

July 1, 2017

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

I respectfully present to you the Adopted Fiscal Year (FY) 2018 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 (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 2018 Operating and Capital Budgets. These amendments to the Proposed FY 2018 Budget were adopted at the May 23, 2017 City Council meeting. The adopted changes impact the General Fund and CIP. The table below illustrates the final Adopted FY 2018 Financial Plan:

Fiscal Year 2018 Financial Plan	
Operating Fund	Adopted Budget
General Fund	\$857,276,054
Enterprise Funds	\$142,121,764
Special Revenue Funds	\$63,698,401
Internal Service Funds	\$106,298,225
Total Operating Funds	\$1,169,394,444
Capital Improvement Plan	\$84,229,933
Total Operating and Capital Funds	\$1,253,624,377
Annual Plan for HUD Block Grants	\$5,405,297
Total Financial Plan	\$1,259,029,674

The Adopted FY 2018 Budget is shaped by the city’s commitment to make bold decisions, while working within our financial policies. It supports City Council’s priorities of public safety, education, and housing and builds on the momentum created by prudent financial choices, creativity, and a commitment to meeting the needs of residents. Resilience continues to be the lens through which we make decisions, and the budget reflects this through a focus on preparing the city for the next century, deconcentrating poverty, and balancing our economic portfolio.

The Adopted FY 2018 Budget is structurally balanced for the fourth year in a row. This is a result of purposeful actions, implemented over the past six 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 good financial management and delivering excellent core services to residents remains strong.

Operating Amendments

As a result of the amendments made by the City Council, the increase from the Proposed FY 2018 General Fund Budget to the Adopted FY 2018 General Fund Budget totals \$4.1 million. These amendments include a combination of additional revenue and expenditure savings.

The revenue amendments support additional funds for Norfolk Public Schools (NPS) and City Council directives. The table below illustrates the revenue changes to the General Fund for the Adopted FY 2018 Budget.

General Fund Revenue Amendments	
Proposed FY 2018 General Fund Budget	\$853,176,054
Ambulance Fee Revenue Reforecast	\$250,000
IKEA Land Sale Proceeds	\$3,850,000
<i>Subtotal of Revenue Amendments</i>	<i>\$4,100,000</i>
Adopted FY 2018 General Fund Budget	\$857,276,054

Norfolk Public Schools (NPS)

The Adopted FY 2018 Budget increases operating funding for NPS by \$6 million. The increased funding consists of \$3 million in ongoing funds and \$3 million in one-time funds. The city will continue to collaborate with NPS as we work toward implementing a cooperation agreement in the Fall of 2017 that will address: school zoning and capacity, school facility maintenance, NPS employee compensation, career and technical education (CTE), collaboration in the redevelopment of Newton Creek, success metrics, and a school funding formula.

Retiree Supplement

The Adopted FY 2018 Budget includes \$600,000 for a supplement for eligible retirees. To be eligible for a supplement in FY 2018 a retiree must have a retirement benefit of less than \$30,000 and at least 25 years of service with the city. The years of service requirement increased from the previous eligibility level of 15 years to best capture career public servants for the City of Norfolk. As a result, the amount of the supplement increased from \$380 in FY 2017 to \$839 in FY 2018. This change is in line with the recommendations the Administration received during a meeting with the Retired City Employees Association.

Council Directives

Below are details of additional City Council directed amendments to the Proposed FY 2018 Operating Budget:

Festevents: An ongoing increase to Norfolk Festevents general operating support of \$187,000. These funds will pay for additional staff and administrative overhead.

Resource Center Hours: An ongoing increase to the Recreation, Parks, and Open Space budget of \$12,000 to fund Saturday hours at the Campostella Heights Resource Center.

Sister Cities: An ongoing increase to the Norfolk Sister Cities Association general operating support of \$15,000. These funds will support additional staff.

Risk Management: A one-time increase to Risk Management operating funds of \$2 million in FY 2018.

Community Rating System: A one-time increase to the Department of City Planning’s operating budget of \$50,000 to support improving the city’s Community Rating System. An improvement to this rating would lower flood insurance premiums for Norfolk residents who live in flood zones.

D’Art: A one-time increase to the Department of Cultural Facilities, Arts, and Entertainment’s operating budget of \$50,000 to support operating costs for D’Art.

Ingleside Neighborhood Initiative: A one-time increase of \$50,000 to the Department of Neighborhood Development’s operating budget to support initiatives in the Ingleside neighborhood.

Sportsplex Study: A one-time cash transfer of \$100,000 from the General Fund to the CIP project “Implement RPOS Master Plan,” to fund a study of a potential sportsplex facility in Norfolk.

The tables below detail the source of funds that will be used to fund the amendments detailed above:

Table 1 - Ongoing Operating Amendments

Sources	Amount
Revenue reforecast (ambulance fee revenue)	\$250,000
Eliminate Technology Reserve	\$1,350,000
Eliminate transfer of Microsoft license costs from short-term debt to the General Fund	\$850,000
Decrease amount of transfer of Design Division costs from CIP to the General Fund from \$1,100,000 to \$550,000	\$550,000
Decrease funds for Schooner Virginia operating costs from \$250,000 to \$123,500	\$126,500

Table 1 - Ongoing Operating Amendments (continued)

Sources	Amount
Refine compensation increase costs	\$87,500
Total Sources	\$3,214,000
Amendments	Amount
Norfolk Public Schools	\$3,000,000
Norfolk Festevents	\$187,000
Saturday Hours at the Campostella Heights Resource Center	\$12,000
Norfolk Sister Cities Association	\$15,000
Total Amendments	\$3,214,000

Table 2 - One-time Operating Amendments

Sources	Amount
Undesignated Balance	\$1,400,000
Revenue from Land Sale	\$3,850,000
Total Sources	\$5,250,000
Amendments	Amount
Norfolk Public Schools	\$3,000,000
Risk Management	\$2,000,000
Community Rating System	\$50,000
D'Art	\$50,000
Ingleside Neighborhood Initiatives	\$50,000
Transfer to CIP for Sportsplex study	\$100,000
Total Amendments	\$5,250,000

Capital Amendments

The CIP amendments total \$650,000. We accommodated the amendment by transferring \$100,000 of the “undesignated balance” from the General Fund to the CIP, and decreasing the proposed transfer of \$1.1 million of Design Division Costs to \$550,000. The CIP amendments provide funds to support a study on the construction of a multipurpose Sportsplex and for preliminary engineering costs. The table below details the sources and uses of the CIP amendment:

Table 3 - Capital Amendments

Sources	Amount
Undesignated Balance	\$100,000
Bond Financing	\$550,000
Total Sources	\$650,000
Amendments	Amount
Implement RPOS Master Plan (Sportsplex)	\$100,000
Preliminary Engineering CIP	\$550,000
Total Amendments	\$650,000

Technical Amendment – Public Art

A technical adjustment was made to the “Support Citywide Public Art” CIP project to include planned funds of \$250,000 annually from FY 2019 – FY 2022.

Next Steps

As we move forward, the Administration will continue to partner with residents and businesses to revitalize neighborhoods in a collaborative, connected, and creative way. We look forward to working with you and the residents to implement the many initiatives supported by the Adopted FY 2018 Budget.

It is my pleasure to present to you the City of Norfolk’s Adopted FY 2018 Budget.

Sincerely,


Douglas L. Smith
 City Manager

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April 11, 2017

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

I respectfully submit to you the Proposed Fiscal Year (FY) 2018 Financial Plan for the City of Norfolk, which comprises 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 2018 Financial Plan	
Fund	Proposed Budget
General Fund	\$853,176,054
Enterprise Funds	\$142,121,764
Special Revenue Funds	\$63,698,401
Internal Service Funds	\$106,298,225
Total Operating Funds	\$1,165,294,444
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Total Financial Plan	\$1,254,279,674

The Proposed FY 2018 General Fund Budget is \$853.2 million. This is \$18.1 million, or 2.2 percent, above last year’s Approved Budget. This budget demonstrates the city continues to operate efficiently and maintain a structurally sound financial base, while boldly creating opportunities for our residents. The balance between fiscal responsibility and bold decision-making is imperative as we continue to shape the coastal community of the future.

Norfolk is a vibrant, unique, and thriving city that offers residents and visitors alike a unique waterfront experience, with an array of arts and culture venues, performances, and exhibits. It is also the most multi-modal city in Hampton Roads and a municipality committed to adapting for the future by learning to live with water, deconcentrating poverty, and creating economic opportunity.

The Proposed FY 2018 Budget represents Norfolk’s commitment to making bold decisions, while working within our financial policies. It supports Council’s priorities of public safety, housing, and education and builds on the momentum created by prudent financial choices, creativity, and a commitment to meeting the needs of residents. Resilience continues to be the lens through which we make decisions, and the budget reflects this through a focus on preparing the city for the next century, deconcentrating poverty, and balancing our economic portfolio.

The traits that make Norfolk unique are the result of visionary decision-making. The creativity and investment in big ideas has generated momentum for Norfolk. I look forward to building on this momentum by bringing bold ideas to life, while remaining committed to conservative financial practices.

Guiding Principles

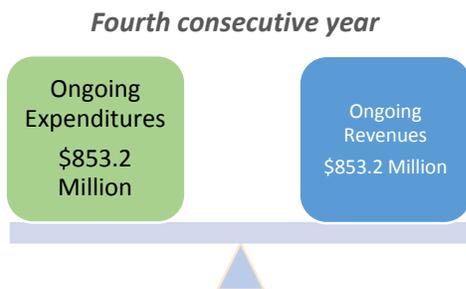
Financial stability is essential for the future of Norfolk. The Proposed FY 2018 Budget is shaped by building on the momentum of years past, while remaining committed to our financial policies. As in prior years, the budget was developed using a five-pronged approach to fiscal resilience that analyzes ways to raise revenues, reduce expenditures, become more efficient, grow the economy, and share services and leverage resources. The Proposed Budget supports Council’s priorities, with added emphasis on housing, public safety, and education.



The budget is also guided by the financial policies put in place in 2013 by City Council to strengthen long-term sustainability and ensure expenditure flexibility in the operating budget. The financial policies helped stabilize the city during difficult financial times and allow Norfolk to remain resilient in the face of continued fiscal stress. This commitment to good financial management and excellent core service delivery continues, while holding onto the values of our vibrant city.

Focused on Accountability

Council’s financial policy commitment 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.



A structurally balanced budget was accomplished ahead of schedule in FY 2015. A structurally balanced budget exists when the city can pay for recurring expenditures with ongoing revenue, without using savings from the previous year or reserve funds. By continuing good fiscal practices, structural balance was maintained in FY 2016, FY 2017, and is continued in the Proposed FY 2018 Budget.

As a result of structural balance for three consecutive years, the budget gaps we face now, while not insignificant, 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. Structural balance in FY 2018 was achieved by requesting one-percent reduction strategies from departments, analyzing citywide utilization of personnel funds to maximize savings from vacant positions, and an in-depth base budget analysis to allocate existing funds to match operational needs prior to the start of budget development.

The financial policies also called for fully funded reserves. The three reserve funds include: a General Fund Unassigned Reserve with a minimum funding goal of five percent of the budget, a Risk Management Reserve with a funding goal of \$5 million, and an Economic Downturn Reserve with a funding goal of \$5 million. The General Fund Unassigned Reserve goal has been met, and in FY 2016, City Council increased the Risk Management Reserve and the Economic Downturn Reserve each by \$1 million. As a result, all three reserves have met the financial policy goals and further bolster the city’s ability to manage risk in the future.



At the time Council enacted the current financial policies, the city’s financial landscape looked much different from today. Though challenges remain, the past six years of streamlining operations and financial discipline have increased the city’s long-term stability. Moving forward, staff and I will develop recommendations for Council consideration regarding updates to the financial policies that allow us to continue to thrive, while remaining fiscally conservative.

Confronting Our Challenges

Ensuring the efficient functioning of any city presents unique challenges, and Norfolk is no different. We are committed to addressing issues in a thoughtful and creative way that ensures our ability to continue providing residents with excellent core services. For example, we are taking steps to become a world leader in developing strategies for living with water, which includes changing the way we plan and build to accommodate the changing environment.

Hampton Roads Transit (HRT) has presented Norfolk with a year-end true-up for FY 2016 of \$1.97 million, which is well above the historically experienced average of \$85,000, and we are anticipating another significant true-up for FY 2017. The Proposed FY 2018 Budget begins to tackle the FY 2016 true-up by allocating \$700,000 as part of a three-year repayment plan. Additionally, to prevent this from happening in the future, city staff and I initiated a regional working group other member cities. Working together with HRT, we will formulate a plan to address the causes of the FY 2016 true-up and ensure residents continue to have access to reliable public transportation that is affordable to both individuals and our city.

Southeastern Public Service Authority (SPSA) is confronting two major issues that impact the management of waste disposal for the region: 1) a large buildup of liquid, or leachate, has drained from the Suffolk landfill, a major environmental concern that must be remediated; and 2) contract delays with RePower South, the company contracted to perform waste disposal for the region beginning in January 2018. SPSA is addressing both issues and city staff will continue working to ensure Norfolk can provide residents with dependable and affordable waste disposal services.

Employee benefit costs are increasing. The Proposed FY 2018 Budget includes \$2.9 million for increased healthcare and retirement costs. On average, in FY 2018 employees will see a seven percent increase in the cost of healthcare, and employee benefit cost increases will continue to be a substantial budget driver in the years to come. We are actively working to mitigate these increases to the extent possible while balancing the need for quality healthcare and retirement benefits for staff.

Setting the Table for Bold Moves

Norfolk spent the past six years streamlining city operations and building fiscal resilience, while adjusting to the “new normal” of slowed revenue growth created by the Great Recession. By re-framing our long-term stresses as strategic opportunities, I am confident Norfolk will continue to thrive. Some notable accomplishments from the past year that will pay dividends in the years ahead include:

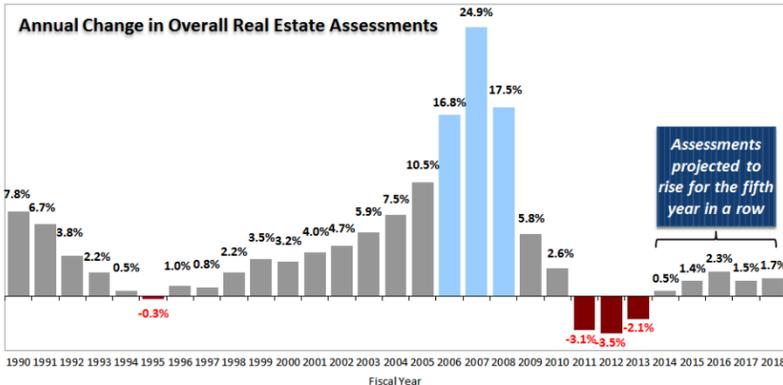
- ❖ Launch of the Norfolk Works center, a workforce development initiative that leverages relationships with community partners to connect job seekers with available jobs. Development of this multi-department project, led by the Department of Economic Development, was the direct result of recommendations generated by the Poverty Commission in the Norfolk Plan to Reduce Poverty and is funded by the Community Development Block Grant. The Norfolk Works center has served almost 500 job seekers since it first opened in December.
- ❖ Continuing to expand economic opportunity citywide by adding nearly 6,000 new jobs, throughout the city, in a variety of career fields, between now and 2018.
- ❖ Selection to host the NATO Resilience Conference in May 2017. We will welcome 200 experts from the United States and Europe to the new Main Conference Center to discuss the interconnectedness of the military, civilian, and private sectors in building urban resilience. European Commission Vice President Federica Mogherini will keynote this important conference, the first of its kind. With this conference, Norfolk continues as leader of resilience on the global stage.
- ❖ Introduction of Norfolk Nighthawks, a recreation program at the Berkley and Huntersville community centers intended to provide young adults a safe, activity-filled way to spend their evenings during the summertime. The program was supported by city staff and community partners and provided young residents with access to basketball courts, educational opportunities, and career development resources.
- ❖ Grant engagement with the Commonwealth of Virginia, implementing the National Disaster Resilience Competition (NDRC) Grant of \$120.5 million. This grant pilots resilient adaptation to flooding in the Ohio Creek Watershed and establishes the Coastal Resilience Laboratory/Accelerator to drive innovation around and adaptation to new coastal environmental conditions impacting coastal cities across the globe.
- ❖ Partnership with the Navy for a Public Public Private Partnership (P4) initiative, intended to allow the city, the Navy, and other stakeholders to share information and resources, generate savings, enhance quality of services, and improve regional, government, and community relations.



- ❖ Adoption of Vision 2100, a long-term strategy to address the challenges of sea level rise, infrastructure needs, and population growth.

Financial Backdrop

Norfolk’s recovery is gaining momentum. For the second year in a row, the revenue estimate in the Proposed Budget will exceed the pre-recession peak reached in FY 2009. This revenue growth is driven largely by real estate assessments, economic development projects coming to fruition, and state aid.



In FY 2018, real estate assessments are projected to rise by 1.7 percent, with the growth coming from the annual reassessment and new growth. This is the fifth consecutive year of growth, and while the rate of growth in real estate assessments overall has been below historical averages, it has provided Norfolk with a stable source of revenue.

Source: Office of the Real Estate Assessor annual report. FY 2018 is Real Estate Assessor projected growth effective on July 1, 2017.

Residential assessments are also projected to grow in FY 2018 for the fourth year in a row by 1.4 percent. The growth in assessments reflects the improvement in Norfolk’s housing market. In the past five years, the average and median sales price of homes in Norfolk increased by approximately 22 percent and 25 percent, respectively.

Due to the increase in assessments, the average homeowner’s tax bill is estimated to increase by \$34 in FY 2018. It is important to note the average homeowner will be paying approximately \$170 less than in FY 2010, when residential assessed values were at their peak. Though the average homeowner’s tax bill is projected to increase due to an increase in property values, I am not proposing a tax rate increase.

Impact on Average Homeowner’s Tax Bill	
FY 2017: Average homeowner’s tax bill (at \$1.15 rate)*	\$2,371
FY 2018: Estimated average homeowner’s tax bill (at \$1.15 rate)**	\$2,405
Increase in tax bill (due to annual reassessment)	\$34
Decrease from average homeowner’s tax bill in FY 2010 of \$2,575	-\$170

* Based on home value of \$206,151

** Based on Real Estate Assessor estimate of residential assessments (with condominiums) and number of parcels in FY 2017

In addition to real estate assessments, revenue growth in FY 2018 is driven by significant economic development projects coming to fruition. These projects are expected to generate additional revenue from local taxes, such as sales, meals, and hotel stays. The opening of The Main Hotel and Conference Center in April, Norfolk Premium Outlets and Waterside District this summer, completion of multi-family

residential projects, and new and expanding businesses are expected to attract more people to come to Norfolk to live, work, and play.

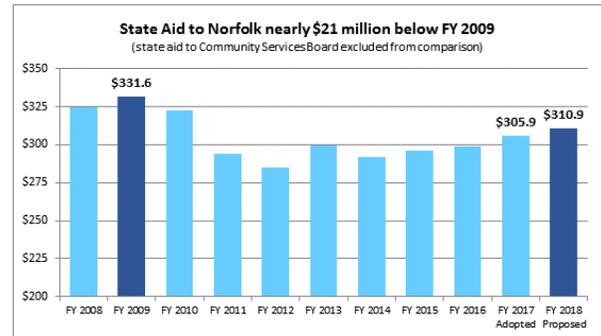


These projects are also expected to generate nearly 6,000 jobs by 2018. The city’s efforts to grow the economy are working and Norfolk continues to be the economic engine of the region. Jobs, an important measure of economic well-being, have been slow to grow in the region, lagging the nation. While the recession ended nearly eight years ago, the region has not fully recovered the 38,000 jobs lost during 2007-2010 because of the effects of the recession and lack of robust growth in defense spending. While stable, the employment outlook for FY 2018 through FY 2020 indicates the region will continue to have moderate job growth that continues to lag the nation.

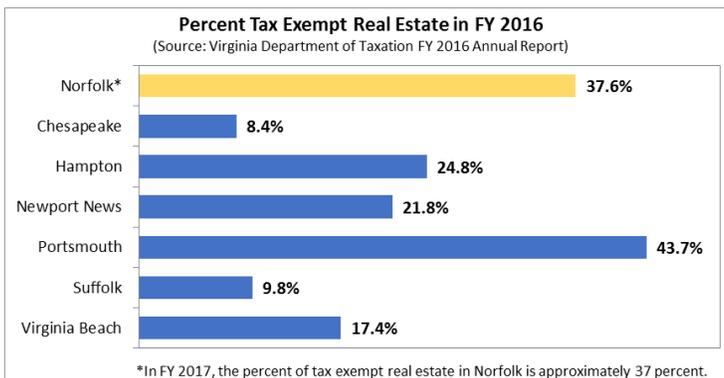


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State aid is projected to rise in FY 2018. Norfolk, like other cities, relies on state aid which makes up nearly 38 percent of General Fund revenue. To put this in perspective, real estate taxes, the largest source of locally generated revenue, make up nearly 26 percent. State aid supports a significant share of the cost of public education, social services, public safety, street maintenance, constitutional officers, and other basic services. As such, growth in state support is essential to build on the city’s momentum. The increase in state aid in FY 2018 reflects current reimbursement levels for social services, salary increase for teachers and constitutional officers, and the state’s current distribution of the car rental tax. In spite of the growth, state aid in FY 2018 continues to be below its last peak in FY 2009 by nearly \$21 million.



The increase in state aid in FY 2018 reflects current reimbursement levels for social services, salary increase for teachers and constitutional officers, and the state’s current distribution of the car rental tax. In spite of the growth, state aid in FY 2018 continues to be below its last peak in FY 2009 by nearly \$21 million.



While the city has made great strides in growing the economy and its tax base, there are factors constraining its growth. Norfolk has one of the highest percentages of tax exempt real estate in the region. Over 50 percent of tax exempt property in Norfolk is owned by federal and state entities. The potential taxes lost from exempt properties is

significant. In FY 2017, the potential taxes lost from exempt properties is approximately \$126 million, roughly seven times the growth of the Proposed Budget. Payments in lieu of taxes for tax exempt properties of approximately \$14 million do not make up for this loss.

While Norfolk's recovery is underway, we have not returned to historical levels of revenue growth and must continue to maintain fiscal discipline. This will preserve the city's financial health and ensure a stable future. To ensure support of our current level of services, consideration of any new programs and initiatives must include sustainable revenue.

Capital Improvement Plan (CIP)

The CIP allows us to make large investments in buildings and other infrastructure and pay for them over time. The CIP may be funded with cash or financed, with bonds, typically over 20 years. 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 taxable property citywide and the other measure is a proportionate share of the General Fund budget. The Proposed FY 2018 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), which is projected to be 3.18 percent in FY 2018; and
- ❖ Debt service as a percent of the General Fund budget (not-to-exceed 10 percent), which is projected to be 8.11 percent in FY 2018.

In FY 2018, I am proposing a conservative capital plan focused on asset maintenance and replacement. The Proposed FY 2018 General CIP is \$26.3 million, which is \$7.5 million above what was initially planned last year. The increase is driven primarily by additional investment in neighborhoods, and much needed maintenance projects that cannot be delayed any longer.

Taking Care of What We Have

In the past, CIP was driven by a transaction-oriented approach, focused on generational projects, such as the consolidated courthouse, five new schools, light rail, and the Slover Library. These investments provide residents and visitors with access to state-of-the-art facilities; however, the large-scale capital projects of the last decade and slow revenue growth related to the value of our taxable property means a smaller, maintenance-focused CIP is required to stay within debt affordability measures.



The core of CIP moving forward continues to shift away from the large capital projects of years past, and focuses on maintenance and taking care of our existing structures. The Proposed FY 2018 CIP provides unplanned funds in the amount of \$1 million for fire station maintenance, \$380,000 to replace in-ground vehicle lifts, and over \$600,000 for roof and walkway repair at the Virginia Zoo.

Moving forward, we must maintain an affordable CIP to remain within the debt affordability measures, which is important to preserving our strong credit. In FY 2019, the growth for debt service expenditures

is projected to be \$6.2 million. The projected CIP budgets of future years are designed to continue addressing the maintenance needs of the city, while keeping debt affordability in mind.

Managing Water

Taking care of what we have is not only limited to city facilities. It includes ensuring the infrastructure running throughout the city is suited to manage the precipitation and tidal flooding that is part of our reality as a coastal community. To support this, the Proposed FY 2018 CIP includes \$9.1 million to address storm water and flooding. The funded projects include:

- ❖ Neighborhood flood mitigation programs, which will allow for infrastructure improvements to better mitigate issues from both precipitation and tidal flooding;
- ❖ Continuation of best practices used to reduce storm water pollutants entering waterways, rivers, and the Chesapeake Bay; and
- ❖ Storm water system and facility improvements.

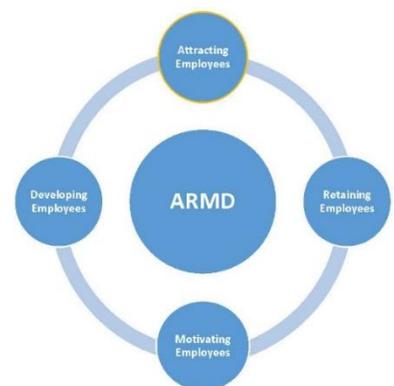
Valuing Team Norfolk

City staff is comprised of an array of talented professionals that are the foundation for delivering excellent core services. Norfolk employees are collecting refuse; fighting fires; maintaining parks; building safe, healthy, and inclusive neighborhoods; running libraries; paving roads; and keeping the city running. Attracting, training, and retaining capable and dedicated employees is important for the continued success of the city.

Attraction, Retention, Motivation, and Development (ARMD)

In FY 2015, a multi-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 Phase II included a focus on enhancing employee development opportunities. With Phase III, adopted as part of the FY 2017 Budget, the initiatives from Phases I and II were continued and the program introduced a comprehensive update to the compensation plan for Police and Fire-Rescue employees.

The Proposed FY 2018 Budget continues the ARMD initiative, which includes implementing the second phase of the public safety pay plan and introduces a new compensation plan for refuse collectors. The Proposed FY 2018 Budget includes: a two percent salary increase for general and constitutional officer employees for the sixth consecutive year; a step increase for sworn Police and Fire-Rescue; a step increase and bonus for sworn Sheriff employees; a \$300 increase to the permanent employee living wage; and salary range adjustments to the city’s most regionally out-of-market classifications. The new compensation plan for refuse collectors takes effect July 1, 2017, and all other actions are effective January 2018.



Public Safety

In FY 2017, council adopted a redesigned public safety compensation plan to address regional competitiveness, retention, and compression issues. The new compensation plan was designed to give Norfolk a competitive advantage within the region to attract and retain talented individuals. The Proposed FY 2018 Budget continues to make public safety compensation a high priority. As such, the proposed budget includes:

- ❖ A one-step increase for sworn Police and Fire-Rescue (average pay increase of 3.5 percent);
- ❖ Compression adjustment for Police Officer;
- ❖ Compression adjustments for Police Sergeants; and
- ❖ Continued support for the Master Firefighter program.



Keeping residents safe by attracting and retaining an effective public safety force also encompasses ensuring our Police and Fire-Rescue departments are properly equipped to do their job. We continue to annually support the operational needs of the Police and Fire-Rescue departments. In the Proposed FY 2018 Budget, this includes \$1 million for fire station improvements, and over \$500,000 for equipment, such as tasers, protective vests, medical supplies, and in-car video systems.

Additionally, in today's technology-driven world, equipping Police and Fire-Rescue with updated technology is increasingly important for keeping residents safe. To provide public safety with the newest technology, we must make investments in our IT infrastructure. In FY 2018, this means investing \$4.2 million to replace and upgrade existing systems. The proposed infrastructure improvements include: replacing radios and upgrading the communication system; replacing the 911 Computer-Aided Dispatch System; upgrading the Police Records Management System; and upgrading 911 call handling equipment.



The demands of public safety require a diverse fleet of mission-specific vehicles. There will always be a need for more equipment and we continue to support investment in an effective public safety fleet. In FY 2018, \$3.4 million is dedicated for public safety vehicles, including, a ladder fire truck, a pumper fire truck, and ambulances for Fire-Rescue, unmarked sedans and marked patrol cars, an all-terrain vehicle, a cargo van, and a large SUV for Police.

Refuse Collectors

The Proposed FY 2018 Budget furthers the goal of attracting and retaining effective employees by redesigning the compensation plan for refuse collectors. The city's refuse collectors serve as front-line ambassadors for the city. They are a vital part of ensuring Norfolk is a beautiful city for residents and visitors. The proposed compensation plan:

- ❖ Increases pay for all refuse collectors (average pay increase of 7.6 percent);
- ❖ Establishes career progression opportunities, including automatic promotion after five years;

- ❖ Raises supervisory pay above the regional market average; and
- ❖ Preserves apprentice training and provides a 17 percent increase in minimum pay upon training completion.

Retirement

The Norfolk Employees' Retirement System (NERS) provides retirement benefits to the men and women who laid the groundwork for the Norfolk of today. As a result, I am 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 COLAs 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 then, the city provided a two percent one-time COLA to retirees in FY 2013 and a supplement to eligible retirees in FY 2015, FY 2016, and FY 2017.

In 2010, another more subtle change took place resulting in a more lasting impact on the city's ability to offer retiree COLAs. 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 determine a COLA is a permanent plan feature of the retirement system. Where a one-time CPI-linked COLA (CPI assumption of 3%) costs the General Fund approximately \$1.5 million a year (if amortized over 20 years), a permanent CPI-linked COLA would cost the General Fund about \$32 million annually. While the city is currently financially stable, an additional \$32 million in ongoing expenses is 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 84 percent. A CPI-linked automatic COLA would reduce the system's funded status to approximately 64 percent, below the level which is considered healthy. If the system were to incorporate a permanent COLA it could put downward pressure on the city's credit ratings which would result in higher capital borrowing costs.

To strike the balance between meeting the needs of current retirees and the city's finances, the Proposed FY 2018 Budget includes \$600,000 of General Fund support for a retiree supplement. My intention was to recommend to Council that the pool of eligible retirees remain the same as last year: a minimum of 15 years of service and an annual retirement benefit of less than \$30,000. However, on

Friday, April 7, I met with the Retired City Employees' Association of Norfolk and they provided compelling information that suggested we should reexamine the group of retirees eligible for the supplement.

As a result, I will work with staff to present to Council a plan for distributing the supplement in a way that rewards career employees. Additionally, we will continue to work with the Retired City Employees' Association of Norfolk to determine if it is possible to resolve the COLA question in a way that protects the pensions of our career public servants, the long-term health of NERS, and the city's finances.

Building a Connected City

A connected city is a successful city, and Norfolk is connecting communities through technology and infrastructure to provide residents and visitors with access to an array of city services and state-of-the-art attractions.

Placemaking

Placemaking provides residents and visitors with opportunities to interact with the many amenities that make Norfolk unique. Whether it is our waterfront access along the Elizabeth River and the Chesapeake Bay, or the many parks, recreation centers, and libraries throughout the city, Norfolk is home to an array of attractions. Investment in placemaking creates opportunity for our residents and showcases the character of our city.



Elizabeth River Trail



The Elizabeth River Trail currently stretches from the Port of Virginia to Harbor Park and showcases much of what makes Norfolk special. To transform the trail into a regional attraction, the Friends of the Elizabeth River Trail have begun a capital campaign to raise \$3.5 million for enhancements to the trail. The long-term goal is to incorporate amenities, such as kayak launches, playgrounds, fitness equipment, and water fountains to accentuate the trail and attract residents, businesses, and visitors to enjoy the urban riverfront. The Proposed FY 2018 CIP includes \$500,000 to support the campaign over the next five years.

Broad Creek Library

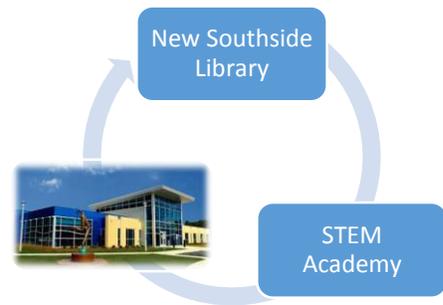
In service of our commitment to lifelong learning, the city has invested millions of dollars to support the construction of libraries throughout the city, providing residents and visitors of all ages with access to extensive book collections, the internet, public computers, and other educational opportunities. The newest of our libraries, the Broad Creek Anchor Branch, is set to open this December.



The Broad Creek Anchor Branch is located next to the newly opened Richard Bowling Elementary, creating an educational corridor for the nearby students and residents. Construction of the new library is supported by \$10 million in CIP funds and the Proposed FY 2018 Budget dedicates \$463,000 in operating funds to support the opening of the library late this year.

Connecting Southside

The city will have another state-of-the-art education and recreation corridor with the construction of the Southside Library, which is located near the newly opened Southside STEM Academy at Campostella. The library will offer a full scope of services for visitors of all ages, including educational programming, public computers, and a diverse collection of books, magazines, and other resources, such as walking trails. The library is set to open in 2019.



What Works Cities

In March of this year, Norfolk was selected to partner with What Works Cities (WWC), a national initiative launched by Bloomberg Philanthropies to help 100 mid-sized American cities enhance their use of data and evidence to shape decisions, improve services, and engage citizens.

As we begin working with WWC, our initial goal is to improve the city's use of data and our ability to make data more consumable and readily available for residents and city staff alike. To accomplish this, our initial project engagement focuses on improving open data practices, policies, and governance, and improving the city's performance management programs by measuring processes, outcomes, and tracking progress toward priority goals.



The benefits of this partnership extend far beyond the initial project engagement. Working with WWC will provide ongoing access to technical experts within the WWC network and continuous training to improve the city's capacity to conduct analysis and strengthen our data-driven culture. Additionally, we have the opportunity to pursue partnerships with the other cities selected for the program, allowing us to exchange ideas and best practices with like-minded cities and community leaders.

Through partnerships with organizations, such as WWC, Norfolk is creatively addressing the constantly changing technology landscape and gaining a national reputation as an innovative and results-oriented city.

Technology Infrastructure

As dependency on technology grows, Norfolk has worked to accommodate changes that provide connectivity and better, more advanced service delivery to residents. From 3D printers at the Slover Library to partnering with Centura College to launch Fly Norfolk, a program offering drone aviation education, Norfolk is working to provide residents with a variety of high-tech, interactive learning

opportunities. To support innovative services, it is imperative we have the adequate technological infrastructure.

In FY 2017, we took a major step forward with respect to our technology infrastructure by dedicating \$3.6 million to replace and upgrade broadband infrastructure for city facilities. Additionally, FY 2017 saw the rollout of free public Wi-Fi in MacArthur Square and City Hall. However, there are still infrastructure needs that must be met before we can move forward with other technology initiatives.

The city is currently unable to adhere to industry standard replacement best practices for computers and other hardware due to limited financial resources and lack of dedicated funding for technology infrastructure replacement. This created an extensive backlog of hardware that needs to be updated so city staff can continue providing residents with excellent core services.

The Proposed FY 2018 Budget begins to address the IT backlog by establishing a Technology Reserve with \$1.35 million and provides \$850,000 from the General Fund for software licenses. In the past, short-term debt was used to cover the cost of software licenses. This practice allowed us to pay for the needed license, but was not the most financially efficient use of our resources. By using General Fund dollars for software licenses, we can begin implementing best practices for hardware replacement and create capacity for other capital needs. In FY 2018, we will continue evaluating ongoing technology replacement practices to ensure we are strategic about our technology investments and use of financial resources.

Fostering Creativity

The abundance of cultural resources in Norfolk provide a diverse selection of entertainment options and attracts new residents and visitors from around the country. As the arts and culture hub of Hampton Roads, we provide residents and visitors with access to an array of festivals, world-class performances, sporting events, museums, and much more.



To continue attracting world-class exhibits and events to Norfolk, we must ensure our cultural facilities are well-maintained and able to accommodate the needs of the artists and acts that utilize the many venues throughout the city. To keep our cultural facilities the best in the region, in FY 2018 we will study the maintenance and upgrade needs of our venues and develop an investment plan for these public amenities.

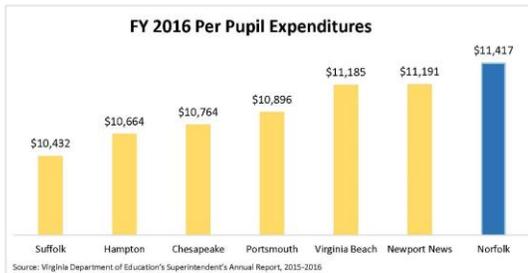
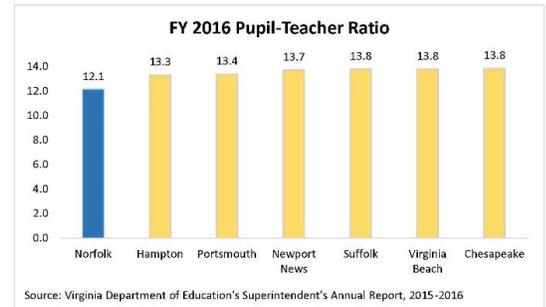
Additionally, the Proposed FY 2018 Budget provides \$1 million from the Public Amenities Fund for capital improvements to the Scope Arena (\$750,000) and other facilities (\$250,000). The Public Amenities Fund was designed to support projects that enhance visitor attractions and cultural facilities, and its use for the capital improvements is consistent with the Fund's goals and prior use.



Commitment to Education

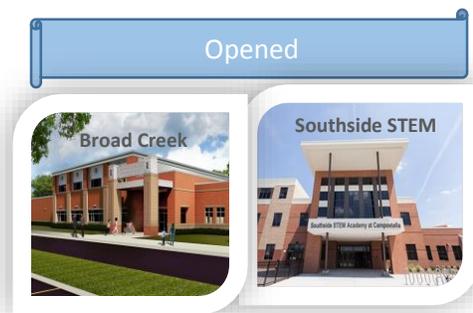
Supporting Norfolk Public Schools (NPS) and educating children is an investment in our future; it is one of the most important things we do for the city. We know a healthy school system is an economic driver and develops the next generation’s leaders and workforce. Building a robust school system and providing students with the quality education they need to succeed requires commitment, and Norfolk’s commitment remains strong.

Recently released data from the Virginia Department of Education shows Norfolk spends the most per child and has the lowest pupil to teacher ratio in the region. Additionally, the city provides operating and capital support to ensure NPS can provide students with an environment that fosters growth and learning.



Currently the city provides operating support, as well as in-kind services, such as school resource officers and facility and ground maintenance. In FY 2018, the city’s total proposed operating support is approximately \$119 million, which is about \$65 million more than the state’s required local effort. The city will also provide an estimated \$18.3 million in in-kind support and the funds to complete construction of our five new schools and maintenance and infrastructure projects.

We have maintained a continued commitment to improving, maintaining, or constructing schools. The Proposed FY 2018 Budget further supports NPS’ physical learning environment through the continued construction of new schools throughout the city. The city committed to build five new schools. The first two, Southside STEM Academy at Campostella and Richard Bowling Elementary, opened this past year. Construction is underway for the remaining three - Larchmont, Ocean View, and Camp Allen. To fund these types of large-scale capital 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 2040. The Proposed FY 2018 Budget also includes another \$2 million to address school maintenance.



Great cities have great schools, and the city will continue to work with NPS to build a world-class education system for our students. As part of this partnership, I propose developing a School Funding Formula in FY 2018. An established formula will help align the interests of the city and NPS, promote efficient use of resources, and allow NPS to share in revenue growth as Norfolk continues to thrive. Additionally, a set funding formula will shift the focus of the city's relationship with NPS from funding to performance and promote process transparency.

Strengthening the Community

We are a city of over 120 diverse neighborhoods, and the continued strength of these neighborhoods is vital to the success of the city. The continued health and diversity of all neighborhoods requires us to remain committed to investing in neighborhood improvement initiatives across the city to create a place for all residents to call home.

Leveraging Resources

Neighborhood development extends well beyond the city financial investment in the community. We are also leveraging federal resources 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. CDBG funds support economic development, infrastructure, homeless prevention, advocacy, and youth programs.

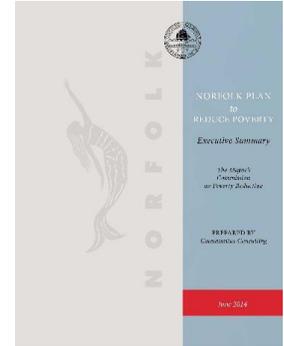
The Proposed FY 2018 Budget includes \$4.1 million in CDBG funds. The following are examples of projects receiving funds:

- ❖ \$350,000 to support Department of Neighborhood Development initiatives targeting neighborhood enhancement and housing development;
- ❖ \$1 million for homeowner rehabilitation, a program administered by the Department of Neighborhood Development to improve the physical appearance of homes, improving the overall quality of neighborhoods and home values;
- ❖ \$150,000 to support Norfolk Works, a workforce development initiative providing career and application assistance and connecting job seekers with employment opportunities; and
- ❖ \$100,000 for nuisance abatement.

Implementing Transformational Ideas

Place Matters - and the City of Norfolk is a great place to live. Building on our history as a great port city and on the strength of our diversity, Norfolk's residents are working hard each day to build upon the vibrant center of Hampton Roads. Driven by the knowledge that place matters, City Council is focused on three priorities that reflect a place-based approach to strengthening and enlivening our community: education, public safety and housing.

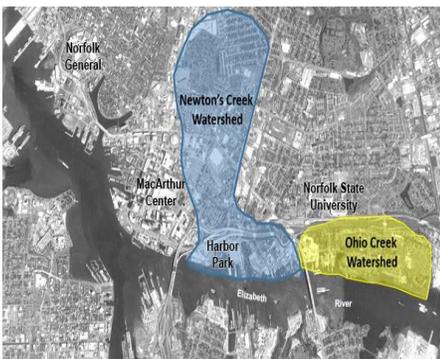
Council members understand the interconnectedness of these systems—that where a family lives can impact both their children’s educational experience and how safe they feel in their neighborhood. Investments in housing provide positive pathways to achieving better school outcomes, safer neighborhoods, and the de-concentration of poverty.



Implementing the recommendations of the *Norfolk Plan to Reduce Poverty*, the city completed a comprehensive affordable housing study resulting in a strategy with two bold goals - strengthening neighborhoods and deconcentrating poverty. The Proposed FY 2018 Budget provides over \$21 million in funding over the next five years to implement strategies in these two goal areas.

Strengthening Neighborhoods: The Proposed FY 2018 Budget provides \$8.7 million in funding over the next five years to invest in affordable housing strategies that strengthen neighborhoods. Strategies will include home rehabilitation, down payment assistance, and rental revitalization in pilot neighborhoods. Neighborhoods will be selected for specific programs based on the ability of each program to make a measurable difference in the strength of the housing market with the ultimate goal of catalyzing private investment.

Transform Newton Creek: Over \$14 million is proposed for the transformation of the Newton Creek



area. Newton Creek, just on the edge of Norfolk’s thriving downtown, has been the subject of several planning efforts since 2005. It is well poised for redevelopment as a result of its location, the high concentrations of poverty, and the enormous infrastructure needs resulting from sea level rise. As we reconfigure the Newton Creek Watershed to more effectively manage water, we will revitalize the area in a way that showcases how city neighborhoods can function as economic drivers and great places to live. This transformation will coordinate the physical infrastructure, housing,

transportation networks, and water management systems with a comprehensive approach to the needs of people that includes a focus on education, employment opportunities, and community safety and health.

The Proposed FY 2018 budget takes bold steps to transform Norfolk’s neighborhoods. These investments create pathways out of poverty and provide opportunity for residents. These innovative strategies embrace current challenges and demonstrate the willingness of City Council to be transformational in their vision for Norfolk.



Our Path Forward

Moving forward, my goal is for us to address several initiatives intended to make us more efficient and effective. Internally, we will develop and adopt a comprehensive technology replacement strategy to address our replacement backlog, and we will work with our cultural amenities partners to develop an

investment plan to ensure our cultural facilities remain the best in the region. Collaborating with our external partners, we will develop a school funding formula, and we will evaluate performance-based agreements with community-partners.

Though the future holds many challenges, I am confident that our resilient spirit will strengthen and empower all Norfolk residents. Building upon our strong foundation and hard-earned momentum, we will continue to work to make our city a diverse, authentic, and thriving community and a great place to call home.

I am appreciative of the opportunity to serve as your Interim City Manager and deliver to you a financial plan to move the city forward as a premier coastal community. I look forward to discussing this proposed budget in detail over the coming weeks and stand ready to lead with your vision into the 2018 fiscal year.

Sincerely,



Douglas L. Smith
Interim City Manager

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