

June 30, 2016

**Honorable Mayor and City Council
City of Norfolk, Virginia**

I respectfully present to you the Adopted Fiscal Year (FY) 2017 Financial Plan for the City of Norfolk, which is comprised of the General Fund, Enterprise Fund, Special Revenue Fund, Internal Service Funds, Capital Improvement Plan (CIP), and the Annual Plan for the Housing and Urban Development (HUD) Block Grant programs.

Discussions during our budget work sessions resulted in amendments to the Proposed FY 2017 Operating and Capital Budgets. These amendments to the Proposed FY 2017 Budget were adopted at the May 17, 2016 City Council meeting. The adopted changes impact the General Fund, Public Amenities Fund, and CIP. The table below illustrates the final Adopted FY 2017 Financial Plan:

Fiscal Year 2017 Financial Plan	
Operating Fund	Adopted Budget
General Fund	\$835,042,352
Enterprise Funds	\$138,036,398
Special Revenue Funds	\$63,120,099
Internal Service Funds	\$101,476,600
Total Operating Funds	\$1,137,675,449
Capital Improvement Plan	\$97,029,200
Total Operating and Capital Funds	\$1,234,704,649
Annual Plan for HUD Block Grants	\$6,338,317
Total Financial Plan	\$1,241,042,966

The Adopted FY 2017 Budget is shaped by the ongoing commitment to establishing partnerships and leveraging resources, and the continued commitment to being a well-managed government. All six of the city's priorities are supported, with added emphasis on Well-Managed Government and Safe, Healthy, and Inclusive Communities. Accordingly, the Adopted FY 2017 Budget continues to invest in school infrastructure and neighborhood development programs to revitalize communities, foster job growth, and encourage economic development throughout the city.

The Adopted FY 2017 Budget is structurally balanced for the third year in a row. This is a result of purposeful actions, implemented over the past five years, to stabilize and position Norfolk to thrive

during challenging times. To assist in reaching this goal, city departments have worked to identify efficiencies and reengineer processes to streamline and improve service delivery.

Our commitment to financial stability has resulted in a leaner government, focused on efficient and effective service delivery. Moving forward, we remain committed to good financial management and a high standard of service delivery, while retaining the values of our vibrant city.

Operating Amendments

As a result of the amendments made by the City Council, the changes from the Proposed FY 2017 General Fund Budget to the Adopted FY 2017 General Fund Budget total approximately \$3.8 million. These amendments include a combination of additional revenue and expenditure savings.

The revenue amendments support the retiree supplement, additional funds for Norfolk Public Schools (NPS), and neighborhood capital projects. The table below illustrates the revenue changes to the General Fund for the Adopted FY 2017 Budget.

General Fund Revenue Amendments	
Proposed FY 2017 General Fund Budget	\$831,261,000
Real Estate Tax Revenue	\$634,000
Increased Ambulance Fees	\$466,000
NPS Adjusted Daily Membership (ADM)	\$670,352
NPS carryforward	\$2,000,000
NPS Construction, Technology, and Infrastructure Program (CTI)	\$11,000
<i>Subtotal of Revenue Amendments</i>	<i>\$3,781,352</i>
Adopted FY 2017 General Fund Budget	\$835,042,352

Retirees

Operating Expenditure amendments as recommended by the City Council include modifying the one-time supplement for retirees. The Proposed Budget included a one-time two percent cost of living adjustment (COLA) for retirees, paid from the retirement fund. City Council's amendment replaced the two percent COLA with a one-time bonus of \$380 paid for by the General Fund. This bonus will impact an estimated 1,577 retirees and is the equivalent of a 2.2 percent increase for the average eligible retiree. The one-time bonus is supported by \$600,000 from the General Fund.

Norfolk Public Schools

The Adopted FY 2017 Budget also increases on-going funding to support NPS. Through collaboration with NPS, a total of \$3.7 million in additional resources have been identified. The city is providing \$1.0 million in on-going funding to support general operations; this is in addition to the \$1.5 million increase

in local support included in the proposed budget. NPS identified \$2.7 million in additional resources, which includes revised Average Daily Membership projections and a one-time addition of \$2.0 million in FY 2016 carryforward.

The following table illustrates the resource and expenditure amendments resulting from the above actions.

Budget Work Session FY 2017 Amendments - Revenue Sources and Uses		
Source	Amount	Use
Additional Real Estate Tax revenue <i>1st quarter projections not included in the Proposed FY 2017 Budget</i>	\$334,000	NPS Operating
Additional Real Estate Tax revenue <i>Projected expenses based on last three years' utilization of the Senior/Disability Tax Relief Program</i>	\$300,000	NPS Operating
Ambulance Fees <i>Updated revenue projection for FY 2017</i>	\$366,000	NPS Operating
Construction, Technology, and Infrastructure Program (CTI) Designation <i>Increased real estate revenue creates corresponding increase for NPS</i>	\$11,000	NPS Debt Service Payments
Subtotal New City Revenue for NPS	\$1,011,000	
NPS Carryforward <i>Anticipated FY 2016 Savings</i>	\$2,000,000	NPS Operating
Additional Revenue from the Commonwealth <i>NPS Revised Average Daily Membership (ADM)</i>	\$670,352	NPS Operating
Subtotal NPS	\$3,681,352	
<i>Additional Sources after the May 10 Budget Work Session</i>		
Anticipated debt savings* <i>FY 2017 revenue from projected refinancing of existing bonds</i>	\$400,000	Transfer to CIP for neighborhood projects (\$150,000) and police memorial (\$250,000)
Additional Ambulance Fees <i>Updated revenue projection for FY 2017</i>	\$100,000	Retiree Bonus (For a total of \$600,000 with the \$500,000 in proposed in undesignated balance)
Total New Revenue	\$4,181,352	

* This is an existing revenue source included in the Proposed FY 2017 Budget. The \$400,000 is shown above to reflect total resources used for City Council budget work session amendments.

Capital Amendments

The CIP amendments total \$2.4 million. The amendments include an additional \$1.0 million for NPS to address school maintenance needs, \$950,000 to support neighborhood improvements, \$200,000 to support the city's broadband initiative, and \$250,000 to construct a Public Safety Memorial.

These amendments are supported by the use of an additional \$2.0 million from the Public Amenities Fund to replace general capital funds proposed for certain projects, thus freeing up capacity for additional projects. Utilizing the Public Amenities Fund is consistent with prior uses and supports projects that align with the fund's purpose. The projects supported by the use of the additional \$2.0 million from the Public Amenities Fund include: Improve Harbor Park (\$500,000), Maintain the USS Wisconsin (\$500,000), and Maintain Municipal Facilities – Town Point Park (\$1.0 million), for a total of \$2.0 million. The remaining \$400,000 for amendments is supported by General Fund revenue.

The amendments for the Capital Budget are detailed below.

Budget Work Session FY 2017 Amendments – Capital Amendments	
Source	Amount
Transfer from Public Amenities Fund	\$2,000,000
Transfer from General Fund	\$400,000
Total Revenue Changes	\$2,400,000
Project Additions	Amount
Support NPS Major Maintenance	\$1,000,000
Neighborhood Improvements <i>includes broadband infrastructure</i>	\$1,150,000
Construct Public Safety Memorial	\$250,000
Total Amendments	\$2,400,000

Technical Amendment – Urban Allocation

The Proposed FY 2017 Budget included an estimated \$11.0 million in urban allocation funds from the Commonwealth of Virginia, available for infrastructure improvement projects. The amount was subsequently revised upward to \$11.6 million. At the time of the Proposed Budget, the preferred method of appropriation had not been determined. Since then, it has been determined that the CIP is the best vehicle to implement the project. As a result, a project titled “Ensure Citywide Infrastructure Improvements” was created in the CIP and is supported by the urban allocation funds. While the total CIP increases by \$11.6 million, there is no additional cost to the city since a corresponding revenue adjustment has been made.

Next Steps

As we move forward, the Administration is working to ensure a smooth transition into the new fiscal year. We are continuing to partner with residents and businesses to revitalize neighborhoods and encourage economic development. We are also continuing to invest in our employees by implementing the third phase of Attraction, Retention, Motivation, and Development (ARMD), which attracts and retains employees with regionally competitive salaries and creates an employer environment that motivates and develops employees.

We look forward to working with you and the residents to implement the many initiatives supported by the Adopted FY 2017 Budget. Norfolk is a vibrant city and we are committed to continued partnerships to ensure we have a city where people want to live, work, and play.

It is my pleasure to present to you the City of Norfolk’s Adopted FY 2017 Budget.

Sincerely,



Marcus D. Jones
City Manager

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April 12, 2016

**Honorable Mayor and City Council
City of Norfolk, Virginia**

I respectfully submit to you the Proposed Fiscal Year (FY) 2017 Financial Plan for the City of Norfolk, which is comprised of the General Fund, Enterprise Funds, Special Revenue Funds, Internal Service Funds, Capital Improvement Plan, and the Annual Plan for Housing and Urban Development (HUD) Block Grant programs. A summary of the Proposed Financial Plan is shown in the table below:

Fiscal Year 2017 Financial Plan	
Fund	Proposed Budget
General Fund	\$831,261,000
Enterprise Funds	\$138,036,398
Special Revenue Funds	\$61,120,099
Internal Service Funds	\$101,476,600
Total Operating Funds	\$1,131,894,097
Capital Improvement Plan	\$83,029,200
Total Operating and Capital Funds	\$1,214,923,297
Annual Plan for HUD Block Grants	\$6,338,317
Total Financial Plan	\$1,221,261,614

The Proposed FY 2017 General Fund Budget is \$831.3 million. This is \$18.9 million, or 2.3 percent, above last year's Approved Budget. This budget demonstrates that even with a minimal increase the city is able to operate efficiently and maintain a structurally sound financial base that ensures stability and expands opportunities. This stability is crucial as we build a 21st century city.

As the core of the Hampton Roads region, we are seeking new and innovative ways to grow and prosper. In order for us to thrive, we must leverage the talent that exists in our neighborhoods, businesses, and institutions of higher education.

Over the past five years, we have established partnerships with businesses, non-profit organizations, higher education institutions, and community stakeholders. These partnerships have spurred investment, accelerated innovation, built momentum, and made Norfolk an even better place to call home.

Developing community-based partnerships improves the quality of life for all residents. The programs created and supported through these partnerships represent community-led initiatives that address the diverse needs of residents.

We have invested in placemaking to create an environment where people want to visit and live. This investment is paying off. Companies are relocating to Norfolk, some from suburban locations, to capitalize on the authentic urban environment. Recently, over 5,000 new jobs have been added to the city because companies want to invest in Norfolk.

Partnerships between the city and cultural organizations have strengthened Norfolk's position as the arts and culture center of the Commonwealth. Residents and visitors have access to waterfront festivals, operas, Broadway productions, art exhibits, baseball and hockey games, and more.

Norfolk's concentration of institutions of higher education is an asset that is leveraged through successful collaborations. Higher education institutions also provide businesses with a large pool of well-qualified potential employees. Coupled with the highly trained military talent pool, the transfer of that knowledge base and investment into the community is key to long-term economic security and job growth.

The growth and vibrancy of the city is accessible through a diverse transportation network. Norfolk continues to lead the way as the most multi-modal city in the Commonwealth. We are building on the transportation network by exploring light rail expansion, increasing the number of Amtrak itineraries, and implementing a bike plan to connect neighborhoods and job centers.

**Urban
Bikeable
Density
Multi-modal
Authentic
Norfolk
Walkable**

This budget supports the continued efforts of the past five years and allows us to retain and build on our historic port city's diverse, dynamic, and unique culture.

Where We Were

Five years ago, I presented a proposed budget to you less than 100 days after becoming the City Manager. The FY 2012 Budget presented opportunities for improvement throughout the city.

At that time, Norfolk was still experiencing the effects of the recession that had officially ended nearly two years prior. The largest source of locally-generated revenue, real estate tax revenue, was still in an unprecedented decline. This left us in a position where we were challenged to fund our existing programs and services.

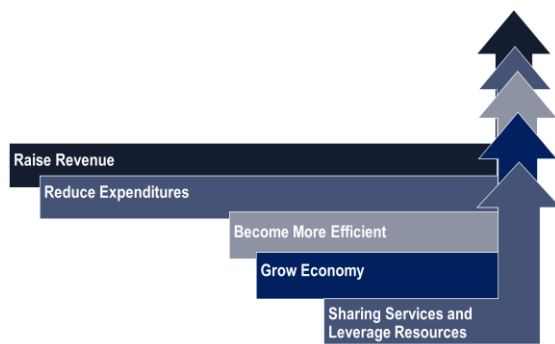
The Proposed FY 2012 Budget had a budget gap of over \$30 million between estimated revenues and expenditures, and the projected budget gaps for years to come were equally as large. We were able to close the budget gap without significant layoffs that would have affected hundreds of city employees and their families. However, the budget gap was closed by using one-time revenue to support ongoing expenditures, creating budgets that were not structurally balanced.

Moving forward, we committed to become a well-managed government, guided by initiatives and priorities to strengthen our city, connect residents, and improve financial sustainability. This

commitment required us to analyze how the city functions and could improve to better serve the residents of Norfolk.

Guiding Principles

The Proposed FY 2017 Budget is shaped by establishing partnerships and leveraging resources, and the continued commitment to being a well-managed government. As in prior years, the budget was



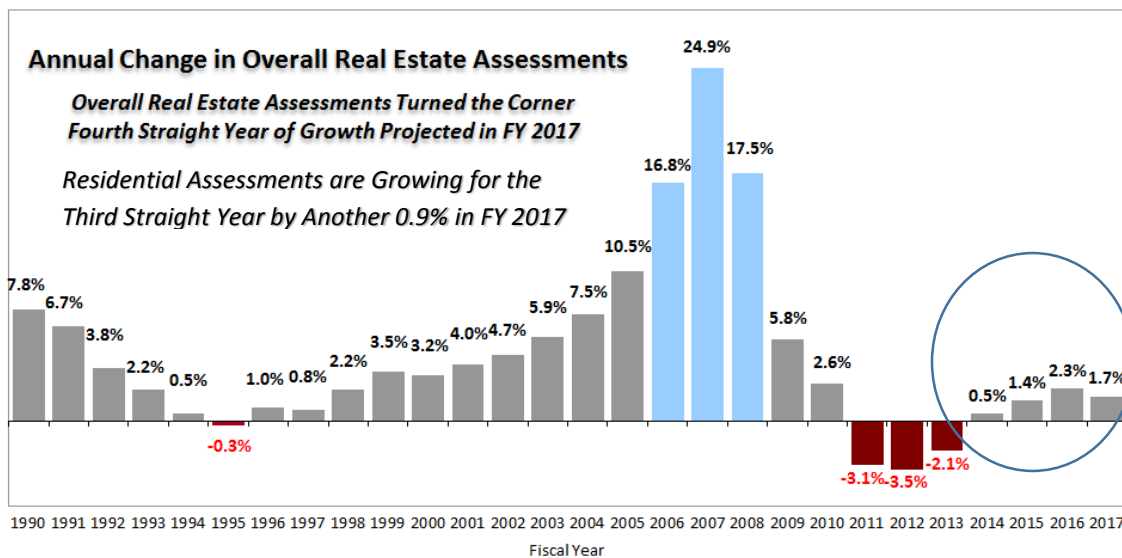
developed using our five-pronged approach to fiscal resilience that analyzes ways to raise revenues, reduce expenditures, become more efficient, grow the economy, and leverage resources. The Proposed Budget supports all six of the city's priorities, with added emphasis on Safe, Healthy, and Inclusive Communities and Well-Managed Government. The following initiatives highlight some notable elements of the Proposed FY 2017 Budget:

- Introduces a comprehensive compensation plan for sworn police and fire-rescue, designed to attract and retain talent;
- Invests in employees by adjusting the living wage for the third year in a row and provides a two percent general wage increase;
- Provides for a one-time two percent cost of living allowance (COLA) for retirees;
- Creates a multi-disciplinary Office of Resilience to help prepare the city for climate change, strengthen economic competitiveness, and ensure the highest quality of life possible for residents;
- Supports our evolution as a Smart City by dedicating \$4.1 million to replace and upgrade broadband infrastructure, and expands internet accessibility and bandwidth through free public Wi-Fi in strategic areas of the city;
- Dedicates \$30.0 million for neighborhood projects through leveraging federal, state, and local resources, including \$2.5 million in capital funds towards emerging districts;
- Invests in the growth of local business with an increase in the cigarette tax and dedicated funds for small, women, and minority-owned businesses and community Business Cafés;
- Dedicates \$250,000 to support a local incentive hiring program; and
- Increases the city's commitment to schools by dedicating \$3.0 million in capital funds to Norfolk Public Schools for maintenance and \$1.5 million for the local share of the state salary increase.

Financial Backdrop

The increase in the Proposed FY 2017 Budget indicates Norfolk continues to thrive. The city has shown signs of rebounding from the recession. Real estate assessed values overall have turned the corner and are rising for the fourth straight year; however, we have not reached the pre-recession peak. Real

estate *revenues*, closely tied to assessed values, have just returned to the pre-recession peak, after *excluding* revenue from *three cents* of the four-cent tax rate increase dedicated to Norfolk Public Schools operations and Construction, Technology and Infrastructure (CTI) Program. During the three years of unprecedented decline in real estate values, we lost nearly \$14.0 million in revenue. It has taken seven years for real estate revenue to return to the pre-recession peak.



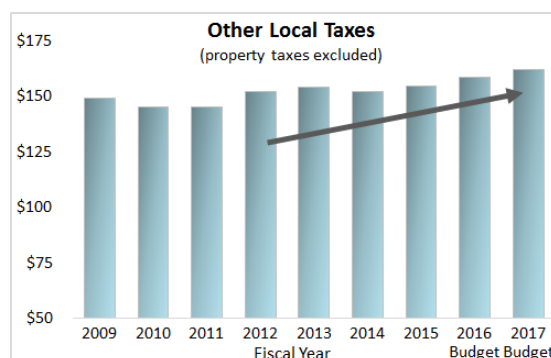
Source: Real Estate Assessor annual report (various years) and Real Estate Assessor FY 2017 projected growth on July 1, 2016

Despite the increase in assessments, the average homeowner will still be paying about \$209 less than in FY 2010, the height of residential assessments. While I am **not** proposing an increase in the real estate tax rate, a one-cent increase for the average homeowner would result in \$1.75 increase each month (or \$21 increase a year), but would provide about \$1.76 million in additional revenue for city priorities.

Impact on Average Homeowner's Tax Bill	
FY 2016: Average homeowner's tax bill (at \$1.15 rate)	\$2,345
FY 2017: Estimated average homeowner's tax bill (at \$1.15 rate)*	\$2,366
Increase in tax bill (due to FY 2016 reassessment)	\$21
Decrease from average homeowner's tax bill in FY 2010 of \$2,575	-\$209

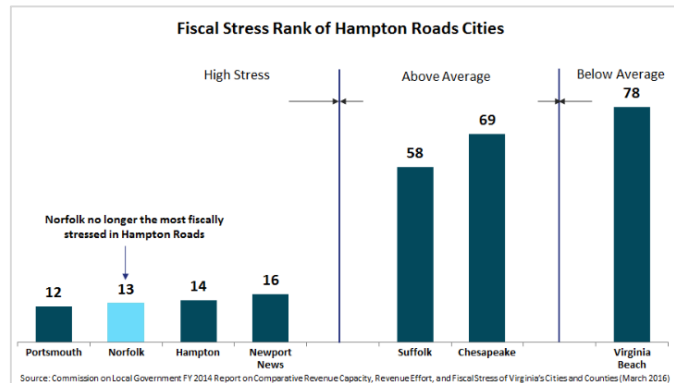
* Based on Real Estate Assessor estimate of residential assessments (with condominiums) and number of parcels in FY 2016

Our other local taxes, which are sensitive to local economic conditions, have been growing steadily since FY 2012. Sales tax, meals tax, and admissions tax collections have been rising as a result of more people buying retail goods, eating out, and attending shows or concerts in Norfolk. The opening of The Main Hotel and Conference Center, a public-private partnership, as well as the improvements we continue to make to our venues and the on-going support of our arts and culture

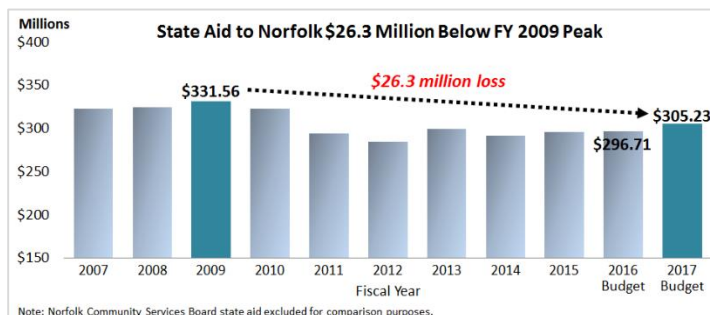


community, will keep drawing tourists and visitors to the city. The prudent investments we have made, as part of the overall economic development strategy, are working and will further expand our financial capacity.

The growth in these locally generated revenues is reflected in our fiscal stress ranking. The fiscal stress index, produced by the Commission on Local Government (CLG), measures a locality's overall fiscal well-being and ability to generate additional revenue relative to other localities in Virginia. The latest report from CLG based on FY 2014 data shows Norfolk as the 13th most fiscally stressed in the Commonwealth. Ten years ago, Norfolk was the 3rd most fiscally stressed locality in Virginia, behind the Cities of Emporia and Covington. The latest report from CLG also shows Norfolk is moving in the right direction; we are no longer the most fiscally stressed of the seven cities in Hampton Roads.



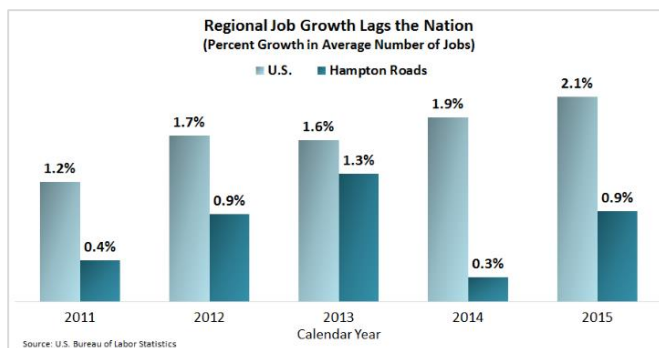
Norfolk, like other localities, also relies heavily on state aid to help support basic city services such as, public education, human services, public safety, street maintenance, and constitutional officers. Enhanced state support in FY 2017 contributed significantly to our revenue growth. About 46 percent



of the growth is due to state aid, with the majority of that increase directed towards public education. In addition, for the first time since FY 2006, state funds for law enforcement (also known as HB 599) are increasing by \$355,000. Despite the increase in FY 2017, state aid remains below its peak level in FY 2009 by \$26.3 million, even though the Commonwealth's General Fund revenues

have exceeded its pre-recession peak since FY 2012. Some of the loss in state aid will not be recovered because of changes made to state reimbursement rates or methodology. To sustain our financial recovery, it is essential that state support continues to grow. The city's General Fund revenues have only increased 2.2 percent in the past five years, partly due to the slow recovery of state aid, even though the Commonwealth's General Fund revenues have increased 11 times faster over the same period.

State budget actions have a significant impact on the city; however, the broader economic landscape also impacts the local financial outlook. Job growth is one of the most important economic indicators



of a local economy's health. Job growth leads to greater economic activity and, thus, higher tax revenue for the city. Norfolk is home to the highest paying jobs and approximately 20 percent of the jobs in the region. However, our region has struggled to regain the jobs lost as a result of the recession; in comparison, Virginia and the nation have already recovered the jobs lost during the recession. While growth in local employment is

projected to continue, this growth is projected to lag the national rate of growth, consistent with recent years.

Focused on Accountability

Over the past five years, a series of purposeful actions have been implemented to stabilize and position Norfolk to thrive in the face of fiscal stress. These ideas build on the foundation of a well-managed government and promote better city services through data-driven management decision-making and accountability. Financial policies were implemented to strengthen long-term sustainability and improve internal controls. Processes have been streamlined to increase efficiency and decrease expenditures. This commitment to good financial management and efficient service delivery continues, while holding onto the values of our vibrant city.

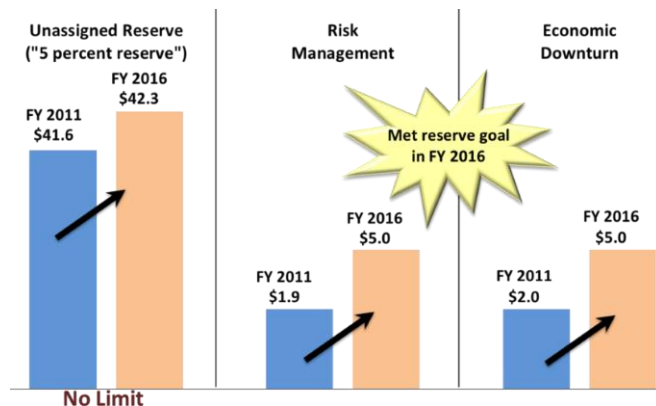
Financial Stability

City Council approved financial policies in July 2013 to improve the city's long-term financial sustainability. The policies included achieving a structurally balanced budget within five years, formalizing a plan to fund reserves, adopting self-imposed debt affordability measures, and formally adopting financial policies for the Parking Facilities Fund. Furthermore, we committed to monitoring the policies annually and revisiting them every two to three years.

A structurally balanced budget exists when the city is able to pay for recurring expenditures without using savings from the previous year or reserve funds. A structurally balanced budget was accomplished four years ahead of schedule in FY 2015. By continuing good fiscal practices, a structural balance was maintained in FY 2016 and the Proposed FY 2017 Budget is again structurally balanced.

As a result of structural balance for three consecutive years, the budget gaps we face now are significantly less than in prior years. In the past, budget gaps recurred and were not truly closed because of the use of one-time resources to address them. The projected budget gap for FY 2018 is \$8.3 million. While becoming a leaner government has minimized the budget gap in future years, it has also highlighted the need for sustainable revenue growth or creative public private partnerships to support new projects and initiatives.

The financial policies also called for fully funded reserves. The General Fund Unassigned Reserve has a minimum goal of five percent of the budget. The city is self-insured and has therefore set a Risk Management Reserve goal of \$5.0 million. To abate the impact of short-term economic downturns on the overall budget, the city set an Economic Downturn Reserve goal of \$5.0 million. With the FY 2016 budget amendment, City Council increased the Risk Management Reserve and the Economic Downturn Reserve each by \$1.0 million. This increase brought these reserves to the financial policy goal.



Internal Improvements

Finding more efficient ways to perform duties while maintaining high quality services is built into the fabric of our everyday work. This mantra allows for continuous improvement and ongoing evaluation of programs and services leading to cost savings and streamlined processes. Internal controls and administrative processes have been improved over the past five years to reduce costs, strengthen service delivery, and ensure the efficient use of city resources.

Recent Policy Initiatives: In FY 2014, the city formed two in-house analysis teams that have been influential in recent policy initiatives. The Executive Strategic Evaluation Teams (ESET) and Strategic Workforce Analysis Teams (SWAT) have been instrumental in the development and implementation of cost savings strategies, improvements to operations and service, and identifying cost avoidance strategies. The teams pulled together expertise across departments to analyze current service models. Projects undertaken by these teams have dealt with reduction of discretionary spending; co-location of essential social and human services; identification of opportunities for centralization of cross-departmental functions; and enhancement of existing city databases and database utilization processes.

The work undertaken by the ESETs and SWATs has served to further enhance a rapidly developing culture of evaluation within the city. Consequently, other internal improvements have been achieved outside of the formalized ESET/SWAT process, including:

- Creation of the Department of General Services to centralize internal operations;
- Conversion to self-administered healthcare model, resulting in a \$6.0 million cost avoidance for the healthcare consortium;
- Consolidation of communications and information technology into one department to reduce operating redundancies;
- Revision of Human Resources policies, including streamlined hiring practices and creation of the Supervisor's Leadership Academy;

- Introduction of increased efficiencies in fleet and facilities maintenance;
- Purchase of gasoline and diesel fuel at a set contract price, locking in the price of fuel and allowing the city to accurately budget fuel expenses over the course of the fiscal year and resulting in over \$2.0 million in savings between FY 2015 and FY 2017;
- Reduction of discretionary spending;
- Implementation of a “paperless initiative” to automate as many processes as possible; and
- Creation of the Department of Neighborhood Development to focus on building sustainable neighborhoods.

Improvements to department-specific processes and controls creates a more efficient and effective workplace for all employees. The commitment to improvement will continue into the new fiscal year.

Department of Finance: Examples of strengthened internal controls include department specific financial training, mapping of financial processes that involve accounting transactions, and managing inputs to financial accounting reports to insure integrity and consistency. Revised accounting policies and procedures enhance financial reporting, transparency, system security, and improve annual financial reports.

The Proposed FY 2017 Budget bolsters these initiatives by enhancing professional credential requirements, employing certified, experienced accountants, and training personnel in key areas of collections, payroll, purchasing, and retirement.

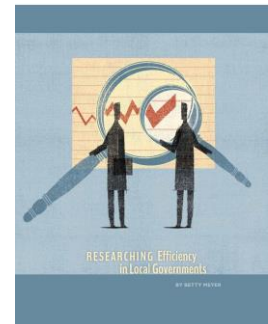
Department of Human Resources: The city’s time and absence management system will be updated to automate the leave request process and standardize the calculation of overtime and recording hours worked. The enhanced procedures will increase the accuracy of employee compensation, standardize city operations, and improve accountability.

The Changes are Working

Norfolk has steadily improved city operations and maintained fiscal integrity while rebounding from the worst national recession in decades. A commitment to being action-oriented and addressing the fiscal and environmental challenges that face us, positions Norfolk to continue to thrive in the years to come. Some notable accomplishments from this past year include:

- Contributed to the successful application for a \$120.5 million grant, awarded to the Commonwealth of Virginia from the U.S. Department of Housing and Urban Development’s National Disaster Resilience Competition (NDRC). Once distributed, the funds will enable Norfolk to create the model coastal community of the future.
- Ranked 66th out of the top 100 Best Fleets in North America and awarded the Governor’s Green Fleet Award from Virginia Clean Cities. Fleet Services is greener by adding Compressed Natural Gas cars and installing publicly available charging stations for electric cars.

- National recognition for the innovative work accomplished by city employees. Fleet Manager, Facundo Tassara, Superintendent of Waste Management, Harvey Howard, and Director of Planning, George Homewood, were recognized for their on-the-job innovation. Facundo was named one of the “Top 20 under 40” government fleet professionals by Government Fleet Magazine, and Harvey was named Professional Manager of the Year – Solid Waste by the American Public Works Association. George was elected to the American Planning Association’s College of Fellows, the planning profession’s highest honor.
- Named the 2015 Crisis Intervention Team (CIT) Virginia Program of the Year by the Virginia CIT Coalition. Lt. Wayne Handley was also awarded the 2015 Lambert/Ratcliffe CIT Trainer of the Year by the Virginia CIT Coalition.
- Recognition for Norfolk’s innovative approach to achieving fiscal stability in the face of fiscal stress was highlighted in the February 2016 Government Finance Review.
- Received the 2016 Donald Hunter Excellence in Economic Development Award from the American Planning Association for the Global Initiatives Fund. Norfolk is the only locality in the Commonwealth to offer such a program for local exporters looking to expand in the global marketplace.
- Received national recognition for Keep Norfolk Beautiful with the award of the 2015 President Circle Award at the national conference of Keep America Beautiful. Keep Norfolk Beautiful was also judged best in the nation (population 100,001 – 250,000) for creating a more beautiful, cleaner, and improved environment.
- Added over 5,000 new jobs recently with the announcement of ADP establishing a regional office in downtown Norfolk, Movement Mortgage moving their operations center to Military Circle, Norfolk Southern relocating jobs from Roanoke, and the construction and opening of the Main, Waterside District, and Simon Premium Outlets.



The Future Begins with our Workforce

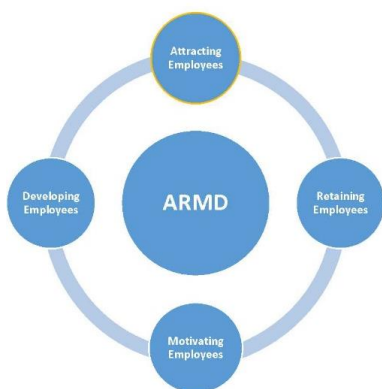


We are the fourth largest employer in Norfolk and among the top 20 largest employers in Hampton Roads. City staff represent an array of talented professionals. Norfolk employees are keeping streets safe, building schools, ending homelessness, collecting refuse, delivering clean drinking water to residents, and keeping the city running. Attracting, training, and retaining capable and dedicated employees is the key to the continued success of the city.

While the city’s population has increased as more people are drawn to the amenities of urban life, the level of staff delivering

services has decreased. Because of the strategic efforts to streamline delivery of services, employees are doing more with less. High-performing and innovative employees are the foundation of productivity. Retaining these dedicated employees requires an employer who is equally committed to their success.

Attraction, Retention, Motivation, and Development (ARMD)



In FY 2015, a three-year initiative was adopted to recruit, retain, and motivate employees, while ensuring effective and efficient service delivery for residents. In FY 2016, Phase II of ARMD was implemented. The programs and momentum of Phase I were continued, and we ushered in a focus on enhancing employee development opportunities. Phase II included the following:

- Step increase for sworn employees of Police, Fire-Rescue, and Sheriff;
- Two percent general wage increase for employees, including Constitutional officers and temporary employees;
- Salary range increase for the city's most regionally out-of-market classifications;
- Establishment of the Deferred Retirement Option Program for sworn employees;
- Increased the permanent employee living wage hourly rate to \$11.47 in FY 2015 and to \$11.66 in FY 2016, equal to the federal poverty rate for a family of four;
- One-time \$300 supplement for qualified retirees in FY 2016; and
- Implementation of a workplace ethics training for all employees geared toward promoting a professional environment and ethical culture throughout the city.

The proposed FY 2017 Budget is the final phase of the ARMD initiative and includes: a two percent salary increase for general and constitutional officer employees; a step increase for sworn Sheriff employees; a \$50 increase to the permanent employee living wage; and salary range adjustments to the city's most regionally out-of-market classifications. All actions are effective January 2017.



Public Safety



The ARMD Phase III implementation also included a comprehensive update to the compensation plan for Police and Fire-Rescue employees. Public safety compensation remains a high priority, and as such, I have worked closely with the police and fire chiefs over the last year to examine the compensation needs of both departments. The result of these meetings is a redesigned public safety compensation plan that gives Norfolk a competitive advantage within the region to attract and retain talented individuals.

The proposed redesigned compensation plan is a two-year approach to address regional competitiveness, retention, and compression issues. With the implementation of the revised plan, Norfolk becomes the second highest in the Hampton Roads region for recruit pay. The average pay increase for sworn police and fire is between five and six percent and will begin in January 2017. Additionally, the plan provides market-based, regionally competitive salaries by adjusting the minimum and maximum pay for all sworn classifications.

Both police and fire experience higher attrition rates within the first two to five years of employment, leading to a loss of valuable institutional knowledge and increased costs to fill the vacant positions. Each recruit represents a significant financial investment. According to the Police and Fire-Rescue Departments, approximately \$70,000 is spent to train a Fire-Rescue or Police recruit. We want to incentivize continued employment with the city to capitalize on the investment made in training and retain an experienced force to continue to keep Norfolk safe.



To decrease departure during key years, the redesigned compensation plan targets the attrition years by providing periodic five percent salary increases, an enhanced career path progression, and a shorter time to reach maximum pay. The Master Police and Master Firefighter programs, which recognize the attainment of certain education, certification, performance, and training goals, will also be preserved and improved.

We continue to annually augment the operational needs of the Police and Fire-Rescue Departments. Keeping residents safe requires investment in reliable, state-of-the-art public safety equipment and facilities. In an increasingly digital society, this includes the installation of in-car cameras and computers for police vehicles, the use of body cameras for police officers, and upgrades to the firearm simulation equipment.

The demands of public safety also require mission-specific vehicles, such as ambulances, police vehicles, and fire trucks. Though there will always be a need for more equipment, we are doing our best to ensure an effective public safety fleet. In FY 2016, \$2.6 million was dedicated to the purchase of five new ambulances and two new pumper trucks for Fire-Rescue. Additionally, the FY 2016 Budget dedicated \$750,000 for new vehicles for police, including an animal management truck and over twenty marked and unmarked vehicles. The Proposed FY 2017 Budget provides an additional \$750,000 for police vehicles.

Retirement

The Norfolk Employees' Retirement System (NERS) provides retirement benefits to the men and women who laid the groundwork to position Norfolk where we are now. As a result, we are keenly aware of the need to ensure the stability of our retirement system.

Unlike many retirement systems, including the Virginia Retirement System (VRS), NERS does not and never has included a provision to provide an automatic cost of living adjustment (COLA) to retirees.

However, when possible, the city provided one-time COLA's to retirees on an annual basis. From FY 2001 – FY 2008, prior to the Great Recession, the city provided a COLA to retirees every year.

Since FY 2008, the financial landscape has changed dramatically. The Great Recession hit Hampton Roads, and Norfolk specifically, very hard. Resources were limited to provide a COLA for retirees until we began emerging from the recession in 2013. Since that time the city provided a two percent one-time COLA to retirees in FY 2013 and a bonus of \$300 to eligible retirees in both FY 2015 and FY 2016, which is equivalent to an average supplement of 2.1 percent.

In 2010, another more subtle change took place that has a more lasting impact on the city's ability to offer retiree COLAs than the Great Recession. The Governmental Accounting Standards Board (GASB) released new rules, effective in 2014, on how auditors and actuaries must treat one-time COLAs. Simply put, if the city provides a COLA frequently, it will be treated as an automatic plan feature.

The financial impact to NERS and to the city would be extreme if the auditors and actuaries determined that a COLA was a permanent plan feature of the retirement system. Where a one-time two percent COLA costs the General Fund approximately \$1.0 million a year, a permanent two percent COLA would cost the General Fund about \$20.0 million in the year after it is implemented. While the city is currently stable financially, an additional \$20.0 million in ongoing expenses will be extremely difficult to absorb without new revenue or a decrease in expenditures elsewhere.

A permanent COLA would also negatively impact NERS's funded status. Funded status measures a retirement system's assets compared to its projected liabilities (payouts). Funded status is an important measure of a system's health and is considered by credit rating agencies when determining the city's credit rating. A funded status of 80 percent or higher is generally considered healthy. Currently NERS's funded status is 85 percent. A two percent automatic COLA would reduce the system's funded status to 73 percent, below the level which is considered healthy.

We value our retirees and their years of service to the City of Norfolk. Therefore, I am recommending a one-time two percent COLA in the Proposed FY 2017 Budget. However, in light of the new GASB regulations, it is important that we do not create a pattern of providing COLAs that could jeopardize the city's financial stability. Therefore, I recommend that City Council pass a resolution that directs any COLA or bonus granted in the future to be funded from the General Fund. The resolution will make a strong statement to our auditors and the investment community that the city can afford its retirement fund obligation.

Geared Towards the Future

Resilience – Designing the Coastal Community of the Future

Norfolk is a recognized leader – domestically and internationally – in the resilience movement. Named as one of the world's first members of 100 Resilient Cities (100RC), a program pioneered by The Rockefeller Foundation, Norfolk is helping to build a global practice of resilience by working with cities

around the world. As a member of 100RC, Norfolk led a year-long rigorous process to better understand city's resilience landscape, and develop a community-driven resilience strategy to bolster the city's resilience to three major challenges prioritized by the community. These challenges include recurrent flooding and sea level rise; a shifting economy; and a need to build more connected, healthy neighborhoods.



Launched in October 2015, the strategy represents a commitment to a new way of doing business – collective, integrated and coordinated action to build resilience. Driven by three key goals, the strategy views the city's challenges as opportunities to change in resilient ways. These goals include 1) designing the coastal community of the future, 2) creating economic opportunity by advancing efforts to grow existing and new sectors, and 3) advancing initiatives to connect communities, deconcentrate poverty, and strengthen neighborhoods. The strategy turns the city's challenges into opportunities to change in resilient ways.

To effectively align opportunities, connect internal and external stakeholders and resources, the Proposed FY 2017 Budget creates a multi-disciplinary Resilience Office to expand and institutionalize this integrated approach to building the city's resilience to the environmental, economic, and social stresses and potential shocks that challenge the city. The Resilience Office will continue to actively leverage opportunities and resources across city departments, local community, as well as national and international partners. Examples of these partnerships include:



- Partnering with the Commonwealth of Virginia, The Rockefeller Foundation, universities and other local, regional and international stakeholders to implement the National Disaster Resilience Competition (NDRC) Grant of \$120.5 million to pilot resilient adaptation to flooding in the Ohio Creek Watershed and establish the Coastal Resilience Laboratory/Accelerator to accelerate innovation around and adaptation to new coastal environmental conditions impacting coastal cities across the globe.
- Collaborating globally with international and local water management experts during Dutch Dialogues Virginia: Life at Sea Level in June 2015. The program developed strategies that promote integrated water management and resiliency, applicable to Norfolk and communities across the region.
- Partnering with the U.S. Army Corps of Engineers to develop a Flood Risk Management study. The final study will equip us to better serve the unique water management needs of each watershed.
- Developing the green iteration of tactical urbanism with the Street Plans Collaborative Workshop, planned for June 2016. City staff will work with businesses in the Arts District to develop parcel level water management strategies.

- Partnering with the U.S. Navy and other local and regional stakeholders to develop a Joint Land Use study on the impact of sea level rise.
- Integrating the implementation of Mayor's Commission on Poverty Reduction recommendations.

Norfolk is 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 able to accommodate changes that allow connectivity with our mobile customers. By using a holistic approach to technology integration, service delivery becomes intelligent, interconnected, and efficient.

As a Smart City, technology and data analytics are embedded in the infrastructure to improve real time responses. Initiatives that are currently underway include:

- BasicGov online permitting;
- Increasing electric vehicle charging stations;
- GIS data and mapping;
- Smart parking meters;
- Smart Processing;
- STORM weather event analysis;
- TITAN storm surge tracking;
- Increasing public connectivity; and
- Increase public Wi-Fi availability.



In support of the Smart City initiative, the Proposed FY 2017 Budget enhances connectivity by allocating \$4.1 million to expand broadband and free public Wi-Fi access.

Broadband technology is becoming ever more necessary to connect in today's digital world. Many city departments currently rely on high speed internet to ensure effective delivery service for residents. To ensure continued broadband access, the Proposed FY 2017 Budget dedicates \$3.6 million to replace and upgrade end of life broadband equipment (nodes) and install fiber.

The nodes are a technology backbone that encircles the city and helps provide data at broadband speed to city facilities. City-owned fiber will connect facilities to the city's broadband network, replacing the fiber that is currently being leased. This also creates an opportunity to increase competition among internet providers and decrease cost for businesses.

The overall investment creates capacity for us to partner with schools to ensure low-cost, reliable broadband access. Additionally, we will be able to increase broadband accessibility and bandwidth for residents in the city's many libraries and community centers to ensure that everyone can benefit from the abundance of opportunities available online. This also allows for partnerships with non-profit and the private sector to help the city pilot projects to bring broadband service to businesses, schools, and residents.



Finally, MacArthur Square and Town Point Park will provide free Wi-Fi to visitors beginning in the summer of 2016. Expanded Wi-Fi in public libraries will be a phased approach, targeting the areas of the city most in need of free, reliable internet service.

Creating Neighborhoods of Choice

Neighborhoods are the fabric of our city, where our residents live, work, and play. In FY 2015, with the creation of the Department of Neighborhood Development, we began implementing a new service delivery model focused on collaboration and community problem solving. In FY 2016, we began the process of moving away from our traditional neighborhood plans and towards a more holistic citywide funding model.

The FY 2017 Proposed Budget continues building on this momentum. We are leveraging multiple funding sources and investing in neighborhoods and our partners across the city to create a place for all residents to call home.

Norfolk continues to leverage multiple funding sources to build and maintain vital capital assets to meet the needs of residents, especially in low-income communities. In FY 2017, \$30.0 million is dedicated for neighborhood infrastructure projects, leveraged through state, federal, private, and local sources. This includes \$11.0 million from Virginia Department of Transportation's (VDOT) Urban Allocation funds, \$7.5 million of which is dedicated to pedestrian crossings and sidewalk improvements. Infrastructure improvements will connect neighborhoods physically, through an improved transportation network, and digitally. The proposed improvements also address flooding and beach erosion; improve community assets like recreation centers, community centers, and libraries; and improve the safety of residents through enhanced street lighting and pedestrian improvements.

We are also leveraging federal funds from Community Development Block Grants (CDBG) for neighborhood infrastructure and programming. Investing CDBG funds directly into neighborhoods allows the city to maximize the impact of its federal dollars. CDGB funds support economic

Leveraging Resources for Neighborhood Infrastructure



development, infrastructure, homeless prevention, advocacy, and youth programs. The following are examples of some projects being funded:

- \$103,000 for two case manager positions for the Norfolk jail to implement the Rapid Intervention and Recidivism Reduction program;
- \$187,000 for the Homeless Action Response Team and the End Chronic Homelessness Program; and
- \$75,000 in continued support of CIT, an award-winning partnership between Norfolk Police and the Norfolk Community Services Board to better serve mentally ill persons.

Neighborhood Development extends well beyond the citywide financial investment we make. Great neighborhoods have at their core empowered, connected, and committed residents. The ***Neighbors Building Neighborhoods*** program is designed to build on that capacity among our residents. The initiative functions on the premise that more cohesive communities are safer, more prosperous, and become neighborhoods of choice. Neighborhoods of choice are places where people want to live, invest their time, money, and energy. They are also a place where neighbors manage issues and change successfully without the dependency on government.



The Norfolk Cares IMPACT Call Center (IMPACT) was established to improve the processing of resident concerns and requests. IMPACT is a single-point-of-contact for residents seeking information, requesting city services, or seeking an update on a previous request. The Proposed FY 2017 Budget enhances customer service by funding two additional IMPACT staff.

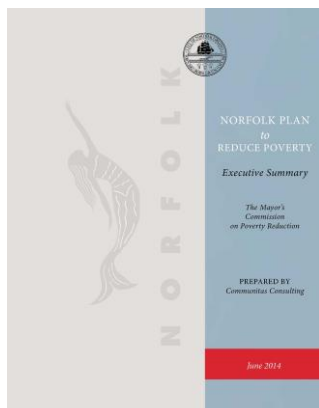
Vision 2100 is a long-range visioning plan that focuses on the future. This planning process engages residents by asking them what aspects of Norfolk make it great and a place that people want to live. Vision 2100 will allow us to continue building on the traits that make Norfolk special and preserve these aspects well into the future.

Community engagement has become a year-round conversation with residents. Participation in government creates ownership at all levels, empowers citizens, engages people in decision-making, and ensures transparency. Community engagement improves resource management and the ability of local authorities to solve problems, creates more inclusive and cohesive communities, and increases the number and quality of initiatives. We are committed to continually improve methods for residents to connect and define the city's future.

Below are some the projects that received valuable input from residents:

- Development of the annual budget;
- Capital improvement projects;
- Shoot Hoops Not Guns collaboration with Norfolk Police to provide an interaction between Norfolk Police and youth in the community;

➤ Vision 2100;



- Light It Up, Lock It Up, a collaboration between Norfolk Police Department, Neighborhood Development, ODU Police Department, ODU Student Police Patrol, and members of the civic league to pass out light bulbs and safety tips to residents on streets that have a high concentration of student renters;
- The Norfolk Plan to Reduce Poverty;
- The Norfolk Resilience Plan; and
- The Chesterfield Heights resilient improvements, funded by the NDRC grant award.

The Norfolk Plan to Reduce Poverty was presented to City Council in July 2014. Since that time, the administration has worked diligently to implement the plan. The \$500,000 allocated in FY 2015 laid a solid foundation for achieving immediate progress, and the additional \$1.0 million provided during FY 2016 allowed for growth. To date, the plan has:

- Impacted over 2,000 children by investing \$350,000 in United for Children extended school year intervention program;
- Invested over \$250,000 in the Newborn Screening and Referral Program and intensive home visiting services;
- Established Bank On Norfolk, which helps families build financial strength through connections to banking services, education, and mentoring;
- Contributed \$25,000 to We Feed Norfolk, a community-based effort that is using technology to address issues related to poverty. The program was launched in July 2015 and has collected over 9,000 pounds of food for the Foodbank of Southeastern Virginia and the Eastern Shore; and
- Established a partnership with Purpose Built Communities to deconcentrate poverty.



Economic Development

Maximizing opportunities for economic development requires a vision and investing in opportunities that harness our strengths. Norfolk's strengths lie in its authentic urban environment, diverse transportation options, and talented workforce. The Proposed FY 2017 Budget builds on initiatives of the preceding years. We are engaging in strategic and proactive economic development to promote comprehensive urban revitalization, foster job growth, and economic opportunity for residents.

Nurturing the Entrepreneurial Ecosystem

With a vibrant downtown, more jobs per square mile, and the highest paying jobs in the region, Norfolk is the center for commerce in Hampton Roads. Attracting new businesses, large and small, adds jobs and further diversifies the local economy. To achieve this, we are successfully leveraging various strategies to create a thriving economic ecosystem.

Partnership Grants: One of the tools the city uses to entice businesses to Norfolk is a Performance-Based Economic Development Grant. While businesses are willing to invest their own money, a public-private partnership is sometimes necessary to bridge a gap in financing to make the project come to fruition.

Performance-Based Economic Development Grants enable growth of the city's tax base while creating employment opportunities and meeting the growing needs of residents. The projects considered for the grant must be able to achieve significant, direct, and measurable benefits to the city. Such projects would generate new tax revenue that would otherwise not exist and be available for other initiatives that improve the quality of life for all residents.

Norfolk structures Performance-Based Economic Development Grants in a way that protects the city from risk. Grants are generally funded annually based on a pre-determined revenue sharing ratio and paid in arrears after the revenue has been generated on-site and realized by the city. The total grant payments are capped at a pre-determined amount. In a typical grant scenario, the amount of the annual grant payment is wholly dependent on the project's performance. The grant is not payable until new revenue is received and is not given if the project fails to materialize or underperforms.

Targeting Technology: The Business, Professional, Occupational License (BPOL) tax exemption that City Council approved in FY 2016 is another catalyst for new businesses development. To further build on the exemption, I propose the creation of an Innovation Corridor along the Elizabeth River Trail from Old Dominion University (ODU) to Norfolk State University (NSU).



The targeted investment and bold innovation along the proposed corridor will attract and grow new and existing technology companies. Qualifying companies will be eligible for a multi-year Business, Professional and Occupational License tax (BPOL) exemption program. Technology focused innovation corridors have been established in five other Hampton Roads cities, including Chesapeake, Newport News, Suffolk, Franklin, and Poquoson. Establishing an Innovation Corridor in Norfolk will encourage development in the adjacent neighborhoods and capitalize on the

growing technology industry.

Small, Women, and Minority Owned Business (SWaM): Supporting SWaM businesses is an essential element of growing the economy and supporting local entrepreneurs. The city is expanding opportunity for SWaM enterprises by focusing on outreach, business development, capacity-building, and business attraction that will grow and bring top talent to Norfolk.

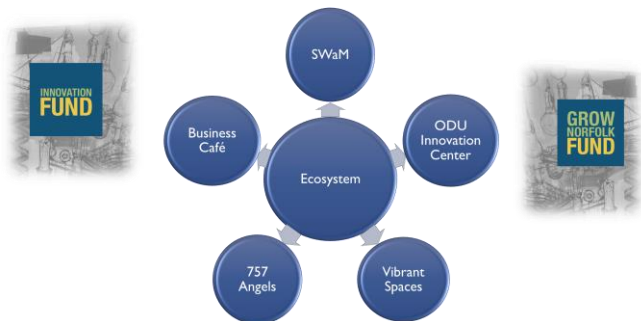
The Proposed FY 2017 Budget provides for a permanent SWaM coordinator in the Department of Development. The budget further provides \$300,000 in CDBG funds to promote SWaM business development.

Leveraging Resources: The Proposed FY 2017 Budget includes a five-cent increase in the cigarette tax with all proceeds supporting development-related activity. Norfolk's cigarette tax will increase from \$0.80 per pack of 20 cigarettes to \$0.85 per pack of 20 cigarettes, which will increase revenues by approximately \$439,000 annually. This revenue will be dedicated to growing our economy through leveraging public-private partnerships.

The following are additional development opportunities geared toward business growth and development that we have engaged in:

- Created the Global Initiatives Fund in FY 2016 to bolster our ability to leverage existing assets and support global commerce through reduced export barriers for small to mid-size businesses;
- Launched ExporTech to support local manufacturers seeking to enter or expand into the global marketplace;
- Created networking opportunities through Community Business Cafés. The Business Cafés offer financial, marketing, management, and technical assistance to new and existing small businesses, and opportunities for small businesses to network with other locals and build relationships with our partners. To date, Business Cafés have been held in Park Place and Ocean View, and a third location is planned for 2016;
- Fostered early-stage investment for emerging companies through 757 Angels, a network of investors providing capital;
- Participated in Vibrant Spaces, an initiative launched by the Downtown Norfolk Council to attract businesses that help define the city's unique sense of place by offering financial support and reduced rent payments. Muddy Paws, a small, locally-owned business, was awarded a lease in a city-owned building on Granby; and
- Partnered with ODU to launch the ODU Innovation Center, which serves as an incubator space, business training asset, mentoring resource, and provides access to financing for startups.

Nurturing the Entrepreneurial Ecosystem



Arts and Culture

Cultural arts organizations are a driver of economic development, and Norfolk continues to benefit from the concentration of cultural resources in the city. Arts and culture events are attracting thousands of people to Norfolk to enjoy the city's many amenities. In 2015, more than 500,000 people



attended events at Town Point Park, over 25,000 attended events at Ocean View Beach Park, the MacArthur Memorial hosted 40,000 visitors, Nauticus hosted 250,000 guests, the Virginia Opera brought 27,500 people to the Harrison Opera House, and the Virginia Arts Festival attracted nearly 58,000 people to various festival events.

The thousands of people attending festivals, performances, and art exhibits are generating revenue for businesses and the city. The many events produced by Festevents generates \$34.0 million in visitor spending, and the direct impact of the Virginia Arts Festival on the local economy is approximately \$10.9 million.

The Proposed FY 2017 Budget solidifies the city's position as the arts and culture hub of the Commonwealth by shifting the Virginia Opera, Virginia Stage Company, and Virginia Symphony Orchestra as dedicated Outside Agencies, and distributing Consortium funds up front to Consortium members. Additionally, the General Fund decreases by \$2.0 million for Consortium members, and is replaced with \$2.0 million from the Public Amenities fund. The Public Amenities fund was designed to support projects that enhance visitor attractions and cultural facilities, and its support of these cultural organizations is consistent with the fund's goals and prior use.

Placemaking

Placemaking enhances the quality of life for residents and the unique character of the city. Input and support from businesses and residents is necessary for the development and success of placemaking efforts. We continue to build on the work of events, like Better Block, by developing unique and welcoming attractions throughout the city.



One aspect of this is the development of multi-purpose outdoor spaces in association with ongoing development projects. The \$10.0 million anchor branch, Broad Creek Library, is in development and will provide the adjoining neighborhood, the almost-complete Richard Bowling Elementary at Broad Creek, and all Norfolk residents with a welcoming environment

that creates a sense of community. Once complete, Broad Creek Library will provide visitors with access to thousands of books and research materials, and public access computers.

Additionally, the planning for the Southside Library has begun. The library will offer a full scope of services targeted toward visitors of all ages. The site plans for the library also include walking trails connecting the library to outdoor activity areas and the Southside Aquatic Center.

Finally, the proposed Innovation Corridor along the Elizabeth River Trail includes a placemaking component sponsored by the Greater Norfolk Corporation (GNC). GNC is generating financial support for trail enhancements that makes it a community asset. The city will partner with GNC to develop an approximately one mile prototype to showcase the potential for placemaking.

Strengthening the Workforce Development Pipeline

As the regional hub for both military personnel and millennials, we have a unique connection to the future workforce of Hampton Roads. Part of developing a viable and adaptable workforce is connecting in-demand professions with properly trained individuals. In order to address the gap between high school education and high-paying careers, we are committed to collaborating with institutions of higher education, Norfolk Public Schools, GNC, other localities, the U.S. Navy, and other public and private partners to develop a Center of Excellence (COE).

We have invested \$1.5 million over the past three years to develop the COE, which will provide traditional career and technical education shaped to meet to the needs of regional employers. Broadly speaking, the COE will have an all-encompassing curriculum that provides job-specific training, access to state of the art technologies, and career preparation. This is not an endeavor we can undertake on our own. Collaboration, communication, and cooperation are necessary to ensure our students have the greatest opportunity for success no matter the career path they choose.

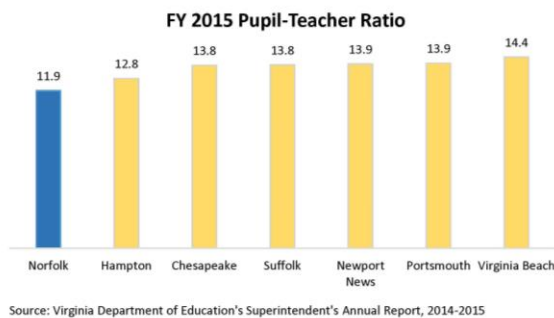
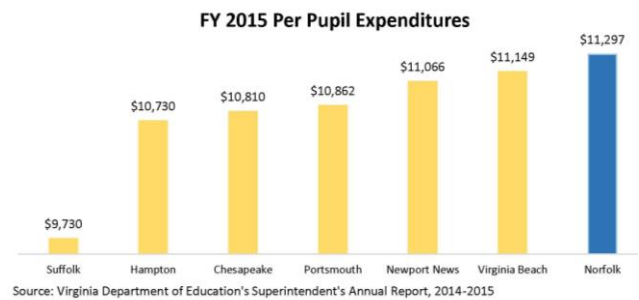
Norfolk Public Schools

An exceptional education system is an integral component of a thriving city and can serve as an economic development driver. With almost 30,000 students, Norfolk Public Schools (NPS) represents the third largest school division of the Hampton Roads cities and the largest urban school division in the Commonwealth of Virginia. Ensuring our students have access to a world-class public education system requires consistent resources and support. Recognizing this, even during the recession, as the state reduced its funding, the city never wavered on its commitment and either increased or kept the support to NPS constant. In fact, since FY 2007, the money provided by the city to NPS increased by 20.4 percent even though the city's overall General Fund revenue growth was only 8.6 percent. To further support NPS operations, the city provides in-kind services, such as school resource officers and facility and ground maintenance. In FY 2017, the total proposed value of these services is \$15.3 million. We continue this commitment with an additional \$1.5 million in the Proposed FY 2017 Budget, to support the local share of a two percent salary increase as provided by the state, beginning December 2016.

The city's dedication is affirmed by the recently released Virginia Department of Education's Superintendent's Annual Report data. This report reflects that NPS spends the most per child and has the lowest pupil to teacher ratio in the region. Relative to Virginia Beach, the division with second

highest per pupil expenditures, NPS spends almost \$150 more per child. Additionally, the pupil to teacher ratio at NPS of 12 students to one teacher (division wide) increases opportunities for individualized education.

To compliment operating support, the city has contributed significantly to improving, maintaining, or constructing schools. In FY 2014, two cents of the approved four-cent real estate tax increase was dedicated in support of the CTI program.



Of the remaining two cents, one-cent was dedicated for NPS operating and the final one-cent was dedicated to city services. The CTI supports debt service payments on school construction, and purchase of one-time technology infrastructure improvements. With the revenue from the CTI, the city was able to accelerate the construction of five schools. In the last four years, \$8.9

million has been dedicated to debt service for school construction and \$4.7 million has been used by NPS for one-time purchases.

Over the last ten years, the city has provided \$27.6 million through the Capital Improvement Plan to improve and maintain NPS facilities. The Budget adds \$1.0 million to address school maintenance, bringing the proposed total to \$3.0. To further enhance NPS' physical learning environment, the city will construct five new schools. Campostella STEM K-8 and Richard Bowling Elementary are projected to open in August 2016. The other three - Larchmont, Ocean View, and Camp Allen - are all estimated to be open by December 2018. Considering the previous construction of Blair Middle, Coleman Place Elementary, and Crossroads K-8, eight schools have been constructed since 2007. To fund these types of large-scale projects, the city must issue debt, which is typically repaid over 20 years. This means that while all five schools are projected to be open by December 2018, the city's debt will not be

repaid until approximately year 2040. The city is committed to NPS, both in the short-term, through increased operating support, and the long-term, as shown in the construction of these new state-of-the-art schools.



Capital Improvement Plan (CIP)

The CIP allows us to make large investments in buildings and other infrastructure and pay for them over time. Initial payments may be low; however, as we increase and layer on additional spending, the payments continue to grow. The CIP may be funded with either cash, which is optimal, or financed, typically with bonds over 20 years. As a result of the Great Recession, recent CIPs have been

funded primarily with bond financing. The city's general CIP is guided by two City Council adopted measures of affordability. One measure is tied to the value of revenue-producing tax property citywide and the other measure is a proportionate share of the General Fund budget. The proposed FY 2017 CIP is within the two measures of affordability listed below. These self-imposed debt limits are as follows:

- Net debt as a percent of taxable property (not-to-exceed 3.5 percent) and
- Debt service as a percent of the General Fund budget (not-to-exceed 10 percent).

We have worked hard to manage our CIP to an affordable level. In FY 2017, I am proposing a moderate capital plan with a focus on maintenance and replacement over the next five years. While the CIP I am proposing is \$11.1 million more than what we had planned last year, the increase stems from much needed maintenance projects that cannot be delayed further. The total CIP is \$83 million, of which \$29.4 million is for General Capital projects and \$53.6 is for projects supported by self-supporting user fees, including Parking Facilities, Storm Water Utility, Wastewater Utility, and Water Utility projects.

This conservative approach is critical to managing debt levels that are in place due to significant and necessary capital projects approved in prior years. As another step to ensure affordability, a line of credit was established in FY 2015. Unlike financing debt through the sale of bonds, a line of credit allows the city to draw down only the funds needed for projected capital payments, rather than borrowing for an entire project – reducing interest costs. Without the use of the line of credit, fixed payments on bonds issued for capital projects, such as school construction, would have been \$10.0 million more than what is proposed for FY 2017. Use of the line of credit has allowed the city to experience only a moderate increase over the prior year, since the projects will be financed over several years as they are being constructed and allow for gradual increases in debt service.

Taking Care of What We Have

Large capital projects, such as light rail, the consolidated courthouse, and the Slover Library are no longer the core of the CIP. The driver of CIP in the future is maintenance: proactively addressing issues related to aging infrastructure.

The financial challenges created by the recession forced us to make funding decisions that allowed the city to continue providing necessary services, but created a backlog of infrastructure repairs. The result was diminished maintenance for city facilities, purchase of technology and acquisition of vehicles – the effect of which is now being felt. With an average age of 46 years, the delayed maintenance for aging buildings has resulted in city facilities in need of roof replacements, new HVAC systems, electrical work, and other major repairs.

The largest investment General Capital in the Proposed FY 2017 CIP is the \$5.4 million replacement of an aged and failing security system at the city jail. I am also proposing an additional \$1.0 million over the planned \$2.0 million for school maintenance, \$1.0 million towards additional fire station maintenance, and \$1.0 million for citywide infrastructure improvements.

The Proposed FY 2017 CIP marks a return to a normal and sustainable funding level of around \$25.0 million annually. The capital projects of the last few years stretched CIP funding to two or three times the level proposed this fiscal year. I believe the Proposed FY 2017 CIP budget represents the best allocation of available resources to meet the community's capital needs and will continue to make a major commitment and investment in the city's future.

Shorelines and Waterways

Norfolk's beaches and waterways are a natural resource that add to the unique character of neighborhoods and serve as a catalyst for development. The planning, construction, and completion of these large projects have improved the overall quality of life in Norfolk. Projects funded in the Proposed FY 2017 CIP will support continued use, access, and enjoyment of these assets.



The Army Corps of Engineers will begin a \$38.4 million beach nourishment project in 2016. The city's cost share of the project is \$9.2 million and will be paid over 30 years, with the first payment due in FY 2017. This project will repair dunes, eradicate invasive dune plants, re-vegetate with native dune grasses, and provide sand fences along seven and a half miles of the Chesapeake Bay shoreline. Norfolk's primary sand dune system protects Chesapeake Bay properties from hurricane or Nor'easter storm surge, flooding, and wave damage. This work will maintain our waterfront assets for residents and visitors to continue to enjoy.

The Proposed FY 2017 CIP also includes \$500,000 for waterway dredging and improvement projects. Dredging and the improvement of waterways encourages development initiatives and thereby an increase in the real estate tax base. Dredging is planned for areas such as West Belvedere and Regent Road.

Neighborhood Capital Improvements

I am committed to a continuous review of programs to identify ways to be more efficient and effective. As part of this commitment, a review of our return on investment from neighborhood improvement programs was completed to ensure we maximized the impact of dollars going directly into neighborhoods.

The city, through the Norfolk Redevelopment and Housing Authority (NRHA), used CIP funds for property acquisition and site improvements. Previously, a large percentage of the allocated funds were earmarked for administration and project support. The high administration and project delivery costs of this program were identified as an opportunity for reallocation. Creating capital project implementation capacity allows for dollar for dollar investment in neighborhoods.

In FY 2016, I proposed the transfer of CDBG funds from NRHA to the Department of Neighborhood Development, putting more money directly into our neighborhoods. Building on last year's action, the Proposed FY 2017 CIP transitions funding for property acquisition and site improvements from NRHA

to the city, ensuring maximum investment in neighborhood revitalization. As a result of this transition, NRHA will receive an additional \$300,000 in General Fund operating support to continue its disposition program previously funded out of CIP. Beginning in FY 2017, \$2.5 million will be committed for improvements in select emerging neighborhoods, which include the Arts District, Church Street, Five Points, Bay Oaks Park in Ocean View, and Park Place/35th Street. The five-year CIP provides a total of \$12.5 million directed toward developing emerging neighborhoods.

Scheduled Project Completions

The city's investment in transportation infrastructure, including light rail, bus service, and bike-friendly roads, makes us the most multi-modal connected city in the Commonwealth. Investment in placemaking positioned neighborhoods to prosper while retaining their unique character. Investment in lifelong learning has resulted in state of the art school facilities that provide a quality learning space for students. Investment in libraries provides access to services for all residents, such as broadband internet, diverse book collections, and workforce development tools.

The Proposed FY 2017 Budget allocates almost \$1.0 million to support the opening of new facilities. The newly constructed buildings will provide new resources for residents and enhance Norfolk's unique character. The projects include the following:

- The Virginia Zoo animal farm, opening June 2016;
- The Virginia Zoo reptile house, opening fall 2017; and
- The Boxing Center, opening winter 2017; and
- The second phase of the courthouse, opening spring 2017.



Conclusions and Next Steps

The Proposed FY 2017 Budget focuses on city priorities and continues the momentum and strategic planning of previous years. It builds on the cornerstone established five years ago when we committed to being a well-managed government and capitalizes on our dedication to this vision over the years. It supports Norfolk's resilience efforts through a focus on preparing the city for the next century and lifting all residents out of poverty through neighborhood revitalization and economic development initiatives.

We are a city of over 120 diverse neighborhoods. Moving forward, it is critical to continue to strengthen the fabric of our neighborhoods by promoting comprehensive revitalization, fostering job growth, and providing economic opportunities. In Norfolk, this means improving resident access to information and services, supporting community-building efforts through technology, and connecting the community through engagement. The Proposed FY 2017 Budget addresses this through continued investment in neighborhood and economic development and leveraging resources and partnerships.

Over the past few years, city departments have undergone major reengineering efforts and service delivery has been streamlined. This has resulted in a leaner organization that is able to provide service

to residents more efficiently. In FY 2017, we will continue to improve controls and processes, and find further efficiencies within our organization while striving to provide the best possible service to residents.

The city's focus on streamlining has not and will not compromise the city's commitment to being an employer of choice. In FY 2015, I proposed ARMD, a three-year initiative to address the most critical issues impacting employee recruitment and retention. The Proposed FY 2017 Budget represents the final phase of this initiative, which has addressed pay inequities, improved employee compensation now and in the retirement years, and has made employee compensation competitive among the Hampton Roads cities. While rollout of the ARMD initiative may be over, we will re-examine and review periodically to ensure that we continue to provide competitive pay and support a compensation plan that attracts and retains the talented employees that keeps Norfolk moving forward. We will also continue to create an employer environment that motivates and develops employees.

The Proposed FY 2017 Budget also includes \$500,000 in undesignated funds. I recommend this be used for one-time uses to maintain a budget that is structurally balanced.

In closing, this budget represents the hard work of the past five years and the commitment to being a well-managed government. It supports the work that lies ahead and demonstrates our commitment to meeting the needs of residents and being the city of the future. Together, we have paved the way to continue our financial success and positioned Norfolk to thrive well into the future.

Sincerely,

A handwritten signature in black ink, appearing to read "Marcus D. Jones". The signature is fluid and cursive, with the first name "Marcus" being more prominent than the last name "Jones".

Marcus D. Jones
City Manager

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