

July 1, 2019

**Honorable Mayor and City Council**

I respectfully submit to you the Adopted Fiscal Year (FY) 2020 Financial Plan for the City of Norfolk, which comprises the General Fund, enterprise funds, special revenue funds, internal service funds, the Capital Improvement Plan (CIP), the Annual Plan for Housing and Urban Development (HUD) Block Grant programs, and the Annual Grants Plan.

The discussion during budget worksessions resulted in amendments to the Proposed FY 2020 General Fund Operating Budget and Capital Improvement Plan. These amendments, with the exception of restructuring the boat tax, were adopted at the May 14, 2019 City Council meeting. The table below illustrates the final Adopted FY 2020 Financial Plan:

<b>Adopted FY 2020 Financial Plan</b>	
<b>Fund</b>	<b>Adopted Budget</b>
General Fund	\$901,882,729
Enterprise Funds	\$175,256,465
Special Revenue Funds	\$49,685,256
Internal Service Funds	\$103,593,118
<b>Total Operating Funds</b>	<b>\$1,230,417,568</b>
Capital Improvement Plan	\$133,885,700
<b>Total Operating and Capital Funds</b>	<b>\$1,364,303,268</b>
Annual Plan for HUD Block Grants	\$7,434,685
Annual Grants Plan	\$28,750,306
<b>Total Financial Plan</b>	<b>\$1,400,488,259</b>

The Adopted FY 2020 Budget builds on the bold initiatives we began last year and focuses on strengthening our capacity to do great things. This budget is shaped by your priorities and is informed by a comprehensive community engagement effort. It includes the following:

- No tax rate increases,
- A waste management fee increase of two dollars per month to allow the city to continue our recycling program,
- An increase to the storm water fee that non-residential customers pay, to match the rate charged to residential customers and expedite investment in our storm water infrastructure,
- A revenue sharing formula with Norfolk Public Schools that provides an additional \$3 million in ongoing local support, matching the School Board's approved budget,
- Support for diversity and inclusion, climate change and resilience, and lifelong learning priorities

- Funds to support regional public safety efforts that advance preparation and response to critical incidents,
- Additional staff for Norfolk Animal Care and Adoption Center
- New positions to expand landscape beautification and patrolling and programming at city parks, and
- A salary increase and no healthcare cost increase for city employees.

While these new items may grab the headlines, I would submit to you that the sound financial management practices included in this budget will have an equally important impact on the city as we move forward.

City Council recently voted to strengthen our financial policies to better protect the city's financial future. This budget continues to build on those policies, remaining structurally balanced, with ongoing revenues paying for ongoing expenditures. It continues additional investments in information technology (IT) and fleet infrastructure to build on the investment City Council made in these areas last year. The budget also increases our cash contribution to the Capital Improvement Plan (CIP) while continuing our maintenance CIP.

This budget supports initiatives that will strengthen the effectiveness of our organization, including continuation of programs that reward and encourage efficiency and process improvement. A new Department of Transit will develop and implement a broad strategy to capitalize on our multi-modal transportation culture, and we have established the Division of St. Paul's Area Transformation, funded by the 1.9 cents real estate tax designation, to manage the redevelopment project and provide oversight of the People First services. The CIP invests \$83 million over the next five years to this key initiative.

To fund additional City Council and resident priorities, the Proposed FY 2020 General Fund Operating Budget and Capital Improvement Plan were amended during City Council worksessions. Those amendments are outlined in the following two sections.

### **General Fund Operating Budget Amendments**

Below is a summary of the General Fund operating budget amendments to the Proposed FY 2020 Operating Budget that are included in the Adopted FY 2020 Operating Budget.

**Smart City Software:** \$23,900 to implement Smart City Software which allows low-powered sensor devices - such as flooding sensors and parking sensors - to communicate with internet-connected applications over long-range wireless connections.

**Digital Permitting:** \$35,000 in one-time funds for the development of software to digitize Cultural Facilities, Arts and Entertainment (CFAE) and Recreation, Parks and Open Space (RPOS) permitting processes. The end product will be a portal for residents to request, apply for, and track the permit approval process.

**Vision Zero education campaign:** \$25,000 to support the education campaign, upon City Council resolution declaring Norfolk a Vision Zero city. Funds will be used to conduct an extensive media and on-the-ground education outreach program.

**Grant for Berkley Grocery Store:** \$550,000 in one-time incentive funds to attract a grocery store to the Berkley area.

**Film Festival:** \$100,000 to support an annual film festival in Norfolk.

**WiFi in Recreation Centers:** \$78,000 to establish WiFi access in city recreational centers. The cost will support WiFi setup and access at all 22 recreation centers.

**Fiber System Assessments:** \$40,000 to begin mapping and documenting citywide fiber, including traffic fiber. The goal is to establish accurate data and mapping of the city's fiber system, including locations where repairs or replacement are needed, to guide future growth, and help maintain the integrity of the entire fiber network.

**NACC Evening Hours:** \$45,000 for staffing at the Norfolk Animal Care and Adoption Center. The additional position will allow for sufficient staffing to expand evening adoption hours to three days a week.

**Auditor Employee Training:** \$30,000 for auditor employee training to improve the ability to provide investigative and professional, internal auditing to city departments.

**Real Estate Assessor GIS Position:** \$35,000 for a GIS Specialist III position in the Office of the City Real Estate Assessor. The position will be responsible for the parcel line work and addressing in the city.

**Additional Park Rangers:** \$110,000 to the Department of Recreation, Parks and Open Space to add three Park Ranger positions. The additional rangers will allow the department to expand patrols and increase engagement with the community.

**Expand Landscape Beautification:** \$100,000 to the Department of Recreation, Parks and Open Space to increase the Parks and Urban Forestry division's staff by four Groundskeepers. This will add approximately 2,000 hours of landscape maintenance services to each landscape district per year.

**Restructure Boat Tax and License:** The city levies a tax of 50 cents per \$100 of assessed value on recreational boats and a boat license of \$10 on recreational boats under 16 feet in length and \$25 on recreational boats 16 feet and over in length. The tax on recreational boats will be reduced to 25 cents per \$100 of assessed value and the boat license will increase to \$15 on recreational boats under 16 feet in length and \$40 on recreational boats 16 feet and over in length, effective for the tax year beginning January 2020.

**Neighborhood Quality Redesign (Code Enforcement):** \$200,000 of Strategic and Organizational Redesign funds included in the proposed budget will be used for Neighborhood Quality Redesign efforts.

**Outside Agencies Arts & Culture Funding:** Re-purpose \$50,000 originally proposed for the Virginia Ballet to support arts and culture organizations in FY 2020.

### **General Fund Operating Technical Adjustments**

**Human Services Foster Care** - The Virginia Department of Social Services has informed Norfolk Department of Human Services that they are eligible for additional funds in the amount of \$126,272 to help reduce their foster care caseload ratio to the state recommended maximum of 15:1. The Adopted FY 2020 Budget will adjust state revenue to align with the additional funding and the city has identified required local match funds.

**Sargeant Memorial Collection:** Funds for operation of the Sargeant Memorial Collection, originally included in the establishment of Slover Library as a department, will revert back to the Department of Norfolk Public Libraries. This transfers \$255,118 in personnel and nonpersonnel funding.

### Adjustments to General Fund Operating Budget

Sources to Fund Operating Amendments/Adjustments	One-time Amount	Ongoing Amount
Eliminate enhancements to the Human Resources document routing system	(\$75,000)	\$0
Eliminate the 911 quality assurance evaluator software	(\$190,000)	\$0
Reduce cash funding for Strengthening Neighborhoods through Affordable Housing CIP Project	(\$300,000)	\$0
Reduce funding for Fleet replacement plan	(\$68,900)	(\$350,000)
Allocate Strategic and Organizational Redesign funds for Neighborhood Quality Redesign	\$0	(\$200,000)
Reforecast citywide healthcare costs	\$0	(\$184,700)
Reduce funds for computer refresh	\$0	(\$65,000)
State Foster Care Funding	\$0	(\$127,000)
Eliminate funding for Virginia Ballet	\$0	(\$50,000)
Transfer Sargeant Memorial Collection from Slover	\$0	(\$255,118)
<b>Total</b>	<b>(\$633,900)</b>	<b>(\$1,231,818)</b>

Uses of Operating Budget Amendments/Adjustments	One-time Amount	Ongoing Amount
Smart City Software	\$23,900	\$0
Digital Permitting	\$35,000	\$0
Vision Zero Education Campaign	\$25,000	\$0
Grant for Berkley Grocery Store	\$550,000	\$0
Film Festival	\$0	\$100,000
WiFi in Recreation Centers	\$0	\$78,000
Fiber System Assessments	\$0	\$40,000
NACC Evening Hours	\$0	\$45,000
Auditor Employee Training	\$0	\$30,000
Real Estate Assessor GIS Position	\$0	\$35,000
Neighborhood Quality Redesign (Code Enforcement)	\$0	\$200,000
Additional Park Rangers	\$0	\$110,000
Expand Landscape Beautification	\$0	\$100,000
Restructure Boat Tax and License	\$0	\$61,700
Human Services Foster Care	\$0	\$127,000
Outside Agencies Arts & Culture Funding	\$0	\$50,000
Transfer Sargeant Memorial Collection to NPL	\$0	\$255,118
<b>Total</b>	<b>\$633,900</b>	<b>\$1,231,818</b>

### **Capital Improvement Plan (CIP) Amendments**

The General Fund CIP amendments included nine new projects outlined below. These projects were funded using the following sources:

**Renovate Chrysler Hall and Scope Plaza:** This project was adjusted to remove funding for the symphony rehearsal hall and scope plaza improvements. Total project costs will now be \$46 million, including the \$6 million previously appropriated in FY 2019. Tax credit revenue is anticipated, resulting in an additional \$5 million of bond capacity to be reprogrammed.

**Improve Neighborhoods Citywide:** \$3,000,000 of previously authorized but unspent funds along with \$1,500,000 included in the Proposed FY 2020 CIP will be re-allocated to five new “Improve Emerging Districts” projects at \$900,000 each.

<b>Sources to Fund CIP Amendments</b>	<b>FY 2020</b>
Adjust funds for “Renovate Chrysler Hall and Scope Plaza”	(\$5,000,000)
Adjust funds for “Improve Neighborhoods Citywide”	(\$4,500,000)
<b>Total</b>	<b>(\$9,500,000)</b>

<b>Uses of CIP Amendment Funds</b>	<b>FY 2020</b>
Nauticus Capital Campaign	\$1,000,000
Create Gender-Neutral Restroom in City Hall	\$150,000
Improve Curb, Gutter, and Sidewalks Citywide	
Maintain Sidewalks Citywide	\$1,300,000
Install New Sidewalks	\$2,550,000
Improve Emerging Districts	
Improve Emerging Districts: 38 <sup>th</sup> Street and North Colley	\$900,000
Improve Emerging Districts: Complete Bay Oaks Park	\$900,000
Improve Emerging Districts: Arts District Streetscape Design	\$900,000
Improve Emerging Districts: Church Street and Huntersville	\$900,000
Improve Emerging Districts: Five Points and Broad Creek	\$900,000
<b>Total</b>	<b>\$9,500,000</b>

### **Capital Technical Adjustments**

There are three technical adjustments to the Capital Improvement Plan (CIP): two impacting the General Capital and one impacting the Water Utility Fund CIP.

**Reduce “Acquire Equipment and Technology” by \$608,900:** Technical adjustment to reduce cash funding for “Acquire Equipment and Technology” to fund City Council priorities in the operating budget. This action reduces the General Fund cash contribution by \$608,900 in FY 2020 and by \$350,000 in each year from FY 2021 to FY 2024. See Table 4 below for details.

**Adjustments to "Acquire Equipment and Technology"**

Description	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Proposed	\$9,300,000	\$8,000,000	\$8,000,000	\$8,000,000	\$8,000,000
Amended	\$8,691,100	\$7,650,000	\$7,650,000	\$7,650,000	\$7,650,000
<b>Difference</b>	<b>(\$608,900)</b>	<b>(\$350,000)</b>	<b>(\$350,000)</b>	<b>(\$350,000)</b>	<b>(\$350,000)</b>

**Transfer cash to the General Fund:** Technical adjustment to transfer \$300,000 in cash funding previously appropriated for the Capital Improvement Plan project "Strengthen Neighborhoods Through Affordable Housing Initiatives" to fund City Council priorities in the operating budget.

**Adjust funding source for Water Fund CIP:** Technical adjustment to reduce reauthorization of bonds by \$8,000,000 and increase cash contribution to the CIP by \$8,000,000. There is zero net impact to the CIP. The adjustment from reauthorized bonds to cash is compliant with the newly adopted financial policies and will improve the debt coverage ratios.

**Proposed Water Fund CIP Funding Sources**

Description	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Reappropriation of Previous Authorization	\$30,500,000	\$0	\$0	\$0	\$0
Water Bonds	\$3,000,000	\$20,770,000	\$15,005,000	\$7,805,000	\$1,005,000
Water Fund Cash	\$6,000,000	\$22,535,000	\$35,000,000	\$15,000,000	\$25,000,000
<b>Water Fund CIP Total</b>	<b>\$39,500,000</b>	<b>\$43,305,000</b>	<b>\$50,005,000</b>	<b>\$22,805,000</b>	<b>\$26,005,000</b>

**Amended Water Fund CIP Funding Sources**

Description	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Reappropriation of Previous Authorization	\$22,500,000	\$0	\$0	\$0	\$0
Water Bonds	\$3,000,000	\$20,770,000	\$15,005,000	\$7,805,000	\$1,005,000
Water Fund Cash	\$14,000,000	\$22,535,000	\$35,000,000	\$15,000,000	\$25,000,000
<b>Water Fund CIP Total</b>	<b>\$39,500,000</b>	<b>\$43,305,000</b>	<b>\$50,005,000</b>	<b>\$22,805,000</b>	<b>\$26,005,000</b>

**Next Steps**

The Adopted FY 2020 Budget strengthens our capacity to deliver high quality, efficient, and effective programs and services to our residents. We will continue to partner with residents and businesses in our pursuit to make Norfolk the most connected, collaborative, creative, and competitive community. We look forward to working with you and the residents to implement the many initiatives supported by the Adopted FY 2020 Budget.

Sincerely,



Douglas L. Smith  
City Manager

March 26, 2019

**Honorable Mayor and City Council**

I respectfully submit to you the Proposed Fiscal Year (FY) 2020 Financial Plan for the City of Norfolk, which comprises the General Fund, enterprise funds, special revenue funds, internal service funds, the Capital Improvement Plan (CIP), the Annual Plan for Housing and Urban Development (HUD) Block Grant programs, and the Annual Grants Plan.

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

<b>Proposed FY 2020 Financial Plan</b>	
<b>Fund</b>	<b>Proposed Budget</b>
General Fund	\$901,537,729
Enterprise Funds	\$175,256,465
Special Revenue Funds	\$49,685,256
Internal Service Funds	\$103,593,118
<b>Total Operating Funds</b>	<b>\$1,230,072,568</b>
Capital Improvement Plan	\$126,494,600
<b>Total Operating and Capital Funds</b>	<b>\$1,356,567,168</b>
Annual Plan for HUD Block Grants	\$7,434,685
Annual Grants Plan	\$28,750,306
<b>Total Financial Plan</b>	<b>\$1,392,752,159</b>

The Proposed FY 2020 Budget builds on the bold initiatives we began last year and focuses on strengthening our capacity to do great things. This budget is shaped by your priorities and is informed by a comprehensive community engagement effort. It includes the following:

- No tax rate increases,
- A waste management fee increase of two dollars per month to allow the city to continue our recycling program,
- An increase to the storm water fee that non-residential customers pay, to match the rate charged to residential customers and expedite investment in our storm water infrastructure, and
- A salary increase and no healthcare cost increase for city employees.

The Proposed FY 2020 General Fund Budget is \$901,537,729. It is 2.4 percent or \$20.1 million more than last year. The total spending plan is \$1.4 billion and includes funding for important new initiatives and projects including:

- While these new items may grab the headlines, I would submit to you that the sound financial management practices included in this budget will have an equally important impact on the city as we move forward.

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These financial and organizational investments are critically important to the long-term success of the city and our ability to provide excellent core services to our residents. They will help continue to grow our capacity to do great things.

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## An Inclusive and Transparent Process

The city's budget development process is inclusive, engaging our residents to help us better understand their budget priorities, and drawing from the collective expertise of senior leadership and key subject matter experts. This process affords the opportunity to constructively debate the challenge of resource constraints and develop a budget that aligns with City Council and resident priorities.

### Budget Engagement

Budget engagement efforts help us understand resident priorities for the FY 2020 budget. The Office of Budget and Strategic Planning continues to offer a blend of online tools and in-person communication to engage residents. Last year we launched two online tools – Taxpayer Receipt and Balancing Act. This year we added another online tool - the Budget Bracket Challenge - a March Madness style tournament where residents are asked which programs they would prefer to invest in, if there were additional resources. The bracket randomly pairs various city programs, and residents select their preference through four rounds. All the data is collected and incorporated into the budget development process and shared with City Council and administration leadership.



Our engagement process continues to reach a broad audience of constituents: we engaged more than 250 residents in person at 11 Civic League meetings, Balancing Act inserts went to 60,000 property owners in the Real Estate Assessment notice, and has more than 1,400 page views, and we have received nearly 800 bracket challenge submissions. These engagement efforts have helped shape the budget presented to you today.

### Closing the Budget Gap

As we reported to City Council in the fall, the city faced a preliminary base budget gap of \$8.2 million. To close this gap, we began by evaluating broad central strategies and department specific analysis to help us balance the budget. We received positive news from the City Real Estate Assessor; while we have yet to see 20 and 30-year average real estate assessment growth of four to five percent, the FY 2020 budget includes assessment growth of 3.7 percent, the highest since FY 2009. As the city's largest source of locally generated revenue, this growth helped close the budget gap. The city's recent issuance of General Obligation Bonds was strategically structured to take advantage of the flattening yield curve, allowing the city to garner additional financial benefit due to low rates on the long end of the yield curve. We also adjusted the city's budget for personnel costs to more accurately account for vacant positions.

While these strategies helped to close the base budget gap, new policy initiatives required identifying funds through cost savings in existing programs and service levels. To that end, we asked departments to find efficiencies. Public Safety, Constitutional Offices, and Council Appointees were not requested to submit reduction strategies.

Most savings were generated through decisions to reduce or realign services, increase energy efficiency, use technology to create efficiency savings, or adjust funding based on utilization. This approach resulted in fairly widespread, but low-impact reductions to departments. Nonetheless, personnel costs continue to drive a significant portion of the city's operating budget. Reduction strategies in FY 2020 impact 22 permanent positions,

of which 17 are vacant and 5 will result in a reduction in force. The Department of Human Resources is working with affected employees to identify alternative job opportunities, within or outside of the city, and equip them with resources like resume writing assistance and interview skills.

Examples of department budget strategies include removing vacant positions that were not filled in more than one year, consolidating the services provided by the Office to End Homelessness under the Norfolk Community Services Board, and realizing energy savings by transitioning to energy efficient LED lighting. Collectively, department budget strategies generated capacity to repurpose existing funds for investment in City Council and resident priorities.

## Norfolk Public Schools (NPS)

During the budget engagement events we continued to hear from residents that funding for NPS is a top priority. Our capacity to do great things starts with preparing our children to do great things. The school system plays a crucial role in our development, and it must participate in the city's economic success. To this end, the City Council instituted a school revenue sharing formula as part of the Adopted FY 2019 Budget. Simply put, the more local revenue that the city generates, the more funding NPS receives. Unlike contributions from the Commonwealth, this funding is not adjusted down if school enrollment declines.



As a result of the revenue sharing formula, NPS will receive an additional \$3 million in ongoing operating support from the city in FY 2020. When coupled with last year's \$5 million increase, NPS will receive \$8 million more in ongoing support from the city than it did two years ago.

The benefits of the revenue sharing formula go beyond providing additional funding for our schools. It improves the ability of city and NPS staff to plan and budget for resources. This year the city provided schools with initial funding projections in the fall, then again in February and March. As a result, the budget recently adopted by the Norfolk School Board does not request additional city operating support beyond what is provided in the revenue sharing formula. The success of the revenue sharing formula will allow the conversation between the city and schools to transition away from funding and toward developing the most successful school system possible.

## Team Norfolk, Our Most Effective Change Agents

Team Norfolk is an integral part of the budget process. Over the past year we have encouraged employees through programs like Gainsharing and Agile Norfolk to propose innovative new ideas to generate efficiencies and cost savings. This year we will roll out new organizational values, which focus on a culture of innovation and creative problem solving. We want Team Norfolk employees to think big, be great, and have fun.

### Gainsharing



The Gainsharing program, which began in FY 2019 and will continue next year, provides employees an opportunity to submit their ideas on ways the city can be more efficient and save money. All ideas undergo a thorough feasibility analysis. In the first round of Gainsharing, 91 submissions were received, with 7 ideas making it to the next step. The process culminated in a Shark Tank style event with the Deputy City Managers and I serving as the sharks. Ideas that survive the intense questions of the sharks are

implemented. Employees who submitted the idea get ten percent of the savings generated. The inaugural Shark Tank Gainsharing event saved the city more than \$150,000 annually, and more than \$15,000 was awarded to city employees.

### **Agile Norfolk**

We continue to emphasize innovation. A pilot program based on Agile process improvement techniques was launched during calendar year 2018. Agile Team Norfolk trains city employees at all levels to identify workplace processes that could be more efficient or effective. The employees then apply the tools and techniques they learn in the training to improve processes. This initiative has led to improvements as diverse as: improved hiring and training of seasonal lifeguards; improved re-entry outcomes in Human Services; decreased exit time from parking structures after events; a streamlined environmental due diligence process; and streamlined vendor self-service reporting. The administration's senior leadership team is actively monitoring the success of these initiatives to ensure implementation.



In the first year, 290 employees representing 24 city departments and agencies completed training. The goal is to train employees in every department who can share Agile techniques, so every member of Team Norfolk improves their work processes continuously to provide more efficient and effective services to residents and internal customers. The Proposed FY 2020 Budget includes additional funding to support the program.

### **Data Science**

The ability to use data to inform decisions and to improve service delivery will be critical to our ongoing success. Last year we added a Data Scientist to Team Norfolk. The professional experience coupled with collaboration from the information technology team and employees across the city has our data initiative off to a resounding success. We are committed to continuing to open appropriate sets of data to the public through the open data portal, launched in April 2018 at <http://data.norfolk.gov>. More importantly, Norfolk's Data Program has built a citywide team with designated coordinators from each department to advance data-solutions to ensure efficient processes. The benefits of increased inter-departmental data sharing and analysis are already making an impact.

### **Employee Salary Increase**

For the sixth consecutive year, the Proposed FY 2020 Budget includes a citywide salary increase effective January 2020. General and constitutional officer employees will receive a two percent increase and sworn Police and Fire-Rescue employees will receive a step increase. Compensation initiatives also include market rate adjustments for our most regionally out of market classifications, continuation of the Master Firefighter Program, and an increase to the permanent employee living wage, from \$12.07 to \$12.38 an hour.



The budget also provides funding for the second year of a four-year phased plan to make Sheriff's deputy wages regionally competitive. The plan also mitigates compression through tenure-based adjustments. Year two results in an average deputy pay increase of 4.9 percent.



This year we conducted a comprehensive analysis of the city's Benefit Eligibility Workers in the Department of Human Services. Effective July 1, 2019, we will implement a new pay plan for these employees. Benefit Eligibility Workers play a crucial customer-facing role, ensuring low-income residents have access to the federal and state services that help them maintain good health and economic stability. The new pay plan affects 161 employees by raising Norfolk's compensation above regional market averages. Benefit Eligibility Workers will see an average salary increase of 8.4 percent.

## Employee Healthcare

The Norfolk Healthcare Consortium (NHC) Executive Committee, comprised of leadership from the City, NPS, and Norfolk Redevelopment and Housing Authority continue to actively meet on the strategic direction of the self-insured plan. Accordingly, informed healthcare policy decisions must be data driven. Over the past several months the committee evaluated the implementation of a data warehouse. The data warehouse will provide robust analytic capabilities that will guide future strategy and decision-making.

The decision to adjust premiums for plan year 2019 to better align cost with value, and re-benchmark premiums to incent migration to lower cost tiers, contributed to below-market cost projections for FY 2019 and into the first half of FY 2020. This along with a decline in overall enrollment means **City of Norfolk employees will see no increase to their health insurance contributions in plan year 2020.**

Nationally, healthcare costs continue to outpace inflation. So, while we welcome this period of lower cost increases, we certainly do not expect the trend to continue. The NHC Executive Committee and its advisors anticipate a return to normal cost increases and have begun discussing actions that will be required in plan year 2021 to mitigate expenses in the future.



## Addressing Equipment Backlog

As we continue investing in employees, we need to provide them with equipment that allows them to perform their duties efficiently and effectively. Extended years of expenditure trimming to match below average revenue growth after the Great Recession meant putting city asset replacement on the back burner. The FY 2019 budget began a deliberate effort to catch up on replacing our aging equipment. As a result, City Council designated more than \$3.8 million from last year's real estate tax increase to begin refreshing our information technology, vehicle, and fleet infrastructure. The Proposed FY 2020 Budget continues that momentum by investing nearly \$14 million. Even more importantly, 78 percent of this funding is with cash rather than short-term debt. This is the fiscally responsible way to build capacity in the future. Pay-as-you-go cash funding for equipment will help provide relief from an increasing debt burden in the years to come.

## Information Technology (IT) Equipment

In FY 2019 we allocated \$1,650,000 in ongoing funds to enhance our basic sustainability: \$900,000 a year pays for Microsoft Office licenses that were previously funded from short-term debt, and \$750,000 is helping us reduce the backlog of out-of-date computer hardware across the city. The Proposed FY 2020 Budget continues these investments and provides additional funding to:

- Replace general infrastructure, circuit court equipment, and cyber security awareness training,
- Continue replacement of public safety radios,
- Replace the video camera system at the Juvenile Detention Center,
- Replace the point of sale system for Human Services,
- Implement 911 center quality assurance software, and,
- Upgrade security access systems at city facilities.



## Fleet Vehicles and Equipment

In FY 2019 we were able to leverage the funds provided by the real estate tax increase to invest \$8.0 million in our fleet. The Proposed FY 2020 Budget continues the replacement program we began last year and invests \$9.3 million to replace more than 109 vehicles and equipment across the city including:



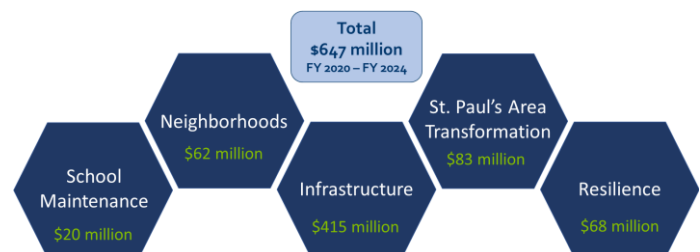
- 25 Police vehicles,
- 1 Ladder truck,
- 49 Pick-up trucks,
- 2 Street sweepers,
- 15 Pieces of equipment,
- 7 Trash Trucks, and
- 1 mobile pet adoption van.

Last year's tax increase launched this initiative and this budget continues to prioritize addressing this backlog in a fiscally responsible way. These investments build strength in our operations and our ability to deliver quality services to residents.

## Capital Improvement Plan Overview

The Proposed FY 2020 – FY 2024 Capital Improvement Plan (CIP) continues a period of maintenance CIP to manage the city's long-term debt and resulting debt service. The recent stretch of modest CIP projects has resulted in the opportunity to begin providing the long-term, multi-year funding required to advance key initiatives.

### Strengthening our Infrastructure



This plan continues to reflect a maintenance level CIP, while thoughtfully investing in strategic projects. In fact, we are investing more than \$647 million in capital improvements in five major priority areas over the next five years:

- \$415 million in city infrastructure
- \$83 million for the St. Paul's Area Transformation
- \$68 million in flood mitigation and resilience projects
- \$62 million in neighborhoods, and
- \$20 million in school maintenance

Information on specific CIP projects can be found in the Proposed FY 2020 Budget Document and many projects are highlighted throughout this budget message.

## Strengthening Council Priorities

The Proposed FY 2020 Budget continues to strengthen capacity in policy initiatives prioritized by City Council. These include: breaking the cycle of intergenerational poverty through the St. Paul's Area Transformation, improving the city's ability to adapt to climate change, and taking a holistic view of how residents and visitors get around the city. Each of these policy directives take tremendous resources and time. The city's financial plan allocates human capital, dedicated organizations, and capital capacity to continue the hard work towards these priorities. The annual operating budget alone is insufficient to move the needle on these policy initiatives. City staff continue to seek out grant opportunities that will grow our capacity to invest in these areas.

### Diversity and Inclusion

The Proposed FY 2020 Budget supports diversity and inclusion with the creation of a Diversity and Inclusion Officer position who will work to assess and enhance the equitable treatment of employees, neighborhoods, businesses, and residents by mitigating disparities in health, job opportunities, mobility, and income within the community.



Promoting inclusive economic growth will improve the balance of traditional development opportunities that focus on attracting jobs and talent to the region, with an increased investment in talent and small businesses right here at home. The Capital Access Program ("CAP") is a great example of this strategy. The program is designed to stimulate inclusive economic growth by assisting entrepreneurs with the creation and/or expansion of sustainable businesses and quality jobs to improve the living conditions of residents in the community. The program offers alternative financing options which are not currently available in the marketplace and are specifically geared to assist Norfolk businesses in any phase of their growth cycle. From application to disbursement, the CAP is designed to be equitable and inclusive while removing one of the most frustrating challenges communicated from our small business community, the ability to obtain capital.



### Climate Change Commission

The budget supports the addition of an Environmental Services Manager position, a recommendation from the Mayor's Advisory Commission on Climate Change Mitigation and Adaptation. The Commission is recommending strategies to mitigate and adapt to climate vulnerability with a focus on reducing greenhouse gas emissions. This position will take a close look at building and energy use, ways to utilize renewable energy, appropriate levels of consumption and waste, as well as food and agriculture policies. The community will remain an integral part of this assessment.

## Lifelong Learning Commission

Recommendations of the Mayor's Commission on Lifelong Learning are supported by funding in the Proposed FY 2020 Budget. In the fall of 2017, the Mayor created the Commission to explore ways that Norfolk and its residents can improve upon the city's network of learning opportunities for residents of all ages, in every corner of the community. In December 2018, the Commission introduced its plan for building a learning culture in schools, work, and life. It selected strategies based on demonstrated results, impact and depth, sustainability, documented needs, high value to residents, political will, and supporting community partners. Commission recommendations include mapping existing learning resources to connect residents, building educational resiliency, ensuring children enter school ready to learn, and fostering a culture of learning and civic engagement throughout life.



## Arts and Culture

Arts and culture are key drivers of an urban economy. To continue to grow the city's revenue base and ensure Chrysler Hall remains the premier performing arts center in the region, the FY 2020 – FY 2024 CIP includes \$64 million to renovate Chrysler Hall and the Scope Plaza, and to construct a new Symphony rehearsal hall. In the FY 2019 CIP, the city invested \$6 million to begin the design phase, bringing the total investment to \$70 million. The city plans to bond finance \$40 million and fund the other \$30 million with historical tax credits and philanthropy. If historical tax credits or philanthropy funding do not reach anticipated levels, the new Symphony rehearsal hall will not be constructed, and the Scope Plaza will not be renovated.

## Transit

In FY 2020 we will establish a new Department of Transit. This strategic decision positions the city to focus more clearly on a broad strategy to capitalize on our multi-modal assets. The goal is to develop projects that will touch each area of the city and reflect the unique needs of the neighborhoods and businesses that our multi-modal transportation system serves. A new comprehensive plan will serve as the blueprint for advancing all modes of transportation including bike,



pedestrian, public transit, freight, and automobile. No matter which mode a person may choose, the plan will make safety the number one priority. A Swedish model that began in 1997, called "Vision Zero," will guide this process. Vision Zero is a multi-national road traffic safety project that aims to achieve a highway system with no fatalities or serious injuries. We are committed to this work, providing \$600,000 in FY 2020 to fund development of the Multi-modal Transportation Plan.

The five-year CIP provides \$8.3 million to implement projects recommended in the multi-modal transportation master plan. Funds will be used to enhance signals and intersections, and to develop complete streets, promoting safe access for all users.

## Regional Strength

As we strengthen our capacity to do great things within the organization we are also strengthening our relationships with our regional partners. In today's reality of limited resources, regional collaboration takes on even more importance, and contributes to our efforts to avoid duplicative activities and leverage outside resources and expertise.

The Proposed FY 2020 Budget provides financial support to develop a common operating picture (COP) and explore systems that strengthen the region's ability to respond to critical incidents. In addition, the city recently received a \$250,000 grant from Urban Area Security Initiative to create a COP working group to conduct a regional analysis of current systems and data to coordinate regionally. It will analyze current government systems to maximize existing tools. The final result will be a plan for regional data sharing.

The city participates in several regional organizations and is actively engaged in various regional initiatives, including the Hampton Roads Planning District Commission (HRPDC). HRPDC is the regional sponsor for the Navy, Norfolk, and Virginia Beach on a Joint Land Use Study investigating the impact of sea level rise on mission readiness. The



Hampton Roads Transportation Planning Organization (HRTPO), through its Work Program, will conduct a Corridor Study to continue examining the number of trucks utilizing Hampton Boulevard and the impacts of the new Intermodal Connector. The study will examine safety concerns and excessive vehicle speeds, as well as the role that technology plays in actively managing the freight traffic. This summer Hampton Roads Economic Development Alliance (HREDA) will re-launch itself as the region's key partner in assisting international and domestic companies with investment projects, expansion, and relocation.

## St. Paul's Area Transformation



This budget creates a new division of St. Paul's Area Transformation. It will manage the redevelopment project and provide oversight to the continued implementation of People First services. The division is funded by the 1.9 cents real estate tax designation, estimated to provide \$3.7 million in revenue in FY 2020. The division will include four positions focused entirely on the work in the St. Paul's Area.

The city is also committing \$300,000 to support a St. Paul's Area Community Development Corporation, which will offer expertise in redevelopment, and the ability to accept philanthropy. A Community Development Corporation will provide an independent, and community-focused organization to bring expertise and dedication to the work in St. Paul's.

The five-year CIP places significant investment in St. Paul's, totaling \$83 million. The proposed projects include \$15 million to aid in the area's physical redevelopment, including demolition, design, and construction. There is \$10 million dedicated to begin redesigning the street network to improve the connection between St. Paul's, downtown, and the waterfront, as well as \$18 million for storm water infrastructure to mitigate flooding in the area. Additional investments include, \$20 million to improve water and wastewater, and constructing a new \$20 million municipal building in St. Paul's to serve as a catalyst for economic growth in the area.



## Norfolk Animal Care and Adoption Center

This budget prioritizes the recent discussion and recommendations around the Norfolk Animal Care and Adoption Center (NACC). Two additional Animal Caretaker positions will be added to the operating budget. The city secured grant funding for a mobile pet adoption unit. The Capital Improvement Plan earmarks \$1 million over the next five years for NACC's physical space. The capital funds will be used initially to assess whether to expand NACC's current location or explore options to relocate.

## Recycling

We know our residents are acutely aware of the importance of environmental sustainability. This year the city's Waste Management division was faced with a challenging decision regarding recycling. This was not unique to Norfolk. Many localities faced a similar dilemma as China is no longer purchasing the same volume of recycled goods. As a result, the cost to continue the recycling program has increased substantially. We engaged in discussion with City Council and received input from the community through a resident survey, which shows that 62.4 percent of respondents support continuation of the recycling program. The budget includes an increase to the collection fee of \$2 per month, from \$25.01 to \$27.01. This additional revenue will allow the city to continue with a recycling program. The conversation around recycling in the U.S. is changing – and with it our mindset needs to change. This is a temporary solution that will allow us to continue our recycling program, but we will continue to discuss what the future of recycling looks like in Norfolk.



## Coastal and Storm Water



The budget equalizes storm water fees among commercial and residential customers. The monthly non-residential rate will increase to \$12.05 per equivalent residential unit (ERU), generating an additional \$3.8 million in revenue. This decision aligns Norfolk with other Hampton Roads localities. This new revenue will allow us to tackle more storm water flooding projects more quickly.

Resilience projects in the five-year CIP total \$67.6 million. Projects include investing \$18 million to raise the downtown floodwall to meet Federal Emergency Management Agency (FEMA) requirements; \$20.7 million to address neighborhood and street flooding; \$17.5 million for infrastructure improvements; and continuing to set aside \$1.3 million annually for a citywide flooding reserve.

Norfolk continues to lead the nation in resilience efforts. A U.S. Army Corps of Engineers (USACE) study investigating coastal storm risk management problems and solutions reached an important milestone when Lt. Gen. Todd T. Semonite, Chief of Engineers and Commanding General of the U.S. Army Corps of Engineers, signed the Chief's Report recommending the study's findings for congressional authorization. The [Norfolk Coastal Storm Risk Management Study](#) considered coastal storm risk management and resilience planning initiatives and projects underway by USACE and other federal, state, and local agencies, and recommends a \$1.4 billion project, including storm-surge barriers, nearly eight miles of floodwall, one mile of levee, 11 tide gates, and seven pump and power stations. The Chief's Report will undergo further review by the office of the Assistant Secretary of the Army for Civil Works, and Office of Management and Budget before formal submittal to Congress.

The City of Norfolk, in partnership with the Commonwealth of Virginia, received a \$112 million grant from the U.S. Department of Housing and Urban Development in FY 2017 to implement the Ohio Creek Project in the neighborhoods of Chesterfield Heights and Grandy Village. The Ohio Creek Project consists of three water-management strategies. The first is to protect the shoreline from high water levels entering the neighborhood or the storm water system. The second is to capture rainfall across the watershed to slow its flow into the storm water system and provide additional storage to prevent water from flooding the streets. The third is to introduce

a living shoreline to minimize erosion and increase environmental wellness. The innovative design of these water management strategies will result in greater connectivity:

- of the two neighborhoods to each other through the resilience park,
- to the water by a fishing pier and grass berms, and
- to other neighborhoods in Norfolk through road, bike path, and sidewalk improvements.



The project's final engineered designs were delivered in February 2019. The project is on schedule to begin construction in early summer. In addition, the city will hire a Coastal Engineer to complement our team of resilience experts. The position will lead the city in large scale coastal resilience capital projects including the Ohio Creek Watershed in Chesterfield Heights and Grandy Village.

## An Update on our Commitments

Last year's budget included a 10-cent real estate tax increase to fund bold initiatives that reflect City Council's priorities and continue to build on the hard-earned momentum that Norfolk has achieved. We also committed to several policy initiatives in FY 2019, including completing the administration's strategic plan, making progress on retirement reform, and assessing Recreation, Parks, and Open Space operations. Below is an update on the progress we've made on our commitments, starting with an update on implementing the programs funded with the new revenue generated from the tax increase.

### Update on Last Year's 10-cent Real Estate Tax Increase

The table below summarizes how the tax increase was invested:

Policy Initiative	FY 2019 Investment	Real Estate Tax Increase
Norfolk Public Schools	\$5,000,000	2.70 Cents
No Budget Reduction for Norfolk Police Department	\$1,200,000	0.65 Cents
Resilience Initiatives	\$1,850,000	1.00 Cent
Technology, Vehicles, and Equipment	\$3,864,000	2.08 Cents
Employee Salary Increases	\$3,086,000	1.67 Cents
St. Paul's People First and Redevelopment Initiatives	\$3,500,000	1.90 Cents
<b>Total</b>	<b>\$18,500,000</b>	<b>10.00 Cents</b>

**\$5.0 million increase to the city's ongoing support for Norfolk Public Schools (NPS).** This funding increase was primarily used to begin the implementation of the Division's recently completed pay and compensation study. As a result, teachers saw an average salary increase of 3.3 percent, administrators saw an average salary increase of

3.2 percent, and bus drivers saw an average salary increase of five percent. Competitive pay is extremely important for attracting and retaining good teachers and staff in Norfolk.

**\$1.2 million to maintain level funding for the Norfolk Police Department.** Eliminating the budget reduction for Police in FY 2019 allowed the sworn force to remain unchanged. In addition, the Police Department implemented a third Police Academy in anticipation of increasing officer retirements in the next few years. The city has achieved historic, double-digit reductions in crime two years in a row.

**\$1.85 million for resilience initiatives in the St. Paul's Area Transformation.** The designated resilience funding will support three storm water projects: conducting a Storm Water Master Plan in the St. Paul's area watershed; designing and constructing dynamic retention ponds that will mitigate flooding at the Virginia Beach Boulevard underpass; and elevating a section of Brambleton Avenue to eliminate "saddles" where one or more lanes of traffic flood during heavy precipitation.

**\$3.9 million for technology, vehicles, and equipment.** Replacement of the city's phone system is 70 percent complete and on track to be completed by the end of this fiscal year. We began upgrading outdated equipment, including three new servers replacing 27 older servers and the replacement of Fire-Rescue radios. We leveraged the tax increase to support the acquisition of 105 vehicles and pieces of equipment, which are in various phases of the procurement process. Microsoft Office licenses are now paid for using operating funds. The Proposed FY 2020 Budget continues to use this funding to address the severe backlog of technology and vehicle replacements.

**\$3.1 million for employee salary increases.** Team Norfolk received a pay increase effective January 2019. The increase included a two percent general wage increase for General and Constitutional Officer employees, a step increase for sworn Police and Fire-Rescue, strategic market adjustments for the city's most regionally out of market job classifications, and a permanent living wage adjustment for all permanent employees to match the Federal Poverty Level for a family of four. Redesigned pay plans for sworn Sheriff Deputies and Public Safety Telecommunicators were also implemented. These new pay plans begin to address attraction and retention issues through regionally competitive market wages.

**\$3.5 million for St. Paul's People First and redevelopment initiatives.** The transformational work in St. Paul's continues to progress. The People First services are underway, and HUD named Norfolk a finalist for a \$30 million Choice Neighborhood Initiatives grant. The \$3.5 million committed to this program in FY 2019 will grow to \$3.7 million in FY 2020.

## Policy Achievements

Last year's budget provided a road map of policy initiatives, including developing an inclusive economic growth strategy, advancing a comprehensive transportation strategy, collaborating with Norfolk Public Schools to advance Career Technical Education (CTE) opportunities, delivering a retirement reform plan, developing a citywide Recreation, Parks, and Open Space plan, and completing the administration's five-year strategic plan.

Many of the policy initiatives are supported by additional funding and resources in the FY 2020 budget, including an inclusive economic growth strategy and advancing a comprehensive transportation strategy. We are collaborating with NPS and other key stakeholders to explore future CTE opportunities.

## Retirement Reform Plan

The city offers an independent defined benefit plan for employees – the Norfolk Employees’ Retirement System (NERS). Upon retirement, vested employees receive a guaranteed retirement payment based on their years of service and their average salary. This is a valuable benefit to public sector employees, rarely offered any longer in the private sector. The defined benefit aspect of this plan places risk on the city and requires prudent financial planning to ensure sustainability.

Most localities in the Commonwealth are part of the Virginia Retirement System (VRS), including Norfolk constitutional officer employees and employees of NPS. As a first step in the reform effort, the city is working with its financial advisor, actuary, and the Virginia Retirement System (VRS) to assess plan options for the future. Options under consideration include updating the city’s retirement benefit structure and/or joining VRS. We began some retirement reform initiatives with the FY 2019 budget. In January, employees were automatically enrolled into the city’s 457 plan (with the ability to opt-out) to encourage savings outside of the defined benefit plan. In addition, other changes to average final compensation and eligible retirement age will improve the long-term sustainability of the plan. As we progress through the evaluation process, stakeholder input will be sought.

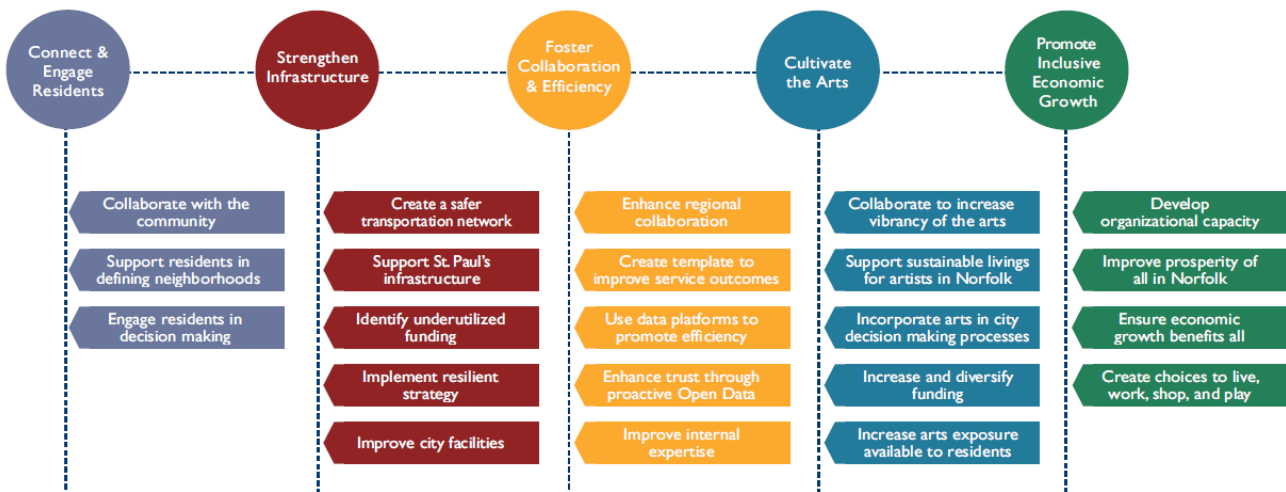
## Citywide Recreation, Parks, and Open Space Plan

A management assessment of the Department of Recreation, Parks, and Open Space has been completed. The assessment provides performance and structure recommendations to strengthen and redefine the department. The results of the assessment will be presented to City Council this spring.



## Strategic Plan

The administration is in the final stages of designing a five-year strategic plan. The process began this past summer and included broad representation across city departments. The inclusive nature provided invaluable perspective and conversation designed to move the administration forward and align to City Council’s policy objectives.

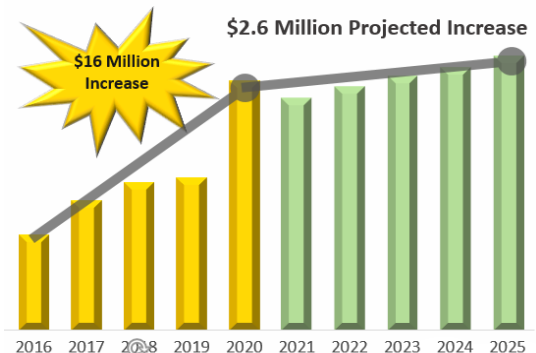


The strategic plan will focus the organization’s efforts on concrete goals and objectives over the next five years. An existing position in the Office of Budget and Strategic Planning will be used to manage and coordinate the plan.

The plan consists of five focus areas: Connect and Engage Residents; Strengthen Infrastructure; Foster Collaboration and Efficiency; Cultivate the Arts; and Promote Inclusive Economic Growth.

## Financial Outlook

Just as this budget serves to strengthen and reinforce our community and organizational capacity to do great things, it also represents intentional efforts to strengthen our city's financial position. On a number of financial measures, the city is doing well. The maintenance CIP is beginning to pay off, we are seeing manageable growth in debt service obligations. Over the past five years (FY 2016 – FY 2020) we saw a \$16 million increase in the city's annual debt service obligation. The debt service outlook over the next five years (FY 2021 – FY 2025) shows a modest \$2.6 million projected increase, based on the Proposed CIP. The budget development process begins with a long-term view of the city's financial status through a 10-year forecast. The Proposed Budget includes an internal biennial budget to keep us apprised of the impact that today's decisions have on tomorrow. A tough look at our core services through operating budget strategies, along with a shift to maintenance CIP, and robust financial forecasting and analysis means we are expecting a moderate base budget gap for FY 2021.



The future of the economy is unpredictable. We are now closer to the next recession than we are from the last. Unlike the last recession, this one does not appear it will follow a strong run up of revenues. Our budget is already right-sized, leaving us vulnerable to financial stress in the event of an economic downturn. Therefore, we are making a conscious effort to be prepared should that time come.

City Council recently adopted new financial policies that better prepare us for any uncertainties ahead. The updated financial policies provide a higher level of reserves, improve how we fund our pension liability, strengthen the financial position of our enterprise funds, and provide additional flexibility to our debt management policies.

## What's Next

The work of transforming the St. Paul's area into a thriving, mixed-use, mixed-income community continues to be one of our top priorities and moving into this next year our People First team will focus on ensuring the best possible transition for residents in the first redevelopment phase. We will work closely with our new Department of Transit to continue the development of a comprehensive multi-modal transportation plan for all modes, including bike, pedestrian, parking, public transportation, and freight and passenger rail. Our new Diversity and Inclusion Officer will lead the way on developing and implementing a citywide diversity and inclusion plan, to ensure that all feel welcome in the City of Norfolk.

A comprehensive facility strategy will be developed as we take a hard look at the city's physical assets and identify how current and future needs shape the way we make decisions on our buildings and resources. We will review the current real estate tax relief program and identify potential process improvements, and we will work with our partners in Hampton Roads to develop a regional public safety plan that strengthen the region's ability to respond to critical incidents.

By making good financial choices, we are strengthening our capacity to deliver high quality, efficient, and effective programs and services to our residents. We are choosing what is right over what is easy. We will continue our

relentless pursuit to make Norfolk the most connected, collaborative, creative, and competitive community. We will continue to put Norfolk on the map nationally and internationally, working with world-class partners like – NATO, The Rockefeller Foundation, MIT, Bloomberg Philanthropies, and our latest partner, Accelerator for America. We are capitalizing on innovative approaches to living with water and breaking the cycle of intergenerational poverty.

On behalf of the 5,000 strong members of Team Norfolk, I am pleased to present this Proposed FY 2020 Budget and I look forward to your deliberations over the next several weeks as you prepare to adopt your version of this budget on May 14th.

Sincerely,  


Douglas L. Smith  
City Manager