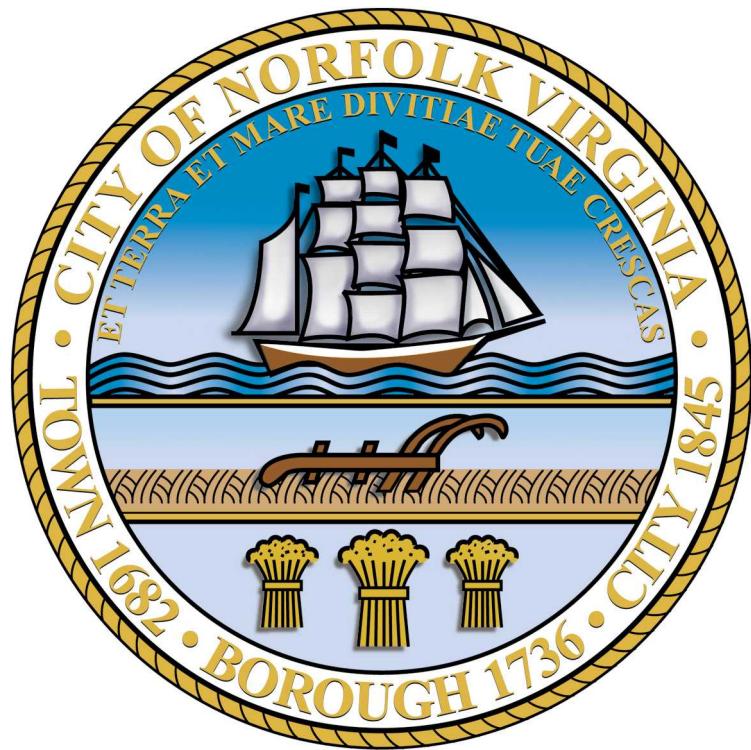

Budget Overview



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ACKNOWLEDGMENTS

The preparation of the city's annual resource allocation plan requires a tremendous amount of hard work and dedication on the part of many people. Developing expenditures and revenue information requires varying sources of data and multiple perspectives.

The FY 2018 Budget includes the assistance of many who deserve acknowledgment and appreciation:

- Residents of the city and civic leagues, particularly those who attended community outreach meetings
- Members of the city's Employee Relations Committee
- Executive budget team
- Department and office directors
- Members of the business community
- Council Appointees
- Constitutional Officers

Special recognition and gratitude to the Office of Budget and Strategic Planning staff who worked to prepare this year's budget.

Office of Budget and Strategic Planning Staff

Gregory Patrick, Director

Budget, Grants, and Policy Team

Mariam Abdelhamid, Peter Buryk, Jessica Dennis, Eundene Faulks, Patricia Harrison, Kaitrin Mahar, Barbara Mazur, Susan Meslang, Cecelia Rieb, Anne Marie Strano, Emily Uselton, and Joseph Younkin.

City Manager,

A handwritten signature in black ink that reads "Douglas L. Smith". The signature is cursive and fluid, with "Douglas" on the top line and "L. Smith" on the bottom line.

DISTINGUISHED BUDGET PRESENTATION AWARD



The Government Finance Officers Association of the United States and Canada (GFOA) presented an award of Distinguished Presentation to the City of Norfolk, Virginia for its annual budget for the fiscal year beginning July 1, 2016. The review process by GFOA has not commenced for the annual budget for the fiscal year beginning July 1, 2017.

This prestigious award is presented to governmental entities that prepare budget documents which exhibit the highest qualities in meeting or exceeding both the guidelines established by the National Advisory Council on State and Local Budgeting and GFOA's standards of best practices. Documents submitted for the Budget Awards Program are reviewed by selected members of the GFOA professional staff and by outside reviewers with experience in public-sector budgeting. The award is only valid for a period of one year only. The FY 2018 budget continues to conform to program requirements and will be submitted to GFOA for eligibility.

CITY OF NORFOLK GOVERNMENT

Norfolk City Council is the legislative body of the city government. It is authorized to exercise all the powers conferred upon the city by the Commonwealth of Virginia in the state constitution, state laws and the Charter of the City of Norfolk.

City Council is composed of eight members. Seven members are elected through a ward system, and the Mayor is elected at large by the residents of Norfolk. These members elect a vice president (Vice Mayor) of the Council. For further information on the duties, powers and meetings of the Council, call the Office of the City Clerk, 757-664-4253.

The City Council meets the first, second, and fourth Tuesday of each month in Norfolk City Hall. There are two formal meetings held at 7:00 p.m. in the Council Chambers on the second and fourth Tuesday. Work sessions are held prior to the formal meetings and on the first Tuesday of each month. Starting times of the work sessions are determined by the agenda.

The City of Norfolk operates under a Council-Manager form of government whereby the Council appoints a chief executive, the Interim City Manager, Douglas L. Smith. The Council also appoints a City Attorney, Bernard A. Pishko; City Auditor, John H. Sanderlin; City Clerk, R. Breckenridge Daughtrey; and City Real Estate Assessor, Albert W. Marchand.

NORFOLK CITY COUNCIL MEMBERS AND CITY MANAGER



Mayor
Kenneth Cooper Alexander



Vice Mayor
Dr. Theresa W. Whibley
Ward 2



Council Member
Martin A. Thomas
Ward 1



Council Member
Mamie Johnson
Ward 3



Council Member
Paul R. Riddick
Ward 4



Council Member
Thomas R. Smigiel
Ward 5



Council Member
Andria P. McClellan
Super Ward 6



Council Member
Angelia Williams Graves
Super Ward 7



Interim City Manager
Douglas L. Smith

CITY OF NORFOLK WARD MAP



CITY COUNCIL'S VISION FOR NORFOLK

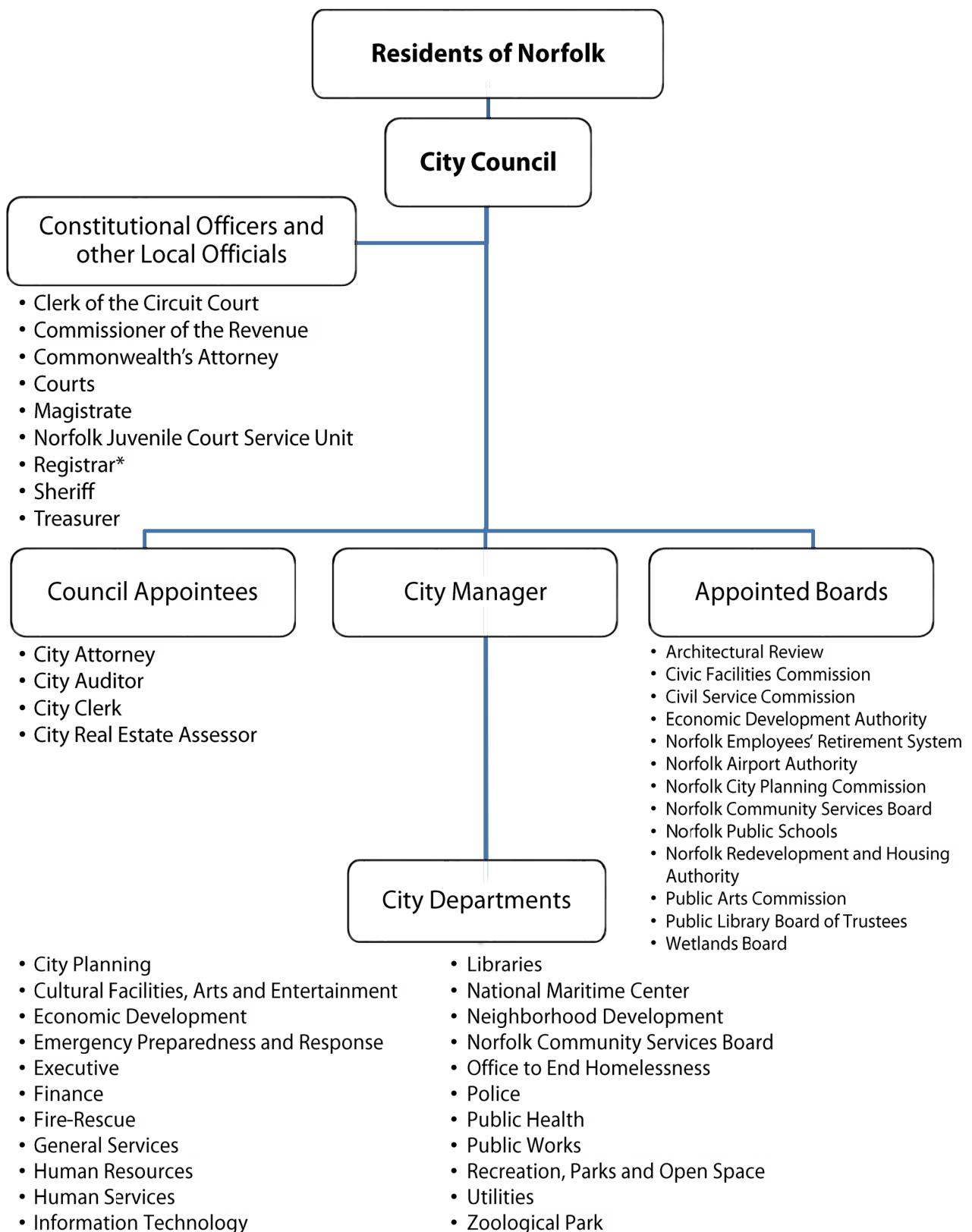
Vision

Norfolk is an amazing place, a vibrant and historic port city where culturally diverse citizens, the military, and businesses are creating the most dynamic and authentic urban waterfront community in America.

Priorities

- **Accessibility, Mobility and Connectivity** - A comprehensive network of accessibility and information gathering options, addressing all traditional transportation modes as well as new technologies, which connect people, goods and information.
- **Economic Vitality and Workforce Development** - A growing, competitive and diversified economy that enhances the quality of life for residents through a wide range of housing, educational, cultural, shopping, business and employment opportunities.
- **Environmental Sustainability** - A premier waterfront community that creates a positive, regenerative effect on its environment, avoids detrimental environmental impacts and thrives economically and culturally.
- **Lifelong Learning** - Residents of all ages enjoy a culture of learning that enables them to reach their full potential, achieve personal goals, and through their knowledge, skills, abilities, and talents become well equipped to support a prosperous economy.
- **Safe, Healthy and Inclusive Communities** - Residents of diverse backgrounds and interests feel encouraged and empowered to assist in the development of safe and healthy neighborhoods thereby fostering a culture of leadership, pride and well-being that advances Norfolk's brand as a desirable and enjoyable place to live, learn, work and play.
- **Well-Managed Government** - A data-driven organization that provides effective and efficient programs and services that are responsive, accountable, inclusive and customer focused.

CITY OF NORFOLK ORGANIZATIONAL CHART



*Appointed by State Board of Elections

READER'S GUIDE TO THE BUDGET

PURPOSE

The budget is an instrument that sets policy and summarizes public service programs provided by the city government and how the programs are funded. It is the annual plan for coordinating revenues and expenditures. The budget presented covers the period of **July 1, 2017 to June 30, 2018**. The amounts for FY 2018 are adopted through the appropriation ordinance adopted by the City Council. The Adopted Budget document may include technical changes made after the City Manager's presentation of the Proposed Budget to the City Council.

BUDGET OVERVIEW

This section provides information on budget and financial policies, fund structure, basis of budget and accounting, budget process, budget calendar, and the city's organizational chart. The section also includes revenue and expenditure summaries, discussion of major revenue sources, indebtedness, and personnel staffing. Historical revenue and expenditure amounts for FY 2016 provided in the summaries do not include designations and financial adjustments posted after June 30, 2016. FY 2018 adopted amounts may include technical changes made after the City Manager's presentation of the Proposed Budget to the City Council.

GENERAL FUND REVENUE AND EXPENDITURE

The General Fund is used to account for primary government services. A summary of historical and estimated revenue from each source is provided for the General Fund. For each department within the General Fund, a summary of historical and approved expenditures is provided. Historical revenue and expenditure amounts for FY 2016 do not include designations and financial adjustments posted after June 30, 2016. FY 2018 adopted amounts may include technical changes made after the City Manager's presentation of the Proposed Budget to the City Council.

CITYWIDE PRIORITIES

This section provides an overview of the six citywide priorities and highlight achievements that support those priorities.

DEPARTMENT BUDGETS

This section provides detailed information on the budget of each department within the General Fund. A brief description of the adopted FY 2018 budget actions and their impact on the budget and full-time equivalent (FTE) personnel are provided in this section. Historical revenue and expenditure amounts for FY 2015 and FY 2016 provided in the department summaries do not include designations and financial adjustments posted after June 30 of each fiscal year. FY 2018 adopted amounts may include technical changes made after the City Manager's presentation of the Proposed Budget to the City Council.

PUBLIC SCHOOL EDUCATION

This section provides information on the adopted appropriation for Norfolk Public Schools. FY 2018 adopted amounts may include technical changes made after the City Manager's presentation of the Proposed Budget to the City Council.

SPECIAL REVENUE, ENTERPRISE, AND INTERNAL SERVICE FUNDS

These sections provide detailed information on the adopted budget of the city's Special Revenue, Enterprise and Internal Service Funds. A brief description of the adopted FY 2018 budget actions and their impact on the budget and full-time equivalent (FTE) personnel are provided in this section. Historical revenues and expenditures for FY 2015 and FY 2016 provided in the department summaries do not include designations and financial adjustments posted after June 30 of each fiscal year. FY 2018 adopted amounts may include technical changes made after the City Manager's presentation of the Proposed Budget to the City Council.

CAPITAL IMPROVEMENT PLAN

This section provides detailed budget information on the five-year Capital Improvement Plan. However, the only year of the plan that is certain is the current budget year, FY 2018, with future years reflecting planning and not commitment. FY 2018 adopted amounts may include technical changes made after the City Manager's presentation of the Proposed Budget to the City Council.

ANNUAL PLAN - U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) ENTITLEMENT GRANT PROGRAM

This section contains the Annual Plan for the Community Development Block Grant (CDBG), HOME Investment Partnerships Program, and Emergency Solutions Grant Program. The Annual Plan identifies the annual funding of the city's priority community development projects and activities as outlined in the five-year Consolidated Plan. FY 2018 adopted amounts may include technical changes made after the City Manager's presentation of the Proposed Budget to the City Council.

NORFOLK STATISTICAL INFORMATION

This section provides statistical and general information about the city such as an overview of the organization, services, and selected functions.

GLOSSARY, ORDINANCES, AND INDEX

The glossary provides definitions of budget-related terminology. The ordinances included are those adopted by the City Council establishing the operating and capital improvement plan budget and the annual plan. The index contains an alphabetical reference of information contained in the document.

FINANCIAL POLICIES

OPERATING BUDGET

The operating budget for the city is developed pursuant to Section 67 of the Charter of the City of Norfolk, Virginia. In accordance with the City Charter, the City Manager submits to the City Council, no less than 60 days before the end of the fiscal year, a proposed operating budget for the ensuing fiscal year. The operating budget includes expenditure amounts based on detailed estimates furnished by departments and other divisions of the city government. The budget is presented in a manner that identifies appropriations, taxes, and estimated revenues with comparative statements. The budget is prepared by fund and department.

Following the formal presentation of the Proposed Budget by the City Manager, a public hearing is conducted to provide an opportunity for the public to make comments on the proposed operating budget and any proposed tax and fee adjustments such as, proposed changes to the real estate tax rate. The public hearing for the operating budget is held at least seven days prior to City Council's approval of the budget. City Council is required to approve a final operating budget no later than 30 days before the end of the current fiscal year.

The formal approval of the budget is executed by the adoption of the ordinance delineating appropriations by fund. Additional budget controls are exercised administratively on an appropriation unit basis over combinations of object categories (account groups: personnel services, materials, supplies and repairs, contractual services, equipment, public assistance, department specific appropriation and debt service), as well as on a line item basis over individual objects (budget accounts). Departments may transfer funds within a departmental budget with approval from the City Manager or the Office of Budget and Strategic Planning.

The City Manager or designee is authorized to transfer from any department, fund or activity which has an excess of funds appropriated for its use to any department, activity or fund all or any part of such excess. Basic policies and guidelines for the development of the city's annual budget are provided below.

The administration is committed to high standards of financial management and currently maintains and follows financial practices and guidelines. In July 2013, City Council passed a resolution to update the city's policies on reserves and use of surplus funds, commit to achieving a structurally balanced budget (achieved in FY 2015), formalize the city's long-standing self-imposed debt affordability measures, and provide for the long-term financial sustainability and viability of the Parking Facilities Fund. Financial policies demonstrate commitment to consistent financial practices, operational efficiencies and best practices; preserve fiscal integrity; and improve fiscal stability to promote long-term fiscal sustainability. Sound financial management practices contribute to maintaining high city credit ratings and lower borrowing costs for capital projects.

GENERAL FUND BALANCE RESERVES

Annually, after the close of the fiscal year, the Department of Finance produces a schedule of all fund variances to the final budget. Analysis of compliance with the city's reserve requirements and a plan for the use of excess funds is included in a year-end report submitted by the City Manager to the City Council. The City Manager may recommend policy or procedure changes based upon circumstances identified in the year-end analysis.

The purpose of a reserve is to act as the city's "savings" account to meet emergency and unanticipated needs without jeopardizing the ongoing provision of city services. The establishment and maintenance of general operating reserves is considered one of the most effective management practices a local government can employ. Reserves help to cushion against annual cash flow disruptions. The appropriate size of reserves depends on

variability of revenues and expenditures and the city's cash flow needs. The General Fund reserve policy and practices include the following.

Unassigned General Fund Balance ('five percent reserve') – The city maintains an unassigned General Fund balance equal to at least five percent of the annual General Fund budget to help mitigate current and future risks and provide temporary funding for unforeseen emergency or catastrophic needs. The FY 2017 minimum of \$41,972,118 is based on the Amended FY 2017 General Fund Budget of \$839,442,352. The projected level of \$42,332,591 currently exceeds five percent of the budget due to additional funds set aside by City Council in FY 2011 and FY 2012 to strengthen reserves. In FY 2011, City Council elected not to reduce the unassigned General Fund balance by approximately \$2.0 million, maintaining the balance at the FY 2010 level of \$41,559,263. In FY 2012, during the FY 2013 budget work session, City Council allocated \$773,328 of the FY 2011 fund balance, raising the unassigned General Fund balance to \$42,332,591.

Risk Management Reserve – The city is self-insured for many of its risk exposures. The city has targeted a reserve equal to the three year average of self-insured liability and property claim expenses plus \$4.0 million dollars for a catastrophic reserve including extraordinary workers' compensation expenses, not to exceed \$5.0 million and no less than \$3.0 million. The Risk Management Reserve was reduced to \$840,162 from \$5,740,162 in FY 2008 to settle a major general liability claim. Since then, City Council has brought the reserve to its financial policy goal of \$5.0 million by setting aside funds from year-end surpluses in FY 2010 (\$1,058,409), FY 2012 (\$1,101,429), FY 2015 (\$1.0 million), and FY 2016 (\$1.0 million).

Economic Downturn Reserve – The city strives to meet the goal set at 2.5 percent of the three year average of real estate tax revenues, not to exceed \$5.0 million and no less than \$3.0 million to abate the impact of short-term economic downturns on the overall budget and to build adequate reserves to transition the impact of extreme swings in revenues and/or expenditures such as the retirement contribution, health insurance or unforeseen emergencies. During FY 2016, the reserve reached its financial policy goal of \$5.0 million with funds set aside by City Council in FY 2012, FY 2015, and FY 2016. In FY 2012, during the FY 2013 budget work session, City Council allocated \$1.0 million of the FY 2011 fund balance for the reserve, raising the reserve from \$2.0 million to \$3.0 million. In FY 2015 and FY 2016, City Council allocated \$1.0 million of the year-end surpluses each year, bringing the reserve to its financial policy goal of \$5.0 million.

Reserve	Purpose	FY 2017 Minimum	FY 2017 Projected
Unassigned General Fund Balance ("five percent reserve")	Good management practices recommend accumulation of undesignated funds to mitigate current and future risks and provide temporary funding of unforeseen emergency or catastrophic needs.	\$41,972,118	\$42,332,591
Risk Management Reserve	Because the city is self-insured, a reserve is needed in the event of major unanticipated workers compensation or general liability claims.	\$3 - \$5 million	\$5,000,000
Economic Downturn Reserve	To abate the impact of short-term economic downturns on the overall budget and to build adequate reserves to transition the impact of extreme swings in revenues and/or expenditures. The reserve is intended to be used as needed, whereas the "five percent reserve" is to be used for catastrophic needs or unforeseen emergencies.	\$3 - \$5 million	\$5,000,000

Amounts in the table exclude reserves for encumbrances and other legally restricted reserves and designations. The "five percent reserve" and the Economic Downturn Reserve are required by governmental accounting standards ("GASB 54") to be classified in the unassigned General Fund balance and were formerly in the unreserved, undesignated fund balance and unreserved, designated fund balance, respectively.

DEFINITION AND USE OF SURPLUSES

The budget prioritizes and plans the use of financial resources based on the best data available at the time the budget is adopted. Appropriated revenues and expenditures are projections and are not exact. Through strict monitoring, funds in excess of the budget projections may occur and are referred to as surpluses. In terms of budget forecasts, the city has a goal or benchmark to be within two percent of the projected budget similar to the Commonwealth of Virginia.

The financial policies adopted by City Council in July 2013 states that once the city has achieved a structurally balanced budget, then in subsequent fiscal years when the final approved General Fund undesignated and unassigned surplus is at least 0.5 percent of the General Fund budget, one half of the surplus (up to \$2.0 million) shall be used for the following items listed in order of priority or as recommended by the City Manager:

- Cash Payments for Capital Improvement Projects - excess surplus amounts may be used to provide cash funding for capital projects to reduce the future debt burden upon the city;
- Retirement of Existing Debt - excess surplus amounts may be used to pay principal on existing bonds or any other existing debt; or
- Funding Reserves - the city will add to each of its reserves in the following order of priority until each reserve has reached its respective goal: (1) General Fund Unassigned Balance ("five percent reserve"); (2) Risk Management Reserve; and (3) Economic Downturn Reserve.

To the same extent the city attempts to match one-time revenues with one-time expenses, a one-time surplus will also be matched with one-time expenditures. Although the unprecedented economic times and stagnant growth have lead the city to generate and use one-time budget savings to help balance the budget in prior years, the city has significantly reduced its use of one-time resources in balancing the budget.

DEBT MANAGEMENT

The Commonwealth of Virginia imposes a legal limit of ten percent of the assessed valuation of taxable real property as a ceiling on the amount of general obligation borrowings. Based on the assessed valuation of taxable real property, the city's legal debt limit (debt the city can issue without referendum) is approximately \$1.9 billion (see City Indebtedness section). While this is the legal limitation, the city is well aware it cannot take on expenditures beyond its fiscal means of affordability. Therefore, the city strives to adhere to the following adopted self-imposed debt ratios to guide the development of the Capital Improvement Plan:

- Debt Service as a percent of the General Fund budget should not exceed ten percent; and,
- Net debt as a percent of taxable property should not exceed 3.5 percent.

In determining general obligation debt limitations, certain classes of indebtedness may be excluded, such as: revenue anticipation notes maturing in one year or less; general obligation bonds payable from a specified revenue producing undertaking so long as the undertaking is self-supporting; capital leases; and revenue bonds. The city's Water enterprise operations is solely funded through self-supporting revenue bonds, while its Wastewater operations are a combination of self-supporting, general obligation and revenue bonds. The city's operation for Parking, Storm Water, and Towing bonded debt is self-supporting utilizing general obligation bonds.

The city has never defaulted on the payment of either principal or interest on its general obligation debt.

CAPITAL IMPROVEMENT PLAN

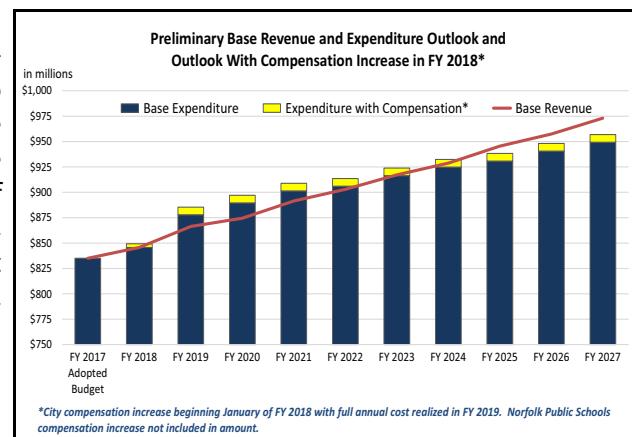
The city uses several guiding principles and best practices to manage the Capital Improvement Plan (CIP). The principles (see Guiding Principles under CIP section) governing the CIP are closely linked with the debt management practices mentioned in the previous section. Using the principles as a foundation, the CIP is developed to promote capital infrastructure to support the City Council's priorities by establishing a five-year capital implementation plan. In formulating this long range plan, input is solicited from various parties such as city departments, City Council, residents, and businesses. The CIP includes projects that meet the following City Council priority areas (see CIP section for definitions):

- Accessibility, Mobility and Connectivity
- Economic Vitality and Workforce Development
- Environmental Sustainability
- Lifelong Learning
- Safe, Healthy and Inclusive Communities
- Well-Managed Government

To be included in the CIP, the project must cost \$50,000 or more and should extend the life of the asset by greater than the life of the debt instrument used to finance the improvement or grant program. Various sources of funding are used to fund the CIP. These sources include General Fund supported debt and nongeneral fund supported debt, such as revenue bonds or cash contributions from various resources. For general capital improvements, the city strives to achieve an annual pay-as-you-go cash contribution.

MULTI-YEAR PLANNING

The city's multi-year planning process includes preparing a five to ten-year base budget forecast annually. The multi-year forecast of revenues and expenditures enables the city to identify long-term financial challenges and plan for the upcoming budget. In the summer of each fiscal year, the Office of Budget and Strategic Planning begins the process of compiling information for the forecast from city departments, partner agencies, state and federal agencies, economic roundtable participants, and regional economists. In the fall, forecast estimates produced during the summer are updated and refined. The forecast is further updated and is presented to the City Council at the mid-year financial update.



The multi-year forecast incorporates revenue adjustments, budget adjustments as a result of state, federal and local mandates, debt and other contractual obligations, opening of new city facilities, impact of economic developments, economic forecasts, state budget actions and projections, annualized prior year prorated costs, and cost savings. However, the base forecast does not include funding for budget enhancements, new programs or initiatives under consideration, or policy changes requiring City Council or administrative action, such as salary increases and tax rate changes. The chart summarizes the base multi-year forecast and a scenario with an increase in compensation presented to the City Council at the City Manager's mid-year financial update in February 2017.

FUND STRUCTURE

The city uses fund accounting to ensure and demonstrate compliance with finance-related legal and regulatory requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The city's funds can be divided into four categories: governmental funds, proprietary funds, component unit funds, and fiduciary funds.

GOVERNMENTAL FUNDS

Governmental funds consist of the General Fund, Special Revenue Funds, Capital Projects Fund, Debt Service Funds, and Permanent Fund (see following section). Most governmental functions of the city are financed through these funds. Governmental funds are supported by taxes and intergovernmental revenues. The modified accrual basis of accounting is used for the budgets of all governmental funds.

General Fund

The general operating fund of the city accounts for all financial transactions of the general government, except those required to be accounted for in another fund. The General Fund accounts for the normal recurring activities of the city, including but not limited to, police, public education (K-12), public works, and general government. These activities are funded by revenue sources such as: general property taxes; other local taxes; permits, fees and licenses; fines and forfeitures; use of money and property; charges for services; recovered costs; and non-categorical aid, shared expenses and categorical aid from the Commonwealth and Federal Government.

Special Revenue Funds

The Special Revenue Funds account for the proceeds of specific revenue resources restricted or committed to expenditure for specific purposes (other than expendable trusts or major capital projects) and require separate accounting because of legal or regulatory provisions or administrative action.

Capital Projects Fund

The Capital Projects Fund accounts for the acquisition, construction, or renovation of major capital facilities of the city and the School Board.

PROPRIETARY FUNDS

Proprietary funds consist of Enterprise Funds and Internal Service Funds. Enterprise Funds account for operations similar to those found in the private sector and include Water Utility, Wastewater Utility, and Parking Facilities Funds. Internal Service Funds account for the financing of goods and services provided by one department to other departments in the city on a cost reimbursement basis and include Healthcare and Fleet Management Funds. The Proprietary Fund measurement focus is based upon determination of net income, financial position and changes in financial position. The full accrual basis of accounting is used to budget for all Proprietary Funds.

Enterprise Funds

Water Utility Fund

This fund accounts for the operations of the city-owned water system. The cost of providing services is financed or recovered through user charges to customers, which include Norfolk residents, commercial customers, the U.S. Navy, and other regional localities and authorities.

Wastewater Utility Fund

This fund accounts for the operation of the city-owned wastewater (sewer) system. The cost of providing services is financed or recovered through user charges to Norfolk residential and commercial customers.

Parking Facilities Fund

This fund accounts for the operation of city-owned parking facilities (garages, lots, and on-street meters). The cost of providing services is financed or recovered through user charges for long-term and short-term customer use and fines for parking violations.

Internal Service Funds

Healthcare Fund

This fund accounts for the financing of medical coverage provided to employees of the Norfolk Healthcare Consortium through a city-administered health insurance plan. The Consortium includes the City of Norfolk, Norfolk Public Schools, and the Norfolk Redevelopment and Housing Authority. Employees and the Consortium share the costs of the health insurance premium. Medical claims, administrative costs, wellness program costs, fees related to the Affordable Care Act, and benefit consultant expenses are paid by the Healthcare Fund.

Fleet Management Fund

Fleet Management provides maintenance, repair and service for the city fleet of vehicles, heavy equipment, and miscellaneous machinery on a cost reimbursement basis.

COMPONENT UNIT FUNDS

Education

The city's total budget includes the funds of the Norfolk Public Schools. The primary sources of revenue, exclusive of the transfer from the city's General Fund, are basic school aid and sales tax revenues from the state and educational program grants. Major expenditures are for instructional salaries and schools' facility operating costs.

School Operating Fund

The School Operating Fund is the General Fund of the School Board. It accounts for all financial resources except those required to be accounted for in another fund, such as School Nutrition Services.

School Grants

This fund accounts for revenues and expenditures for federal, state, and other grants for educational programs.

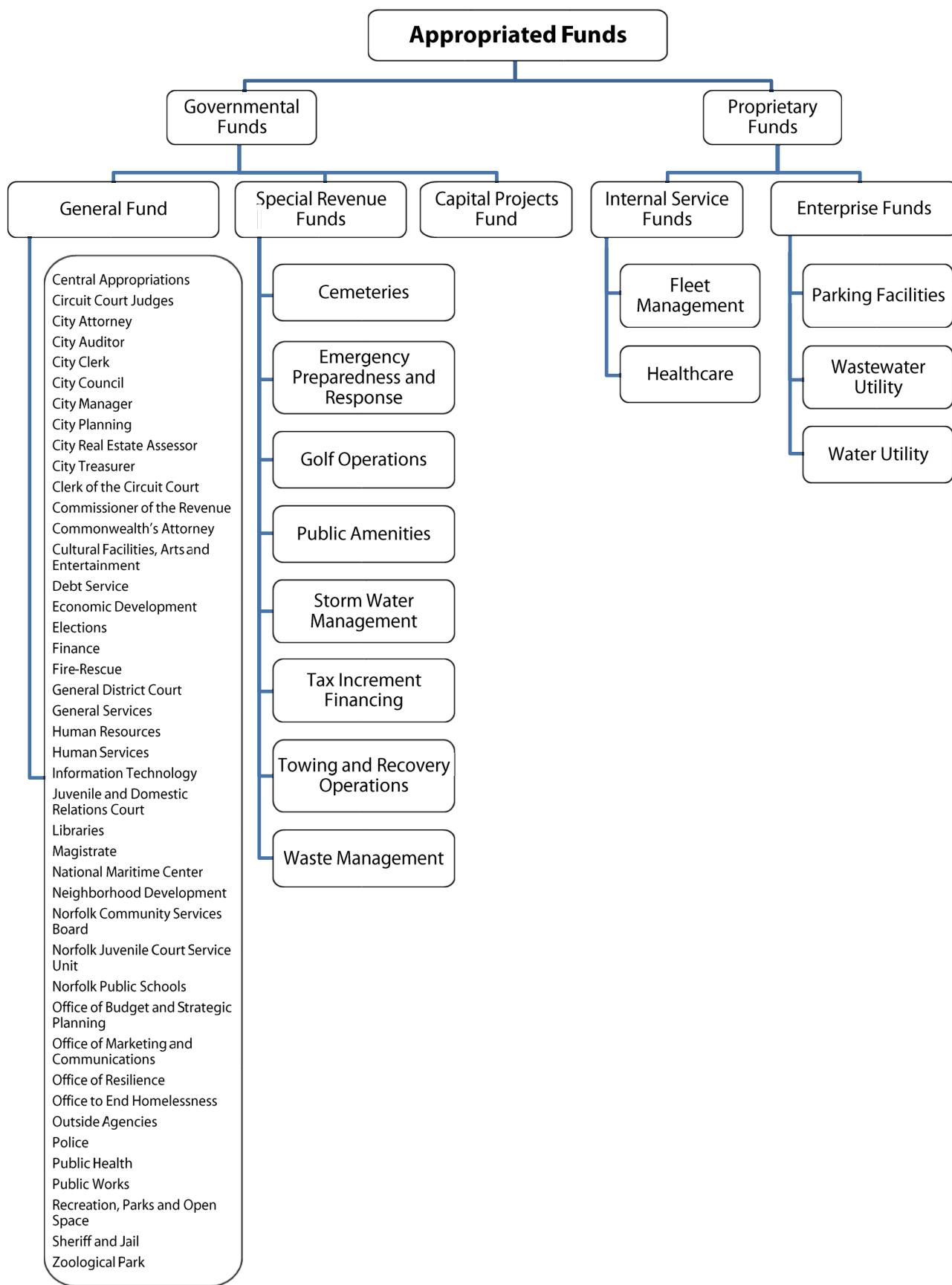
School Nutrition Services

This fund supports the school breakfast and lunch program. School Nutrition Services is a self-funded non-reverting operation supported through cafeteria sales and federal and state reimbursements.

FIDUCIARY FUNDS AND PERMANENT FUND

Fiduciary Funds are used to account for resources held for the benefit of parties outside the city and include the city's Pension Trust Fund and the Commonwealth of Virginia Agency and Other Agency Funds. The Permanent Fund is used to report resources legally restricted to the extent that only earnings (not principal) may be used to support the program and includes the fund for Cemetery Perpetual and Endowed Care. Fiduciary and Permanent Funds are not included in the city's budget, since the resources in such funds are not available to support the city's own programs. Fiduciary Fund statements are presented separately within the city's Comprehensive Annual Financial Report.

CITY OF NORFOLK FUND STRUCTURE



BASIS OF BUDGETING AND ACCOUNTING

BASIS OF BUDGETING

The budgets of governmental fund types (General Fund, Special Revenue, and Capital Projects Funds) of the city are generally prepared on the modified accrual basis of accounting. The accrual basis of accounting is generally used to budget for the Enterprise Funds and Internal Service Funds except for depreciation, debt principal payments, capital outlay, and contractual commitments (see Basis of Accounting below).

For the modified accrual basis, expenditures are recorded as expenditures when the related fund liability is incurred (other than interest on general long-term liabilities). For budgetary purposes, purchase orders issued and other contractual commitments are considered expenditures when executed. Revenues are recorded when they are measurable and available. The accrual basis recognizes expenses when the liability is incurred regardless of the related cash flows. Revenues, however, are recognized when earned. The accrual methodology is based upon known present and future expenses and revenues and not upon cash spent or received.

The level of control at which expenditures may not exceed the budget is at the department level for the General Fund and fund level for all other funds. The City Manager or designee is authorized to transfer from any department, fund or activity with excess funds appropriated to any department, activity or fund all or any part of such excess appropriation. Appropriations lapse at the end of the fiscal year, except appropriations that are designated or are for the Grants (Special Revenue) and Capital Improvement Programs, which are carried forward until the designation, grant or project is completed or terminated.

BASIS OF ACCOUNTING

The Comprehensive Annual Financial Report (CAFR) presents the status of the city's finances in accordance with Generally Accepted Accounting Principles (GAAP). In most cases this conforms to how the city prepares its budget. Exceptions are as follows:

Compensated absences are recorded as earned by employees (GAAP basis), as opposed to being expended when paid (Budget basis);

- Principal payments on long-term debt within the Proprietary Funds reduce the amount of debt remaining on a GAAP basis as opposed to being expended on a Budget basis;
- Capital Outlay within the Proprietary Funds is recorded as assets on a GAAP basis and expended on a Budget basis;
- Depreciation expenses are recorded on a GAAP basis only; and,
- Recording unfulfilled purchase orders and contractual obligations as expenditures in the year executed.

In addition to the fund financial statements, government-wide financial statements are prepared on the accrual basis of accounting. In government-wide financial statements, certain funds are grouped together for reporting purposes.

BUDGET PROCESS

FORMULATION OF THE CITY MANAGER'S BUDGET

The City Charter requires the City Manager to prepare and submit to the City Council an annual budget.

The annual budget process commences each fall. The budget calendar establishes the timeline for the process, dates for submission of departmental requests, budget work sessions, and public hearings leading to final adoption of the budget.

Department requests are based on budget instructions. Each request must relate to the organization's program objectives and the priorities of the city. The requests are received and compiled by the budget staff. Due to revenue constraints, departments are generally encouraged to develop proposals to realign or reduce expenditures rather than seek additional funding.

An operating budget is adopted each fiscal year for the General Fund, Enterprise Funds (Water Utility, Wastewater Utility, and Parking Facilities), Special Revenue Funds (Cemeteries, Emergency Preparedness and Response, Golf Operations, Public Amenities, Storm Water Management, Tax Increment Financing, Towing and Recovery Operations, and Waste Management), and Internal Service Funds (Fleet Management and Healthcare). Budgets are also individually adopted within the Special Revenue (Grants) Fund. Ordinances are generally adopted when a grant to the city has been awarded.

All funds are under formal budget control, the most significant of which is the General Fund. No less than sixty days before the end of the current fiscal year, the City Manager submits to the City Council a proposed operating budget for the next fiscal year. The Operating Budget includes recommended expenditures and the means to finance them. The Adopted Budget may include technical changes made after the City Manager's presentation of the Proposed Budget to City Council.

CITY COUNCIL'S AUTHORIZATION AND APPROPRIATION

After general distribution of the Proposed Budget, public hearings are conducted to obtain comments and recommendations from the public. No less than thirty days before the end of the fiscal year, the City Council shall pass an annual appropriation ordinance which shall be based on the budget document submitted by the City Manager and subsequent changes made by the City Council. The annual operating budget ordinance appropriates funding for use by departments for salaries, benefits and positions, and nonpersonnel as set forth in the detailed budget document. Amounts appropriated to each department are intended to be expended for the purposes designated by object group categories including: personnel services; materials, supplies and repairs; general operations and fixed charges; equipment; public assistance; department specific appropriation; and debt service.

CITY MANAGER'S AUTHORIZATION

In accordance with the City Charter, at least sixty days before the end of each fiscal year, the City Manager shall prepare and submit to the City Council an annual budget for the ensuing fiscal year. The budget shall be balanced at all times. The total amount of appropriations shall not exceed the estimated revenues of the city.

In a given year, the City Manager or designee is authorized to transfer from any department, fund or activity with excess funds appropriated to any department, fund or activity as necessary.

BUDGET IMPLEMENTATION

Once the budget is adopted, it is effective on July 1 and becomes the legal basis for the programs and services of each department of the city during the fiscal year. No department or other agency of the city government may spend in excess of adopted and appropriated amounts, unless authorized by budget transfer as approved by the City Manager or designee. Financial and programmatic monitoring of departmental activities to ensure conformity with the budget takes place throughout the year. The budget can be found in the libraries and on the city website. The City Manager is responsible for maintaining a balanced budget at all times. In the event a gap is identified between revenues and expenditures, the City Manager will take actions necessary to rebalance the budget. Budget amendments may be made by the City Council to meet the changing needs of the city. The means by which the City Council may amend the budget include, but are not limited to, appropriation of additional funds and decreasing the amount of appropriated funds.

CAPITAL IMPROVEMENT PLAN AND CONSOLIDATED PLAN

City Council also adopts a Capital Improvement Plan Budget and a Consolidated Plan Budget. These budgets are submitted by the City Manager with the Operating Budget, and public hearings are held and the budgets are legislatively enacted through adoption of ordinances.

Appropriations for project funds and grant funds do not lapse at year end, but continue until the purpose of the appropriation has been fulfilled or terminated. Amendments to these budgets may be affected by the actions of the City Council. The level of budget control is on a project basis with additional administrative controls being exercised.

BUDGET PRINCIPLES AND POLICIES

These include the following:

- Provisions to strive for a structurally balanced budget whereby ongoing expenditures are supported by ongoing revenues;
- Preparation of a mid-year budget update, reporting projected revenues and expenditures for the entire fiscal year and receipt of unanticipated revenues and other major changes to the adopted budget;
- Preparation of a five to ten-year forecast, which serves as the basis for the City Manager's annual recommended budget; and
- Requirement that the City Manager prepare a Five-Year Capital Improvement Plan that incorporates operating costs and is stated in "year of expenditure dollars."

BUDGET CALENDAR

Date	Responsible Party	Description	Legal Requirement
August - October 2016	City Departments	Departments Submit Operating and Capital Improvement Budget Requests	N/A
December 2016	Budget and Strategic Planning Executive Staff City Departments	Department Meetings with Budget Staff and Executive Budget Team	N/A
February 2017	Budget and Strategic Planning	City Manager's Mid-Year Budget Review and Financial Update	N/A
March 24, 2017	City Clerk	Public Hearing Notice of the Real Estate Tax Increase (due to increased reassessment)	Code of Virginia 58.1-3321
April 1, 2017	Norfolk Public Schools	School Board Approved Operating Budget to City Council	Code of Virginia 15.2-2503
April 6, 2017	City Clerk	Public Hearing Notice of the HUD Grant (CDBG, ESG and HOME) Budget	U.S. Department of Housing and Urban Development (HUD)
April 11, 2017	City Manager	City Manager Presentation of Proposed Budget to City Council	City of Norfolk Charter Sec. 67
April 12, 2017	City Clerk	Public Hearing Notice of the Operating and Capital Improvement Plan Budgets	Code of Virginia 15.2-2506, 58.1-3007
April 19, 2017	City Council	Public Hearings on the Operating, Capital Improvement Plan, and HUD Grant (CDBG, ESG and HOME) Budgets	Code of Virginia 15.2-2506 U.S. Department of Housing and Urban Development (HUD)
April 25, 2017	City Council	1 st City Council Work Session	N/A
April 25, 2017	City Council	Public Hearing on the Real Estate Tax Increase (due to increased reassessment)	Code of Virginia 58.1-3321
May 2, 2017	City Council	2 nd City Council Work Session	N/A
May 9, 2017	City Council	3 rd City Council Work Session	N/A
May 23, 2017	City Council	City Council Budget Adoption	City of Norfolk Charter Sec. 68; Code of Virginia 15.2-2503

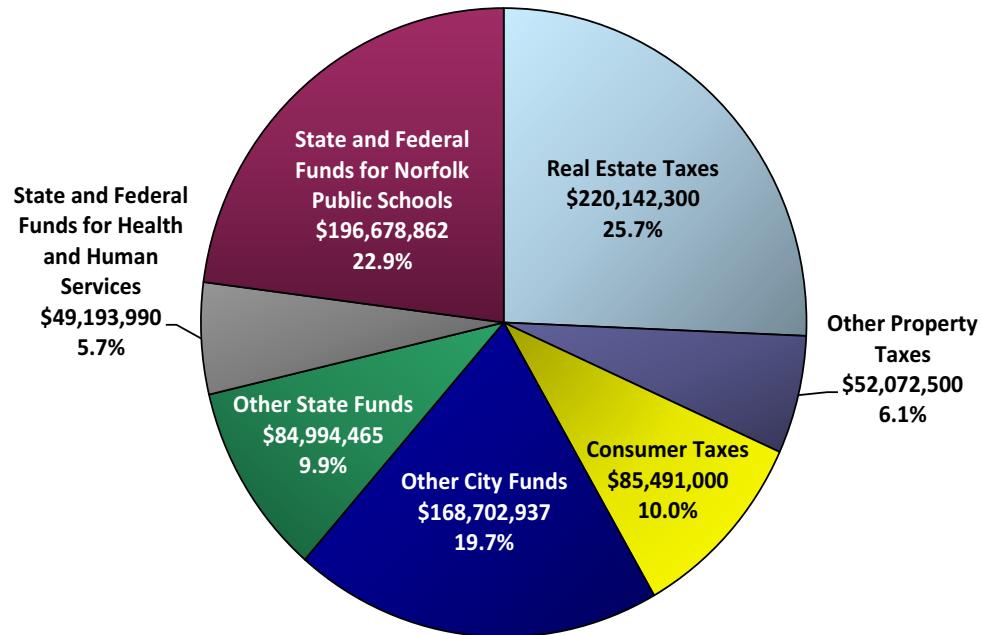
GENERAL FUND BUDGET OVERVIEW

Adopted FY 2018 General Fund Revenues \$857,276,054

Funding for Norfolk comes from a variety of sources as shown at right.

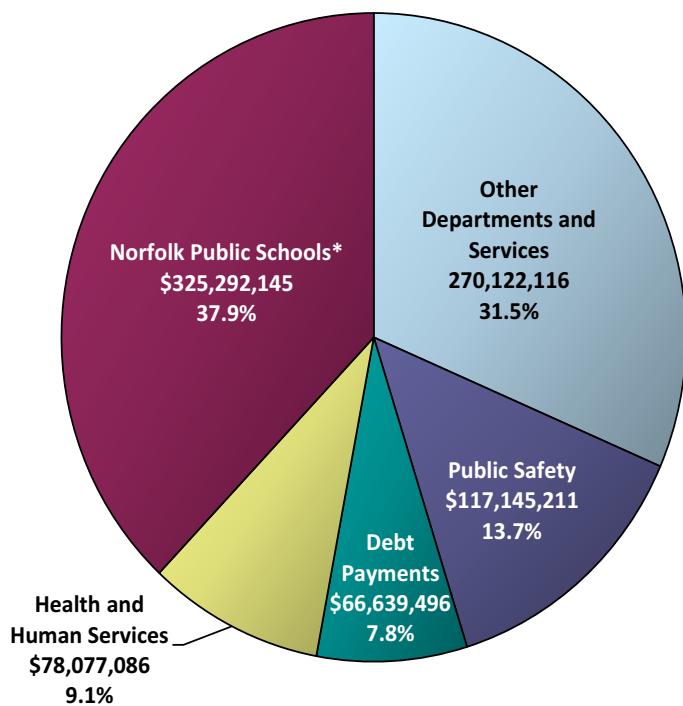
"Other City Funds" include local taxes, fees, charges, fines, rent and interest.

"Consumer Taxes" include sales, hotel, meals, admissions and cigarette taxes.



Adopted FY 2018 General Fund Expenditures \$857,276,054

In the FY 2018 budget, "Other Departments and Services" include public works, libraries, recreation, cultural facilities, zoo, maritime facility, planning, neighborhood development, economic development, finance, human resources, information technology, general services, legislative, executive, law, judicial, constitutional officers, outside agencies, and central appropriations.



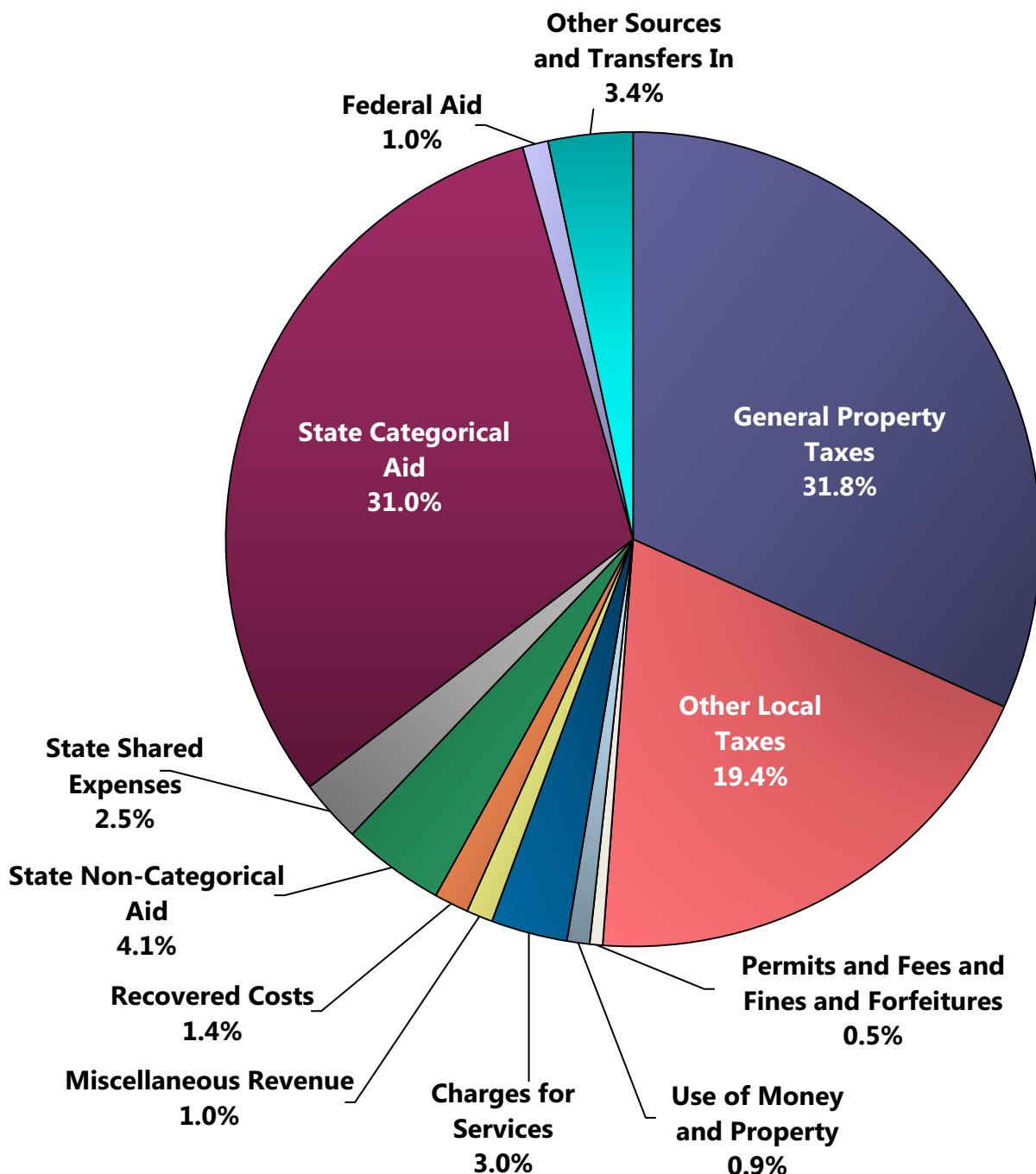
Note: Percentages may not total to 100 due to rounding. *Does not include in-kind support.

ESTIMATED GENERAL FUND REVENUES BY SOURCE

The following table compares the Adopted FY 2018 General Fund Operating Budget to the Adopted FY 2017 General Fund Operating Budget and the FY 2016 Actual amount. Funding sources are shown by category to provide an overview of the principal sources of revenue for the general operating fund of the city. These revenue sources support general government operations. The tables and charts in the pages that follow show revenues and expenditures for all funds.

Source	FY 2016 Actual	FY 2017 Adopted	FY 2018 Adopted	FY 2017 vs. FY 2018	
				\$ Change	% Change
General Property Taxes	260,959,130	264,677,000	272,214,800	7,537,800	2.8%
Other Local Taxes	156,358,560	162,026,400	166,625,000	4,598,600	2.8%
Permits and Fees	3,038,229	3,007,600	3,191,900	184,300	6.1%
Fines and Forfeitures	1,110,993	1,275,000	1,215,000	-60,000	-4.7%
Use of Money and Property	7,277,291	7,570,159	7,704,583	134,424	1.8%
Charges for Services	26,020,807	26,211,109	25,970,611	-240,498	-0.9%
Miscellaneous Revenue	8,563,623	8,734,009	8,970,789	236,780	2.7%
Recovered Costs	10,556,495	12,134,608	11,758,591	-376,017	-3.1%
Non-Categorical Aid - State	34,022,242	33,707,100	34,807,100	1,100,000	3.3%
Shared Expenses - State	21,208,525	21,102,700	21,377,000	274,300	1.3%
Categorical Aid - State	254,701,634	262,139,276	265,985,727	3,846,451	1.5%
Federal Aid	9,269,199	8,511,596	8,701,490	189,894	2.2%
Other Sources and Transfers In	28,901,952	23,945,795	28,753,463	4,807,668	20.1%
General Fund Total	821,988,680	835,042,352	857,276,054	22,233,702	2.7%

Adopted FY 2018 General Fund Revenues by Source



Note: Percentages may not total to 100 due to rounding.

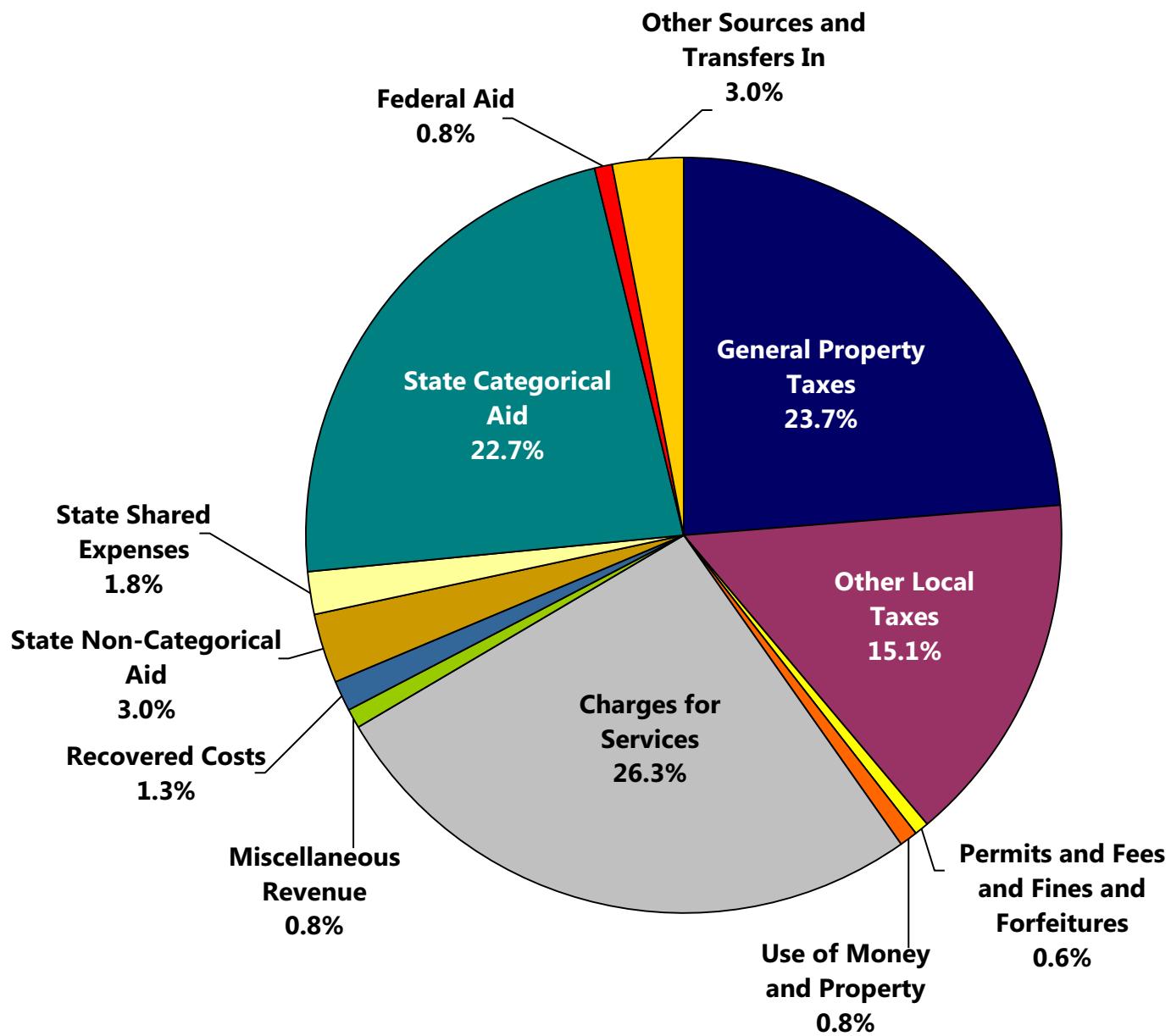
ESTIMATED REVENUES BY SOURCE (ALL FUNDS)

The following table compares the Adopted FY 2018 Operating Budget to the Adopted FY 2017 Operating Budget and the FY 2016 Actual amount. Funding sources by category are shown to provide an overview of the sources of revenue for the general and nongeneral operating funds of the city. Revenues are contained in those categories where they are originally raised.

Source	FY 2016 Actual	FY 2017 Adopted	FY 2018 Adopted	FY 2017 vs. FY 2018 \$ Change	FY 2017 vs. FY 2018 % Change
General Property Taxes	265,943,230	270,061,000	277,480,800	7,419,800	2.7%
Other Local Taxes	166,033,611	171,962,996	176,917,596	4,954,600	2.9%
Permits and Fees	3,862,972	3,681,445	3,817,224	135,779	3.7%
Fines and Forfeitures	3,334,901	3,804,343	3,333,377	-470,966	-12.4%
Use of Money and Property	8,341,955	8,873,428	9,028,800	155,372	1.8%
Charges for Services	288,612,042	299,372,528	307,310,603	7,938,075	2.7%
Miscellaneous Revenue	9,557,697	9,486,107	9,693,168	207,061	2.2%
Recovered Costs	14,533,881	15,706,073	15,295,056	-411,017	-2.6%
Non-Categorical Aid - State	34,022,242	33,707,100	34,807,100	1,100,000	3.3%
Shared Expenses - State	21,208,525	21,102,700	21,377,000	274,300	1.3%
Categorical Aid - State	254,701,634	262,139,276	265,985,727	3,846,451	1.5%
Federal Aid	9,290,494	8,625,213	8,815,107	189,894	2.2%
Other Sources and Transfers In ¹	37,730,188	29,153,240	35,532,886	6,379,646	21.9%
Total All Funds	1,117,173,372	1,137,675,449	1,169,394,444	31,718,995	2.8%

¹ The decrease in other sources and transfers in from FY 2016 was largely due to a decline in the carryforward of prior year savings from Norfolk Public Schools and the return of cash support from the Capital Improvement Program. See General Fund Revenue section and Public Amenities Fund for details.

Adopted FY 2018 Revenues by Source (All Funds)



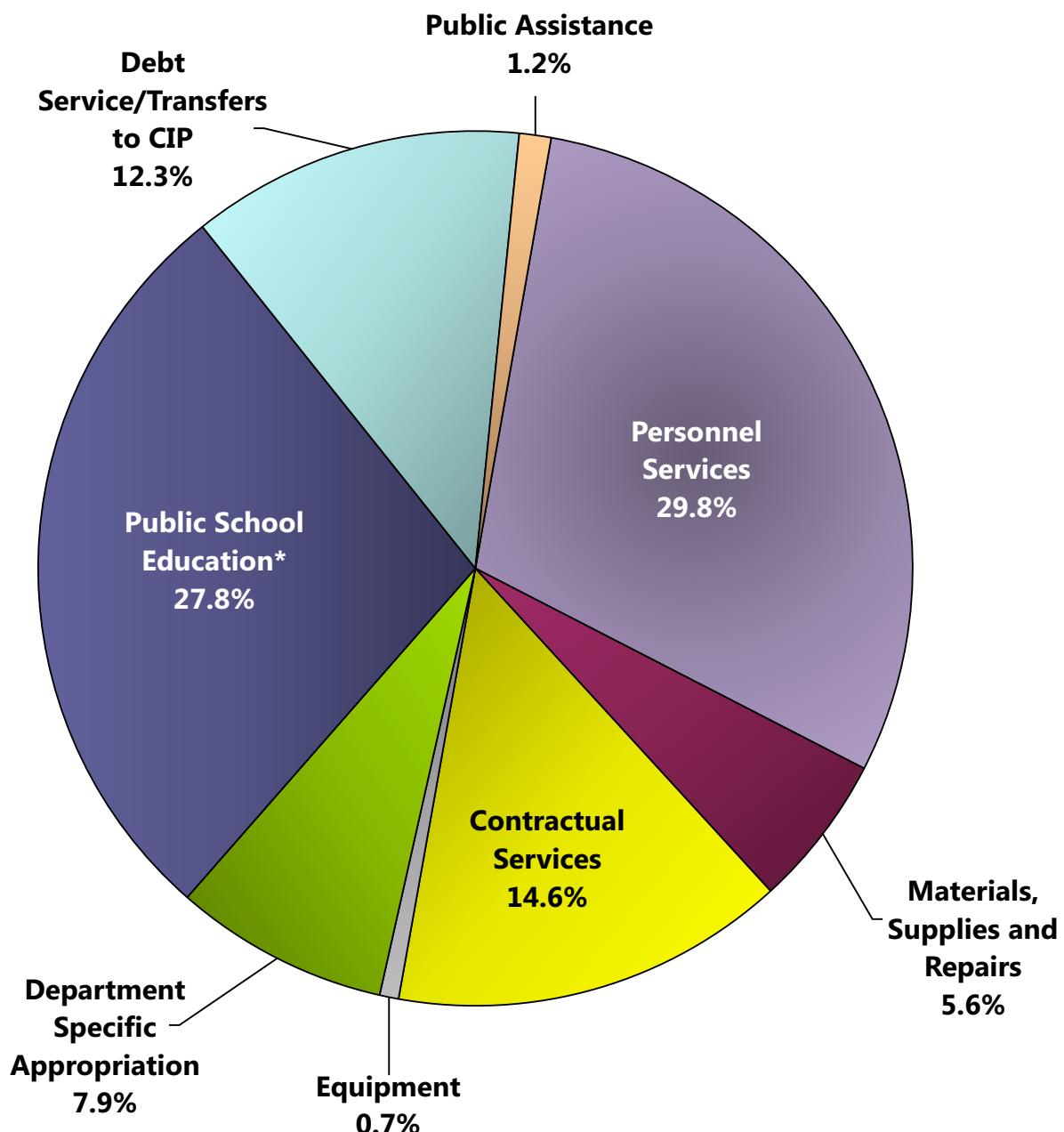
Note: Percentages may not total to 100 due to rounding.

ESTIMATED EXPENDITURES BY USE (ALL FUNDS)

The following table compares the Adopted FY 2018 Operating Budget to the Adopted FY 2017 Operating Budget and the FY 2016 Actual amount. Funding uses by category are shown to provide an overview of the principal uses of expenditures for the general and nongeneral operating funds of the city. Expenditures are contained in those categories where they are originally spent.

Uses	FY 2016 Actual	FY 2017 Adopted	FY 2018 Adopted	FY 2017 vs. FY 2018 \$ Change	FY 2017 vs. FY 2018 % Change
Personnel Services	316,306,934	336,633,713	348,279,382	11,645,669	3.5%
Materials, Supplies and Repairs	60,322,716	65,768,482	65,969,347	200,865	0.3%
Contractual Services	167,141,427	165,492,722	170,851,301	5,358,579	3.2%
Equipment	6,384,503	6,646,895	8,232,640	1,585,745	23.9%
Department Specific Appropriation	76,243,286	92,252,096	92,794,592	542,496	0.6%
Public School Education	308,887,807	321,868,495	325,292,145	3,423,650	1.1%
Debt Service/Transfers to CIP	98,991,461	135,555,963	144,260,259	8,704,296	6.4%
Public Assistance	12,437,310	13,457,083	13,714,778	257,695	1.9%
Total All Funds	1,046,715,444	1,137,675,449	1,169,394,444	31,718,995	2.8%

Adopted FY 2018 Expenditures by Use (All Funds)



Note: Percentages may not total to 100 due to rounding.

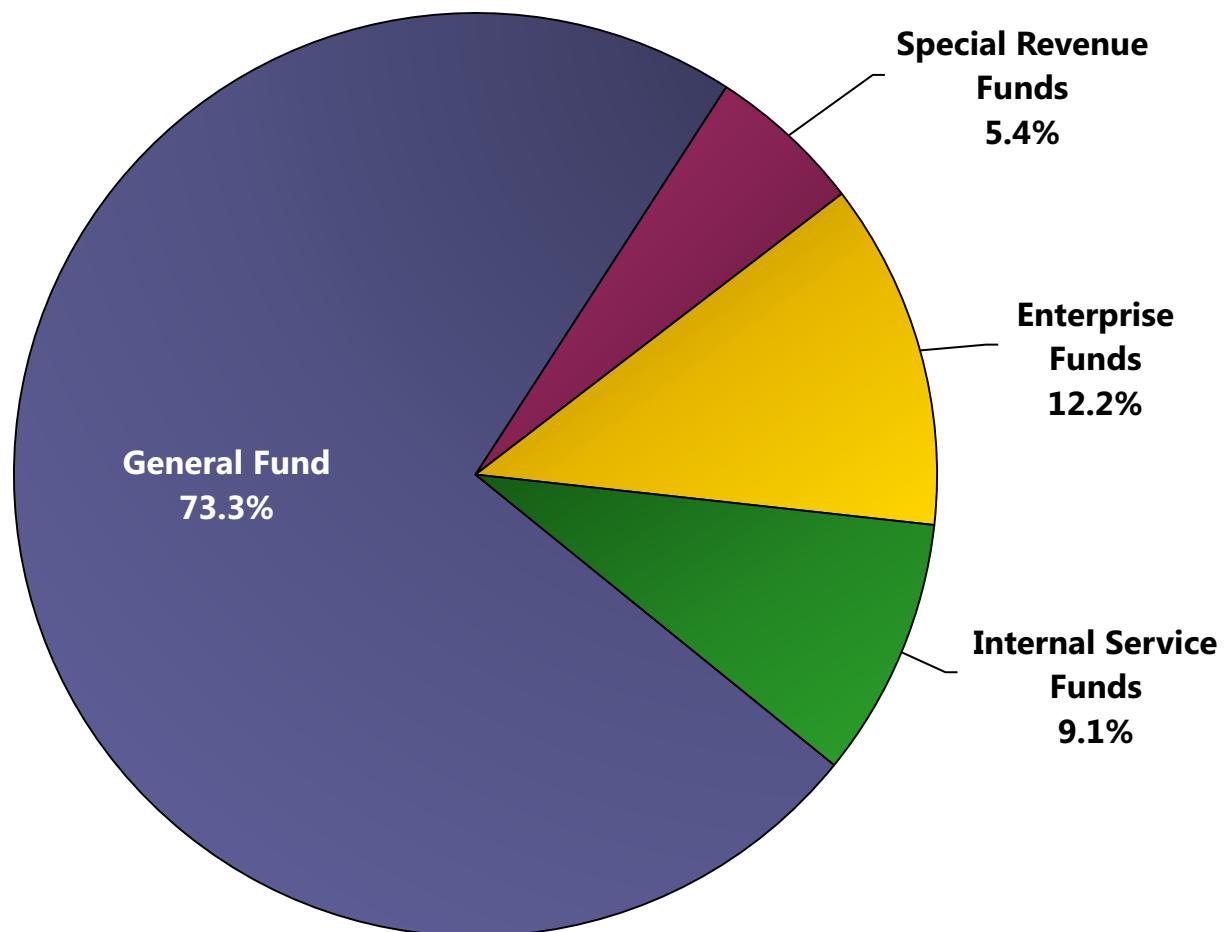
*Does not include "in-kind" support. See Public School Education section.

ESTIMATED EXPENDITURES BY FUND TYPE

The following table compares expenditures by fund type in the Adopted FY 2018 Operating Budget with the Adopted FY 2017 Operating Budget and the FY 2016 Actual amount.

Fund Type	FY 2016 Actual	FY 2017 Adopted	FY 2018 Adopted	FY 2017 vs. FY 2018	
				\$ Change	% Change
General Fund	799,144,593	835,042,352	857,276,054	22,233,702	2.7%
Special Revenue Funds	58,637,825	63,120,099	63,698,401	578,302	0.9%
Enterprise Funds	90,987,639	138,036,398	142,121,764	4,085,366	3.0%
Internal Service Funds	97,945,387	101,476,600	106,298,225	4,821,625	4.8%
Total All Funds	1,046,715,444	1,137,675,449	1,169,394,444	31,718,995	2.8%

Adopted
FY 2018 Expenditures by Fund Type (All Funds)



Note: Percentages may not total to 100 due to rounding.

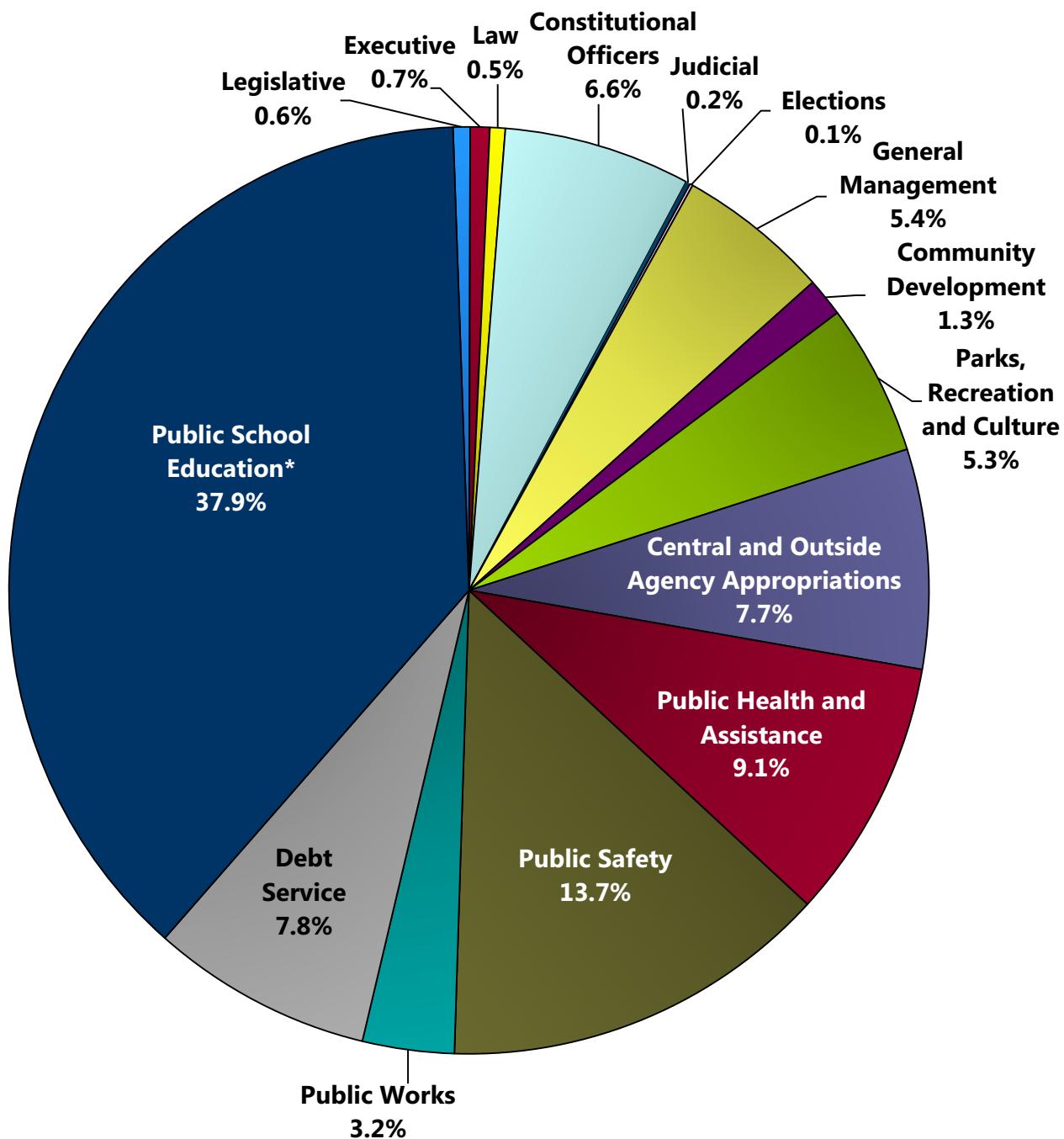
ESTIMATED GENERAL FUND EXPENDITURES BY AREA

The following table compares the Adopted FY 2018 General Fund Operating Budget to the Adopted FY 2017 General Fund Operating Budget and the FY 2016 Actual amount. Major areas of service are shown to provide a broad overview of the expenditures for the general operating fund of the city.

Service Area	FY 2016 Actual	FY 2017 Adopted	FY 2018 Adopted	FY 2017 vs. \$ Change	FY 2017 vs. % Change
Legislative	4,485,082	4,934,613	5,121,896	187,283	3.8%
Executive ¹	3,372,891	4,110,478	5,859,918	1,749,440	42.6%
Department of Law	4,340,229	4,499,892	4,613,010	113,118	2.5%
Constitutional Officers	52,324,171	55,313,211	56,249,002	935,791	1.7%
Judicial	1,128,793	1,304,721	1,328,043	23,322	1.8%
Elections	832,606	895,986	862,298	-33,688	-3.8%
General Management	42,829,736	46,004,791	45,878,343	-126,448	-0.3%
Community Development	10,095,181	11,148,965	11,556,718	407,753	3.7%
Parks, Recreation and Culture	41,426,803	44,012,604	45,395,673	1,383,069	3.1%
Central and Outside Agency Appropriations	57,887,143	60,474,116	65,651,909	5,177,793	8.6%
Public Health and Assistance	72,382,194	76,931,956	78,077,086	1,145,130	1.5%
Public Safety	107,757,505	111,093,054	117,145,211	6,052,157	5.4%
Public Works	24,013,316	26,702,280	27,605,306	903,026	3.4%
Debt Service	67,381,136	65,747,190	66,639,496	892,306	1.4%
Public School Education	308,887,807	321,868,495	325,292,145	3,423,650	1.1%
General Fund Total	799,144,593	835,042,352	857,276,054	22,233,702	2.7%

¹ The increase in FY 2018 reflects the creation of the Office of Marketing and Communications which was formerly in General Management.

Adopted FY 2018 General Fund Expenditures by Area



Note: Percentages may not total to 100 due to rounding.

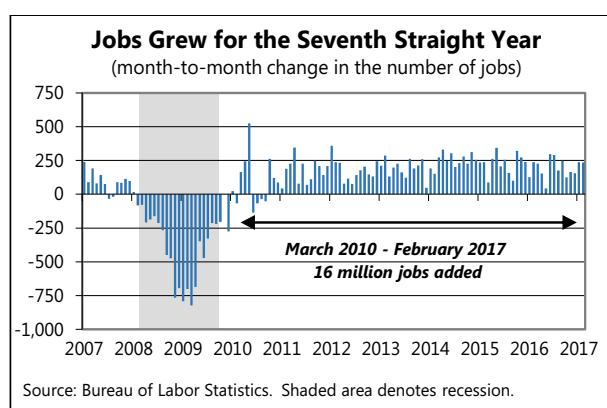
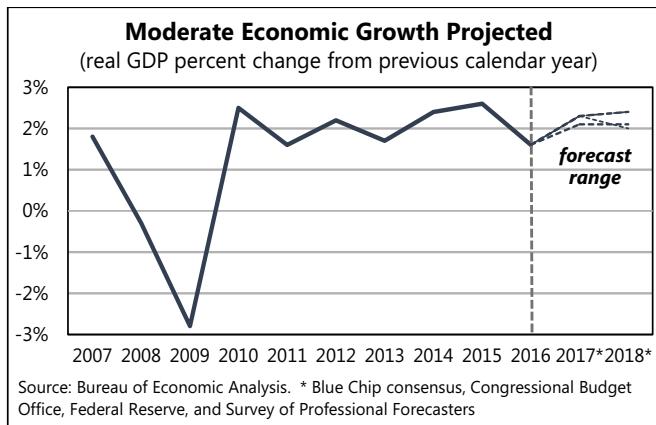
*Does not include "in-kind" support. See Public School Education section.

MAJOR REVENUE SOURCES

Evaluating the city's current and long-term financial health requires a review of the economy and major revenue sources. Overall, General Fund revenues are projected to rise 2.7 percent in FY 2018. Moreover, real estate assessments, which drives the largest locally generated General Fund revenue source (real estate taxes), are projected to grow 1.7 percent, which is above the 1.5 percent growth in FY 2017 but is below the 2.3 percent growth in FY 2016.

ECONOMIC OVERVIEW

In 2016, the national economy, as measured by the real gross domestic product (GDP), grew at a 1.6 percent rate which was below the 2.6 percent and 2.4 percent rate in 2015 and 2014, respectively. Consumer spending, residential investment, federal nondefense spending, and state and local government spending grew at a slower pace in 2016, while business investment, inventory, federal defense spending, and net exports fell in 2016. Despite the softening of the economy in 2016, the Federal Reserve continued the gradual process of normalizing interest rates and raised the target range for the federal funds rate by 0.25 percentage point in December 2016 and again in March 2017, bringing it to 0.75 percent - 1.0 percent from 0.25 percent - 0.5 percent in 2015. During the announcement of the rate increase in March 2017, Federal Reserve Chair Janet Yellen noted the economy is expected to continue to expand at a moderate pace over the next few years, around 2.1 percent in calendar years 2017 and 2018. Yellen also noted the ongoing strength of the economy will warrant gradual increases in the federal funds rate and the Federal Reserve Open Market Committee federal funds rate median forecast to be 1.4 percent and 2.1 percent at the end of 2017 and 2018, respectively. The Blue Chip consensus forecast, Congressional Budget Office, and Survey of Professional Forecasters are also projecting moderate growth in the economy of 2.3 percent in calendar year 2017 and 2.0 – 2.4 percent in calendar year 2018.

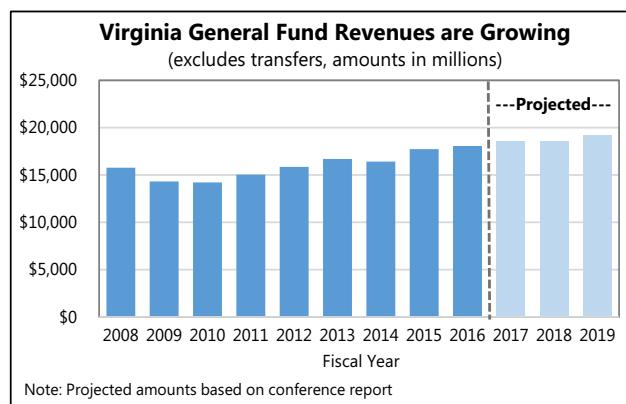
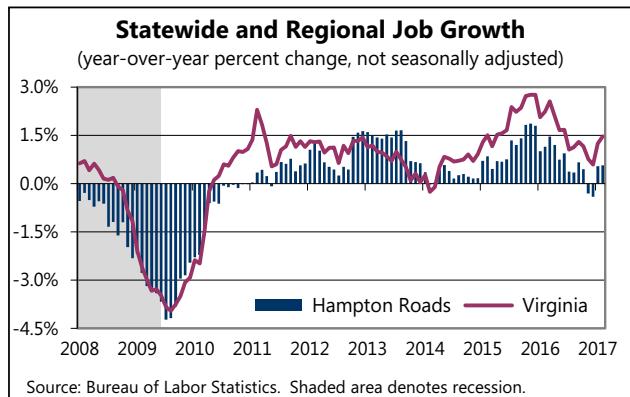


Employment also grew in 2016 for the seventh year in a row by approximately 2.2 million jobs, equivalent to an average of about 187,000 jobs per month. Both the private and public sectors added jobs in 2016. Within the private sector, the number of jobs grew in most major industries, except in manufacturing and mining, although the decline in mining jobs was lower in 2016. Within the public sector, job growth was mainly in the federal and local government, while state government lost jobs. Jobs continued to grow in 2017 with 473,000 jobs added in the first two months of the year. Since falling to its lowest level as a result of the Great Recession in February 2010, the number of jobs has increased by approximately 16 million jobs through February 2017. With job growth, the unemployment rate fell to 4.9 percent in 2016 from 5.3 percent in 2015, and has continued to decline in the first two months of 2017 to 4.7 percent.

Virginia's average nonfarm employment rose 1.5 percent (58,500 jobs) to 3,917,600 in 2016, after increasing 2.0 percent (revised) in 2015. Jobs rose in most major industries, with health services, professional and business services, and leisure and hospitality seeing the biggest gains, while jobs fell in mining, manufacturing, and information. Across the state, jobs increased in most Virginia metropolitan statistical areas (MSA), except in

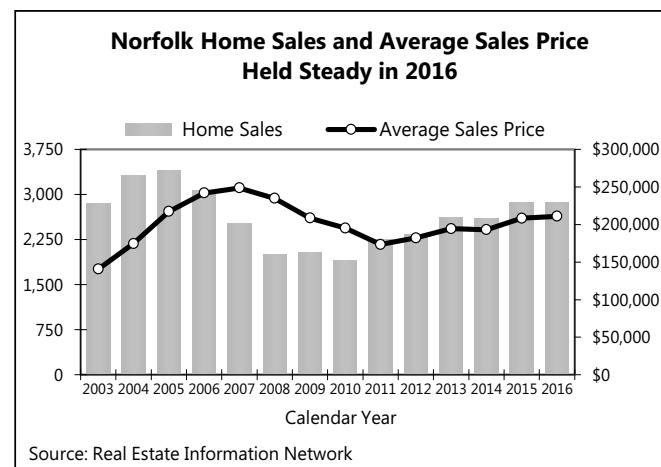
Lynchburg MSA where employment was unchanged in 2016 from 2015. The job gains in Virginia's metro areas ranged from 0.5 percent (Blacksburg-Christiansburg-Radford MSA) to 2.9 percent (Harrisonburg MSA). Also, the average unemployment rate in Virginia fell to 4.0 percent in 2016 from 4.5 percent (revised) in 2015. This was Virginia's lowest annual average rate since 2008 and Virginia's rate was also below the national annual average unemployment rate of 4.9 percent in 2016. In 2017, Virginia nonfarm employment (not seasonally adjusted) continued to rise year-over-year in February 2017 by 1.5 percent (56,400 jobs).

Hampton Roads' average nonfarm employment rose 0.6 percent (4,800 jobs) in 2016 to 771,800 after increasing 1.1 percent (revised) in 2015. The biggest job gains in 2016 were in health services, leisure and hospitality, transportation and warehousing, retail trade, and federal government, while job losses in manufacturing, professional and business services, and state and local government, offset some of the gains. In 2017, the region's nonfarm employment (not seasonally adjusted) continued to rise year-over-year in February 2017 by 0.6 percent (4,300 jobs). In contrast, seasonally adjusted regional employment fell in February by 0.1 percent from the previous month after advancing 0.6 percent in January. Despite job gains to date, jobs in the region (seasonally adjusted) are below pre-recession peak employment by 5,700 jobs (0.7 percent) in February. The economic outlook by regional economists at Old Dominion University and Hampton Roads Planning District Commission calls for moderate employment growth to continue in 2017.

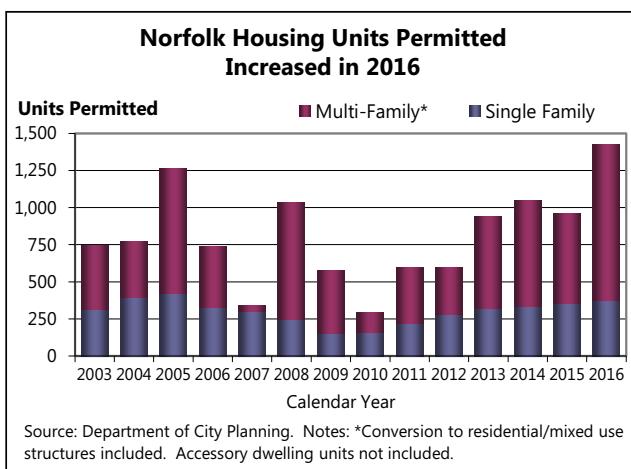


Virginia's economic performance in FY 2016 with regard to employment, personal income, and wage growth exceeded expectations. Virginia is projected to continue to grow in FY 2017 but at a slower rate compared to FY 2016. For FY 2018, the outlook calls for moderate growth with employment, personal income, and wage growth to be below that of the nation. Virginia's fiscal stability is important to Norfolk, since nearly 38 percent of General Fund resources come from the Commonwealth, which support Norfolk Public Schools, social services, and other basic services. While Virginia's economy exceeded expectations in FY 2016, Virginia's General Fund revenue collections did not end with a \$279 million shortfall. As a result of the revenue shortfall, a reforecast mandated by the state code indicated a \$1.2 billion revenue shortfall for the FY 2017-2018 biennium. Fortunately, unlike previous budget shortfalls, the 2017 state actions to address the gap did not include a reduction in aid to localities.

With stability in state funding, Norfolk revenues continue to improve, although its recovery from the Great Recession has been only at a moderate pace. The city's General Fund revenues increased 4.4 percent in the past five years, compared to the Commonwealth's revenue growth (excluding transfers) of 19.9 percent. Norfolk's revenue growth had been held back by the slow recovery of real estate assessments overall which is still below its pre-recession peak. Like other localities, the city's largest source of locally generated revenue comes from real property taxes. For FY 2018, the Real Estate Assessor's Office is estimated a 1.7 percent year-over-year projected increase in overall real estate assessments on July 1, 2017. The increase follows four straight years of growth of 1.5



percent in FY 2017, 2.3 percent in FY 2016, 1.4 percent in FY 2015 and 0.6 percent in FY 2014. Residential assessments will also increase in FY 2018 by 1.4 percent for the fourth straight year. That growth is a reflection of the improvement in the local housing market. In the past five years, the average sales price of homes in Norfolk has increased nearly 22 percent, while the median sales price increased nearly 25 percent over the same period, but remains below its pre-recession peak.



With the improvement in the local housing market, new construction activity throughout the city should also support future growth in overall assessments. In 2016, the number of housing units permitted increased significantly, which was largely in multi-family housing, particularly housing units permitted in commercial structures being converted to residential. Single-family housing units permitted also continued to rise in 2016 and rose to their highest level since 2005. Residential projects permitted in 2016 include the Clairmont apartments, Icon at Citywalk, and the Banks at Berkeley.

Nonresidential (or “commercial”) projects permitted in 2016 included renovation of existing structures and new building construction. Commercial projects permitted in 2016 included 2 Commercial Place (Atlantic at Citywalk project), Waterside District, Simon Premium Outlets, Lidl grocery store, former JC Penney building renovation, Broad Creek Library, and Camp Allen elementary school. It is important to note that Norfolk is built out, and the building activity occurring currently is mainly redevelopment, infill development, and vertical expansion.

GENERAL FUND REVENUE OVERVIEW

The city generates revenue through taxes, user charges, and intergovernmental transfers from the state and federal government. Over half of the city’s General Fund revenues are generated locally from various taxes and fees including real estate, personal property, retail sales, permits, fines, and user charges. These sources provide the revenue to fund general services such as police, fire, parks and recreation, street maintenance, local commitment to education, and human services.

The Commonwealth of Virginia provides nearly 38 percent of General Fund revenues, which mostly consists of funding for dedicated purposes such as education, social services, transportation, and constitutional officers. HB 599 funds for law enforcement, the city’s share of personal property tax relief funds, and the tax on rental of cars also make up revenue from the Commonwealth. As a result of the Great Recession, the Commonwealth saw a significant decline in revenues and in turn, reduced Direct Aid to education, HB 599, Constitutional Officers salaries and benefits funding, jail per diem, and funds for street maintenance, imposed a “flexible cut” to state aid to localities, and eliminated the local share of ABC profits and wine tax. Not all revenues from the Commonwealth have returned to pre-recession levels even though the Commonwealth’s General Fund revenues have been above its last pre-recession peak since FY 2012. On a positive note, although the Commonwealth had faced a combined \$1.5 billion revenue shortfall for FY 2016 and the FY 2017-2018 biennium, actions to address the shortfall did not include a reduction in aid to localities.

The remaining revenue comes from the federal government (mostly dedicated to Norfolk Public Schools and the Norfolk Community Services Board), recovered costs, interfund transfers, and carryforward of prior year savings. Interfund transfers represent a return on investment from Waste Management and Utilities (water and wastewater) operations. It also includes the return of Tax Increment Financing surplus funds and Public Amenities funding to support the Norfolk Consortium. Carryforward funds are generated through a combination of projected current year savings and realized savings from prior years. It may also include the re-appropriation of prior year unspent designated funds.

Preliminary General Fund revenue projections, based on historical data and recent economic data, were presented during the City Council Retreat (September 2016) and the City Manager's mid-year report on the budget (February 2017). Projections for FY 2018 were updated through March to incorporate the most recent information available. Revenue estimates were based on the analysis of the collection history and patterns, the underlying drivers that impact a revenue source, and the overall economic environment and developments projected for the city in the coming year. Revenue amounts shown in the following discussion include the FY 2017 budget, FY 2017 end of year estimate, and FY 2018 budget. The FY 2018 General Fund budget is approximately \$857.3 million, which is 2.7 percent (\$22.2 million) above the FY 2017 budget.

General Fund Revenues

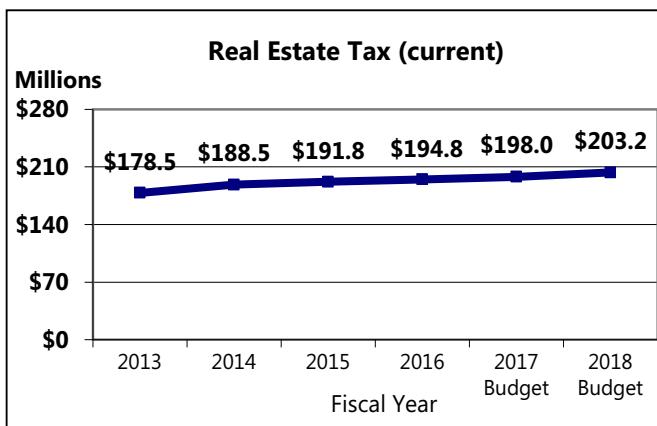
Source	FY 2016 Actual	FY 2017 Adopted	FY 2018 Adopted	FY 2017 vs. FY 2018 \$ Change	FY 2018 % Change	FY 2018 % of Total
General Property Taxes	260,959,130	264,677,000	272,214,800	7,537,800	2.8%	31.8%
Other Local Taxes	156,358,560	162,026,400	166,625,000	4,598,600	2.8%	19.4%
Permits and Fees	3,038,229	3,007,600	3,191,900	184,300	6.1%	0.4%
Fines and Forfeitures	1,110,993	1,275,000	1,215,000	-60,000	-4.7%	0.1%
Use of Money and Property	7,277,291	7,570,159	7,704,583	134,424	1.8%	0.9%
Charges for Services	26,020,807	26,211,109	25,970,611	-240,498	-0.9%	3.0%
Miscellaneous Revenue	8,563,623	8,734,009	8,970,789	236,780	2.7%	1.0%
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Non-Categorical Aid - State	34,022,242	33,707,100	34,807,100	1,100,000	3.3%	4.1%
Shared Expenses - State	21,208,525	21,102,700	21,377,000	274,300	1.3%	2.5%
Categorical Aid - State	254,701,634	262,139,276	265,985,727	3,846,451	1.5%	31.0%
Federal Aid	9,269,199	8,511,596	8,701,490	189,894	2.2%	1.0%
Other Sources and Transfers In	28,901,952	23,945,795	28,753,463	4,807,668	20.1%	3.4%
General Fund Total	821,988,680	835,042,352	857,276,054	22,233,702	2.7%	100.0%

Note: Percentages may not total to 100 due to rounding.

REVENUE MONITORING

Collection of all of the city's revenue sources are monitored throughout the year. Financial reports are monitored monthly and quarterly to determine the accuracy of budget projections. This allows for appropriate administrative action if actual results differ substantially from projections. A detailed analysis is completed to project future revenue collections taking into account revenue drivers, seasonal fluctuations and economic conditions. Strong collection rates for locally generated taxes and fees reflect Norfolk residents' commitment and fulfillment of responsibility to the city.

GENERAL PROPERTY TAXES

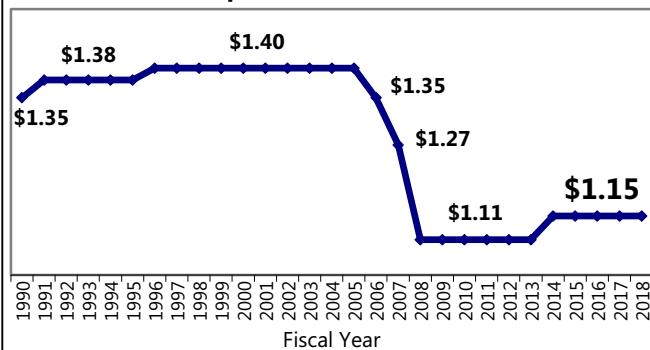


General property taxes are levied on the assessed value of real and personal property. These taxes represent approximately 32 percent (\$272.2 million) of the city's General Fund revenues. Real estate taxes make up the largest component of general property taxes (\$220.1 million or nearly 26 percent of General Fund revenues), which includes current and delinquent taxes and tax on public service corporations and Downtown Improvement District real property. Current real estate taxes make up nearly 24 percent (\$203.2 million) of FY 2018 revenues, an increase of 2.7 percent from the FY 2017 budget (\$198.0 million). The FY 2018 estimate of current real estate taxes assumes no change in the real estate tax rate of \$1.15 per

\$100 of assessed value, improved collections, and continuing to set aside \$5.0 million for real estate tax relief to qualifying senior/disabled homeowners, disabled veterans, and surviving spouses of military personnel killed in action.

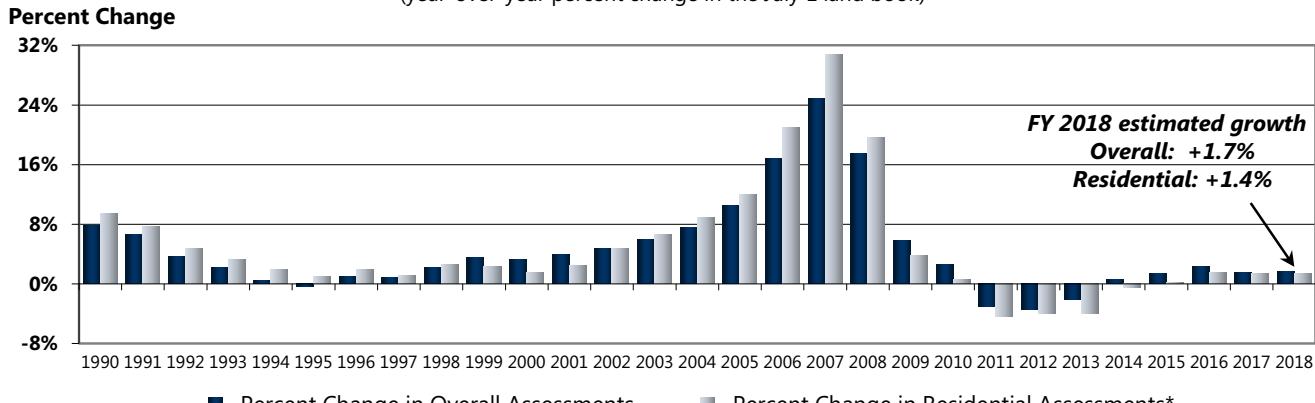
The FY 2018 estimate of current real estate taxes takes into account the Real Estate Assessor's Office estimate of overall assessments on July 1, 2017, which is projected to be approximately 1.7 percent above its value on July 1, 2016. This would mark the fifth straight year of increase in overall assessments. Residential assessments, which make up nearly two-thirds of taxable assessed value, are also projected to increase by 1.4 percent in FY 2018, the fourth straight year of growth. Despite the projected growth in FY 2018, both overall and residential assessments continue to be below their peak level in FY 2010 by approximately 1.4 percent and 8.3 percent, respectively. It is important to note that tax-exempt real estate makes up 37-38 percent of total assessed values in the city, largely due to federal and state property ownership. Among the seven major cities in the region, only Portsmouth has a higher percentage of tax-exempt real property in the region.

Real Estate Tax Rate Remains Unchanged at \$1.15 per \$100 of assessed value

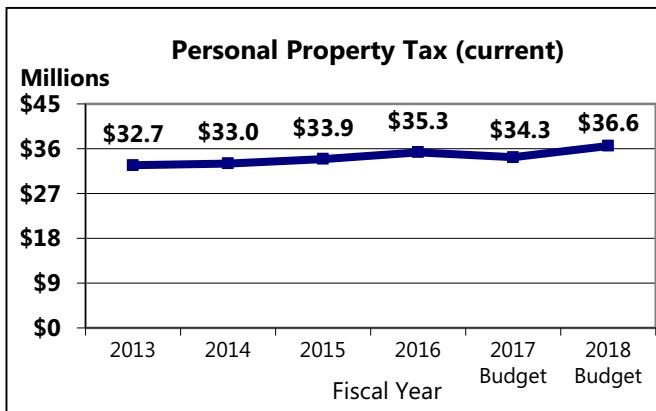


Overall and Residential Assessments Projected to Increase in FY 2018

(year-over-year percent change in the July 1 land book)



*Residential assessments includes condominiums, excludes residential vacant land and apartments

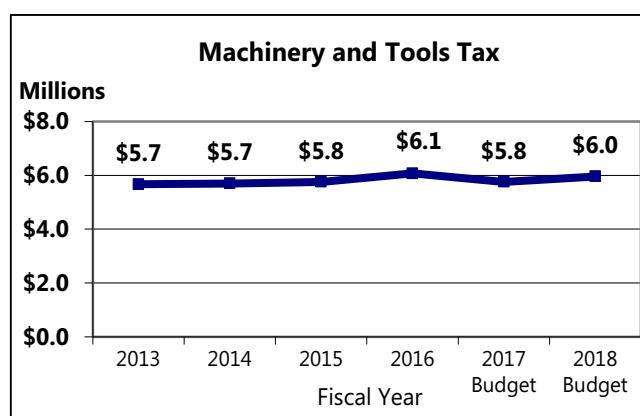


The second largest component of general property taxes is the personal property tax, which is levied on tangible personal property, including motor vehicles, boats, aircraft, business furnishings and office equipment. Household goods and personal effects are exempt from taxation. Personal property tax (current) makes up 4.3 percent (\$36.6 million) of FY 2018 General Fund revenues and is 6.7 percent (\$2.3 million) above the FY 2017 budget and is 2.5 percent above the FY 2017 year-end estimate, due to improved collections from this source in recent years and new developments in the city. Personal property taxes in total (delinquent collections, refunds, and public service corporations) comprise 5.4 percent (\$46.1 million) of FY 2018 General Fund revenues and are estimated to be approximately 5.2 percent (\$2.3 million) above the FY 2017 budget and is 3.4 percent (\$1.5 million) above the FY 2017 year-end estimate.

The FY 2018 estimate assumes no change in the general tax rate on personal property at \$4.33 per \$100 of assessed value. The estimate also assumes the state car tax relief is unchanged at 55 percent (55%) rate for FY 2018 (tax bills due June 5, 2018). The 55 percent relief rate is anticipated to fully exhaust relief funds provided to the city by the Commonwealth of Virginia under the Personal Property Tax Relief Act. This means that qualifying vehicles with an assessed value of more than \$1,000 will receive a **55 percent (55%) rate** of tax relief on the vehicle's first \$20,000 of assessed value. Qualifying vehicles with an assessed value of \$1,000 or less will receive 100 percent (100%) rate of tax relief. Prior to FY 2006, qualifying vehicles with an assessed value of more than \$1,000 were reimbursed for 70 percent of the total property tax eligible for relief. State legislation passed in 2004 capped car tax relief funds statewide at \$950 million beginning in FY 2006. Consequently, each locality in the state now receives a fixed share of the \$950 million of statewide personal property tax relief funds per state code. Each locality's share was determined based on the proportional share of actual personal property tax relief payments received in tax year 2005, as certified by the Commonwealth of Virginia Auditor of Public Accounts, of which, Norfolk's share is \$16,871,056. Personal property tax relief funds received and not used in FY 2017 shall be carried forward and used to increase the funds available for car tax relief. With the state capping the amount of funds available for car tax relief, the percentage of the state reimbursement compared to the total tax is expected to decrease over time and residents will pay an increasing share of the car tax.

The machinery and tools tax is the third largest component of general property taxes and makes up approximately 0.7 percent (\$6.0 million) of General Fund revenues. The tax is levied on machinery and tools used in manufacturing, mining, radio and television broadcasting, cable television, dry cleaning or laundry businesses at a rate of \$4.25 per \$100 of assessed value, eight cents below the general personal property tax rate of \$4.33 per \$100 of assessed value. In recent years, revenue from this source has been fairly stable. However, there are attempts each year through state legislation to curtail or eliminate entirely the ability of localities to generate revenue from this source.

The second largest component of general property taxes is the personal property tax, which is levied on tangible personal property, including motor vehicles, boats, aircraft, business furnishings and office equipment. Household goods and personal effects are exempt from taxation. Personal property tax (current) makes up 4.3 percent (\$36.6 million) of FY 2018 General Fund revenues and is 6.7 percent (\$2.3 million) above the FY 2017 budget and is 2.5 percent above the FY 2017 year-end estimate, due to improved collections from this source in recent years and new developments in the city. Personal property taxes in total (delinquent collections, refunds, and public service corporations) comprise 5.4 percent (\$46.1 million) of FY 2018 General Fund revenues and are estimated to be approximately 5.2 percent (\$2.3 million) above the FY 2017 budget and is 3.4 percent (\$1.5 million) above the FY 2017 year-end estimate.

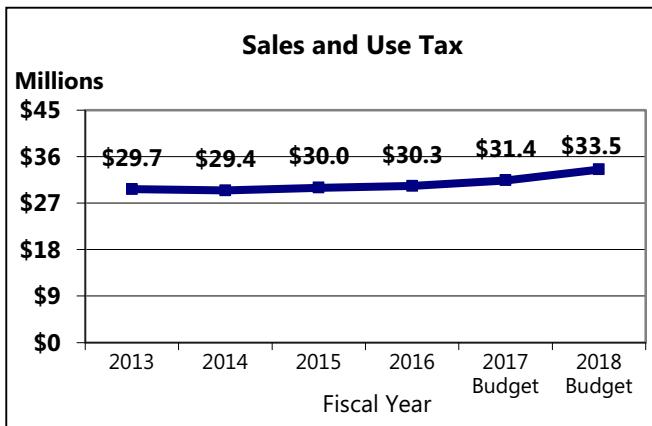


OTHER LOCAL TAXES

Other local taxes are comprised of consumer and business-based taxes, including excise taxes on utilities (water, gas, electricity, and communications), sales, hotel, restaurant/meals, admissions, and cigarettes, as well as franchise, business license, and recordation taxes. In FY 2018, other local taxes are projected to make up approximately 19.4 percent (\$166.6 million) of General Fund revenues. Citywide, other local taxes total

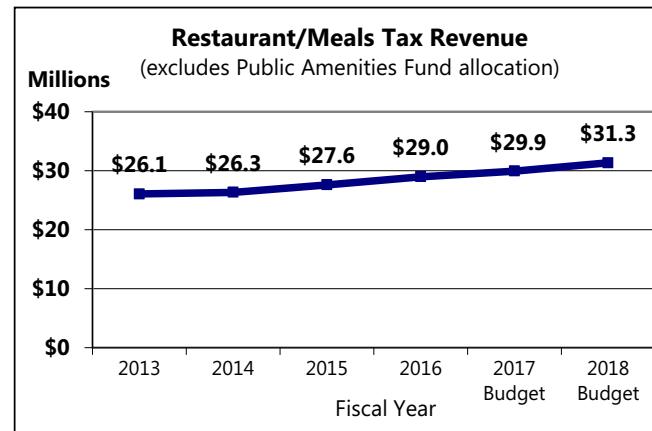
approximately \$176.9 million in the operating budget which includes the Public Amenities Fund portion of the hotel, restaurant/meals, and sales tax (\$6.7 million) and the Emergency Preparedness and Response portion of the telecommunications sales and use tax (\$3.6 million). The revenue category is sensitive to changes in economic conditions.

The sales and use tax makes up approximately 3.9 percent (\$33.5 million) of the city's General Fund revenue and is levied on selling, distribution, leasing, or renting of tangible personal property, use or consumption of tangible personal property, as well as taxable services in Virginia. Revenue from this source is sensitive to the state of the economy, household income, and underlying price level changes. Current year trend is used in projecting next year's revenues as well as changes in the local retail activity (such as new retail and businesses, expansions, job growth, and overall economic health) are used for projecting this revenue. Adjustments made by the Virginia Department of Taxation for overpayments and underpayments of the tax by businesses also affect collections. Sales tax receipts are projected to be above the FY 2017 budget by 6.7 percent (\$2.1 million) from the FY 2017 budget, reflecting the growth in new businesses in the city including the outlet mall and new downtown businesses.



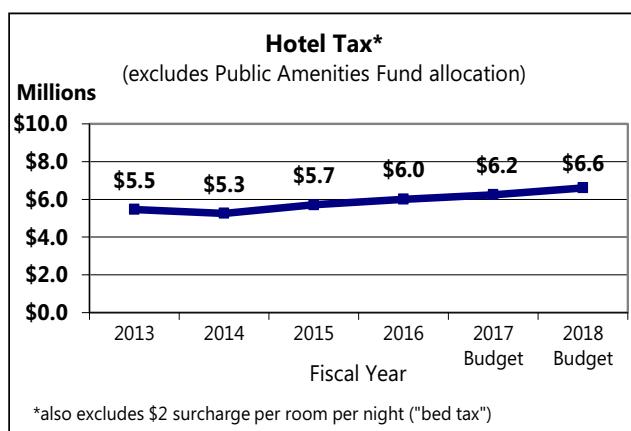
Consumer utility taxes on water, gas, electricity and the communications sales and use tax combined make up approximately 4.6 percent or \$39.3 million of the city's General Fund revenue. The consumer utility tax is levied on the purchase of utility service including water, gas, and electricity. Monthly receipts are monitored and used as a basis for estimating the revenue yield, taking seasonal variations into consideration. The consumer utility tax on telephones, cell phones and cable TV were abolished and replaced by a statewide uniform communications sales and use tax on January 1, 2007. The Emergency 911 (E-911) tax on telephones was also replaced by a statewide uniform \$0.75 tax per phone at the same time. The E-911 tax is distributed to the city together with the communications sales and use tax in one lump sum. Consequently, a portion of the communications sales and use tax received by the city is allocated and goes directly to support emergency communications (E-911) in the Emergency Preparedness and Response Special Revenue Fund (approximately \$3.6 million). The General Fund portion of the communications sales and use tax in FY 2018 is estimated to be \$17.6 million, which is approximately 2.2 percent (\$0.4 million) below the amount in the FY 2017 budget. Since the inception of this tax, the revenue received from this source has fluctuated due to adjustments for overpayments and underpayments of the tax by telecommunications service providers. Revenue from consumer utility taxes and the communication sales and use tax are estimated to decrease by approximately 0.3 percent (\$0.1 million) from the FY 2017 budget.

Taxes are collected on prepared meals. The tax rate is 6.5 percent of the value of the meal. The revenue generated by 1.0 percentage point of the tax rate is allocated to the Public Amenities Fund, estimated to be \$5.7 million in FY 2018, and the revenue generated from the remaining 5.5 percentage points of the tax rate are allocated to the General Fund, estimated to be \$31.3 million in FY 2018. The total revenue generated by the meals tax in the General Fund and Public Amenities Fund combined is approximately \$37.0 million in FY 2018 and is the largest revenue source in the "other local tax" category.



Meals taxes have grown steadily since the end of the recession as new restaurants have opened in several commercial districts including, downtown Norfolk, Military Highway corridor, and Ghent and Colley Avenue areas. Meals taxes make up 3.7 percent (\$31.3 million) of General

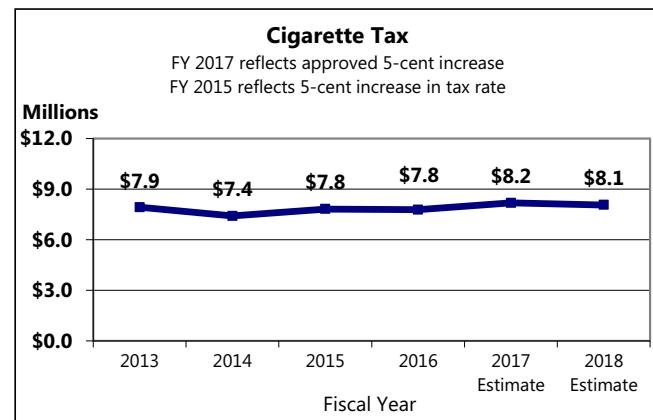
Fund revenues which is approximately 4.7 percent (\$1.4 million) above the FY 2017 budget and reflects the new development in the city such as The Main Hotel and Conference Center, Waterside District, and the outlet mall.



Hotel taxes are levied on hotel rooms rented at the rate of 8.0 percent of the room rate. Like the meals tax, revenue generated by 1.0 percentage point of the tax is allocated to the Public Amenities Fund, estimated to be \$0.9 million in FY 2018, and revenue generated from the remaining 7.0 percentage points is allocated to the General Fund, estimated to be \$6.6 million in FY 2018. The total revenue generated by the hotel tax in the General Fund and Public Amenities Fund combined is approximately \$7.6 million in FY 2018. Hotel taxes make up 0.8 percent (\$6.6 million) of General Fund revenues, which is approximately 5.9 percent (\$0.4 million) above the FY 2017 budget and also reflects The Main opening in March 2017.

The estimate above does not include the \$2.00 surcharge per room night ("bed tax"), estimated to generate nearly \$2.0 million in FY 2018. The bed tax was enacted on April 1, 2006 at the rate of \$1.00 per room night with the support from the Norfolk Hotel-Motel Association. In FY 2012, the bed tax was raised to \$2.00 per room night. The revenue collected is designated equally between Norfolk Convention and Visitor's Bureau (Visit Norfolk) for visitor promotion and advertising for conventions and tourism and Norfolk Consortium (see Outside Agencies section).

In FY 2017, the City Council adopted a five-cent increase in the cigarette tax rate, raising the rate to 85 cents per pack of 20 cigarettes from 80 cents. Revenue from the rate hike is dedicated for economic development initiatives, same as the last increase that was adopted in FY 2015 (see Central Appropriations section). As a result of the five-cent increase, Norfolk, along with Hampton and Newport News, has the second highest rate among the seven major cities in the region, with Portsmouth having the highest rate. It is important to note revenue generated from these rate increases tends to be short-lived. This is because these tax increases likely induce smokers to stop or reduce cigarette use or buy their cigarettes elsewhere. According to the Tax Foundation, cigarettes are highly susceptible to border shopping because the cost of transporting them is so low. Cigarette taxes make up approximately 0.9 percent (\$8.1 million) of General Fund revenues.



Business license taxes are collected from anyone who engages in a business, trade, profession, or occupation in the city. It is generally imposed as a percentage of gross receipts generated within a calendar year. It is also applied to individuals that maintain a place of business, either permanent or temporary, or conduct a business-related activity. Business license tax rates vary depending on business classification and amount of gross receipts generated. Norfolk's rates are at the state maximum allowed for the main business classifications. Revenue collections in recent years have been reduced by higher than average refunds of overpayments. In FY 2018, this revenue source makes up approximately 3.6 percent (\$31.3 million) of General Fund revenues, which is projected to be approximately 1.8 percent (\$0.5 million) above the FY 2017 budget.

PERMITS AND FEES

Permits are issued to regulate new construction and ensure public safety. Revenues from this source comprised of fees for permits, licenses and other privileges subject to city regulation, partially to cover the expense of providing

regulatory services (taxi permits, zoning inspections, construction permits, right-of-way, etc.) in the city. Permits and fees are projected to be 0.4 percent (\$3.2 million) of General Fund revenues and is 6.1 percent (\$0.2 million) above the FY 2017 budget and is below the FY 2017 year-end estimate reflecting a slightly lower level of activity.

FINES AND FORFEITURES

Fines and forfeitures in the General Fund mainly consist of revenues received from the courts as fines and forfeitures for violations of city ordinances. These provide approximately 0.1 percent (\$1.2 million) of General Fund revenues. The FY 2018 estimate is approximately 4.7 percent (\$60,000) below the FY 2017 budget. Citywide, fines and forfeitures total approximately \$3.3 million of revenues from all operating funds. Over 60 percent of the citywide amount are generated from parking fines which support the Parking Enterprise Fund (nongeneral fund).

USE OF MONEY AND PROPERTY

Revenue from use of money and property is comprised primarily of interest earned on cash balances, rents from short-term and long-term property leases, and prudent management of city assets. Revenue from this source make up 0.9 percent (\$7.7 million) of General Fund revenues and is 1.8 percent (\$0.1 million) above the FY 2017 budget.

CHARGES FOR SERVICES

Charges for services include fees charged for various programs and services such as, recreation centers, Virginia Zoo, judicial services, paramedical rescue, school activities, Cruise Ship Terminal, and National Maritime Center. Charges for services make up approximately 3.0 percent (\$26.0 million) of General Fund revenues and is approximately 0.9 percent (\$0.2 million) below the FY 2017 budget. Citywide, most of the revenue collected are charges for services by nongeneral funds. Charges for services citywide make up approximately \$307.3 million (over ten times the General Fund amount) and are mostly from user fees for utilities, storm water, and refuse disposal. The rates for these user fees are set to ensure operations are fully supported by the fees collected.

MISCELLANEOUS REVENUE

Miscellaneous revenue consists of revenues not classified in other categories. Included in this category are revenue from payments in lieu of taxes, fee for services provided to the U.S. Navy for the housing public-private venture, and land sales. The city is estimated to receive \$9.0 million in FY 2018, which represents approximately 1.0 percent of General Fund revenues and is approximately 2.7 percent (\$0.2 million) above the FY 2017 budget. The FY 2018 estimate reflects an increase in the fee for services from the U.S. Navy housing public-private venture and payment in lieu of taxes.

RECOVERED COSTS

Recovered costs consist of revenue from nongeneral funds, partner agencies and the public for certain expenses, such as indirect cost, employee compensation, debt service, and communications and technology. Recovered costs make up approximately 1.4 percent (\$11.8 million) of General Fund revenues and is 3.1 percent (\$0.4 million) below the FY 2017 budget. The decrease was mostly due to the impact of sequestration on the federal interest subsidy for the Build America Bonds and loss of reimbursement from Norfolk Public Schools for the cost of financing school bus purchases.

NON-CATEGORICAL AID - VIRGINIA

Non-Categorical aid consist of state revenues without restriction as to use. In FY 2018, non-categorical aid is estimated to be 4.1 percent (\$34.8 million) of General Fund revenues and is 3.3 percent (\$1.1 million) above the FY 2017 budget. The FY 2018 estimate was based on 2017 General Assembly actions and historical car rental tax distribution which is administered by the Virginia Department of Taxation for localities.

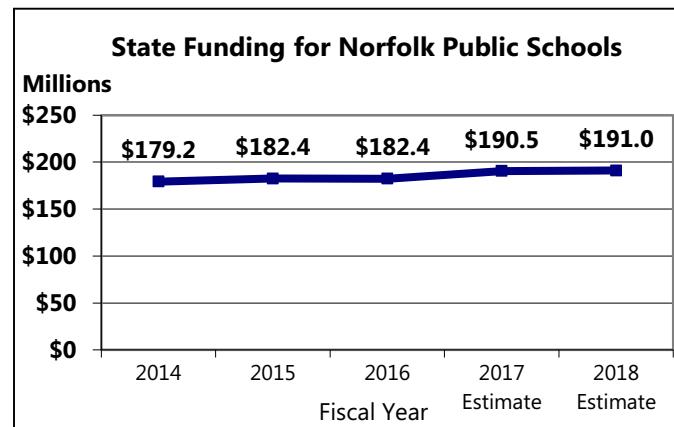
SHARED EXPENSES

Shared expenses consist of recovered costs from the Commonwealth for a portion of the salaries and benefits of constitutional and other offices serving the Norfolk community, including the Norfolk Electoral Board, Sheriff, City Treasurer, Commissioner of the Revenue, Clerk of the Circuit Court, and Commonwealth's Attorney. This revenue category makes up approximately 2.5 percent (\$21.4 million) of General Fund revenues and is 1.3 percent (\$0.3 million) above the FY 2017 budget. The FY 2018 estimate is based on 2017 General Assembly actions which includes additional funds from the state for a two percent across the board salary increase and to address salary compression issues for deputy sheriffs. Both state actions are effective August 1, 2017.

STATE CATEGORICAL AID

Categorical aid from the Commonwealth consists mainly of revenues earmarked for Norfolk Public Schools, public assistance grants and social service programs, Norfolk Community Services Board (NCSB), Virginia Department of Transportation (VDOT) funding for street maintenance and localities that host port-owned facilities, and local adult correctional facility. State categorical aid makes up approximately 31.0 percent (\$266.0 million) of General Fund revenues and is 1.5 percent (\$3.8 million) above the FY 2017 budget, with the increase mostly for street maintenance, social services, Norfolk Community Services Board, and Norfolk Public Schools. The FY 2018 estimates are based on 2017 General Assembly actions.

The majority of state categorical aid is earmarked for Norfolk Public Schools, approximately \$191.0 million of the \$266.0 million in FY 2018. Categorical aid for Norfolk Public Schools includes the state sales and use tax and state school funds. State sales and use tax for schools is the revenue from the city's proportionate share of the state sales and use tax designated for public education. Since July 1, 2012, the city's share of the state sales and use tax is based on the population estimate provided by the Weldon Cooper Center for Public Service at the University of Virginia. Additionally in FY 2014, state sales and use tax dedicated to public education increased to 1 $\frac{1}{4}$ cent due to the statewide transportation bill. Prior to FY 2014, 1 $\frac{1}{4}$ cent of the state sales and use tax was dedicated to public education, which reflected the change in FY 2005 when half of the one-half cent sales and use tax increase adopted by the General Assembly was earmarked for local school divisions and real estate tax relief. Half of that quarter percent is distributed in the manner discussed above. The other half of the quarter percent goes to support the Standards of Quality (SOQ), which is included in state school funds. State school funds reflect schools operational costs. The rate of reimbursements is based on the SOQ formula with reimbursement rates varying by program and area of emphasis. Changes in enrollment figures affect this revenue source. Localities are required to match the state contribution based on a composite index. Currently, Norfolk provides more than its required share of local effort.



Categorical aid also includes the state reimbursements for the cost of operating the Department of Human Services and Norfolk Community Services Board, estimated to be \$34.9 million and \$11.3 million, respectively, in FY

2018. State aid are tied to operating costs that include the cost of personnel, fringe benefits, nonpersonal services, rent for buildings and parking, etc. The reimbursement rate of the overall costs varies by program.

The FY 2018 jail per diem estimate is approximately \$2.6 million, based on the estimate from the state Compensation Board. The FY 2018 estimate is virtually the same as the FY 2017 budget but was above the FY 2016 Compensation Board estimate. The increase from the FY 2016 estimate was not due to a change in the jail per diem rates but was due to a change in the funding method. In prior years, the General Assembly did not appropriate the full estimated cost for jail per diem statewide and the funding shortfall was addressed in the mid-biennium or caboose budget. For the 2016-2018 biennium, the amount appropriated is based on the estimated cost of jail per diems. However, if the appropriation falls short due to statewide inmate population being higher than anticipated, the Compensation Board will prorate the amounts distributed to local jails. The last time jail per diem rates were changed was during the 2010 session of the General Assembly. Since March 1, 2010, per diem payments for local responsible inmates in local or regional jails was reduced to \$4.00 per day from \$8.00 per day, while the per diem payments for state inmates housed in local jails was changed to \$12.00 per day from \$8.00 or \$14.00 per day (reflecting the \$6.00 bonus payment for certain state inmates). Payment for jail contract beds fell to \$8.00 per day from \$14.00 per day. The changes in the per diem rates resulted in approximately a \$2.0 million decline in jail per diem funding to the city.

Categorical aid also includes funds received from VDOT for street construction and maintenance and support for localities that host Virginia Port Authority owned real estate, estimated in total to be \$25.2 million in FY 2018. The funds for street construction and maintenance are received from VDOT to maintain the city's principal and minor arterials, collector roads and local streets based on moving lane miles. The revenue is based on a statewide maintenance index of the unit costs used on roads and bridges. Changes in the index are used to calculate and implement annual per-land-mile rates. The rates fluctuate on index changes and number of miles assessed. These funds offset qualifying operating costs recorded in the city's budget.

FEDERAL AID

Aid from the federal government primarily includes funds for Norfolk Public Schools and Norfolk Community Services Board. In FY 2018, federal aid is approximately 1.0 percent (\$8.7 million) of General Fund revenues and is 2.2 percent (\$0.2 million) above the FY 2017 budget. The increase was mainly in federal aid for Norfolk Community Services Board (approximately \$0.2 million) partly to support expansion of substance abuse medicine assisted treatment.

OTHER SOURCES AND TRANSFERS IN

Other sources and transfers in consist of intra-governmental transfers and carryforward funds. In FY 2018, other sources and transfers in comprise approximately 3.4 percent (\$28.8 million) of General Fund revenues. It is 20.1 percent (\$4.8 million) above the FY 2017 budget, as the loss or decrease in the Norfolk Public Schools Carryforward (\$3.1 million) was offset by increases in other resources. Other sources and transfers in includes transfers in from nongeneral funds of approximately \$16.9 million from Utilities, Waste Management, Public Amenities, and Tax Increment Financing. The Public Amenities Fund will increase support for the Norfolk Consortium by \$1.0 million, from \$2.0 million in FY 2017 to \$3.0 million in FY 2018 (see Outside Agencies section). The remaining amount (\$11.9 million) consists of the carry forward of prior year and current year savings by city departments, closeout of accounts, and proceeds from the sale of land (\$3.85 million) received but not budgeted in FY 2017. This amount also includes re-appropriating \$700,000 of the Housing Trust Fund to support affordable housing initiatives (see Capital Improvement Plan) and \$2.7 million of the FY 2016 surplus for one-time uses.

APPROPRIATIONS

Department	FY 2018 Adopted
GENERAL FUND	
LEGISLATIVE	
City Council	380,673
City Clerk	1,635,009
City Real Estate Assessor	2,145,130
City Auditor	961,084
Total Legislative	5,121,896
EXECUTIVE	
City Manager	2,228,095
Office of Budget and Strategic Planning	1,432,603
Office of Resilience	370,766
Office of Marketing and Communications	1,828,454
Total Executive	5,859,918
DEPARTMENT OF LAW	
CONSTITUTIONAL OFFICERS	4,613,010
Commissioner of the Revenue	3,144,672
City Treasurer	2,434,112
Clerk of the Circuit Court	3,233,546
Commonwealth's Attorney	5,680,103
Sheriff and Jail	41,756,569
Total Constitutional Officers	56,249,002
JUDICIAL	
General District Court	267,742
Juvenile and Domestic Relations Court	79,793
Circuit Court Judges	801,820
Norfolk Juvenile Court Service Unit	167,250
Magistrate	11,438
Total Judicial	1,328,043
ELECTIONS	
GENERAL MANAGEMENT	
Information Technology	11,750,302
Finance	4,931,633
General Services	25,560,491

Department	FY 2018 Adopted
Human Resources	3,635,917
Total General Management	45,878,343
COMMUNITY DEVELOPMENT	
City Planning	5,032,672
Neighborhood Development	4,360,937
Economic Development	2,163,109
Total Community Development	11,556,718
PARKS, RECREATION AND CULTURE	
Libraries	12,184,268
Cultural Facilities, Arts and Entertainment	5,872,356
Zoological Park	4,353,369
The National Maritime Center	5,273,234
Recreation, Parks and Open Space	17,712,446
Total Parks, Recreation and Culture	45,395,673
CENTRAL AND OUTSIDE AGENCY APPROPRIATIONS	
Central Appropriations	20,575,989
Outside Agencies	45,075,920
Total Central and Outside Agency Appropriations	65,651,909
PUBLIC HEALTH AND ASSISTANCE	
Norfolk Community Services Board	26,641,422
Office to End Homelessness	300,160
Public Health	3,409,151
Human Services	47,726,353
Total Public Health and Assistance	78,077,086
PUBLIC SAFETY	
Police	72,523,769
Fire-Rescue	44,621,442
Total Public Safety	117,145,211
PUBLIC WORKS	27,605,306
DEBT SERVICE	66,639,496
PUBLIC SCHOOL EDUCATION (Norfolk Public Schools)	325,292,145
Total General Fund	857,276,054

Department	FY 2018 Adopted
SPECIAL REVENUE FUNDS	
Storm Water Management	16,473,697
Towing and Recovery Operations	1,828,130
Cemeteries	2,121,113
Golf Operations	15,000
Public Amenities	8,900,293
Emergency Preparedness and Response	6,427,954
Tax Increment Financing	5,266,000
Waste Management	22,666,214
Total Special Revenue Funds	63,698,401
ENTERPRISE FUNDS	
Water Utility	87,032,657
Wastewater Utility	31,378,392
Parking Facilities Fund	23,710,715
Total Enterprise Funds	142,121,764
INTERNAL SERVICE FUNDS	
Healthcare	94,666,785
Fleet Management	11,631,440
Total Internal Service Funds	106,298,225
TOTAL CITY OPERATIONS	1,169,394,444
CAPITAL IMPROVEMENT PLAN	84,229,933
ANNUAL PLAN	5,405,297
TOTAL APPROPRIATIONS	1,259,029,674

SELECTED TAX RATES AND FEES

Description	FY 2017 Adopted	FY 2018 Approved
PROPERTY TAXES		
Real Estate (General Tax)	\$1.15/\$100 Assessed Value	\$1.15/\$100 Assessed Value
Real Estate (Downtown Improvement District)	\$1.31/\$100 Assessed Value	\$1.31/\$100 Assessed Value
Personal Property		
Airplane	\$2.40/\$100 Assessed Value	\$2.40/\$100 Assessed Value
Motor Vehicle	\$4.33/\$100 Assessed Value	\$4.33/\$100 Assessed Value
Recreational Vehicle	\$1.50/\$100 Assessed Value	\$1.50/\$100 Assessed Value
Business Furniture, Fixtures, and Equipment	\$4.33/\$100 Assessed Value	\$4.33/\$100 Assessed Value
Watercraft - Business	\$1.50/\$100 Assessed Value	\$1.50/\$100 Assessed Value
Watercraft - Recreational	\$0.50/\$100 Assessed Value	\$0.50/\$100 Assessed Value
Machinery & Tools	\$4.25/\$100 Assessed Value	\$4.25/\$100 Assessed Value
OTHER LOCAL TAXES		
Amusement and Admissions	10%	10%
Cigarette	85 cents/pack of 20 cigarettes (42.5 mils/cigarette)	85 cents/pack of 20 cigarettes (42.5 mils/cigarette)
Emergency 911 (Landline)	Replaced by the statewide E-911 tax rate of \$0.75/line/month	Replaced by the statewide E-911 tax rate of \$0.75/line/month
Hotel/Motel Lodging	8%	8%
Bed Tax	\$2 per room night	\$2 per room night
Food and Beverage	6.5%	6.5%
Motor Vehicle License:		
Small Trailers (<2,000 pounds)	\$11.50	\$11.50
Motorcycles	\$20.00	\$20.00
Cars and Small Trucks	\$31.00	\$31.00
Mid-Size Trucks/Vans (>4,000 pounds)	\$36.00	\$36.00
Large Vehicles (over 19,000 pounds)	\$1.60-\$1.80/1,000 pounds of gross weight (additional \$5 flat fee)	\$1.60-\$1.80/1,000 pounds of gross weight (additional \$5 flat fee)

Description	FY 2017 Adopted	FY 2018 Approved
REFUSE DISPOSAL		
Residential		
Single or Multiple Units (four units or less)	\$28.01/unit/month	\$28.01/unit/month
Multiple Units (five units or more)	\$46.94/container/month	\$46.94/container/month
Commercial		
Business 1 times per week	\$61.18/unit/month	\$61.18/unit/month
Business 5 times per week	\$151.64/unit/month	\$151.64/unit/month
Combined Commercial and Residential	\$89.19/unit/month	\$89.19/unit/month
WATER AND WASTEWATER UTILITY FEES		
Water	\$4.77/100 cubic feet	\$4.93/100 cubic feet
Wastewater	\$3.97/100 cubic feet	\$4.13/100 cubic feet
STORM WATER FEES (rate calculated based on a 30-day month)		
Residential	\$12.13/month	\$12.40/month
Commercial	\$8.95/month per 2,000 sq. ft.	\$9.46/month per 2,000 sq. ft.
UTILITY TAXES		
Commercial		
Gas	Rate/month: \$3.225 + \$0.167821/CCF 0-70 CCF + \$0.161552/CCF 71-430 CCF + \$0.15363/CCF on balance (maximum of \$500/month)	Rate/month: \$3.225 + \$0.167821/CCF 0-70 CCF + \$0.161552/CCF 71-430 CCF + \$0.15363/CCF on balance (maximum of \$500/month)
Electricity (Manufacturing)	Rate/month: \$1.38 + \$0.004965/kWh 0-3,625,100 kWhs + \$0.004014/kWh on balance (maximum of \$53,000/month)	Rate/month: \$1.38 + \$0.004965/kWh 0-3,625,100 kWhs + \$0.004014/kWh on balance (maximum of \$53,000/month)
Electricity (Non-Manufacturing)	Rate/month: \$2.87 + \$0.017933/kWh 0-537 kWh + \$0.006330/kWh on balance	Rate/month: \$2.87 + \$0.017933/kWh 0-537 kWh + \$0.006330/kWh on balance
Telephone (Cellular, Landline)	Replaced by the State Communications Sales & Use Tax 5% of sales price of services	Replaced by the State Communications Sales & Use Tax 5% of sales price of services
Water	25% on first \$75, plus 15% of bill in excess of \$75	25% on first \$75, plus 15% of bill in excess of \$75
Residential		
Cable and Satellite Service Telephone (Cellular, Landline)	Replaced by the State Communications Sales & Use Tax	Replaced by the State Communications Sales & Use Tax
Electricity	\$1.75 + \$0.016891/kWh monthly (capped at \$3.75/month)	\$1.75 + \$0.016891/kWh monthly (capped at \$3.75/month)
Gas	\$1.50/month	\$1.50/month
Water (5/8" Meter)	25% on first \$22.50/month	25% on first \$22.50/month

GENERAL FUND BALANCE RESERVES

The establishment and maintenance of general operating reserves is considered one of the most effective management practices a local government can employ. City Council passed a resolution in July 2013 updating the city's policies on reserves, described in the "Financial Policies" section of the Budget Overview.

The purpose of a reserve is to act as the city's "savings" account to meet emergency, unanticipated needs without jeopardizing the ongoing provision of city services. Reserves help to cushion against cash flow challenges as seen in FY 2004 with the significantly large unexpected expenses of Hurricane Isabel when the city appropriated \$22.2 million from the General Fund undesignated fund balance to provide an interim source of funding for emergency costs. The appropriate size of reserves depends on variability of revenues and expenditures and an organization's cash flow needs.

Because the city is self-insured, the Risk Management Reserve was created in the event of a major unanticipated workers compensation or general liability claim. In FY 2008, the Risk Management Reserve was reduced by \$4.9 million from \$5,740,162 to \$840,162 to settle a major general liability claim. In FY 2010, City Council approved using \$1,058,409 of the FY 2008 and FY 2009 year-end surplus in accordance with the city's practice to replenish the Risk Management Reserve. During the FY 2013 budget worksession, City Council strengthened reserves further, increasing the General Fund balance reserves from \$45,457,834 to \$48,332,591. In FY 2015 and in FY 2016, City Council appropriated \$2.0 million from the year-end surplus in each year to the Risk Management and Economic Downturn reserves, bringing them to their financial policy goal, and raising the General Fund balance reserves to \$52,332,591.

General Fund Balance Reserves

Reserve	FY 2016 Actual	FY 2017 Minimum	FY 2017 Projected
Unassigned Reserve ("five percent reserve")¹	\$42,332,591	\$41,972,118	\$42,332,591
Risk Management Reserve²	\$5,000,000	\$3 - \$5 million	\$5,000,000
Economic Downturn Reserve²	\$5,000,000	\$3 - \$5 million	\$5,000,000
General Fund Balance Reserves at June 30³		\$52,332,591	\$52,332,591

¹ The minimum FY 2017 unassigned reserve of \$41,972,118 is based upon the Amended FY 2017 General Fund Budget of \$839,442,352.

² In July 2013, City Council passed a resolution setting the goal for the Risk Management Reserve and Economic Downturn Reserve at an amount not to exceed \$5.0 million and no less than \$3.0 million.

³ The amounts above exclude reserves for encumbrances and other legally restricted reserves and designations for specific appropriations.

SUMMARY OF CHANGES IN FUND BALANCE

General Fund

	FY 2016 Actual	FY 2017 Adopted	FY 2018 Adopted
Operating Revenues			
General property taxes	260,959,130	264,677,000	272,214,800
Other local taxes	156,358,560	162,026,400	166,625,000
Permits and fees	3,038,229	3,007,600	3,191,900
Fines and forfeitures	1,110,993	1,275,000	1,215,000
Charges for services	26,020,807	26,211,109	25,970,611
Miscellaneous	8,583,197	8,734,009	8,970,789
Recovered costs	10,604,391	12,134,608	11,758,591
Commonwealth	310,028,053	316,949,076	322,169,827
Federal	9,153,973	8,511,596	8,701,490
Total Operating Revenues	785,857,333	803,526,398	820,818,008
Operating Expenses			
Personnel services	269,592,199	286,552,320	296,469,073
Contractual services	42,849,872	40,702,018	42,446,304
Materials, supplies and repairs	36,883,496	41,053,602	41,284,359
Department specific appropriation	365,155,081	384,423,186	391,773,816
Public assistance	12,408,928	13,457,083	13,714,778
Total Operating Expenses	726,889,576	766,188,209	785,688,330
Operating Income (Loss)	58,967,757	37,338,189	35,129,678
Non-Operating Revenues (Expenses)			
Money and use of property	7,229,395	7,570,159	7,704,583
Capital outlay	(2,058,532)	(1,663,860)	(2,770,257)
Debt service	(67,565,850)	(63,899,797)	(65,752,240)
Acctg. for Encumbrances for Budget not GAAP	4,174,576	0	0
Total Non-Operating Revenue/Expense	(58,220,411)	(57,993,498)	(60,817,914)
Income (Loss) Before Operating Transfers	747,346	(20,655,309)	(25,688,236)
Operating transfers in	14,888,405	19,634,865	16,888,089
Operating transfers out	(5,431,955)	(3,290,486)	(3,065,227)
Total Operating Transfers	9,456,450	16,344,379	13,822,862
Net Change in Fund Balance*	10,203,796	(4,310,930)	(11,865,374)
Beginning Fund Balance at July 1	97,583,948	107,787,744	103,476,814
Ending Fund Balance at June 30	107,787,744	103,476,814	91,611,440

*Approximately \$3.85 million of the FY 2018 amount reflects the sale of land proceeds received during FY 2017 and that was not budgeted to be received in FY 2017. See City Manager's Adopted Budget Message for details. The FY 2018 amount also reflects re-appropriation of the FY 2016 surplus (\$2.7 million) for one-time uses and the Housing Trust Fund (\$700,000). See Central Appropriations for details.

Special Revenue Funds

	FY 2016 Actual	FY 2017 Adopted	FY 2018 Adopted
Operating Revenues			
General property taxes	4,984,100	5,384,000	5,266,000
Other local taxes	9,675,051	9,936,596	10,292,596
Fines and forfeitures	0	22,000	11,535
Charges for services	39,884,923	39,667,477	40,381,778
Miscellaneous	234,380	563,717	535,199
Recovered costs	0	2,131,000	2,131,000
Commonwealth	1,390,202	0	0
Federal	92,706	113,617	113,617
Total Operating Revenues	56,261,362	57,818,407	58,731,725
Operating Expenses			
Personnel services	16,422,014	18,647,226	19,527,969
Contractual services	15,390,573	14,931,243	14,432,934
Materials, supplies and repairs	4,441,726	6,391,634	6,359,520
Department specific appropriation	4,816,829	2,273,192	1,856,018
Total Operating Expenses	41,071,142	42,243,295	42,176,441
Operating Income (Loss)	41,071,142	15,575,112	16,555,284
Non-Operating Revenues (Expenses)			
Money and use of property	75,135	989,130	990,130
Capital outlay	(2,527,441)	(2,285,625)	(2,778,353)
Gain/(Loss)-Sale of fixed assets & investments	0	10,000	10,000
Debt service	(5,564,732)	(7,784,272)	(9,534,202)
Total Non-Operating Revenue/Expense	(8,017,038)	(9,070,767)	(11,312,425)
Income (Loss) Before Operating Transfers	7,173,182	6,504,345	5,242,859
Operating transfers in	8,958,369	1,443,093	1,477,971
Operating transfers out	(7,203,605)	(10,800,791)	(9,203,289)
Total Operating Transfers	1,754,764	(9,357,698)	(7,725,318)
Net Change in Fund Balance*	8,927,946	(2,853,353)	(2,482,459)
Beginning Fund Balance at July 1	20,514,365	29,442,311	26,588,958
Ending Fund Balance at June 30	29,442,311	26,588,958	24,106,499

*Approximately \$2.2 million of the FY 2018 amount and \$2.0 million of the FY 2017 amount represents a carryforward of prior year savings in the Public Amenities Fund. See Public Amenities Fund for details.

SUMMARY OF CHANGES IN NET ASSETS

Enterprise Funds

	FY 2016 Actual	FY 2017 Adopted	FY 2018 Adopted
Operating Revenues			
Permits and fees	0	673,845	625,324
Fines and forfeitures	0	2,507,343	2,106,842
Charges for services	128,183,788	132,240,707	134,778,854
Miscellaneous	2,294,924	188,381	187,180
Recovered costs	0	1,341,600	1,341,600
Total Operating Revenues	130,478,712	136,951,876	139,039,800
Operating Expenses			
Personnel services	28,688,685	28,004,556	28,754,722
Contractual services/Other	17,113,093	15,917,954	15,541,714
Materials, supplies and repairs	9,698,215	15,652,503	15,708,125
Depreciation	25,325,179	0	0
Department specific appropriation	0	9,976,818	6,257,956
Total Operating Expenses	80,825,172	69,551,831	66,262,517
Operating Income (Loss)	49,653,540	67,400,045	72,777,283
Non-Operating Revenues (Expenses)			
Money and use of property	295,192	304,639	329,087
Capital outlay	0	(762,671)	(775,291)
Intergovernmental revenue	149,324	0	0
Miscellaneous revenue (expense)	(3,481)	0	0
Gain/(Loss)-Sale of fixed assets & investments	70,559	7,400	7,400
Debt service	(18,532,992)	(54,809,301)	(62,171,361)
Total Non-Operating Revenue/Expense	(18,021,398)	(55,259,933)	(62,610,165)
Income (Loss) Before Operating Transfers	31,632,142	12,140,112	10,167,118
Capital Contribution	337,654	0	0
Operating transfers in	0	0	0
Operating transfers out	(10,000,000)	(12,900,000)	(12,900,000)
Total Operating Transfers/Capital Contribution	(9,662,346)	(12,900,000)	(12,900,000)
Net Income (Loss)	21,969,796	(759,888)	(2,732,882)
Beginning Net Assets at July 1	396,804,583	418,774,379	418,014,491
Ending net assets at June 30	418,774,379	418,014,491	415,281,609

Internal Service Funds

	FY 2016 Actual	FY 2017 Adopted	FY 2018 Adopted
Operating Revenues			
Charges for services	87,320,624	101,253,235	106,179,360
Miscellaneous	93,191	0	0
Recovered costs	0	98,865	63,865
Total Operating Revenues	87,413,815	101,352,100	106,243,225
Operating Expenses			
Personnel services	2,935,984	3,429,611	3,527,618
Cost of Goods Sold	3,817,951	0	0
Contractual services/Other	76,431,571	93,441,507	98,244,525
Materials, supplies and repairs	4,406,742	4,544,982	4,493,582
Depreciation	98,164	0	0
Total Operating Expenses	87,690,412	101,416,100	106,265,725
Operating Income (Loss)	(276,597)	(64,000)	(22,500)
Non-Operating Revenues (Expenses)			
Money and use of property	0	9,500	5,000
Capital outlay	0	(60,500)	(32,500)
Miscellaneous revenue (expense)	23,225	0	0
Gain/(Loss)-Sale of fixed assets & investments	0	115,000	50,000
Total Non-Operating Revenue/Expense	23,225	64,000	22,500
Income (Loss) Before Operating Transfers	(253,372)	0	0
Operating transfers in	0	0	0
Operating transfers out	0	0	0
Total Operating Transfers	0	0	0
Net Income (Loss)	(253,372)	0	0
Beginning Net Assets at July 1	4,724,789	4,471,417	4,471,417
Ending net assets at June 30	4,471,417	4,471,417	4,471,417

TRANSFERS FROM/TO

The tables below present certain fund to fund transfers in FY 2018 which include: General Fund support of capital projects and special revenue funds; transfers from enterprise activities and special revenue funds to the General Fund; and cash contribution from General Fund and nongeneral funds for capital projects.

Transfer from General Fund to

FY 2018

Capital Improvement Program	1,587,256
Cemetery Fund	339,088
Emergency Preparedness and Response Fund	1,138,883
Total Transfers from General Fund	3,065,227

Transfer to General Fund from

Public Amenities Fund	3,000,000
Tax Increment Financing Fund	3,702,265
Waste Management Fund	185,824
Wastewater Utility Fund	1,500,000
Water Utility Fund	8,500,000
Total Transfers to General Fund	16,888,089

Transfer to Capital Improvement Program from

General Fund	1,587,256
Parking Facilities Fund	2,900,000
Public Amenities Fund	1,000,000
Storm Water Management Fund	1,315,200
Water Utility Fund	5,000,000
Total Transfers to the Capital Improvement Program	11,802,456

FULL TIME EQUIVALENT (FTE) STAFFING SUMMARY

	FY 2016 Adopted FTE	FY 2017 Adopted FTE	FY 2018 Adopted FTE	Change FY 2017 to FY 2018
General Fund				
Budget and Strategic Planning	18	18	18	0
Circuit Court Judges	5	5	5	0
City Attorney	34	34	34	0
City Auditor	8	9	9	0
City Clerk	14	14	14	0
City Council	8	8	8	0
City Manager	15	14	14	0
City Planning	63	65	65	0
City Real Estate Assessor	24	24	24	0
City Treasurer	31	31	31	0
Clerk of Circuit Court	49	49	49	0
Commissioner of the Revenue	42	42	42	0
Commonwealth's Attorney	61	58	59	1
Cultural Facilities, Arts & Entertainment	53	54	54	0
Development	19	20	21	1
Elections	6	6	6	0
Finance	43.8	48.8	58	9.3
Fire-Rescue	504	504	504	0
General Services	127.8	130	131	1
Human Resources	33	36	36	0
Human Services	525	525.5	525.5	0
Information Technology	123	106	90.0	-16
Libraries	121.6	124.6	134.6	10
Marketing and Communications ¹	0	0	15.0	15
Neighborhood Development	37	56	56	0
Norfolk Community Services Board	284.9	283.9	289.1	5.2
Office to End Homelessness	3	3	3	0
Office of Resilience	0	3	3	0

	FY 2016 Adopted FTE	FY 2017 Adopted FTE	FY 2018 Adopted FTE	Change FY 2017 to FY 2018
Police	874	874	874	0
Public Health	10	11	11	0
Public Works	225	225	226	1
Recreation, Parks and Open Space	214.3	216.7	216.7	0
Sheriff and Jail ²	475	475	447	-28
The National Maritime Center (Nauticus)	40.3	40.3	40.3	0
Zoological Park	47.1	51.1	51.1	0
Total General Fund	4,138.7	4,164.8	4,164.3	-0.5
Special Revenue Funds				
Cemeteries	33.8	32.8	32.8	0
Emergency Preparedness and Response	90	90	90	0
Storm Water Management	105.8	109	112	3
Towing and Recovery Operations	9.9	9.9	9.9	0
Waste Management	101	101	101	0
Total Special Revenue Funds	340.4	342.7	345.7	3
Enterprise Funds				
Parking Facilities	65	65	65.0	0
Wastewater Utility	106	105	105	0
Water Utility	291.3	292.5	292.5	0
Total Enterprise Funds	462.3	462.5	462.5	0
Internal Service Funds				
Fleet	56.8	56.8	56.8	0
Total Internal Service Funds	56.8	56.8	56.8	0
Total All Funds	4,998.1	5,026.9	5,029.3	2.5

Only permanent positions are reflected in the Budget Document.

¹The FY 2018 Budget creates the Office of Marketing and Communications.

² The State Compensation Board reduced approved positions by 28, effective May 1, 2016.

Totals and changes may not exactly add due to rounding to one decimal point.

CITY INDEBTEDNESS

The Virginia Constitution authorizes cities and counties in Virginia to issue general obligation bonds secured by a pledge of its full faith and credit. For the payment of such bonds, the governing body of the city is required to levy an ad valorem tax on all property subject to local taxation to ensure debt service payment. The issuance of general obligation bonds is subject to a limit of 10 percent of the assessed value of taxable real property in the city.

The Public Finance Act of Virginia authorizes a city in Virginia to issue limited liability revenue bonds provided that the rates, rents, fees or other charges are sufficient to pay the cost of operation and administration and the principal and interest on the bonds when due. In determining general obligation statutory debt limitations, certain classes of indebtedness may be excluded, including revenue anticipation notes maturing in one year or less, general obligation bonds payable from a specified revenue producing undertaking, so long as the undertaking is self-supporting, capital leases, and revenue bonds. The city's Wastewater enterprise operations finance capital needs through a combination of self-supporting, general obligation and revenue bonds and the water enterprise utilizes only revenue bonds for its financing needs. The city's Parking, Storm Water, Maritime and Towing and Recovery operations finance capital needs with self-supporting general obligation bonds.

The following table shows the estimated general obligation Legal Debt Margins for the current fiscal year as of June 30, 2017, and for the past four fiscal years.

As of	Taxable Real Property Assessed Value ⁽¹⁾	Debt Limit: 10% of Assessed Value	Debt Applicable to Debt Limit	Amount of Debt as % of Debt Limit	Legal Margin for Additional Debt
June 30, 2017 ⁽²⁾⁽³⁾	\$19,381,202,618	\$1,938,120,262	\$1,087,916,363	56.13%	\$850,203,899
June 30, 2016	19,106,737,956	1,910,673,796	988,381,838	51.73%	922,291,957
June 30, 2015	18,734,201,726	1,873,420,173	914,299,379	48.80%	959,120,794
June 30, 2014	18,421,412,121	1,842,141,212	912,700,343	49.55%	929,440,869
June 30, 2013	18,319,948,478	1,831,994,848	818,068,050	44.65%	1,013,926,798

(1)The figure includes the assessed valuation of the following properties: public service corporations (as assessed by the State Corporation Commission and the Virginia Department of Taxation); and residential, commercial, apartments and vacant land (as assessed by the City Assessor).

(2)Taxable Real Property Assessed Value is estimated as of March 31, 2017.

(3)Projected Debt Applicable to Debt Limit excludes \$324,882,100 of General Obligation Bonds authorized by ordinance for Capital Improvement Projects, but not yet issued.

OVERLAPPING DEBT

The City of Norfolk is autonomous and independent of any county or other political subdivision and is not subject to taxation by any county or school district, nor is it liable for any county or school division indebtedness. There is no overlapping debt.

STATEMENT OF NO PAST DEFAULT

The city has never defaulted on the payment of either principal or interest on its general obligation debt.

OUTSTANDING DEBT

Debt service for General Capital Improvements is funded from the General Fund. The debt of the enterprise and other fee-supported operations are paid from the respective revenues. The estimated total outstanding bonded indebtedness, including revenue bonds, at the end of FY 2018 is estimated to be \$1,249,479,483.

GENERAL CAPITAL IMPROVEMENTS—AFFORDABILITY MEASURES

The Capital Improvement Plan for General Capital Improvements (bonds not supported by self-supporting user fees) is guided by two measures of affordability. These measures or debt limits, based on the approved Capital Improvement Plan, are as follows:

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

The FY 2018 Capital Improvement Plan is within the two measures of affordability listed above. However, the city will need to maintain a moderate Capital Improvement Plan to stay within these measures as it finances some major essential governmental projects, such as a new city courthouse, several schools and a new anchor branch library for Broad Creek.

ENTERPRISE OPERATIONS DEBT

Norfolk's Water and Wastewater Revenue Bond programs are governed by bond indentures of trust and financing agreements, which specify debt coverage requirements for their respective operations. Each of the revenue bond programs are backed by the revenues of their respective system. The city has covenanted that it will establish, fix, charge and collect rates, fees and other charges so that in each Fiscal Year Net Revenues are not less than the debt service coverage requirement. All revenue bond programs, historically and estimated for FY 2018 meet debt coverage requirements. As previously noted, outstanding Wastewater bonds are a combination of general obligations of the city and revenue bonds and Water bonds are solely revenue bonds. The city's Parking operations finance capital needs with self-supporting general obligation bonds. As a matter of practice, the city pays such general obligation bonds from its respective enterprise activities. In the event that money in the respective funds is not sufficient to pay debt service on the general obligations, the city is obligated to pay such debt service from the General Fund or other available revenues.

BOND RATINGS

Bond or credit ratings are an independent opinion of the general creditworthiness of an issuer, such as the city, based on relevant risk factors. Long-term general obligation ratings are based on an issuer's ability and willingness to repay fully the principal and interest of its debt obligations, on a timely basis. Municipal credit ratings are primarily based on four main factors: the issuer's financial position, the issuer's current and future debt burden, financial management and the economy. Often an investor places significant emphasis on a bond's credit rating to help evaluate a price or willingness to hold the investment.

Each of the three major credit rating agencies in the U.S.: Moody's Investors Service ("Moody's"), S&P Global Ratings ("S&P") and Fitch Ratings ("Fitch") applies its own methodology in measuring creditworthiness and uses a specific rating scale to communicate its ratings opinions. Typically, ratings are expressed as letter grades that range, for example, from 'AAA' to 'D' to communicate the agency's opinion of relative level of credit risk. Credits are further

distinguished with "notches" within each rating category. Credit ratings for the city's General Obligation and Water Revenue Bond programs are as follows:

Bonding Program	Moody's	S&P	Fitch
General Obligation	Aa2	AA+	AA+
Water Revenue	Aa2	AA+	AA+

Norfolk's rating on its General Obligations Bonds of Aa2/AA+/AA+ and its Water Revenue Bonds of Aa2/AA+/AA+ are very strong and continue to assist the city in achieving least cost of funds to finance key capital projects throughout the city. All agencies affirmed the city's General Obligation long-term ratings in September 2016 and S&P upgraded the City's General Obligation bond rating from "AA" to "AA+" in September 2013. In general, AA category rating signifies very high quality bonds with some elements of long-term risks.

The city's Wastewater Revenue Bonds do not maintain an underlying, or stand-alone unenhanced, credit rating.

Computation of Legal Debt Margin

June 30, 2017 (Estimated)

Total Assessed Value of Taxed Real Property as of March 31, 2017	\$19,381,202,618	
Debt Limit: 10 percent of Total Assessed Value	\$1,938,120,262	
Amount of Debt Applicable to Debt Limit: ⁽¹⁾⁽²⁾⁽³⁾		
Gross Debt	\$877,913,363	
Line of Credit	\$200,000,000	
Economic Development Authority Note	\$10,000,000	\$1,087,916,363
Legal Debt Margin		\$850,203,899
Amount of Debt as a percent of Debt Limit	56.13%	

(1) Includes all nongeneral fund supported General Obligation debt such as Wastewater, Parking, Storm Water, Maritime, and Towing and Recovery Operations.

(2) The Legal Debt Margin computation does not include any revenue bond debt issued by the city, because such debt is not subject to the Commonwealth's Constitutional Debt Limit.

(3) Excludes \$324,882,100 of General Obligation Bonds authorized by ordinance for Capital Improvement Projects, but not yet issued.

YEARLY MATURITY OF LONG-TERM DEBT

Fiscal Year	General Obligation ⁽¹⁾⁽²⁾			General Obligation Equipment ⁽¹⁾			Water Revenue ⁽¹⁾		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2018	53,431,036	36,150,471	89,581,507	4,790,000	856,429	5,646,429	13,860,000	15,405,600	29,265,600
2019	59,570,468	33,783,465	93,353,933	6,615,000	630,625	7,245,625	14,200,000	14,714,975	28,914,975
2020	59,061,803	31,376,656	90,438,458	3,970,000	368,742	4,338,742	13,830,000	14,025,550	27,855,550
2021	57,048,982	28,860,315	85,909,297	3,200,000	191,158	3,391,158	15,965,000	13,292,450	29,257,450
2022	55,899,164	26,436,523	82,335,686	640,000	96,700	736,700	17,170,000	12,485,575	29,655,575
2023	55,105,511	24,042,649	79,148,160	655,000	65,925	720,925	18,675,000	11,611,375	30,286,375
2024	53,868,055	21,683,653	75,551,708	395,000	41,275	436,275	19,785,000	10,662,975	30,447,975
2025	49,030,042	19,416,491	68,446,533	270,000	23,250	293,250	17,820,000	9,736,475	27,556,475
2026	46,904,056	17,195,742	64,099,798	165,000	12,375	177,375	18,900,000	8,832,650	27,732,650
2027	46,074,176	15,060,500	61,134,677	165,000	4,125	169,125	11,710,000	8,078,950	19,788,950
2028	41,224,270	13,136,473	54,360,743	-	-	-	12,370,000	7,485,725	19,855,725
2029	31,465,000	11,505,736	42,970,736	-	-	-	13,140,000	6,856,975	19,996,975
2030	32,440,000	9,996,996	42,436,996	-	-	-	8,300,000	6,330,213	14,630,213
2031	32,455,000	8,481,143	40,936,143	-	-	-	8,965,000	5,912,200	14,877,200
2032	19,640,000	6,912,780	26,552,780	-	-	-	9,245,000	5,475,300	14,720,300
2033	30,905,000	5,653,529	36,558,529	-	-	-	7,600,000	5,063,819	12,663,819
2034	19,185,000	4,514,795	23,699,795	-	-	-	8,000,000	4,674,213	12,674,213
2035	16,040,000	3,703,230	19,743,230	-	-	-	8,450,000	4,263,244	12,713,244
2036	16,300,000	2,986,806	19,286,806	-	-	-	8,905,000	3,832,213	12,737,213
2037	16,245,000	2,261,940	18,506,940	-	-	-	7,950,000	3,418,131	11,368,131
2038	13,280,000	1,584,523	14,864,523	-	-	-	8,370,000	3,022,306	11,392,306
2039	9,625,000	1,140,992	10,765,992	-	-	-	8,810,000	2,608,263	11,418,263
2040	2,315,000	932,069	3,247,069	-	-	-	6,990,000	2,232,019	9,222,019
2041	2,330,000	837,694	3,167,694	-	-	-	7,325,000	1,899,731	9,224,731
2042	2,350,000	758,919	3,108,919	-	-	-	7,690,000	1,533,488	9,223,488
2043	3,565,000	648,969	4,213,969	-	-	-	8,095,000	1,127,488	9,222,488
2044	2,985,000	496,422	3,481,422	-	-	-	8,525,000	695,494	9,220,494
2045	2,710,000	354,750	3,064,750	-	-	-	8,985,000	235,856	9,220,856
2046	2,815,000	216,625	3,031,625	-	-	-	-	-	-
2047	2,925,000	73,125	2,998,125	-	-	-	-	-	-
Total	836,792,562	330,203,978	1,166,996,540	20,865,000	2,290,604	23,155,604	319,630,000	185,513,250	505,143,250

*Fiscal Year amounts may not add to total due to rounding.

YEARLY MATURITY OF LONG-TERM DEBT (CONTINUED)

Fiscal Year	Wastewater Revenue ⁽¹⁾			Totals ⁽¹⁾		
	Principal	Interest	Total	Principal	Interest	Total
2018	3,919,967	-	3,919,967	76,001,003	52,412,500	128,413,503
2019	4,244,967	-	4,244,967	84,630,435	49,129,065	133,759,500
2020	4,419,967	-	4,419,967	81,281,769	45,770,947	127,052,717
2021	4,419,967	-	4,419,967	80,633,949	42,343,923	122,977,872
2022	4,419,967	-	4,419,967	78,129,131	39,018,798	117,147,928
2023	4,419,967	-	4,419,967	78,855,478	35,719,949	114,575,427
2024	4,419,967	-	4,419,967	78,468,022	32,387,903	110,855,925
2025	4,419,967	-	4,419,967	71,540,009	29,176,216	100,716,225
2026	4,419,967	-	4,419,967	70,389,023	26,040,767	96,429,790
2027	4,419,967	-	4,419,967	62,369,143	23,143,575	85,512,719
2028	4,419,967	-	4,419,967	58,014,236	20,622,198	78,636,434
2029	4,419,967	-	4,419,967	49,024,967	18,362,711	67,387,678
2030	3,994,967	-	3,994,967	44,734,967	16,327,208	61,062,175
2031	3,569,967	-	3,569,967	44,989,967	14,393,343	59,383,310
2032	3,194,967	-	3,194,967	32,079,967	12,388,080	44,468,047
2033	2,694,967	-	2,694,967	41,199,967	10,717,348	51,917,315
2034	2,462,467	-	2,462,467	29,647,467	9,189,007	38,836,474
2035	1,939,983	-	1,939,983	26,429,983	7,966,473	34,396,457
2036	1,400,000	-	1,400,000	26,605,000	6,819,019	33,424,019
2037	900,000	-	900,000	25,095,000	5,680,071	30,775,071
2038	500,000	-	500,000	22,150,000	4,606,829	26,756,829
2039	175,000	-	175,000	18,610,000	3,749,254	22,359,254
2040	-	-	-	9,305,000	3,164,088	12,469,088
2041	-	-	-	9,655,000	2,737,425	12,392,425
2042	-	-	-	10,040,000	2,292,406	12,332,406
2043	-	-	-	11,660,000	1,776,456	13,436,456
2044	-	-	-	11,510,000	1,191,916	12,701,916
2045	-	-	-	11,695,000	590,606	12,285,606
2046	-	-	-	2,815,000	216,625	3,031,625
2047	-	-	-	2,925,000	73,125	2,998,125
Total	73,196,921	-	73,196,921	1,250,484,483	518,007,832	1,768,492,315

(1) Existing Debt Service as of June 30, 2017. Exclusive of amount borrowed on the Line of Credit, Economic Development Authority Note and any future bond issuance.

(2) General Obligation bonds have been used to finance Wastewater, Parking, Storm Water, Maritime, and Towing and Recovery projects. The bonded debt associated with those projects is self-supported by the respective funds. The Debt Service portion of the General Fund budget finances only General Capital projects and not its self-supporting funds.