achieve greater efficiency and effectiveness. The office will strive to bring in additional federal and state grant dollars to free up funding in the General Fund and will specifically try to match new city initiatives with grant funding.

Safe, Healthy, and Inclusive Communities

At the City Council retreat, we heard from you about the importance of focusing on our neighborhoods. We understand that neighborhoods are the fabric of our city. The city has received accolades over the last couple of years that stem from our neighborhoods. West Freemason was named one of the top ten neighborhoods in the country by the American Planning Association. The American Planning Association Virginia Chapter awarded the city the Outstanding Comprehensive Plan – Large City 2013 Award for plaNorfolk 2030. The plan was developed in collaboration with our neighborhoods and was done entirely in-house by Norfolk's planning experts. Our work was acknowledged by National Civic League with the city recognized as an All-America City. Three of our current programs were acknowledged: Veterans Initiatives, Flood Mitigation, and Neighbors Building Neighborhoods. These programs were awarded for addressing local challenges with innovative, grassroots strategies that promote civic engagement across the sectors of our community.

This past December, in a worldwide competition, the Rockefeller Foundation selected Norfolk as one of 33 cities internationally for the 100 Resilient Cities Centennial Challenge. The challenge enables cities to better address natural and man-made disasters and other stresses of the 21st century. As a resilient city, Norfolk will receive technical support and membership in the 100 Resilient Cities Network. The challenge comes with access to $100 million in support to the selected cities. Norfolk has already kicked off this initiative with resiliency workshops that were attended by community stakeholders. The workshops began the discussion on future stresses that will impact our city. The continued resiliency of our city is dependent on the strength of all our neighborhoods.

Focusing on Our Neighborhoods

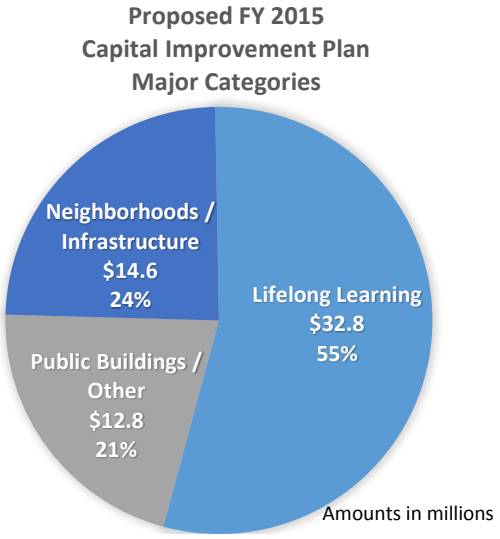
We are implementing a new service delivery model focused on neighborhood collaboration and community problem solving. The FY 2015 budget creates the Department of Neighborhood Development. The department brings together existing city resources with the goal of serving as an advocate for **ALL** Norfolk neighborhoods by: promoting civic participation; supporting neighborhood driven solutions to issues and concerns in the community; fostering the development of new partnerships and

strengthening existing neighborhood partnerships; fostering greater accessibility to city services; and preserving and enhancing the character of Norfolk's neighborhoods.

We are looking at our neighborhoods and our resources through a new lens. Previously, the city had a fragmented approach to addressing the needs in our neighborhoods. There were a multitude of departments that addressed neighborhood needs, but at times our outreach was duplicative or disjointed. The newly created department streamlines neighborhood focused activities under one umbrella. The collaboration will remove departmental silos and provide enhanced neighborhood services to our city. The department will incorporate the following: the Bureau of Community Enrichment from Communications and Technology; Bureau of Neighborhood Quality, Nuisance Abatement Program, and the GEM Program from the Department of Planning and Community Development; and Housing and Urban Development (HUD) entitlement programs (Community Development Block Grants (CDBG), Emergency Solution Grants (ESG), HOME Investment Partnerships program (HOME)) from the Office of Budget and Grants Management. We are centralizing oversight of neighborhood funding such as CDBG and previously authorized Capital Improvement Plan (CIP) projects into one department for better coordination and oversight. The department will spearhead the Neighbors Building Neighborhoods (NBN) initiative. The department will also provide a unified approach to providing neighborhood services through inter-departmental coordination with code enforcement, and Impact (the city's customer-focused call center).

Continuing Capital Investment within Our Neighborhoods

We worked hard to manage our CIP to an affordable level. Large projects such as Light Rail, Consolidated Courthouse, and Colonel Samuel L. Slover Library are no longer in the future years of CIP. The major drivers of the CIP moving forward are schools and neighborhood projects. The proposed CIP includes $14.6 million in neighborhood and infrastructure programs in FY 2015. The Approved FY 2014 Budget included only one year of funding for the neighborhood plans. The Proposed FY 2015 CIP continues funding for the four neighborhood plans: Broad Creek, Fairmount Park/Lafayette Boulevard, Southside, and Wards Corner. The CIP also continues funding for the Revitalize, Redevelop, and Conserve Neighborhoods project that supports initiatives in West Ocean View, East Ocean View, Willoughby, Cottage Line, Bayview, Huntersville/Church Street, and the citywide disposition of property. The CIP also includes funding to repair neighborhood, streets, sidewalks and walkways, to improve street lighting, and to improve the current amenities in our neighborhoods. The five-year CIP includes $1.2 million to improve community and neighborhood parks, and $2.5 million to continue implementation of the Recreation, Parks, and Open Space Master Plan. The FY 2015 funds will be used, in part, for the design of a boxing facility in Barraud Park. The CIP also continues the commitment to replace or renovate Fire-Rescue facilities, but moves the funding out one year in an effort to comprehensively study all potential locations for new fire stations. The modernization



of facilities will assist Norfolk Fire-Rescue's protection of life, property, and the environment and their care for the sick and injured.

Investing in Human Capital

To have safe and healthy neighborhoods, we must continue to help those most in need. We are committed to helping our most vulnerable residents. The city is on a path to end homelessness. Through regional cooperation and a unified vision, the cities of Norfolk, Chesapeake, Portsmouth, and Virginia Beach collaborate to end homelessness by providing permanent housing. To this end, Norfolk hosts Gosnold which is the first permanent Single Room Occupancy (SRO) for homeless individuals in Virginia. Since Gosnold was built in Norfolk, three more SROs have been completed. The fourth SRO, Crescent Square in Virginia Beach, will begin construction this summer and the fifth SRO will be in Norfolk. In total, this regional approach has created 324 units for the homeless, with more than 30 percent of the units belonging to Norfolk. In the Proposed Five-Year CIP, the city is providing $1.0 million to support the Church Street Station SRO.

In addition to the city's support for SROs, in FY 2015, the city is supporting more than $6.8 million for homeless and housing assistance. Annually, the city evaluates the activities it supports through CDBG, ESG, and HOME. This year the city is increasing funding for ending homelessness. Even though, the U.S. Department of Housing and Development is reducing support for Norfolk's CDBG grant by three percent, the city is increasing support for our most vulnerable residents. The city is able to focus its resources on ending homelessness by transitioning youth programs from the HUD entitlement programs to the Human Services Grants (HSG) in the General Fund. The major benefit of this change is its positive impact on the overall distribution of the CDBG funds. By shifting youth programs to HSG, the dilution of CDBG funding is minimized. This level of commitment results in more financial support for homeless programs in FY 2015 than in FY 2014. Additionally, we are enhancing our Crisis Intervention Training (CIT). CIT's are designed to reduce negative interactions between individuals with serious mental illnesses and law enforcement officers. Our officers will be better trained to handle a mental health crisis. To support CIT, we are enhancing the partnership between NCSB and Norfolk Police Department. We are leveraging resources and proposing $75,000 in CDBG funds be used to enhance mental health intervention training. We are also actively seeking grant opportunities to enhance this service.

Lifelong Learning

Lifelong Learning continues to be the one of the highest funded City Council priorities in both the Operating and Capital budgets.

Early Childhood Education

Through community partnerships we are creating best practices. Through community collaborations we are ensuring that residents of all ages reach their full potential. We are supporting programs that focus on quality early childhood education from the first day of a child's life. We are proud to work with Sentara Norfolk General as they pilot a universal screening and referral program. Sentara Norfolk General will screen every child born in the hospital to identify children who are born in high risk environments. For families who are flagged as high risk with parental consent information will be forwarded to the Planning Council. The Planning Council serves the region by planning, developing and managing human service programs. The Planning Council will match families with community resources. This initiative is aimed at

identifying risk and providing resources to families to constructively deal with stress that may otherwise result in child abuse or neglect.

The city is committed to quality early childhood education. Norfolk Ready By Five was launched in 2011 through the Early Learning Challenge Grant awarded by Smart Beginnings of South Hampton Roads. Norfolk Ready By Five focuses on promoting high quality early education so that all children arrive at kindergarten ready to succeed. Norfolk Ready By Five works with the Virginia Star Quality Initiative to rate and improve the quality of the early education system. The initiative encourages early education providers to be rated for quality. Providers are eligible to receive resources to improve the quality of education they are providing our children. They receive an improvement plan, a mentor, educational materials, and training. The city partners with the Planning Council and Tidewater Community College on this initiative. The city is providing an additional $50,000 in FY 2015 to continue to support Norfolk's Ready By Five initiative.

We are excited that Norfolk will be home to New School, owned and operated by Elevate Early Education (E3) initiative. The New School in Park Place will be a data-driven, mixed income, early education facility. The school will not only advance early childhood education in Norfolk, but will provide a model for the Commonwealth. The school is partnering with the University of Virginia to create a new preschool curriculum and evaluation plan. Children will be tracked through the third grade to document ongoing educational achievement. We are fortunate to have community partners who are working to improve the educational experience for all.

The city is also a proud member of a Collective Impact initiative, United for Children: Young Terrace. Collective Impact is a disciplined effort through which organizations establish a common vision and pursue evidence-based actions in mutually reinforcing ways. The initiative is coming together around the whole child with integrated individual, family, neighborhood, and school interventions. We are partnering with the United Way, NPS, Eastern Virginia Medical School, Old Dominion University, Norfolk Redevelopment and Housing Authority, Hampton Roads Community Foundation, and a multitude of businesses, non-profits, and community based organizations to assist children living in Young Terrace by focusing on education, character-building, and healthy living. Last summer, Collective Impact supported summer school at P.B. Young, Sr. Elementary School. The goal of the program was to stop the summer learning loss which increases the achievement gap. Through a "stone soup" approach of community partnerships, Collective Impact provided learning and enrichment opportunities to 292 children of Young Terrace and significantly reduced summer learning loss for reading and mathematics.

Continuing Commitment for Excellence in Education

Even as every department was required to submit reduction strategies, NPS was not asked to do the same. The city is maintaining support to Norfolk Public Schools (NPS). In FY 2014, the city closed its central storehouse, which provided $1.8 million in one-time revenue and all funds were provided to NPS. Through the FY 2015 efficiency initiatives the city found ongoing resources to replace the one-time funds. For FY 2015, NPS projects Average Daily Membership (ADM) to decline by an additional 390 students from 29,805 to 29,415. ADM is the student enrollment count that drives most state funds for public education. Due to the loss of students, state revenue is decreasing, but the city is maintaining its support. As such, the city is providing more local resources per student in FY 2015.

The city support for NPS remains constant even as local revenues are decreasing. In comparison to some of our surrounding localities, who decrease support for schools as local revenue decreases, we are maintaining our support. As we move forward, I look forward to working with City Council and NPS on identifying ways to further NPS's goals and objectives.

Per Pupil Expenditure (PPE) is the statistic that measures the amount of money put toward the general education for each student. Each spring, the Superintendent's Annual Report for Virginia provides a yearly PPE comparison for each school division in the Commonwealth. The report utilizes annual financial data submitted by school divisions. Since all school divisions submit the data, this report provides the best comparison of PPE across the state. The most recent report indicates that Norfolk spends the most per child in the Hampton Roads region.

The city also continues to support NPS through its capital budget. Since 2001, the city provided support for Norview High, Blair Middle, Coleman Place Elementary, and Crossroads Pre-K-8. Since 2007, the city provided $20.5 million in major maintenance funding. The Proposed FY 2015 Five-Year CIP includes an additional $12.0 million for maintenance. The single biggest driver of our CIP moving forward is school construction, renovation, and maintenance funding.

The financing of the schools through the CIP will impact the city's operating budget in future years. The city is spending more than $10.0 million on debt service for school construction in FY 2015. It is projected the city will continue to spend at least $10.0 million annually on the debt service for school construction projects and the amount will increase to nearly $20.0 million by FY 2019. The Proposed Budget also continues support for the replacement of NPS' aging bus fleet. The city continues to purchase $1.0 million in buses every year for NPS. Since FY 2013, the city has provided $4.1 million for school bus purchases.

The city is committed to building schools that will enhance the educational experience of Norfolk's students. The city is now accountable for school construction projects. We have the capacity to manage multiple school construction projects. The city is prepared to build five schools, Campostella, a school in the Broad Creek Area, Ocean View, Larchmont, and Camp Allen. The city and NPS are currently reviewing school construction proposals using the Public-Private Education and Infrastructure Act of 2002 (PPEA). The PPEA was designed by the Commonwealth to bring private sector expertise to bear on public projects to save time and money. The city is working in partnership with the school division to evaluate the proposals. The five-year CIP includes funding to plan, build, and furnish all five schools.

2nd Priority

The FY 2014 Approved Budget created the Construction, Technology, and Infrastructure Program (CTI). The CTI programs funds one-time capital, technology,

and infrastructure improvements for the school division. The program will fund (in priority order) the debt service for school construction projects, fund the purchase of technology to enhance learning within the classroom, and address infrastructure needs. The program is supported by a dedicated two-cent real estate tax increase. Due to the planning and review time required for the PPEA process, $3.0 million of the CTI lockbox is available to NPS to spend in FY 2015 on one-time technology needs for the school division.

Expanding Lifelong Learning Opportunities for all of our residents

The Colonel Samuel L. Slover Memorial Library (Slover) is scheduled to open in January 2015. The Proposed FY 2015 Budget continues our commitment to make the library the most technologically advanced municipal library. To ensure the library has the most recent technological advances, $1.5 million is provided within the CIP. The Proposed FY 2015 Budget includes approximately $2.4 million in support for staffing, library books, programming, printing, and staff parking.

The Proposed FY 2015 Budget continues our commitment to expand lifelong learning opportunities to Norfolk's residents. In 1998, a libraries facility study was completed that recommended the addition of anchor branches in the city. The first anchor branch, Mary D. Pretlow, was added in Ocean View. Funding for a second anchor branch was first appropriated in FY 2005. While the city was cued up to begin planning the library, light rail led to the demolition of the main library. The city then received the generous gift from the Batten family to build the Slover library, which resulted in the delay of the south anchor branch library. The Proposed FY 2015 five-year CIP includes funding to design, construct, and furnish the Broad Creek library.

All priorities are important

Economic Vitality and Workforce Development

The priority of Economic Vitality and Workforce Development focuses attention and resources on a growing and diversified economy that enhances the quality of life for our citizens through a wide range of housing, shopping, educational, cultural, business, and employment opportunities. Exciting development projects are underway. The current development potential represents $1.3 billion of investment and more than 3,000 new jobs.

To continue support of this priority, the Proposed FY 2015 Budget includes a five-cent increase in the cigarette tax with all proceeds supporting development related activity. The five-cent increase will support business retention, feasibility studies, and development initiatives. Also, the cigarette tax increase will be used, in part, to promote Small, Business, Women and Minority owned businesses (SWAM). Norfolk's cigarette tax will increase from $0.75 per pack of 20 cigarettes to $0.80 per pack of 20 cigarettes, which will increase revenues by approximately $473,000 annually.

In November of 2006, the city amended its budget and provided $750,000 to the Economic Development Authority (EDA) to establish a SWAM program. Of the original amount a portion has already been

returned to the city and $375,000 currently remains with the EDA. To date, a SWAM program has not been established, as such, the balance will also be returned to the city.

Accessibility, Mobility, and Connectivity

The city in FY 2015 will continue to connect residents and businesses to programs and services by leveraging technology to reduce ongoing operating costs and increase efficiencies. There are several actions planned or ongoing that will improve programs and services for our residents. These actions include: the continued development of the one-stop Development Services Center on-line permitting process to allow homeowners and contractors to submit plans by way of the internet; continuation of Norfolk courts' efforts to digitize records; enhanced citywide record retrieval through Laserfische that also reduces long-term storage costs; and the expanding use of social media sites such as Facebook and Twitter to disseminate public information to a growing "wired" community.

Environmental Sustainability

When discussions began on the City Council's priority of Environment Sustainability in 2011, solutions for the environmental challenges facing the city seemed daunting. There was limited funding to address Norfolk's resiliency in instances of flooding, hurricanes, and other natural disasters. Over the last three years, through a holistic lens we have seen that our environmental challenges are connected. As a result, the city has made steady progress in the development of a flooding strategy as well as adopting plaNorfolk2030. These initiatives brought the city closer to creating long-term viable solutions to its environmental challenges.

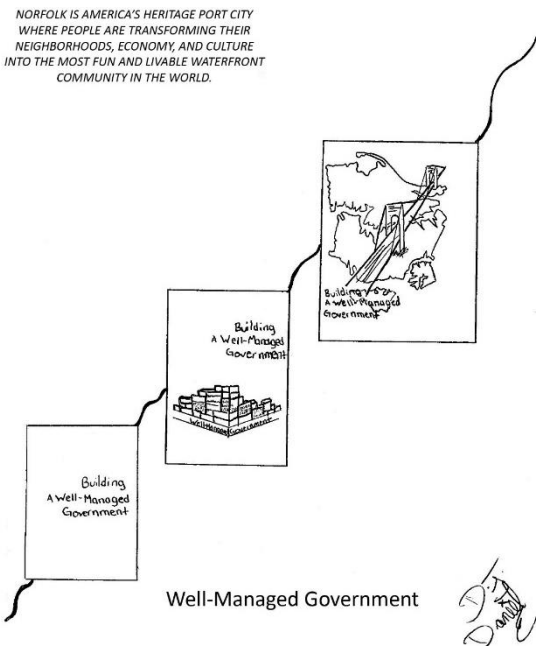
Additionally, the city's efforts to promote an economic sustainable community have not gone unrecognized. Peer review, articles in major publications including the *New York Times* and *Wall Street Journal* on the city's flooding challenges helped secure the city's selection as one of the Rockefeller Foundation's 100 Resilient Cities. This important designation will provide direct access to a network of expertise from across the globe to achieve our long-term environmental sustainability goals.

Conclusions and Next Steps

The Proposed FY 2015 Budget continues the process of focusing on our priorities. The foundation for all of our priorities is building a Well-Managed Government. This budget makes huge strides towards that goal by proposing a structurally balanced budget. This budget represents a culmination of months' worth of data-driven analysis and cross departmental collaborations. The result is a leaner government that provides more effective services to our residents while expanding services to our neighborhoods, most vulnerable residents and early learners. The budget also starts the city on the path to attract, retain, and motivate exceptional employees.

In the upcoming year, we will use our in-house analysis teams to continue to identify ways to become more efficient and effective. The ESET and SWAT teams will analyze the following departments in the coming year: Communications and Technology, Norfolk Fire-Rescue, and Public Works. We will also assess

our current relationships with community partners. We will compare the amount of funding we are providing to organizations to the benefit the city is receiving. We want to ensure that our community partners' visions support the goals of the city and propel our progress. As the city continues to refine internal and external processes to more efficiently deliver services, we encourage our partnering organizations to do the same. The city will also continue to evaluate two of our biggest budget drivers: healthcare and retirement. Currently, the employer and employee share of the healthcare premium differ for Healthcare Consortium members. We will continue to analyze ways for there to be healthcare equality across the consortium for the same benefits. We look forward to working on all these initiatives with City Council over the coming year.



The Proposed FY 2015 Budget includes $1.5 million in undesignated funds. The funding is set aside to mitigate any additional costs that may occur as a result of the Commonwealth approving a budget, additional member contributions at the Hampton Roads Regional Jail, or to replenish a projected withdrawal from the Risk Management Reserve. As we continue with sound financial management practices, we recommend that the funding be utilized to shore up our reserves. If the funding will not be used to replenish reserves, then the funding should be used for one-time expenditures.

The financial plan, as proposed, provides the necessary elements to continue to support for our neighborhoods through the Safe, Healthy and Inclusive Community priority, our employees through the ARMD Initiative in support of a Well-Managed Government, and early childhood education, K-12 education, and school construction through our Lifelong Learning priority. We look forward to working with City Council and the community as we all continue to move our city forward and to improve the quality of life for all residents in this great city.

Sincerely,

Marcus D. Jones

City Manager