

Popular Annual Financial Report

City of Norfolk, Virginia

For The Fiscal Year Ended

June 30, 2019



*Navy Base Cruises &
The Magenta Line*



Harrison Opera House



Norfolk Fire & Rescue



2019 marks the 75th Anniversary of the USS Wisconsin

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City Council Members as of June 30, 2019



Mayor
Kenneth Cooper Alexander



Vice Mayor
Martin A. Thomas, Jr.
Ward 1



Council Member
Courtney Doyle
Ward 2



Council Member
Mamie B. Johnson
Ward 3



Council Member
Paul R. Riddick
Ward 4



Council Member
Thomas R. Smigiel, Jr.
Ward 5



Council Member
Andria P. McClellan
Super Ward 6



Council Member
Angela Williams Graves
Super Ward 7



City Manager
Douglas L. Smith

Dear Citizens and Council Members,

Our Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2019, was prepared by the Department of Finance to provide readers of interest an easy to understand summary of our financial activities. This report is intended to increase awareness throughout the community of the financial operations of the City. As such, this report is written in a user-friendly manner that will summarize and communicate the City's financial condition.

All of the data presented in this report is taken from the City's Comprehensive Annual Financial Report (CAFR). The financial data in the CAFR is presented in accordance with Generally Accepted Accounting Principles (GAAP). Organizations that issue a CAFR are required to be compliant with GAAP. This also helps to make their reports and records comparable with other entities, so definitions, parameters and calculations are performed and presented the same way throughout different organizations. However, when trying to give a user-friendly overview, it can be beneficial to provide condensed data that does not include all the extensive financial details and additional documentation required by GAAP. For that reason, this document is presented on a non-GAAP basis even though the original source is the CAFR, a GAAP-compliant document.

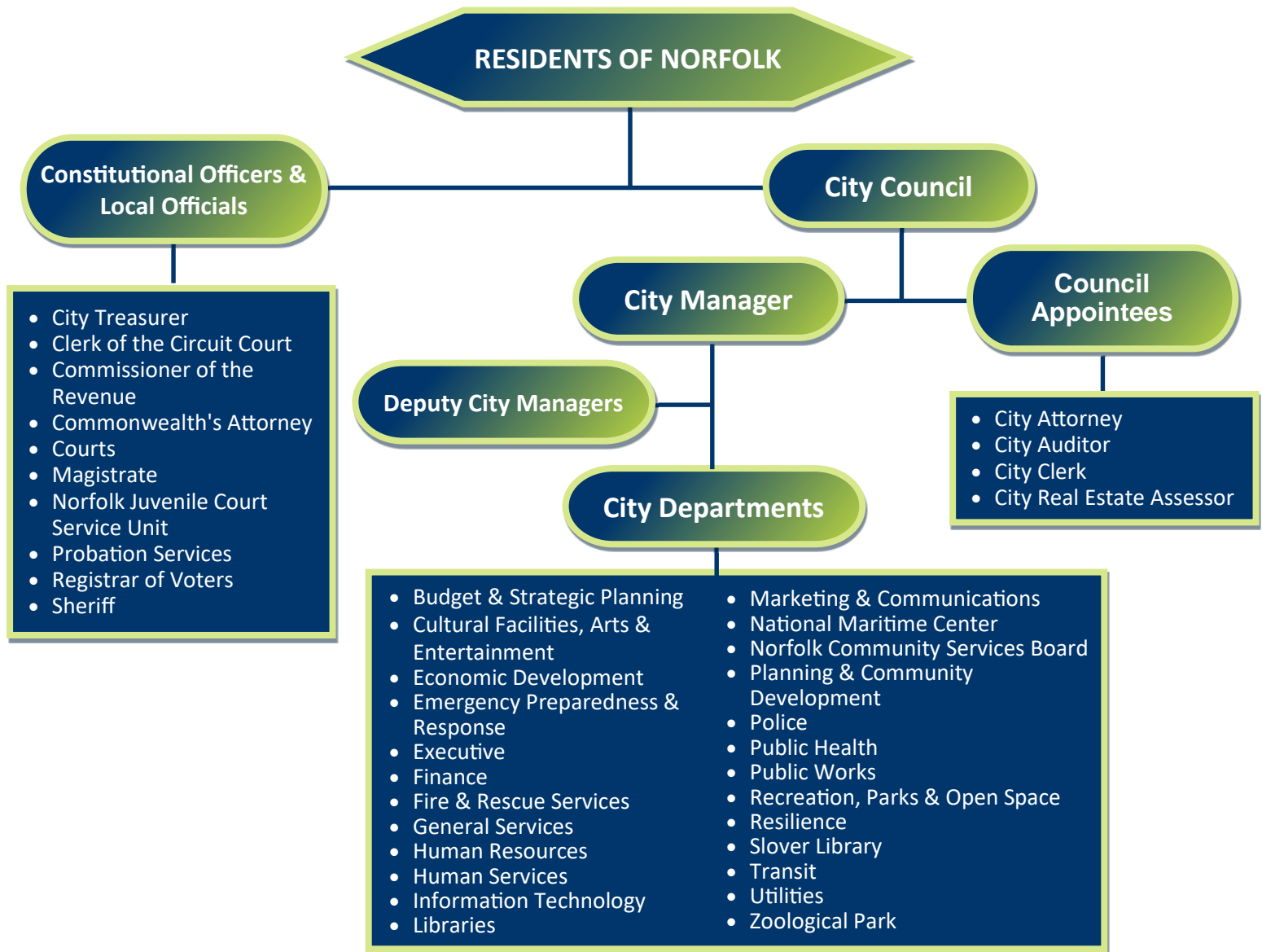
We hope you enjoy reading this report and invite you to access this report and our audited CAFR online for more detailed information. We welcome your questions, comments and suggestion regarding the information included in this report. You can contact our office at (757) 664-4346.

Sincerely,

The Department of Finance

Norfolk Government

City of Norfolk, Virginia - Organizational Chart



The City provides a full range of general governmental services for its residents. These services include police protection; fire and paramedical services; public health and social services; planning and zoning management; neighborhood preservation and code enforcement; environmental storm water management; transit; local street maintenance; traffic control; design, construction and maintenance of public buildings and infrastructure; parks and cemeteries operations and maintenance; recreation and library services; collection and disposal of refuse and recycling; water and wastewater utilities; construction and operation of parking facilities; arts, entertainment and cultural affairs; and general administrative services.

Norfolk Education

Higher Education



Higher education plays a critical role in developing a highly skilled and competitive workforce. The City is home to several institutions of higher learning: Old Dominion University ("ODU"), Norfolk State University ("NSU"), Tidewater Community College ("TCC") and Eastern Virginia Medical School ("EVMS"). ODU is one of only 100 public research universities nationwide. ODU has broken ground on \$200 million worth of construction projects in 2019, including the Hugo Owens Residence Hall, the Barry Art Museum, the renovation of the S.B. Ballard Stadium and a chemistry building. NSU is Virginia's largest public, historically black university and one of the largest predominately black institutions in the nation. In 2018, NSU opened its brand new 6,000 square foot, \$4 million Cybersecurity Complex. In 2019, EVMS announced their plans to construct a new \$80 million, 11-story Education and Academic Support Building to address growth in enrollment over the past several years, completion is expected in 2020. TCC has committed to further transform Norfolk's NEON District with its plan to build the Patricia and Doug Perry Visual and Culinary Arts and Hospitality Center. The 47,000-square-foot center will be a jewel to Downtown and could open as soon as summer 2021.



K-12 Education & Libraries

Norfolk Public Schools is the largest urban school division and the seventh largest division overall in the Commonwealth of Virginia. The school division enrolls a racially and economically diverse population and has an array of academically challenging programs from which to choose. Norfolk offers innovative public-school programs, which include Early Childhood Education, a unique, comprehensive program full-day preschool classrooms ensuring 3-year-olds and 4-year-olds enter school with critical early literacy and numeracy skills. NPS includes five high school specialty programs, five middle school specialty programs, three K-8 choice schools, one 3-8 school, two Pre-K-2 schools, two 3-5 schools and one Pre-K-8 school.

Following the replacement of five schools from 2012 to 2017, the City worked with the federal government on the replacement of the Camp Allen Elementary School. Camp Allen is located on Naval Station Norfolk and is part of a federal initiative to upgrade schools

on military bases and serving military dependents. The U.S. Department of Defense paid 80 percent of the nearly \$28.7 million in construction cost, which was completed in November 2018.

The Richard A. Tucker Memorial Library will be the 13th library location for the Norfolk Public Library system. The new library, set to be 12,000 square foot, will be a first in the Campostella area, completion expected late Spring 2020.

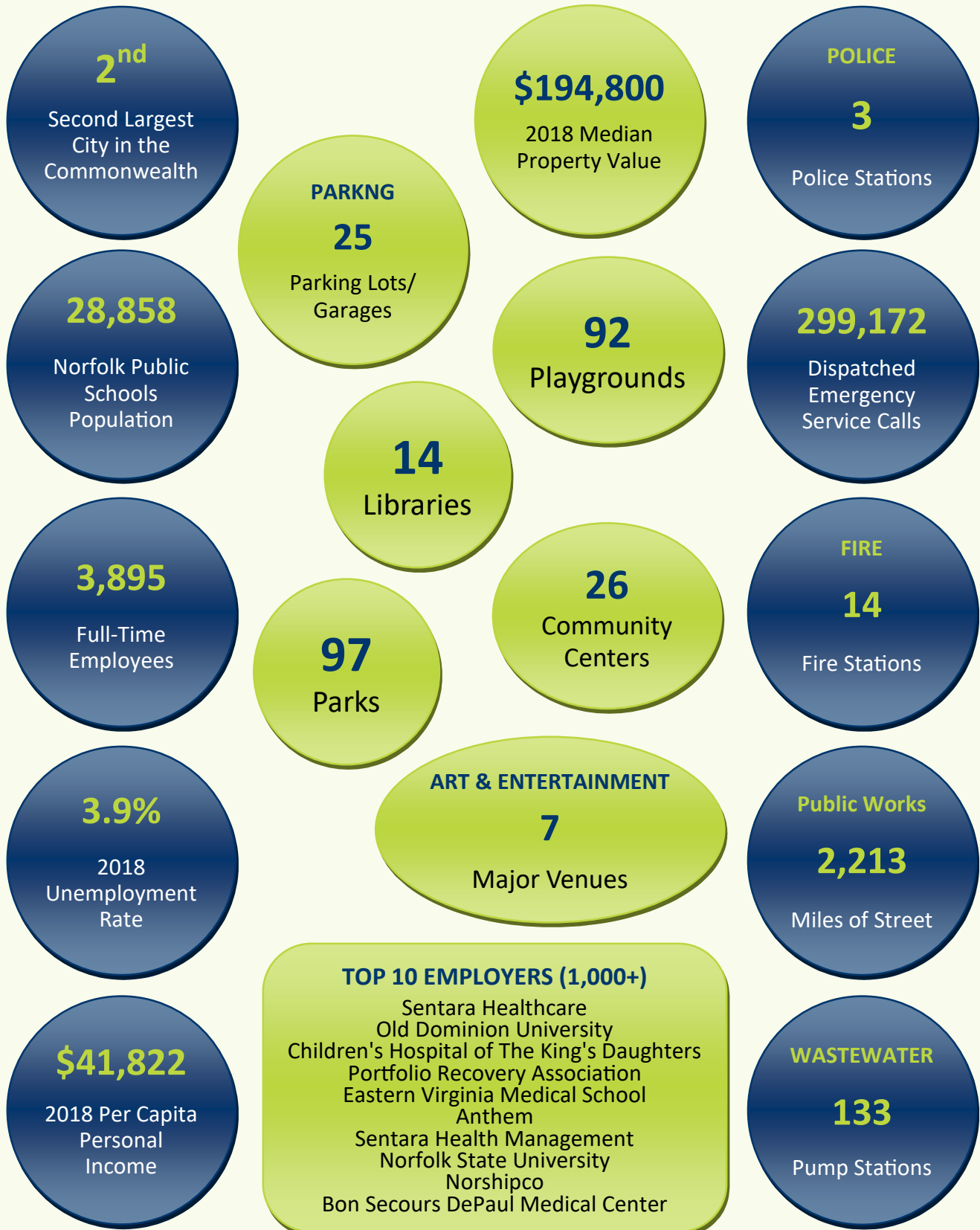
Camp Allen
Elementary
School



Jordan-Newby
Anchor Branch
Library



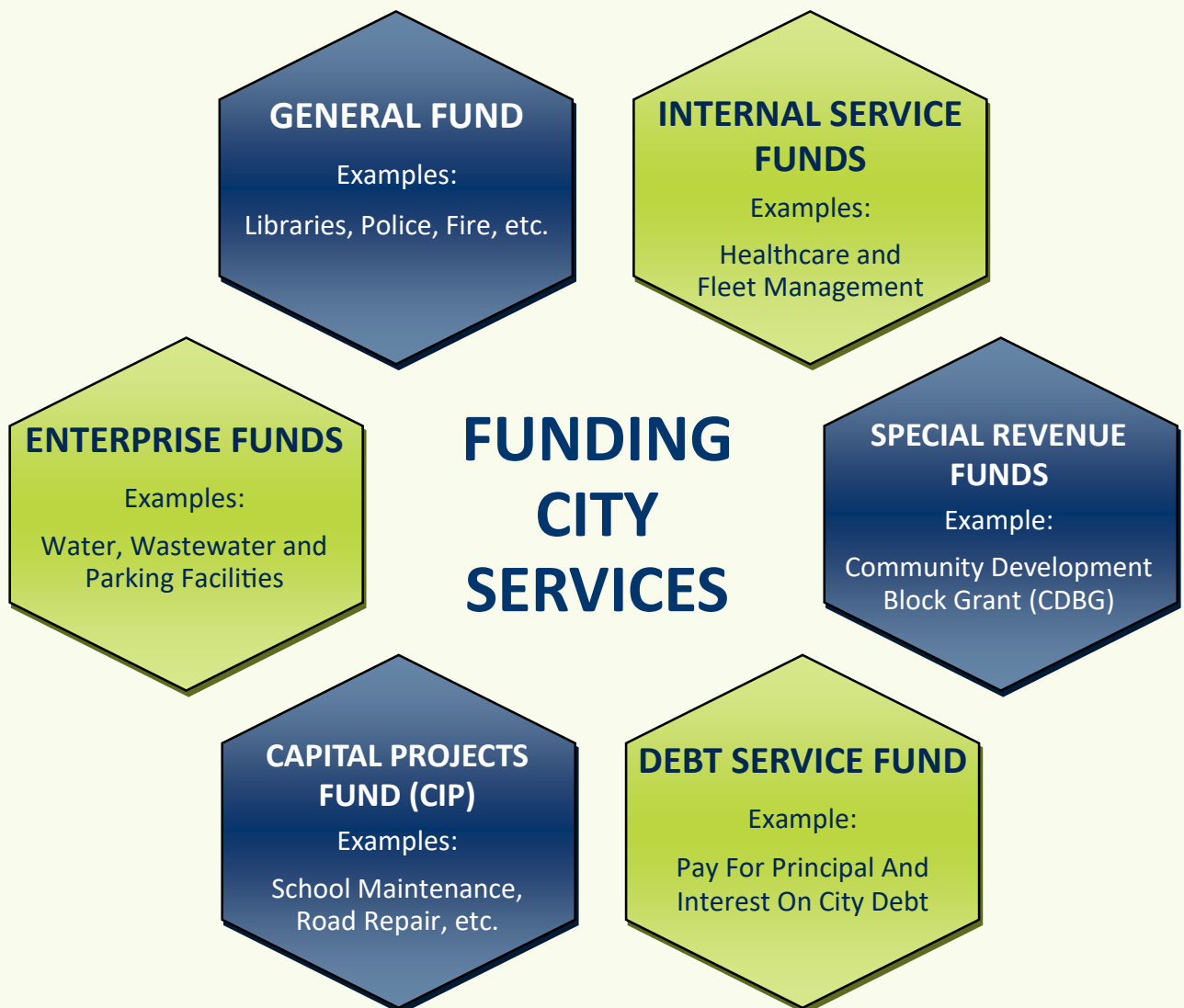
Norfolk By The Numbers



*The Information provided is the most recent data available.

Where the Money Comes From

The City has six different types of funds. The General Fund, made up of property taxes, permits, and fees, funds the City's daily operations and services. Internal service funds are for charges between City departments and partners. Special revenue and enterprise funds use revenue restricted for specific purposes. For example, money made from parking garages can only pay for parking operations. The Capital Projects Fund uses debt or cash to pay for construction projects and other capital purchases. Grant funds use money received from the state government, federal government, or private organizations to pay for grant implementation. Each of these funds is shown below:

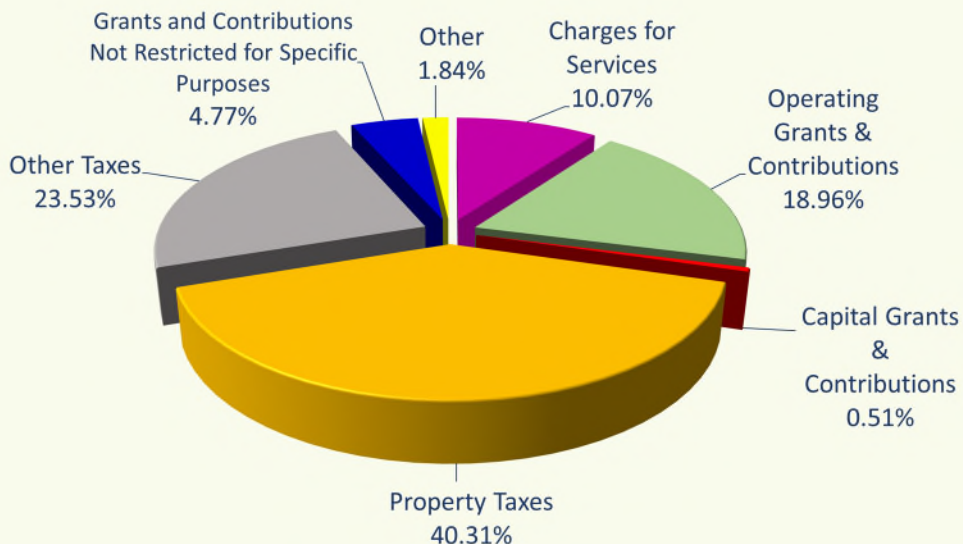


Revenues

Governmental activities capture the general revenues and continuing expenses of primary governmental functions including public safety (police and fire), public works (roads and bridges), parks, recreation, cultural affairs and general government. Revenues for fiscal year 2019 totaled \$753,238,565, more than a \$5.7 million increase from fiscal year 2018.

Governmental Activities Revenue	Fiscal Year		
Program Revenue	2019	2018	2017
Charges for Services	\$ 75,887,233	\$ 73,176,531	\$ 74,932,416
Operating Grants & Contributions	142,804,187	151,518,592	135,193,939
Capital Grants & Contributions	3,806,128	11,954,157	5,941,421
General Revenue			
Property Taxes	303,622,810	277,131,597	271,460,824
Other Taxes	177,263,305	174,138,870	169,538,978
Grants and Contributions Not Restricted for Specific Purposes	35,965,314	28,158,027	36,440,122
Other	13,889,588	31,459,597	31,027,100
Total Revenues	\$ 753,238,565	\$ 747,537,371	\$ 724,534,800

Governmental Activities: Revenue by Source - FY 2019

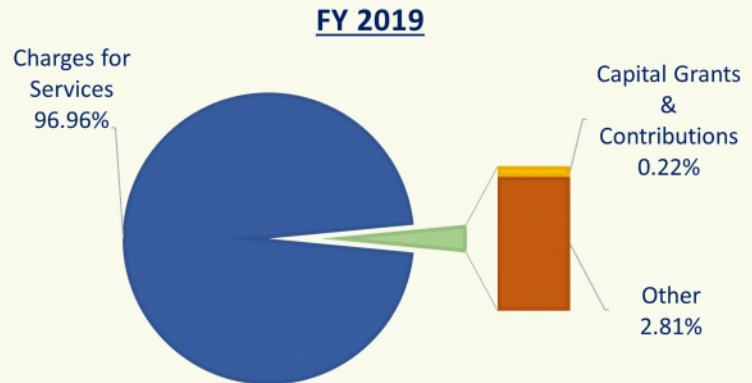


Property and other taxes comprise the vast majority of the governmental activities revenues at 64 percent of the total. Operating grants and contributions comprised the second largest source with 19 percent, followed by charges for service with 10 percent.

Revenues

Business-Type Activities Revenues

Business-type activities include the operations of the City's Water Utility, Wastewater Utility and Parking Facilities funds. Total revenues for fiscal year 2019 were \$170,264,475 with the majority from fees categorized as charges for services of \$165,092,161.



Business-Type Revenue	Fiscal Year		
Program Revenue	2019	2018	2017
Charges for Services	\$ 165,092,161	\$ 139,291,143	\$134,170,141
Capital Grants & Contributions	380,664	144,186	188,476
General Revenue			
Other	4,791,650	2,820,076	2,809,403
Total Revenue	\$ 170,264,475	\$ 142,255,405	\$ 137,168,020

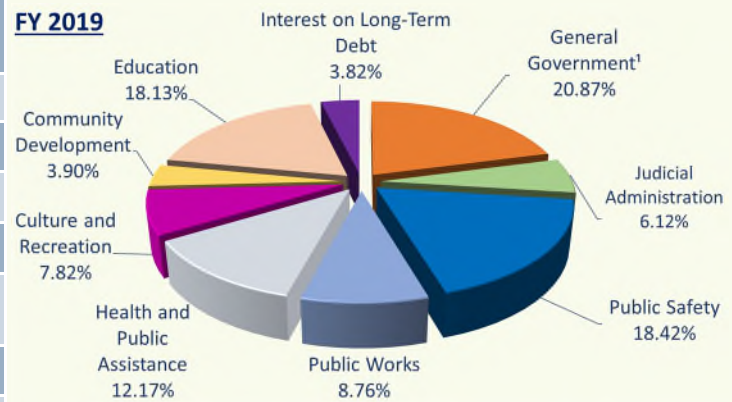


Where the Money Goes

The City's governmental activities include a variety of services with the majority of spending (37 percent) directed towards public education and public safety. Total expenses for governmental activities in fiscal year 2019 were \$753,967,666.

	Fiscal Year		
Governmental Activities Expense	2019	2018	2017
General Government ¹	157,320,255	\$ 152,832,372	\$155,158,869
Judicial Administration	46,124,063	57,118,257	55,547,417
Public Safety	138,889,690	160,378,339	133,377,565
Public Works	66,078,582	69,193,737	80,825,192
Health and Public Assistance	91,735,421	87,826,832	89,102,636
Culture and Recreation	58,961,688	46,798,591	62,996,097
Community Development	29,381,236	23,320,454	15,402,399
Education	136,659,606	131,136,839	114,971,922
Interest on Long-Term Debt	28,817,125	24,965,263	19,326,292
Total Expenses	\$ 753,967,666	\$ 753,570,684	\$ 726,708,389

FY 2019



¹ General Government expenses are related to the administration of the City's affairs. These expenses include the cost of all elected officials, as well as the Departments of Finance, Human Resources and Law, among many others.

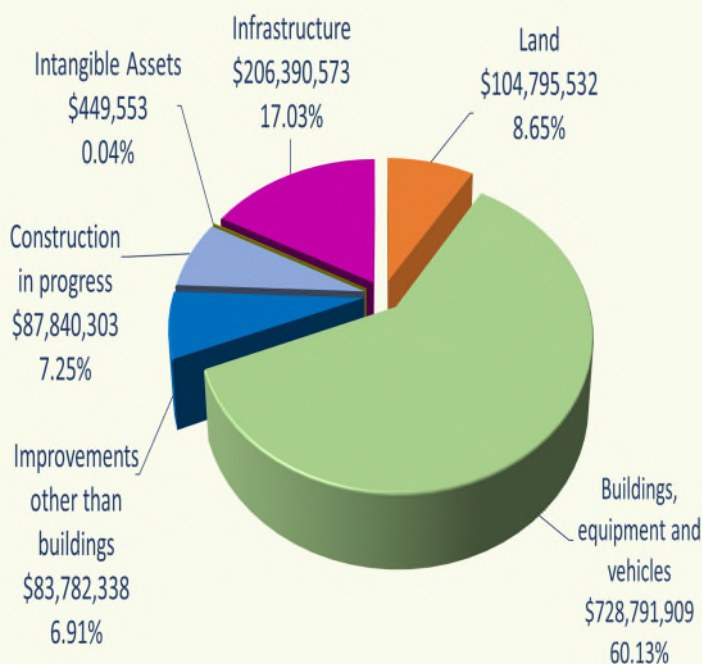


Capital Assets

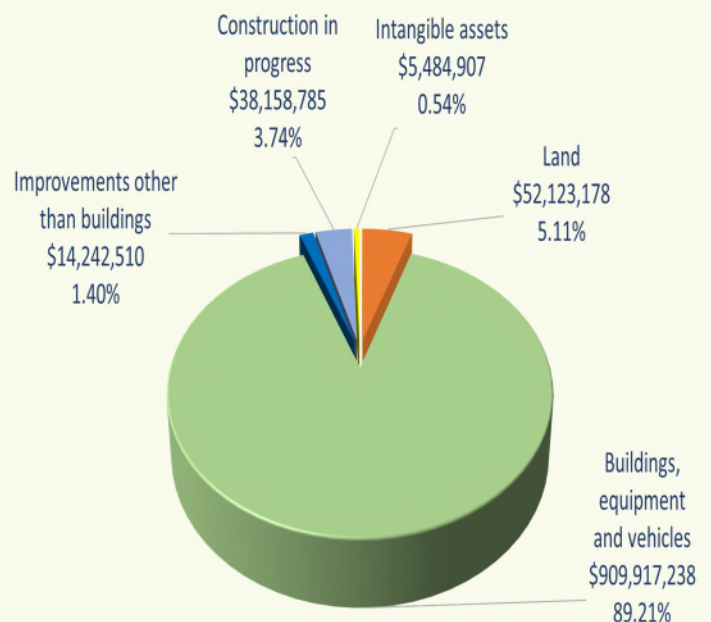
Assets can be generally defined as the items the City owns that will provide an economic benefit in the future. Specifically, the City's capital assets are owned primarily for their contribution to the quality of the community. Examples include, a parcel of land that is owned and used as a park (governmental activity), or a public parking garage that charges for permit parking (business-type activity). The City's capital assets are assigned as either assets associated with governmental activities or as assets associated with business-type activities.

The City's total capital assets at June 30, 2019, was \$2,231,976,826 consisting of \$1,212,050,208 in governmental assets and \$1,019,926,618 in business-type assets. The investment in capital assets includes land, buildings, improvements, infrastructure (streets, roads, bridges, highways, water, sewer systems, etc.), machinery, equipment, intangibles and construction in progress. Buildings, equipment and vehicles comprise of 60 percent of governmental type assets and 89 percent of the City's business type capital assets.

Governmental Capital Assets Total \$1,212,050,208 as of June 30, 2019



Business-Type Capital Assets Total \$1,019,926,618 as of June 30, 2019



Statement of Net Position

The financial balance sheet, known in accounting terms as the “Statement of Net Position,” provides a picture of the health of the City at the end of a fiscal year, which can then be compared against other fiscal years. The City’s fiscal year is twelve months beginning July 1 and ending on June 30.

The City owns things of value called *assets*; amounts owed to others are called *liabilities* or debt. Deferred outflows and inflows of resources are terms for things that are similar to assets and liabilities, but don’t meet the technical definition. The difference between assets and deferred outflows and liabilities and deferred inflows is called *net position*. A positive net position indicates a measure of financial stability. Net position is the common measurement term for both the governmental and business-type activities when they are reported together. This allows all activities to be combined and shown as *government-wide* totals for the primary government. The categories of net position are listed in order of decreasing restrictions, with net investment in capital assets being generally unavailable for spending and unrestricted net position being available for use without restriction. The negative balance of \$6,723,779 of unrestricted net position is due to the adoption of GASB 68 and GASB 78 and the recognition of the net pension liability to the City’s employee retirement system and the Virginia Retirement System.

Over time, net position may serve as a useful indicator of the City’s financial position. In the case of the City, assets exceeded liabilities by \$775,535,503 at the close of fiscal year 2019. This is an increase of approximately 8 percent from fiscal year 2018.



What We Have

What We Owe

What's

Left

	Fiscal Year		
	2019	2018	2017
Current and Other Assets	\$ 473,506,902	\$ 479,546,951	\$ 395,489,341
Capital Assets	2,231,976,826	2,223,636,920	2,208,128,921
Deferred Outflows of Resources	139,783,265	136,434,908	124,991,259
Total Assets and Deferred Outflows of Resources	2,845,266,993	2,839,618,779	2,728,609,521
Long-Term Liabilities	1,926,924,804	1,835,867,688	1,636,975,190
Other Liabilities	118,854,936	267,814,601	385,915,757
Deferred Inflows of Resources	23,951,750	20,403,244	14,833,169
Total Liabilities and Deferred Inflows of Resources	2,069,731,490	2,124,085,533	2,037,724,116
Net Position			
Net Investment in Capital Assets	747,068,430	682,866,373	708,383,585
Restricted	35,190,852	42,501,933	47,278,471
Unrestricted	(6,723,779)	(9,835,060)	(64,776,651)
Total Net Position	\$ 775,535,503	\$ 715,533,246	\$ 690,885,405

Statement of Activities

The City's income statement is known as the 'Statement of Activities' and represents information showing how the government's net position changed during the fiscal year for governmental and business-type activities. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement on an accrual basis. Governmental funds such as the General fund are reported on a modified accrual basis of accounting, but are included in this statement on an accrual basis like the business-type funds.

Business-Type and Governmental Activities Totals	Fiscal Year		
	2019	2018	2017
Program Revenue			
Charges for Services	\$ 240,979,394	\$ 212,467,674	\$ 209,102,557
Operating Grants & Contributions	142,804,187	151,518,592	135,193,939
Capital Grants & Contributions	4,186,792	12,098,343	6,129,897
General Revenue			
Property Taxes	303,622,810	277,131,597	271,460,824
Other Taxes	177,263,305	174,138,870	169,538,978
Grants and Contributions Not Restricted for Specific Purposes	35,965,314	28,158,027	36,440,122
Other	18,681,238	34,279,673	33,836,503
Total Revenue	\$ 923,503,040	\$ 889,792,776	\$ 861,702,820
Expenses			
Governmental Activities	\$ 753,967,666	\$ 753,570,684	\$ 726,708,389
Water Utility	63,966,633	61,275,639	65,319,522
Wastewater Utility	20,201,303	21,011,809	22,071,798
Parking Facilities	25,365,151	23,083,990	21,077,539
Total Expenses	863,500,783	858,942,122	835,177,248
Increase (decrease) in Net Position before Transfers	60,002,257	30,850,654	26,525,572
Transfer	-	-	-
Net Position Beginning of Year, Restated	715,533,246	684,682,592	664,359,833
Net Position End of Year	\$ 775,535,503	\$ 715,533,246	\$ 690,885,405

Debt Administration

General Obligation Debt Limit

The Commonwealth of Virginia state statutes limit general obligation (G.O.) outstanding debt to 10 percent of a local government's assessed valuation for property tax purposes. The City's G.O. debt that applies to the debt limit is \$988 million, which is 48.57 percent of assessed valuation and is significantly less than the current calculated statutory debt limit of \$2.03 billion.

Outstanding Debt

The City's debt structure includes general obligation debt that is backed by the full faith and credit of the City and revenue debt that is supported by income from operations. The City also maintains a line of credit to fund short-term capital needs prior to the issuance of long-term debt.

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
General Obligation Bonds	\$ 751,911,783	\$ 656,212,948	\$ 202,803,498	\$ 242,888,532	\$ 954,715,281	\$ 899,101,480
Line of Credit	9,800,000	156,573,635	9,220,000	10,000,000	19,020,000	166,573,635
Revenue Bonds	-	-	395,919,739	388,742,756	395,919,739	388,742,756
Total	\$ 761,711,783	\$ 812,786,583	\$ 607,943,237	\$ 641,631,288	\$1,369,655,020	\$1,454,417,871

Credit Rating*

Bond Program**	Moody's Investors Service	S&P Global Ratings	Fitch Ratings
General Obligation	Aa2	AA+ (positive)	AA+
Water Revenue	Aa2	AA+	AA+

*Contact the appropriate agency for an explanation of what each rating means

**No underlying ratings for Wastewater Revenue Bonds

As a result of strong credit ratings, the City receives highly competitive pricing on bond issuances.



Capital Improvement Program supported the construction of the Crossroads Elementary School.



Capital Improvement Program supports the improvement of the City's Streets and Bridges.

Norfolk Awards and Recognition

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2018. This was the 33rd consecutive year that the City received this prestigious award. This award is valid for a period of one year only. We believe that the FY 2019 CAFR continues to meet the requirements and it will be submitted to GFOA again this year.

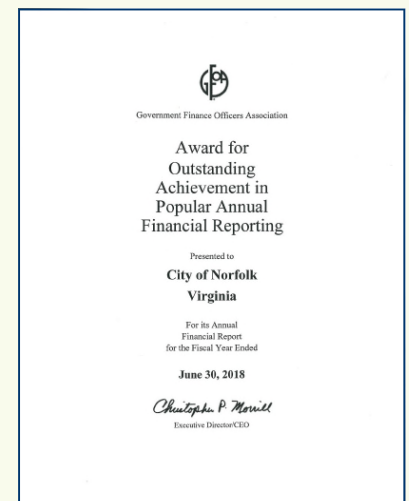
Ranked 5th for Digital
City (Population
125,000 to 249,999)
*Center for Digital
Government, 2018*

Ranked Top 10 in
Cities Where
Millennials Are
Moving
SmartAsset, 2018

Best Fleets in North
America
*National
Automotive Fleet
Association, 2019*

Ranked 4th Among
Top Charming Cities
in the South
*CNN Travel,
2018*

Selected to
Participate in What
Works Cities Initiative
*Bloomberg
Philanthropies, 2018*



CITY EARNS 3rd PAFR AWARD

The GFOA awarded the City Certificate of Outstanding Achievement in Popular Annual Financial Reporting for its Popular Annual Financial Report (PAFR) for the fiscal year ending June 30, 2018. This was the City's 3rd year that the City received this prestigious award. We believe that this FY 2019 PAFR continues to meet the requirements and it will be submitted to GFOA again this year.

Glossary

The following terms are used in this report and are defined below.

Accrual basis - revenues are recorded when earned and expenses are recorded when a liability is incurred, not when the cash is paid.

Assets - what the City owns.

Business-type activities - private sector-type operations where fees for services typically covers all or most of the cost of operations, including depreciation.

Capital Assets - items such as City land, construction in progress, equipment, infrastructure and buildings that will provide an economic benefit in the future, with a useful life greater than a year.

CIP - Capital Improvement Project.

Deferred inflows - an acquisition of a net asset that is applicable to a future reporting period.

Deferred outflows - a consumption of net asset that is applicable to a future reporting period.

Governmental activities - activities generally financed through taxes and intergovernmental revenues. Includes primary governmental functions like public safety, public works, parks and recreation and general government.

Liabilities - what the City owes.

Modified accrual basis of accounting - method under which revenues are recognized in the period they become available and measurable, and expenses are recognized in the period the associated liability is incurred.

Net position - difference between assets and liabilities. It is the net worth of the City.

Restricted - funds that are not available for use because they have been set aside for a specific purpose or project.

Unrestricted - funds available to use for operations.



About this Report

Although this report is largely based on the City's 2019 Comprehensive Annual Financial Report, this report is not prepared in accordance with generally accepted accounting principles ("GAAP"). Only the financial data for the general government is included in this report and, therefore, all of the City's discretely presented component units are excluded. Additionally, information is presented in a summarized manner and certain financial statements and note disclosures required by GAAP are omitted. A copy of this PAFR, as well as the City's audited 2019 CAFR, which is prepared in accordance with GAAP, is located at <http://www.Norfolk.gov/Finance>

Comments and Questions

The Department of Finance is committed to accomplishing the City Council's priorities and providing clear and transparent reporting of the City's financial activities. We hope this report has been helpful in providing a brief overview of the City and its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to:

City of Norfolk, Department of Finance

810 Union Street, Suite 600

Norfolk VA, 23510

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