



July 1, 2018

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

I respectfully submit to you the Adopted Fiscal Year (FY) 2019 Financial Plan for the City of Norfolk, which is comprised of the General Fund, enterprise funds, special revenue funds, internal service funds, Capital Improvement Plan (CIP), and the Annual Plan for Housing and Urban Development (HUD) Block Grant programs.

The discussion during our budget work sessions resulted in amendments to the Proposed FY 2019 General Fund and Parking Fund budgets. These amendments to the Proposed FY 2019 Budget were adopted at the May 22, 2018 City Council meeting. The table below illustrates the final Adopted FY 2019 Financial Plan:

Fiscal Year 2019 Financial Plan	
Operating Fund	Adopted Budget
General Fund	\$880,788,426
Enterprise Funds	\$145,660,878
Special Revenue Funds	\$60,312,685
Internal Service Funds	\$103,941,204
Total Operating Funds	\$1,190,703,193
Capital Improvement Plan	\$112,039,271
Total Operating and Capital Funds	\$1,302,742,464
Annual Plan for HUD Block Grants	\$5,841,730
Total Financial Plan	\$1,308,584,194

The FY 2019 Financial Plan builds on the work we have accomplished together and funds City Council's and the community's priorities of investing in neighborhoods, housing, public safety, education, and resilience. This adopted budget is bold.

The Adopted FY 2019 Budget is based on our economic reality. It reflects cuts that were participatory and thoughtful, while continuing to fund Council's priorities. We are taking on big, bold challenges that include making investments in education, inclusive economic growth, infrastructure, and catching up on deferred maintenance of our buildings, vehicles, equipment and in technology.

The city manages resources for the community in a thoughtful and effective way. However, our responsibility is about more than sound financial management of public resources. Ultimately, the budget—how we spend the people's money—is about helping people thrive in Norfolk, helping them have the best quality of life possible. Norfolk has an outstanding quality of life thanks to long-standing partnerships among the community, our elected leaders, and city staff. Sustaining and even elevating that quality of life requires innovative ways to approach

challenges. The Adopted FY 2019 Budget embodies new approaches to allocating our constrained resources to ever-growing needs.

General Fund Operating Budget Amendments

Prior to the third budget work session we identified an additional \$50,000 in interest income and \$113,000 in audit contract savings. During the third work session, City Council chose to increase the bed tax by \$1 and increase the cigarette tax by 10 cents. These resources support the City Council directives outlined below.

Council Directives

Outside Agencies: The restoration of the five percent funding decrease proposed for outside agencies including Festevents. A total of \$916,646 is restored, which maintains a cut of \$25,000 to citywide marketing initiatives.

Fire-Rescue: The restoration of the proposed reductions to firefighter stipends and the restoration of two specialized firefighter positions that were eliminated in the proposed budget.

Norfolk Emerging Leaders (NEL) program: Restores \$154,365 to the Recreation, Parks, and Open Space (RPOS) budget for the Norfolk Emerging Leaders (NEL) program. These funds will restore funding to 80 NEL positions for a total of 272 NEL positions in FY 2019.

Arts Manager position: Restores \$72,397 to the Cultural Facilities, Arts and Entertainment budget to continue support for the Arts Manager position.

Campostella and Merrimack Station Recreation Centers: Restores \$65,000 to the RPOS budget to continue year-round programming at Campostella and Merrimack Recreation Centers.

Grandy Village Recreation Center: Restores \$40,000 to the RPOS budget to continue current operations and programming at the Grandy Village Recreation Center.

Officer of Election pay: An ongoing increase to the Office of Elections budget of \$38,640 to support a pay increase for Officers of Election who volunteer to serve at the polls on Election Day. These funds will increase the pay for over 400 Officers of Election.

Residential Driveway right-of-way fee: The reduction of the proposed increase to the residential driveway permit. The fee will increase by only \$15 instead of the proposed \$85. The \$15 increase reflects the administrative processing fee that will be added to all right of way permit fees.

Computer Resource Centers: The restoration of \$30,000 to prevent the closing of Diggs Town and Oak Leaf Computer Resource Centers. Also, \$15,000 to expand programming provided at the computer resource centers, which may include the support of SOL students that are not receiving after-school assistance.

Festevents Ocean View programming: Provides \$25,000 to Norfolk Festevents for programming in Ocean View.

Planning Fees: A reduction in proposed planning fees for Zoning/Conditional Rezoning and Text Amendment fees to better align with the region. This will affect an average of 47 permits annually, for a total reduction in proposed revenues of \$11,000.

Legal Aid Society of Virginia: An ongoing increase to the Legal Aid Society of Southeast Virginia of \$1,600 for general operation support. These funds will support additional low-income families seeking legal aid.

General Fund Operating Technical Adjustments

We also have a number of General Fund operating technical adjustments to the Proposed FY 2019 Budget that are required. These technical adjustments are outlined below.

Tax Increment Financing Fund - The Proposed FY 2019 Budget reflected dissolving the Tax Increment Financing (TIF) Fund on June 30, 2018. The debt service on the Housing and Urban Development (HUD) refunding bonds and real estate tax revenue were included in the Proposed FY 2019 General Fund Budget. However, the city's bond counsel ruled that since TIF revenues are pledged to pay the debt service, the TIF Fund cannot be dissolved until the debt has been paid off in FY 2024. The Adopted FY 2019 Budget restores the TIF Fund budget which includes the debt service expense and transfer of excess revenues to the General Fund. On the General Fund side, this will result in a removing the real estate tax revenue of approximately \$5.9 million and restoring the transfer to the General Fund from the TIF Fund of approximately \$4.3 million, for a net decrease of approximately \$1.6 million to General Fund revenues. There is a corresponding \$1.6 million transfer back of the debt service expenditures to the TIF Fund.

Norfolk Public Schools (NPS) Other Revenue – While the Education section of the Budget (pages 327 – 345) accurately depicts the Proposed Norfolk Public Schools Operating Budget, the number that was used in the Proposed General Fund Expenditure Summary for Public School Education (page 88) did not reflect NPS' proposed reduction of \$602,951 in Other Revenue. This revenue category is for miscellaneous local funds received from sources other than the city's General Fund such as tuition, fees, surplus sales, building rentals, and other small revenue items. This technical adjustment will not impact local or state revenue to NPS but will reduce the total General Fund Budget by \$602,951.

Ocean View Senior Center Funds – The Proposed FY 2019 Budget transferred \$75,000 from RPOS to Prime Plus in the Outside Agency section of the budget. The funds for Prime Plus were to be used to relocate and provide programming for the Ocean View Seniors that will be displaced when the Senior Center is closed. Subsequent to the budget proposal it was decided that the Ocean View Seniors would move into the East Ocean View Recreation Center and RPOS would continue to provide programming. As a result, this transfer is no longer necessary.

Norfolk Public Schools (NPS) Revenue Sharing Formula – Based on the Proposed FY 2019 Budget, the revenue sharing formula calculation resulted in a constant 29.2 percent share of non-dedicated local tax revenues. As a result of the amendments to the proposed budget, the revenue sharing formula calculation would result in a constant 29.55 percent share of non-dedicated local tax revenues. The amendments include the \$1.00 increase to the bed tax and removing the real estate tax revenue associated with the Tax Increment Financing Fund. This adjustment will not result in additional funding for NPS, rather it accurately sets the constant share percentage to match the FY 2019 Budget.

Table 1 below outlines the impact of the City Council budget amendments and the technical changes to the General Fund Budget:

Table 1:**General Fund Revenue Amendments**

Adjustments	Type	Amount
Raise Bed Tax \$1.00	Council Directive	\$1,000,000
Raise Cigarette Tax 10 cents	Council Directive	\$520,000
Reforecast Interest Income	Council Directive	\$50,000
Decrease Zoning/Conditional Rezoning and Text Amendment fee increase	Council Directive	(\$11,000)
Eliminate residential driveway right-of-way fee increase	Council Directive	(\$32,550)
Reduce NPS Other Revenue	Technical Adjustment	(\$602,951)
Reduce Revenue (no TIF dissolution)	Technical Adjustment	(\$1,601,535)
Amended General Fund Revenues		(\$678,036)

General Fund Expense Amendments

Adjustments	Type	Amount
Restore funding to outside agency partners	Council Directive	\$916,646
Restore Fire-Rescue stipends	Council Directive	\$200,500
Restore reduction to NEL program	Council Directive	\$154,365
Restore Fire-Rescue specialty positions	Council Directive	\$82,208
Restore Arts Manager position	Council Directive	\$72,397
Restore year-round hours at Campostella and Merrimack recreation centers	Council Directive	\$65,131
Restore Funding for Grandy Village recreation center	Council Directive	\$40,000
Increase Officer of Election pay	Council Directive	\$38,640
Restore Funding for computer resource centers	Council Directive	\$30,000
Fund Festevents Ocean View programming	Council Directive	\$25,000
Increase programming at computer resource centers	Council Directive	\$15,000
Increase funding for Legal Aid Society of Virginia	Council Directive	\$1,600
Refine Compensation increase costs	Council Directive	(\$2,037)
Contract Savings - Outside Audit	Council Directive	(\$113,000)
RPOS Funding - senior programming at EOV Recreation Center	Technical Adjustment	\$75,000
Outside Agency Funding - PrimePlus	Technical Adjustment	(\$75,000)
Reduce NPS Expenditures	Technical Adjustment	(\$602,951)
Reduce Debt Services expenses (no TIF dissolution)	Technical Adjustment	(\$1,601,535)
Amended General Fund Expenditures		(\$678,036)

At the third work session City Council also decided to place all proposed Parking Fund rate increases on hold pending the recommendations of a third-party consultant's report. This amendment prompted changes to the Parking Fund's operating budget and to the Parking Capital Improvement Plan (CIP). These amendments are outlined below in the Parking Fund Budget Amendments section.

Parking Fund Budget Amendments

Parking Revenues: Total Parking Fund revenue will be reduced by \$1,415,017 from the Proposed FY 2019 Budget. Revenue from Operating Transfers In, (use of cash savings to fund operations) will increase while operating revenue will decrease.

Parking Expenditures: Total Parking Fund expenses will also be reduced by \$1,415,017 from the Proposed FY 2019 Budget.

Table 2 below details the Parking Fund operation amendments described above.

Table 2 **Parking Fund Operating Amendments**

Revenue Description	Amount
Decals – Residential Parking	(\$80,000)
Fines and parking violations	(\$507,300)
Short term parking	(\$927,000)
Long term parking	(\$948,000)
On Street parking	(\$220,000)
Cruise Ship Revenue	(\$50,000)
Recreational Parking	(\$620,000)
Parking discount stamps	(\$60,000)
City short term parking	(\$33,000)
Rollover from previous year	\$2,030,283
Total Revenue Amendments	(\$1,415,017)
Expenditure Description	Amount
Transfer to CIP	\$1,000,000
Reserve for abatement funds	(\$2,415,017)
Total Expenditure Amendments	(\$1,415,017)

Parking CIP: The Proposed FY 2019 – FY 2023 Parking Fund CIP included projects that would have been supported by the proposed increase in parking rates. As a result of placing the rate increases on hold pending the recommendations of a third-party consultant's report, the Parking Fund CIP will be amended. The amendments to the Parking Fund CIP are outlined in Table 3 below:

Table 3 **Proposed FY 2019 – FY 2023 Parking CIP**

Project	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Improve Parking Customer Experience	\$9,000,000	\$0	\$0	\$0	\$0
Improve Parking Technology Infrastructure	\$2,000,000	\$2,000,000	\$1,000,000	\$0	\$0
Maintain Parking Facilities	\$1,900,000	\$1,900,000	\$2,900,000	\$2,900,000	\$2,900,000
Rehabilitate Parking Garages	\$0	\$0	\$3,000,000	\$0	\$0
Totals	\$12,900,000	\$3,900,000	\$6,900,000	\$2,900,000	\$2,900,000

Amended FY 2019 – FY 2023 Parking CIP

Project	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Improve Parking Customer Experience	\$7,000,000	\$0	\$0	\$0	\$0
Improve Parking Technology Infrastructure	\$0	\$0	\$0	\$0	\$0
Maintain Parking Facilities	\$2,900,000	\$2,900,000	\$2,900,000	\$2,900,000	\$2,900,000
Rehabilitate Parking Garages	\$0	\$0	\$0	\$0	\$0
Totals	\$9,900,000	\$2,900,000	\$2,900,000	\$2,900,000	\$2,900,000

There are two Capital Improvement Plan technical adjustments to the Proposed FY 2019 Budget that are required. These technical adjustments are outlined below in the Capital Technical Adjustments section.

Capital Technical Adjustments

Fund Chrysler Hall Major Upgrades – The project was funded in the Proposed FY 2019 CIP at a total of \$40 million over five years; \$13.5 million in FY 2020 and FY 2021 and \$13 million in FY 2022. This project will be financed with a combination of bonds, historic tax credits, and philanthropic donations. Subsequent to the budget proposal, it was determined that in order to quickly apply for tax credits the city would need to complete 35 percent construction drawings. As a result, this technical adjustment shifts \$6 million of funding forward into FY 2019 to immediately begin the architectural and engineering work. The total funding for the project will not change, just the timing. Table 4 below outlines the adjustment.

Table 4 Chrysler Hall Major Upgrades – Change in Five-Year Plan

Description	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Five-Year Total
Proposed	\$0	\$13,500,000	\$13,500,000	\$13,000,000	\$0	\$40,000,000
Amended	\$6,000,000	\$11,500,000	\$11,500,000	\$11,000,000	\$0	\$40,000,000
Change	\$6,000,000	\$(2,000,000)	\$(2,000,000)	\$(2,000,000)	\$0	\$0

Change to Reappropriation of Previous Authorizations - Reappropriation of previously authorized and unspent CIP funds (top right of page 442 in the Proposed FY 2019 Budget) allows new capital projects to be funded with bond authorization from previously approved projects that:

- are completed and have unspent funding, or
- have never begun because priorities have changed or the project could not be completed as funded.

The Proposed FY 2019 CIP included a total reappropriation of \$3,192,409. This amount included \$1,500,000 from the project "Support Career and Technical Education." Subsequent to the budget proposal it was determined that this project should not be closed and the funding reappropriated. As a result, the reappropriation of previous authorizations will decrease by \$1,500,000 million to \$1,692,409. In order to offset this reduction, bond authorization will increase by a corresponding amount.

Next Steps

As we move forward, the Administration will continue to partner with resident and businesses to revitalize neighborhoods in a collaborative, connected, competitive, and creative way. This bold budget represents a significant step in our journey toward building a great city of the 21st Century. We look forward to working with you and the residents to implement the many initiatives supported by the Adopted FY 2019 Budget.

It is my pleasure to present to you the City of Norfolk's Adopted FY 2019 Budget.

Sincerely,

A handwritten signature in blue ink that reads "Douglas L. Smith". The signature is fluid and cursive, with "Douglas" on the first line and "L. Smith" on the second line.

Douglas L. Smith
City Manager

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April 3, 2018

Honorable Mayor and City Council,

I respectfully submit to you the Proposed Fiscal Year (FY) 2019 Financial Plan for the City of Norfolk, which comprises the General Fund, enterprise funds, special revenue funds, internal service funds, Capital Improvement Plan (CIP), and the Annual Plan for Housing and Urban Development (HUD) Block Grant programs.

A summary of the Proposed Financial Plan is shown in the table below:

Proposed FY 2019 Financial Plan	
Fund	Proposed Budget
General Fund	\$881,466,462
Enterprise Funds	\$147,075,895
Special Revenue Funds	\$54,457,685
Internal Service Funds	\$103,941,204
Total Operating Funds	\$1,186,941,246
Capital Improvement Plan	\$109,039,271
Total Operating and Capital Funds	\$1,295,980,517
Annual Plan for HUD Block Grants	\$5,841,730
Total Financial Plan	\$1,301,822,247

Last year, the theme of my proposed budget was building on the city's momentum. We listened and heard what you have told us these past 16 months since I joined Team Norfolk. Your priorities are embedded and reflected in this budget proposal. The FY 2019 Financial Plan builds on the work we have accomplished together and funds the Council's and community's priorities of investing in neighborhoods, housing, public safety, education, and resilience. The budget before you funds solutions to Norfolk's challenges.

The City of Norfolk is not the city it was 30, 20, or even 10 years ago. During his State of the City address, the Mayor challenged everyone to re-imagine Norfolk. He said, "New opportunities will reshape and define us for years to come. But our progress as a city will ultimately be determined by our ability to think anew, to dare to dream, and to re-imagine this old seaport city as the coastal community of the future, the hub of economic development, and the connector and strength of the region. Leaders before us made bold decisions that gave us security and momentum that transformed our city. Now it is our time to be bold and courageous, and re-imagine Norfolk." This proposed budget is bold.

The city manages resources for the community in a thoughtful and effective way. However, our responsibility is about more than sound financial management of public resources. Ultimately, the budget—how we spend the people's money—is about helping people thrive in Norfolk, helping them have the best quality of life possible. Norfolk has an outstanding quality of life thanks to long-standing partnerships among the community, our elected

leaders, and city staff. Sustaining and even elevating that quality of life requires innovative ways to approach challenges. My Proposed FY 2019 Budget embodies new approaches to allocating our constrained resources to ever-growing needs.

The Proposed FY 2019 Budget is based on our economic reality. It reflects cuts that were participatory and thoughtful, while continuing to fund the Council's priorities. Economic challenges require new, community-supported solutions if we are to continue improving our quality of life. We are taking on big, bold challenges that include making investments in inclusive economic growth, infrastructure, and catching up on deferred maintenance of our buildings, vehicles, equipment and in technology. Investment in maintenance and technology was deferred during the recession and funding has never returned to an adequate level. The Proposed Financial Plan invests more than half-a-billion dollars over the next five years on capital projects that support your priorities: education, neighborhoods, infrastructure, and resilience.

The Proposed FY 2019 General Fund Budget is \$881.5 million. It is 2.8 percent, or \$24.2 million, more than last fiscal year. The overall 2019 spending plan is \$1.3 billion. The budget proposal I recommend to you changes our approach to debt, investment and maintenance; enabling you to address the challenges we face in bold, meaningful ways. The Proposed FY 2019 Budget:

- Provides additional ongoing support for Norfolk Public Schools and establishes a revenue sharing formula;
- Invests in coastal, economic, and neighborhood resilience;
- Invests in technology, vehicles, and equipment;
- Provides salary increases for employees;
- Provides a two percent supplement for retirees;
- Reduces waste management fees;
- Increases fees to cover more of the cost of providing various services;
- Increases the real estate tax rate by ten cents;
- Closes underutilized facilities;
- Reorganizes staffing citywide; and
- Stabilizes the Parking Fund.

This budget message provides you and our community with a breakdown of the components of the budget; the national, regional, and local economic context that constrain our financial capacity; an explanation of the process we used to develop this proposal; and the guiding principles that shaped our thinking.

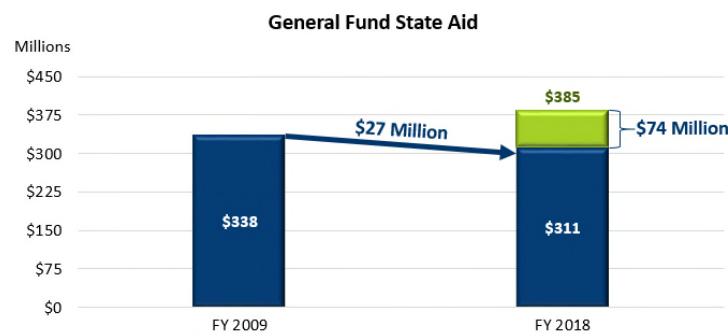
Economic Backdrop – How the Economy, State, and Federal Resources Impact our Budget

While, the city has seen targeted investment from new companies and developments, the state, regional, and local economy have not significantly expanded. Hampton Roads did not see as large of a decline in economic activity from the 2007 Great Recession as other communities. However, the region has recovered more slowly than most of the country. Norfolk experienced significant job loss between 2001 and 2014; most of this job loss is related to the recession and sequestration. In fact, Hampton Roads' civilian payroll employment is still below the pre-recession high. While job growth in Norfolk is anticipated to increase, the state and nation are projected to grow faster.

The city continues to have the highest average compensation in the region. However, the City of Norfolk has the highest number of low income census tracts in the Commonwealth of Virginia. Furthermore, the industries which are growing tend to have lower wages than the industries in which the city is losing jobs. Moving forward, the city will change its economic development model from a traditional model of a project focused place making strategy, to an inclusive economic growth model that raises the level of resilience for individuals, families, and neighborhoods.

State Aid

Support from the Commonwealth of Virginia is a significant portion of the annual budget, but support has not kept pace with inflation and demand. State aid decreased over the past 10 years by \$27 million. When adjusted for inflation, this decrease is more than \$74 million. The decline in state aid impacts funding for our priorities. Specifically, from FY 2009 to FY 2018, state aid for education decreased by \$23.9 million, or 11 percent. State aid for public safety decreased by \$1.8 million, or 13 percent. While the state reduced aid, the cost to provide these services continued to increase leaving Norfolk taxpayers to cover a larger portion education and public safety costs.



The city's Proposed FY 2019 Budget is based on Governor McAuliffe's December 2017 Introduced Budget. Typically, the city's Proposed Financial Plan is presented after the General Assembly has adopted a budget and reflect the actions of the House and Senate. The General Assembly was not able to adopt a spending plan before adjourning in March. The main point of contention was whether to expand Medicaid. The General Assembly has until the end of the current fiscal year, June 30, to adopt a budget. A budget is likely to be passed before June 30, as they will not want a government shutdown that would put the Commonwealth's bond rating at risk, adversely impact local government and school budgets, and interrupt state services. The General Assembly will return to Richmond on April 11, for the legislature to continue budget negotiations.

Federal Support

Federal support is often tied to specific programs and services such as funding for education or human services programs. The uncertainty of funding at the federal level continues to persist. In all but four of the last 40 years,

Congress passed continuing resolutions to keep federal agencies running between budgets. Without appropriations or continuing resolutions, the government may partially shut down. All appropriations bills are supposed to be signed by the President by October 1, but this rarely happens. Continuing resolutions, possible shutdown, or both, create uncertainty for the overall economy, create delays in federal contracts and grants, and delays hiring. With large federal assets in Norfolk and the region, the inability of the federal government to pass a budget creates a negative spillover effect to the regional and state economy. Thus far, in the 2018 federal fiscal year, the federal government passed four continuing resolutions and in January 2018, the federal government partially shut down for three days due to the lapse in appropriations. Six months into the 2018 federal fiscal year, Congress and the President agreed to a 2018 budget. Due to the uncertainty of future federal expenditures, the city cannot rely on federal support to provide resources to solve our biggest challenges.

Local Economy and Revenues

While Norfolk has experienced momentous growth by bringing nearly 6,000 new jobs between 2016 and 2018, much of the direct economic impact provided by the companies is remitted directly to the state through income taxes. The city is limited in its ability to raise local revenue. The city is only allowed to tax or implement fees if it is specifically allowed by either the City's Charter or by State Code. General property taxes are the largest source of locally generated revenue and are comprised mainly of real estate, personal property, and machinery and tools taxes.

The real estate tax is the largest single source of local revenue for the city. In FY 2018, 37 percent of all real estate in Norfolk is nontaxable. According to the Virginia Department of Taxation, Norfolk's revenue loss from nontaxable properties is the highest among all of Virginia's cities. As real estate assessments grew rapidly during the real estate bubble of the mid 2000's, Norfolk, like many other localities, lowered its real estate tax from \$1.40 to \$1.11. What we did not know is that the worst recession since the Great Depression was right around the corner. Over the past 10 years, real estate assessments have grown only 0.4 percent per year. This is a much slower rate of growth than the four to five percent growth we have averaged over the last 20 to 30 years. Slower real estate growth is the new normal. The slow growth of our largest local source of revenue has put stress on the city's ability to deliver services. In FY 2019, the City Real Estate Assessor projects assessment growth of about 2.5 percent.



Short-term Decisions Have Become Our Reality

As the city emerged from the Great Recession and entered its period of constrained revenue growth the city:

- Deferred maintenance on our city facilities and roads;
- Slowed the rate of replacement of technology and vehicles; and
- Relied on debt to pay some costs that would typically be part of the operating budget.

These decisions reflected the city's new financial reality and mirrored decisions that many other municipalities across the country made to make ends meet. The belief was, revenue growth would return to normal and the city would be able to slowly unwind many of these short-term decisions. The reality is, that has not happened as quickly as we hoped. The regional economy has not significantly improved, state aid has decreased, and local real estate growth has not returned to pre-recession levels.

Aging Infrastructure, Technology, and Equipment

The City of Norfolk is one of Virginia's oldest cities and much of our infrastructure reflects our age. For example:

- We have water pipes that predate World War I;
- Our oldest building is the Willoughby-Baylor House which was built in 1794;
- The average age of city buildings is 40 years;
- Our oldest parking deck is more than 50 years old;
- Our oldest vehicle is a 1986 Dodge Van which was placed in service 32 years ago (and it is still in use);
- The average age of the fleet is over 10 years old;
- We are using computers with outdated software that are no longer vendor supported; and
- Over half of our roadways, 946 of 1,786 lane miles, need major repair or replacement.



While the city delayed projects that are necessary to maintain Norfolk's quality of life, the cost of managing the city continued to increase. Our infrastructure, technology, and equipment has continued to age without adequate resources to address this challenge. As a result, much of our infrastructure has outlived its useful life resulting in higher costs and operational inefficiencies.

Debt Service – Paying Back What We Borrowed

While the city deferred maintenance, it invested in large generational projects. Some investments were designed to grow the city's economic base. All projects were financed largely from the issuance of debt that is repaid over time. Large city investments are supported in the city's Capital Improvement Program (CIP). Debt service refers to the scheduled payments of principal and interest on the city's previously issued General Obligation (G.O.) bonds and any new debt service resulting from a future planned issuance of bonds to finance approved capital projects. G.O. bonds are backed by the full faith and credit of the city, meaning the city commits its full taxing authority to paying bondholders.

As we made generational investments across the city from FY 2007 to FY 2017, the city's general CIP totaled more than \$1.1 billion. This equates to an average of nearly \$100 million in investment per fiscal year on the city's already moderate to high debt burden. In addition to the typical \$30 to \$40 million of annual maintenance needs, the city has funded several notable generational investments such as the Decker Half Moone Center, Light Rail, and the Slover Library. Over the past ten years, the city has invested \$158 million to construct six new schools. The single largest investment in a municipal building was the Consolidated Courts Complex. The \$122.7 million project was warranted to

head off impending legal action from Norfolk's judges. The second and final phase of the project opened in February, which completed the consolidation the Circuit Court, General District Court, and Juvenile and Domestic Relations Court in one location.

Despite the investment in generational projects over the past decade, the city's debt service budget decreased by more than \$20 million from FY 2012 to FY 2016. With the expectation of improved post-recession economic conditions, and to mitigate budgetary pressures of several generational projects opening simultaneously, the city strategically delayed principal payments on some of the new projects and actively managed its debt by spreading the issuance of bonds over several years. While these financing strategies provided financial relief during the years following the recession, they will also result in higher debt service costs as principal payments begin. As a result, annual debt service is projected to increase by \$15.8 million over the next two years and by \$19.8 million over the next five years.

In the years to come, as we balance the borrowing of the past and the essential investment needs of Norfolk's future, it is

imperative that we ensure that the cost of borrowing does not increasingly crowd out the resources available to provide new or expanded services to our residents. As a result, the city transitioned to a maintenance CIP in FY 2018. A maintenance CIP limits large new projects and instead concentrates on keeping our existing capital infrastructure in good working order. The Proposed FY 2019 – FY 2023 General CIP continues this period of a maintenance-focused CIP.

Impact of Salary Increases

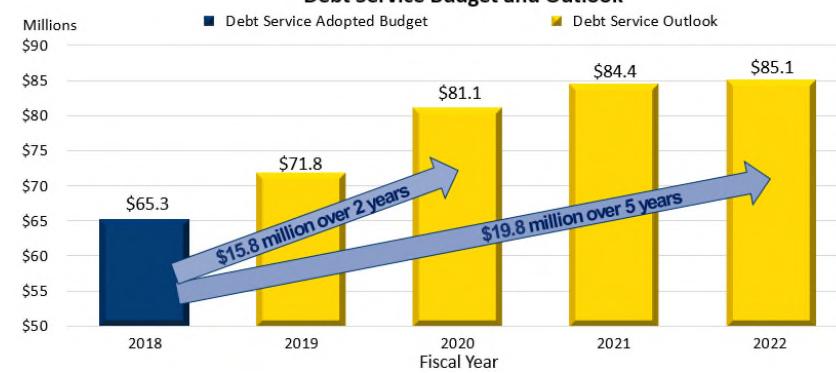
The work of the city would not occur without the dedicated support of our employees, Team Norfolk. While the overall General Fund budget grew by 3.6 percent or about \$30 million over the last ten years, total personnel costs have increased by nearly \$53 million due to rising salary, retirement, and healthcare costs.

In FY 2015, the city introduced Attraction, Retention, Motivation, and Development (ARMD), a phased compensation initiative to attract and retain high quality employees to provide high quality services. This included a living wage for all permanent employees, a regionally competitive pay plan for sworn Police and Fire-Rescue, and annual market rate adjustments for job classifications that are regionally out of market. Having a high-quality workforce is critical to achieving our goals. The four-year program has added more than \$22 million in ongoing costs since its inception.

Budget Challenges = \$13.3 Million Budget Gap

As we reported to City Council at the fall retreat, the city was facing a deficit as we began budget development. The challenges of a sluggish regional economy, reduced state aid, anemic real estate growth, and rising debt service costs resulted in an initial base budget gap of \$13.3 million for FY 2019. The base budget does not include:

- Additional funding for Norfolk Public Schools;



- Salary increases for city employees; or
- The addition of any new programs or services.

This is a larger base budget gap than in recent years. Balancing the budget would require difficult decisions.

Balancing the FY 2019 Base Budget

We do not have enough revenue to continue doing business as we have done in the past. The first step in balancing the FY 2019 base budget was developing the guiding principles we would use to make those tough choices.

Inclusive and Transparent Budget Process

Establishing an inclusive and transparent budget process was the first and most important principle of developing this year's budget. Engaging with our residents and employees early and often, allows the city to align resources with our community priorities. The city began community conversations on the budget earlier than prior years. In the fall, we asked residents and city staff - "how would you solve the budget gap?" Residents and employees prioritized spending, raised revenues to support their priorities, and reduced services. In total, more than 130 people attended these workshops. The city also introduced two interactive webtools, A Balancing Act and Taxpayer Receipt. To date, more than 1,000 interactive web users explored these tools and over 145 individuals have submitted their budget priorities. When asked about the single biggest issue facing the city over the next few years, the participants highlighted education, flooding/sea level rise, infrastructure, poverty, neighborhoods, and public safety and crime.



We have communicated our challenges early and often, including having budget discussions during your retreats. Through a series of budget vignettes, we discussed revenues, infrastructure, personnel costs, support for our outside agency partners, and summarized our challenges that framed this year's budget deliberations.

We also created a new, more inclusive process among Department Heads for operating and capital budget decisions. In January, we formed two committees: the Operating Budget Committee and the Capital Budget Committee. Each committee held several meetings over the course of the last few months, to review the city's needs and come up with collaborative, creative solutions to balance the budget and still enable the city to maintain its core services. The operating committee requested budget gap reduction strategies that can be met with either revenue increases or expenditure cuts. All executive departments, except Police and Fire-Rescue, were given a gap reduction target of 5.5 percent. Council Appointees and Constitutional Officers were asked to meet a two percent target. Limited resources require difficult choices. While the city strived to avoid any reductions to public safety, the gap was too large to hold them harmless, and they received a two percent target. In prior years, across the board cuts were implemented without this collaborative process. Each budget strategy was reviewed by the committees with the City Council's priorities in mind.

Department Budget Strategies

The Proposed FY 2019 Budget is based in our economic reality and includes participatory and thoughtful reductions, while continuing to fund the Council's priorities. Department budget strategies total **\$15.9 million**. Of which, **\$12.9 million** in savings is provided through reduction strategies and **\$3.0 million** is provided through fee.

Through our operating committee, the city established guiding principles for evaluating expenditures and fees. The guiding principles for expenditures include:

- Delivering the right services, at the right cost;
- Providing excellent core services;
- Investing in technology to meet resident expectations;
- Closing underutilized facilities and duplicative programs; and
- Identifying savings opportunities through a collaborative, inclusive process.

To evaluate our current expenditures and analyze how the city conducts our business, we created a comprehensive program catalog. Each department made a list of their programs and identified related revenues, expenditures, and full time equivalent positions. This allowed us to consider the cost-benefit of all city programs and clarify trade-offs between different spending options. This tool will continue to be refined as the city works with the community to consider the services we provide.

Expenditure Reductions

Through our expenditure guiding principles, the city will become more efficient and cost effective. We are aligning spending with historical trends in Human Services, reducing our custodial services by targeting our spending to the highest traffic areas, and closing underutilized facilities. Through the analysis and recommendation of these facility closures, the city evaluated proximity to other city assets that provide a similar service. Based on limited usage, the Oakleaf and Diggs Town Resource centers are proposed to be closed in this budget. The nine to 12 residents who use these facilities daily will be redirected to the Campostella Heights Resource Center. The budget also proposes to close Jordan-Newby library, in anticipation of the new Broad Creek Library less than a mile away. The new Broad Creek library will provide a higher level of service to the surrounding community.



Diggs Town Resource Center

I am also recommending the closure of two group homes. The Hartwick and Bayview group homes serve a total of six people with developmental disabilities. The group homes are staff intensive with 18 filled positions to provide the necessary around the clock care. The current occupants will be rehoused in privately owned group homes. Closure of the group homes requires approval from the Virginia Department of Behavioral Health and Development Services. The city will work with the state to find new housing for the occupants and acceptable reuse options for the properties.

Personnel Impact

As noted above, expenditure reductions total nearly \$13 million. At this level of reduction, impacting personnel is unavoidable. Personnel costs make up about 74 percent of the city department's operating budgets. The reduction strategies we used to close the base budget gap include the reduction of 82 permanent positions; 45 of which are currently filled and will be part of a reduction in force or RIF. The position reductions were tied to changes in programs and services and efficiency initiatives.

We are working with every one of the affected employees, helping them to find a new position within the city. I am proud that Norfolk has a good track record of placing people when they are impacted by a RIF, and I believe we can continue to achieve a good record.

We are further reducing the total number of permanent positions citywide by eliminating those positions that have no funding attached to them. Many city departments have more approved positions than can fund. As a result, it may appear that a department had more resources than it actually did to carry out city programs and services. This budget realigns personnel funding with approved positions to accurately reflect available personnel resources. This action results in a reduction of an additional 107 vacant positions for a total reduction of 189 positions.

Impact to Our Arts and Culture Partners

The city values our partnerships with outside agencies and organizations that contribute to the economic health and vibrancy of our city. As the city requested budget strategies from our departments to support our financial challenges; the proposed budget recommends a five percent cut to our partners. The five percent reduction results in over a \$900,000 savings.



Fee Increases

Our operating committee also established guiding principles for evaluating fees. Permits and fees are only charged to those who use the service. During the budget development process, we analyzed the cost to provide the service versus the fee we charge the user. Norfolk's fees should meet the following guiding principles:

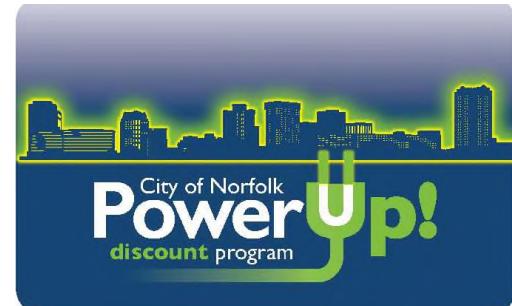
- Structure fees to provide lower costs to residents who can least afford them;
- Charge a fee to recoup costs for any service also provided by the private or nonprofit sector;
- Charge a fee to recoup costs for any optional service;
- Charge a fee to recoup costs for any service where the recipient of the service will be generating money by the receipt of the service; and
- Charge a fee for any service that has more demand than the city can provide.

For many fees, the amount charged is less than the cost to provide the service. As the cost of providing services has increased, we have not increased the fees. Our taxpayers are subsidizing these services. We analyzed our fees through our guiding principles and made adjustments that resulted in a \$3.0 million increase in revenue. The proposed budget includes an increase to fees where the user hopes to generate a profit from the service, such as certain planning fees.

This proposed budget also increases fees for services that are provided by a private or nonprofit entity, and fees for discretionary services. We are increasing the fee for before and after school care from \$20 to \$40 per week. Even with the increase, our before and after school care is still \$45 less than a comparable program from a nonprofit. We are also increasing fees for discretionary programs such as recreation, library printing, and Zoo admissions. Norfolk's recreation fees are below market. Fees in neighboring communities are on average 455 percent more for a children's yearly pass and 156 percent more for an adult's yearly pass. We are increasing Zoo admissions by \$1 dollar for Norfolk residents and \$3 for all other visitors.



In order to insure low income residents are protected from increased fees, the proposed budget creates a new program through Human Services, *PowerUP! Norfolk!* The program will provide a discount card for our residents who qualify for certain social services. City services, such as before and after school care that are essential for working families would be provided at discounted rates. The card will also allow for reduced admission fees to city-owned venues such as the Norfolk Zoo and Nauticus provide families who qualify for public assistance the same access and opportunities that youth from middle to upper income families experience regularly.



The \$3 million in fee increases and the \$12.9 million in reductions enabled us to balance the FY 2019 base budget. We balanced the base budget through a comprehensive look at our programs and service delivery models. We balanced the budget without utilizing our reserves. The base budget has fewer positions and it does not provide salary increase to our employees. The base budget level funds schools at the FY 2018 level. The base budget allows the city to provide most of the same services. The base budget does not address our challenges. The base budget is not bold. The base budget does not reflect the city we want to be.

Reimagining Our Future by Confronting Our Challenges

At its core a city's budget reflects a community's dreams, aspirations, and values. Over the last 16 months, I have listened and heard what you told us about your priorities. You want to be bold. You want to address the city's challenges. Last year, I shared my goal to make us more efficient and effective. As a result, we committed to developing a comprehensive technology replacement strategy, developing a school funding formula, and creating a cultural facilities investment plan. I am happy to report that while we have made progress on those items the city has maximized our available resources to move those and new projects forward. At the Council Retreat, City Council prioritized education, neighborhoods, public safety, and made it clear that reducing poverty would be the most impactful and effective way to create a resilient Norfolk. The Proposed FY 2019 Budget funds these investments. New investments require new revenues. The Proposed FY 2019 Budget includes a **10-cent real estate tax rate increase**. The ten cents will add \$18.5 million in resources to our budget and provides a way forward to fund City Council and resident priorities.

New Investments Require New Revenue – Real Estate Tax Increase		
Policy Initiative	Investments	Real Estate Tax Increase
St. Paul's People First and Redevelopment Initiatives	\$3,500,000	1.90 Cents
No Budget Reduction for Norfolk Police Department	\$1,200,000	0.65 Cents
Norfolk Public Schools	\$5,000,000	2.70 Cents
Resilience Initiatives	\$1,850,000	1.00 Cent
Technology, Vehicles, and Equipment	\$3,864,000	2.08 Cents
Employee Salary Increases	\$3,086,000	1.67 Cents
Total	\$18,500,000	10.00 Cents

Great Cities Solve Big Problems

St. Paul's People First and Redevelopment Initiatives

1.90 cents = \$3.5 million

Norfolk's residents are our most valuable asset. This budget recognizes that people come first. New resources allow us to work alongside residents to create economic outcomes through improved education, employment, and training opportunities.

The St. Paul's initiative will transform an area with high, mixed-use community. A revitalized St. Paul's area provides a chance to demonstrate what inclusive economic development really means and will benefit the entire city. This neighborhood will be one where families and residents can live, learn, work, play, and thrive.

While the St. Paul's area borders Norfolk's key activity centers – Downtown, the Arts District, Harbor Park, and Norfolk State University, the area faces significant neighborhood, economic, and coastal resilience challenges.

St. Paul's covers 230 acres of land with 4,200 residents whose annual median family income is only \$12,000. St. Paul's currently has three large public housing developments containing 1,680 units. The buildings were built more than 50 years ago and now functionally obsolete, and rely on declining federal funding for maintenance. More than 2,200 of the residents living in these units are children. The two public elementary schools serving the neighborhood do not meet state education standards. The area faces the additional challenge of frequent flooding. In 2017, the City Council announced that this neighborhood was a priority for action.

From August to October 2017, more than a dozen community meetings were held with residents and stakeholders to gather input on the future of the neighborhood and the services and programs needed for family success. The City and Norfolk Redevelopment Housing Authority (NRHA) immediately began to implement short-term supportive services and took actions to respond to resident requests to upgrade lighting in Tidewater Gardens and Calvert Square and improve relationships with police. The City's long-term strategy is to implement *People First*, a comprehensive program that increases self-sufficiency, financial independence, new housing choices, and successful outcomes for families living in the St. Paul's area. **With 1.9 cents of the tax increase, the city will provide \$3 million for the *People First* initiative and \$500,000 to support initial phases of project development.**



The city will also prioritize \$500,000 in Community Development Block Grant funds for infrastructure improvements within the community. The investment in the people of St. Paul's and in the physical environment will be a multi-year process. Cities have the unique ability to pull partners around the table, to solve challenges together. We will need support from our private, philanthropic, nonprofit partners, all levels of government, and residents to transform this community. The city is committed. Additionally, we are investing \$14 million over the next five years in CIP funds for demolition and disposition to begin this work.

Great Cities Have Great Public Safety

The tax increase supports the Norfolk Police Department (NPD), 0.65 cents of the increase or \$1.2 million will restore the Police

Department's reduction to the budget.



Without the tax increase, we would need to evaluate restructuring NPD's budget through either revenue or expenditure strategies. The city would have to consider charging for a bike license and increasing fees for accident reports, criminal record checks, fingerprinting, incident and offense reports, taxi permits, and pedicabs. We would evaluate reductions in special duty pays. We would also need to evaluate reducing a Police Academy's size or postponing one or more of the academies, which would lead to fewer officers in our neighborhoods.

No Budget Reduction for Norfolk

Police Department

0.65 cents = \$1.2 million

Great Cities Have Great Schools

Norfolk Public Schools

2.7 cents = \$5.0 million

We are building a great city, and a great city has a great school system. The single largest item in the city's budget is our support for Norfolk Public Schools. While state resources have declined due to the recession and decreased enrollment, the city has maintained

and increased our support to schools. From 2009 to 2018, state aid to Norfolk Public Schools has decreased by \$23.9 million. During that same period, ongoing city support has increased by \$13.5 million. The Mayor challenged the city in his State of the City Address to imagine a city where the 67 percent of our school children who now qualify for free or reduced priced lunch are one day leading and building our new economy. Neither the city or school system can become complacent with the status quo. To that end, I propose that **2.7 cents of the 10-cent tax increase go toward increasing the city's ongoing contribution to schools by \$5 million.**

I am proposing a school funding formula beginning in FY 2020 to allocate local revenues between the city and school system. A resolution to adopt this funding formula will be presented to City Council along with the FY 2019 Budget Ordinance. The funding formula is not a panacea, but it will improve financial planning for both the city and schools and transition the conversation between the governing bodies away from funding. The funding formula recognizes the crucial role the school system plays in the development of our city and provides the pathway for schools to participate in the city's economic success.



Unlike the state, which funds the school system based on enrollment, the funding formula will provide more resources to school even as their enrollment is projected to decrease. The current budget process and back and forth between the city and the school system is inefficient. By providing a transparent process to our community on the amount of resources provided from the city to the school system, we may then work together to advance our city, work on deconcentrating poverty, work on strengthening neighborhoods, and work to ensure our students are our city's future business, nonprofit, philanthropic, faith-based, and community leaders.

The Proposed FY 2019 Budget provides the groundwork for the funding formula. **Through a 2.7 cent tax increase, the budget provides an ongoing additional \$5 million to the school system.** In prior years, some additional city

support was provided through one-time funds which immediately created a gap for the school system in the next fiscal year. Beginning in FY 2020, the school system will receive 29.2 percent of the revenues outlined in the box below. All revenues will be shared by this percentage other than taxes that have been previously obligated or may be obligated in the future by state law or City Council. For example, the two-cents dedicated to the School Construction, Technology, and Infrastructure fund will be excluded from this calculation. As revenue increases, schools will receive more revenues. Based on our current projections of revenue growth, by FY 2024, the school system will have an additional \$16.5 million above FY 2018, from the city even as enrollment is projected to decrease.

Revenues Included in the Funding Formula	
Real Estate tax	Real Estate Public Service Corporation tax
Personal Property tax	Transient Occupancy (Hotel) tax
Sales and Use tax	Machinery and Tools tax
Food and Beverage (Meals) tax	Consumer Water Utility tax
Business License tax	Motor Vehicle License Fee (city)
Communication Sales and Use tax	Consumer Gas Utility tax
Consumer Electric Utility tax	Recordation tax

Innovative Solutions to Support School's Infrastructure

The city continues to support school construction, school maintenance, and their school bus fleet. This support is not reflected in the annual allocation from the city to the schools and is in addition to the proposed revenue sharing formula. This year, we celebrated the opening of Larchmont and Ocean View elementary schools, while Camp Allen elementary school is under construction. These large-scale capital projects are funded with debt and in FY 2019, the city is spending over \$17 million in debt service due largely to school construction projects of the last decade. While the school system is requesting over \$16 million next fiscal year in capital improvements, the city does not have the resources to support the request. The city will provide \$6 million in FY 2019 and an additional \$12 million over the next four years for major maintenance across the school system, and \$1 million a year from FY 2019 to FY 2023 to acquire school buses.

In addition to the support referenced above, I recommend that the city invest \$30 million in a school construction fund over the coming years through an innovative resilience partnership. In February, the city announced a partnership with Hampton Roads Sanitation District (HRSD) that will enhance the city, region, and Commonwealth's resilience. The Sustainable Water Initiative for Tomorrow (SWIFT) initiative will treat water to meet drinking water standards and pump water into the Potomac aquifer which provides for a cleaner Chesapeake

Bay, a sustainable support of groundwater for eastern Virginia, and a potential to slow, stop or reverse land subsidence due to aquifer compaction. To facilitate this partnership, the city will sell Lambert's Point Golf Course to HRSD. HRSD will pay the city \$15 million for an option to purchase the course to establish SWIFT. If SWIFT is successful, HRSD will pay the city an additional \$15 million. While HRSD is evaluating the technology, the golf course will remain open to the public and after the sale, the city will have an easement that will allow the public to have access to the water



through a rerouted Elizabeth River Trail. I propose that the revenues from this partnership, \$15 million for an option and the potential for an additional \$15 million upon closing, estimated in FY 2023, be 100 percent allocated to a city held school construction fund. These resources may support Maury High School, a Career Technical Education (CTE) School, or a new school in the St Paul's Area. The city looks forward to working with the school system and community to prioritize the use of these funds over the coming years.

Learning extends beyond K-12 education. The city is committed to lifelong learning. In the fall of 2017, the city established a Commission on Lifelong Learning to help foster a culture of learning and civic engagement in Norfolk that endures. The Commission has organized its work into three work groups: learning in education, learning in work, and learning in life. After the work groups recommend goals and action steps, the Commission will look at building on these recommendations to support a culture of learning throughout the community. By the fall of 2018, the Commission will produce a plan, with measurable results, that supports a culture of learning throughout the community. The plan is the beginning of the work. City government, its partners in the business and faith communities, nonprofit organizations, existing education systems, students, and residents all have roles in creating a lifelong learning city.

Great Cities are Resilient

Resilience is a capacity to adapt in the face of challenge. Over our four centuries, Norfolk's history is a story of resilience. Our city has adapted and grown in the face of economic disruptions, hurricanes, political upheavals, and pandemics. As a port city, a coastal city, and a military city, Norfolk's residents, communities, and systems have shown themselves to be the very definition of resilient. The city continues to rise to new challenges. In the face of sea level rise, federal budget disruptions, and poverty, our city, led by a bold Council, has become a global leader in developing solutions that not only address problems, but provide benefits that will help the city and its residents grow. The world is watching what Norfolk is doing, and they are joining our efforts. The Rockefeller Foundation, the U.S. Department of Housing and Urban Development, the U.S. Army Corps of Engineers, and countless others are coming to Norfolk because of the City Council's resilient approach.

Resilience Initiatives
1.0 cent - \$1.85 million



This budget continues to demonstrate city's global leadership. It proposes that **one cent of the proposed real estate tax increase, or \$1.85 million a year** be used to establish a dedicated funding source for resilience projects. These funds will be used to support coastal, economic, and neighborhood resilience. Annually, this will be used to help finance resilience capital projects such as matching funds for flood mitigation projects, flood wall improvements, resilience dividends on planned projects, and resilience risk mitigation. The city will continue to pursue state and federal funding opportunities to assist the city with adapting and mitigating our shocks and stresses.

Coastal Resilience

Tidal and storm flooding are a reality in Norfolk, and we are committed to funding innovative and responsible ways to allow all residents to live safely with the water. The FY 2019 CIP includes \$9.9 million for Storm Water projects, an increase of \$2.3 million from the FY 2018 plan. Included in the Proposed FY 2019 Budget is \$1.0 million to complete the city's investment in the inner ring of Spartan Village and to build an area for water to be safely

retained. There is also \$2.9 million a year planned to reduce flooding in neighborhoods by improving and cleaning current drainage structures and completing drainage studies in neighborhoods throughout the city.

The city is working with the U.S. Army Corps of Engineers to raise and improve the downtown floodwall. The Federal Emergency Management Agency has recently issued revised maps indicating the level of protection provided by the northern end of the floodwall is inadequate. If it's not improved by the time of the next drawing, the flood insurance rates will increase. To provide adequate flood protection, the five-year CIP plans to spend \$18 million to improve the floodwall between FY 2020 and FY 2023.



Great Cities Take Care of their Assets

Technology, Vehicles, and Equipment 2.08 cents - \$3.86 million

Throughout the budget development process, we have shared our challenges. Our assets are our investments. We owe it to our residents to take care of what we purchase. Available resources do not allow us to maintain our current technology, vehicles, and equipment or invest in new technology, vehicles and equipment. **This budget includes 2.08 cents, or \$3.86 million, to modernize our technology, vehicles, and equipment to facilitate the services we provide to our residents.**



This budget invests \$7.7 million in our Information Technology infrastructure. Of the \$3.86 million tax increase, \$1.5 million will replace and upgrade key technology infrastructure. We are investing in public safety by replacing public safety radios and police in-car video cameras. We are supporting the technology backbone of the city through updating the payroll system and Microsoft Office software and replacing computer hardware, the work order system, and the 25-year-old phone system. These resources will also support transparency and inclusiveness through an open budget program and a City Council docket management system.

Our fleet continues to age. This budget invests \$8.0 million in our fleet. Of the \$3.86 million tax increase, \$2.3 million will support our vehicles and equipment. The \$2.3 million will support the purchase of a new fire pumper, police cruisers, detective sedans, and the replacement of high-mileage vehicles with more fuel and energy efficient vehicles. This increase will also purchase plow blades for all new eligible vehicles. Where possible, the city will purchase electric, hybrid, and compressed natural gas vehicles. Actions such as these will help the city reduce its carbon footprint.



The Proposed FY 2019 – FY 2023 CIP continues to invest in maintenance CIP projects to proactively protect aging infrastructure. In FY 2019, we will invest \$2.4 million in municipal buildings including \$1 million to maintain our fire stations. The proposed CIP invests \$7.3 million in streets and bridges improvements in FY 2019. Over the next five years the city will invest a total of \$37.5 million to address the \$74 million streets and bridges infrastructure backlog.

Great Cities Invest in Their Workforce

The Proposed FY 2019 Budget invests in our employees and supports retirees. Of the tax increase, **1.67 cents or \$3.1 million will support a two percent general wage increase for all general and constitutional officer employees in January 2019.** The increase will also support a **step increase for Sworn Police and Fire-Rescue employees and market rate adjustments for our most regionally out of market classifications.** We are also continuing the Master Firefighter program.

Employee Salary Increases
1.67 cents - \$3.1 million

The tax increase also supports an **enhanced pay plan for sworn Sheriff's deputies.** We have worked with the Sheriff and over the next four years we will phase in a new pay plan to enhance pay, while relieving compression concerns. Sheriff deputies will receive the minimum of the new plan grade, plus \$500 for each year of service. This new plan takes into account an employee's tenure. On average, a Sheriff Deputy will receive a five percent increase in FY 2019.

The tax increase also supports **a pay increase for 911 operators.** 911 operators work in a high pressure, high stress work environment and are the first voice our residents hear when reporting an emergency. Currently, we are experiencing high turnover, which is not sustainable. I am proposing an enhanced pay plan that will provide 911 operators with an average 8.7 percent increase.



Healthcare

Healthcare remains a significant personnel cost driver. The Norfolk Healthcare Consortium was formed in FY 2014 to facilitate the transition from fully-insured healthcare to a self-insured model. Consortium members include: Norfolk Public Schools, the City of Norfolk, and Norfolk Redevelopment and Housing Authority. During 2018 an executive committee of leadership from each member organization was formed to shape the strategic direction for the consortium. The committee's focus includes collaboration, inclusiveness among all members, best practice discussions, and active financial management of the healthcare fund. The committee's active engagement and commitment resulted in premium rates being set six months earlier than the previous year.

Premium rates for 2019 were actuarially adjusted to align cost with value. This re-benchmarking resulted in employee contributions for spousal tiers increasing from 2018 employee contribution levels. Regionally, more employers are recognizing the additional cost burden they may bear for covering employee spouses who have

alternative healthcare insurance offered through their employer.

In addition, families may recognize the potential for cost savings by splitting healthcare coverage among their respective employers. The overall increase in contributions is designed to provide better consumer-based decision-making. Approximately 27 percent of city employees are enrolled in spousal tiers. Conversely, 73 percent of employees will see no increase in their employee contributions to healthcare in 2019. After several years of growth in healthcare costs outpacing overall inflation, this is a welcomed relief for many.



The long-term solution to controlling growth in healthcare costs includes improving employee health and wellness. The executive committee is already hard at work developing a comprehensive wellness program for all

consortium members. The intent is to begin implementing a more coordinated and engaged wellness strategy beginning with plan year 2019. To spearhead this effort, funds have been set aside to hire dedicated staff passionate about improving the well-being of all members.

Retirement Reform

Retirement is a three-legged stool – Employee pension, Social Security, and personal savings. The city is committed to helping employees reach their retirement goals by providing a competitive retirement benefit while maintaining the long-term financial viability of the retirement system. Each employee may have different goals for retirement. The city will help our employees prepare for the future. The city will continue employee education on their city retirement benefit, as well as the need to supplement with personal savings. We implemented quarterly information sessions on city retirement, mailed a projected retirement benefit statement to all active employees, and institutionalized educating new employees on their city retirement benefits as part of the onboarding process.



The city's retirement system is an incredibly important part of our benefit package, and helps us recruit the best and brightest to the city. A defined benefit retirement plan, like the one we offer, is no longer the standard and inherently entails significant budgetary risk. Much like the Commonwealth of Virginia did a few years ago with the Virginia Retirement System, we will be introducing reforms to our retirement system to mitigate future budgetary risk, these reforms include:

- Automatically enrolling all new employees and non-participating existing employees in the city's tax advantaged 457 plan at a contribution rate of one percent. Employees will be able to opt out of this contribution but we hope this nudge will set the table for increased personal retirement savings; and
- Aligning retirement benefits for new hires and non-vested current employees with the Virginia Retirement System Hybrid Plan for retirement age and average final compensation.

During FY 2019 the city will explore other strategies to mitigate the risk inherent in our retirement system while maintaining an attractive benefit to employees.

Supporting Retirees and Beneficiaries

We value the work of our current and prior workforce. We want to ensure our retirement system remains financially stable for our retirees and beneficiaries of today and tomorrow. We have initiated various reforms to protect our fund. Before 2010, the retirement system was 100 percent supported by the employer. Our employees now contribute to the system. It is imperative that we protect the retirement fund for Team Norfolk. We have discussed with you the challenges of providing an annual supplement. Over the past few years, the city provided a one-time supplement payment to qualifying retirees. The Proposed FY 2019 Budget includes a two percent supplement on the first \$36,000 of benefits for retirees and beneficiaries who began collecting benefits before July 1, 2014. This action will assist roughly 83 percent of current retirees and represents the city's willingness to explore financially viable ways to help retirees while balancing the long-term needs of the retirement fund.

Great Cities are Made of Great Neighborhoods

Neighborhoods are the fabric of our city. At both of this year's retreats, City Council stressed the importance of neighborhoods. Our Housing Strategy includes two goals: deconcentrate poverty and strengthen neighborhoods throughout the city. Through our strengthening neighborhoods initiatives, we will give existing housing programs

strategic focus and introduce new programs to increase impact. We are implementing a pilot program in two neighborhoods: Ingleside and Monticello Village/Oakdale Farm. We will provide \$1.75 million a year for a total of \$8.75 million over the next five years for this pilot.



Change in a community begins at the block level. As part of the process, we will conduct a neighborhood inventory in both communities. The community members are critical to the success of these pilots. A Neighborhood Inventory provides an analysis of the general condition of each housing parcel in the community. In Ingleside, on a very cold day in February an excited and engaged group of 50 volunteers evaluated all 1,400 housing units. We will replicate this process in Monticello Village/Oakdale Farms this April.

The city will then evaluate the data and work with the community to provide a recommendation on how to deploy our housing tools.

We are investing in neighborhoods throughout the city to improve the quality of life for all residents. In FY 2019, we are investing \$2 million to acquire and demolish blighted properties. Our Department of Public Works is working in conjunction with the Department of Water Utilities to invest \$8.5 million over the next five years to improve curbs and sidewalks after the water department replaces old water lines so the neighborhood streets are only torn apart once.

Elizabeth River Trail

The improvement to the 10.5-mile Elizabeth River Trail spearheaded by the Elizabeth River Trail Foundation in partnership with the city will enhance our iconic waterfront and connect our neighborhoods. The trail will be divided in 11 sections that will follow the natural boundaries of the Elizabeth River and will offer opportunities to launch a kayak, walk, jog, or bike. The Foundation has a \$3.5 million fundraising goal from the private and nonprofit sector to bring this trail to life. The Proposed FY 2019 CIP Budget includes \$250,000 in city support. The total city commitment to the project is \$750,000.



Great Cities Support Inclusive Economic Growth

For businesses to successfully adapt to rising competition from abroad and disruptive technologies, they must be able to draw from local communities that are adequately preparing for the rigors of the modern economy regardless of class or race. In short, employers need talent and talent needs access.

We have included \$300,000 in the Proposed FY 2019 Budget to support the pivot in our long-term economic development strategy. Building on the tremendous place-making strategy of the past decade, we will move together towards a strategy based on the principles of inclusive economic growth. As part of the process, Norfolk will review industrial sites that are adjacent to residential properties.

By focusing on long-term growth, prosperity of individuals and firms, and inclusion of all residents, over time, we will provide more and better economic opportunities for individuals regardless of where they are on the socio-economic ladder. Everyone who chooses to be in Norfolk can thrive in Norfolk, and the investment reflected in this budget is a significant first step.

Great Cities Innovate

Cities challenge the status quo and continue to analyze new ways to conduct business. The proposed budget includes new initiatives and an evaluation of our current practices.

Data Scientist

This position will conduct citywide data analysis to be used for strategic decision-making. Job responsibilities may include interpreting complex data, conducting trend analysis, discerning patterns, and formulating data models for forecasting.

Gain Sharing

We are continuously looking for ways to save money across the city. We also want to reward employees and their departments for their cost saving ideas. Our plan is to create a gainsharing program that achieves both goals. Employees can submit their ideas through their department leadership, and once implemented and cost savings are achieved, employees and departments will receive a bonus as a percentage of the overall savings. In the coming weeks we will announce the details of this plan to department leadership and the Employee Engagement Committee in anticipation of the program starting at the beginning of the new fiscal year.



Payroll

Effective payroll processing is an essential business function that currently is managed collectively through the Departments of Human Resources, Finance and Information Technology. Through an assessment of the payroll environment, including key aspects related to ensuring a consistent successful production of payroll and optimizing the business processes, it was determined that centralizing the key payroll components within the Department of Finance will increase productivity, enhance the effective utilization of resources, enhance the end-user experience and knowledge, allow for more cross training of citywide departmental staff and ensure appropriate staff levels centrally to reduce resource constraints. Additionally, this strategic reorganization in FY 2019 will provide a single department contact for payroll-related business needs for our employees.

Procurement

To achieve a strategic procurement organization, the city's Purchasing Division needs to become more agile and resilient to meet the rapidly changing requirements of today's businesses. The proposed budget includes a Chief Procurement Officer (CPO), a newly created position designed to provide leadership on creating excellence in procurement within the Department of Finance. The CPO will be responsible for the development of a plan to strategically leverage the city's spending, identify cost savings, employ long-range operational policies and procedures that align with industry best practices and encourage innovation, increase transparency, and reduce the time to contract with the city. The CPO will also analyze opportunities for the city to work with local, small, women, minority, and veteran owned businesses. Inclusion of procurement into the city's overall strategy will allow the city to integrate our business, technology, operations and budgeting goals to further the city's commitment to grow Norfolk's economy and adapt solutions that build a solid foundation for partnering with the business community.



This reorganization of the Division of Purchasing will allow the city to realize its goals for strategic procurement and improve the perception of Purchasing across the city.

Great Cities Cultivate Creativity

A great city has a vibrant arts and cultural scene. Norfolk's role as a regional destination for arts and entertainment continues to grow. The Proposed FY 2019 Budget invests in our cultural facilities and arts district and supports new arts and cultural initiatives.

Chrysler Hall

Over the last year, the city studied the renovation and expansion of the Scope Arena and Chrysler Hall. This budget recommends improvements to Chrysler Hall to ensure it remains the premier performing arts center in the region. The city will invest \$40 million over the next five years to update the lobbies, add concessions, create a center aisle, enhance the balcony, and modernize the facility.

Arts District Infrastructure

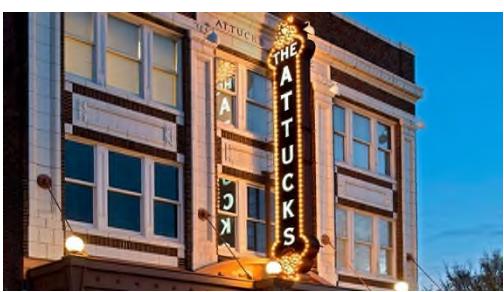
Over the past few years, the NEON District, Norfolk's first official arts district enhanced Norfolk's role as a regional destination for the arts and entertainment. NEON includes institutional anchors such as the Chrysler Museum of Art and its Perry Glass Studio as well as creative small businesses and public art. Norfolk looks forward to welcoming a new institution to the district, the Patricia and Douglas Perry Center at Tidewater Community College for Visual and Culinary Arts and Hospitality Management. The city will invest \$500,000 in FY 2019 to support infrastructure throughout the district.



Norfolk Theatre Festival

In partnership with the Virginia Arts Festival and Seven Venues, Norfolk will produce a theatre festival in the fall. We will endeavor to host events in the Attucks Theatre, Wells Theatre, and Little Hall, with an anchoring event in Chrysler Hall. Community discussion forums and performances for students would be part of the programming. The objective is to further solidify Norfolk as the arts and cultural center of Hampton Roads, and to activate theatres on nights on which they would otherwise be dark.

Attucks Theatre 100th Anniversary



We will develop and implement a year-long campaign during the calendar year 2019, touting the 100th anniversary of the Attucks Theatre, and its historical and cultural importance to Norfolk. In collaboration with Norfolk State University, Virginia Arts Festival, Virginia Stage Company, we will also develop and produce special programming throughout the year, in celebration of the milestone. Everything will be branded with the logo commemorating the Attucks 100th Anniversary.

Artist in Residence

A creative community supports artists in meaningful ways. In FY 2019, we will establish an Artist in Residence Program to deeply connect art and our city government. Integrated into the daily and long-term workings of the city, Norfolk's artist-in-residence will collaborate with and provide an unconventional and outsider's perspective to city employees (such as those in the Planning Department) working on specific projects. The artist will also have

their own artistic and curatorial projects, and have dedicated workspace so they can freely collaborate across city agencies. Room, board, supplies, and a stipend will be provided.

Slover Maker Studio Operations

Opening mid-summer 2018, the Maker Studio at Slover Library functions as a vibrant creative center for promoting community learning, civic engagement, and economic vitality throughout the region. The 1,500-square foot space, situated in Selden Market, features the latest technologies for 3D modeling, 3D scanning, 3D printing, and laser cutting, as well as sewing machines, soldering equipment, and an array of specialized tools and materials. The Maker Studio serves patrons of all ages and backgrounds, as well as regional libraries, area schools, and local entrepreneurs.

Nongeneral Funds

In addition to the General Fund, the city provides services through special revenue funds and proprietary funds, otherwise known as nongeneral funds. Nongeneral fund operations are supported by user fees, rather than taxes. Services provided by Nongeneral Funds include, but are not limited to Water, Wastewater, Storm Water, Towing, Waste management, and Parking. The Proposed FY 2019 Budget includes substantial changes to the Waste Management and Parking Funds.

Waste Management Fee Reduction

Norfolk renewed its Use and Support Agreement with the Southeastern Public Service Authority (SPSA) and renegotiated the tipping fee from \$125 a ton to \$65 a ton. The Proposed FY 2019 Budget passes the savings to residents, while continuing to invest in critical fleet replacement.

The budget includes a **\$3 a month reduction** in the residential solid waste, reducing the rate from \$28.01 a month, to \$25.01 a month. The rate reduction will result in a \$36 a year savings. The tipping fee reduction also allows the city to replace 18 more garbage trucks over the next five years. Replacing the fleet is critical. Over half of our current fleet is older than its useful life. Once a truck is past its useful life, it costs on average an additional \$8,000 a year to maintain.



Parking – Investing in Our System and Improving the Experience

The city has one of the largest municipally-owned and managed parking systems in the country. The system includes 16 garages, 700 metered on-street spaces, nine surface lots. In total, the system includes 20,000 spaces and the city processes more than five million transactions per year. But people don't come to downtown to park.



Parking in downtown has historically been used as a platform to achieve a variety of community and economic goals, beyond parking infrastructure, such as to incentivize economic development, to grow residential development and to activate street level retail with mixed-use office and residential above. Norfolk's downtown has experienced a renaissance, and Parking Fund provided the critical infrastructure element over the past twenty years, but the addition of new debt financed garages, incentivized rates, and the lack of incremental rate adjustments jeopardized the long-term sustainability of the Fund. The last increase of short-term or hourly rates

was five years ago in 2013, and the last increase to long-term rates was 20 years ago in 1998. Currently, nearly half of the revenue generated by the Parking Fund is allocated to pay for debt service and it cannot become financially stable without significant changes.

The Parking Fund is an enterprise fund and is operated in a manner similar to a private entity where revenues from fees charged to customers must fully cover the operating and capital costs. At today's rates, the parking revenue covers the resources needed to operate the System and pay its debt service, but sufficient resources are not adequate to pay for maintenance and renovation of the city's aging parking infrastructure. Garage life expectancy is roughly 40 to 50 years and more than half of the garages are older than 25 years. As parking garages age, they are more costly to maintain, develop safety concerns and can cause disruptions to residents, business and visitors. There is a cost to providing a well-managed parking experience and to ensure the stability and reliability of our Parking System, immediate investment into the Fund is a necessity.

A comprehensive analysis of the System reveals the need for additional funding of approximately \$5 million in revenue to enhance the system's financial performance and improve system management. This budget reflects increases in multiple rates and fines to generate the needed funding. Further, this investment will develop a strong parking maintenance program that prioritizes facility restoration and maintenance to address the infrastructure backlog needs. The rate adjustments will allow the



Parking System to update and enhance its technology that will improve customer convenience and parking information and payment options, while controlling operating costs, and provide for parking management strategies that encourage on-street parking turnovers and promotes increased vitality. A key goal is to make parking more of an amenity and leverage technology to streamline and simplify access to parking, as it is the first and last experience for many visiting Norfolk. Improvements to the System will allow for quicker garage entry and exits; more payment options, including the ability to pre-pay for parking; real-time parking availability through mobile applications, signs, and sensors; streamlined enforcement; and virtual permits. The users of the System will support a \$32.5 million investment over the next five years. I look forward to discussing these comprehensive changes to the parking system at an upcoming budget work session.

What's Next

In addition to the financial and policy-related initiatives described previously, my administration will undertake several additional efforts in FY 2019 and beyond. Here is what's next:

- We will complete a five-year strategic plan so that our long-term plans for the city can be matched with medium term-goals and short-term actions. Covering the five-year period CY 2019 through CY 2023, the plan will be administration-driven, involve many in the organization, and be built around measurable goals, informed by objective data. Based around five focus areas, we are in the process of forming focus areas teams and will soon embark on a strategic planning process that will help build an



organizational culture based on creative problem solving and collaboration. Our overarching goal will be building strong and safe neighborhoods for all Norfolk residents.

- We will begin the process of creating a new economic development strategy based on the principles of inclusive economic growth. While we continue to execute and deliver high-profile, place-based projects, we will also set our sights more broadly on strategies that will improve opportunities and quality of life for our neighbors who have historically struggled to keep pace and succeed in an ever-changing world. Everyone who chooses to be in Norfolk can thrive in Norfolk.
- We plan to deliver a retirement reform plan that will reduce risk to our system, provide participants with additional retirement savings options, and continue to support our retirees. I've outlined the first phase in the presentation, but it will be a multi-phase process. These reforms will be critical as we enter FY 2020 budget development and beyond in terms of maintaining near-term fiscal stability and long-term financial health.
- We start to address our city transportation needs by advancing a comprehensive transportation strategy that will consider both our near-term mobility challenges as well as our longer-term transportation infrastructure planning. As the most multi-modal city in the Commonwealth, we have the opportunity to effectively integrate many modes of transportation into a system that provides our residents with affordable, reliable, and efficient options to move around our city and our region.
- We plan to undertake a comprehensive review of the leisure activities we offer to our residents and develop a citywide Recreation, Parks and Open Space strategy that fosters healthy lifestyles and capitalizes on the unique, natural environment that we enjoy in Norfolk. We will make access to the water a priority, capitalize on our beaches, and continue to improve the recreational services that we provide to our residents.
- We will coordinate with and support Norfolk Public Schools on a school modernization strategy that addresses critical infrastructure maintenance needs, incorporates technology into learning, and effectively prepares our students with the knowledge and skills needed to succeed in the 21st century economy. Our children are the future of our great city; it is our responsibility to ensure that they have the best possible environment in which to learn and thrive.



Norfolk Is What's Next

We must ask ourselves, what makes a great city? And what makes a city great?

I submit to you that a great city has great people – diverse people who thrive because they are educated and trained to take advantage of future opportunities. A great city has great schools. A great city has healthy and active people. A great city has a vibrant arts and cultural scene. A great city has great neighborhoods. A great city takes care of its assets.

You understand that the biggest problem facing cities is in fact complacency, an inability or unwillingness to deal with the challenges we face - challenges such as poverty reduction, sea level rise and aging infrastructure. As

President Theodore Roosevelt once said, “In any moment of decision, the best thing you can do is the right thing, the next best thing is the wrong thing, and the worst thing you can do is nothing.”

The Norfolk you lead understands that. Building a great city in the 21st Century means making transformative changes and solving big hairy problems that will propel us forward. Solving problems starts at the block level, the neighborhood level, the Ward Level, and the city level. A great city prepares a broader and more diverse set of firms, workers, and communities to reach their potential and offers a compelling opportunity for growth

You asked me during my interview in June what my legacy would be if you gave me this position. My answer has not changed: OUR legacy will be that when we were leading Norfolk, our city was the most collaborative, connected, creative and competitive community—a city that was willing to tackle big challenges like sea level rise, poverty reduction, and aging infrastructure. And we will have done this by taking on transformative projects in ways that became a model for other cities.

The national media and scholars are talking about cities on the move like Nashville, Pittsburgh, San Diego, and Copenhagen. Next, the media will be talking about Norfolk. We are building a great city – a city that is reimagined for tomorrow. This budget is bold and visionary, and helps move us closer to becoming the great city we want to be. This bold budget proposal represents a significant step in our journey toward building a great city of the 21st Century. I submit to you that **Norfolk is what's next.**

Sincerely,

A handwritten signature in blue ink that reads "Douglas L. Smith". The signature is fluid and cursive, with "Douglas" on the first line and "L. Smith" on the second line.

Douglas L. Smith
City Manager