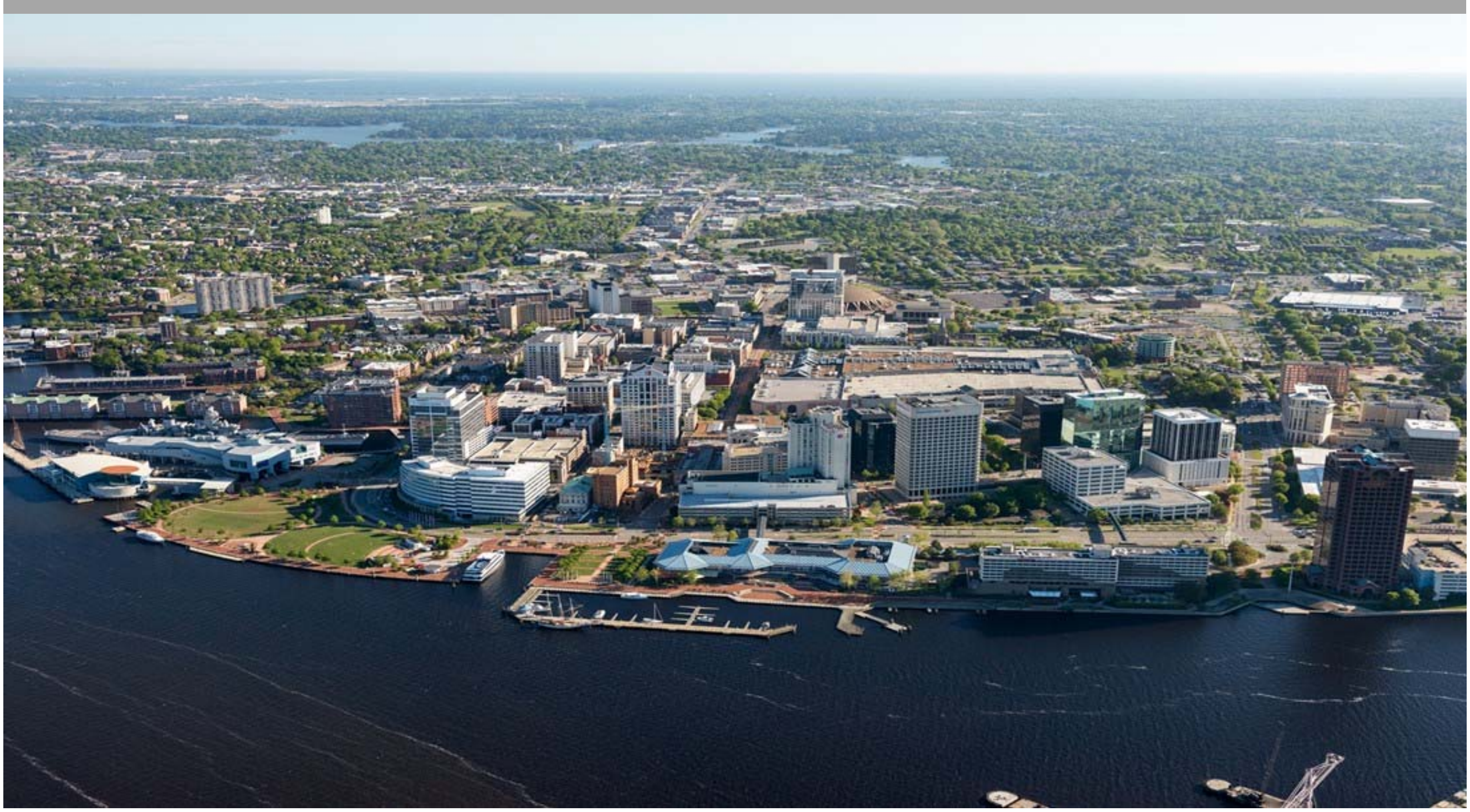
THE CITY OF NORFOLK

# Mid–Year Financial Update

# March 2016



# Learning from the Past, Building for the Future

In December 2013, Norfolk was named one of the first 33 cities of the Rockefeller Foundation 100 Resilient Cities (100RC). Rockefeller's 100RC initiative incorporates a view of resilience that includes handling the shocks and the long term stresses that weaken a city on both a day to day and cyclical basis.

Through a community stakeholder process, Norfolk is collaboratively building resilience around three critical resilience themes:

- Coastal - living and thriving in a rising water environment
- Economic - ensuring economic opportunity
- Neighborhood - supporting neighborhood vitality

## A Leader in Coastal Resilience

In January 2016, the U.S. Department of Housing and Urban Development (HUD) announced the winners of a National Disaster Resilience Competition. Virginia was one of 13 recipients, and received a $120.5 million grant to be used for resilience projects in Norfolk to:

- Implement innovative storm water and flood management strategies in the Ohio Creek Watershed in Chesterfield Heights and Grandy Village
- Establish the Coastal Resilience Accelerator to serve as the hub for solving challenges related to water-related businesses, water management, and community revitalization

## Building a Resilient Economy

A resilient economy has the ability to adjust to the effects of adverse shocks and stresses. To withstand and recover from these events, Norfolk is creating a multi-pronged economic development strategy, nurturing its entrepreneurial ecosystem, strengthening its workforce development pipeline, reinvesting in and revitalizing neighborhoods, and exploring innovative financing methods.

## Strengthening Our Neighborhoods

A resilient city is built on strong, healthy neighborhoods. In Norfolk, this means improving resident access to information and services, supporting community-building efforts through technology, and connecting the community through engagement. As we move beyond the recession, it is critical to strengthen the fabric of our neighborhoods by promoting comprehensive urban revitalization, fostering job growth, and providing an economic opportunities.

# Creating the 22nd Century Norfolk

NORFOLKVISION2100

A resilient city must not only cope with adverse shocks and stresses as they occur, but plan for challenges it will face over the course of the next 50 or 100 years. In the fall of 2015, the city launched Norfolk Vision 2100 as part of its broader resiliency strategy. This collaborative program engages citizens and other key stakeholders to envision how Norfolk will look in the next century. The city faces a number of unique challenges, including sea level rise, decreased federal spending, the need for continued economic and residential development, improvements to public infrastructure, and many others. The Vision 2100 program will result in a plan that catalyzes future decision making.

## *Norfolk—A Smart City*


Norfolk is fast becoming a Smart City. A Smart City integrates multiple technologies to enhance the quality of life, livability, workability and sustainability for residents, businesses, and visitors. As dependency on technology grows, the city needs to be nimble to accommodate changes that allow connectivity with our mobile customers. By using a holistic approach to technology integration, service delivery becomes more intelligent, interconnected, and efficient.

As a Smart City, data is used to evaluate how we deliver services, where to make improvements, how to reduce costs, eliminate redundancies, share resources, and increase results. This continuous evaluation and monitoring optimizes resources, so we spend less and make the quality of life better for residents.

As a Smart City, technology and data analytics are embedded in the infrastructure to improve real time responses through a simple transactional relationship with residents, businesses, and visitors.

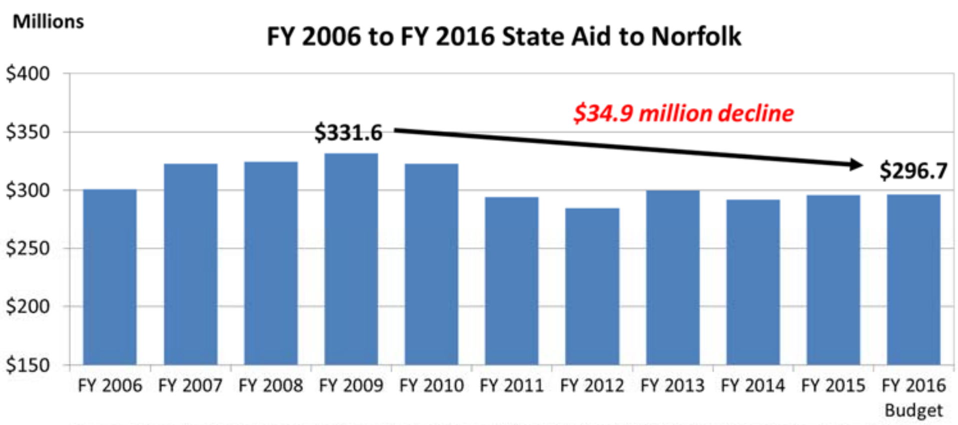
## *Smart City Initiatives Underway*

- BasicGov-online permitting
- Crime Analysis
- Electric vehicle charging stations
- EnergyCAP-utility management
- GIS data and mapping
- GPS in city vehicles
- Smart parking meters
- STORM-weather event analysis
- TITAN-storm surge tracking
- Traffic management
- Increasing public connectivity
- Increasing public Wi-Fi

# Continuing Recovery

## Commonwealth's investment in Norfolk

**State aid to Norfolk has not recovered from its peak in FY 2009**




Source: City of Norfolk Comprehensive Annual Financial Report (FY 2006 - FY 2015). FY 2015 and FY 2016 amounts do not include Norfolk Community Services Board, for comparison purposes.

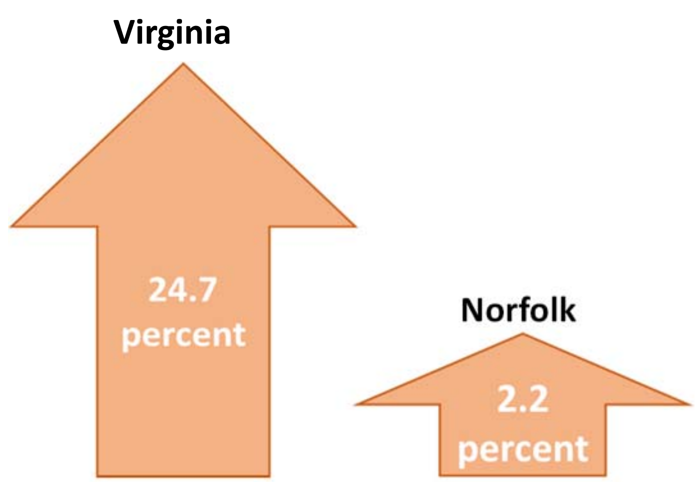
To support services, the city relies on many different revenue sources. The single largest source of revenue is from the Commonwealth. This revenue accounts for nearly 40 percent of the annual General Fund budget and supports daily operations related to K-12 education, social services, and public safety.

When the Commonwealth's revenue decreases, support for localities is typically reduced. With such reductions, service levels may need to be re-examined and the generation of alternative local revenue sources should be explored.

While the Commonwealth's revenues have recovered from the recession, Norfolk's have not. With state aid for Norfolk still below pre-recession level, Norfolk's revenues have only grown 2.2 percent over the last five years. Even though the Commonwealth's five-year revenue growth is 11 times greater than the city's, state support has yet to be fully restored.

In December, the Governor introduced the 2016-2018 biennial budget, which presents a growing and stable fiscal outlook. The Introduced Budget includes additional funds for K-12 education and economic development initiatives that foster regional collaboration to achieve shared goals and diversify Virginia's economy.

**State revenue growth 11x greater than Norfolk over the last five years**




Virginia's revenues excludes transfers.

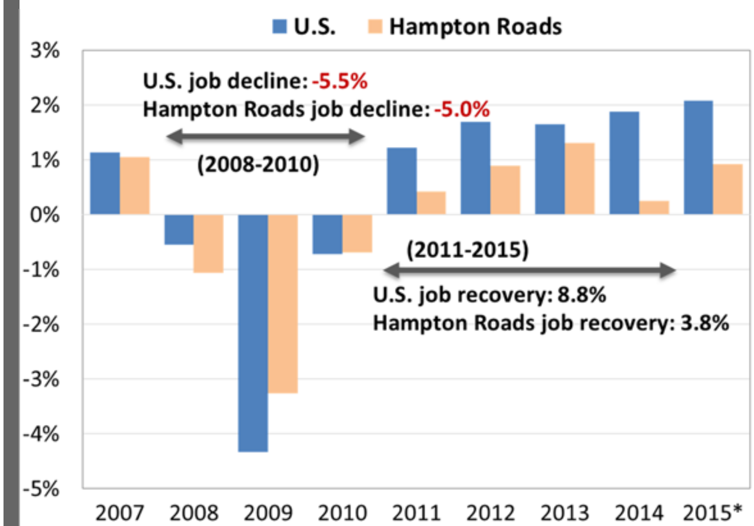
# Analyzing Economic Trends

## Local economic outlook: moderate employment growth projected

State budget actions have a significant impact on the city; however, the broader economic landscape also impacts the local financial outlook. Key national, state, and local economic trends are continuously monitored because they are closely linked to the performance of the local economy. Some of the key economic trends analyzed include:

- Employment data
- Outlook of the Commonwealth
- Interest rates at which we can borrow
- Assessed value of homes

### Job Growth is Slowly Recovering



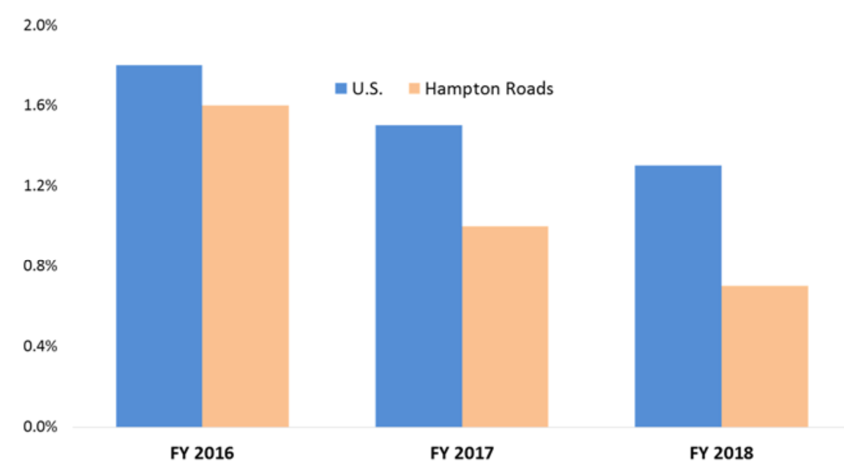

**U.S. and Hampton Roads data reflect annual revision by U.S. Bureau of Labor Statistics released in February and March, 2016 respectively.*

Job growth is one of the most important indicators of a local economy's health. Higher job growth leads to greater economic activity, which in turn, leads to higher tax revenue for the city.

Hampton Roads has struggled to regain the jobs lost during the recession. The U.S. economy reached its pre-recession employment peak in May 2014; the Hampton Roads region, however, has yet to return to this employment level. Growth in employment is critical to providing job opportunities, improving the standard of living, and stimulating economic activity.

### Local Job Growth Projected to be Lower than the Nation

Growth in local employment is projected for the next three years. However, this growth will continue to lag the projected national rate of growth as it has done in recent years.




Source: Virginia Department of Taxation and the Governor's FY 2016-2018 Introduced Budget.

# Rebounding Economy Creates Revenue Growth

## Improving revenues

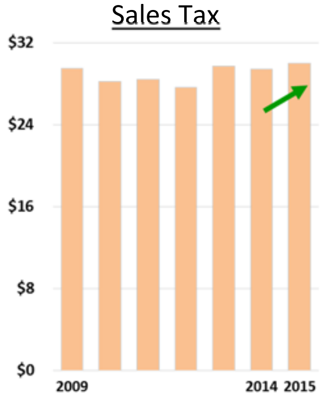
The ability to generate local revenues was significantly impacted during the Great Recession. Although the local economy is growing at a slower rate relative to the Commonwealth and the nation, recovery in locally generated revenues is beginning. This growth is a sign of economic progress.

Revenue growth in sales, meals/hotel, and other local taxes indicate that people are spending more discretionary income on dining out, traveling, shopping, and entertainment.

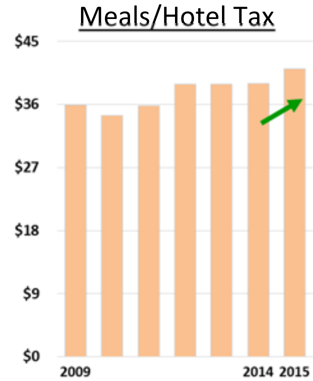
**Consumer spending is on the rise**

(amounts in millions)

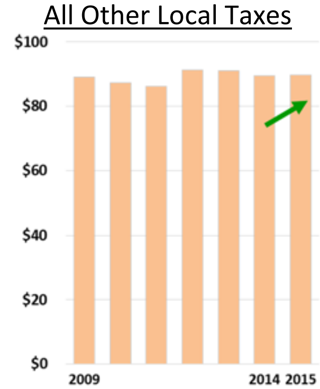
Sales Tax




Meals/Hotel Tax




All Other Local Taxes

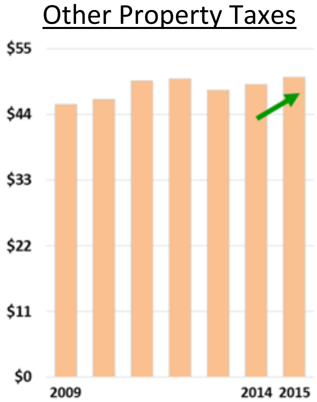



While the revenue sources above indicate increased local economic activity, other key revenue sources are also growing. The modest growth of these revenue sources helps the city continue to provide core services.

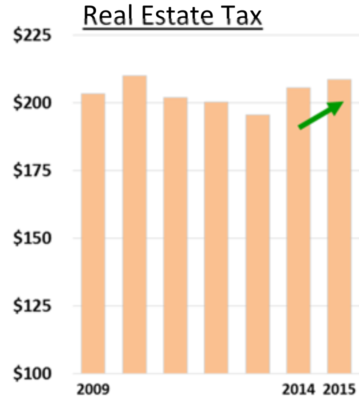
**Key revenues are increasing**

(amounts in millions)

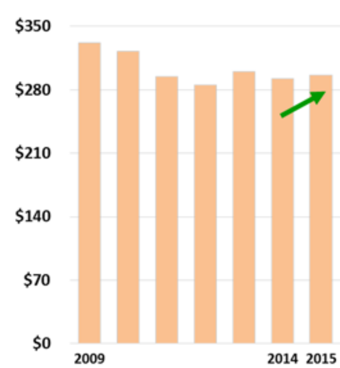
Other Property Taxes




Real Estate Tax




Revenue from the Commonwealth

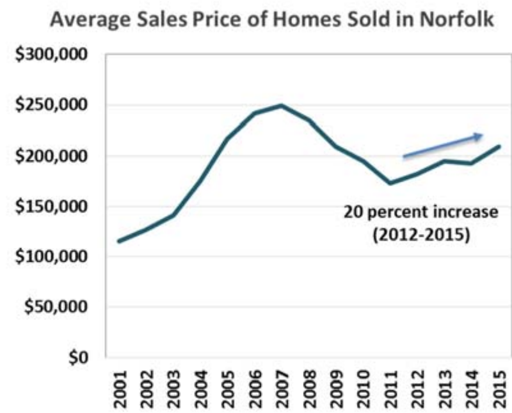


# Emerging from the Recession

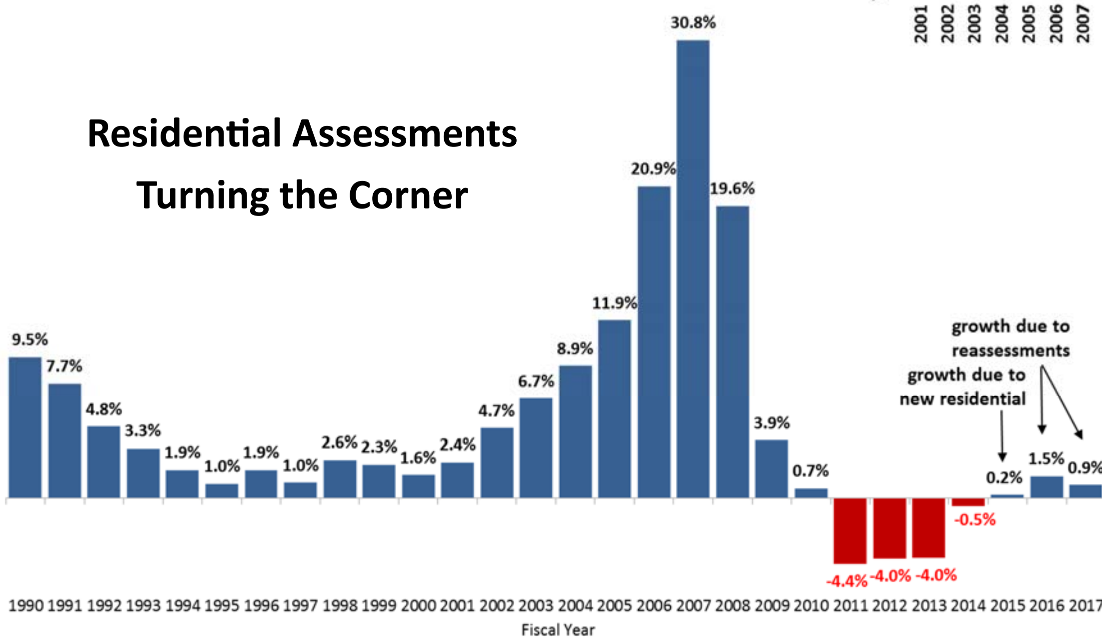
## Local housing market: recovery on track

Trends in the housing market are another key indicator of the health of the local economy. Rising home sale prices and a decreasing foreclosure rate are indicators of an improving economy. Norfolk's housing market is recovering. Real estate assessments and average home sale prices are rising, creating higher home values and homeowner wealth.

For every one percent increase in overall assessed values, the city collects an additional $2.0 million in real estate tax, while the average homeowner sees only a $1.95 monthly increase in their tax bill. In fact, the average homeowner today pays $230 a year less now than in FY 2010.




### Residential Assessments Turning the Corner




Note: FY 2017 (preliminary) based on annual reassessment.

Although overall and residential assessments have increased, their growth has been below the historical average of four to five percent. The market is returning from double digit growth in FY 2005 - FY 2008, to growth closer to the norm. Despite increasing residential assessed values, average home sales prices (peak in 2007), and residential assessed value (peak in 2010) have yet to reach their pre-recession peaks.

## *Returning to the norm*

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

# Providing Core Services for Less

## Curbing municipal costs

Despite limited resources, we employ best practices, strive for continuous improvement, and engage our community to help prioritize service delivery.

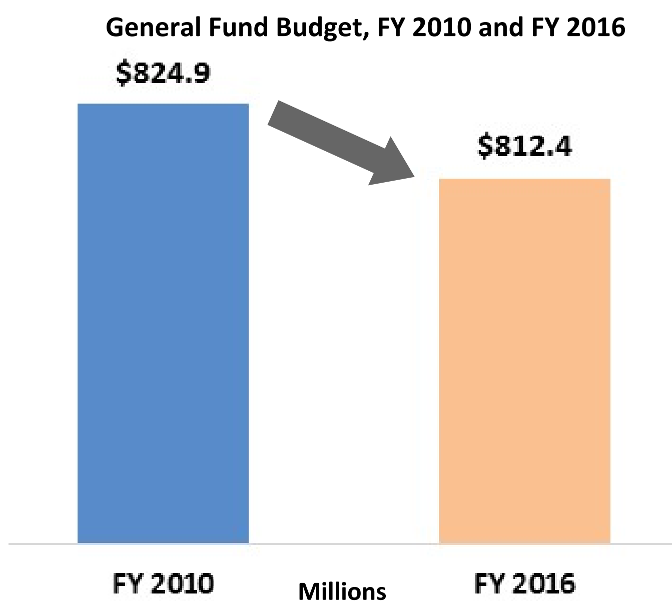
Community engagement works to increase the extent to which residents become more informed about local issues and participate more effectively in local decision making. For local governments to function more effectively, it needs residents to be aware, stay connected, and take action.


In Norfolk, community engagement has become a year-round activity. We solicit input to understand what is most important to our residents through:

- Budget balancing exercises
- City Manager's listening tour-looking ahead
- Focus groups
- Information sessions
- Mission Possible-employee engagement
- Outreach sessions
- Public hearings
- Social media
- Workshops

Feedback garnered from these activities has led to a more engaged and informed community, cost savings, implementation of innovative strategies, and refinement of service delivery methods. These efforts have reduced the General Fund budget by approximately $12.5 million.

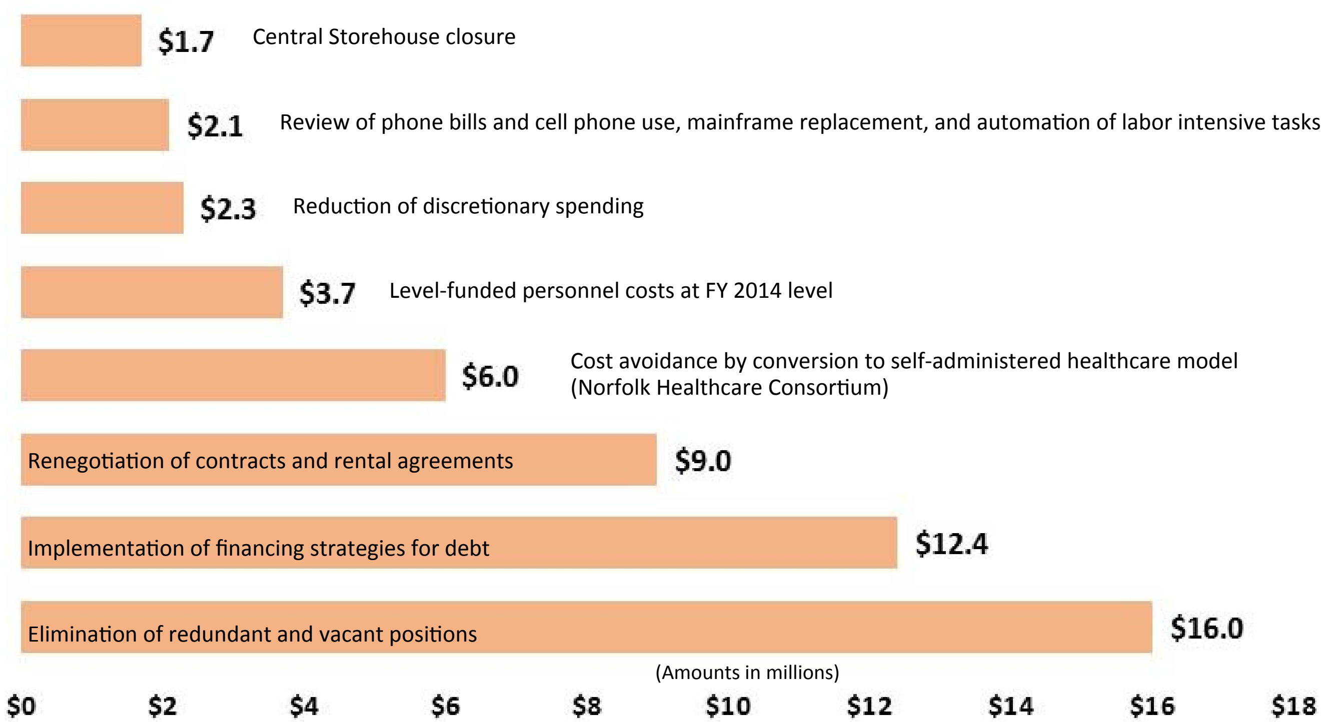
**FY 2016 Budget is less than six years ago**



# Adapting and Improving

## Embracing internal evaluation

An expensive way of thinking for any organization is to embrace the culture of "we have always done it this way." Norfolk does not subscribe to this culture. Finding more efficient ways to perform duties while maintaining high quality services is an intrinsic value built into the fabric of the city. This fundamental belief allows for continuous improvement and ongoing evaluation of programs and services leading to cost savings and streamlined processes. Examples of cost savings and improvements made since FY 2012 include:




**Created the Department of General Services to centralize internal operations such as custodial, building, and vehicle maintenance services under one umbrella**

**Transferred oversight of the Norfolk Community Services Board to the city for increased accountability**

**Consolidated communications and information technology into one department to reduce operating redundancies**

**Created the Department of Neighborhood Development to focus resources on building and sustaining neighborhoods**

# Making Sustainable Decisions

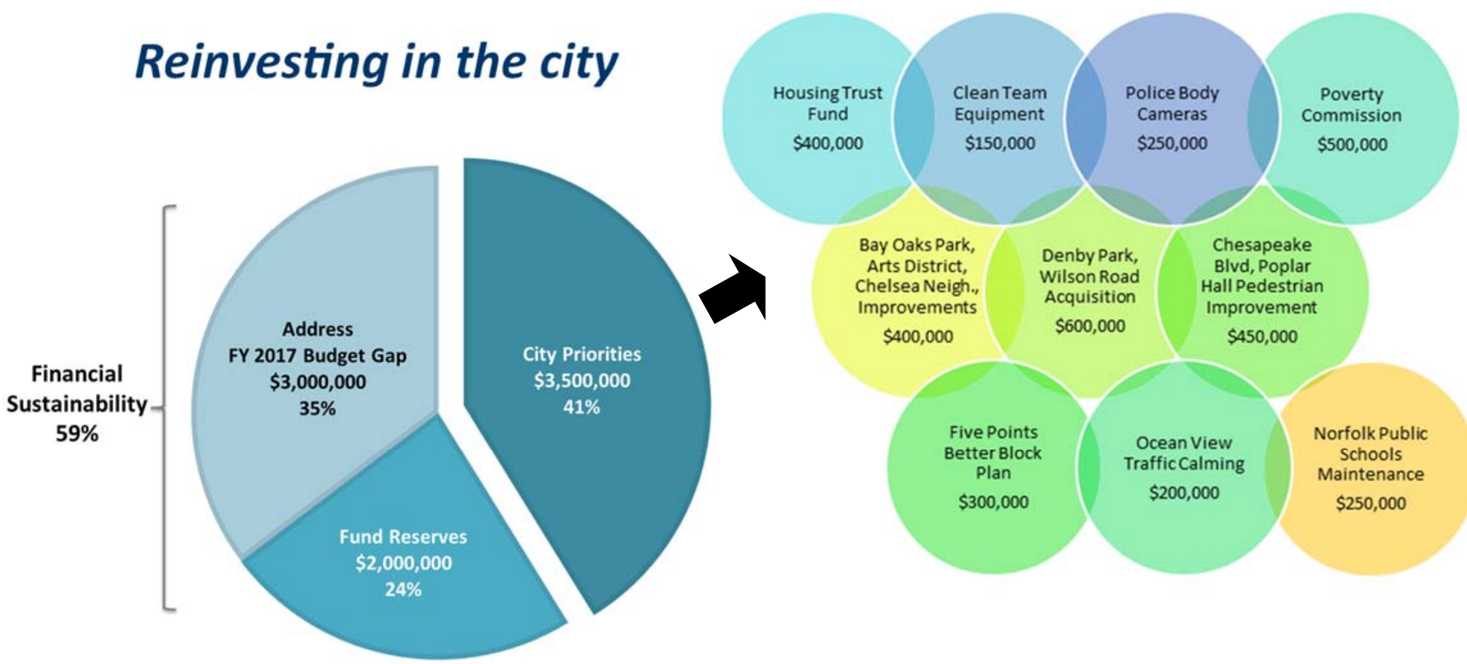
## FY 2015 year-end highlights

**Mindful spending and conservative revenue projections resulted in a surplus over $8.0 million**

Through responsible financial management, FY 2015 ended with revenues exceeding expenditures. This resulted in a surplus of over $8.0 million. Concurrently, the city:

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

**City Council redirected the surplus to foster economic resilience by bolstering reserves, investing in neighborhood projects, and looking towards the future by paying down debt to help to reduce the preliminary FY 2017 budget gap.**



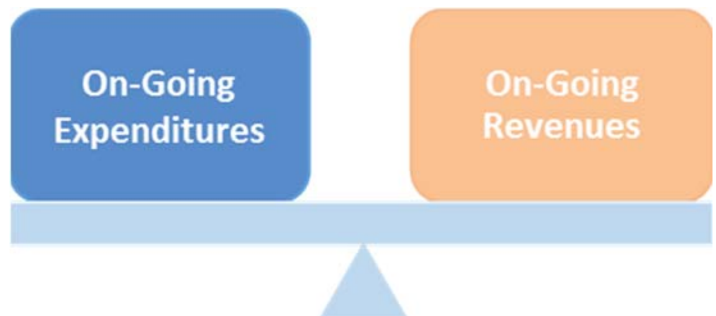
# Building our Stability

## Importance of financial planning

Sound financial planning is a priority of the City Council and a cornerstone of a well-managed government. In FY 2013, City Council adopted financial policies to further strengthen the city's long-term financial sustainability. The first tenet of the financial policies is to achieve a structurally balanced budget within the first five years.

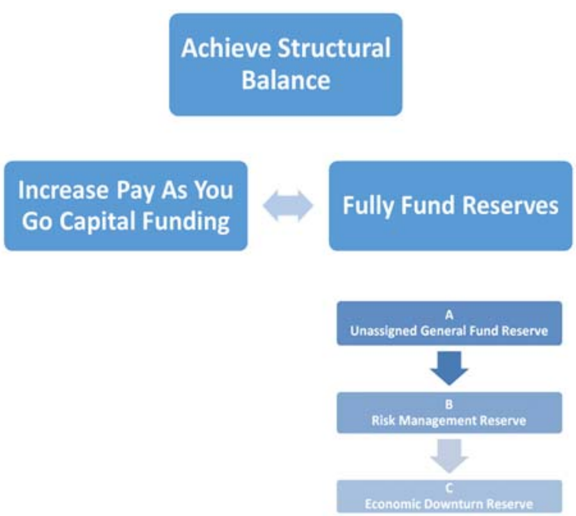
A structurally balanced budget is when ongoing expenditures do not exceed ongoing revenues. In FY 2015, structural balance was achieved four years ahead of schedule. By continuing good fiscal practices, the city maintained structural balance in FY 2016.

**Structural Balance Achieved**
**Four Years Ahead of Schedule**



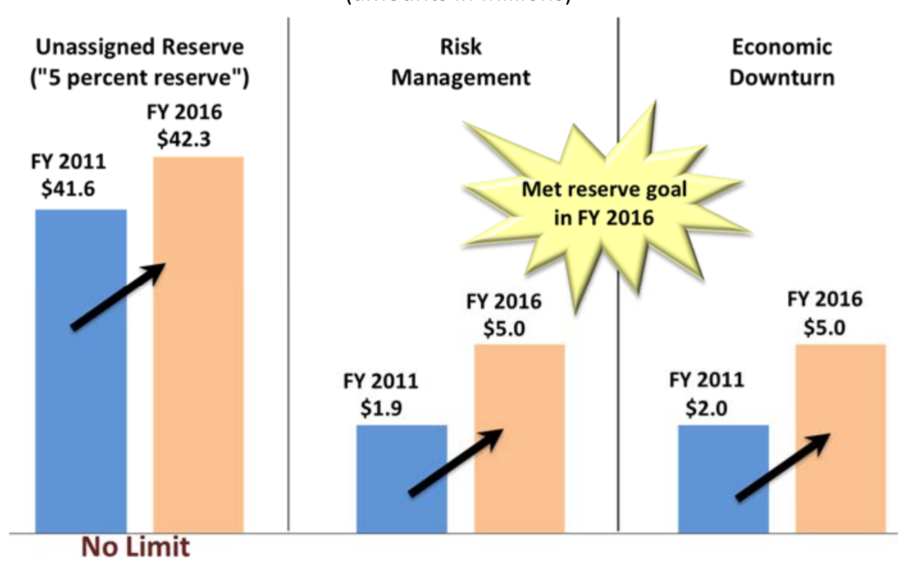

## *Financial policies* *(City Council adopted July 2013)*

After structural balance is achieved, the city's financial polices direct the full funding of reserves. As most households have a savings account, the city similarly sets aside a risk management reserve and an economic downturn reserve. As a result of City Council action at the September 2015 retreat, the policy goal of $5.0 million in these reserves are met.




## *Reserve Goals: MET!*

(amounts in millions)



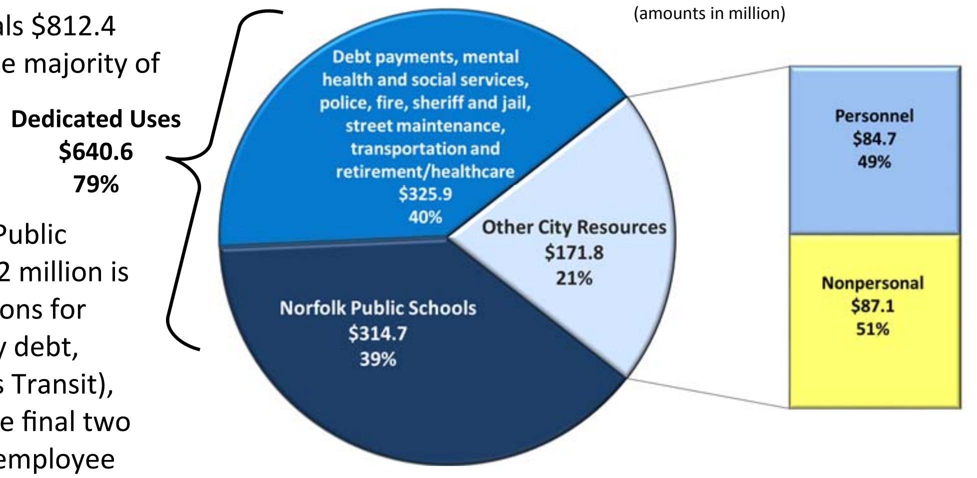
# Evaluating Resources

## Dissecting the budget

## *FY 2016 Approved General Fund Budget*

**FY 2016 General Fund Budget - $812.4 Million**

(amounts in million)




The FY 2016 General Fund budget totals $812.4 million. While this may seem large, the majority of these funds have restrictions on their use.

Nearly 40 percent or $314.7 million of the budget is dedicated to Norfolk Public Schools. Another 38 percent or $307.2 million is earmarked by state or federal regulations for specific uses, for the repayment of city debt, public transportation (Hampton Roads Transit), police, fire, sheriff and the city jail. The final two percent is used to support remaining employee healthcare and retirement. This amounts to 79 percent or approximately $640.6 million of the total budget that is designated.

The remaining 21 percent or $171.8 million is available for other flexible uses. While the use of these funds are not legally restricted, they are used to pay for core city services. These services include: libraries, recreation centers, parks, electricity, fuel, water, and technology. Further, within the $171.8 million, 49 percent or $84.7 million supports personnel expenses such as salaries.

## *Preliminary FY 2016 year-end estimate*

The mid-year budget review provides an assessment of the city's budget condition in the current year based on actual performance during the first six months. Throughout the year, revenue collections and expenditures are monitored. As of January 2016, projected revenues are tracking and expected to meet budget, while expenditures are anticipated to be within 0.5 percent of the budget. While a slight surplus is currently projected for FY 2016 year-end, fiscal discipline will still be encouraged to mitigate any unplanned events.

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

# Anticipating Challenges

## A two-year budget lens


Beginning with the FY 2015 budget, the city began reviewing budget decisions through a two-year lens. This practice considers the impact of decisions in the first budget year, but also for the subsequent year.

For example, if a salary increase is given in the first year, money is needed to continue employee salaries at the same level the next year. Analyzing budget decisions through a two-year lens improves long-term financial planning and allows the city to address concerns that may cause a future budget gap.

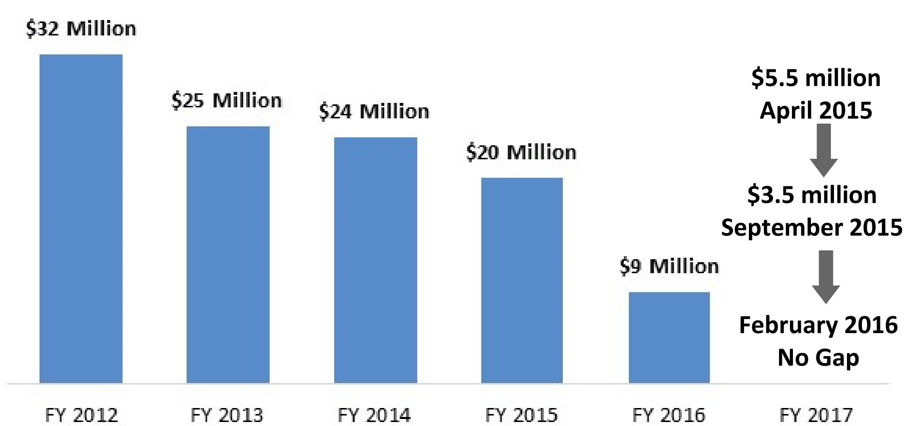
## *Budget gap = difference between revenues and expenditures*

Each fall, a preliminary budget estimate for the following fiscal year is produced. A budget gap exists if revenues are not sufficient to meet expenditures. The preliminary estimate considers support needed for existing services, the opening of new buildings, annualization of costs, and increases for contractual, inflationary, and state and federal mandates.

City Council's support to adhere to financial policies and utilization of the two-year budget lens have allowed for prudent management of resources leading to declining budget gaps over the last five years. In FY 2012, the preliminary estimate produced a budget gap of $32 million. For FY 2017, the initial budget gap was $5.5 million which was then reduced to $3.5 million in the fall of 2015. At the time of the mid-year update there is no projected gap to support services at the current level.

### *Preliminary budget gaps are shrinking*

***(Excludes Norfolk Public Schools)***

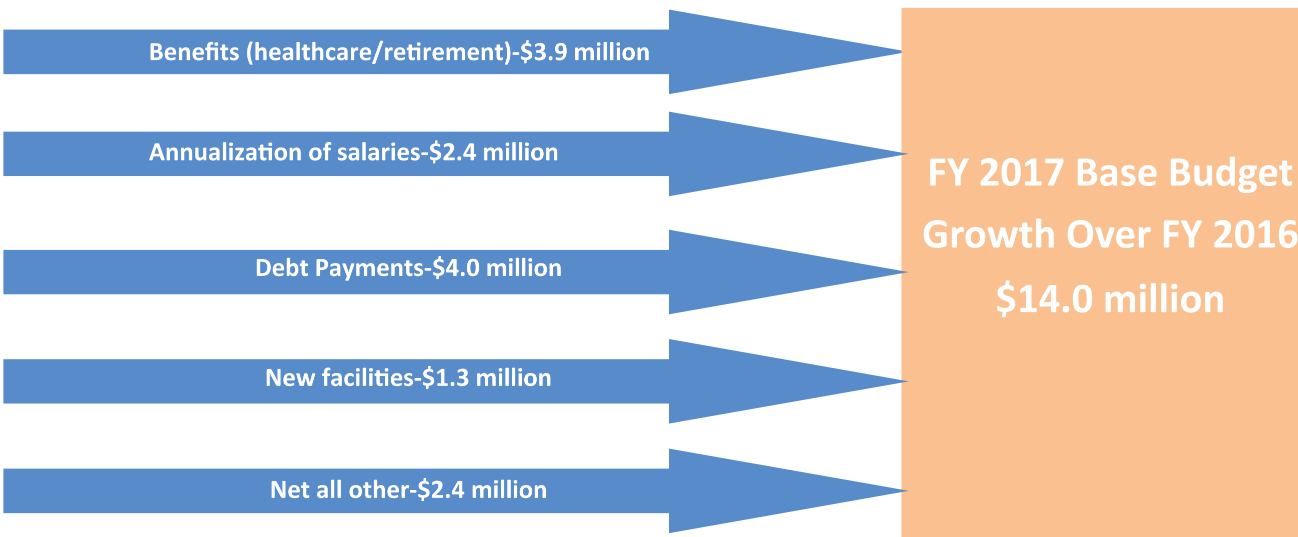


# Laying the Budget Foundation

## Fiscal outlook—Some assembly required

As the next fiscal year's budget is developed, base budget costs (meaning what it costs to maintain the current level) are established as the first step. Second, estimates are refined for healthcare and retirement, inflation, contractual, and state and federal mandated increases, any change in debt service payments, and support for new facilities coming on-line. At this point of budget development, money needed for new initiatives, enhancement of existing services, or new salary increases are not included.

## *What it costs to maintain the same level next fiscal year*




## *Looking ahead to the next five to ten years*


Recent economic data and local revenue collections show that cities are beginning to move beyond the effects of the recession; Norfolk is as well. For financial planning, it is important to evaluate if those trends will continue. The financial outlook presented during the mid-year update is our best analytical estimate of the financial and economic climate ahead.

The annual mid-year update uses a data-driven approach analyzing recent history, the progress of the current fiscal year, and the projected road ahead (FY 2017 and beyond). National and state economic trends are factored into the analysis. In addition, input from city departments on future costs are included.

# Looking Ahead

## The mid-year outlook: FY 2017 Revenue

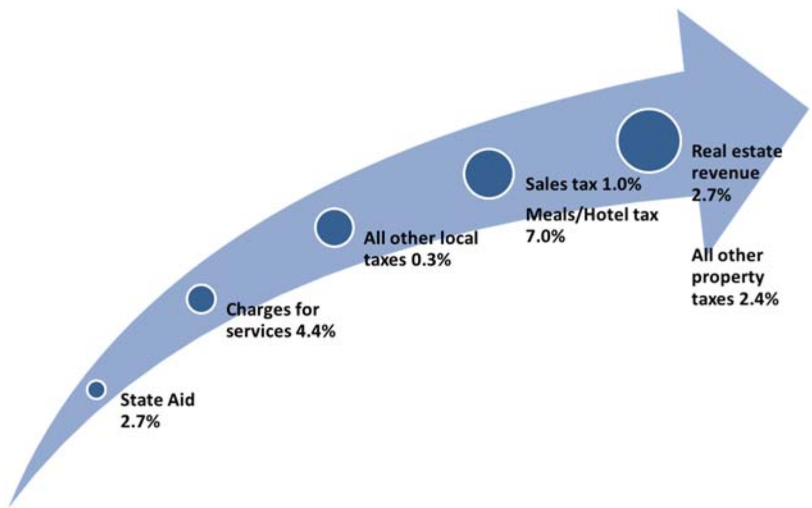
The outlook for the FY 2017 budget is cautiously optimistic. Revenue is projected to grow moderately based on the following assumptions:

- Local economy to grow at a moderate pace with growth projected in local employment
- Local housing market recovery is taking hold
- Commonwealth's fiscal outlook is stable over the next biennium

The projected growth is needed to meet the mid-year estimate. If the growth is not achieved, then the base budget gap may widen.

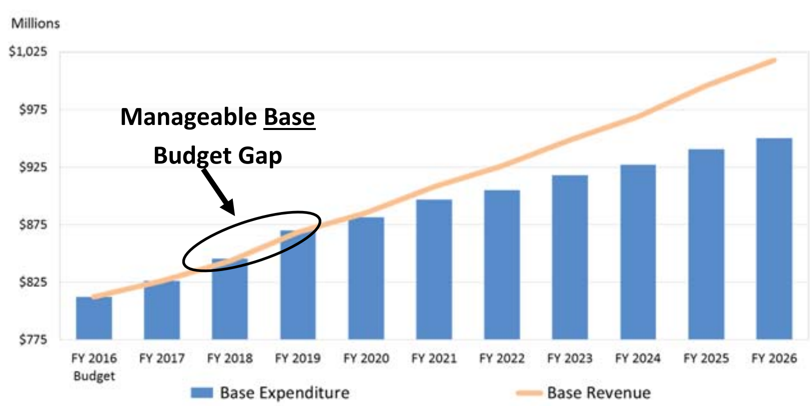
While the local economy is improving and the FY 2017 base budget gap has been reduced to zero, it does not account for new salary increases, infrastructure improvements, or addressing technology and fleet backlogs.

**Major revenue growth estimates**




## Keeping an eye toward the future

**Base budget forecast**




Looking beyond FY 2017, the forecast projects the General Fund will have a base budget gap in FY 2018 and FY 2019. The base budget forecast only includes the cost of maintaining current services and does not include any new programs or salary increases.

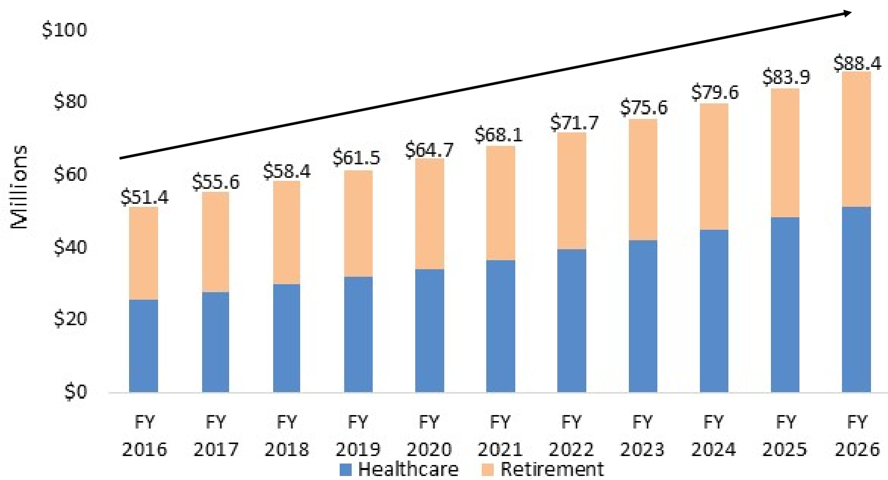
These gaps are largely attributed to increased debt service, healthcare, and retirement costs.

This gap widens if additional salary increases are provided or if new services are introduced.

# Providing Exceptional Benefits

## Healthcare and Retirement

**Employer costs continue to increase**




### *Healthcare*

Providing healthcare is a major cost driver. The total cost of providing healthcare for employees and their families is over $33.3 million annually. Of that, the city contributes almost 79.4% or $26.5 million. Typically, the annual increase in these costs surpasses the annual increase in the Consumer Price Index (CPI).

In anticipation of the Affordable Care Act (ACA) implementation and the associated costs, the Norfolk Healthcare Consortium (City of Norfolk, Norfolk Public Schools, and the Norfolk Redevelopment and Housing Authority) transitioned from a fully insured to a self-administered model in FY 2015. City Council's approval of this transition avoided over $6.0 million in cost increases. The next major component of the ACA implementation is the excise tax (Cadillac tax) on high cost health plans. This tax is scheduled to go in effect in 2020 and may result in a substantial cost increase.

### *Retirement*

Another major cost driver is retirement. Retirement benefits are paid from the retirement system that is administered by a board of trustees and monitored separately from other city funds. A funded status of 80 percent or higher is considered to be a financially sound system. As of June 30, 2015, the Norfolk Employees' Retirement System was 84.8 percent funded, which is currently higher than the Virginia Retirement System (VRS).

In FY 2014 the implementation of new accounting rules required a change in how retirement plan benefits are treated. These new rules require cost of living adjustments (COLAs) that are given year after year to be considered a permanent annual benefit. This means that ad hoc COLAs can now be considered a permanent plan feature if provided in a regular pattern. If a one percent COLA is provided every year, it will also be considered permanent. Providing either type of COLA, will cost an additional $1.6 million to $9.1 million for the General Fund and a decrease to the funded status.

As a result of these new accounting rules, in FY 2015 and FY 2016 a $300 bonus was provided to the most financially vulnerable retirees who invested at least 15 years of service (the same time period required to qualify for retiree healthcare) with the city. This equated to a 2.1 percent bonus for the average eligible retiree.

**FY 2015 and FY 2016 Retiree Bonus**

| Fiscal Year | Service Years | Income Limit | Bonus Amount | Eligible Retirees |
|---|---|---|---|---|
| 2015 | 15 | $15,730[1] | $300 | 770 |
| 2016 | 15 | $24,250[2] | $300 | 1,214 |

[1] 2014 Federal poverty limit for a family of two
[2] 2015 Federal poverty limit for a family of four

# Fostering an Engaged Workforce

## Attraction, Retention, Motivation, and Development


To be an employer of choice, the ARMD Initiative was implemented in FY 2015. This three-year plan is dedicated to attracting and retaining quality employees by offering a competitive total compensation package. The ARMD Initiative also supports professional development through programs such as Master Police and Firefighter, tuition reimbursement, and the Supervisor's Leadership Academy.

These programs are just a few examples of City Council's commitment to Team Norfolk. The table below details some of the actions included in Phases I and II of the ARMD Initiative.

| Phase I (FY 2015) | Phase II (FY 2016) |
|---|---|
| • Living wage and market adjustments<br>• Two percent General Wage Increase (GWI) for general and constitutional employees<br>• Step increase for sworn Police, Fire, and Sheriff employees<br>• One-time $300 supplement for qualified retirees | • Living wage and market adjustments<br>• Two percent GWI for general and constitutional employees<br>• Three percent GWI for general employees in the lowest eight pay grades<br>• Two percent GWI for temporary employees<br>• Step increase for sworn Police, Fire, and Sheriff employees<br>• One-time $300 supplement for qualified retirees |

## Nationally recognized employees

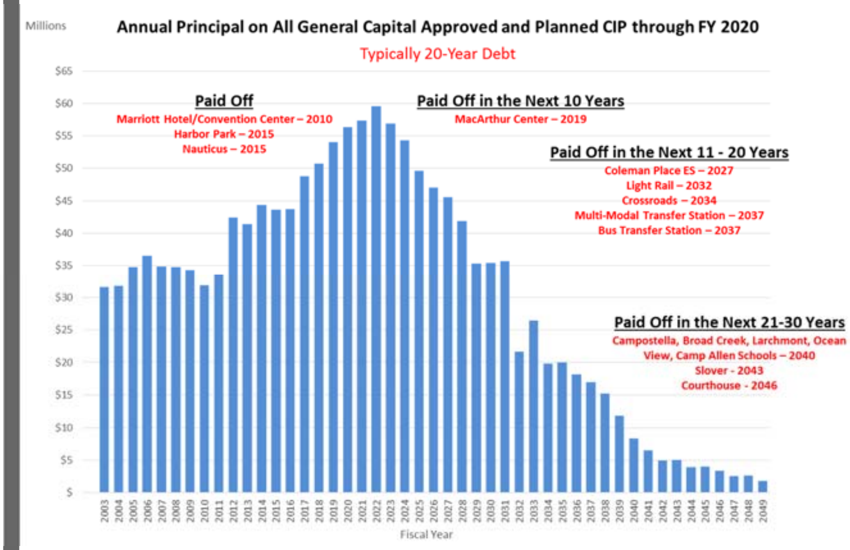

Dedicated employees with innovative ideas are crucial to the city's progress. Fleet Manager, Facundo Tassara, and Superintendent of Waste Management, Harvey Howard, are just two examples among the nearly 5,000 members of Team Norfolk who met that challenge.


Facundo was named one of the "Top 20 under 40" government fleet professionals by Government Fleet Magazine. In FY 2015, Facundo was instrumental in achieving the city's first recognition as one of the "100 Best Fleets" in North America and pioneered the city's first fleet of Compressed Natural Gas (CNG) vehicles.

Harvey was named Professional Manager of the Year-Solid Waste by the American Public Works Association. He has been instrumental in substantially reducing costs and customer complaints. Harvey also helped pioneer the use of GPS in waste management vehicles to optimize routes and streamline pick up services.

# Responsibly Financing Infrastructure

## Debt Service: A major budget driver



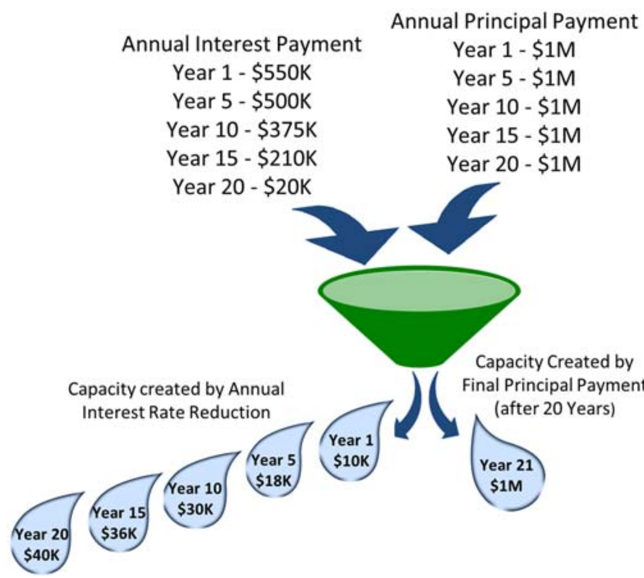

The construction of buildings, acquisition of property, and repairs and improvements to roadways are expensive and cannot be paid for all at once. The city uses various methods to pay for these investments, such as cash, a line of credit, and the issuance of bonds.

The bonds are typically repaid over a 20-year period. Debt service is the repayment of the principal and interest on the bond financing.

These investments are financed on a cash flow basis. As a result, projects are in various stages of repayment because new projects are authorized every year. Even though debt payments are completed for a project authorized years ago, it does not significantly add capacity for new debt. This is because each year a new layer of projects are authorized and the amount of debt that rolls off is less than the amount of new authorization.

Generally, debt is paid off in a level principal structure. This means that if a $20 million project is financed for 20 years, $1.0 million in principal is repaid each year. The interest payment on this project is higher in the beginning, but the total cost of financing is less than if the combined principal and interest payments were the same each year (like in a traditional mortgage payment structure).

**Debt payments for a $20 million project**




**Paying Off a $20 Million Project with Equal Principal Method Creates a Savings**

| Years | Fixed Payments (Mortgage Method) | Equal Principal Payments (City Method) | Payment Difference |
|---|---|---|---|
| 1-5 | $7,239,720 | $7,967,205 | $727,485 |
| 6-10 | $6,914,019 | $7,181,270 | $267,251 |
| 11-15 | $6,882,636 | $6,412,596 | ($470,040) |
| 16-20 | $6,855,017 | $5,498,211 | ($1,356,806) |
| Total | $27,891,392 | $27,059,282 | ($832,110) |

Compared to the mortgage method, the city pays less interest over 20 years because more principal is paid during the first 10 years. The total cost would be higher using the mortgage method, because more interest is accrued while the initial payments are lower.

# Providing for Schools

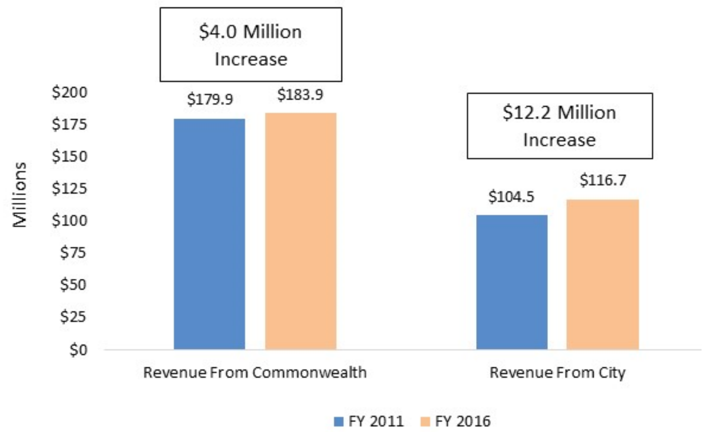
## Supporting and strengthening our schools

Norfolk Public Schools (NPS) plays an integral role in the makeup of the city.

In Virginia, public school divisions are fiscally dependent on the local government. As a fiscally dependent school division, NPS does not levy taxes or issue debt. All funds are appropriated to NPS by City Council, which has authority to levy tax and incur debt.

Support for public schools is a shared cost between the state and the locality. During the recession, the state struggled to maintain support for K-12 education. As such, the city back-filled a portion of the revenue loss. While state funding is formula driven, the city provided funds well above the mandated required local effort. From FY 2011 to FY 2016, the city increased support for NPS by $12.2 million. This was three times more than the Commonwealth's increase of $4.0 million.

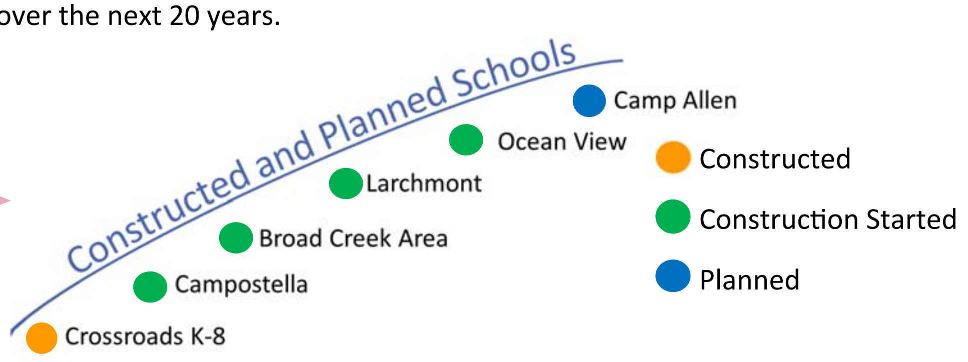
**City support for NPS has outpaced the Commonwealth**




## Investing in new schools

In addition to providing operating money for NPS, the city provides capital funding to address the maintenance, renovation, and construction for over 50 NPS facilities. In FY 2014, the city raised the real estate tax rate by four cents; City Council devoted two cents to the Construction, Technology, and Infrastructure (CTI) program. This program was used to accelerate funding for school construction, and address technology and infrastructure needs.

With the assistance of this dedicated revenue source, the city is constructing five new schools. The projected cost of the five new schools, in addition to the already completed Crossroads K-8 school, is a combined $159.3 million. This financial commitment will be repaid over the next 20 years.

# Ensuring On-Going Stability

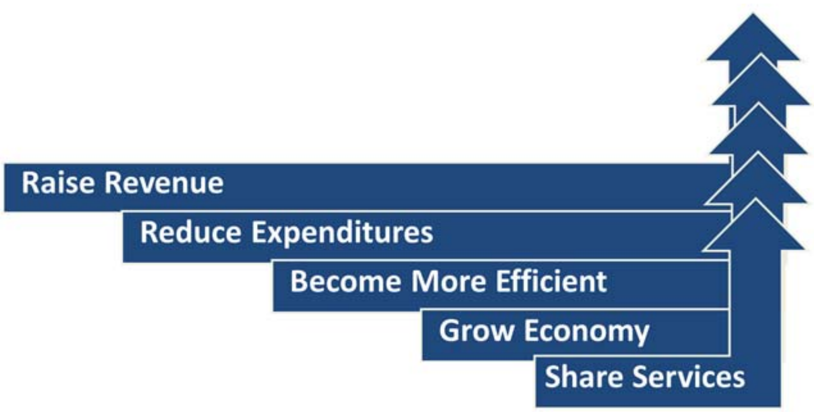
## The road ahead

The mid-year outlook projects a stable economic and fiscal environment ahead. The Commonwealth's recovery is continuing, the local housing market is emerging from the recession, and modest local employment growth is projected. However, as with any projection, there are risks as unanticipated events are difficult to predict. These events may include:

- Changes in the national or state economic outlook
- Changes to state or federal support
- Impact of a unplanned retiree COLA adjustments
- Increased interest rates for capital financing
- Outcome of the ACA excise tax and rising healthcare costs
- Retirement investment returns below assumed rate
- Other unforeseen events

The city is accountable in its commitment to the residents and businesses of Norfolk for the use of public funds to ensure adequate funding for services, public facilities, and infrastructure necessary to meet present and future needs. The financial policies implemented by City Council and sound financial management have strengthened the city's planning for long-term needs and financial sustainability.

Budget decisions continue to be viewed through a two-year lens to analyze the impact in FY 2017 and FY 2018. Additionally, the implementation of the five-pronged approach (shown below) for budget development continues. Preserving services, while addressing and mitigating the financial impact to our core functions, remains a focus.




While we have become a leaner government, our ability to take on new projects and initiatives, through further cost cutting measures is now limited. Sustainable revenue growth will be needed if we want to go beyond maintaining the current level of services.