Financial Update
Preliminary Year-End and FY 2020 Look Ahead

October 23, 2018
Presentation Overview

- The presentation provides an update of the city’s financial outlook:
  - Preliminary General Fund FY 2018 Year-End Result
  - Budget Outlook FY 2020 and Beyond

- No City Council action is required at this time
Preliminary FY 2018 Year-End

<table>
<thead>
<tr>
<th>Description</th>
<th>Variance</th>
</tr>
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<tbody>
<tr>
<td>Preliminary General Fund Revenue Variance*</td>
<td>+1.3 percent</td>
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<tr>
<td>Preliminary General Fund Expenditure Variance*</td>
<td>(1.2) percent</td>
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<tr>
<td>Preliminary Budget Variance</td>
<td>+2.5 percent</td>
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<tr>
<td>Preliminary Surplus (less designations)</td>
<td>+0.1 percent</td>
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Designations: proceeds from sale of land for school construction ($15.0 million), proceeds from sale of land for technology ($0.8 million), FY 2019 budgeted carryforward including CSB and Nauticus carryforwards ($4.0 million), and other dedications ($0.2 million).

* Amounts reflect preliminary revenues and expenditures of Norfolk Public Schools are on budget in FY 2018. Amounts have been rounded and are preliminary pending completion of the city’s comprehensive annual financial report.
Preliminary FY 2018 Year-End

Preliminary General Fund Surplus $0.5 million

Recommend using remaining surplus to increase reserves
FY 2020 Base Budget Development

Start Point

FY 2019 Adopted Budget

Base Budget Development

Remove one-time items
Annualize prior year actions
Adjust benefits, debt, contracts, new facilities, revenues

Base Budget

FY 2020 Preliminary Base Budget
Preliminary FY 2020 Outlook

*Base* budget reflects resources needed to maintain existing programs and services

**What is IN the base budget?**

- Annualizing salary increase (*effective January 2019*)
- Debt service, retirement, and healthcare
- Contractual and inflationary increases
- Norfolk Public Schools revenue share – *NEW*

**What is NOT IN the base budget?**

- New Initiatives
- Salary Increase
- Program Expansion
Preliminary FY 2020 Outlook

*Base* budget gap does not include funding for new initiatives, program expansion, and salary increases

<table>
<thead>
<tr>
<th>Preliminary Base Revenue</th>
<th>Preliminary Base Budget</th>
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<tbody>
<tr>
<td>$892.2 million</td>
<td>$900.4 million</td>
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**Base Budget Gap**

- **$8.2 million**
- **$5.8 million** gap excluding NPS rev. share
- **$2.4 million** NPS rev. share

Amounts have been rounded. Estimates will be refined during budget development.
Budget Challenges Similar to Prior Years

Preliminary Base Budget Gaps
(excludes Norfolk Public Schools)

Amounts have been rounded.

* Base Budget Gap, excluding NPS revenue share
Real Estate Tax Increases Supported *New Initiatives*

*Where did the 10 cent tax increase go?*

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Description</th>
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<tbody>
<tr>
<td>Norfolk Public Schools ongoing support</td>
<td></td>
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<tr>
<td>No Budget Reduction for Norfolk Police Department</td>
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<tr>
<td>Resilience Initiatives</td>
<td></td>
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<tr>
<td>Technology, Vehicles, and Equipment</td>
<td></td>
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<tr>
<td>Employee salary increase for January to June</td>
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<tr>
<td>St. Paul’s People First and Redevelopment Initiatives</td>
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Budget Outlook
Base Revenue and Expenditure Growth Not in Line

Preliminary Base Revenue and Base Expenditures
(excludes future salary increases and new programs/initiatives)
Potential Strategies to Address the Base Budget Gap

• Right-size department base budgets
  • Align expenditure base with revenue reality
  • Find efficiencies in the budget

• Utilize department program catalogs - taking a hard look at service levels

• Advocate state actions and legislation in support of our priorities
  • Restore funding reductions to localities, especially for education and public safety
    • $74 million needed to restore buying power since FY 2009
  • Work with a coalition of local governments to address items such as
    • Broaden communications sales and use tax base
    • Dedicated funding for transit
Takeaways

• Maintain fiscal discipline to continue financial stability

• Conversation about sustainable service levels

• Take a long-term view
  • Continue a maintenance CIP
  • Continue focus on inclusive growth and strategic economic development
### Overview of FY 2020 Budget Development

<table>
<thead>
<tr>
<th>Event</th>
<th>Tentative Schedule</th>
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<tbody>
<tr>
<td>Capital and Operating Budget Submission</td>
<td>September - November 2018</td>
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<tr>
<td>Capital and Operating Committee Meetings</td>
<td>November 2018 - January 2019</td>
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<tr>
<td>City Manager Proposed Budget Presentation</td>
<td>March 2019</td>
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<tr>
<td>City Council Budget Work Sessions</td>
<td>April - May 2019</td>
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<tr>
<td>City Council Budget Adoption</td>
<td>May 2019</td>
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