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# Budget Overview

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# ACKNOWLEDGMENTS

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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 2019 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.

## **Director, Office of Budget and Strategic Planning**

Gregory Patrick

## **Office of Budget and Strategic Planning Staff**

Anna Bevill, Peter Buryk, Megan Erwin, Eundene Faulks, Patricia Harrison, Lauren Kesselring, Kaitrin Mahar, Basia Mazur, Susan Meslang, Cody Moore, Cecelia Rieb, Anne Marie Strano, Natasha Turner, Emily Uselton, and Joseph Younk.

**City Manager,**



# DISTINGUISHED BUDGET PRESENTATION AWARD

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GOVERNMENT FINANCE OFFICERS ASSOCIATION

## *Distinguished Budget Presentation Award*

PRESENTED TO

**City of Norfolk**

**Virginia**

For the Fiscal Year Beginning

**July 1, 2017**

Executive Director

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, 2017. The review process by GFOA has not commenced for the annual budget for the fiscal year beginning July 1, 2018.

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 2019 budget continues to conform to program requirements and will be submitted to GFOA for eligibility.

# CITY OF NORFOLK GOVERNMENT

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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 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, W.A. (Pete) Rodda.

# NORFOLK CITY COUNCIL MEMBERS AND CITY MANAGER

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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



City Manager  
Douglas L. Smith

# CITY OF NORFOLK WARD MAP

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# CITY COUNCIL'S VISION FOR NORFOLK

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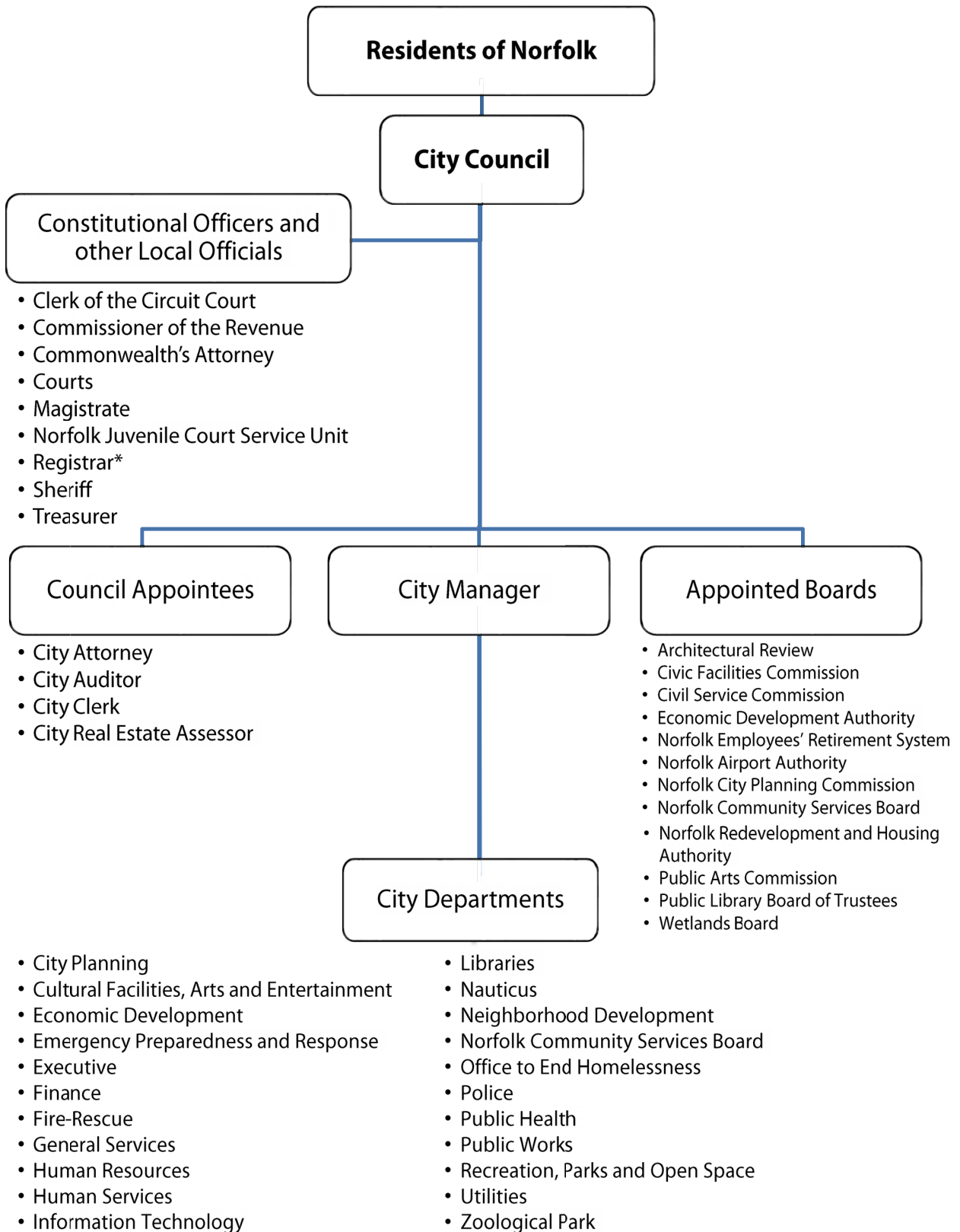
## **Vision Statement**

- Norfolk is a national leader in the quality of life offered to all its citizens.
- This is achieved through effective partnerships between city government and its constituents.
- As a result, Norfolk is a physically attractive, socially supportive, and financially sound city.
- Here, the sense of community is strong.
- Neighborhoods are designed so that people of all ages can know their neighbors and travel the streets and sidewalks safely.
- The sense of community exists citywide.
- Norfolk is known nationally as a strategically located place where there are abundant and fulfilling employment, recreational, and educational opportunities.



# CITY OF NORFOLK ORGANIZATIONAL CHART

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\*Appointed by State Board of Elections

# READER'S GUIDE TO THE BUDGET

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## PURPOSE

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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, 2018 to June 30, 2019**. The amounts for FY 2019 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. Due to the state budget impasse, the FY 2019 Budget was developed based on the Governor's Introduced Budget for the 2018-2020 Biennium.

## BUDGET OVERVIEW

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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 2017 provided in the summaries do not include designations and financial adjustments posted after June 30, 2017. FY 2019 adopted amounts may include technical changes made after the City Manager's presentation of the Proposed Budget to the City Council.

## ADOPTED FEE CHANGES

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The Adopted FY 2019 Budget includes additional revenues generated under the direction of a new fee philosophy, which strives to recoup the costs of certain services provided by the city. Certain fees were raised that are provided by the private sector, are discretionary, enable the service recipient to earn a profit, or have more demand than the city can provide. Additionally, fees have been structured to provide services at reduced costs for lower income residents.

## GENERAL FUND REVENUE AND EXPENDITURE

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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 2017 do not include designations and financial adjustments posted after June 30, 2017. FY 2019 adopted amounts may include technical changes made after the City Manager's presentation of the Proposed Budget to the City Council.

## CITYWIDE PRIORITIES AND FOCUS AREAS

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This section provides an overview of the city's focus areas and strategic direction.

## DEPARTMENT BUDGETS

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This section provides detailed information on the budget of each department within the General Fund. A brief description of the adopted FY 2019 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 2016 and FY 2017 provided in the department summaries do not include designations and financial adjustments posted after June 30 of each fiscal year. FY 2019 adopted amounts may include technical changes made after the City Manager's presentation of the Proposed Budget to the City Council.

## DEPARTMENT BUDGET STRATEGIES

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The Adopted FY 2019 budget is based in the city's economic reality. It reflects reductions to departments and fee increases that were thoughtful, developed with participation across the organization, and were not across the board, while continuing to fund the Council's priorities. Guiding principles were identified for expenditures and fees to steer the budget strategy discussion.

## PUBLIC SCHOOL EDUCATION

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This section provides information on the adopted appropriation for Norfolk Public Schools. FY 2019 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

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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 2019 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 2016 and FY 2017 provided in the department summaries do not include designations and financial adjustments posted after June 30 of each fiscal year. FY 2019 adopted amounts may include technical changes made after the City Manager's presentation of the Proposed Budget to the City Council.

## UNFUNDED REQUESTS

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The city began FY 2019 Budget Development with a base budget gap. Growth in ongoing revenues did not support corresponding growth in expenditures required to maintain the same level of service as FY 2018. With finite resources, the FY 2019 budget required strategies to grow revenue, reduce expenditures, and enhance existing service levels. With an initial base budget gap, the city cannot afford to fund all enhancements requested by departments. The Unfunded FY 2019 Budget Requests report shows enhancements that were requested by departments, but not funded in the FY 2019 budget.

## CAPITAL IMPROVEMENT PLAN

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The city's debt service as a percentage of the General Fund budget must not exceed ten percent. Net debt, as a percentage of property, must not exceed 3.5 percent. Due to these affordability measures, the city cannot afford to fund all requested General Capital projects. Over the past decade CIP projects have averaged nearly \$100 million annually. As a result, the city is drawing close to the self-imposed debt affordability measures. The five-year outlook for CIP projects reflects a maintenance phase until debt service obligations from recent generational projects is reduced. The Unfunded CIP Request Report shows projects that were requested by departments, but not included in the five-year Capital Improvement Plan.

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

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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 2019 adopted amounts may include technical changes made after the City Manager's presentation of the Proposed Budget to the City Council.

## NORFOLK STATISTICAL INFORMATION

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

## ORDINANCES, GLOSSARY, AND INDEX

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

# FINANCIAL POLICIES

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## OPERATING BUDGET

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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

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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 ongoing provision of city services. 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 cash flow needs. The city's 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 2018 minimum of \$43,118,803 is based on the projected Amended FY 2018 General Fund Budget of \$862,376,054.

**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 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 approximately \$1.0 million from the year-end surplus in fiscal years 2010, 2012, 2015, and 2016.

**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. The City Council has brought the reserve from \$2.0 million in FY 2011 to its financial policy goal of \$5.0 million by setting aside \$1.0 million from year-end surpluses in FY 2012, FY 2015, and FY 2016.

Reserve	Purpose	FY 2018 Minimum	FY 2018 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.	\$43,118,803	\$43,118,803
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. Funds in excess of 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 state 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 led the city to generate and use one-time budget savings to help balance the budget in prior years, the city has significantly reduced its reliance on one-time resources in balancing the budget.

## DEBT MANAGEMENT

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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) exceeds \$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. 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 are 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

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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 policies by establishing a five-year capital implementation plan. In formulating this long range plan, input is solicited from various parties such as city



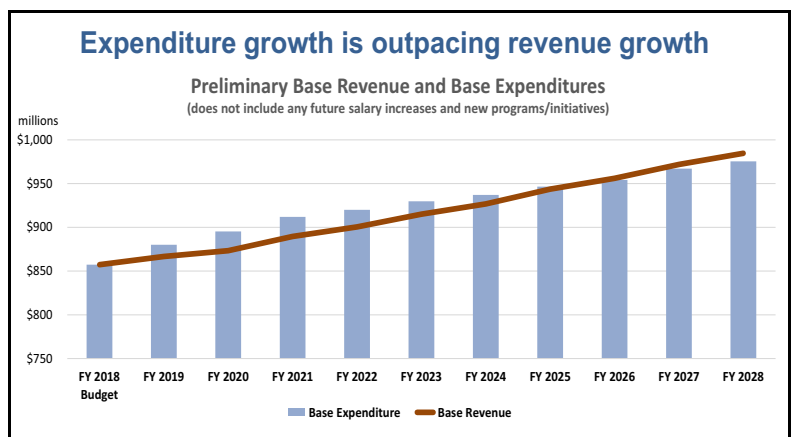
departments, City Council, residents, and businesses. The CIP includes projects that meet the following city policy areas (see CIP section for definitions):

- Education
- Economic Development
- Environmental Sustainability
- Cultural Facilities
- General and Other
- Neighborhood Development
- Public Buildings
- Parks and Recreation Facilities
- Transportation

To be included in the CIP, the project must cost \$75,000 or more and should extend the life of the asset by more 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 ("Office") begins the process of compiling information for the forecast from city departments and partner agencies. In FY 2018, the Office also began requesting city departments to provide ten-year projections of the cost of previously approved FY 2019 requests



considered during the FY 2018 - FY 2019 budget development process. Information gathered and incorporated into the multi-year forecast during FY 2018 included: federal/state funding changes anticipated; contractual or inflationary increases to maintain the current level of services; annualized cost of services partially funded in the FY 2018 budget; anticipated cost savings; and operating costs and revenue associated with new facilities projected to open based on the Adopted Five-Year CIP. The chart summarizes the base multi-year revenue and expenditure forecast presented to the City Council at their annual fall retreat held September 2017. 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.

# FUND STRUCTURE

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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

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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 such as, 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 Norfolk Public Schools.

## PROPRIETARY FUNDS

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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 Funds 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**

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### **Education**

The city's total budget includes the funds of the Norfolk Public Schools. The primary sources of revenue are the city's local contribution, 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**

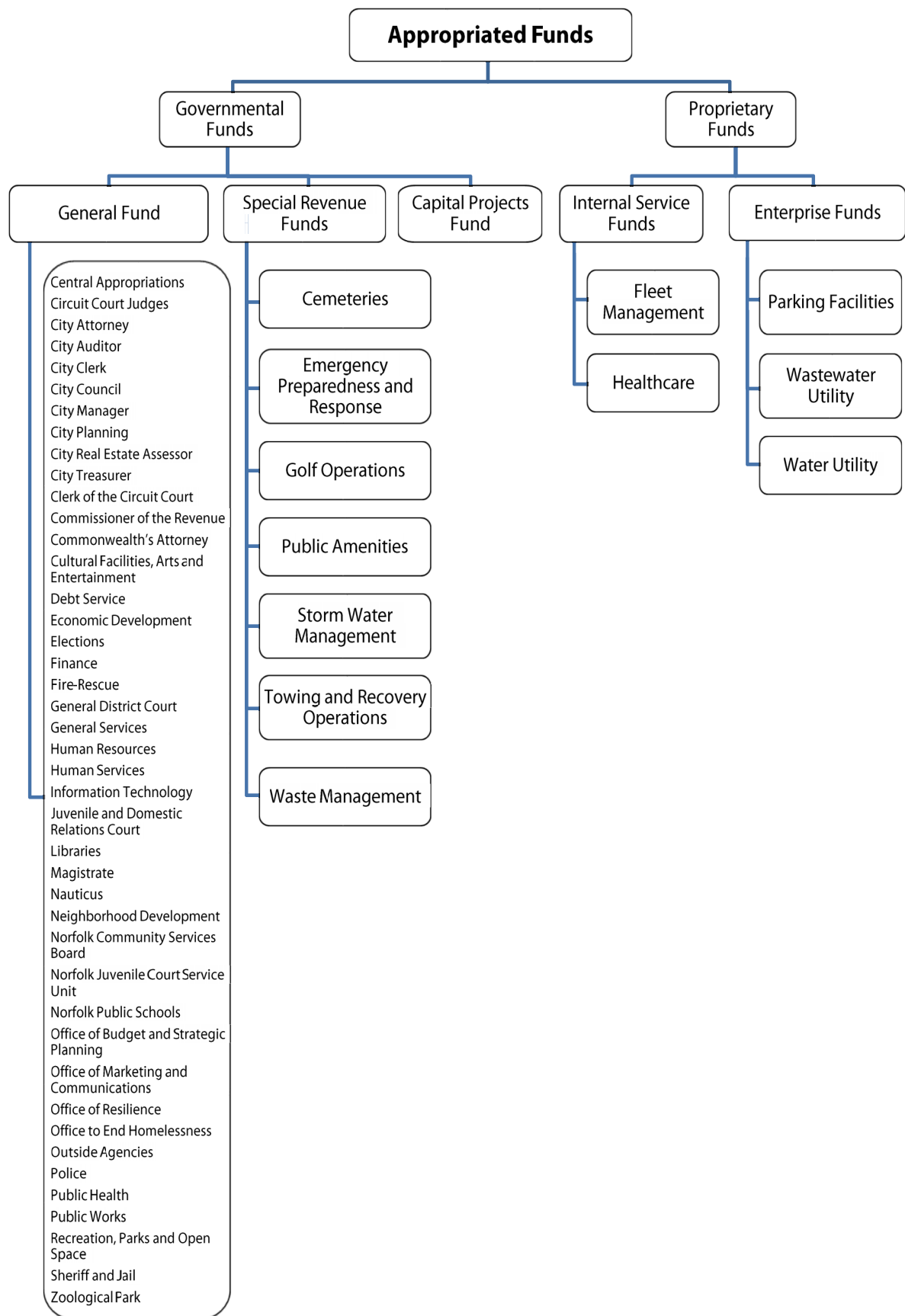
This fund supports the school breakfast and lunch program. School Nutrition Services is a self-funded non-reverting operation supported through cafeteria sales and federal and state reimbursements.

## **FIDUCIARY FUNDS AND PERMANENT FUND**

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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

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## BASIS OF BUDGETING

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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, fund, or activity 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

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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

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## FORMULATION OF THE CITY MANAGER'S BUDGET

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

The annual budget process commences at the beginning of the fiscal year. 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

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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

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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

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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

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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

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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
September 2017 - December 2017	City Departments	Department Program Catalog Development with Budget Staff Departments Submit Operating and Capital Improvement Budget Requests	N/A
October 2017 - December 2017	Budget and Strategic Planning Marketing and Communications Neighborhood Development Executive Staff	Community and Employee Outreach (Budget Exercise)	N/A
December 2017 - February 2018	Budget and Strategic Planning Executive Staff City Departments	Department Meetings with Budget Staff and Operating and Capital Budget Committees Operating and Capital Budget Committee Meetings	N/A
February 2018	Budget and Strategic Planning	City Manager's Mid-Year Budget Review and Financial Update	N/A
April 1, 2018	Norfolk Public Schools	School Board Approved Operating Budget to City Council	Code of Virginia 15.2-2503
April 3, 2018	City Manager	City Manager Presentation of Proposed Budget to City Council	City of Norfolk Charter Sec. 67
April 4, 2018	City Clerk	Public Hearing Notice of the HUD Grant (CDBG, ESG, and HOME) Budget	U.S. Department of Housing and Urban Development (HUD)
April 8, 2018	City Clerk	Public Hearing Notice of the Operating and Capital Improvement Plan Budgets, Real Estate Tax Rate Increase, and Real Estate Tax Increase (due to increased reassessment)	Code of Virginia 15.2-2506, 58.1-3007, 58.1-3321
April 10, 2018	City Council	1 <sup>st</sup> City Council Worksession	N/A
April 18, 2018	City Council	Public Hearing on the Operating, Capital Improvement Plan, and HUD Grant (CDBG, ESG and HOME) Budgets and Real Estate Tax Rate Increase	Code of Virginia 15.2-2506, 58.1-3007 U.S. Department of Housing and Urban Development (HUD)
April 24, 2018	City Council	2 <sup>nd</sup> City Council Worksession	N/A
May 3, 2018	City Council	3 <sup>rd</sup> City Council Worksession	N/A
May 8, 2018	City Council	4 <sup>th</sup> City Council Worksession	N/A
May 10, 2018	City Council	Public Hearing on the Real Estate Tax Increase (due to increased reassessment)	Code of Virginia 58.1-3321
May 13, 2018	City Clerk	Public Hearing Notice of the Cigarette and Bed Tax Rate Increase	Code of Virginia 58.1-3007
May 22, 2018	City Council	Public Hearing on the Cigarette Tax and Bed Tax Rate Increase City Council Budget Adoption	Code of Virginia 58.1-3007, 15.2-2503 City of Norfolk Charter Sec. 68

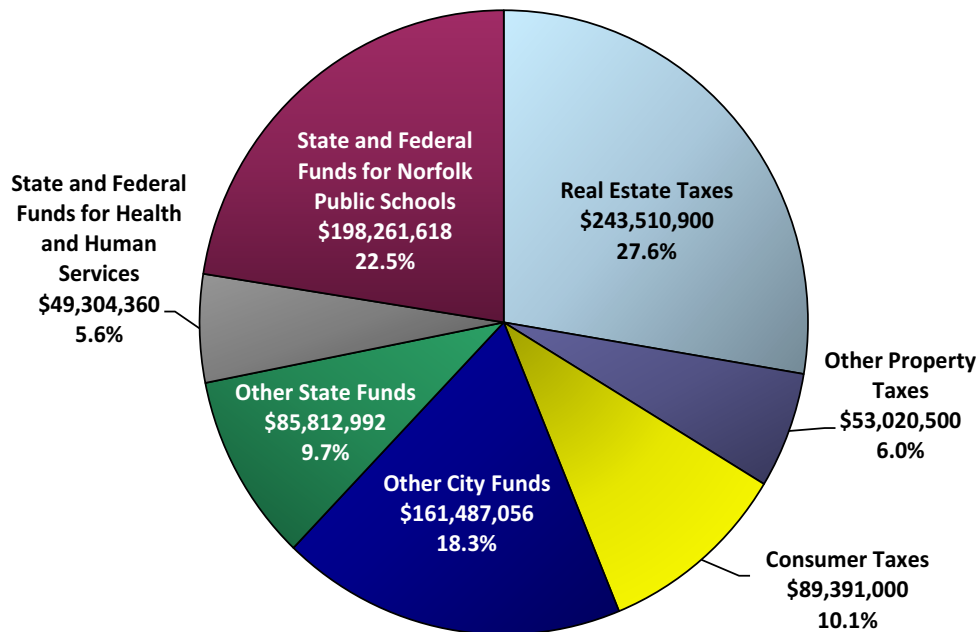
# GENERAL FUND BUDGET OVERVIEW

## Adopted FY 2019 General Fund Revenues \$880,788,426

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

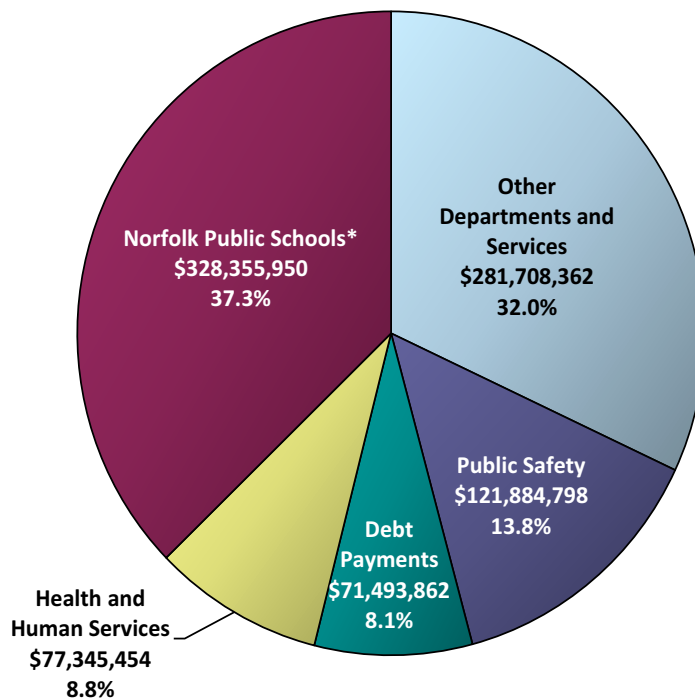
"Other City Funds" include local taxes, fees, charges, fines, rent and interest.

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



## Adopted FY 2019 General Fund Expenditures \$880,788,426

In the FY 2019 budget, "Other Departments and Services" include public works, libraries, recreation, cultural facilities, zoo, Nauticus, planning, neighborhood development, economic development, finance, human resources, information technology, general services, legislative, executive, law, judicial, constitutional officers, outside agencies, and central appropriations.



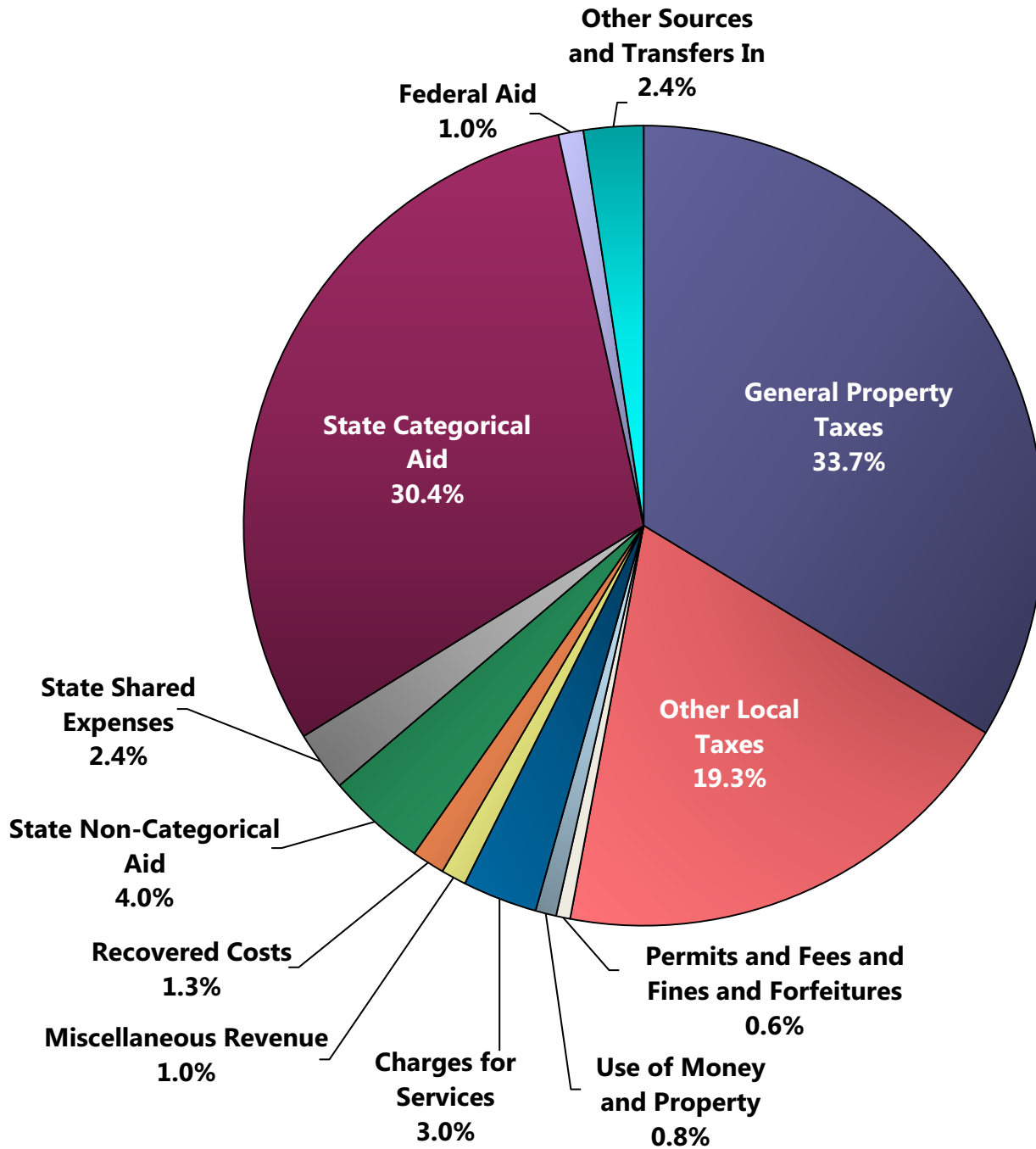
Note: Percentages may not total to 100 due to rounding. \*Does not include in-kind support.

# ESTIMATED GENERAL FUND REVENUES BY SOURCE

The following table compares the Adopted FY 2019 General Fund Operating Budget to the Adopted FY 2018 General Fund Operating Budget and the FY 2017 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 2017 Actual	FY 2018 Adopted	FY 2019 Adopted	FY 2018 vs. FY 2019	
				\$ Change	% Change
General Property Taxes	264,432,379	272,214,800	296,531,400	24,316,600	8.9%
Other Local Taxes	159,645,817	166,625,000	169,805,000	3,180,000	1.9%
Permits and Fees	3,576,366	3,191,900	3,836,785	644,885	20.2%
Fines and Forfeitures	920,282	1,215,000	1,185,000	-30,000	-2.5%
Use of Money and Property	7,775,226	7,704,583	7,421,420	-283,163	-3.7%
Charges for Services	26,138,114	25,970,611	26,591,119	620,508	2.4%
Miscellaneous Revenue	12,528,484	8,970,789	8,952,217	-18,572	-0.2%
Recovered Costs	11,963,884	11,758,591	11,695,852	-62,739	-0.5%
Non-Categorical Aid - State	34,584,470	34,807,100	35,485,900	678,800	2.0%
Shared Expenses - State	20,626,230	21,377,000	21,371,000	-6,000	0.0%
Categorical Aid - State	259,643,438	265,985,727	267,804,580	1,818,853	0.7%
Federal Aid	9,121,819	8,701,490	8,871,490	170,000	2.0%
Other Sources and Transfers In	28,054,896	28,753,463	21,236,663	-7,516,800	-26.1%
<b>General Fund Total</b>	<b>839,011,405</b>	<b>857,276,054</b>	<b>880,788,426</b>	<b>23,512,372</b>	<b>2.7%</b>

# Adopted FY 2019 General Fund Revenues by Source



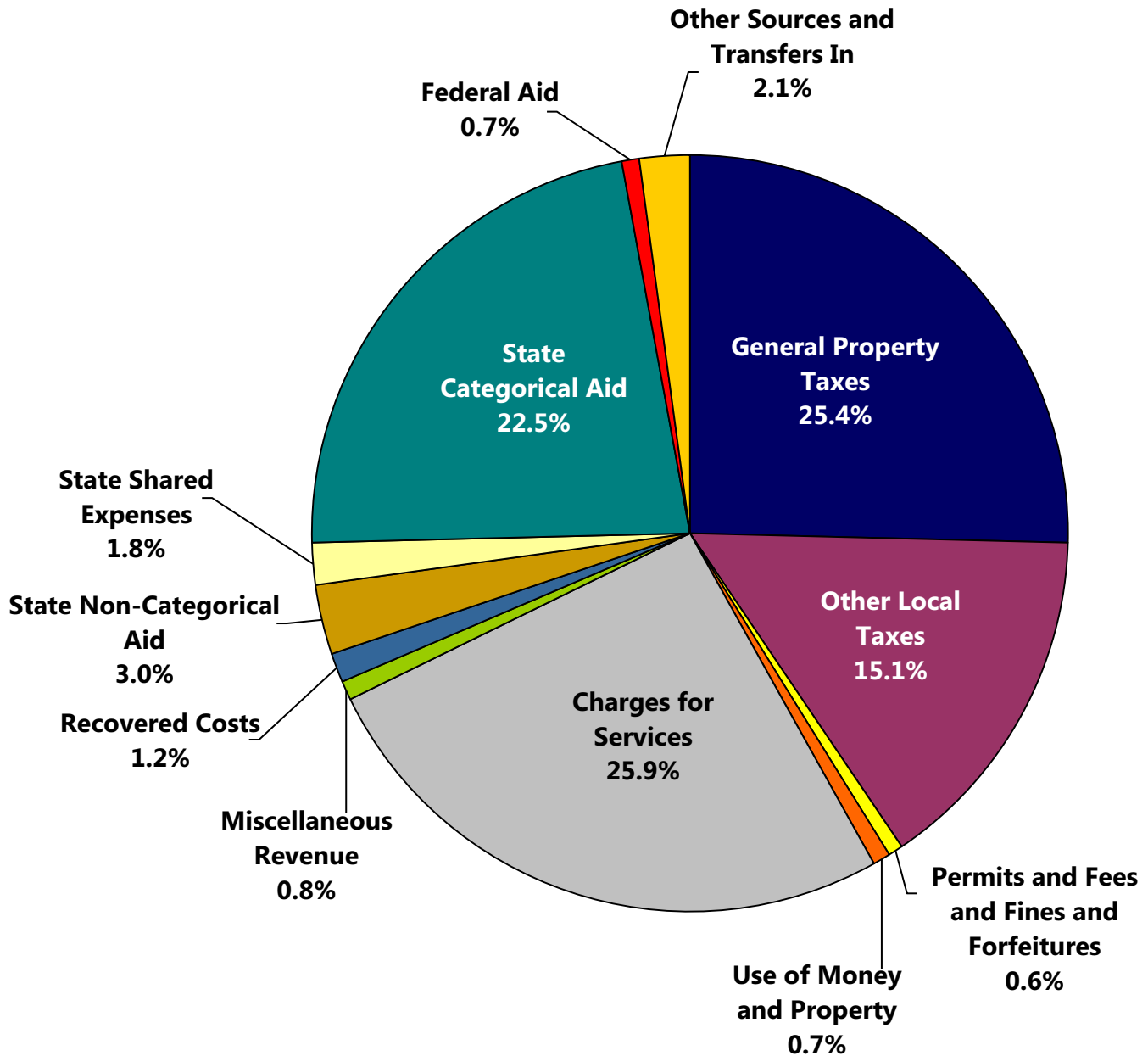
Note: Percentages may not total to 100 due to rounding.

# ESTIMATED REVENUES BY SOURCE (ALL FUNDS)

The following table compares the Adopted FY 2019 Operating Budget to the Adopted FY 2018 Operating Budget and the FY 2017 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 2017 Actual	FY 2018 Adopted	FY 2019 Adopted	FY 2018 vs. FY 2019	
				\$ Change	% Change
General Property Taxes	264,432,379	277,480,800	302,386,400	24,905,600	9.0%
Other Local Taxes	169,538,979	176,917,596	180,279,596	3,362,000	1.9%
Permits and Fees	4,528,176	3,817,224	4,501,285	684,061	17.9%
Fines and Forfeitures	2,916,113	3,333,377	2,947,000	-386,377	-11.6%
Use of Money and Property	8,942,150	9,028,800	8,881,050	-147,750	-1.6%
Charges for Services	291,298,979	307,310,603	307,908,109	597,506	0.2%
Miscellaneous Revenue	13,303,312	9,693,168	9,725,451	32,283	0.3%
Recovered Costs	15,284,533	15,295,056	14,870,868	-424,188	-2.8%
Non-Categorical Aid - State	34,584,470	34,807,100	35,485,900	678,800	2.0%
Shared Expenses - State	20,626,230	21,377,000	21,371,000	-6,000	0.0%
Categorical Aid - State	259,643,438	265,985,727	267,885,580	1,899,853	0.7%
Federal Aid	9,461,832	8,815,107	8,871,490	56,383	0.6%
Other Sources and Transfers In	29,334,732	35,532,886	25,589,464	-9,943,422	-28.0%
<b>Total All Funds</b>	<b>1,123,895,323</b>	<b>1,169,394,444</b>	<b>1,190,703,193</b>	<b>21,308,749</b>	<b>1.8%</b>

## Adopted FY 2019 Revenues by Source (All Funds)



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

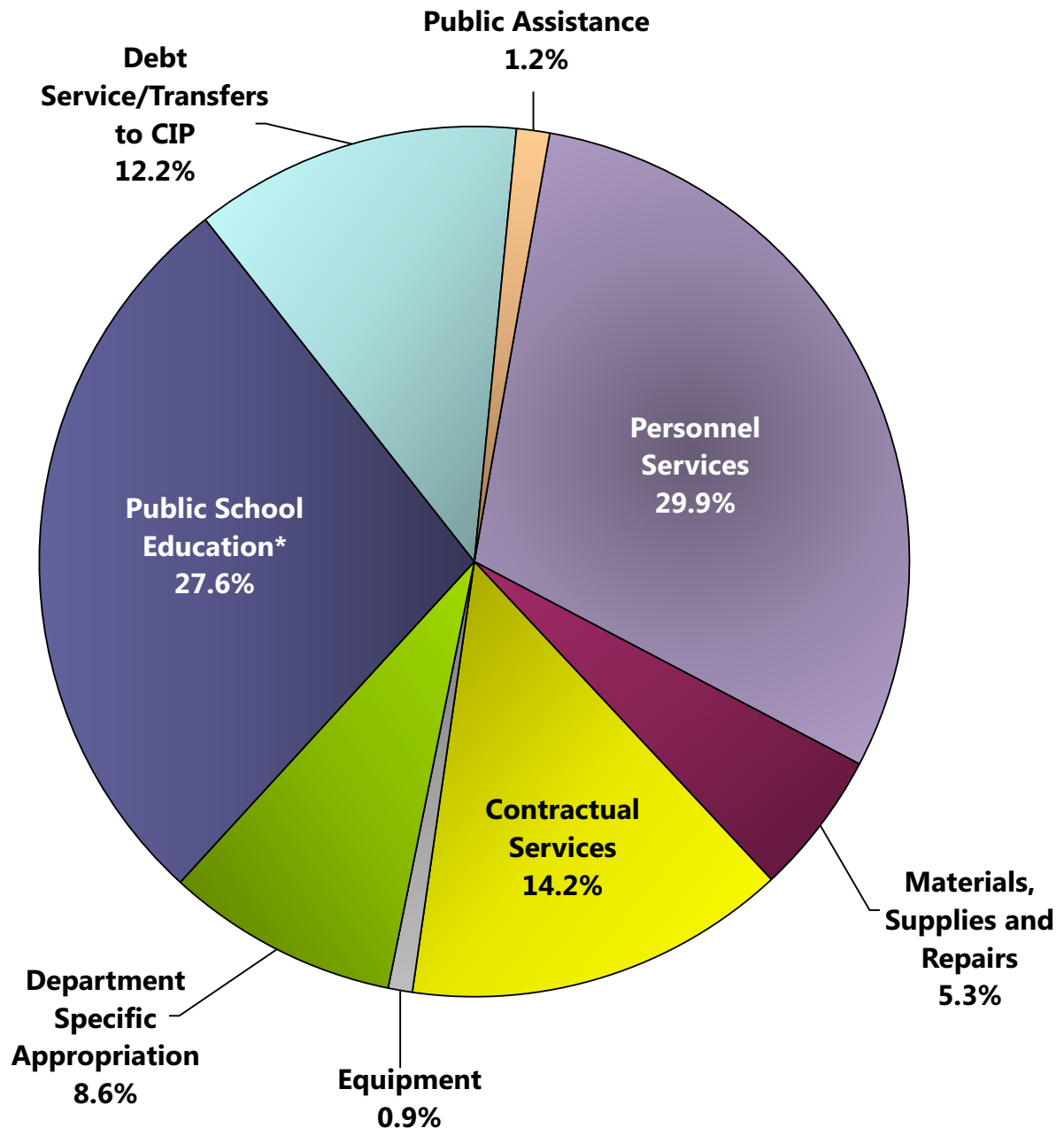
# ESTIMATED EXPENDITURES BY USE (ALL FUNDS)

The following table compares the Adopted FY 2019 Operating Budget to the Adopted FY 2018 Operating Budget and the FY 2017 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 2017 Actual	FY 2018 Adopted	FY 2019 Adopted	FY 2018 vs. FY 2019	
				\$ Change	% Change
Personnel Services	324,753,662	348,279,382	356,305,489	8,026,107	2.3%
Materials, Supplies and Repairs	64,087,237	65,969,347	63,550,593	-2,418,754	-3.7%
Contractual Services	169,332,331	170,851,301	169,555,688	-1,295,613	-0.8%
Equipment	6,290,088	8,232,640	10,700,939	2,468,299	30.0%
Department Specific Appropriation	83,340,581	92,794,592	102,830,190	10,035,598	10.8%
Public School Education	313,115,532	325,292,145	328,355,950	3,063,805	0.9%
Debt Service/Transfers to CIP	106,610,129	144,260,259	144,748,449	488,190	0.3%
Public Assistance	13,025,931	13,714,778	14,655,895	941,117	6.9%
<b>Total All Funds</b>	<b>1,080,555,491</b>	<b>1,169,394,444</b>	<b>1,190,703,193</b>	<b>21,308,749</b>	<b>1.8%</b>



## Adopted FY 2019 Expenditures by Use (All Funds)



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

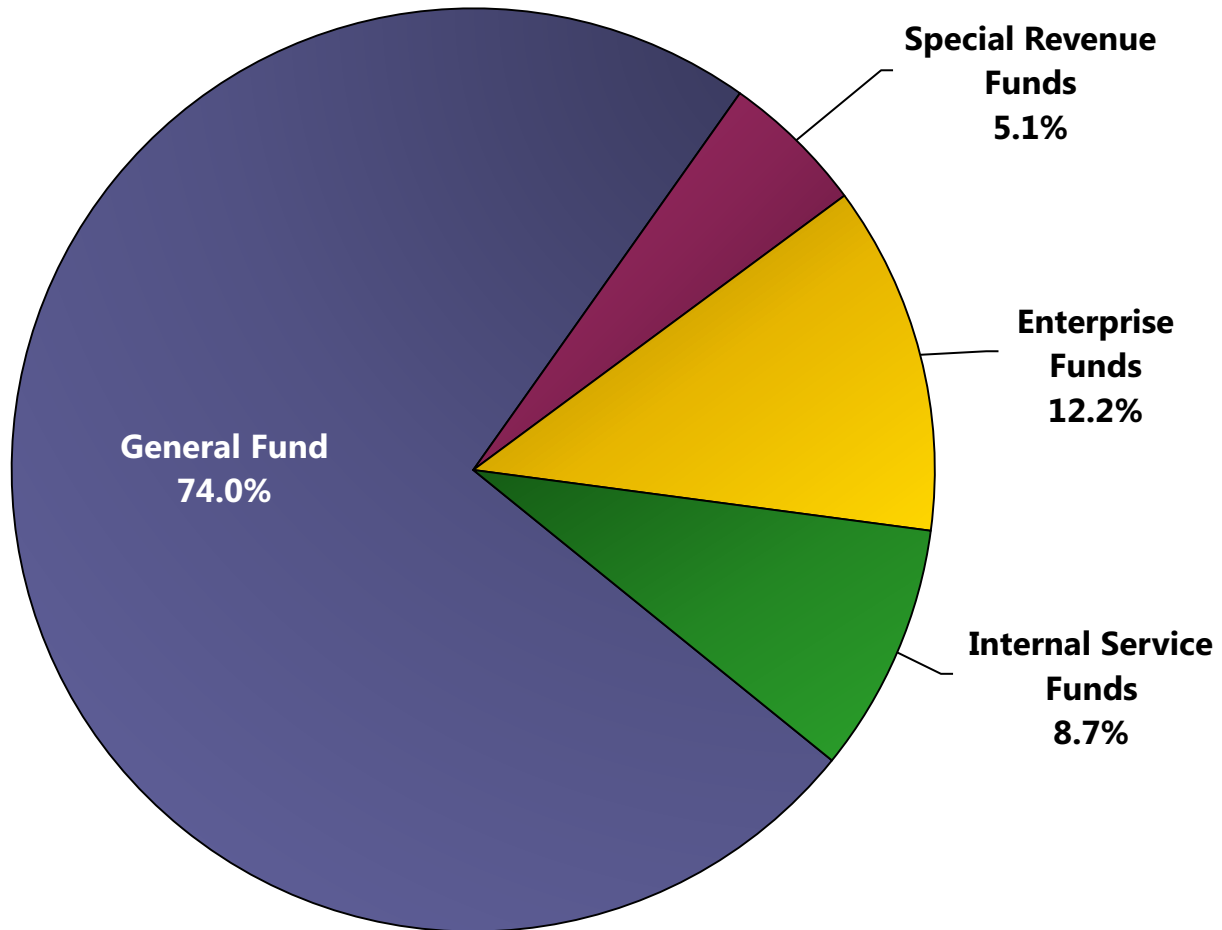
\*Does not include "in-kind" support. See Public School Education section.

# ESTIMATED EXPENDITURES BY FUND TYPE

The following table compares expenditures by fund type in the Adopted FY 2019 Operating Budget with the Adopted FY 2018 Operating Budget and the FY 2017 Actual amount.

Fund Type	FY 2017 Actual	FY 2018 Adopted	FY 2019 Adopted	FY 2018 vs. FY 2019	
				\$ Change	% Change
General Fund	818,968,179	857,276,054	880,788,426	23,512,372	2.7%
Special Revenue Funds	65,654,928	63,698,401	60,312,685	-3,385,716	-5.3%
Enterprise Funds	95,016,582	142,121,764	145,660,878	3,539,114	2.5%
Internal Service Funds	100,915,802	106,298,225	103,941,204	-2,357,021	-2.2%
<b>Total All Funds</b>	<b>1,080,555,491</b>	<b>1,169,394,444</b>	<b>1,190,703,193</b>	<b>21,308,749</b>	<b>1.8%</b>

## **Adopted FY 2019 Expenditures by Fund Type (All Funds)**



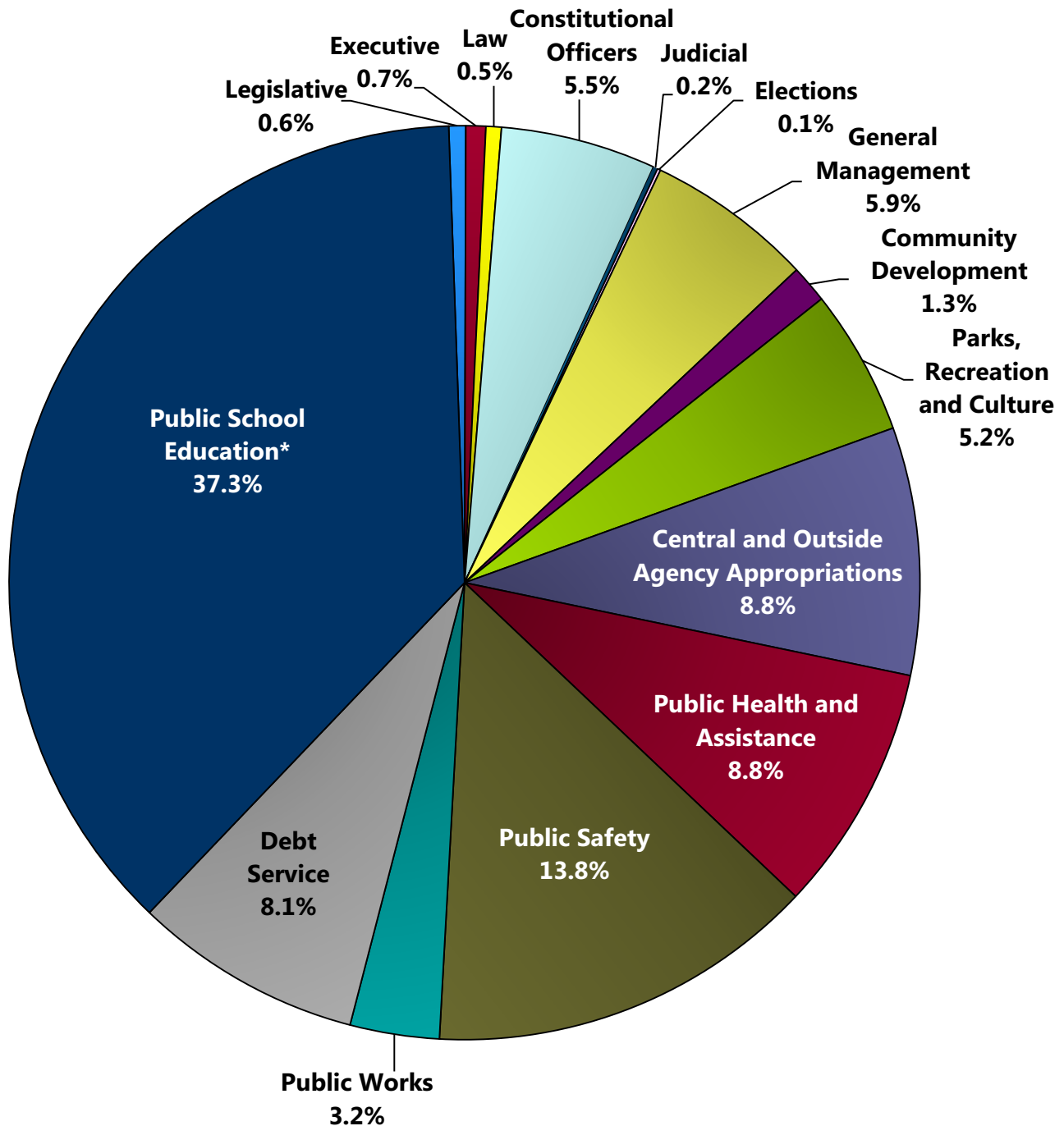
Note: Percentages may not total to 100 due to rounding.

# ESTIMATED GENERAL FUND EXPENDITURES BY AREA

The following table compares the Adopted FY 2019 General Fund Operating Budget to the Adopted FY 2018 General Fund Operating Budget and the FY 2017 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 2017 Actual	FY 2018 Adopted	FY 2019 Adopted	FY 2018 vs. FY 2019	
				\$ Change	% Change
Legislative	4,654,165	5,121,896	5,277,578	155,682	3.0%
Executive	3,561,756	5,859,918	6,211,184	351,266	6.0%
Department of Law	4,420,748	4,613,010	4,828,532	215,522	4.7%
Constitutional Officers	51,937,850	56,249,002	48,529,865	-7,719,137	-13.7%
Judicial	1,186,508	1,328,043	1,393,416	65,373	4.9%
Elections	833,327	862,298	993,471	131,173	15.2%
General Management	45,656,179	45,878,343	52,174,881	6,296,538	13.7%
Community Development	10,647,199	11,556,718	11,775,386	218,668	1.9%
Parks, Recreation and Culture	42,765,243	45,395,673	45,517,497	121,824	0.3%
Central and Outside Agency Appropriations	58,293,215	65,651,909	77,110,296	11,458,387	17.5%
Public Health and Assistance	73,851,247	78,077,086	77,345,454	-731,632	-0.9%
Public Safety	111,565,618	117,145,211	121,884,798	4,739,587	4.0%
Public Works	26,296,669	27,605,306	27,896,256	290,950	1.1%
Debt Service	70,182,923	66,639,496	71,493,862	4,854,366	7.3%
Public School Education	313,115,532	325,292,145	328,355,950	3,063,805	0.9%
<b>General Fund Total</b>	<b>818,968,179</b>	<b>857,276,054</b>	<b>880,788,426</b>	<b>23,512,372</b>	<b>2.7%</b>

## Adopted FY 2019 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.

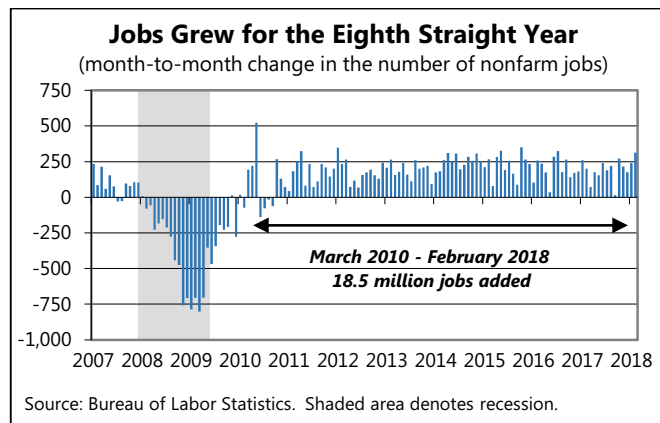
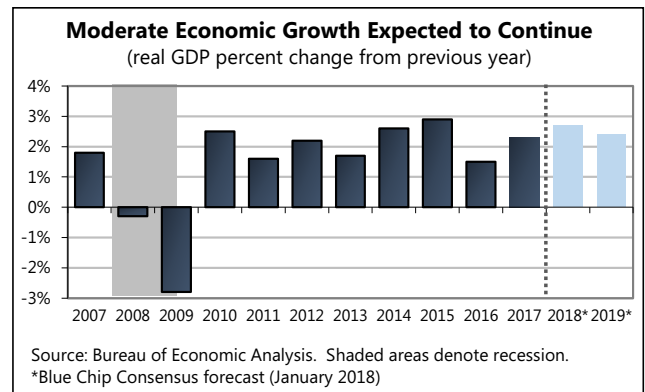
# MAJOR REVENUE SOURCES

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 2019. Real estate assessments, which drives the largest locally generated General Fund revenue source (real estate taxes), are projected to grow 2.5 percent in FY 2019, which is above the 2.4 percent growth in FY 2018.

## ECONOMIC OVERVIEW

The national economy, as measured by real gross domestic product (GDP), continued to expand in 2017, growing at 2.3 percent (third estimate). This growth is above the revised 1.5 percent growth in 2016 but below the revised 2.9 percent growth in 2015. Consumer spending and business investment in structures, equipment, and software contributed most of the 2017 growth. Residential investment and state and local government spending contributed to the 2017 growth but grew at a slower pace than in 2016. Federal spending rose slightly, while net exports and business investment in inventory offset growth. With growth in 2017, the economy has expanded for 102

months, from June 2009 to December 2017, the third longest expansion on record. The second longest economic expansion lasted 106 months from February 1961 to December 1969, while the longest expansion lasted 120 months from March 1991 to March 2001. The economic expansion is expected to continue over the next few years. The Blue Chip consensus forecast (January 2018) and Survey of Professional Forecasters are projecting growth of 2.7 percent and 2.8 percent in real GDP in 2018, respectively, and 2.4 percent and 2.5 percent in 2019, respectively.



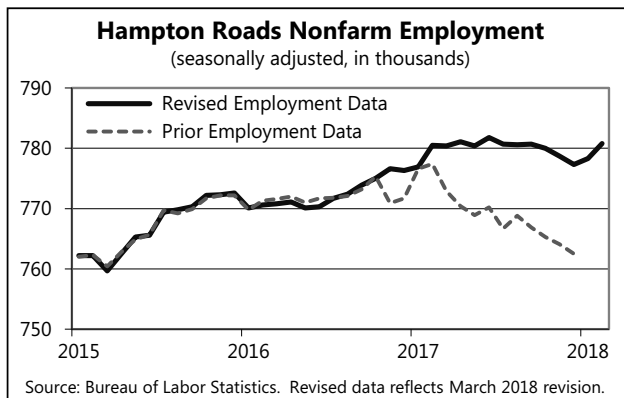
Nonfarm employment also grew in 2017 for the eighth year in a row. The economy gained nearly 2.2 million jobs (revised), an average of approximately 182,000 jobs per month. Both the private and public sector had a net gain in jobs in 2017. Within the private sector, the number of jobs grew in most major industries, except in utilities which lost jobs. Within the public sector, job growth was mainly in local government, which gained 56,000 jobs (revised) while the federal and state government shed 15,000 and 16,000 jobs (revised), respectively. With employment growth through February 2018, the economy has gained jobs for 89 consecutive months since October 2010. Since falling to its lowest level in February 2010 as a

result of the Great Recession, the number of jobs has increased by nearly 18.5 million jobs through February 2018. Along with the job growth, the annual unemployment rate fell to 4.4 percent in 2017 from 4.9 percent in 2016, and in the first two months of 2018, the unemployment rate (seasonally adjusted) stood at 4.1 percent.

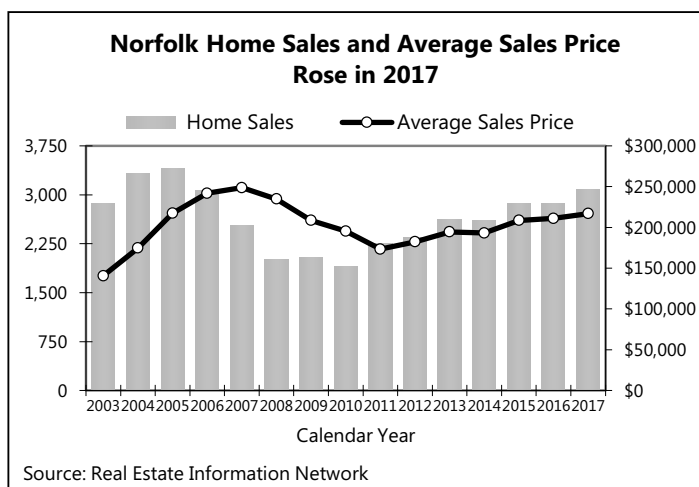
Virginia's annual nonfarm employment rose 0.9 percent (36,900 jobs) to 3,951,000 in 2017, after increasing 1.4 percent (revised) in 2016 and 2.0 percent in 2015. The number of jobs rose in most major industries, with professional and business services, health services, construction, financial activities, and leisure and hospitality seeing the biggest gains, while retail trade and information shed jobs in 2017. Among the Virginia metropolitan statistical areas (MSA) seeing job growth in 2017, the annual employment growth ranged from 0.2 percent (Lynchburg MSA) to 2.3 percent (Charlottesville MSA). In contrast, in 2017, nonfarm employment declined in three

Virginia metro areas (Blacksburg-Christiansburg-Radford MSA, Roanoke MSA, and Staunton-Waynesboro MSA) ranging from 0.4 percent to 0.9 percent. In 2018, Virginia nonfarm employment (seasonally adjusted) continued to rise month-to-month and year-over-year in February 2018 by 0.5 percent and 0.9 percent, respectively.

In 2017, Hampton Roads' annual nonfarm employment rose 0.9 percent (7,300 jobs) to 779,700 after increasing 0.7 percent (revised) in 2016 and 1.1 percent in 2015. Job growth was mostly in the private sector. Employment in the private sector grew or was unchanged in the major industries. The biggest job gains were in professional and business services and construction. In contrast, the public sector saw a decline in employment, mainly in federal and state government which is similar to the national trend. The annual revision as part of the annual benchmark process released each year in March also resulted in a significant upward revision of monthly nonfarm employment (seasonally adjusted) in 2017. Employment data in the fourth quarter of 2017 (October - December) had the largest revisions and were revised upward by 1.9 percent. In 2018, the region's nonfarm employment (seasonally adjusted) continued to rise both month-to-month and year-over-year in February 2018 by 0.3 percent and 0.04 percent, respectively, as indicated by the Virginia Employment Commission employment report that was released ahead of the U.S. Bureau of Labor Statistics metropolitan area report.



Virginia's economic performance in FY 2017 with regard to employment, personal income, and wage growth underperformed expectations. Moreover, Virginia's growth in employment, personal income, and wages in FY 2017 lagged the national growth. In the forecast presented in December 2017 with the Governor's Introduced Budget, Virginia is projected to continue to grow in FY 2018 and the 2018-2020 biennium but at a more moderate rate than previously projected, particularly with regard to personal income and wages. However, personal income and wage growth over the 2018-2020 biennium is projected to be higher than the growth in FY 2017. The December forecast also indicated Virginia's growth in employment, personal income, and wages will again be below that of the nation. Virginia's fiscal stability is important to Norfolk, since nearly 37 percent of General Fund resources come from the Commonwealth. These state resources support Norfolk Public Schools, social services, and other basic services. However, due to the state budget impasse, the FY 2019 General Fund revenue estimates were developed based on the Governor's Introduced Budget for the 2018-2020 biennium.



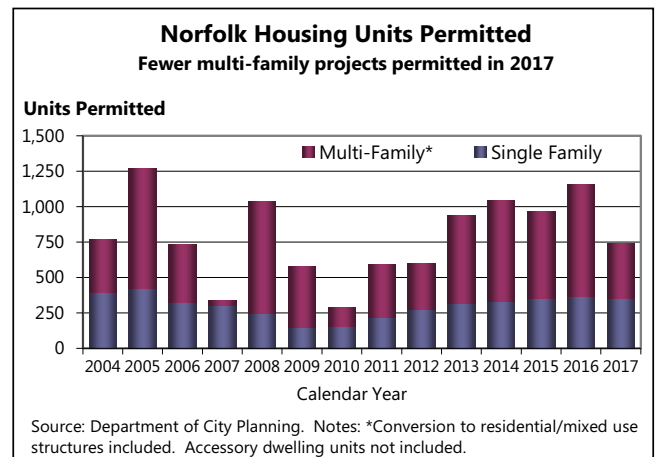
Norfolk revenues overall are expected to continue to improve in FY 2019. Norfolk's recovery from the Great Recession has been very slow. From FY 2009 through FY 2018, General Fund revenues have only increased by 3.6 percent. Norfolk's revenue growth has been held back by the slow recovery of real estate assessments overall and revenue from the Commonwealth back to the pre-recession level. Like other localities, the city's largest source of locally generated revenue comes from real property taxes. For FY 2019, the Real Estate Assessor's Office is estimating a 2.5 percent increase in overall real estate assessments on July 1, 2018 from July 1, 2017. The increase follows five straight years of growth of 2.4 percent in FY 2018, 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 are also anticipated to increase in FY 2019 by 1.8 percent as the local housing market continues to improve. This would be the fifth consecutive year of growth in residential assessments. In the past five years, the average sales price of homes in Norfolk has increased approximately 19 percent, while the median sales price increased approximately 25 percent over the same period.



Along with the housing market recovery, new construction permitted throughout the city should support future growth in real estate assessments. The number of housing units permitted in 2017 edged back significantly as . The decline was largely from multi-family housing and housing units permitted in commercial structures being converted to residential, while single-family housing units permitted held steady. Residential projects permitted in 2017 included St. Paul's Apartments, Ghent Arts Apartments, First Colony Flats, and Linde Lofts Apartments.

Nonresidential (or "commercial") projects permitted in 2017 included renovation of existing structures and new building construction. Commercial projects permitted in 2017 included the IKEA store, Glass Light Hotel (Royster Building renovation), Barry Art Museum, and projects in EVMS and CHKD. 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 fund services such as police, fire, parks and recreation, libraries, street maintenance, K-12 education, and human services.

The Commonwealth of Virginia provides nearly 37 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. Due to the state budget impasse, the FY 2019 Budget was developed based on the Governor's Introduced Budget for the 2018-2020 Biennium.

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 Public Amenities funding to support the Norfolk Consortium. Carryforward funds are generated through a combination of projected current year savings, realized savings from prior years, and account closeouts. Carryforward funds may also include the re-appropriation of prior year unspent designated funds.

Preliminary General Fund revenue projections, based on historical data and current economic data, were presented during the City Manager's financial and budget updates at the fall City Council Retreat (September 2017) and the mid-year City Council Retreat (February 2018). Projections were updated through March to incorporate the current information available. Revenue estimates were based on the analysis of the collection history and patterns, underlying drivers that impact a revenue source, information from departments that collect revenue, overall economic environment, and developments projected for the city in the coming year. Revenue amounts shown in the following discussion include the FY 2018 budget, FY 2018 end of year estimate, and FY 2019 budget. The FY 2019 General Fund budget is approximately \$880.8 million, which is 2.7 percent (\$23.5 million) above the FY 2018 budget.

## General Fund Revenues

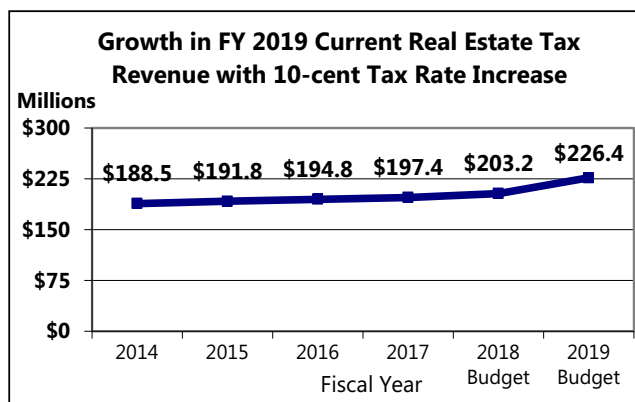
Source	FY 2017 Actual	FY 2018 Adopted	FY 2019 Adopted	FY 2018 vs. FY 2019 \$ Change	% Change	FY 2019 % of Total
General Property Taxes	264,432,379	272,214,800	296,531,400	24,316,600	8.9%	33.7%
Other Local Taxes	159,645,817	166,625,000	169,805,000	3,180,000	1.9%	19.3%
Permits and Fees	3,576,366	3,191,900	3,836,785	644,885	20.2%	0.4%
Fines and Forfeitures	920,282	1,215,000	1,185,000	-30,000	-2.5%	0.1%
Use of Money and Property	7,775,226	7,704,583	7,421,420	-283,163	-3.7%	0.8%
Charges for Services	26,138,114	25,970,611	26,591,119	620,508	2.4%	3.0%
Miscellaneous Revenue	12,528,484	8,970,789	8,952,217	-18,572	-0.2%	1.0%
Recovered Costs	11,963,884	11,758,591	11,695,852	-62,739	-0.5%	1.3%
Non-Categorical Aid - State	34,584,470	34,807,100	35,485,900	678,800	2.0%	4.0%
Shared Expenses - State	20,626,230	21,377,000	21,371,000	-6,000	0.0%	2.4%
Categorical Aid - State	259,643,438	265,985,727	267,804,580	1,818,853	0.7%	30.4%
Federal Aid	9,121,819	8,701,490	8,871,490	170,000	2.0%	1.0%
Other Sources and Transfers In	28,054,896	28,753,463	21,236,663	-7,516,800	-26.1%	2.4%
<b>General Fund Total</b>	<b>839,011,405</b>	<b>857,276,054</b>	<b>880,788,426</b>	<b>23,512,372</b>	<b>2.7%</b>	<b>100.0%</b>

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

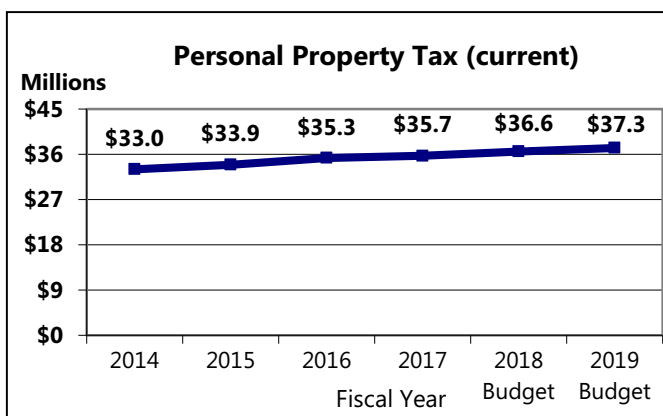
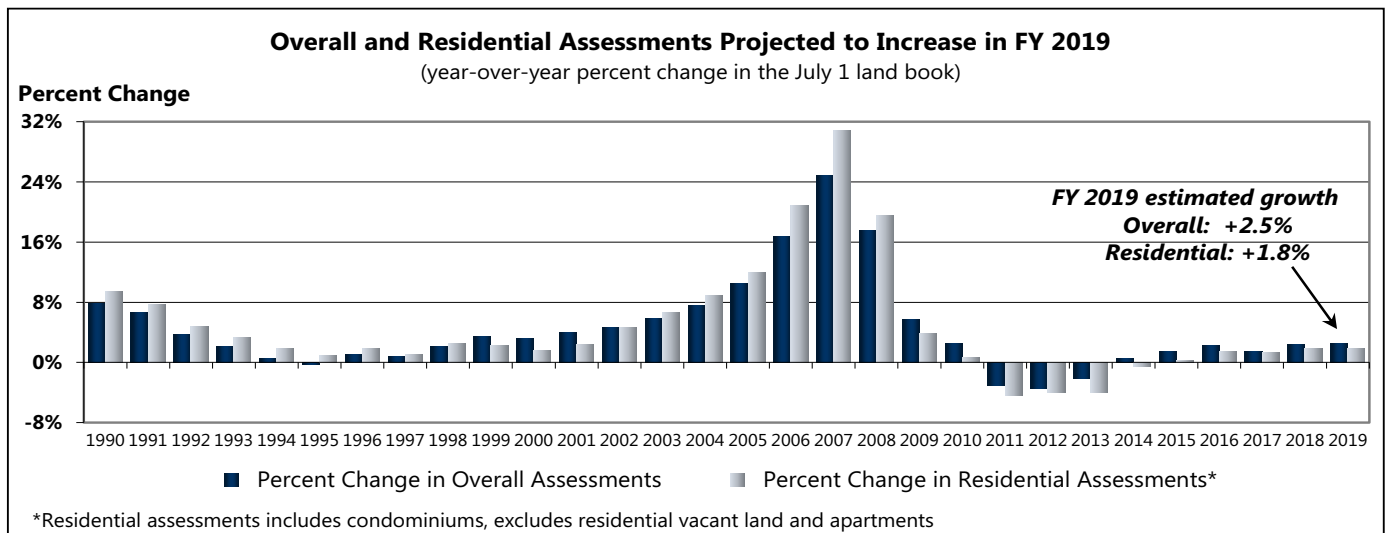
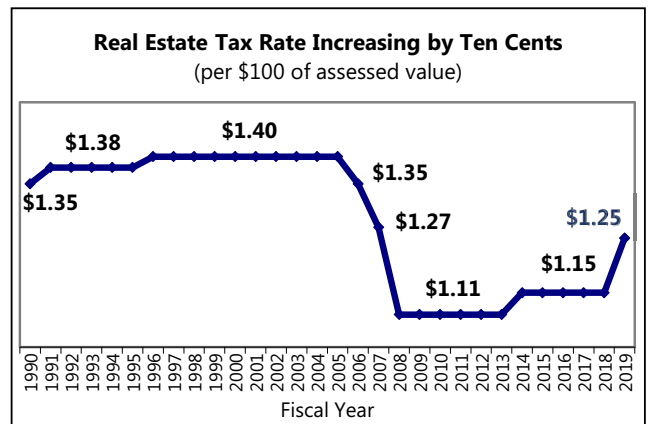


General property taxes are levied on the assessed value of real and personal property. These taxes represent approximately 34 percent (\$296.5 million) of the city's General Fund revenues.

Real estate taxes make up the largest component of general property taxes (\$243.5 million or approximately 28 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 approximately 26 percent (\$226.4 million) of FY 2019 revenues. The Adopted FY 2019 Budget

reflects a 10-cent increase in the real estate tax rate, as proposed, from \$1.15 to \$1.25 per \$100 of assessed value, projected to generate approximately \$18.5 million. The tax rate was last raised in FY 2014 by four cents.

The FY 2019 current real estate tax revenue budget takes into account the Office of the Real Estate Assessor's estimate of overall assessments on July 1, 2018, which is projected to be approximately 2.5 percent above the landbook value on July 1, 2017. This growth is above the 2.4 percent growth in FY 2018. Residential assessments, which make up nearly two-thirds of the city's taxable assessed value, are also projected to increase in FY 2019 by 1.8 percent. The FY 2019 current real estate tax revenue budget also continues to set aside \$5.0 million to provide real estate tax relief to qualifying senior and disabled homeowners and to state mandated disabled veterans and surviving spouses of military personnel killed in action.



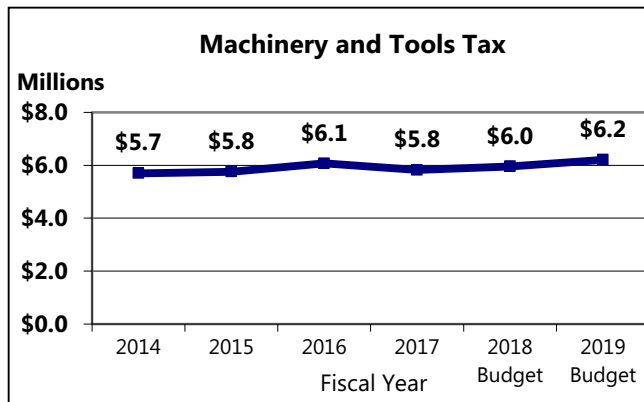
The second largest component of general property taxes is the personal property tax, which is levied on tangible personal property, including motor vehicles, boats, aircraft, business furnishings and office equipment. Household goods and personal effects are exempt from taxation. Personal property tax (current) makes up 4.2 percent (\$37.3 million) of FY 2019 General Fund revenues and is 1.9 percent (\$0.7 million) above the FY 2018 budget and FY 2018 year-end estimate, due to improved collections from this source in recent years and new developments in the city. Personal property taxes in total include delinquent collections, refunds, and tax on public service corporations. This total comprises 5.3 percent

(\$46.8 million) of FY 2019 General Fund revenues and are estimated to be approximately 1.5 percent (\$0.7 million) above the FY 2018 budget and FY 2018 year-end estimate.

The FY 2019 budget 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 2019 (tax bills due June 5, 2019). 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 2018 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.

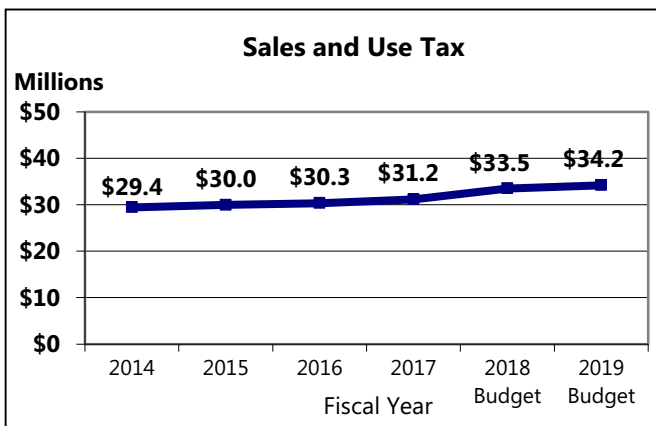
The machinery and tools tax is the third largest component of general property taxes and makes up approximately 0.7 percent (\$6.2 million) of General Fund revenues. The tax is levied on machinery and tools used in manufacturing, mining, radio and television broadcasting, cable television, dry cleaning 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.



## OTHER LOCAL TAXES

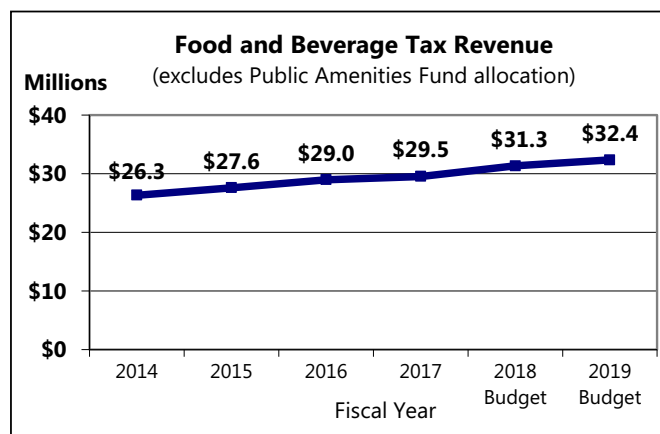
Other local taxes are comprised of consumer and business-based taxes, including excise taxes on utilities (water, gas, electricity, and communications), sales, hotel, restaurant/meals, admissions, and cigarettes, as well as franchise, business license, and recordation taxes. The revenue category is highly sensitive to changes in economic conditions. Other local taxes are projected to comprise approximately 19.3 percent (\$169.8 million) of General Fund revenues in FY 2019. Citywide, other local taxes total approximately \$180.3 million in the operating budget, which includes the Public Amenities Fund portion of the hotel and food and beverage taxes (\$6.9 million) and the Emergency Preparedness and Response portion of the telecommunications sales and use tax (\$3.6 million).

The sales and use tax makes up approximately 3.9 percent (\$34.2 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 collections is used in projecting next year's revenues as well as data on 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 2018 budget by 2.1 percent (\$0.7 million) from the FY 2018 budget and above the FY 2018 end of year estimate by 3.0 percent (\$1.0 million), reflecting the continued growth in occupancy in the outlet mall and downtown businesses and new retail development (IKEA) projected to open during spring of 2019.

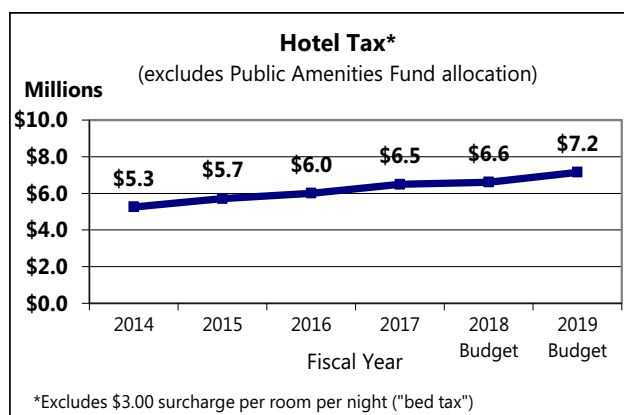


Consumer utility taxes on water, gas, electricity and the communications sales and use tax combined make up approximately 4.4 percent or \$38.5 million of the city's General Fund revenue. The consumer utility tax is levied on the purchase of utility service including water, gas, and electricity. Monthly 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 was 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 city's communications sales and use tax 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 is estimated to be \$17.0 million in FY 2019, which is approximately 3.4 percent (\$0.6 million) below the FY 2018 budget. Since the inception of the tax, revenue received from this source has fluctuated due to adjustments for overpayments and underpayments of the tax by telecommunications service providers as well as lower utilization of communications services subject to the tax. State legislation to modernize the taxation authority to reflect technological changes in communication services were proposed but not passed during the 2018 General Assembly Session. Revenue from consumer utility taxes are estimated to decrease by approximately 1.9 percent (\$0.7 million) from the FY 2018 budget.

Taxes are collected on prepared meals and beverages. The tax rate is 6.5 percent of the value of the meal. One percentage point is allocated to the Public Amenities Fund and 5.5 percentage points is allocated to the General Fund. The revenue generated by 1.0 percentage point of the tax rate is estimated to be approximately \$5.9 million in FY 2019, and the revenue generated from the remaining 5.5 percentage points of the tax rate allocated to the General Fund is estimated to be approximately \$32.4 million. Total revenue generated by the food and beverage tax in the General Fund and Public Amenities Fund is approximately \$38.2 million in FY 2019 making it the largest source in the "other local tax" category.



Food and beverage 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. This tax makes up 3.7 percent (\$32.4 million) of General Fund revenues and is approximately 3.2 percent (\$1.0 million) above the FY 2018 budget.



Hotel taxes are levied on hotel rooms rented at the rate of 8.0 percent of the room rate. Similar to the food and beverage tax, one percentage point is allocated to the Public Amenities Fund and 7.0 percentage points is allocated to the General Fund. The revenue generated by 1.0 percentage point of the tax is estimated to be approximately \$1.0 million in FY 2019, and the revenue generated from the remaining 7.0 percentage points allocated to the General Fund is estimated to be approximately \$7.2 million in FY 2019. The total revenue generated by the hotel tax in the General Fund and Public Amenities Fund combined is approximately \$8.2 million in FY 2019. Hotel taxes make up 0.8 percent (\$7.2 million) of General Fund revenues in FY 2019 and is

approximately 8.2 percent (\$0.5 million) above the FY 2018 budget. The hotel tax estimate does not include the \$3.00 surcharge per room night ("bed tax"), estimated to generate approximately \$3.1 million in FY 2019. The estimate reflects the bed tax rate increase adopted in FY 2019 from \$2.00 to \$3.00 per room night to offset the



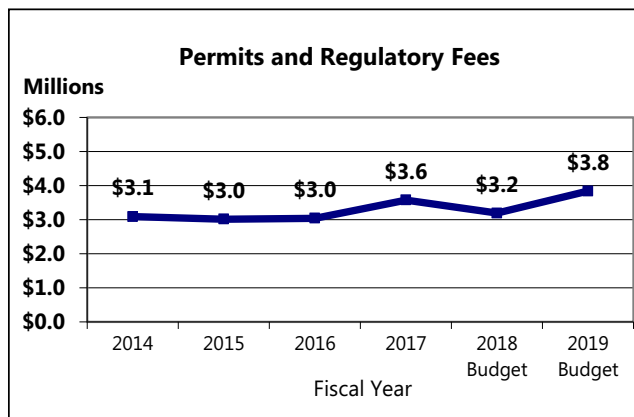
proposed budget reductions to Outside Agencies (see Outside Agencies section). The bed tax was enacted on April 1, 2006 at the rate of \$1.00 per room night with the support from the Norfolk Hotel-Motel Association. Revenue from the first \$1.00 of the tax was dedicated to the Norfolk Convention and Visitor's Bureau (Visit Norfolk) for visitor promotion and advertising for conventions and tourism. In FY 2012, the bed tax was raised to \$2.00 per room night. The revenue collected from the \$1.00 increase in FY 2012 was dedicated to the Norfolk Consortium (see Outside Agencies section).

In FY 2019, the City Council adopted a ten-cent increase in the cigarette tax rate, raising the rate to 95 cents per pack of 20 cigarettes from 85 cents. Revenue from the rate hike was adopted to offset proposed budget reductions to various city services. As a result of the ten-cent increase, Norfolk would have the highest rate among the seven major cities in the region, with Portsmouth having the second highest rate at 90 cents per pack of 20 cigarettes. 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 1.0 percent (\$8.4 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 refunds of overpayments. This revenue source makes up approximately 3.6 percent (\$31.3 million) of General Fund revenues, which is projected to be at the same level as the FY 2018 budget but is approximately 1.6 percent (\$0.5 million) above the FY 2018 year-end estimate.

## PERMITS AND FEES

Permits are issued to regulate new construction and ensure public safety. Revenues from this source are comprised of fees for permits, licenses, and other privileges subject to city regulation. The revenues partially cover the expense of providing regulatory services such as, taxi permits, zoning inspections, construction permits, right-of-way, and fire inspections in the city. The building construction activity driven by large commercial projects has had a positive impact on revenues from permits and fees in the previous fiscal year. In FY 2019, permits and fees are projected to be approximately 0.4 percent (\$3.8 million) of General Fund revenues. The FY 2019 amount is approximately 20.2 percent (\$0.6 million) above the FY 2018 budget. The increase in FY 2019 from FY 2018 largely reflects the adopted increases to fees and implementing new fees charged by the City Planning, Fire-Rescue, and Public Works departments (see Fee Changes).



## FINES AND FORFEITURES

Fines and forfeitures in the General Fund largely 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 2019 budget is approximately 2.5 percent (\$30,000) below the FY 2018 budget. The increase in red light camera fines from FY 2017 is due to the reinstallation of existing cameras with non-invasive equipment that were not fully operational during FY 2017. Citywide, fines and forfeitures total approximately \$2.9 million of

revenues from all operating funds. Nearly 60 percent of the citywide amount are generated from parking fines which support the Parking Facilities Fund (nongeneral fund) operations.

## USE OF MONEY AND PROPERTY

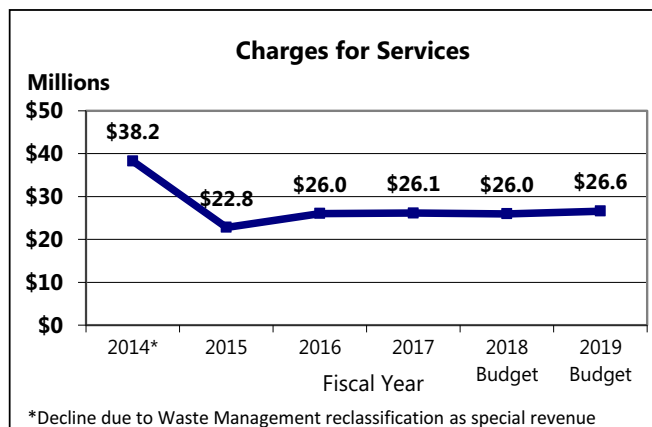
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Revenue from use of money and property is comprised primarily of interest earned on cash balances, rents from short-term and long-term property leases, and prudent management of city assets. Revenue from this source make up approximately 0.8 percent (\$7.4 million) of General Fund revenues. The FY 2019 budget is approximately 3.7 percent (\$0.3 million) below the FY 2018 budget. The decrease is largely from Nauticus, although the decline was partly offset by increased revenue estimated from cultural event ticket sales rebate per contractual agreement. In FY 2019, Nauticus revenue associated with facility rentals fundraising/marketing, and the gift shop of approximately \$1.1 million are being transferred to the Nauticus Foundation, per agreement effective July 1, 2018. The Nauticus Foundation will assume all Nauticus fundraising, marketing, facility rentals, and gift shop services.

## CHARGES FOR SERVICES

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Charges for services include fees charged for various programs and services such as, recreation centers, Virginia Zoo, judicial services, paramedical rescue, school activities, Norfolk Community Services Board (NCSB), Cruise Ship Terminal, and National Maritime Center. Charges for services make up approximately 3.0 percent (\$26.6 million) of General Fund revenues. The FY 2019 budget is approximately 2.4 percent (\$0.6 million) above the FY 2018 budget. The increase partly reflects fee changes in recreation centers, libraries, Nauticus, Virginia Zoo, and paramedical rescue (see Fee Changes), and enhanced charges associated with NCSB budget strategies. Citywide, most of the revenue collected are charges for services by nongeneral funds. Charges for services citywide make up nearly \$308 million (over ten times the amount in the General Fund). These charges are mostly from user fees for utilities, parking facilities, storm water, and refuse disposal. The rates for these user fees are set to ensure operations are fully supported by the fees collected (see Selected Tax Rates and Fees and Fee Changes sections).



## MISCELLANEOUS REVENUE

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Miscellaneous revenue consists of revenues not classified in other categories and includes 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 approximately \$9.0 million in FY 2019, which represents approximately 1.0 percent of General Fund revenues. The FY 2019 budget is approximately 0.2 percent or \$19,000 below the FY 2018 budget.

## RECOVERED COSTS

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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 1.3 percent (\$11.7 million) of General Fund revenues. The FY 2019 budget is approximately 0.5 percent or \$63,000 below the FY 2018 budget. The FY 2019 change from FY 2018 largely reflects updates to the nongeneral fund allocation of indirect General Fund costs, impact of sequestration on the federal

interest subsidy for the Build America Bonds, and anticipated return of local funds related to the Public Health city-state cooperative budget.

## NON-CATEGORICAL AID - VIRGINIA

Non-Categorical aid consists of revenue from the Commonwealth without restriction as to use. In FY 2019, non-categorical aid is estimated to be 4.0 percent (\$35.5 million) of General Fund revenues. The FY 2019 budget is 2.0 percent or \$0.7 million above the FY 2018 budget. The increase was due to the estimated revenue from HB 599 and the car rental tax. Although the General Assembly has not passed a budget for the 2018-2020 biennium, the Governor's Introduced Budget includes an increase in HB 599. Norfolk's share of the increase is estimated to be approximately \$427,000.

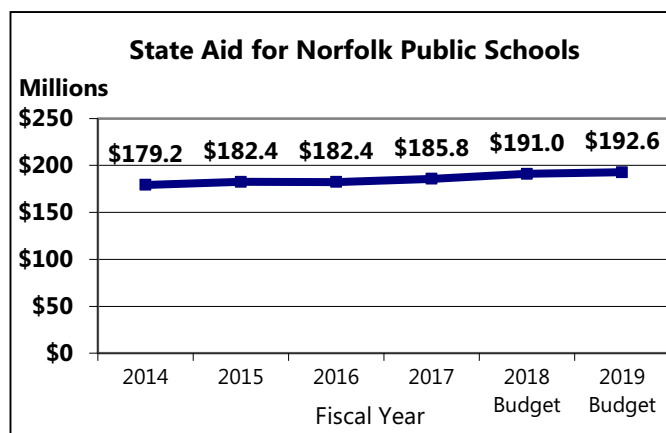
## SHARED EXPENSES

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 2.4 percent (\$21.4 million) of General Fund revenues and is virtually unchanged from FY 2018. The FY 2019 budget reflects annualizing state compensation actions that became effective August 1, 2017, anticipated personnel expenditure utilization, and state funds provided to the Commonwealth's Attorney for enhanced fraud prosecution services.

## 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 30.4 percent (\$267.8 million) of General Fund revenues which is 0.7 percent (\$1.8 million) above the FY 2018 budget. The increase is mostly for Norfolk Public Schools. However, it is important to note that due to the state budget impasse, the FY 2019 Budget was developed based on the Governor's Introduced Budget for the 2018-2020 Biennium.

The majority of state categorical aid in FY 2019 is earmarked for Norfolk Public Schools, approximately \$192.6 million of the \$267.8 million. 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 1½ cent due to the statewide transportation bill. Prior to FY 2014, 1¼ 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 reimbursement for the cost of operating the Department of Human Services and Norfolk Community Services Board, estimated to be approximately \$36.3 million and \$10.0 million, respectively. 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 jail per diem estimate is approximately \$2.6 million in FY 2019 with no changes anticipated in the jail per diem rates based on the Governor's Introduced Budget for the 2018-2020 Biennium. Since the 2016-2018 biennium, the amount appropriated by the Commonwealth has been based on the expected cost of jail per diems. In prior years, the General Assembly did not appropriate the full estimated statewide cost for jail per diems and the funding shortfall was addressed in the mid-biennium or caboose budget. 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. These 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 \$25.4 million in FY 2019. 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 allocated to the city 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

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Aid from the federal government primarily includes funds for Norfolk Public Schools and Norfolk Community Services Board. Federal aid totals approximately \$8.9 million or 1.0 percent of General Fund revenues in FY 2019. The 2.0 percent increase (\$170,000) from the FY 2018 budget is largely due to the reclassification of funds the city receives related to the housing of federal inmates from the United States Marshals Service into the General Fund beginning in FY 2019.

## OTHER SOURCES AND TRANSFERS IN

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Other sources and transfers in consist of intra-governmental transfers and carryforward funds. It totals approximately \$21.2 million or 2.4 percent of General Fund revenues in FY 2019. Other sources and transfers in includes transfers in from nongeneral funds (\$17.3 million) such as, Utilities (\$10 million), Tax Increment Financing Fund (\$4.3 million), and Public Amenities Fund (\$3.0 million) to support the Norfolk Consortium (see Outside Agencies section). The remaining amount (\$4.0 million) consists of the carry forward of savings by city departments including Nauticus and Norfolk Community Services Board, closeout of accounts, and re-appropriating the remaining \$700,000 of the Housing Trust Fund to support affordable housing initiatives (see Capital Improvement Plan). The FY 2019 amount is a decrease of approximately \$7.5 million from FY 2018, which was largely due to the removal of one-time funds such as, the portion of the FY 2016 surplus (\$2.7 million) and proceeds of sale land for the IKEA development project (\$3.85 million) budgeted in FY 2018.

# APPROPRIATIONS

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Department	FY 2019 Adopted
<b>GENERAL FUND</b>	
<b>LEGISLATIVE</b>	
City Council	387,332
City Clerk	1,778,855
City Real Estate Assessor	2,135,298
City Auditor	976,093
<b>Total Legislative</b>	<b>5,277,578</b>
<b>EXECUTIVE</b>	
City Manager	2,284,572
Office of Budget and Strategic Planning	1,605,644
Office of Resilience	498,575
Office of Marketing and Communications	1,822,393
<b>Total Executive</b>	<b>6,211,184</b>
<b>DEPARTMENT OF LAW</b>	<b>4,828,532</b>
<b>CONSTITUTIONAL OFFICERS</b>	
Commissioner of the Revenue	2,970,530
City Treasurer	2,430,195
Clerk of the Circuit Court	2,930,266
Commonwealth's Attorney	5,733,307
Sheriff and Jail	34,465,567
<b>Total Constitutional Officers</b>	<b>48,529,865</b>
<b>JUDICIAL</b>	
General District Court	276,186
Juvenile and Domestic Relations Court	79,793
Circuit Court Judges	866,146
Norfolk Juvenile Court Service Unit	159,853
Magistrate	11,438
<b>Total Judicial</b>	<b>1,393,416</b>
<b>ELECTIONS</b>	<b>993,471</b>
<b>GENERAL MANAGEMENT</b>	
Information Technology	16,884,625
Finance	5,753,018
General Services	25,864,300

<b>Department</b>	<b>FY 2019 Adopted</b>
Human Resources	3,672,938
<b>Total General Management</b>	<b>52,174,881</b>
<b>COMMUNITY DEVELOPMENT</b>	
City Planning	4,825,233
Neighborhood Development	4,476,031
Economic Development	2,474,122
<b>Total Community Development</b>	<b>11,775,386</b>
<b>PARKS, RECREATION AND CULTURE</b>	
Libraries	12,411,417
Cultural Facilities, Arts and Entertainment	6,670,139
Zoological Park	4,475,993
Nauticus	4,121,447
Recreation, Parks and Open Space	17,838,501
<b>Total Parks, Recreation and Culture</b>	<b>45,517,497</b>
<b>CENTRAL AND OUTSIDE AGENCY APPROPRIATIONS</b>	
Central Appropriations	23,211,506
Outside Agencies	53,898,790
<b>Total Central and Outside Agency Appropriations</b>	<b>77,110,296</b>
<b>PUBLIC HEALTH AND ASSISTANCE</b>	
Norfolk Community Services Board	25,321,258
Office to End Homelessness	268,502
Public Health	3,617,181
Human Services	48,138,513
<b>Total Public Health and Assistance</b>	<b>77,345,454</b>
<b>PUBLIC SAFETY</b>	
Police	75,717,773
Fire-Rescue	46,167,025
<b>Total Public Safety</b>	<b>121,884,798</b>
<b>PUBLIC WORKS</b>	<b>27,896,256</b>
<b>DEBT SERVICE</b>	<b>71,493,862</b>
<b>PUBLIC SCHOOL EDUCATION (Norfolk Public Schools)</b>	<b>328,355,950</b>
<b>Total General Fund</b>	<b>880,788,426</b>

<b>Department</b>	<b>FY 2019 Adopted</b>
<b>SPECIAL REVENUE FUNDS</b>	
Storm Water Management	16,578,294
Towing and Recovery Operations	1,659,265
Cemeteries	2,037,123
Golf Operations	15,000
Public Amenities	7,698,409
Emergency Preparedness and Response	6,017,380
Tax Increment Financing	5,855,000
Waste Management	20,452,214
<b>Total Special Revenue Funds</b>	<b>60,312,685</b>
<b>ENTERPRISE FUNDS</b>	
Water Utility	89,144,865
Wastewater Utility	32,495,930
Parking Facilities Fund	24,020,083
<b>Total Enterprise Funds</b>	<b>145,660,878</b>
<b>INTERNAL SERVICE FUNDS</b>	
Healthcare	92,346,084
Fleet Management	11,595,120
<b>Total Internal Service Funds</b>	<b>103,941,204</b>
<b>TOTAL CITY OPERATIONS</b>	<b>1,190,703,193</b>
<b>CAPITAL IMPROVEMENT PLAN</b>	<b>112,039,271</b>
<b>ANNUAL PLAN</b>	<b>5,841,730</b>
<b>TOTAL APPROPRIATIONS</b>	<b>1,308,584,194</b>

# SELECTED TAX RATES AND FEES

Description	FY 2018 Adopted	FY 2019 Adopted
<b>PROPERTY TAXES</b>		
<b>Real Estate</b> (General Tax)	<b>\$1.15/\$100 Assessed Value</b>	<b>\$1.25/\$100 Assessed Value</b>
<b>Real Estate</b> (Downtown Improvement District)	<b>\$1.31/\$100 Assessed Value</b>	<b>\$1.41/\$100 Assessed Value</b>
<b>Personal Property</b>		
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
<b>Machinery &amp; Tools</b>	<b>\$4.25/\$100 Assessed Value</b>	<b>\$4.25/\$100 Assessed Value</b>
<b>OTHER LOCAL TAXES</b>		
<b>Amusement and Admissions</b>	10%	10%
<b>Cigarette</b>	<b>85 cents/pack of 20 cigarettes (42.5 mils/cigarette)</b>	<b>95 cents/pack of 20 cigarettes (47.5 mils/cigarette)</b>
<b>Emergency 911 (Landline)</b>	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
<b>Hotel/Motel Lodging</b>	8%	8%
<b>Bed Tax</b>	<b>\$2.00 per room night</b>	<b>\$3.00 per room night</b>
<b>Food and Beverage</b>	6.5%	6.5%
<b>Motor Vehicle License:</b>		
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 2018 Adopted	FY 2019 Adopted
<b>REFUSE DISPOSAL</b>		
<b>Residential</b>		
Single or Multiple Units (four units or less)	<b>\$28.01/unit/month</b>	<b>\$25.01/unit/month</b>
Multiple Units (five units or more)	<b>\$46.94/container/month</b>	<b>\$43.94/container/month</b>
<b>Commercial</b>		
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
<b>WATER AND WASTEWATER UTILITY FEES</b>		
Water	<b>\$4.93/100 cubic feet</b>	<b>\$5.11/100 cubic feet</b>
Wastewater	<b>\$4.13/100 cubic feet</b>	<b>\$4.30/100 cubic feet</b>
<b>STORM WATER FEES (rate calculated based on a 30-day month)</b>		
Residential	<b>\$11.40/month</b>	<b>\$11.70/month</b>
Commercial	<b>\$8.16/month per 2,000 sq. ft.</b>	<b>\$8.38/month per 2,000 sq. ft.</b>
<b>UTILITY TAXES</b>		
<b>Commercial</b>		
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
<b>Residential</b>		
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

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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 \$5.7 million to \$0.8 million to settle a major general liability claim. In FY 2010, City Council approved using approximately \$1.1 million 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 2017 Actual	FY 2018 Minimum	FY 2018 Projected
<b>Unassigned Reserve ("five percent reserve")<sup>1</sup></b>	\$42,332,591	\$43,118,803	\$43,118,803
<b>Risk Management Reserve<sup>2</sup></b>	\$5,000,000	\$3 - \$5 million	\$5,000,000
<b>Economic Downturn Reserve<sup>2</sup></b>	\$5,000,000	\$3 - \$5 million	\$5,000,000
<b>General Fund Balance Reserves at June 30<sup>3</sup></b>	<b>\$52,332,591</b>		<b>\$53,118,803</b>

<sup>1</sup> The minimum FY 2018 unassigned reserve of \$43,118,803 is based upon the projected Amended FY 2018 General Fund Budget of \$862,376,054.

<sup>2</sup> 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.

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

# ESTIMATED GENERAL FUND - FUND BALANCE

<b>Beginning General Fund - Fund Balance, July 1, 2017 (CAFR)*</b>		<b>\$116,119,909</b>
Add Revenues**		
Revenues (excluding transfers)	\$828,522,591	
Return from utilities and waste management funds	\$10,185,824	
Return from tax increment financing fund	\$3,702,265	
Public amenities fund support for Norfolk Consortium	\$3,000,000	
<b>Total Fund Balance and Revenues</b>		<b>\$961,530,589</b>
Less: Anticipated Expenditures**		
Norfolk Public Schools operating budget	\$325,292,145	
Public safety	\$117,145,211	
Public health and assistance	\$78,077,086	
Other city departments	\$204,470,207	
Central appropriations and outside agencies	\$65,651,909	
Debt service	\$66,639,496	
<b>Projected Fund Balance at June 30, 2018 with anticipated expenditures</b>		<b>\$104,254,535</b>
Less Anticipated Uses of Fund Balance:		
Use of FY 2017 surplus for debt reduction in FY 2019	\$5,100,000	
<b>Total Estimated Fund Balance at June 30, 2018</b>		<b>\$99,154,535</b>

\*Amount reported in the FY 2017 Comprehensive Annual Financial Report (CAFR)

\*\*Reflects amounts in the Adopted FY 2018 General Fund Budget



# SUMMARY OF CHANGES IN FUND BALANCE

## General Fund

	FY 2017 Actual	FY 2018 Adopted	FY 2019 Adopted
<b>Operating Revenues</b>			
General property taxes	264,432,379	272,214,800	296,531,400
Other local taxes	159,645,817	166,625,000	169,805,000
Permits and fees	3,576,366	3,191,900	3,836,785
Fines and forfeitures	920,282	1,215,000	1,185,000
Charges for services	26,343,778	25,970,611	26,591,119
Miscellaneous	13,293,768	8,970,789	8,952,217
Recovered costs	11,979,494	11,758,591	11,695,852
Commonwealth	314,854,338	322,169,827	324,661,480
Federal	8,379,877	8,701,490	8,871,490
<b>Total Operating Revenues</b>	<b>803,426,099</b>	<b>820,818,008</b>	<b>852,130,343</b>
<b>Operating Expenses</b>			
Personnel services	281,654,660	296,469,073	302,874,451
Contractual services	43,402,521	42,446,304	43,936,223
Materials, supplies and repairs	39,549,734	41,284,359	40,395,548
Department specific appropriation	379,109,746	391,773,816	405,168,788
Public assistance	13,216,045	13,714,778	14,655,895
<b>Total Operating Expenses</b>	<b>756,932,706</b>	<b>785,688,330</b>	<b>807,030,905</b>
<b>Operating Income (Loss)</b>	<b>46,493,393</b>	<b>35,129,678</b>	<b>45,099,438</b>
<b>Non-Operating Revenues (Expenses)</b>			
Money and use of property	7,530,410	7,704,583	7,421,420
Capital outlay	(1,815,000)	(2,770,257)	(4,543,701)
Debt service	(70,217,130)	(65,752,240)	(66,218,879)
Acctg. for Encumbrances for Budget not GAAP	12,758,839	0	0
<b>Total Non-Operating Revenue/Expense</b>	<b>(51,742,881)</b>	<b>(60,817,914)</b>	<b>(63,341,160)</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>(5,249,488)</b>	<b>(25,688,236)</b>	<b>(18,241,722)</b>
Operating transfers in	16,485,591	16,888,089	17,253,465
Operating transfers out	(2,903,938)	(3,065,227)	(2,994,941)
<b>Total Operating Transfers</b>	<b>13,581,653</b>	<b>13,822,862</b>	<b>14,258,524</b>
<b>Net Change in Fund Balance*</b>	<b>8,332,165</b>	<b>(11,865,374)</b>	<b>(3,983,198)</b>
<b>Beginning Fund Balance at July 1</b>	<b>107,787,744</b>	<b>116,119,909</b>	<b>104,254,535</b>
<b>Ending Fund Balance at June 30 **</b>	<b>116,119,909</b>	<b>104,254,535</b>	<b>100,271,337</b>

\*Approximately \$5.1 million of the FY 2017 surplus will be used for debt reduction in FY 2019. The FY 2018 amount includes proceeds from the sale of land (\$3.85 million) received but not budgeted during FY 2017 and carryforward of a portion of the FY 2016 surplus (\$2.7 million) and \$700,000 of unspent FY 2016 Housing Trust Fund for one-time expenses.

\*\*The FY 2018 amount is the amount prior to anticipated use of FY 2017 surplus for debt reduction in FY 2019. See Estimated General Fund - Fund Balance for details.

## Special Revenue Funds

	FY 2017 Actual	FY 2018 Adopted	FY 2019 Adopted
<b>Operating Revenues</b>			
General property taxes	5,384,000	5,266,000	5,855,000
Other local taxes	9,893,162	10,215,596	10,474,596
Fines and forfeitures	0	11,535	12,000
Charges for services	39,299,863	40,381,778	38,422,956
Miscellaneous	142,659	535,199	586,334
Recovered costs	0	2,131,000	1,769,551
Commonwealth	1,765,944	77,000	81,000
Federal	92,904	113,617	0
<b>Total Operating Revenues</b>	<b>56,578,532</b>	<b>58,731,725</b>	<b>57,201,437</b>
<b>Operating Expenses</b>			
Personnel services	17,289,044	19,527,969	20,459,901
Contractual services	15,200,653	14,432,934	11,426,232
Materials, supplies and repairs	4,997,090	6,359,520	4,727,611
Department specific appropriation	8,704,293	1,856,018	1,521,135
<b>Total Operating Expenses</b>	<b>46,191,080</b>	<b>42,176,441</b>	<b>38,134,879</b>
<b>Operating Income (Loss)</b>	<b>10,387,452</b>	<b>16,555,284</b>	<b>19,066,558</b>
<b>Non-Operating Revenues (Expenses)</b>			
Money and use of property	47,141	990,130	826,130
Capital outlay	(1,545,428)	(2,778,353)	(3,570,125)
Gain/(Loss)-Sale of fixed assets & investments	0	10,000	20,214
Debt service	(7,595,822)	(9,534,202)	(10,039,016)
<b>Total Non-Operating Revenue/Expense</b>	<b>(9,094,109)</b>	<b>(11,312,425)</b>	<b>(12,762,797)</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>1,293,343</b>	<b>5,242,859</b>	<b>6,303,761</b>
Operating transfers in	1,362,125	1,477,971	1,507,685
Operating transfers out	(10,800,792)	(9,203,289)	(8,568,665)
<b>Total Operating Transfers</b>	<b>(9,438,667)</b>	<b>(7,725,318)</b>	<b>(7,060,980)</b>
<b>Net Change in Fund Balance*</b>	<b>(8,145,324)</b>	<b>(2,482,459)</b>	<b>(757,219)</b>
<b>Beginning Fund Balance at July 1</b>	<b>29,442,310</b>	<b>21,296,986</b>	<b>18,814,527</b>
<b>Ending Fund Balance at June 30</b>	<b>21,296,986</b>	<b>18,814,527</b>	<b>18,057,308</b>

\*Approximately \$7.1 million of the FY 2017 amount and \$2.2 million of the FY 2018 amount reflects the change in fund balance of the Public Amenities Fund. See Public Amenities Fund for details.

# SUMMARY OF CHANGES IN NET ASSETS

## Enterprise Funds

	FY 2017 Actual	FY 2018 Adopted	FY 2019 Adopted
<b>Operating Revenues</b>			
Permits and fees	0	625,324	664,500
Fines and forfeitures	0	2,106,842	1,750,000
Charges for services	134,170,141	134,778,854	139,050,195
Miscellaneous	2,244,196	187,180	186,900
Recovered costs	0	1,341,600	1,341,600
<b>Total Operating Revenues</b>	<b>136,414,337</b>	<b>139,039,800</b>	<b>142,993,195</b>
<b>Operating Expenses</b>			
Personnel services	30,547,654	28,754,722	29,240,087
Contractual services/Materials, supplies and repairs	32,770,278	31,249,839	34,234,552
Depreciation	26,184,410	0	0
Department specific appropriation	0	6,257,956	5,735,067
<b>Total Operating Expenses</b>	<b>89,502,342</b>	<b>66,262,517</b>	<b>69,209,706</b>
<b>Operating Income (Loss)</b>	<b>46,911,995</b>	<b>72,777,283</b>	<b>73,783,489</b>
<b>Non-Operating Revenues (Expenses)</b>			
Money and use of property	431,689	329,087	630,000
Capital outlay	0	(775,291)	(763,074)
Intergovernmental revenue	149,645	0	0
Miscellaneous revenue (expense)	(16,127)	0	0
Gain/(Loss)-Sale of fixed assets & investments	(854,416)	7,400	7,400
Debt service	(18,112,101)	(62,171,361)	(62,788,098)
<b>Total Non-Operating Revenue/Expense</b>	<b>(18,401,310)</b>	<b>(62,610,165)</b>	<b>(62,913,772)</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>28,510,685</b>	<b>10,167,118</b>	<b>10,869,717</b>
Capital Contribution	188,476	0	0
Operating transfers in	0	0	0
Operating transfers out	(10,000,000)	(12,900,000)	(12,900,000)
<b>Total Operating Transfers/Capital Contribution</b>	<b>(9,811,524)</b>	<b>(12,900,000)</b>	<b>(12,900,000)</b>
<b>Net Income (Loss)</b>	<b>18,699,161</b>	<b>(2,732,882)</b>	<b>(2,030,283)</b>
<b>Beginning Net Assets at July 1</b>	<b>418,774,379</b>	<b>437,473,540</b>	<b>434,740,658</b>
<b>Ending net assets at June 30</b>	<b>437,473,540</b>	<b>434,740,658</b>	<b>432,710,375</b>

## Internal Service Funds

	FY 2016 Actual	FY 2018 Adopted	FY 2019 Adopted
<b>Operating Revenues</b>			
Charges for services	87,812,872	106,179,360	103,843,839
Miscellaneous	36,150	0	0
Recovered costs	0	63,865	63,865
<b>Total Operating Revenues</b>	<b>87,849,022</b>	<b>106,243,225</b>	<b>103,907,704</b>
<b>Operating Expenses</b>			
Personnel services	3,211,061	3,527,618	3,731,050
Cost of Goods Sold	3,311,951	0	0
Contractual services	80,446,472	98,244,525	95,894,272
Materials, supplies and repairs/Other	4,418,955	4,493,582	4,284,382
Depreciation	258,678	0	0
<b>Total Operating Expenses</b>	<b>91,647,117</b>	<b>106,265,725</b>	<b>103,909,704</b>
<b>Operating Income (Loss)</b>	<b>(3,798,095)</b>	<b>(22,500)</b>	<b>(2,000)</b>
<b>Non-Operating Revenues (Expenses)</b>			
Money and use of property	0	5,000	3,500
Capital outlay	0	(32,500)	(31,500)
Miscellaneous revenue (expense)	0	0	0
Gain/(Loss)-Sale of fixed assets & investments	0	50,000	30,000
<b>Total Non-Operating Revenue/Expense</b>	<b>0</b>	<b>22,500</b>	<b>2,000</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>(3,798,095)</b>	<b>0</b>	<b>0</b>
Operating transfers in	0	0	0
Operating transfers out	0	0	0
<b>Total Operating Transfers</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Income (Loss)</b>	<b>(3,798,095)</b>	<b>0</b>	<b>0</b>
<b>Beginning Net Assets at July 1</b>	<b>4,471,417</b>	<b>673,322</b>	<b>673,322</b>
<b>Ending net assets at June 30</b>	<b>673,322</b>	<b>673,322</b>	<b>673,322</b>

# TRANSFERS FROM/TO

The tables below present certain fund to fund transfers in FY 2019, 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 2019**

Capital Improvement Program	1,487,256
Cemetery Fund	230,994
Emergency Preparedness and Response Fund	1,276,691
<b>Total Transfers from General Fund</b>	<b>2,994,941</b>

## Transfer to General Fund from

Public Amenities Fund	3,000,000
Tax Increment Financing Fund	4,253,465
Wastewater Utility Fund	1,500,000
Water Utility Fund	8,500,000
<b>Total Transfers to General Fund</b>	<b>17,253,465</b>

## Transfer to Capital Improvement Program from

General Fund	1,487,256
Land Acquisition Fund	826,678
Parking Facilities Fund	2,900,000
Storm Water Management Fund	1,315,200
Water Utility Fund	20,000,000
<b>Total Transfers to the Capital Improvement Program</b>	<b>26,529,134</b>

# FULL TIME EQUIVALENT (FTE) STAFFING SUMMARY

	FY 2017 Adopted FTE	FY 2018 Adopted FTE	FY 2019 Adopted FTE	Change FY 2018 to FY 2019
<b>General Fund</b>				
Budget and Strategic Planning	18.0	18.0	16.0	-2.0
Circuit Court Judges	5.0	5.0	5.0	0.0
City Attorney	34.0	34.0	34.0	0.0
City Auditor	9.0	9.0	9.0	0.0
City Clerk	14.0	14.0	15.0	1.0
City Council	8.0	8.0	8.0	0.0
City Manager	14.0	14.0	14.0	0.0
City Planning	65.0	65.0	62.0	-3.0
City Real Estate Assessor	24.0	24.0	24.0	0.0
City Treasurer	31.0	31.0	31.0	0.0
Clerk of Circuit Court	49.0	49.0	49.0	0.0
Commissioner of the Revenue	42.0	42.0	38.0	-4.0
Commonwealth's Attorney	58.0	59.0	60.0	1.0
Cultural Facilities, Arts & Entertainment	54.0	54.0	54.0	0.0
Economic Development	20.0	21.0	17.0	-4.0
Elections	6.0	6.0	6.0	0.0
Finance Department	48.8	58.0	53.0	-5.0
Fire-Rescue	504.0	504.0	504.0	0.0
General Services and Administration	130.0	131.0	128.2	-2.8
Human Resources	36.0	36.0	33.0	-3.0
Human Services	525.5	525.5	476.0	-49.5
Information Technology	106.0	90.0	82.0	-8.0
Libraries	124.6	134.6	130.2	-4.4
Nauticus	40.3	40.3	27.3	-13.0
Neighborhood Development	56.0	56.0	53.0	-3.0
Norfolk Community Services Board	283.9	289.1	263.1	-26.0
Office of Marketing and Communications <sup>1</sup>	0.0	15.0	16.0	1.0
Office of Resilience	3.0	3.0	3.0	0.0
Office to End Homelessness	3.0	3.0	3.0	0.0
Police	874.0	874.0	874.0	0.0
Public Health	11.0	11.0	8.5	-2.5
Public Works	225.0	226.0	207.0	-19.0

	<b>FY 2017 Adopted FTE</b>	<b>FY 2018 Adopted FTE</b>	<b>FY 2019 Adopted FTE</b>	<b>Change FY 2018 to FY 2019</b>
Recreation, Parks and Open Space	216.7	216.7	203.7	-13.0
Sheriff and Jail <sup>2</sup>	475.0	447.0	447.0	0.0
Zoological Park	51.1	51.1	50.3	-0.8
<b>Total General Fund</b>	<b>4,164.8</b>	<b>4,164.3</b>	<b>4,000.3</b>	<b>-160.0</b>
<b>Special Revenue Funds</b>				
Cemeteries	32.8	32.8	32.8	0.0
Emergency Preparedness and Response	90.0	90.0	82.0	-8.0
Storm Water Management	109.0	112.0	99.0	-13.0
Towing and Recovery Operations	9.9	9.9	8.9	-1.0
Waste Management	101.0	101.0	105.0	4.0
<b>Total Special Revenue Funds</b>	<b>342.7</b>	<b>345.7</b>	<b>327.7</b>	<b>-18.0</b>
<b>Enterprise Funds</b>				
Parking Facilities	65.0	65.0	63.2	-1.8
Wastewater Utility	105.0	105.0	103.0	-2.0
Water Utility	292.5	292.5	290.5	-2.0
<b>Total Enterprise Funds</b>	<b>462.5</b>	<b>462.5</b>	<b>456.7</b>	<b>-5.8</b>
<b>Internal Service Funds</b>				
Fleet	56.8	56.8	53.0	-3.8
Healthcare <sup>3</sup>	0.0	0.0	2.0	2.0
<b>Total Internal Service Funds</b>	<b>56.8</b>	<b>56.8</b>	<b>55.0</b>	<b>-1.8</b>
<b>Total All Funds<sup>4,5</sup></b>	<b>5,026.9</b>	<b>5,029.3</b>	<b>4,839.7</b>	<b>-185.6</b>

**Only permanent positions are reflected in the Budget Document.**

<sup>1</sup>The FY 2018 Budget created the Office of Marketing and Communications.

<sup>2</sup>The State Compensation Board reduced approved positions by 28, effective between FY 2017 and FY 2018.

<sup>3</sup>The FY 2019 Budget creates two positions in the Healthcare Fund.

<sup>4</sup>The city will transition to position-based budgeting in FY 2019, resulting in the reduction of 130.1 vacant FTEs.

<sup>5</sup> Net position reductions resulting from FY 2019 budget actions is 55.5 FTEs.

# CITY INDEBTEDNESS

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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, Nauticus, Towing and Recovery, and Waste Management operations finance capital needs with self-supporting general obligation bonds.

The following table shows the estimated general obligation Legal Debt Margin for the current fiscal year as of June 30, 2018, and for the past four fiscal years.

As of	Taxable Real Property Assessed Value <sup>(1)</sup>	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, 2018 <sup>(2) (3)</sup>	19,845,463,868	1,984,546,387	1,116,152,221	56.24%	868,394,166
June 30, 2017	19,433,889,018	1,943,388,902	1,065,983,734	54.85%	877,405,168
June 30, 2016	19,106,737,956	1,910,673,796	988,381,838	51.73%	922,291,958
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

(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, 2018.

(3)Projected Debt Applicable to Debt Limit excludes \$247,038,293 of General Obligation Bonds authorized by ordinance for Capital Improvement Projects, but not yet issued.

## OVERLAPPING DEBT

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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

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



## OUTSTANDING DEBT

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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 \$1,293,792,891.

## GENERAL CAPITAL IMPROVEMENTS–AFFORDABILITY MEASURES

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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 2019 Capital Improvement Plan is within the two measures of affordability listed above. The city will need to maintain a moderate Capital Improvement Plan with a focus of maintenance and rehabilitation of existing infrastructure to stay within these measures as some major essential governmental projects are financed, such as a new city courthouse, several schools and a new anchor branch library for Broad Creek.

## ENTERPRISE OPERATIONS DEBT

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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 2019 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

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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, 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:

<b>Bonding Program</b>	<b>Moody’s</b>	<b>S&amp;P</b>	<b>Fitch</b>
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 reaffirmed the city’s General Obligation long-term ratings in October 2017 reaffirmed the city’s Water Revenue long-term ratings in February 2018. In general, AA category rating signifies very high-quality bonds with some elements of long-term risks.

In addition to being reaffirmed, S&P boosted the city’s rating outlook from stable to positive highlighting Norfolk’s “strong economy,” its “very strong budgetary flexibility and strong budgetary performance” and “very strong management conditions with strong policies and practices” in addition to “its ability to consistently maintain balanced operations.” The positive outlook reflects S&P’s opinion that there is a one-in-two change it could raise the city’s rating within two years. The positive outlook reflects a trend of growth in the economic base and income indicators of the city.

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

## Computation of Legal Debt Margin

<b>June 30, 2018 (Estimated)</b>			
Total Assessed Value of Taxed Real Property as of March 31, 2018			\$19,845,463,868
Debt Limit: 10 percent of Total Assessed Value			\$1,984,546,387
Amount of Debt Applicable to Debt Limit: <sup>(1)(2)(3)</sup>			
Gross Debt	\$902,232,221		
Line of Credit	\$200,000,000		
Economic Development Authority Note	\$13,920,000	\$1,116,152,221	
Legal Debt Margin			\$868,394,166
Amount of Debt as a percent of Debt Limit			56.24%

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

(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 \$247,038,293 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 <sup>(1) (2)</sup>			General Obligation Equipment <sup>(1)</sup>			Water Revenue <sup>(1)</sup>		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2019	54,270,613	39,546,154	93,816,767	6,615,000	979,620	7,594,620	14,200,000	15,858,467	30,058,467
2020	63,267,092	35,917,834	99,184,927	5,345,000	629,817	5,974,817	13,830,000	15,044,375	28,874,375
2021	61,249,272	33,254,943	94,504,215	4,580,000	404,008	4,984,008	15,965,000	14,311,275	30,276,275
2022	60,104,453	30,639,027	90,743,480	2,020,000	247,450	2,267,450	17,170,000	13,504,400	30,674,400
2023	59,315,800	28,035,753	87,351,553	2,030,000	147,800	2,177,800	18,335,000	13,027,150	31,362,150
2024	59,263,344	25,442,307	84,705,651	585,000	84,025	669,025	19,440,000	11,700,150	31,140,150
2025	54,040,331	22,961,395	77,001,726	460,000	56,500	516,500	18,075,000	10,768,525	28,843,525
2026	52,294,345	20,528,340	72,822,685	355,000	36,125	391,125	19,170,000	9,843,900	29,013,900
2027	51,459,466	18,131,973	69,591,439	355,000	18,375	373,375	12,010,000	9,058,700	21,068,700
2028	46,604,559	15,941,133	62,545,692	190,000	4,750	194,750	12,700,000	8,431,750	21,131,750
2029	37,030,290	14,036,259	51,066,548	-	-	-	13,505,000	7,774,775	21,279,775
2030	37,765,290	12,257,118	50,022,408	-	-	-	8,700,000	7,210,638	15,910,638
2031	38,025,290	10,464,265	48,489,555	-	-	-	9,395,000	6,790,450	16,185,450
2032	25,275,290	8,621,940	33,897,230	-	-	-	9,695,000	6,392,538	16,087,538
2033	36,495,290	7,142,664	43,637,953	-	-	-	8,080,000	5,953,569	14,033,569
2034	24,710,290	5,793,749	30,504,039	-	-	-	8,515,000	5,465,138	13,980,138
2035	21,530,290	4,745,654	26,275,944	-	-	-	9,000,000	4,984,694	13,984,694
2036	21,760,290	3,788,256	25,548,546	-	-	-	9,485,000	4,566,325	14,051,325
2037	21,700,290	2,798,590	24,498,879	-	-	-	8,565,000	4,216,613	12,781,613
2038	18,790,290	1,854,098	20,644,388	-	-	-	9,015,000	3,838,506	12,853,506
2039	9,985,145	1,270,127	11,255,272	-	-	-	9,490,000	3,393,394	12,883,394
2040	2,630,000	1,049,541	3,679,541	-	-	-	7,705,000	2,987,144	10,692,144
2041	2,655,000	943,028	3,598,028	-	-	-	8,075,000	2,622,906	10,697,906
2042	2,685,000	851,736	3,536,736	-	-	-	8,480,000	2,167,838	10,647,838
2043	3,915,000	728,795	4,643,795	-	-	-	8,920,000	1,620,488	10,540,488
2044	3,295,000	563,360	3,858,360	-	-	-	10,050,000	1,079,869	11,129,869
2045	3,090,000	408,231	3,498,231	-	-	-	10,590,000	541,981	11,131,981
2046	3,205,000	255,503	3,460,503	-	-	-	1,685,000	223,875	1,908,875
2047	3,330,000	96,926	3,426,926	-	-	-	1,770,000	137,500	1,907,500
2048	425,000	8,060	433,060	-	-	-	1,865,000	46,625	1,911,625
<b>Total</b>	<b>880,167,317</b>	<b>348,076,760</b>	<b>1,228,244,077</b>	<b>22,535,000</b>	<b>2,608,470</b>	<b>25,143,470</b>	<b>323,480,000</b>	<b>193,563,554</b>	<b>517,043,554</b>

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

# YEARLY MATURITY OF LONG-TERM DEBT (CONTINUED)

Fiscal Year	Wastewater Revenue <sup>(1)</sup>			Totals <sup>(1)</sup>		
	Principal	Interest	Total	Principal	Interest	Total
2019	4,169,419	-	4,169,419	79,255,033	56,384,241	135,639,273
2020	4,331,919	-	4,331,919	86,774,011	51,592,026	138,366,038
2021	4,331,919	-	4,331,919	86,126,191	47,970,227	134,096,418
2022	4,331,919	-	4,331,919	83,626,373	44,390,877	128,017,249
2023	4,331,919	-	4,331,919	84,012,720	41,210,703	125,223,423
2024	4,331,919	-	4,331,919	83,620,264	37,226,482	120,846,745
2025	4,331,919	-	4,331,919	76,907,251	33,786,420	110,693,670
2026	4,331,919	-	4,331,919	76,151,265	30,408,365	106,559,629
2027	4,331,919	-	4,331,919	68,156,385	27,209,048	95,365,433
2028	4,331,919	-	4,331,919	63,826,478	24,377,633	88,204,111
2029	4,331,919	-	4,331,919	54,867,209	21,811,034	76,678,243
2030	3,906,919	-	3,906,919	50,372,209	19,467,756	69,839,965
2031	3,481,919	-	3,481,919	50,902,209	17,254,715	68,156,924
2032	3,106,919	-	3,106,919	38,077,209	15,014,478	53,091,687
2033	2,606,919	-	2,606,919	47,182,209	13,096,233	60,278,441
2034	2,374,419	-	2,374,419	35,599,709	11,258,887	46,858,596
2035	1,851,936	-	1,851,936	32,382,225	9,730,348	42,112,574
2036	1,311,952	-	1,311,952	32,557,242	8,354,581	40,911,823
2037	843,476	-	843,476	31,108,766	7,015,202	38,123,968
2038	475,000	-	475,000	28,280,290	5,692,604	33,972,894
2039	162,500	-	162,500	19,637,645	4,663,521	24,301,166
2040	-	-	-	10,335,000	4,036,684	14,371,684
2041	-	-	-	10,730,000	3,565,934	14,295,934
2042	-	-	-	11,165,000	3,019,574	14,184,574
2043	-	-	-	12,835,000	2,349,283	15,184,283
2044	-	-	-	13,345,000	1,643,229	14,988,229
2045	-	-	-	13,680,000	950,213	14,630,213
2045	-	-	-	4,890,000	479,378	5,369,378
2047	-	-	-	5,100,000	234,426	5,334,426
2048	-	-	-	2,290,000	54,685	2,344,685
<b>Total</b>	<b>67,610,575</b>	<b>-</b>	<b>67,610,575</b>	<b>1,293,792,891</b>	<b>544,248,784</b>	<b>1,838,041,675</b>

(1) Existing Debt Service as of June 30, 2018. 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, Nauticus, 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.

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