

**NEW ISSUE****Book-Entry Only****Bonds Rating: Moody's Aa2****(See "Rating" herein)****CITY OF NORFOLK, VIRGINIA**

**\$89,025,000  
General Obligation  
Refunding Bonds,  
Series 2019D (Taxable)**

**Dated: Date of Delivery****Due: As shown on the inside front cover**

The City of Norfolk, Virginia (the "City"), prepared this Official Statement to provide information on the above-referenced Bonds (the "Bonds"). This cover page presents a summary of selected information for your convenience and does not provide a complete description of the Bonds. To make an informed decision regarding the Bonds, this Official Statement should be read in its entirety.

**Tax Matters**

In the opinion of Bond Counsel, under current law and assuming the compliance with certain covenants by and the accuracy of certain representations and certifications of the City and other persons and entities described in the section herein "TAX MATTERS" interest on the Bonds is includable in income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended.

Bond Counsel is further of the opinion that interest on the Bonds is excludable from gross income for purposes of income taxation by the Commonwealth of Virginia. Bond Counsel expresses no opinion regarding any other tax consequence related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See the section herein "TAX MATTERS" regarding other tax considerations.

**Security**

The Bonds are general obligations of the City. See the section herein "SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS."

**Redemption**

See the inside front cover and see the section "DESCRIPTION OF THE BONDS-Redemption Provisions," for a description of the redemption provisions for the Bonds.

**Authorization**

Ordinance No. 47,731 adopted by the City Council of the City on July 23, 2019.

**Purpose**

The proceeds of the Bonds will be used to (i) refund or refinance all or a portion of the outstanding general obligation bonds of the City and (ii) pay the costs of issuance of the Bonds. See the section herein "PART I - APPLICATION OF PROCEEDS OF THE BONDS."

**Interest Payment Dates**

Interest on the Bonds will be payable semi-annually on April 1 and October 1, commencing April 1, 2020.

**Record Date**

March 15 for the April 1 payment date and September 15 for the October 1 payment date.

**Registration**

Book-Entry Only; The Depository Trust Company.

**Denomination**

\$5,000 or multiples thereof.

**Closing/Delivery Date**

On or about September 19, 2019.

**Bond Counsel**

McGuireWoods LLP, Richmond, Virginia.

**Underwriters' Counsel**

Kaufman & Canoles, P.C., Richmond, Virginia.

**Financial Advisor**

PFM Financial Advisors, LLC, Arlington, Virginia.

**Registrar/Paying Agent**

Director of Finance of the City.

**Issuer Contact**

Director of Finance of the City. (757) 664-4346.

*Underwriters for the Bonds:*

**BofA Merrill Lynch**

**Citigroup**

**Academy Securities**

Dated: August 22, 2019

**CITY OF NORFOLK, VIRGINIA**

**\$89,025,000**  
**General Obligation Refunding Bonds, Series 2019D (Taxable)**  
**(Base CUSIP Number 655867)<sup>†</sup>**

**MATURITIES, AMOUNTS, INTEREST RATES, PRICES AND YIELDS**

<b>Maturity (October 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Price</b>	<b>Yield</b>	<b>CUSIP<sup>†</sup> Suffix</b>
2020	\$1,175,000	1.740%	1.740%	100.000%	A33
2021	1,200,000	1.790	1.790	100.000	A41
2022	1,220,000	1.810	1.810	100.000	A58
2023	1,245,000	1.840	1.840	100.000	A66
2024	1,265,000	1.890	1.890	100.000	A74
2025	1,295,000	1.950	1.950	100.000	A82
2026	5,350,000	2.050	2.050	100.000	A90
2027	18,400,000	2.150	2.150	100.000	B24
2028	1,245,000	2.200	2.200	100.000	B32
2029	1,275,000	2.250	2.250	100.000	B40
2030	5,390,000	2.300	2.300	100.000	B57
2031	15,950,000	2.400	2.400	100.000	B65
2032	405,000	2.500	2.500	100.000	B73

**\$12,330,000 Term 2.820% 2019D Bond due October 1, 2039, Priced at 100.000% to yield 2.820% CUSIP<sup>†</sup>  
Suffix:B81**

**\$21,280,000 Term 2.920% 2019D Bond due October 1, 2045, Priced at 100.000% to yield 2.920% CUSIP<sup>†</sup>  
Suffix:B99**

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<sup>†</sup> See the last paragraph on page (iv) regarding the use of CUSIP numbers in this Official Statement

## OPTIONAL REDEMPTION

Prior to October 1, 2028, the Bonds are subject to redemption at the option of the City on any date prior to their maturity, in whole or in part (in increments of \$5,000), at a redemption price equal to the greater of:

- (a) the price set forth above (but not less than 100%) of such Bonds to be redeemed; or
- (b) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date fixed for the redemption (the "Scheduled Redemption Date") of such Bonds, discounted to the Scheduled Redemption Date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, as hereinafter defined, plus 20 basis points;

plus, in each case, the unpaid interest accrued thereon to the Scheduled Redemption Date.

*Definition of Treasury Rate.* "Treasury Rate" means, with respect to any redemption date for any particular Bond, the greater of:

- (a) the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to maturity; provided, however, that if the period from the redemption date to maturity is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used; all as will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the City at the City's expense and such determination shall be conclusive and binding on the owners of the Bonds, or
- (b) the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue (defined below), assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price (defined below), as calculated by the Designated Investment Banker (defined below).

"Comparable Treasury Issue" means, with respect to any redemption date for a particular Bond, the United States Treasury security or securities selected by the Designated Investment Banker that has or have an actual or interpolated maturity comparable to the remaining average life of the Bond to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a particular Bond, (i) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations (defined below), the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (ii) if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all such quotations.

"Designated Investment Banker" means one of the Reference Treasury Dealers (as defined below) appointed by the City.

"Reference Treasury Dealer" means each of the four firms, specified by the City from time to time, that are primary United States government securities dealers in the City of New York (each a 'Primary Treasury Dealer'); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the City will substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 P.M., New York City time, on the third business day preceding such redemption date.

*Calculation of Redemption Price.* The redemption price of any Bonds to be redeemed by optional redemption will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the City to calculate such redemption price. The City may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

*Optional Redemption of the Bonds at Par.* The Bonds are subject to redemption prior to their respective maturities on or after October 1, 2028, at the option of the City, in whole or in part (in increments of \$5,000) at any time, at a redemption price equal to 100% of the principal amount of such Bonds to be redeemed, plus the unpaid interest accrued thereon to the date fixed for redemption.

#### MANDATORY REDEMPTION

The Bonds maturing on or before October 1, 2039, are subject to mandatory sinking fund redemption in part, on October 1 in the years and in the amounts set forth below, at a redemption price equal to 100% of the principal amount of such Bonds to be redeemed, plus the unpaid interest accrued thereon to the date fixed for redemption:

<u>Year</u>	<u>Amount</u>
2033	\$415,000
2034	425,000
2035	435,000
2036	450,000
2037	465,000
2038	7,550,000
2039 (Final Maturity)	2,590,000

The Bonds maturing on or before October 1, 2045, are subject to mandatory sinking fund redemption in part, on October 1 in the years and in the amounts set forth below, at a redemption price equal to 100% of the principal amount of such Bonds to be redeemed, plus the unpaid interest accrued thereon to the date fixed for redemption:

<u>Year</u>	<u>Amount</u>
2040	\$2,710,000
2041	2,830,000
2042	2,965,000
2043	4,135,000
2044	4,260,000
2045 (Final Maturity)	4,380,000

## **CITY OF NORFOLK, VIRGINIA**

### **CITY COUNCIL**

Kenneth Cooper Alexander, Mayor  
Martin A. Thomas, Jr., Vice Mayor

Courtney R. Doyle  
Mamie B. Johnson  
Andria P. McClellan

Paul R. Riddick  
Thomas R. Smigiel, Jr.  
Angelia M. Williams Graves

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### **CITY OFFICIALS**

Douglas L. Smith, City Manager  
Christine Garczynski, Director of Finance  
Bernard A. Pishko, City Attorney

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#### **BOND COUNSEL**

McGuireWoods LLP  
Richmond, Virginia

#### **FINANCIAL ADVISOR**

PFM Financial Advisors, LLC  
Arlington, Virginia

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**The Bonds are exempt from registration under the Securities Act of 1933, as amended. The Bonds are also exempt from registration under the securities laws of the Commonwealth of Virginia.**

No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make an offer, solicitation or sale. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or owners of any of the Bonds. The information and expressions of opinion in this Official Statement are subject change without notice, and neither the delivery of this Official Statement nor any sale made under it will, under any circumstances, create any implication that there has been no change in the affairs of the City since the respective dates as of which information is given herein.

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All quotations from, and summaries and explanations of, provisions of law and documents herein do not purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words, "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the City's financial results could cause actual results to differ materially from those stated in the forward-looking statements.

The Bonds have not been registered under the Securities Act of 1933, as amended, and the City's bond ordinance has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in the acts. The registration or qualification of the Bonds in accordance with applicable provisions of laws of the states in which the Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither these states nor any of their agencies have passed upon the merits of the Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

A registered trademark of the American Bankers Association ("ABA"), used by Standard & Poor's ("S&P") in its operation of the CUSIP Service Bureau for the ABA. The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the City, and the City is not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such securities or the use of secondary market financial products. The City has not agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and which has the same meaning as "final official statement" in SEC rule 15c2-12.

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## **OFFICIAL STATEMENT**

### **Relating to the Issuance of**

#### **CITY OF NORFOLK, VIRGINIA**

**\$89,025,000**

**General Obligation  
Refunding Bonds,  
Series 2019D (Taxable)**

### **PART I THE BONDS**

The purpose of this Official Statement, including the financial information contained in Appendix A attached hereto, is to furnish information for the sale by the City of Norfolk, Virginia (the "City"), of its \$89,025,000 General Obligation Refunding Bonds, Series 2019D (Taxable) (the "Bonds").

The Bonds will be general obligations of the City. The City's full faith and credit of the City are pledged to the payment of the Bonds. The City has authorized the use of this Official Statement in connection with the sale of the Bonds.

The City has undertaken in the Ordinance, as hereinafter defined, to provide continuing disclosure as described in Rule 15c2-12, as amended ("Rule 15c2-12"), promulgated by the Securities and Exchange Commission (the "SEC") and as in effect on the date hereof, by providing annual financial information and notice of the events required by Rule 15c2-12. See Appendix C "FORM OF CONTINUING DISCLOSURE AGREEMENT."

All financial and other information presented in this Official Statement has been provided by the City from its records except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information and is not intended, unless specifically stated, to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by such financial and other information, will necessarily continue or be repeated in the future.

This Official Statement should be considered in its entirety, and no one subject discussed should be considered less important than any other by reason of its location in the text. Reference should be made to laws, reports or other documents referred to in this Official Statement for more complete information regarding their contents.

## DESCRIPTION OF THE BONDS

### General

The Bonds shall be dated the date of delivery and shall be payable in annual installments, subject to prior redemption, in the principal amounts and at the rates set forth on the inside front cover of this Official Statement. Interest on the Bonds will be payable semi-annually on April 1 and October 1, commencing April 1, 2020. The record date for the Bonds is March 15 for the April 1 payment date and September 15 for the October 1 payment date.

### Redemption Provisions

*Optional Redemption of the Bonds with Make Whole Payment.* Prior to October 1, 2028, the Bonds are subject to redemption at the option of the City on any date prior to their maturity, in whole or in part (in increments of \$5,000), at a redemption price equal to the greater of:

- (a) the price set forth above (but not less than 100%) of such Bonds to be redeemed; or
- (b) the sum of the present values of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date fixed for the redemption (the "Scheduled Redemption Date") of such Bonds, discounted to the Scheduled Redemption Date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, as hereinafter defined, plus 20 basis points; plus, in each case, the unpaid interest accrued thereon to the Scheduled Redemption Date.

*Definition of Treasury Rate.* "Treasury Rate" means, with respect to any redemption date for any particular Bond, the greater of:

- (a) the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to maturity; provided, however, that if the period from the redemption date to maturity is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used; all as will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the City at the City's expense and such determination shall be conclusive and binding on the owners of the Bonds, or
- (b) the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue (defined below), assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price (defined below), as calculated by the Designated Investment Banker (defined below).

"Comparable Treasury Issue" means, with respect to any redemption date for a particular Bond, the United States Treasury security or securities selected by the Designated Investment Banker that has or have an actual or interpolated maturity comparable to the remaining average life of the Bond to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a particular Bond, (i) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations (defined below), the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (ii) if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all such quotations.

"Designated Investment Banker" means one of the Reference Treasury Dealers (as defined below) appointed by the City.

"Reference Treasury Dealer" means each of the four firms, specified by the City from time to time, that are primary United States government securities dealers in the City of New York (each a 'Primary Treasury Dealer'); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the City will substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 P.M., New York City time, on the third business day preceding such redemption date.

*Calculation of Redemption Price.* The redemption price of any Bonds to be redeemed by optional redemption will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the City to calculate such redemption price. The City may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

*Optional Redemption of the Bonds at Par.* The Bonds are subject to redemption prior to their respective maturities on or after October 1, 2028, at the option of the City, in whole or in part (in increments of \$5,000) at any time, at a redemption price equal to 100% of the principal amount of such Bonds to be redeemed, plus the unpaid interest accrued thereon to the date fixed for redemption.

*Mandatory Sinking Fund Redemption of the Bonds.* The Bonds maturing on or before October 1, 2039 are subject to mandatory sinking fund redemption in part, on October 1 in the years and in the amounts set forth below, at a redemption price equal to 100% of the principal amount of such Bonds to be redeemed, plus the unpaid interest accrued thereon to the date fixed for redemption:

<u>Year</u>	<u>Amount</u>
2033	\$415,000
2034	425,000
2035	435,000
2036	450,000
2037	465,000
2038	7,550,000
2039 (Final Maturity)	2,590,000

The Bonds maturing on or before October 1, 2045, are subject to mandatory sinking fund redemption in part, on October 1 in the years and in the amounts set forth below, at a redemption price equal to 100% of the principal amount of such Bonds to be redeemed, plus the unpaid interest accrued thereon to the date fixed for redemption:

<u>Year</u>	<u>Amount</u>
2040	\$2,710,000
2041	2,830,000
2042	2,965,000
2043	4,135,000
2044	4,260,000
2045 (Final Maturity)	4,380,000

*Manner of Redemption for the Bonds.* If less than all of the Bonds are called for redemption, the maturities of such Bonds to be redeemed shall be selected by the Director of Finance of the City in such manner as he or she in his or her discretion may determine. So long as a book-entry system is used for determining beneficial ownership of the Bonds, if less than all of the Bonds within a maturity are to be redeemed, The Depository Trust Company ("DTC") and its participants shall determine which of such Bonds within a maturity are to be redeemed.

## **AUTHORIZATION AND PURPOSES OF THE BONDS**

The City is issuing the Bonds pursuant to the Public Finance Act of 1991, Chapter 26, Title 15.2 of the Code of Virginia of 1950, as amended (the "Virginia Code"), and Ordinance No. 47,731, adopted by the City Council of the City (the "City Council") on July 23, 2019 (the "Ordinance").

The City will use the proceeds of the Bonds, together with other available funds, to (i) refund or refinance all or a portion of certain outstanding general obligation bonds of the City and (ii) pay the costs of issuance of the Bonds as set forth in the sections "PLAN OF REFUNDING" and "APPLICATION OF PROCEEDS OF THE BONDS."

## **PLAN OF REFUNDING**

### **Refunding**

The City will use a portion of the proceeds of the Bonds, plus cash on hand, to refund, redeem and defease all or portions of its general obligation bonds (the "Refunded Obligations"). The table below sets forth the Refunded Obligations.

#### **General Obligation Refunding Bonds, Series 2012A (Non-AMT) (Base CUSIP Number 655867) <sup>†</sup>**

<u>Year of Maturity (October 1)</u>	<u>Refunded Principal Amount</u>	<u>Interest Rate</u>	<u>Maturity/Redemption Date</u>	<u>Redemption Price</u>	<u>CUSIP Suffix<sup>†</sup></u>
2020	\$1,320,000	2.000%	10/1/2020	100%	MX4
2021	1,445,000	5.000	10/1/2021	100	NH8
2022	1,500,000	5.000	10/1/2022	100	NL9
2023	1,590,000	4.000	10/1/2022	100	NJ4

<sup>†</sup> See the note on the first inside cover page regarding the use of CUSIP information in this Official Statement.

**General Obligation Refunding Bonds,  
Series 2012B (AMT)  
(Base CUSIP Number 655867)**

<b>Year of Maturity (October 1)</b>	<b>Refunded Principal Amount</b>	<b>Interest Rate</b>	<b>Maturity/Redemption Date</b>	<b>Redemption Price</b>	<b>CUSIP Suffix<sup>†</sup></b>
2020	\$620,000	2.000%	10/1/2020	100%	MQ9
2021	415,000	2.250	10/1/2021	100	MR7

**General Obligation Capital Improvement and Refunding Bonds,  
Series 2013A (Tax-Exempt)  
(Base CUSIP Number 655867)<sup>†</sup>**

<b>Year of Maturity (August 1)</b>	<b>Refunded Principal Amount</b>	<b>Interest Rate</b>	<b>Maturity/Redemption Date</b>	<b>Redemption Price</b>	<b>CUSIP Suffix<sup>†</sup></b>
2020	\$310,000	5.000%	8/1/2020	100%	QV4

**General Obligation Capital Improvement and Refunding Bonds,  
Series 2013B (Taxable)  
(Base CUSIP Number 655867)<sup>†</sup>**

<b>Year of Maturity (August 1)</b>	<b>Refunded Principal Amount</b>	<b>Interest Rate</b>	<b>Redemption Date</b>	<b>Redemption Price</b>	<b>CUSIP Suffix<sup>†</sup></b>
2026	\$4,075,000	4.115%	8/1/2023	100%	SC4
2027	3,865,000	4.265	8/1/2023	100	SD2

**General Obligation Capital Improvement Bonds,  
Series 2016A  
(Base CUSIP Number 655867)<sup>†</sup>**

<b>Year of Maturity (October 1)</b>	<b>Refunded Principal Amount</b>	<b>Interest Rate</b>	<b>Redemption Date</b>	<b>Redemption Price</b>	<b>CUSIP Suffix<sup>†</sup></b>
2030	\$4,385,000	5.000%	10/1/2026	100%	UB3
2031	4,555,000	5.000	10/1/2026	100	UC1

**General Obligation Capital Improvement Bonds,  
Series 2017A (Tax-Exempt)  
(Base CUSIP Number 655867)<sup>†</sup>**

<b>Year of Maturity (September 1)</b>	<b>Refunded Principal Amount</b>	<b>Interest Rate</b>	<b>Redemption Date</b>	<b>Redemption Price</b>	<b>CUSIP Suffix<sup>†</sup></b>
2027	\$5,510,000	5.000%	9/1/2024	100%	VZ9

<sup>†</sup> See the note on the first inside cover page regarding the use of CUSIP information in this Official Statement.

**General Obligation Refunding Bonds,  
Series 2017C (Tax-Exempt)  
(Base CUSIP Number 655867)<sup>†</sup>**

<b>Year of Maturity (September 1)</b>	<b>Refunded Principal Amount</b>	<b>Interest Rate</b>	<b>Redemption Date</b>	<b>Redemption Price</b>	<b>CUSIP Suffix<sup>†</sup></b>
2030	\$8,175,000	5.000%	3/1/2027	100%	WY1
2031	10,805,000	5.000	3/1/2027	100	WZ8
2043	320,000	5.000	3/1/2027	100	XF1

**General Obligation Capital Improvement Bonds,  
Series 2019  
(Base CUSIP Number 655867)<sup>†</sup>**

<b>Year of Maturity (August 1)</b>	<b>Refunded Principal Amount</b>	<b>Interest Rate</b>	<b>Redemption Date</b>	<b>Redemption Price</b>	<b>CUSIP Suffix<sup>†</sup></b>
2038	\$7,155,000	5.000%	8/1/2028	100%	YD5
2039	2,285,000	5.000	8/1/2028	100	YE3
2040	2,450,000	5.000	8/1/2028	100	YF0
2041	2,615,000	5.000	8/1/2028	100	YG8
2042	2,800,000	5.000	8/1/2028	100	YH6
2043	3,715,000	5.000	8/1/2028	100	YJ2
2044	4,245,000	5.000	8/1/2028	100	YK9
2045	4,460,000	5.000	8/1/2028	100	YL7

**Escrow Agreement and Defeasance**

A portion of the proceeds of the Bonds, plus available cash on hand, in the aggregate amount of \$96,354,456.97 will be deposited with Wilmington Trust, N.A. (the "Escrow Agent"), under two separate Escrow Agreements to be dated the date of delivery of the Bonds, between the City and Escrow Agent. One Escrow Agreement will provide for the legal defeasance of the Refunded Obligations from the following series of bonds: 2012A, 2012B, 2013A, 2016A, 2017A, 2017C and 2019 Bonds. As a part of the legal defeasance, the City will provide an equity contribution in the amount of \$7,711,200.68 to defease certain maturities of the City's Series 2012A, 2012B and 2013A Bonds. The other Escrow Agreement will provide for the economic defeasance of the Refunded Obligations from the Series 2013B Bond. The Escrow Agreements will provide for the purchase of non-callable, full, faith and credit obligations of the Treasury (the "Escrow Securities") that will mature and bear interest at times and in amounts sufficient to pay the principal of, premium and interest on the Refunded Obligations. The sufficiency of the Escrow Securities deposited with the Escrow Agent was verified by Bingham Arbitrage Rebate Services Incorporated. See the section herein "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

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<sup>†</sup> See the note on the first inside cover page regarding the use of CUSIP information in this Official Statement.

## APPLICATION OF PROCEEDS OF THE BONDS

The following tables set forth the anticipated application of the proceeds of the Bonds for the purposes described above:

	<u>Total</u>
Sources of Proceeds:	
Par Amount of Bonds	\$89,025,000.00
Cash on Hand	<u>7,711,200.68</u>
 Total:	 <u>\$96,736,200.68</u>
Uses of Proceeds:	
Refunding Escrow Deposits	\$96,354,456.97
Costs of Issuance*	298,858.18
Other Uses of Funds	
Transfers for Cash Defeasance	<u>82,885.53</u>
 Total:	 <u>\$96,736,200.68</u>

\* Includes underwriters' discount and other costs of issuing the Bonds, including legal, financial advisory, rating and printing.

## SECURITY FOR AND SOURCES OF PAYMENT OF THE BONDS

### General

The Bonds are general obligations of the City. The City's full faith and credit are irrevocably pledged to the payment of principal of, premium, if any, and interest on the Bonds. While the Bonds remain outstanding and unpaid, the City Council is authorized and required to levy and collect annually, at the same time and in the same manner as other taxes of the City are assessed, levied and collected, a tax upon all taxable property within the City, over and above all other taxes authorized or limited by law, and without limitation as to rate or amount, sufficient to pay when due the principal of and interest on the Bonds to the extent other funds of the City are not lawfully available and appropriated for such purpose.

The City has never defaulted in the payment of either principal of, or interest on, any general obligation bond.

### Bondholders' Remedies in Event of Default

Section 15.2-2659 of the Virginia Code provides that upon affidavit of any owner, or any paying agent therefor, of a general obligation bond or note in default as to payment of principal or interest, the Governor of the Commonwealth of Virginia (the "Governor") shall conduct a summary investigation. If such default is established to the Governor's satisfaction, the Governor shall order the State Comptroller to withhold all funds appropriated and payable by the Commonwealth of Virginia (the "Commonwealth") to the political subdivision so in default and apply a sufficient portion of the amount so withheld to payment of the defaulted principal and interest. The State Comptroller advises that to date no order to withhold funds pursuant to Section 15.2-2659, or its predecessors, Sections 15.1-225 and 15.1-227.61, has ever been issued. Although Section 15.2-2659 has not been considered by a Virginia court, the Attorney General of Virginia has opined that appropriated funds may be withheld by the Commonwealth pursuant to one of its predecessor provisions, Section 15.1-225. Each fiscal year of the City (each a "Fiscal Year") ends on June

30, and for Fiscal Year 2019, the Commonwealth provided approximately \$324,661,480 to the City that was deposited in the City's General Fund.

Although Virginia law currently does not authorize such action, future legislation may enable the City to file a petition for relief under the U.S. Bankruptcy Code (the "Bankruptcy Code") if it is insolvent or unable to pay its debts. Bankruptcy proceedings by the City could have adverse effects on the Bondholders, including (i) delay in the enforcement of their remedies, (ii) subordination of their claims to claims of those supplying goods and services to the City after the initiation of bankruptcy proceedings and to the administrative expenses of bankruptcy proceedings or (iii) imposition without their consent of a reorganization plan reducing or delaying payment of the Bonds. The Bankruptcy Code contains provisions intended to ensure that, in any reorganization plan not accepted by at least a majority of a class of creditors such as the owners of general obligation bonds, such creditors will have the benefit of their original claim or the "indubitable equivalent." The effect of these and other provisions of the Bankruptcy Code cannot be reliably predicted and may be significantly affected by judicial interpretation.

## **TAX MATTERS**

### **Opinion of Bond Counsel – Federal Income Tax Status of Interest on the Bonds**

Bond Counsel's opinion with respect to the Bonds will state that, based on current law, interest on the Bonds is includable in the gross income of the owners thereof for purposes of federal income taxation. See "FORM OF BOND COUNSEL OPINION" in Appendix B.

Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Bonds.

### **Summary**

The following is a summary of certain of the United States federal income tax consequences of the ownership of the Bonds as of the date hereof. Each prospective purchaser of the Bonds should consult with its own tax advisor regarding the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation.

This summary is based on the Code, as well as Treasury regulations and administrative and judicial rulings and practice. Legislative, judicial and administrative changes may occur, possibly with retroactive effect, that could alter or modify the continued validity of the statements and conclusions set forth herein. This summary is intended as a general explanatory discussion of the consequences of holding the Bonds generally and does not purport to furnish information in the level of detail or with the prospective purchaser's specific tax circumstances that would be provided by a prospective purchaser's own tax advisor. For example, it generally is addressed only to original purchasers of the Bonds that are "U.S. holders," as hereinafter defined, deals only with Bonds held as "capital assets" within the meaning of Section 1221 of the Code and does not address tax consequences to owners that may be relevant to investors subject to special rules, such as individuals, trusts, estates, tax-exempt investors, foreign investors (including nonresident alien individuals, foreign corporations and foreign financial institutions), cash method taxpayers, dealers in securities, currencies or commodities, bank thrifts, insurance companies, electing large partnerships, mutual funds, regulated investment companies, real estate investment trusts, S corporations, persons that hold Bonds as part of a straddle, hedge, integrated or conversion transaction, and persons whose "functional currency" is not the U.S. dollar. In addition, this summary does not address alternative minimum tax issues or the indirect consequences to a holder of an equity interest in an owner of the Bonds.

As used herein, a "U.S. holder" is a "U.S. person" that is a beneficial owner of Bonds. A "non-U.S. investor" is a holder (or beneficial owner) of Bonds that is not a U.S. person. For these purposes, a "U.S. person" is a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof (except, in the case of a partnership, to the extent otherwise provided in Treasury regulations), an estate the income of which is subject to United States federal income taxation regardless of its source, or a trust if (i) a United States court is able to exercise primary supervision over the trust's administration and (ii) one or more U.S. persons have the authority to control all of the trust's substantial decisions.

### **Interest on the Bonds**

The Bonds will be treated, for federal income tax purposes, as a debt instrument. Accordingly, stated interest on the Bonds will be included in the income of the owner as it is paid (or, if the owner is an accrual method taxpayer, as it is accrued) as interest.

Owners of the Bonds who or which allocate a basis in the Bonds that is greater than the principal amount of the Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under Section 171 of the Code.

If an owner purchases the Bonds for an amount that is less than the principal amount of the Bonds, and such difference is not considered to be de minimis, then such discount will represent original issue discount that ultimately will constitute ordinary income (and not capital gain). U.S. holders of the Bonds will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income).

### **Sale or Other Disposition of the Bonds**

Unless a nonrecognition provision of the Code applies, upon the sale, exchange, redemption, retirement or other disposition of a Bond, an owner generally will recognize gain or loss on its interest in the Bonds equal to the difference between the amount realized on the sale and its adjusted tax basis in such interest in the Bonds. Such gain or loss generally will be capital gain (although any gain attributable to accrued original issue discount on the Bonds not yet taken into income will be ordinary) or loss. The adjusted basis of the owner in an interest in the Bonds will (in general) equal its original purchase price increased by any original issue discount previously included in the gross income of the owner with respect to the Bonds and decreased by any amortized premium.

### **Defeasance**

Defeasance of the Bonds may result in a deemed exchange thereof, in which event an owner will generally recognize taxable gain or loss as described in the preceding paragraph.

### **Backup Withholding**

Under current U.S. federal income tax laws, a 24% backup withholding tax requirement may apply to certain payments of interest on, and the proceeds of a sale, exchange or redemption of, the Bonds. Certain persons making such payments are required to submit information returns (that is, IRS Forms 1099) to the IRS with regard to those payments. Backup withholding and information reporting will generally not apply with respect to payments made to certain exempt recipients such as corporations or certain exempt entities.

## **Medicare Tax**

For taxable years beginning after December 31, 2014, an additional 3.8% tax will be imposed on the "net investment income" of certain individuals, estates and trusts that have "modified adjusted gross income" above a certain threshold. Net investment income includes but is not limited to, the interest on the Bonds and gains from the disposition of a Bond. Prospective investors should consult their tax advisors regarding the possible applicability of this tax to an investment in the Bonds.

## **Opinion of Bond Counsel – Virginia Income Tax Status of Interest**

Bond Counsel's opinions also will state that under current law all of the Bonds and the income from them, including any profit made on their sale, are exempt from taxation by the Commonwealth and any of its political subdivisions. See "FORM OF BOND COUNSEL OPINION" in Appendix B. Bond Counsel will express no opinion regarding (i) other tax consequences arising with respect to the Bonds under the laws of the Commonwealth or (ii) any consequences arising with respect to the accrual or receipt of interest on, or the ownership or disposition of, the Bonds under the tax laws of any state or local jurisdiction other than the Commonwealth and its political subdivisions. Prospective purchasers of the Bonds should consult their own tax advisors regarding the state and local tax matters on which Bond Counsel is expressing no opinion.

## **PENDING LITIGATION**

The City, in the course of its activities, has been named as defendant in certain personal injury cases and suits for property damage.

These suits are being defended by the City Attorney and associated independent counsel retained by the City Attorney, and it is the opinion of the City Attorney that any possible losses in connection with the above pending litigation will not materially or adversely affect the City's financial condition. The City Attorney is also of the opinion that the above pending litigation will not affect the validity of the Bonds or the ability of the City to levy and collect ad valorem taxes for the payment of the Bonds or the interest thereon. There is no pending litigation with respect to the Bonds or the ability of the City to levy and collect ad valorem taxes for the payment of such Bonds or interest thereon.

## **RATING**

The City has requested that the Bonds be rated and has furnished certain information to the rating agency listed herein, including information that may not be included in this Official Statement. The Bonds have been rated 'Aa2' by Moody's Investors Service ("Moody's").

The rating reflects only the views of Moody's. Any explanation of the significance of the rating may be obtained only from Moody's. Generally, Moody's bases its ratings upon information and materials provided to them and upon investigations, studies and assumptions it makes. There is no assurance that such rating will not be withdrawn or revised downward by Moody's. Such action may have an adverse effect on the market price of the Bonds. The City has not undertaken any responsibility after the issuance of the Bonds to assure maintenance of the rating or to oppose any such revision or withdrawal.

## **FINANCIAL STATEMENTS**

The City's audited general purpose financial statements for the Fiscal Year 2018 are published in Appendix A with accompanying notes. In addition, Appendix A also includes a report of the City's independent accountants. Actual audited results may be different, and the differences may be material.

## **FINANCIAL ADVISOR**

The City has retained PFM Financial Advisors, LLC of Arlington, Virginia ("PFM"), as Financial Advisor in connection with the issuance and sale of the Bonds. Although PFM has assisted in the preparation of this Official Statement, PFM is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. PFM is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

The arithmetical accuracy of certain computations included in the schedules provided by PFM on behalf of the City relating to forecasted payments of principal and interest to redeem the Refunded Obligations was examined by Bingham Arbitrage Rebate Services Incorporated (the "Verification Agent"). Such computations were based solely upon assumptions and information supplied by PFM on behalf of the City. The Verification Agent has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

## **RELATIONSHIP OF PARTIES**

McGuireWoods LLP, Richmond, Virginia, Bond Counsel, represents each Underwriter from time to time in unrelated matters.

## **UNDERWRITING**

The Bonds are being purchased by the Underwriters pursuant to a Bond Purchase Agreement (the "Bond Purchase Agreement") between the City and BofA Securities, Inc., as representatives of the Underwriters. The Bond Purchase Agreement sets forth the obligation of the Underwriters to purchase the Bonds at an aggregate purchase price of \$88,857,248.22 (representing the sum of the \$89,025,000.00 par amount of the Bonds less an underwriting discount of \$167,751.78 on such Bonds) and is subject to certain terms and conditions, including the approval of certain legal matters by counsel. The Bond Purchase Agreement provides that the Underwriters will purchase all of the Bonds if any are purchased. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices different from the public offering prices stated on the cover page of this Official Statement. The public offering prices may be changed from time to time at the discretion of the Underwriters.

The City intends to use a portion of the proceeds of the Bonds to refund, redeem and defease the Refunded Obligations. To the extent an Underwriter or an affiliate thereof is an owner of Refunded Obligations, such Underwriter or affiliate, as applicable, would receive a portion of the proceeds of the Bonds in connection with the refunding, redemption and defeasance of the Refunded Obligations.

The Underwriters and their respective affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriters and their respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriters and their respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this Official Statement or other offerings of

the Commonwealth. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the Commonwealth. The Underwriters do not make a market in credit default swaps with respect to municipal securities at this time but may do so in the future.

BofA Securities, Inc., an underwriter of the Bonds, has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"). As part of this arrangement, BofA Securities, Inc. may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, BofA Securities, Inc. may compensate MLPF&S as a dealer for their selling efforts with respect to the Bonds.

Academy Securities, Inc., an underwriter of the Bonds, has entered into Third-Party Distribution Agreements with TD Ameritrade Inc., BNY Mellon Capital Markets LLC, Commonwealth Financial Network, R. Seelaus & Co., Ross, Sinclair & Associates, Inc., Intercoastal Capital Markets, Inc., Janney Montgomery Scott LLC, The GMS Group LLC, 280 Securities LLC, Mountainside Securities LLC, and World Equity Group, Inc. for the retail distribution of certain municipal securities at the original issue prices. Pursuant to these Third-Party Distribution Agreements (if applicable to this transaction), Academy Securities, Inc. may share a portion of its underwriting compensation with these firms.

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

## **CONTINUING DISCLOSURE**

The City will execute and deliver for the benefit of the Beneficial Owners a Continuing Disclosure Agreement, the form of which is set forth as Appendix C to this Official Statement, under which the City will covenant and agree to provide certain annual financial information and notice of the events listed in Rule 15c2-12. As described in Appendix C, such undertakings require the City to provide only limited information at specified times.

The continuing obligation of the City to provide annual financial information and notices referred to above will terminate for the Bonds when the Bonds are no longer outstanding. Any failure by the City to comply with the foregoing will not constitute a default with respect to the applicable Bonds.

## **MISCELLANEOUS**

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Any statement made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly identified, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. The distribution of this Official Statement has been duly authorized by the City.

The references herein to and summaries of federal, Commonwealth and City laws, including but not limited to the Constitution of the Commonwealth, the Virginia Code, the Charter of the City (the "City Charter") and documents, agreements and court decisions are summaries of certain provisions thereof. Such summaries do not purport to be complete and are qualified in their entirety by reference to the full text of such acts, laws, documents, agreements or decisions, copies of which are available for inspection during normal business hours at the office of the City Attorney.

Any questions concerning the content of this Official Statement should be directed to the City's Director of Finance, 810 Union Street, Suite 600 City Hall Building, Norfolk, Virginia 23510, (757) 664-4346.

**CITY OF NORFOLK, VIRGINIA**

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*/s/ Douglas L. Smith*  
City Manager

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*/s/ Christine Garczynski*  
Director of Finance

**PART II**  
**CITY INDEBTEDNESS**

**Limitation on Incurrence of Debt**

Pursuant to the Constitution of Virginia (the "Constitution"), the City is authorized to issue bonds and notes secured by a pledge of its full faith and credit and unlimited taxing power. There is no requirement in the Constitution, the Virginia Code or the City Charter that the issuance of general obligation bonds of the City be subject to approval of the electorate of the City at referendum. Under applicable law, the City's issuance of general obligation bonds is subject to a limitation of 10% of the assessed value of taxable real property.

At June 30, 2019, the total assessed value of taxable real property in the City was \$20,344,603,804. Based on Virginia's constitutional debt limitation, this resulted in a debt limit of \$2,034,460,380. As presented in Table II-1 below and based on the City's unaudited records, the City's outstanding general obligation bonds and other tax-secured indebtedness as of June 30, 2019, was \$988,038,371 representing 48.57% of the constitutional debt limit.

**Table II-1**  
**City of Norfolk, Virginia**  
**Computation of Legal Debt Margin<sup>(1)</sup>**  
**June 30, 2019**

Total Assessed Value of Taxed Real Property	<u>\$20,344,603,804</u>
Debt Limit-10 percent of Total Assessed Value	2,034,460,380
<b>Amount of Debt Applicable to Debt Limit:</b>	
Gross Debt <sup>(1)(2)</sup>	\$ 955,198,371
Line of Credit Note <sup>(3)</sup>	19,020,000
Economic Development Authority Revenue Note <sup>(4)</sup>	<u>13,820,000</u>
Total Amount of Debt Applicable to Debt Limit	\$ 988,038,371
Legal Debt Margin <sup>(5)(6)</sup>	<u>\$ 1,046,422,099</u>
Amount of Debt as a percent of Debt Limit	<u>48.57%</u>

Source: Department of Finance, City of Norfolk, Virginia.

Notes:

- (1) Figures are unaudited. Defeased bonds are not included in gross debt. Funds to redeem these bonds have been irrevocably deposited with an escrow agent.
- (2) Water and Wastewater revenue bonds are excluded from gross debt. The revenue bonds are secured solely from revenue of the Water Utility Fund and the Wastewater Utility Fund.
- (3) Includes the outstanding balance of \$19,020,000 on a General Obligation guaranty of up to \$125,000,000 on the revolving line of credit issued in December 2014. The revolving line of credit matures on December 17, 2019.
- (4) Includes the outstanding balance of \$13,820,000 on a General Obligation guaranty of up to \$14,500,000 of the note issued by Economic Development Authority in April 2016. The note matures on February 1, 2021.
- (5) Outstanding capital lease obligations for the purchase of equipment are not included for the purposes of the legal debt margin calculations.
- (6) The amount of general obligation bonds authorized by ordinance, but not issued for Capital Improvement Projects is approximately \$170 million.

## **Debt Outstanding**

The tables that follow detail the City's current general obligation debt outstanding. Table II-2 presents the City's gross and net outstanding tax-supported and self-supporting general obligation bonded indebtedness as of June 30, 2019. Table II-3 provides a comparative statement of key debt ratios for the past ten Fiscal Years and Table II-4 presents the rate of retirement for all general obligation bonds as of June 30, 2019. Table II-5 presents the recent historical relationship between debt service on bonds paid from actual general governmental expenditures for the past ten Fiscal Years. Table II-6 presents the historical relationship of the City's net bonded debt to assessed value of taxable real property and net bonded debt per capita. Table II-7 provides a statement of future annual debt service requirements on the City's existing general obligation bonds.

**Table II-2**  
**City of Norfolk, Virginia**  
**General Obligation Debt Statement** (1) (2) (4) (5) (6) (7)

	<b>As of June 30, 2019</b>
A. General Fund Outstanding Debt	
General Fund Bonds Outstanding Debt <sup>(6)</sup>	\$648,458,907
Self-Supporting General Fund Bonds Outstanding Debt <sup>(7)</sup>	<u>49,452,268</u>
Total General Fund Outstanding Debt	<u>\$697,911,175</u>
B. Special Revenue Fund and Enterprise Fund Bonds Outstanding Debt <sup>(3)</sup>	<u>\$257,287,196</u>
C. Total General Obligation Bond Indebtedness Outstanding Debt (A+B)	<u>\$955,198,371</u>

Source: Department of Finance, City of Norfolk, Virginia.

Notes: (1) Figures are unaudited.

(2) The amount of general obligation bonds authorized by ordinance for Capital Improvement Projects, but not yet issued, is approximately \$170 million.

(3) Water Revenue Bonds and Wastewater Revenue Bonds are excluded from enterprise fund debt, because these bonds are secured by and payable solely from the pledged revenues of their respective enterprise activities. Includes the bonded debt of the Storm Water Fund, Maritime Facility Fund, Waste Management Fund and the Towing and Recovery Fund, which are special revenue funds. The Storm Water Fund was converted to an enterprise fund on July 1, 2019.

(4) Reflects only bonded debt and does not include the City's capital lease obligations. See "DEBT INCURRED BY OTHER GOVERNMENTAL ENTITIES – Capital Lease Obligations" for information about the City's capital lease obligations. This City does not currently have any capital lease obligations outstanding.

(5) Defeased bonds are not included in gross debt. Funds to redeem these bonds have been irrevocably deposited with an escrow agent.

(6) There are no overlapping or underlying taxing jurisdictions in the City.

(7) Includes self-supporting Public Amenities and Tax Increment Financing debt.

**Table II-3**  
**City of Norfolk, Virginia**  
**Key Debt Trends**  
**Fiscal Years 2010 – 2019**

<b>Fiscal Year Ended June 30</b>	<b>Gross Bonded Debt (in thousands)<sup>(1)(2)(3)(4)</sup></b>	<b>Gross Bonded Principal Outstanding Per Capita<sup>(5)</sup></b>	<b>Percent of Gross Bonded Debt to Real Property Assessed Value<sup>(6)</sup></b>
2010	\$887,772	\$3,656	4.45%
2011	826,874	3,389	4.28
2012	875,786	3,563	4.69
2013	817,078	3,316	4.46
2014	912,045	3,702	4.95
2015	852,703	3,450	4.55
2016	796,268	3,223	4.17
2017	855,907	3,476	4.40
2018	899,101	3,659	4.52
2019 <sup>(7)</sup>	955,198	N/A	N/A

Sources: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018 and Department of Finance, City of Norfolk, Virginia.

Notes: (1) There are no overlapping or underlying taxing jurisdictions in the City.

(2) Debt payable from Enterprise Revenue can be found in Table II-6.

(3) The defeased portions of bonds are not included in Gross Bonded Debt.

(4) Excludes premiums, discounts and adjustments. However, consistent with governmental accounting standards, the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, presents and the Comprehensive Annual Financial Reports for subsequent Fiscal Years are expected to present the net amount of unamortized premiums, discounts and adjustments as a liability or asset, as applicable.

(5) Gross Bonded Principal Outstanding Per Capita is based on the 2010 – 2018 population figures from Table II-6.

(6) Based on the taxable real property assessed value figures from Table III-2.

(7) Figures are unaudited.

**Table II-4**  
**City of Norfolk, Virginia**  
**Principal Retirement**  
**All General Obligation Bonds**  
**As of June 30, 2019**

<b>Maturing By Fiscal Year</b>	<b>Cumulative Amount Matured</b>	<b>Percent of Principal Retired</b>
2024	\$313,917,590	32.86%
2029	575,050,621	60.20
2034	768,682,068	80.47
2039	894,893,371	93.69
2044	923,938,371	96.73
2049	955,198,371	100.00

Source: Department of Finance, City of Norfolk, Virginia.

**Table II-5**  
**City of Norfolk, Virginia**  
**Ratio of Annual Debt Service to**  
**Total General Governmental Expenditures**  
**Fiscal Years 2009 – 2018**

<b>Fiscal Year Ended June 30</b>	<b>Total Debt Service<sup>(1)</sup></b>	<b>Total General Expenditures<sup>(2)</sup></b>	<b>Percent of Debt Service To Total General Expenditures</b>
2009	\$71,794,806	\$584,553,217	12.28%
2010	69,929,707	567,371,918	12.33
2011	78,453,097	577,669,780	13.58
2012	82,241,946	590,849,686	13.92
2013	78,226,814	594,180,698	13.17
2014	77,082,711	588,506,007	13.10
2015	76,109,022	593,478,745	12.82
2016	73,130,582	596,768,904	12.25
2017	77,812,952	618,253,753	12.59
2018	79,899,756	644,120,067	12.40

Sources: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, and Department of Finance, City of Norfolk, Virginia.

Notes: (1) Includes debt service on general obligation bonds supported by the General Fund.  
(2) Total general expenditures are presented using the modified accrual basis of accounting.

**Table II-6**  
**City of Norfolk, Virginia**  
**Ratio of Net General Bonded Debt to Assessed Value and**  
**Net Bonded Debt Per Capita**  
**Fiscal Years 2009 – 2018**

<b>Fiscal Year Ended June 30</b>	<b>Estimated Population</b>	<b>Assessed Value of Taxable Property (In Thousands)</b>	<b>Gross Bonded Debt<sup>(1)</sup></b>	<b>Debt Payable from Enterprise Revenue<sup>(1)</sup></b>	<b>Net Bonded Debt<sup>(1)</sup></b>	<b>Ratio of Net Bonded Debt to Assessed Value</b>	<b>Net Bonded Debt Per Capita</b>
2009	243,957	\$21,308,309	\$736,163,200	\$158,227,193	\$577,936,007	2.71%	\$2,369
2010	242,803	21,777,754	887,771,667	199,619,847	688,151,820	3.16	2,834
2011	243,985	21,383,674	826,873,664	187,198,781	639,674,883	2.99	2,622
2012	245,803	20,529,023	875,785,664	187,909,550	687,876,114	3.35	2,798
2013	246,392	20,093,307	817,078,050	179,134,625	637,943,425	3.17	2,589
2014	246,394	20,192,046	912,045,343	247,315,611	664,729,732	3.29	2,698
2015	247,189	20,892,353	852,703,111	236,071,186	616,631,925	2.95	2,495
2016	247,087	21,366,996	796,267,937	225,811,662	570,456,274	2.67	2,309
2017	246,256	21,918,700	858,219,448	244,032,413	614,187,035	2.80	2,494
2018	245,741	22,096,988	899,101,879	242,888,531	656,212,948	2.97	2,670

Sources: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, and Department of Finance, City of Norfolk, Virginia. The source of 2009 and 2011 through 2018 population estimates is the Weldon Cooper Center for Public Service, University of Virginia (the "Weldon Cooper Center"). The source for the 2010 population estimate is the U.S. Census Bureau.

Note: (1) Excludes premiums, discounts and adjustments. However, consistent with governmental accounting standards, the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, presents and the Comprehensive Annual Financial Reports for subsequent Fiscal Years are expected to present the net amount of unamortized premiums, discounts and adjustments as a liability or asset, as applicable.

**Table II - 7**  
**City of Norfolk, Virginia – Long-Term Debt Service Requirements<sup>(1)</sup>**

Fiscal Year Ending June 30	Existing General Obligation Debt Service <sup>(2)(3)(4)(5)(6)</sup>			Debt Service on the Bonds			Total Debt Service		
	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service
2020	\$64,828,458	\$40,162,604	\$101,991,062	\$0	\$1,164,483	\$1,164,483	\$64,828,458	\$41,327,087	\$103,155,545
2021	65,291,845	33,781,896	99,073,741	1,175,000	2,173,183	3,348,183	66,466,845	35,955,079	102,421,924
2022	62,382,137	30,968,359	93,350,496	1,200,000	2,152,221	3,352,221	63,582,137	33,120,580	96,702,717
2023	61,547,429	28,244,847	89,792,276	1,220,000	2,130,440	3,350,440	62,767,429	30,375,287	93,142,716
2024	60,092,722	25,586,468	85,679,190	1,245,000	2,107,945	3,352,945	61,337,722	27,694,412	89,032,134
2025	57,138,016	23,110,113	80,248,129	1,265,000	2,084,536	3,349,536	58,403,016	25,194,649	83,597,665
2026	57,288,310	20,619,842	77,908,152	1,295,000	2,059,956	3,354,956	58,583,310	22,679,798	81,263,108
2027	54,678,605	18,093,347	72,771,953	5,350,000	1,992,492	7,342,492	60,028,605	20,085,839	80,114,445
2028	43,173,901	15,921,684	59,095,585	18,400,000	1,739,855	20,139,855	61,573,901	17,661,539	79,235,440
2029	45,589,198	13,990,705	59,579,903	1,245,000	1,528,360	2,773,360	46,834,198	15,519,065	62,353,263
2030	44,240,290	12,066,784	56,307,074	1,275,000	1,500,321	2,775,321	45,515,290	13,567,105	59,082,395
2031	32,445,290	10,456,122	42,937,412	5,390,000	1,423,992	6,813,992	37,835,290	11,880,114	49,751,404
2032	25,070,290	8,973,498	34,043,788	15,950,000	1,170,607	17,120,607	41,020,290	10,144,105	51,164,395
2033	41,915,290	7,564,352	49,479,641	405,000	974,145	1,379,145	42,320,290	8,538,496	50,858,785
2034	32,275,290	6,239,023	38,514,313	415,000	963,231	1,378,231	32,690,290	7,202,254	39,892,544
2035	28,575,290	5,136,164	33,711,454	425,000	951,387	1,376,387	29,000,290	6,087,551	35,087,841
2036	29,010,290	4,084,172	33,094,462	435,000	939,261	1,374,261	29,445,290	5,023,432	34,468,722
2037	29,590,290	3,033,513	32,623,802	450,000	926,782	1,376,782	30,040,290	3,960,295	34,000,584
2038	26,265,290	2,010,718	28,276,008	465,000	913,881	1,378,881	26,730,290	2,924,599	29,654,889
2039	10,190,145	1,401,638	11,591,783	7,550,000	800,869	8,350,869	17,740,145	2,202,507	19,942,652
2040	2,800,000	1,201,005	4,001,005	2,590,000	657,895	3,247,895	5,390,000	1,858,900	7,248,900
2041	2,850,000	1,111,032	3,961,032	2,710,000	581,810	3,291,810	5,560,000	1,692,842	7,252,842
2042	2,840,000	1,019,399	3,859,399	2,830,000	500,926	3,330,926	5,670,000	1,520,325	7,190,325
2043	4,060,000	907,387	4,967,387	2,965,000	416,319	3,381,319	7,025,000	1,323,706	8,348,706
2044	3,080,000	790,449	3,870,449	4,135,000	312,659	4,447,659	7,215,000	1,103,108	8,318,108
2045	3,150,000	686,928	3,836,928	4,260,000	190,092	4,450,092	7,410,000	877,020	8,287,020
2046	3,220,000	579,973	3,799,973	4,380,000	63,948	4,443,948	7,600,000	643,921	8,243,921
2047	7,935,000	395,553	8,330,553	0	0	0	7,935,000	395,553	8,330,553
2048	5,400,000	178,431	5,578,431	0	0	0	5,400,000	178,431	5,578,431
2049	2,860,000	45,560	2,905,560	0	0	0	2,860,000	45,560	2,905,560
Totals	\$909,783,376	\$318,361,566	\$1,225,180,941	\$89,025,000	\$32,421,591	\$121,446,591	\$998,808,376	\$350,783,157	\$1,346,627,532

Source: Department of Finance, City of Norfolk, Virginia.

Notes:

- (1) Figures may not sum due to rounding.
- (2) Includes principal payable from the City's enterprise funds.
- (3) Existing General Obligation Debt Service includes self-supporting principal payable from the City's Storm Water Fund, Maritime Facility Fund, Waste Management Fund and the Towing and Recovery Fund, which are all special revenue funds. The Storm Water Fund was converted to an enterprise fund on July 1, 2019.
- (4) Includes estimated net debt service on the City's General Obligation Variable Rate Demand Bonds, Series 2007, assuming an average interest rate of 5.00%.
- (5) Includes all interest on the Build America Bonds, Recovery Zone Economic Development Bonds, Qualified School Construction Bonds and Qualified Energy Conservation Bonds and has not been adjusted for the subsidy payments expected to be received by the City.
- (6) Excludes debt service for certain maturities of the City's General Obligation Capital Improvement and Refunding Bonds, Series 2013B (Taxable) that the City has economically defeased.

In addition to general obligation debt issued in the public markets, the City from time to time enters into direct placement arrangements for its general obligation debt with private parties.

In October 2013, the City entered into a Bond Purchase and Loan Agreement (the "Forward Refunding Agreement") with Banc of America Preferred Funding Corporation (the "Forward Refunding Lender"), under which the City issued three separate bonds in the aggregate principal amount of \$37,960,000 (collectively, the "Forward Refunding Bonds"). The City used the proceeds of the Forward Refunding Bonds to current refund certain general obligation bonds. Each Forward Refunding Bond that has not matured bears interest at a separate fixed rate and requires annual principal payments that fully-amortize over the term. In the event of an uncured and unwaived default, the holder of any Forward Refunding Bond is entitled to declare the entire principal amount due and payable.

In November 2013, the City entered into a private placement variable rate loan in the original principal amount of \$13,600,000 (the "2013 Variable Rate Loan") with Bank of America, N.A. ("BANA"), and used the proceeds of such loan, along with other available funds, to refund the City's General Obligation Bond Anticipation Note, Series 2011B (Taxable). On December 21, 2018, the City entered into a fixed rate loan in the original principal amount of \$11,710,000 ("2018 Fixed Rate Loan") with Bank of America, N.A., and used the proceeds of the loan to refinance the outstanding portion of the 2013 Variable Rate Loan on a fixed rate basis. The 2018 Fixed Rate Loan bears interest at a rate of 3.54%. The principal of the 2018 Fixed Rate Loan is payable at maturity (August 1, 2025), subject to certain mandatory prepayments on each August 1 commencing on August 1, 2019. The scheduled principal payment at maturity is equal to \$8,560,000. In the event of an uncured and unwaived default, the holder of the 2018 Fixed Rate Loan is entitled to declare the entire principal amount due and payable.

On December 17, 2014, the City established a revolving line of credit agreement with BANA in the maximum amount of \$125,000,000 with authorization to increase the amount to \$200 million. This line of credit has been used to provide flexible interim financing for capital improvements projects, including school construction. Borrowings under the line of credit bear interest payable semi-annually in February and August. Tax-exempt borrowings are at a rate of 70 percent of LIBOR, plus 40 basis points. Taxable borrowings are 100 percent of LIBOR, plus 50 basis points. LIBOR can be the 1, 3, 6 or 12-month LIBOR rate, chosen by the City on the date of each advance, and will be applicable through the end of the chosen LIBOR period. The full faith and credit pledge of the City secures the line of credit which will be repaid through the issuance of general obligation bonds or other City sources. There is no minimum advance amount and each advance shall be made on three days' notice given by the City to BANA. The commitment fee on the unutilized portion of the line is paid annually in arrears and will be waived in full for any year that has average utilization of at least 40 percent for that 12-month period. The line of credit is stated to mature on December 17, 2019 but is expected to be extended prior thereto.

In April 2016, the City and the Economic Development Authority ("EDA") entered into a financing agreement with BANA to provide funds in the maximum principal amount of \$14,500,000 to the EDA in connection with the re-use of the former J.C. Penney department store at Military Circle Mall, which was acquired by the EDA. The City and the EDA also entered into a cooperation agreement related to the financing, whereby the City provides a General Obligation guarantee of the payments required under the financing agreement. Principal advances under the agreement bear interest at 1-month LIBOR rate, plus 85 basis points, which is set at the date of the first advance, and resets on the first day of the calendar month thereafter. Principal payments of \$100,000 are due February 1 in each of the first four years of the agreement, with the balance of the outstanding principal due at maturity in 2021. The current outstanding balance is \$13,820,000. In addition to funds made available under the cooperation agreement, the EDA expects to pay for debt service on the financing agreement from other sources such as a portion of the City's cigarette tax revenues dedicated for economic development and lease revenue from the leasing of the

facility. See "PART V – THE CITY OF NORFOLK – Economic and Demographic Factors – Commercial Development."

## **DEBT INCURRED BY OTHER GOVERNMENTAL ENTITIES**

### **Overlapping Debt**

The City is autonomous from any county, town or other political subdivision. There are no overlapping or underlying taxing jurisdictions with debt outstanding for which City residents are liable.

### **Short-Term Borrowing for Working Capital**

The City has not borrowed on a short-term basis for working capital purposes in the past five Fiscal Years.

### **Capital Lease Obligations**

The City does not have any capital lease obligations outstanding.

### **Water Revenue Bonds**

Since 1993, and for all future financings, capital improvements of the Water Utility System have been and are anticipated to be financed with revenue bonds. The revenue covenant for these revenue bonds requires the City to establish, fix, charge and collect rates, fees and other charges for the use of and for the services furnished by the water system, and will, from time to time and as often as appears necessary, revise such rates, fees and other charges, so that in each Fiscal Year net revenues are not less than the greater of (i) the sum of 1.1 times senior debt service and 1.0 times subordinated debt service for the Fiscal Year and (ii) 1.0 times the funding requirements for transfers from the revenue fund to the operating fund, the bond fund, the parity debt service fund, the debt service reserve fund, the subordinate debt service fund and the repair and replacement reserve fund. The Fiscal Year 2018 results reflect compliance with this requirement.

### **Debt History**

The City has never defaulted in the payment of either principal of, or interest on, any general obligation bond.

### **Capital Improvement Program Budget**

The City has a Capital Improvement Program ("CIP") budget which plans for capital type improvements for a five-year period. This CIP budget is reviewed and revised annually.

The City approved its CIP budget for Fiscal Year 2020 on May 14, 2019. The total of the CIP budget for Fiscal Year 2020 is \$133,885,700, which includes \$32,853,701 in cash contributions. Each capital project included in the CIP budget for Fiscal Year 2020 is either approved for funding in the CIP budget for Fiscal Year 2020 or included as a planned project in Fiscal Years 2021 through 2024. Future year projects in the CIP Budget are considered for planning purposes only and may be modified, at any time, by the City Council. In addition, the CIP budget is used by the City as a means of identifying short- and long-term needs and as a guide for identifying various funding sources for future CIP budgets.

The CIP budget is developed in coordination with and at the same time as other City budgets. It is prepared for submission by the City Manager to the City Council concurrently with the Proposed Operating

Budget. Hearings are held as appropriate, and the final CIP budget is adjusted with a determination being made of the source and amount of funding to be recommended for each item. See "PART V – THE CITY OF NORFOLK – Economic and Demographic Factors – Public Schools" for a description of certain school construction projects that may impact future funding needs.

The CIP budget for Fiscal Year 2020 is summarized in Table II-8.

**Table II-8**  
**City of Norfolk, Virginia**  
**Capital Improvement Program for Fiscal Year 2020**  
**Funding Sources**

Uses	Fiscal Year 2020
General Capital Projects	\$57,570,500
Parking Fund Projects	2,900,000
Storm Water Fund Projects	12,915,200
Water Fund Projects	39,500,000
Wastewater Fund Projects	19,000,000
Waste Management Fund Projects	<u>2,000,000</u>
Total Capital Program	<u>\$133,885,700</u>
<b>Appropriation Source</b>	
General Projects	
From Bond Issue	\$41,602,999
Reappropriation of Prior Bond Authorization	6,329,000
Transfer from General Fund	6,503,148
Transfer from Public Amenities	1,750,000
Capital Improvement Fund	1,385,353
Parking Fund Projects	
From Cash	2,900,000
Storm Water Fund Projects	
From Bond Issue	11,600,000
From Cash	1,315,200
Water Fund Projects	
Reappropriation of Prior Bond Authorization	22,500,000
From Bond Issue	3,000,000
From Cash	14,000,000
Wastewater Fund Projects	
From Bond Issue	14,000,000
From Cash	5,000,000
Waste Management Fund Projects	
From Bond Issue	<u>2,000,000</u>
Total Capital Program	<u>\$133,885,700</u>

Source: Capital Improvement Program Budget, Fiscal Year 2020 adopted May 14, 2019.

**Table II-9**  
**City of Norfolk, Virginia**  
**Capital Improvement Plan**  
**Fiscal Years 2020 – 2024**

<b>Description</b>	<b>FY-2020 Budget</b>	<b>FY-2021 Plan</b>	<b>FY-2022 Plan</b>	<b>FY-2023 Plan</b>	<b>FY-2024 Plan</b>	<b>FY 2020 – 2024 Total</b>
<b>General Capital</b>	\$57,570,500	\$86,613,530	\$39,998,530	\$39,398,530	\$33,898,530	\$257,479,620
<b>Parking Facilities Fund</b>	2,900,000	2,900,000	2,900,000	2,900,000	2,900,000	14,500,000
<b>Storm Water Fund</b>	12,915,200	12,915,200	20,915,200	20,915,200	12,915,200	80,576,000
<b>Water Fund</b>	39,500,000	43,305,000	50,005,000	22,805,000	26,005,000	181,620,000
<b>Wastewater Fund</b>	19,000,000	17,000,000	17,000,000	17,000,000	17,000,000	87,000,000
<b>Waste Management</b>	2,000,000	–	–	–	–	2,000,000
<b>Total Capital Program</b>	<b>\$133,885,700</b>	<b>\$162,733,730</b>	<b>\$130,818,730</b>	<b>\$103,018,730</b>	<b>\$92,718,730</b>	<b>\$623,175,620</b>

Source: Capital Improvement Program Budget, Fiscal Year 2020 adopted May 14, 2019.

## **PART III** **FINANCIAL INFORMATION**

### **Fiscal Year**

The City's Fiscal Year commences July 1 and closes on June 30.

### **Reporting Entity**

For financial reporting purposes, in accordance with generally accepted accounting principles ("GAAP"), the City's financial statements include the City of Norfolk (primary government) and the following component units:

- The School Board of the City of Norfolk (the "School Board");
- The Employees' Retirement System of the City of Norfolk; and
- The EDA (Economic Development Authority).

Complete financial statements of the individual component units can be obtained from their respective administrative offices. Contact information for such administrative offices can be obtained through contacting the office of the Director of Finance of the City.

### **BASIS OF ACCOUNTING AND ACCOUNTING STRUCTURE**

The City's financial statements include the following sections:

Management's Discussion and Analysis ("MD&A").

- The MD&A introduces the basic financial statements and provides an analytical overview of the government's financial activities.

Basic Financial Statements. The Basic Financial Statements include:

- Government-wide financial statements, consisting of a statement of net assets and a statement of activities;
- Fund financial statements, consisting of a series of statements that focus on information of the government's major governmental, proprietary and fiduciary funds and component units; and
- Notes to the financial statements provide information essential to a user's understanding of the basic financial statements.

Required Supplementary Information ("RSI"). In addition to MD&A, budgetary comparison schedules are presented as RSI along with other types of data as required by the Government Accounting Standards Board ("GASB").

The government-wide financial statements are reported using the economic resources, measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are

levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fiduciary fund financial statements do not have a measurement focus. The City's discretely presented component units are also included in the government-wide financial statements utilizing the same basis of accounting.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue and related assets are recorded when they become susceptible to accrual, that is, when they become both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City generally considers revenues, except for grant revenues, to be available if they are collected within 45 days of the end of the Fiscal Year. Real and personal property taxes are recorded as receivables when levied and billed, which corresponds with the Fiscal Year for which the taxes have been levied, net of allowances for uncollectible accounts. Expenditures, other than interest on general long-term obligations, are recorded as related fund liabilities when incurred. Interest on general long-term obligations is recognized when due.

## **INDEPENDENT ACCOUNTANTS**

Section 99 of the City Charter requires that "*...as soon as practicable after the close of each fiscal year an annual audit shall be made of all the accounts of the city offices...by certified public accountants selected by the council...*". The firm of Clifton Larson Allen LLP serves as the City's independent auditors. The audited general purpose financial statements for Fiscal Year 2018 with accompanying notes are published in Appendix A.

## **BUDGETARY PROCESS**

The City Charter requires that no less than 60 days before the end of the Fiscal Year, the City Manager must submit to the City Council a proposed balanced operating budget for the ensuing Fiscal Year that commences July 1. The Norfolk Public Schools' proposed budget is approved by the School Board, transmitted to the City Manager for review and then submitted to the City Council for consideration as part of the City's general operating budget. The City Council is required to hold a public hearing on the budget at which time all interested persons have the opportunity to comment. See the subsection "GENERAL FUND OPERATING BUDGET RESULTS FOR FISCAL YEAR 2019 – General Fund Operating Budget and Results" for a discussion of the General Fund Operating Budget for Fiscal Years 2019 and 2020.

The financial forecast, the first step in the budget process, is an essential component of the annual process of assessing the City's overall financial condition and looking at its finances in a multi-year context. The primary objective of the financial forecast is to project where current budget decisions lead in terms of future revenue and expenditures and their impact on the City's financial stability. It is believed that the financial forecast provides the opportunity to proactively evaluate policies with the goal of maximizing opportunities or, in the worst case, minimizing the negative impact of economic downturns.

## **FINANCIAL POLICIES**

On February 26, 2019, the City Council adopted updated formal financial policies (the "Financial Policies"). The updated Financial Policies are comprehensive and further strengthen the City's financial position. The adopted Financial Policies include an increase to the General Fund Unassigned Reserve with a new minimum of 10% of General Fund Expenditures plus General Fund Transfers Out, an increase maximum funding in the Risk Management Reserve of \$8 million, no change in the existing Economic

Downturn Reserve, and creation of a new Inclusive Development Opportunity Fund to be funded at \$2 million. As of Fiscal Year 2018, the City was at the new minimum level in the General Fund Unassigned Reserve and at the maximum funding of the Economic Downturn Reserve. The City anticipates adding to the Risk Management Reserve and the Inclusive Development Opportunity Fund, over time. The adopted Financial Policies include a new pension funding policy, which establishes the City's contribution at the greater of the prior year's contribution or the current year's actuarially defined contribution. The adopted Financial Policies include a net tax-supported debt service maximum of 11% of the General Fund budget with a target at 10% or less and a net tax-supported debt maximum of 4.0% of total taxable property value with a target of 3.5% or less. New affordability measures include a ten-year minimum debt pay-out ratio of 55%, an overlapping debt maximum of 0.5% of taxable property, and a variable rate debt limitation at 20% by fund. The adopted Financial Policies also establish minimum days cash on hand, minimum debt service coverage, and minimum reserves for each of the City's enterprise funds. See "PART IV – ENTERPRISE FUNDS".

## **GENERAL GOVERNMENTAL REVENUE**

### **Overview**

General governmental revenue is derived from general property taxes, other local taxes, permits, privilege fees and regulatory 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. General Fund disbursements include the normal recurring activities of the City, such as police, public works, general government, transfers to the School Operating Fund for local share of costs and to the Debt Service Fund to pay principal and interest on the City's general obligation bonds for other than enterprise fund purposes.

### **Property Tax Rates, Levies and Collections**

An annual ad valorem tax is levied by the City on the assessed value of real property located within the City as of July 1, and on tangible personal property located within the City as of October 1. Real property taxes are the largest single source of tax revenue. Tax rates are applied to the assessed valuation of property.

The ratio of the assessed value of real property to its estimated fair market value is 100% (other than public service properties). The City taxes several categories of personal property, each of which is assessed on a different basis. Machinery and tools are assessed at 100% of original cost; vehicles and boats are assessed at 100% of certain published loan values; and mobile homes are assessed on the same basis as real property.

The City has the power to levy taxes on property located within its boundaries without limitation as to rate or amount for the payment of its obligations. Rates are established by the City Council. The tax rates approved in the Operating Budget for Fiscal Year 2020 on each \$100 of assessed value are as follows: \$1.50 for recreational vehicles; \$2.40 for airplanes; \$1.25 for real property; \$4.33 for personal property and \$4.25 for machinery and tools. The rate on personal recreational boats consists of a decal fee of \$15 or \$40, depending on the length of the boat, plus a tax of \$0.25 per \$100 on the assessed value of the boat. The tax rate for commercial boats is \$1.50 per \$100 of the assessed value of the boat and a boat decal is not required. The tax rate for real property located in the City's Downtown Improvement District is an additional \$0.16 on the real property rate of \$1.25 per \$100 of assessed value (for a total rate of \$1.41 per \$100 of assessed value).

Real property levies are payable during the year of assessment in four equal installments, on or before September 30, December 5, March 31 and June 5. Personal property, recreational vehicles, machinery and tools, mobile homes, airplanes and boat levies are payable on or before June 5 of the year assessed or 30 days after acquisition. Certain types of personal property such as automobiles, trucks, motorcycles, trailers and recreational vehicles are prorated throughout the year and payable 30 days after acquisition.

In the event any installment of taxes on any of the properties listed above is not paid on or before the due date, penalties and interest are assessed in accordance with the City Code.

The City Council may require the sale of real property in satisfaction of delinquent taxes, pursuant to the provisions of Section 89 of the City Charter.

### **Other Revenue Sources**

The City levies various other local taxes: (1) a 1% local sales tax (collected by the Commonwealth and remitted to the City); (2) a tax on water, electric and gas utility bills; (3) a cigarette tax of 95 cents per packet of 20 cigarettes; (4) property transfer recordation taxes; (5) an automobile license tax; (6) various business license/franchise taxes; (7) a hotel and motel tax of 8% and a \$3 per room, per night surcharge of which 1% is dedicated to tourism and economic development; (8) an amusement and admissions tax of 10%; and (9) a food and beverage tax of 6.5%, which includes alcoholic beverages, of which 1% is dedicated to tourism and economic development.

**Fees, Licenses and Permits** – The City requires that licenses or permits be obtained for the performance of certain activities and that fees be paid for services provided by certain City departments.

**Revenue from the Commonwealth** – The City receives payments for highway maintenance, a share of state sales taxes allocated for education and, in addition, reimbursement for a portion of expenditures for such functions as Sheriff's office, Commissioner of the Revenue, City Treasurer, Clerk of the Circuit Court and Commonwealth's Attorney office. The City also receives categorical aid revenue for such purposes as public assistance, education and local law enforcement.

**Other Revenue** – The primary sources of other revenue to the General Fund include transfers from the Water Utility and Wastewater Utility Funds, interest on investments and impact aid from the federal government. Tables III-1A and III-1B show the City's General Fund revenue by source for each of the last ten Fiscal Years.

**Table III-1A**  
**City of Norfolk, Virginia**  
**Total Revenue by Source, Governmental Funds**  
**Fiscal Years 2009 – 2018**  
**(Amounts in Thousands)**

<b>Fiscal Year Ended June 30</b>	<b>General Property Taxes</b>	<b>Other Local Taxes</b>	<b>Licenses and Permits</b>	<b>Fines and Forfeitures</b>	<b>Use of Money and Property</b>	<b>Charges for Services</b>	<b>Miscellaneous</b>	<b>Recovered Costs</b>	<b>Inter- Governmental Revenue</b>	<b>Total</b>
2009	\$252,004	\$157,926	\$4,012	\$1,260	\$8,332	\$40,345	\$12,911	\$8,952	\$149,774	\$635,516
2010	257,055	153,615	3,526	1,164	6,746	50,540	18,080	9,503	152,619	652,848
2011	258,004	153,886	3,691	1,298	7,169	47,955	14,850	10,723	149,489	647,065
2012	252,917	161,234	3,575	1,108	6,694	47,859	11,643	10,312	161,572	656,914
2013	246,359	163,297	4,098	1,102	6,539	56,077	26,178	11,396	161,148	676,194
2014	256,979	161,500	3,089	1,242	6,329	60,039	29,133	N/A	153,782	672,093
2015	262,433	164,271	3,013	1,264	9,668	59,983	10,141	N/A	158,840	669,613
2016	265,943	166,034	3,038	1,111	7,354	62,709	11,325	N/A	166,686	684,200
2017	269,816	169,539	3,576	921	7,786	62,315	12,080	N/A	176,784	702,817
2018	277,559	174,139	3,292	1,068	7,504	62,383	11,311	N/A	193,289	730,545

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018.

**Table III-1B**  
**City of Norfolk, Virginia**  
**Other Local Tax Revenues by Source, Governmental Funds**  
**Fiscal Years 2009 – 2018**  
**(Amounts in Thousands)**

<b>Fiscal Year Ended June 30</b>	<b>Consumption Utility Taxes</b>	<b>Sales and Use Taxes</b>	<b>Restaurant Food Taxes</b>	<b>Business License Taxes</b>	<b>Cigarette Taxes</b>	<b>Motor Vehicle Licenses</b>	<b>Other</b>	<b>Total</b>
2009	\$44,142	\$29,484	\$28,078	\$27,692	\$7,333	\$4,005	\$17,192	\$157,926
2010	44,053	28,249	27,292	26,009	7,176	4,308	16,528	153,615
2011	43,188	28,411	28,474	25,849	7,161	4,313	16,490	153,886
2012	43,588	27,599	30,300	28,667	8,097	4,318	18,665	161,234
2013	43,211	29,707	30,818	29,301	7,926	4,209	18,124	163,296
2014	43,055	29,436	31,127	29,889	7,409	3,966	16,618	161,500
2015	42,961	29,981	32,634	28,640	7,821	3,953	18,281	164,271
2016	41,849	30,330	34,224	28,935	7,784	4,448	18,424	166,034
2017	41,542	31,185	34,934	30,557	7,860	4,642	18,909	169,539
2018	41,292	32,799	37,990	28,529	7,492	4,760	21,277	174,139

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018.

Table III-2 sets forth the assessed value of all taxable property in the City for the past ten Fiscal Years. The total assessed value of all taxable property in the City as of June 30, 2018, was approximately \$22.1 billion.

**Table III-2**  
**City of Norfolk, Virginia**  
**Assessed Valuations and Estimated**  
**Actual Values of Taxable Property**  
**Fiscal Years 2009 – 2018**  
**(Amount In Thousands)**

<b>Fiscal Year Ended June 30</b>	<b>Real Property<sup>(1)</sup></b>	<b>Personal Property<sup>(1)</sup></b>	<b>Other Property<sup>(2)</sup></b>	<b>Total Taxable Assessed Value</b>	<b>Estimated Actual Taxable Value<sup>(3)</sup></b>
2009	\$19,397,795	\$1,676,811	\$233,703	\$21,308,309	\$21,308,309
2010	19,940,273	1,610,680	226,801	21,777,754	21,777,754
2011	19,320,642	1,832,276	230,756	21,383,674	21,383,674
2012	18,676,729	1,613,797	238,497	20,529,023	20,529,023
2013	18,319,947	1,532,337	241,023	20,093,307	20,093,307
2014	18,421,412	1,512,332	258,302	20,192,046	20,192,046
2015	18,734,201	1,902,442	255,710	20,892,353	20,892,353
2016	19,106,738	1,952,955	277,301	21,336,993	21,336,993
2017	19,433,889	2,219,662	265,149	21,918,700	21,918,700
2018	19,870,881	1,938,053	288,054	22,096,988	22,096,988

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018.

Notes: (1) Real property and personal property includes both general and public service corporations.

(2) Other property includes machinery and tools, mobile homes, airplanes and boats.

(3) Estimated actual taxable property values are based on data supplied by the City's Commissioner of the Revenue and the City Assessor.

Table III-3 presents the property tax rate per \$100 of assessed value and the equalization ratios used to determine the fair market value of taxable property for Fiscal Years 2016 through 2020.

**Table III-3**  
**City of Norfolk, Virginia**  
**Direct Property Rates**  
**Fiscal Years 2016 – 2020**

	<b>Fiscal Year</b>				
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Property tax rate per \$100 of assessed value:					
Real Property	\$1.15	\$1.15	\$1.15	\$1.25	\$1.25
Downtown Improvement District <sup>(1)</sup>	0.16	0.16	0.16	0.16	0.16
Personal property	4.33	4.33	4.33	4.33	4.33
Machinery and tools	4.25	4.25	4.25	4.25	4.25
Mobile homes	1.15	1.15	1.15	1.25	1.25
Airplanes	2.40	2.40	2.40	2.40	2.40
Boats (business)	1.50	1.50	1.50	1.50	1.50
Boats (recreational)	0.50	0.50	0.50	0.50	0.25
Recreational vehicles	1.50	1.50	1.50	1.50	1.50
Disabled veterans	3.00	3.00	3.00	3.00	3.00
Assessed value of real property as a percent of fair market value:					
As determined by the City Assessor	100.00%	100.00%	100.00%	100.00%	100.00%
As determined by the Commonwealth's Department of Taxation <sup>(1)</sup>	99.00%	97.00%	97.00%	N/A	N/A

Sources: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, and Approved Operating Budgets, Fiscal Year 2019 and Fiscal Year 2020.

Note: (1) Amount is in addition to the Real Property tax for property within the Downtown Improvement District.

The City has the power to levy taxes on property located within its boundaries for payment of its obligations without limitation as to rate or amount. Rates are established by the City Council. Table III-4 sets forth the City's assessed values and tax levies on real and personal property for Fiscal Years 2014 through 2018.

**Table III-4**  
**City of Norfolk, Virginia**  
**Assessed Valuation and Change in Property Tax Levy**  
**Fiscal Years 2014 – 2018**  
**(Amounts In Thousands)**

<b>Fiscal Year Ended June 30</b>	<b>Assessed Valuation</b>			<b>Percentage Increase in Property Tax Levy</b>
	<b>Real Property</b>	<b>Personal Property &amp; Other</b>	<b>Property Tax Levy</b>	
2014	\$18,421,412	\$1,770,634	\$254,008	3.97%
2015	18,734,201	2,158,152	256,040	0.80
2016	19,106,738	2,230,258	264,043	3.13
2017	19,433,889	2,484,811	268,718	1.77
2018	19,870,881	1,938,053	275,648	2.58

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018.

Table III-5 sets forth information concerning the City's real and personal property tax collection rate for Fiscal Years 2009 through 2018.

**Table III-5**  
**City of Norfolk, Virginia**  
**Real and Personal Property Tax Levies and Collections<sup>(1)</sup>**  
**Fiscal Years 2009 – 2018**  
**(In Thousands)**

<b>Fiscal Year Ended June 30</b>	<b>Original Tax Levy</b>	<b>Adjusted Tax Levy<sup>(2)</sup></b>	<b>Current Collections</b>	<b>Percent of Current Collections</b>		<b>Total Collections</b>	<b>Percentage of Total Tax Collections to Tax Levy<sup>(3)</sup></b>
				<b>to Tax Levy<sup>(3)</sup></b>	<b>Delinquent Collections</b>		
2009	\$261,535	\$251,910	\$233,725	92.78%	\$18,140	\$251,865	99.98%
2010	258,544	257,744	239,192	92.80	18,512	257,704	99.98
2011	254,756	253,426	235,518	92.93	17,875	253,393	99.99
2012	247,528	247,486	233,396	94.31	14,036	247,432	99.98
2013	244,309	243,842	229,872	94.27	12,367	242,239	99.34
2014	254,008	254,810	240,481	94.38	12,463	252,944	99.27
2015	256,040	259,542	245,803	94.71	11,729	257,532	99.23
2016	264,043	265,831	251,933	94.77	11,260	263,193	99.01
2017	268,718	270,311	255,712	94.60	10,470	266,182	98.47
2018	275,648	275,648	262,585	95.26	N/A	262,585	95.26

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018.

Notes: (1) Delinquent tax collections are reported in the year collected. Figures are unaudited.

(2) Adjusted to reflect residual taxable amount after exonerations and reassessments.

(3) Calculated using the Adjusted Tax Levy amounts and not the Original Tax Levy amounts.

Table III-6 sets forth the City's ten largest taxpayers and the assessed value of real property owned by each such taxpayer as of June 30, 2018. The aggregate assessed value of the ten largest taxpayers represented approximately 4.59% of the City's real property taxable assessable base at June 30, 2018.

**Table III-6**  
**City of Norfolk, Virginia**  
**Ten Principal Real Property Taxpayers<sup>(1)</sup>**  
**June 30, 2018**

<b>Taxpayer</b>	<b>Real Property Taxable Assessed Value</b>	<b>Rank</b>	<b>Percentage of Total Assessed Value</b>
MacArthur Shopping Center LLC <sup>(2)</sup>	\$224,757,700	1	1.13%
ODU Real Estate Foundation	126,931,700	2	0.64
Norfolk Hotel Associates LLC	86,480,100	3	0.44
Norfolk Southern <sup>(3)</sup>	83,103,200	4	0.42
SLNWC Office Company LLC	75,490,500	5	0.38
MPB, Inc.	70,836,400	6	0.36
Military Circle LLC	64,623,100	7	0.33
Dominion Enterprises	62,260,100	8	0.31
WIM Core Portfolio Owner, LLC	59,324,400	9	0.30
LCP Waterside Hotel Owner, LLC	58,738,600	10	0.30
Total	<u><u>\$912,545,800</u></u>		<u><u>4.59%</u></u>
Total Assessed Value	\$19,870,880,968		

Sources: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018.

Notes:

- (1) Based on total assessed value of taxable real property, including public service corporations, as of June 30, 2018. For a comparison, the principal real property taxpayers as of June 30, 2009, are available in Schedule 3 of the unaudited section of the financial statements included as Appendix A.
- (2) In April 2019, Nordstrom, one of the anchor tenants at MacArthur Shopping Center, closed. The Norfolk Redevelopment and Housing Authority owns this building and together with the City is exploring future reuse options.
- (3) In December 2018, Norfolk Southern announced its plans to relocate its headquarters to Atlanta, Georgia. The relocation will occur gradually through 2021.

## GENERAL FUND EXPENDITURES

### Costs of General City Government

The costs of most general government functions are paid from governmental funds. These costs include expenditures for police protection, fire and paramedical services, public health and social services, planning and zoning management, code enforcement, street maintenance, traffic control, parks and cemeteries operation and maintenance, recreation and library services, economic development, refuse disposal and general administrative services. The City has approximately 4,000 positions budgeted for employees (including salaries and related employee benefits such as health insurance and pension contributions).

### Protected Self-Insurance Program

The City is exposed to various risks of losses related to torts, theft and destruction of assets, errors and omissions, injuries to employees and natural disasters. On July 11, 1978, the City established a protected self-insurance program, pursuant to an ordinance adopted by the City Council, to cover these risks. The program provides for the payment of claims liabilities, property losses and related expenses covered by a combination of purchased insurance policies and self-insurance plans. The total of insurance premiums, self-insurance claims and related expense payments made during Fiscal Year 2018 was \$9,425,772.

The City currently reports all these activities as part of the risk management function in the general government section of the General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. As of June 30, 2018, these liabilities were estimated at \$31,616,500 with \$4,524,774 projected as the current portion anticipated to be paid within a year. Estimated liabilities for Fiscal Year 2018 were determined by an independent actuary.

Changes in the City's claims liability amount in Fiscal Years 2014 through 2018 are as follows:

Fiscal Year	Unpaid Claims Beginning Balance	Claims Incurred Estimated	Claims Paid	Unpaid Claims Ending Balance
2014	\$30,837,239	\$5,527,877	\$7,309,828	\$29,055,288
2015	29,055,228	5,887,750	5,466,609	29,476,369
2016	29,476,369	6,855,246	7,035,040	29,296,575
2017	29,296,575	8,420,622	5,798,964	31,918,233
2018	31,918,233	7,063,273	7,365,006	31,616,500

Sources: Comprehensive Annual Financial Reports for the Fiscal Years Ended June 30, 2014 through 2018.

### Retirement Plan

The City has a single-employer noncontributory, defined benefit retirement plan that covers substantially all employees of the City, excluding School Board and Constitutional Officers employees who are covered by the Virginia Retirement System. The City's contribution requirements are designed to fund the plan's current service cost. Actuarially required contributions are appropriated each year by City Council. See Section X of the Notes to the Basic Financial Statements in the City's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, attached hereto as Appendix A, for a discussion of the City's pension plans.

On July 12, 2017, as a result of an independent actuarial experience study undertaken for the City, the Norfolk Employees' Retirement System Board of Trustees adopted certain changes to its actuarial assumptions, including changes to the assumed rates of termination, retirement, disability, mortality and salary raises. As a result of the changes, beginning in Fiscal Year 2018, the City's Unfunded Actuarially Accrued Liability (UAAL) is expected to increase by \$78.4 million, which decreases the System's funded status from approximately 84% to approximately 78%. This results in an increase in the City's annual funding of approximately \$700,000. The City is currently undertaking a comprehensive review of its pension system to ensure its long-term financial health and sustainability.

Total annual pension contributions for all City employees over the last five Fiscal Years to the City's noncontributory retirement are presented in Table III-7. The City funded 100% of its actuarially required contributions in Fiscal Years 2015 – 2019.

**Table III-7**  
**City of Norfolk, Virginia**  
**Schedule of Annual Pension Contributions**  
**Fiscal Years 2015 - 2019<sup>(1)</sup>**

<b>Fiscal Year</b>	<b>Annual Pension Contribution (In Thousands)</b>
2015	\$34,932
2016	30,761
2017	33,457
2018	35,444
2019	36,741

Sources: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, Department of Finance, City of Norfolk, Virginia, and Approved Operating Budget, Fiscal Year 2019.

Note: (1) Actuarially required Pension Contributions are funded and paid in the Fiscal Year following the contribution determination.

### **Other Post-Employment Benefits**

In accordance with GASB Statement No. 75 ("GASB 75"), Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, the City and Schools recognize the costs of their Other Post-Employment Benefits ("OPEB") – health insurance, life insurance, and other non-pension benefits provided to its retirees during the period of their employee's active employment, while the benefits are being earned, and report their unfunded actuarial accrued liability in order to accurately report the total future cost of post-employment benefits and the financial impact on the City. These GASB 75 requirements are very similar to requirements for pension benefits.

As of July 1, 2017, the following was projected:

	<b>City<sup>(1)</sup></b>	<b>Line of Duty<sup>(1)</sup></b>	<b>School Board<sup>(1)</sup></b>	<b>Total OPEB Liability<sup>(2)</sup></b>
Balance at June 30, 2017	\$29,647,567	\$22,284,435	\$60,290,035	\$112,222,037
Service cost	2,638,578	991,486	1,468,830	5,098,894
Interest	864,633	637,503	1,702,533	3,204,669
Change in benefits	-	19,652,972	-	19,652,972
Difference between expected and actual	(1,413,447)	(2,397)	(3,274,812)	(4,690,656)
Assumption changes	1,815,771	(5,648,603)	(10,475,847)	(14,308,679)
Benefits payments	(1,247,913)	(822,158)	(2,580,746)	(4,650,817)
Balance at June 30, 2018	<u>\$32,305,189</u>	<u>\$37,093,238</u>	<u>\$47,129,993</u>	<u>\$116,528,420</u>

Sources: Actuarial Valuation Report by Cheiron, Inc. and Department of Finance.

Notes: (1) Information provided by Actuarial Valuation Report by Cheiron, Inc. measures as of July 1, 2017, for Fiscal Year 2018.

(2) Preliminary and unaudited projections as of July 1, 2018, show a total OPEB liability of \$116.8 million for Fiscal Year 2019.

### **Employee Relations and Collective Bargaining**

The Supreme Court of Virginia has ruled that in the absence of legislation, municipalities and school boards in the Commonwealth do not have the authority to enter into collective bargaining agreements.

### **PUBLISHED FINANCIAL INFORMATION**

The City issues and distributes a Comprehensive Annual Financial Report on its financial operations for each Fiscal Year. The City also publishes annually an Operating Budget and a five-year Capital Improvement Program Budget. These documents are available via the internet at [www.norfolk.gov](http://www.norfolk.gov). In addition, the City will undertake to provide or cause to be provided certain Annual Financial Information described in the section "CONTINUING DISCLOSURE" to fulfill the requirements of the Rule promulgated by the SEC. See Appendix C "FORM OF CONTINUING DISCLOSURE AGREEMENT."

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## **GENERAL FUND OPERATING BUDGET RESULTS FOR FISCAL YEAR 2019\***

On the budgetary basis of accounting, General Fund revenues were \$878,966,948 representing 99.55% of budgeted revenue. General Fund expenditures were \$862,966,948 representing 97.73% of budgeted expenditures. Table III-8 summarizes key financial results.

**Table III-8  
City of Norfolk, Virginia  
General Fund Operating Budget Summary Preliminary and Unaudited Results  
for Fiscal Year 2019**

	<u><b>Final Budget</b></u>	<u><b>Results</b></u>	<u><b>Percent of Budget</b></u>	<u><b>Variance Positive (Negative)</b></u>
Total Revenue and non-revenue receipts	\$882,966,948	\$878,966,948	99.55%	\$ (4,000,000)
Total Expenditures	882,966,948	862,966,948	97.73	20,000,000
Revenue greater (less) than expenditures	<u><b>\$ -</b></u>	<u><b>\$ 16,000,000</b></u>		<u><b>\$16,000,000</b></u>

Sources: Department of Finance and Office of Budget and Strategic Planning, City of Norfolk, Virginia.

### **General Fund Operating Budget and Results**

The City Council adopted the CIP budget for Fiscal Year 2020, which totals \$133,885,700 on May 14, 2019. See Table II-8 in the section entitled "DEBT INCURRED BY OTHER GOVERNMENTAL ENTITIES – Capital Improvement Program Budget."

The Fiscal Year 2020, General Fund Operating Budget (the "Fiscal Year 2020 Budget") was adopted on May 14, 2019, and totals \$901,882,729 reflecting a 2.1% increase from the final Fiscal Year 2019 Budget.

The Fiscal Year 2020 Budget focuses on the City Council and resident priorities of investing in storm water, schools, and public safety. The budget builds on the bold initiatives started in Fiscal Year 2019 and strengthens the City's capacity by investing in core services. The budget was balanced through a multi-faceted approach that analyzes ways to reduce expenditures, increase revenues, and grow the economy within an overarching principle of inclusiveness.

Major revenue and expenditure categories for the Fiscal Year 2019 and Fiscal Year 2020 Budgets are summarized in the following tables.

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\* Preliminary and unaudited.

**Table III-9A**  
**City of Norfolk, Virginia**  
**General Fund Budget**  
**Fiscal Year 2019**

<b>Anticipated Revenue Receipts</b>	<b>Approved Budget</b>	<b>Appropriations For Expenditures</b>	<b>Approved Budget</b>
General Property Taxes	\$296,531,400	Legislative	\$5,277,578
Other Local Taxes	169,805,000	Executive	6,211,184
Permits and Fees	3,836,785	Department of Law	4,828,532
Fines and Forfeitures	1,185,000	Constitutional Officers	48,529,865
Use of Money and Property	7,421,420	Judicial	1,393,416
Charges for Services	26,591,119	Office of Elections	993,471
Miscellaneous Revenue	8,952,217	General Management	52,174,881
Recovered Costs	11,695,852	Community Development	11,775,386
Non-Categorical Aid – Virginia	35,485,900	Parks, Recreation and Culture	45,517,497
Shared Expenses – Virginia	21,371,000	Central and Outside Agencies Appropriations	77,110,296
Categorical Aid – Virginia	267,804,580	Public Health and Assistance	77,345,454
Federal Aid	8,871,490	Public Safety	121,884,798
Other Sources and Transfers In	21,236,663	Public Works	27,896,256
		Debt Service	71,493,862
		Public School Education	328,355,950
<b>Total</b>	<b>\$880,788,426</b>	<b>Total</b>	<b>\$880,788,426</b>

Source: Approved Operating Budget for Fiscal Year 2019.

**Table III-9B**  
**City of Norfolk, Virginia**  
**General Fund Budget**  
**Fiscal Year 2020**

<b>Anticipated Revenue Receipts</b>	<b>Approved Budget</b>	<b>Appropriations For Expenditures</b>	<b>Approved Budget</b>
General Property Taxes	\$305,436,500	Legislative	\$5,215,803
Other Local Taxes	170,844,800	Executive	10,104,392
Permits and Fees	3,387,500	Department of Law	4,905,409
Fines and Forfeitures	1,094,000	Constitutional Officers	48,577,771
Use of Money and Property	8,588,191	Judicial	1,341,955
Charges for Service	25,990,999	Elections	1,110,962
Miscellaneous Revenue	9,219,102	General Management	52,318,219
Recovered Costs	12,005,487	Community Development	12,270,576
Non-Categorical Aid – Virginia	36,036,200	Central and Outside Agency Appropriation	70,466,391
Shared Expenses – Virginia	22,384,860	Parks, Recreation and Culture	45,691,583
Categorical Aid – Virginia	272,947,989	Public Health and Assistance	77,847,057
Federal Aid	8,709,175	Public Safety	124,897,375
Other Sources and Transfers In	25,237,926	Public Works	16,996,849
		Transit	12,466,052
		Debt Service	81,510,525
		Public School Education	336,161,810
<b>Total</b>	<b>\$901,882,729</b>	<b>Total</b>	<b>\$901,882,729</b>

Source: Approved Operating Budget for Fiscal Year 2020.

**Table III-10**  
**City of Norfolk, Virginia**  
**General Governmental Expenditures by Function**  
**Fiscal Years 2009 – 2018**  
**(Amounts In Thousands)**

<b>Fiscal Year Ended June 30</b>	<b>General Government Administration</b>	<b>Judicial Administration</b>	<b>Public Safety</b>	<b>Public Works</b>	<b>Health and Public Assistance</b>		<b>Culture and Recreation</b>	<b>Community Development</b>	<b>Debt Service</b>	<b>Capital Outlay</b>	<b>Total</b>
2009	\$102,426	\$50,347	\$118,073	\$56,146	\$91,648	\$104,511	\$52,248	\$9,899	\$71,758	\$104,892	\$761,948
2010	97,061	48,726	115,488	59,574	89,682	101,011	51,708	10,851	69,834	99,210	743,145
2011	80,855	47,535	115,975	70,124	79,757	104,511	45,862	16,565	80,540	76,534	718,258
2012	100,504	48,233	116,296	62,330	74,331	104,512	44,529	15,142	85,043	98,892	749,812
2013	112,804	50,920	117,427	54,427	88,413	109,287	47,153	15,128	78,227	116,580	790,366
2014	109,292	51,673	113,394	55,267	88,671	111,854	46,705	12,482	77,944	100,709	767,991
2015	110,904	51,360	112,055	61,369	85,631	117,722	48,765	12,303	76,831	103,113	780,053
2016	118,468	50,513	116,436	58,716	85,815	114,769	44,531	13,677	73,488	140,093	816,466
2017	127,367	50,767	121,494	63,231	87,330	114,972	44,825	14,994	77,813	98,492	801,285
2018	131,203	52,012	123,905	66,882	86,702	120,972	45,968	22,237	80,807	67,938	798,626

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018.

## RESULTS OF FINANCIAL OPERATIONS

A comparative balance sheet as of June 30, 2017, and as of June 30, 2018, is presented in Table III-11. The Comparative Statement of Revenue and Expenditures for the City's General Fund for the past five Fiscal Years are presented in Table III-12. The City's most recent General Fund Comparative Statement of Changes in Fund Balances for the past five Fiscal Years are summarized in Table III-13.

**Table III-11**  
**City of Norfolk, Virginia**  
**Balance Sheet, General Fund**  
**June 30, 2018, with comparative totals for 2017**

	<b>2017</b>	<b>2018</b>
<b>ASSETS</b>		
Cash and short-term investments	\$ 64,748,035	\$103,811,095
Receivables, net:		
Taxes	42,292,907	41,913,838
Accounts	5,541,572	5,001,931
Accrued Investment Income	2,498	102,534
Due from other funds	32,565,837	8,272,258
Due from other governments	23,958,912	24,134,435
Due from other agencies	-	1,515,251
Due from other fiduciary funds	-	47,648
Deposits	4,854	12,676
Prepaid expenses	<u>140,912</u>	-
<b>Total Assets</b>	<u>\$169,255,527</u>	<u>\$184,811,666</u>
<b>LIABILITIES</b>		
Vouchers payable	\$13,859,091	\$20,466,729
Employee withholdings	2,334,892	2,345,007
Contract retainage	238,780	331,215
Accrued payroll	4,438,000	4,786,082
Due to other funds	35,183	128,074
Due to other governments	36,253	36,253
Other liabilities	<u>2,881,268</u>	<u>3,261,156</u>
<b>Total Liabilities</b>	<u>\$23,823,467</u>	<u>\$31,354,516</u>
<b>Deferred Inflow of Resources</b>		
Revenues' levied for the next year and unavailable revenue	<u>\$29,312,151</u>	<u>\$28,884,786</u>
<b>FUND BALANCES</b>		
Restricted	\$ 165,000	\$ 145,000
Committed	8,697,809	9,347,282
Assigned	36,605,041	44,117,755
Unassigned	<u>70,652,059</u>	<u>70,962,327</u>
<b>Total Fund Balances</b>	<u>\$116,119,909</u>	<u>\$124,572,364</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$169,255,527</u>	<u>\$184,811,666</u>

Sources: Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2017 and 2018.

**Table III-12**  
**City of Norfolk, Virginia**  
**Comparative Statement of Revenue and Expenditures, General Fund**  
**Fiscal Years 2014 – 2018**

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>REVENUE:</b>					
General property taxes	\$254,523,678	\$258,974,929	\$260,959,130	\$264,432,379	\$272,292,962
Other local taxes	152,386,188	154,867,325	156,358,560	159,645,816	163,653,948
Permits and licenses	3,088,749	3,013,376	3,038,229	3,575,984	3,292,146
Fines and forfeitures	1,236,647	1,261,218	1,110,993	920,282	1,067,796
Use of money and property	5,556,052	9,564,794	7,254,583	7,639,462	7,218,466
Charges for services	36,457,826	20,248,407	22,460,673	22,533,193	21,187,427
Miscellaneous	10,711,008	7,226,869	8,605,242	9,343,122	9,192,510
Recovered costs	-	-	-	-	-
Intergovernmental	<u>115,159,212</u>	<u>130,397,763</u>	<u>132,919,310</u>	<u>134,737,064</u>	<u>136,027,038</u>
Total Revenue	<u>579,119,360</u>	<u>585,554,681</u>	<u>592,706,720</u>	<u>602,827,302</u>	<u>613,932,293</u>
<b>EXPENDITURES:</b>					
<b>Current operating:</b>					
General government	108,749,257	110,304,366	113,060,602	118,578,346	127,385,076
Judicial administration	48,122,290	48,294,929	47,562,103	47,597,095	48,968,656
Public safety	104,831,842	103,162,805	107,291,870	110,633,381	114,236,758
Public works	41,765,600	19,592,357	20,493,122	25,088,325	24,655,168
Health and public assistance	45,574,863	69,569,467	68,950,680	70,240,871	70,032,115
Culture and recreation	42,280,060	39,205,465	41,181,576	42,545,409	43,727,974
Community development	8,244,984	9,153,306	10,011,670	10,785,452	10,956,137
Education	111,854,400	117,721,922	114,768,522	114,971,922	120,971,922
<b>Debt service</b>					
Principal	-	-	-	-	-
Interest and other charges	-	-	-	-	-
<b>Debt issuance costs</b>	<u>-</u>	<u>323,098</u>	<u>318,176</u>	<u>-</u>	<u>(465,814)</u>
<b>Capital outlay</b>					
Total Expenditures	<u>511,423,296</u>	<u>517,327,715</u>	<u>523,638,321</u>	<u>540,440,801</u>	<u>564,085,992</u>
Excess (deficiency) of revenues over expenditures	<u>67,696,064</u>	<u>68,226,966</u>	<u>69,068,399</u>	<u>62,386,501</u>	<u>49,846,301</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from sale of land	\$ -	\$ -	\$ -	\$ -	\$ 18,691,961
Debt issuance costs	(344,423)	-	-	(174,276)	-
Proceeds sale of fixed assets	-	427,600	2,400,000	6,079,647	-
Transfers in	12,408,836	16,805,117	14,888,405	16,485,591	16,888,089
Transfers out	(85,768,426)	(76,651,992)	(76,153,008)	(76,445,298)	(76,973,896)
Total Other Financing Sources (Uses)	<u>(73,704,013)</u>	<u>(59,419,275)</u>	<u>(58,864,603)</u>	<u>(54,054,336)</u>	<u>(41,393,846)</u>
Net Change in Fund Balance	<u>(\$6,007,949)</u>	<u>\$8,807,691</u>	<u>\$10,203,796</u>	<u>\$8,332,165</u>	<u>\$8,452,455</u>

Sources: Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2014 through 2018.

**Table III-13**  
**City of Norfolk, Virginia**  
**Comparative Statement of Changes in Fund Balance, General Fund**  
**Fiscal Years 2014 – 2018**

	<b>Fiscal Year</b>				
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Net Change in Fund Balance	\$ (6,007,949)	\$ 8,807,691	\$ 10,203,796	\$ 8,332,165	\$ 8,452,455
Fund Balance at Beginning of Year	91,273,658	85,265,709	97,583,948	107,787,744	116,119,909
Adjustment to Beginning Balance	-	3,510,548	-	-	-
Fund Balance at End of Year	<u>\$85,265,709</u>	<u>\$97,583,948</u>	<u>\$107,787,744</u>	<u>\$116,119,909</u>	<u>\$124,572,364</u>

Sources: Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2014 through 2018.

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## **PART IV** **ENTERPRISE FUNDS**

### **Enterprise Fund Financial Policies**

The City's adopted Financial Policies provide that the Parking Facilities, Water Utility, Wastewater Utility and Storm Water Utility Funds will be self-supporting. Each fund must maintain annual net revenue in an amount to provide sufficient debt service coverage to support annual debt service. The Parking Facilities coverage requirement is 1.1 times its total annual debt service. The Water Utility Fund must maintain a coverage above 1.5 times its total annual debt service, and both the Wastewater and Storm Water Utility Funds are required to have a debt service coverage minimum of 1.15 times any revenue debt service and 1.1 times their total annual debt service. Additionally, each fund may only have twenty percent of its outstanding debt in the variable rate form. Each of these funds must maintain a working cash balance. The Parking Facilities and Water Utility Fund are required to have 240 days of operating expenses in unrestricted cash. The Wastewater and Storm Water Funds must maintain at least 180 days of operating expense in unrestricted cash. To monitor these Policies, each fund is required to annually produce a ten-year plan that integrates revenue and expense projections and project cashflow forecast.

Historically, regular annual transfers have been made from the Water and Wastewater Utility Funds to the City's General Fund for payments-in-lieu of taxes and as a return on the City's investment in the Water and Wastewater System. The Financial Policies limit the amount of the annual return on investment to ensure financial sustainability of the funds.

### **Water**

The City-owned water system (the "Water System"), operated by its Department of Utilities, is one of the largest municipal water systems in the Commonwealth. Approximately 1.1 million people are served by the Water System. The Water System distributes treated water throughout the City, to the City limits of the Cities of Virginia Beach ("Virginia Beach") and Chesapeake ("Chesapeake") and to the gates of naval bases located in the City, Virginia Beach and Chesapeake. A naval base in the City of Portsmouth ("Portsmouth") is provided raw water service. As of June 30, 2019, the Water System provided potable water to over 66,151 active Norfolk retail service customers (i.e. accounts) and wholesale service to the United States Navy, Virginia Beach, Chesapeake, Portsmouth and the Western Tidewater Water Authority ("WTWA"), which includes the City of Suffolk and Isle of Wight County.

On July 1, 1979, the City Council established the Water Utility Fund as a distinct enterprise fund to account for all of the financial activity related to providing water services to its customers. Since its inception, the Fund has operated on a self-supporting basis and is not expected to pay debt service on the City's general obligation debt.

Historically, regular annual transfers have been made from the Water Utility Fund to the City's General Fund for payments-in-lieu of taxes and as a return on the City's investment in the Water System. The City intends to pay for all future Water System capital costs from revenue of the Water System and proceeds of water revenue bonds. The Water Utility Fund is reported on an accrual basis of accounting.

### **Wastewater**

The City owns and operates a sanitary sewer system (the "Wastewater System") that collects and conveys wastewater to the regional treatment agency, the Hampton Roads Sanitation District. Approximately 66,000 accounts located within the City are served by the Wastewater System. Since July 1, 1984, the Wastewater Utility Fund has been operated as an enterprise fund.

City general obligation debt issued to finance Wastewater Utility projects, as well as wastewater revenue bond debt is carried as a liability on the Wastewater Utility Fund balance sheet. The Wastewater Utility Fund pays for debt service on such bonds from the revenues of the Wastewater System.

### **Parking**

The City presently owns and operates 16 multi-level parking garages, 10 surface lots and more than 643 on-street spaces. These facilities provide a total inventory of over 20,671 downtown parking spaces. The Parking Facilities Fund was established during Fiscal Year 1990. City general obligation debt issued to finance Parking Facilities Fund projects is carried as a liability on the Parking Facilities Fund's balance sheet. The Parking Facilities Fund's audited balance sheet on June 30, 2018, presents total assets of \$212.2 million, which includes restricted investments of over \$13.9 million, to be utilized for garage construction and operating reserves. In addition, audited fixed assets, including parking structures, consist of over \$175 million of the total \$212.2 million in assets. The Parking Facilities Fund also manages parking enforcement operations and collects fines and delinquent fees. In Fiscal Year 2018, 36,990 tickets were issued resulting in an 87% collection rate and revenue of \$2.1 million.

Transfers have been made from the Parking Facilities Fund to the Debt Service Fund to pay all debt service on general obligation bonds issued by the City to pay for Parking System improvements. Revenue of the Parking System has fully covered debt service on general obligation bonds issued for the Parking System.

### **Storm Water**

Effective July 1, 2019, the Storm Water Fund, which is overseen by the City's Department of Public Works, was converted from a special revenue fund to an enterprise fund. In addition to maintaining all the public storm water infrastructure, they are also responsible for implementing best management practices and programs that prevent pollution and reduce flooding. The Storm Water Fund has general obligation debt, which is paid from the revenues of the system and is considered fully self-supporting.

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## **PART V** **THE CITY OF NORFOLK**

### **INTRODUCTION**

The City of Norfolk was established as a town in 1682, as a borough in 1736 and incorporated as a city in 1845. The City lies at the mouth of the James and Elizabeth Rivers and the Chesapeake Bay, and is adjacent to the Atlantic Ocean and the cities of Virginia Beach, Portsmouth and Chesapeake. The City is 65.98 square miles.

### **CITY GOVERNMENT**

Norfolk is an independent, full-service City with sole local government taxing power within its boundaries. It derives its governing authority from the City Charter, originally adopted by the General Assembly of Virginia (the "General Assembly") in 1918, which authorizes a council-manager form of government. The City Council exercises all of the governmental powers conferred upon the City. The City Council is comprised of eight members, a Mayor (elected at large) and seven members from the "ward system". Two members of the seven members are elected from super wards. The City Council elects a Vice Mayor from among its members. Among the City officials appointed by the City Council is the City Manager, the administrative head of the municipal government. The City Manager carries out its policies, directs business procedures and appoints, with the power to remove, the heads of departments and other employees of the City except those otherwise specifically covered by statutory provisions. The City Council also appoints certain boards, commissions and authorities of the City.

#### **Certain Elected Officials**

The City's current elected officials include:

#### **Kenneth Cooper Alexander, Mayor**

In May 2016, Mr. Alexander was elected Mayor of the City of Norfolk. He is the President of Metropolitan Funeral Service. As a Norfolk native, he began his public service career more than two decades ago. Mr. Alexander received a Bachelor's degree in Political Science from Old Dominion University, Norfolk, Virginia, and a Master's degree in Diplomacy from Norwich University in Northfield, Vermont, the oldest private military college in the country. Mr. Alexander previously served in the Senate of Virginia, where he was a member of the Commerce and Labor, Finance, Transportation and Privileges and Election committees. Prior to his election to the Senate, Mr. Alexander represented the 89<sup>th</sup> District in the House of Delegates from 2002 until 2012, serving on the Commerce, Labor, Education, Privileges and Elections and Rules committees.

#### **Martin A. Thomas, Jr., Vice Mayor**

Mr. Thomas, representing Ward 1, was first elected to City Council in August 2016. He received a Bachelor of Science degree in Public and Urban Affairs from Virginia Polytechnic Institute and State University, Blacksburg, Virginia and graduated from the University of Richmond School of Law (T.C. Williams School of Law), Richmond, Virginia. He is currently a partner at the Decker Law Firm in downtown Norfolk where he has litigated personal injury cases since 2006. He served on the Norfolk Planning Commission from April 2011 until his election to City Council and on the Norfolk Architectural Review Board from April 2014 until his election to City Council. He is involved in many local professional and civic organizations, where he has held a number of leadership positions.

### **Courtney R. Doyle, Council Member**

Mrs. Doyle, representing Ward 2, was first elected to City Council in May 2018. She received a Bachelor's degree in Government and Politics from the University of Maryland, College Park, Maryland, and holds a Master of Business Administration from Old Dominion University, Norfolk, Virginia. She is currently the Director of Customer Development and Marketing for Sentara Healthcare where she has worked for over 20 years. She served on the Norfolk School Board from 2013 until her election to City Council. She is active in many local professional and civic organizations, where she has held a number of leadership positions.

### **Mamie B. Johnson, Council Member**

Mrs. Johnson, representing Ward 3, was elected to City Council in May 2014. Mrs. Johnson was employed with Norfolk Public Schools as a teacher for 14 years and an Instructional Specialist for six years. She is currently the Director of the Before and After School Program at Richard Bowling Elementary School and the Life Enrichment Center Urban Youth Summer Camp. She received a Bachelor's degree in Education from Norfolk State University, Norfolk, Virginia. She is active in many local professional and civic organizations, where she has held a number of leadership positions.

### **Andria P. McClellan, Council Member**

Mrs. McClellan, representing Super Ward 6, was elected to City Council in May 2016. She received a Bachelor's degree from the University of Virginia, Charlottesville, Virginia, and graduated from the Wharton Management Program at the University of Pennsylvania. She is active in many local professional and civic organizations, and she presently serves on several boards, including WHRO, CIVIC Leadership Institute and the advisory board of OneVirginia2021.

### **Paul R. Riddick, Council Member**

Mr. Riddick, representing Ward 4, was first elected to City Council in July 1992. He is the owner and operator of Riddick Funeral Service in Norfolk. He attended Norfolk State University, Norfolk, Virginia, and has an Associates in Art and Sciences degree in Funeral Service from John Tyler Community College, Chester, Virginia. Mr. Riddick is active in many local professional organizations.

### **Thomas R. Smigiel, Council Member**

Mr. Smigiel, representing Ward 5, was first elected to City Council in May 2010. He received a Bachelor of Science degree in Education from Old Dominion University, Norfolk, Virginia, and a Master's degree in School Administration and Supervision from Cambridge College, Chesapeake, Virginia. He is Principal at the Academy for Discovery at Lakewood in Norfolk. He is involved in many local professional and civic organizations, where he has held a number of leadership positions.

## **Angelia M. Williams Graves, Council Member**

Mrs. Williams Graves, representing Super Ward 7, was first elected to City Council in November 2010. She holds a current real estate license and is a realtor with Rose & Womble Realty Company. Mrs. Williams Graves received an Associate of Science degree in Business Administration from Tidewater Community College in 2004. She graduated from the University of Virginia's Sorensen Institute for Political Leadership in 2005 and from the Alpha School of Real Estate in 2008. She received a Bachelor's degree in Marketing from Old Dominion University, Norfolk, Virginia. She is involved in many local professional and civic organizations, where she has held a number of leadership positions.

## **Certain Appointed Officials**

### **Douglas L. Smith, City Manager**

Douglas L. Smith assumed his position as City Manager in June 2017, after having served as the Interim City Manager since December 2016. He serves at the pleasure of the City Council and is responsible for the day-to-day management and oversight of the City. Prior to his appointment as Interim City Manager, Mr. Smith was President of The Doug Smith Group where he was an economic development consultant focused on transformational public private partnerships and regional innovation services. Mr. Smith also previously served as Deputy City Manager in Virginia Beach and Portsmouth. Mr. Smith also served as Portsmouth's Chief Plans and Policy Officer and Economic Development Director. Mr. Smith previously served on Portsmouth's City Council as well and was Portsmouth's representative to the Hampton Roads Transportation Planning Organization and the Hampton Roads Planning District. He earned a Bachelor of Art in History from the University of Virginia, Charlottesville, Virginia. Mr. Smith submitted his resignation to take a position as the next President and Chief Executive Officer of the Hampton Roads Economic Development Alliance. His departure is anticipated to be the end of August 2019. On August 1, 2019, it was announced that Dr. Larry "Chip" Filer would succeed Mr. Smith and serve as the City's 16<sup>th</sup> City Manager. Dr. Filer will assume the position of City Manager on September 16, 2019.

### **Christine Garczynski, Director of Finance**

Christine Garczynski assumed her position as Director of Finance in January 2016. At the direction of the City Manager, she is responsible for the comprehensive oversight of financial operations for the City. In addition, she is responsible for the administration of the financial affairs of the City which includes financial accounting and reporting; accounts payable; accounts receivable; payroll; cash management; risk management; debt management; purchasing; fiscal systems and the Norfolk Employees' Retirement System. Ms. Garczynski has worked for the City since 1992. She previously served as Acting Director of Finance from June 2015 to January 2016, and prior to her appointment as Acting Director of Finance, her most recent position was Debt Manager responsible for successfully coordinating and administering the City's debt obligations and the day-to-day management of the City's cash and investment portfolio. Ms. Garczynski earned a Bachelor of Science in Business Administration from Longwood University, Farmville, Virginia.

### **Bernard A. Pishko, City Attorney**

Bernard A. Pishko was first appointed by City Council as City Attorney in November 1997. He previously served as Deputy City Attorney from 1989 to 1997 and as an Assistant City Attorney from 1984 to 1989. He has practiced law since 1982. The City Attorney is also general counsel for the Norfolk School Board, Norfolk Recreational Facilities Authority, Norfolk Community Services Board, Hospital Authority of Norfolk, Norfolk Municipal Employees' Retirement System, Norfolk Electoral Board, Civil Service Commission and The Chrysler Museum of Art. Mr. Pishko is a member of many professional associations and community organizations. He received his undergraduate degree from Brown University, Providence,

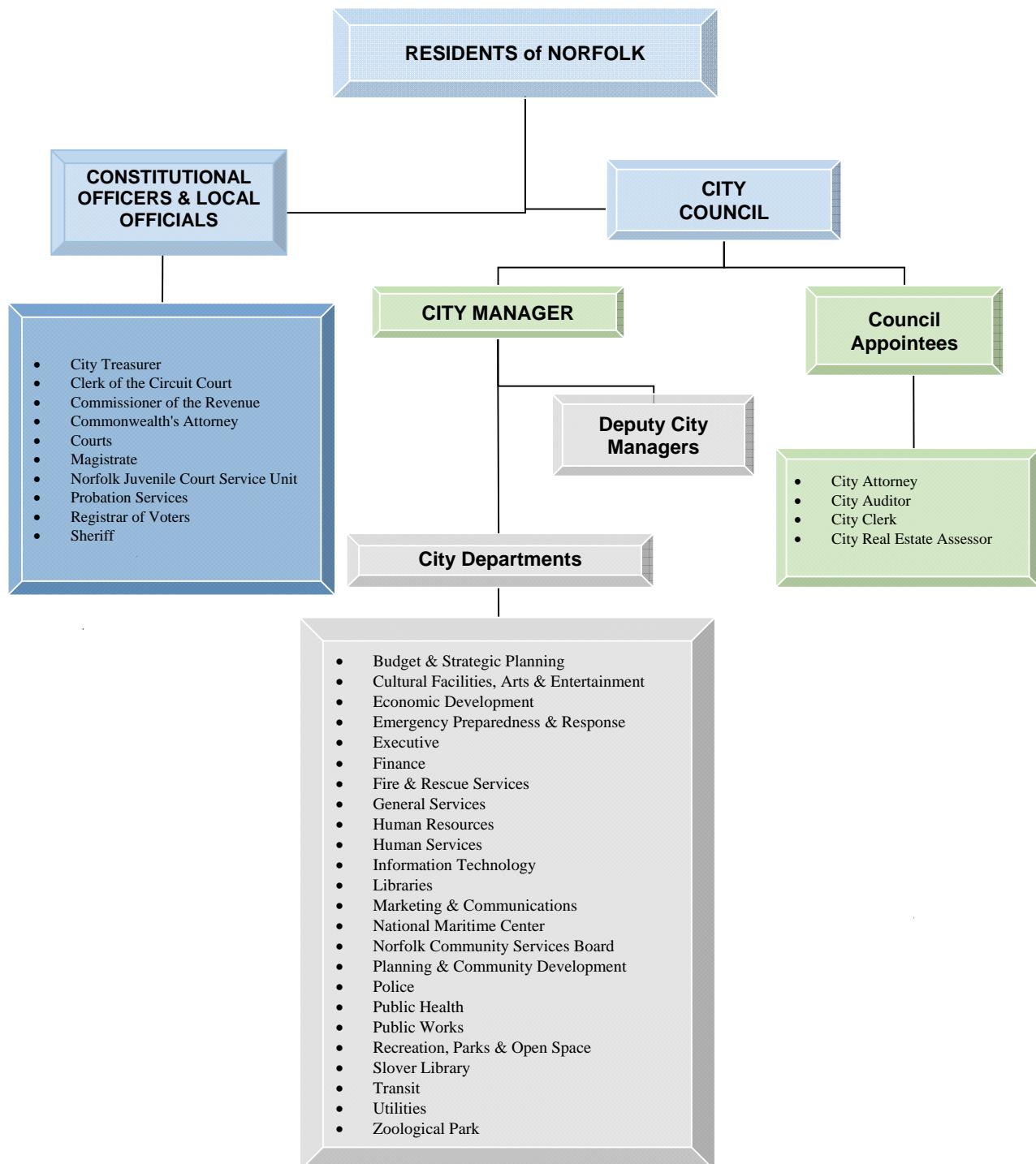
Rhode Island, a Master's degree in Business Administration from the College of William and Mary, Williamsburg, Virginia, and a law degree from the Marshall-Wythe School of Law, Williamsburg, Virginia.

### **Governmental Services and Facilities**

In Virginia, cities and counties are not overlapping units of government. Each city or county is a distinct political entity providing services for the population within its respective jurisdiction. The City provides a comprehensive range of public services characteristic of its form of government under Virginia law. These services are designed to provide an environment within which the educational, physical, social and cultural needs of its citizens are met. These general governmental services include police protection, fire and paramedical services, public health and social services, planning and zoning management, code enforcement, storm water management (effective July 1, 2019, a self-supporting enterprise fund), street maintenance, traffic control, parks and cemeteries operation and maintenance, recreation and library services, economic development, solid waste disposal and general administrative services. In addition, water and wastewater utilities and parking facilities services are provided under an enterprise fund concept with user-charges set by City Council. Since inception, these enterprise funds have operated on a self-supporting basis.

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## City Organization



## OTHER GOVERNMENTAL ENTITIES

A description of other governmental entities referenced in this Official Statement can be found in the City's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, attached hereto as Appendix A.

## ECONOMIC AND DEMOGRAPHIC FACTORS

### Population

As reflected in Table V-1 below, from 2009 to 2018 the City's population grew approximately 0.73%. The City is the second most populous city in Virginia, as shown in Table V-2.

**Table V-1**  
**Population Trend Comparisons**  
**2009 – 2018**

Calendar Year	Norfolk <sup>(1)</sup>	Hampton Roads MSA <sup>(1)(2)</sup>	Virginia <sup>(3)</sup>	U.S. <sup>(3)</sup>
2009	243,957	1,636,770	7,925,937	306,771,529
2010	242,803	1,641,078	8,001,024	308,745,538
2011	243,985	1,654,311	8,105,850	311,582,564
2012	245,803	1,672,401	8,186,628	313,873,685
2013	246,392	1,682,842	8,260,405	316,128,839
2014	246,394	1,690,090	8,326,289	318,857,056
2015	247,189	1,700,609	8,382,993	321,418,820
2016	247,087	1,727,366	8,411,808	324,707,000
2017	246,256	1,729,326	8,470,020	325,719,718
2018	245,741	1,726,928	8,517,685	328,318,861

Sources: U.S. Census Bureau and the Weldon Cooper Center.

Notes: (1) Norfolk and Hampton Roads MSA population estimates are from the Weldon Cooper Center, except for the 2010 population estimates, which are from the U.S. Census Bureau.  
(2) The Hampton Roads MSA is the Virginia portion only.  
(3) Virginia and U.S. population estimates are from the U.S. Census Bureau.

**Table V-2**  
**Five Most Populous Cities in Virginia**

City	2010 Census Population	2018 Population Estimate
Virginia Beach	437,994	453,410
Norfolk	242,803	245,741
Chesapeake	222,209	243,368
Richmond	204,219	226,919
Newport News	180,719	182,119

Sources: U.S. Census Bureau and the Weldon Cooper Center.

Table V-3 provides an annual comparison of per capita personal income since 2008.

**Table V-3**  
**City of Norfolk, Virginia**  
**Per Capita Personal Income Comparisons**  
**2008 – 2017**

Calendar Year	City (Norfolk)	Hampton Roads MSA	State	U.S.
2008	\$36,040	\$40,597	\$45,618	\$41,052
2009	34,237	40,345	44,458	39,366
2010	34,501	41,032	45,412	40,274
2011	35,342	42,830	47,689	42,459
2012	36,308	44,134	49,320	44,247
2013	36,066	44,097	48,956	44,425
2014	37,052	45,276	50,345	46,392
2015	38,766	46,650	52,687	48,940
2016	38,461	46,690	52,323	49,831
2017	40,094	48,502	55,105	51,640

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System. 2017 data is the most recent data available.

The age distribution of the City's population is presented in Table V-4

**Table V-4**  
**City of Norfolk, Virginia**  
**City Population Distribution by Age**  
**Last Four Decennial Censuses**

Year	Population	Under 20	20-64	65 or Older
1980	266,979	30.7%	60.1%	9.2%
1990	261,250	28.1	61.4	10.5
2000	234,403	27.3	61.5	11.2
2010	242,803	25.3	65.3	9.4

Source: U.S. Census Bureau.

## **Housing and Construction Availability**

The City saw total home sales rise by approximately 5.3% (or 162 homes) during calendar year 2018, as compared to calendar year 2017. Total sales for calendar year 2018 were 3,237, as compared to 3,075 for calendar year 2017. The average price of homes sold in calendar year 2018 increased by approximately 3.6%, from \$216,900 to \$224,700, when compared to the average home price in calendar year 2017. The median price of homes sold in calendar year 2018 increased by approximately 2.3%, from \$195,500 to \$200,000, when compared to the median home price in calendar year 2017.

Table V-5 provides an annual breakdown of residential building permits over the past 10 Fiscal Years.

**Table V-5**  
**City of Norfolk, Virginia**  
**Residential Construction**  
**Fiscal Years 2010 – 2019**

<b>Fiscal Year</b>	<b>Building Permits</b>	<b>Number of Units</b>	<b>Value (in thousands)</b>
2010	191	621	\$58,729
2011	221	479	37,298
2012	268	371	39,360
2013	384	822	63,728
2014	432	1,393	93,072
2015	399	729	59,018
2016	383	881	74,377
2017	459	1,193	68,571
2018	345	596	54,799
2019	274	978	83,245

Sources: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018 and Department of City Planning, City of Norfolk, Virginia.

Table V-6 presents annual nonresidential construction permits, which includes commercial buildings, public buildings, schools, public utility buildings and miscellaneous structures, over the past 10 Fiscal Years.

**Table V-6**  
**City of Norfolk, Virginia**  
**Nonresidential Construction**  
**Fiscal Years 2010 – 2019**

<b>Fiscal Year</b>	<b>Building Permits</b>	<b>Value (in thousands)</b>
2010	35	\$104,922
2011	27	40,073
2012	26	116,401
2013	28	105,635
2014	33	37,575
2015	36	233,824
2016	20	91,171
2017	25	82,443
2018	15	118,459
2019	31	238,513

Sources: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018 and Department of City Planning, City of Norfolk, Virginia.

### **Employment**

Businesses in the City provide residents with employment opportunities in a variety of industries of which services, government and trade are the most significant.

The unemployment rate for the City is illustrated in Table V-7.

**Table V-7**  
**City of Norfolk, Virginia**  
**Unemployment Rates**  
**2010 – 2019**

<b>Calendar Year</b>	<b>Norfolk</b>	<b>Hampton Roads MSA</b>	<b>Virginia</b>	<b>U.S.</b>
2010	8.8%	7.6%	7.1%	9.6%
2011	8.3	7.3	6.6	8.9
2012	7.6	6.8	6.0	8.1
2013	6.9	6.2	5.7	7.4
2014	6.4	5.7	5.2	6.2
2015	5.6	4.9	4.4	5.3
2016	5.2	4.6	4.0	4.9
2017	4.7	4.2	3.8	4.4
2018	3.7	3.3	3.0	3.9
2019 <sup>(1)</sup>	3.6	3.2	2.9	3.7

Source: U.S. Bureau of Labor Statistics.

Note: (1) Through June 2019.

**Table V-8**  
**City of Norfolk, Virginia**  
**Percentage of Employment**  
**1<sup>st</sup> Quarter, 2019**

	<b>Percentage of Employment</b>
Education and Health Services	25.98%
Trade, Transportation & Utilities	17.02
Professional & Business Services	15.23
Public Administration	13.21
Leisure and Hospitality	9.64
Financial Activities	5.76
Manufacturing	4.98
Other Services	3.22
Construction	3.07
Information	1.89
<b>Total</b>	100.0%

Sources: U.S. Bureau of Labor Statistics. Virginia Employment Commission, Quarterly Census of Employment & Wages Program. Includes non-disclosable data.

### **Resilience Strategy**

Norfolk is one of several localities in the United States vulnerable to flooding from sea level rise and storm-surge. In February 2019, the U.S. Army Corps of Engineers ("USACE") issued the Final Norfolk Coastal Storm Risk Management Study ("Norfolk CSRMS") to Congress. The report recommends infrastructure upgrades that will reduce the risk of flood damage in the City to a design standard equaling the North Atlantic Coast Comprehensive Study 2% (50-year) annual chance flood elevation plus sea level rise to the year 2076, ranging from 9.5 feet to 10.5 feet, based on the North American Vertical Datum 1988. The design flood level is generally equal to the Federal Emergency Management Agency ("FEMA") 1% annual chance flood Base Flood Elevation, plus three feet of sea level rise. The cost of implementing all study recommendations is approximately \$1.36 billion and there can be no assurance that it will be funded by the federal government (Congress) or the City.

The Norfolk CSRMS does not identify a dedicated funding source for any of the recommended upgrades, other than to provide a suggested share of the costs to be paid by the federal government (subject to future appropriation by the federal government). There can be no assurance that funding for any of the recommended upgrades will be made available. Additionally, the draft feasibility report does not provide a timeframe over which the projects would need to be implemented or funded. However, in the Fiscal Year 2019 Budget, the USACE allotted \$400,000 in the Fiscal Year 2019 workplan funding for pre-engineering design for the Norfolk CSRMS recommendations.

Norfolk has taken a proactive approach to addressing the impact of sea level rise with a resilience strategy described below, which embraces the City's relationship with its adjacent bay, rivers, streams, ponds and marshes.

In 2015, Norfolk adopted a comprehensive resilience strategy to address the challenges facing the City. This strategy is driven by three goals: (1) design the coastal community of the future, (2) create economic opportunity by advancing efforts to grow existing and new industry sectors and (3) advance initiatives to connect communities, deconcentrate poverty and strengthen neighborhoods.

Norfolk is undertaking many initiatives to address its resilience goals, including the following:

(1) Partnering with the U.S. Navy and Virginia Beach on a Joint Use Land Study to mitigate the impacts of sea level rise on Navy operations: the study is anticipated to be completed in July 2019 and identifies priority flood mitigation projects for the U.S. Naval Station Norfolk, Virginia Beach, and Norfolk.

(2) Encouraging and requiring resiliency as part of development activities: the City adopted a new zoning code that includes resilient development activities as part of its comprehensive long-term plan (plaNorfolk 2030). These efforts go far beyond the FEMA floodplain requirements and include provisions that target Norfolk's unique situation and circumstances.

(3) Seeking grants and other outside funding to help defray the cost of resiliency projects: in 2016, Norfolk and several partners in the Commonwealth received a \$120.5 million grant from the U.S. Department of Housing and Urban Development's ("HUD") National Disaster Resilience Competition. Grant funds are being used to address coastal resilience in the City's Ohio Creek watershed area with construction on the infrastructure upgrades starting in the third quarter of 2019. In May 2019, Norfolk was awarded a \$30 million Choice Neighborhoods Grant to redevelop the St. Paul's area of the City including the construction of a large Storm Water park to resiliently manage flooding.

To effectively align opportunities, connect internal and external stakeholders and resources, in Fiscal Year 2018 the City created a multi-disciplinary Resilience Office to expand and institutionalize this integrated approach to building the City's resilience to the environmental, economic, and social stresses and potential shocks that challenge the City. The Resilience Office will continue to actively leverage opportunities and resources across City departments, local community, as well as national and international partners.

### **Cybersecurity**

The City, like many other municipalities, relies on a technology environment to conduct its operations. As such, it may face multiple cybersecurity threats including but not limited to, hacking, viruses, malware and other such attacks on computer or other sensitive digital systems and networks. There can be no assurance that any security and operational control measures implemented by the City will be completely successful to guard against and prevent cyber threats and attacks. The result of any such attack could impact operations and/or digital networks and the costs of remedying any such damage could be significant. To transfer and share these risks, the City has purchased a \$5 million Cyber liability insurance policy that covers a broad range of impacts, including security breach, security liability, and extortion, among other areas. Additionally, the City has \$10 million in coverage related crime insurance, which covers incidents of computer-related fraud. The City's Department of Information Technology includes a dedicated cyber security team that focuses on system-wide hardware and software mitigation solutions, back-ups for redundancy or critical records and system processes, as well as limitations on user downloads and system uses. Further, to assess and mitigate threats as a result of human error, the City is using an automated security awareness software package to help deploy learning modules, simulate phishing and social media engineering attacks, distribute supportive messaging and provide analytics to train and counsel employees.

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## **Downtown Development**

Downtown offers a mix of cultural attractions and entertainment for its citizens and tourists. The average vacancy rate for Downtown Class A office space as of July 2019 is approximately 8.8%, as shown in Table V-9 below.

**Table V-9**  
**City of Norfolk, Virginia**  
**Downtown Norfolk Vacancy – Class A**  
**July 2019**

<b>Class A</b>	<b>Rentable SF</b>	<b>Vacant SF</b>	<b>% Vacant</b>
Crown Center	58,674	0	0.0%
Town Point Center	166,116	892	0.5
Main Street Tower	199,621	53,133	26.6
150 West Main Street	227,397	45,545	20.0
The Atlantic at City Walk	288,662	0	0.0
Wells Fargo Center	299,887	28,183	9.4
World Trade Center	367,000	30,593	8.3
Norfolk Southern Tower <sup>(1)</sup>	373,500	0	0.0
Dominion Tower	403,276	17,289	4.3
Dominion Enterprises Building	563,325	83,675	14.9
<b>Total</b>	<b>2,947,448</b>	<b>267,498</b>	<b>8.8%</b>

Source: CoStar, July 2019.

Note: (1) In December 2018, Norfolk Southern announced its plans to relocate its headquarters to Atlanta, Georgia. The relocation will occur gradually through 2021.

## **Residential Development**

One of Norfolk's greatest strengths is its neighborhoods. With over 120 civic leagues and over 95,000 housing units, Norfolk offers a diversity of housing choices that range from charming starter houses to grand residences and from downtown lofts and town homes to brand new developments along the Chesapeake Bay. By increasing the diversity of housing opportunities, the City expects to increase the diversity of its citizenry and expand the tax base. The City's goal for neighborhood and commercial development is to provide an environment that increases private sector investment, retail sales generation and corresponding municipal revenue generation, create a framework for targeted and coordinated public and private investment and build upon and coordinate with other ongoing community development initiatives.

Residential investment continues to grow throughout the City, particularly in Downtown. Several new projects have recently opened in Downtown. Together, approximately 1,500 new apartments have been or are going to be added to Downtown since 2010, bringing the estimated Downtown population to well over 6,000 residents. Another major project in the Fort Norfolk area is the River Tower at Harbor's Edge, an expansion of Harbor's Edge, a full-service, premier Life Plan Retirement Community on the Elizabeth River. When completed in 2021, the \$200 million project is expected to deliver a 24-story River Tower with 147 new luxury residences and more than 95,000 square foot of common space. In September of 2018, the Ghent area was named a Great Place in America by the American Planning Association.

The seven-mile stretch of beaches on the Chesapeake Bay known as Ocean View experienced redevelopment over the past decade. The East Beach section of Ocean View has 700 housing units with prices ranging from \$350,000 to over \$1.5 million. East Beach Phase 7, the final phase of East Beach consists of 38,000 square feet of retail and commercial space, as well as a mixture of 80 townhomes, single

family homes, cottages and carriage houses. Broad Creek is a \$200 million community near Norfolk State University with 600 mixed-income homes. In Broad Creek, the region's first mixed-use, mixed-income community, construction is complete on 400 rental units and 70 homes.

An exciting new district has sprung up, known as the "Railroad District" and has been awarded a 2018 Real Estate Development & Reuse award by the International Economic Development Council for Catalyzing Development in Historic Districts. To allow Residential and Commercial land uses, not otherwise permitted within the base zoning district in the Norfolk & Western Railroad State and National Historic District, the City created a new historic overlay district, "Norfolk & Western Historic Overlay". Using both programs, seven existing warehouses were brought back into productive use as rental housing and commercial spaces following \$80 million in rehabilitation projects. Since 2016, 271 apartments and 11 commercial uses have opened in existing light industrial warehouses, with more on the drawing table. The 167-acre district is seeing entrepreneurs moving in with trendy concepts, creating a viable live/work community. The surge in popularity of industrial breweries and loft apartments in historic buildings created a need for a successful integration of mixed-use projects, while ensuring preservation of industrial uses.

### **Commercial Development**

Norfolk continues to see commercial development within its borders. Simon Property Group Inc. has opened the first phase of Simon Premium Outlet Park. This represents an investment of approximately \$75 million to build an outlet center on an existing City-owned golf course. The City retained approximately 65 acres for green space and walking trails around the lake creating new public open space. Phase I of the Simon Premium Outlet Park includes approximately 85 stores, 332,000 square feet of leasable space and is anticipated to generate an estimated \$2.5 million annually in tax revenue. Adjacent to the Simon Norfolk Premium Outlets is the 331,000 square foot IKEA, that opened in April 2019. IKEA is estimated to bring more than \$2.5 million annually in direct tax revenue.

With a capital investment of \$32.5 million ADP, a comprehensive Human Capital Management solutions provider, moved to Downtown in November 2016 at the Atlantic at City Walk. ADP is Downtown's largest employer with approximately 2,100 new jobs and an immediate impact of \$1 million annually in tax revenue.

In May 2017, Movement Mortgage, one of the fastest-growing mortgage banks in the country, relocated its largest operations center to the adaptive re-use of the former J.C. Penney department store at Military Circle Mall owned by the Norfolk Economic Development Authority, known as 824 Military. Movement Mortgage transferred 550 jobs to Norfolk. The relocation of Movement Mortgage is anticipated to bring approximately \$230,000 in new direct annual tax revenue. Optima Health is also occupying space at 824 Military and added 200 new jobs. In August 2018, Optima Health leased the 45,000 square feet remaining in the 824 Military building and hired an additional 200 employees at the end of 2018.

Norfolk Gateway Office Tower, a new hub for Norfolk business, collaboration and innovation, will support a variety of modern workplace environments. The preliminary announced 20-story, 360,000-square-foot LEED Certified Class-A office tower will feature views overlooking the City and the waterfront with the first-floor retail lining St. Paul's Boulevard and structured parking. The building plans to set the new standard for resilient and sustainable design in Norfolk. The tower and its surrounding grounds are planned to reduce water use and runoff through integration of bioswales, rain gardens, green roof technologies and native landscapes. Building glazing, lighting and mechanical systems are anticipated to significantly reduce energy usage, while creating a healthier and more productive work environment for the tenants.

## **Arts and Culture**

Norfolk offers a mix of cultural attractions and entertainment for its citizens and tourists. Norfolk's entertainment and theatre venues include the Attucks Theatre, the Harrison Opera House, Chrysler Museum, and the "Theater District" which includes Chrysler Hall, Jeanne and George Roper Theater, Wells Theatre and the NorVa.

Norfolk's first official arts district, the NEON District, is home to a new wave of passion and creativity in downtown. NEON, or New Energy of Norfolk, draws from the neighborhood's history with the automobile industry as it moves into a new and vibrant future. Long time cultural institutions like the Chrysler Museum of Art and Harrison Opera House anchor the District. Whether you are a local or visiting for the first time, the NEON District offers a unique cultural experience.

In 2018, the City and Carnival cruises announced the return of the cruise line to the City. Carnival's return in 2019 is estimated to provide the City with over \$300,000 in new revenues. Carnival set sail again in May 2019, with destinations to the Bahamas and the Caribbean.

The 80,000 square foot Peter G. Decker, Jr. Half Moone Center is located in the harbor between Town Point Park and Nauticus/Battleship Wisconsin. The Peter G. Decker, Jr. Half Moone Center continues to serve as a multi-purpose facility for the City offering five distinct event spaces that can accommodate from 50 to 1,500 guests.

Through a new partnership with the City, Tidewater Community College will transform Norfolk's NEON District with its newly announced plan to build the Patricia and Doug Perry Visual and Culinary Arts and Hospitality Center at the site of the Greyhound Station. The 47,000-square-foot center will be a jewel to Downtown and could open as soon as summer 2021.

Other recent investments to the City's cultural attractions include the Virginia Arts Festival headquarters, a home for the Hurrah Players, and the Perry Glass Studio of the Chrysler Museum of Art Glass Art Studio. The Virginia Arts Festival headquarters houses year-round education outreach activities, a rehearsal and intimate performance space, as well as the Festival's administrative offices. Adjacent to the Virginia Arts Festival headquarters is the new home of the Hurrah Players, which features a 100-seat theater and two rehearsal halls. Located adjacent to the museum, the Glass Studio is the only one of its kind in the Mid-Atlantic region and complements the museum's extensive glass collection. One of Norfolk's most notarized venues, Chrysler Hall is slated to receive a \$40 million upgrade, anticipated to start in late 2019.

## **Transportation Initiatives**

The City's light rail system, the Tide, runs from the Eastern Virginia Medical School complex near Fort Norfolk to the Newtown Road/Virginia Beach city line. Amtrak passenger rail line service connecting Norfolk to Washington, D.C. via Petersburg and Richmond operates from the 3,500 square foot train station located at Harbor Park.

In order to provide additional state funds to road construction and maintenance, effective July 1, 2013, the Commonwealth commenced collecting an increased sales and use tax and new state and regional taxes on gasoline, motor vehicle sales and other specific taxes, which includes the collection of sales and use taxes from remote sellers (i.e., retailers that, other than their sales to residents, do not have a physical presence in the Commonwealth). Under existing federal law, the Commonwealth does not have the authority to collect state and local retail sales and use tax from remote sellers, but if federal law changes, then the taxes on remote sellers will be collected. In addition, purchasers in the Hampton Roads region, which includes the City, will pay increased sales and use taxes and other specific regional taxes on transactions that take place in Hampton Roads jurisdictions. Receipts from such additional taxes must be used to pay for transportation projects within the region. Such projects will be prioritized and selected by

Hampton Roads Transportation Accountability Commission ("HRTAC"), which will allocate such tax revenues for regional transportation projects. There can be no assurance that these new state and regional taxes will not be changed, but such taxes are expected to generate approximately \$880 million per year for transportation funding across the Commonwealth, with the Hampton Roads regional taxes expected to generate approximately \$200 million per year for major projects in the Hampton Roads region. The City is not directly responsible for related projects or liable for any debt obligations for HRTAC.

Announced in 2017, was the \$3.3 billion expansion of the I-64 Hampton Roads Bridge Tunnel that will include funding from the Hampton Roads Transportation Fund, and likely to include state funding and federal funding. The project is expected to enhance existing connections between Norfolk and the peninsula and will reduce congestion. Construction is expected to begin in 2019, with an estimated completion in 2025.

### **Norfolk Airport**

Norfolk International Airport ("NIA") is one of the most powerful economic generators in the Hampton Roads region. Currently, NIA is served by Allegiant Air, American Airlines, Delta, Frontier, Southwest, United and their regional partners. Offering over 150 arrivals and departures daily to major cities throughout the U.S., NIA presently ranks in the top 15% of commercial service airport in the United States with nearly 3.6 million scheduled passengers served in 2018.

NIA generates nearly 1,700 jobs and over \$135 million in direct economic impacts annually. More than 775,000 annual visitors use NIA and other facilities in the region and contribute more than \$550 million in estimated indirect economic impacts that create more than 12,500 local jobs with an estimated payroll in excess of \$210 million.

### **Hotel Development**

Norfolk has approximately 5,000 hotel rooms, including nearly 1,650 in the Downtown area. Tourism and conventions employ over 7,000 workers in the City and generate an estimated \$28.8 million in state taxes and \$23.9 million in local tax revenue. It is estimated travelers to the City spend over \$764 million annually. The Hilton Norfolk at The Main and The Exchange conference center opened March 2017. The \$164 million public/private Downtown project includes a 50,000 square foot conference center; a 4-Star Hilton hotel with approximately 300 rooms, three full-service restaurants and a parking garage. The project has created approximately 250 jobs and an estimated \$2 million in annual tax revenue. It was developed by Gold Key PHR Hotels and Resort.

Development is underway for an Autograph Collection Marriott hotel, a boutique hotel to be located at the 200 block of Granby Street in the former Royster building. With the help of the Perry family, who are the developers of the project, the \$30 million investment will have a glass art theme and is expected to open January 2020.

Norfolk's waterfront hotel, the Sheraton Norfolk Waterside, recently completed its \$12 million renovation. The upgrades include a renovation of its 468-rooms, a 1,100 square foot presidential suite, newly renovated lobby and a 24-hour fitness center.

The Marriott Waterside is undergoing a \$25 million renovation to modernize the hotel. Included in the agreement is a \$4 million improvement to the City-owned conference center, which is a part of the hotel.

### **Waterfront Recreation Investment**

Norfolk has seven miles of Chesapeake Bay beachfront and a total of 144 miles of shoreline including along Downtown's Elizabeth River, the Lafayette River, lakes, the Hampton Roads Harbor and

the Chesapeake Bay. Town Point Park, located in the Downtown area along the Elizabeth River, brings thousands of visitors Downtown annually and generates both tax and parking revenue.

The Waterside District is a regional destination located in the heart of the central business district and adjacent to the City's world-class waterfront and festival site. The project opened in May 2017 and is a \$40 million public-private partnership between Norfolk and Cordish Companies. The anchor is a 30,000 square foot section known as "The Marketplace" that has businesses and restaurants, including a live performance stage and roof top deck.

The Pamunkey Indian Tribe and the City are currently in negotiations over the development of a \$700 million casino and resort development. It would be located on roughly 20-acres of waterfront property adjacent to Harbor Park, home of Norfolk's Triple-A baseball stadium. The project is anticipated to have 500 four-diamond hotel rooms, 3-5 on-site restaurant, and a 750-seat entertainment facility. The project is initially estimated to create 4,000 to 5,000 construction jobs, 3,500 full-time positions and have an annual indirect economic impact value of \$1 billion.

### **Sports and Recreation**

Norfolk is home to the Norfolk Tides, a Triple-A minor league baseball team (the "Tides"), which is an affiliate of the Baltimore Orioles. The Tides renewed their 15-year lease at Harbor Park in December 2013. Norfolk is also home to the Norfolk Admirals, a member of the East Coast Hockey League. Old Dominion University competes in the Conference USA. Norfolk State University has a long-established football program, which currently competes in the Mid-Eastern Athletic Conference.

Additionally, located at Harbor Park is the Pernell "Sweet Pea" Whitaker Boxing and Fitness Center, a 13,000 square foot state-of-the-art facility that boasts two U.S.A. Boxing regulation-sized competition rings, stadium-style seating and the capacity to host larger shows and championship bouts.

### **Norfolk Public Schools**

Norfolk Public Schools ("NPS") is on a mission to ensure that all students maximize their academic potential, develop skills for lifelong learning and become successful contributors to a global society. The City 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 has an astounding array of academically challenging programs from which to choose, including five middle school specialty programs, five high 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.

The City is home to the Governor's Magnet School for the Arts, Virginia's only magnet school for the arts, which offers classes in performing or visual arts to approximately 350 students from six cities and two counties in its Downtown location in Norfolk on Granby Street.

Student population for the past five Fiscal Years is shown in Table V-10.

**Table V-10**  
**City of Norfolk, Virginia**  
**Public Schools Student Population**  
**Fiscal Years 2014 – 2018**

<b>Fiscal Year</b>	<b>September 30 Membership</b>	<b>Percent Change</b>
2014	30,359	(1.12)%
2015	30,116	(0.80)
2016	29,977	(0.46)
2017	29,383	(1.98)
2018	28,858	(1.79)

Source: Virginia Department of Education, Superintendent's Annual Report.

### **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. NSU is Virginia's largest public, historically black university and one of the largest predominately black institutions in the nation. Located in Downtown, TCC has five buildings, including the Jeanne and George Roper Performing Arts Center. EVMS, dedicated solely to biomedical and health education, has an economic impact on the regional economy of \$1.2 billion annually. In 2018, EVMS announced 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. Sentara Healthcare will triple its financial support for EVMS with a commitment of \$130 million over the next five years. For the period 2018 through 2023, annual funding given by Sentara to EVMS will increase from a previous amount of \$9 million per year to \$26 million per year.

### **Medical Institutions**

Within the City, there are five general, acute care and specialized hospitals including Sentara Norfolk General Hospital ("Sentara Norfolk General"), Sentara Leigh Hospital, Bon Secours DePaul Medical Center, Children's Hospital of The King's Daughters ("CHKD") and Lake Taylor Transitional Care Hospital ("Lake Taylor Transitional"). As the region's first magnet hospital, Sentara Norfolk General Hospital, a 525-bed tertiary care facility, is home to the area's only Level I Trauma Center, burn trauma unit and nationally ranked heart program at Sentara Heart Hospital. Sentara was named a Top 15 Health System for 2018 by IBM Watson Health. The \$199 million expansion and modernization project is anticipated to be completed in 2020. The project will add floors to two existing wings, expand the emergency department, expand and modernize 18 operating rooms, replace a 48-bed ward-style Special Care Nursery with a state-of-the-art unit with private and semi-private rooms, and consolidate the hospital's 54 intensive care unit beds on two floors.

CHKD, the site of Virginia's only free-standing, full-service pediatric hospital is home to one of the nation's top pediatric residency programs. With 206 beds, the hospital serves the medical and surgical needs of children throughout the greater Hampton Roads metro area, the eastern shore of Virginia and northeastern North Carolina. In March of 2018, CHKD filed a Certificate of Public Need application with the State Health Commissioner seeking approval to build a 60-bed facility for children and adolescents.

Sentara Leigh Hospital's \$126 million expansion was completed in 2016. The expansion project included two five-story patient towers, an orthopedic and rehabilitation center, and a two-story atrium lobby, as well as a new multi-story parking garage. The Sentara Leigh campus continues to expand and broke ground in spring, 2018 on a \$93.5 million Cancer Center project. The 170,000 square foot facility is expected to be completed in mid-2020. Another addition to the campus is a \$29 million, 50,000 square foot regional orthopedic medical office building currently under construction and anticipated to also open in mid-2020.

Bon Secours DePaul Medical Center has undergone a substantial phased expansion over the past five years including a new comprehensive cancer care facility and medical office building on the campus. Mercy Health and Bon Secours officials finalized a definitive merger agreement in September 2018. The combined entity comprises 43 hospitals across seven states and more than 2,100 employed physicians. The merged entity will accrue \$8 billion in net operating revenue and \$239 million in operating income, making it the fifth largest Catholic health system in the nation.

### **The Virginia Port Authority**

In 1981, the General Assembly passed landmark legislation designed to unify the ports in southeastern Virginia Hampton Roads harbor under a single agency, the Virginia Port Authority, with a single operating company, the Virginia International Terminals, Inc. The Port of Virginia (the "Port"), one of the world's largest natural deep-water harbors, is an integral part of Norfolk's economy. The Port is one of the top three ports on the east coast in terms of total value of port trade. In 2018, the Port handled a total of 21,974,863 tons of general cargo, including 21,785,434 tons of containerized cargo, with 189,429 tons of breakbulk making up the remainder.

**Table V-11**  
**Virginia Port Authority Terminals**  
**General Cargo Tonnage**  
**Calendar Years 2015 – 2019**

Calendar Year	Total General Cargo Tonnage (in thousands)	Percent Change Over Previous Year
2015	19,978	4.81%
2016	20,869	4.50
2017	21,972	5.30
2018	21,975	0.01
2019 <sup>(1)</sup>	13,075	N/A

Source: Virginia Port Authority.

Note: (1) As of July 2019.

Increase in the port-related business use of the Virginia International Terminals drives new capital investment into the region. The Heartland Corridor gives the Port rail access to markets in Ohio, Illinois, Michigan and points west. Additionally, a \$700 million 300-acre expansion of Norfolk International Terminal ("NIT") has been announced and is expected to be the largest inter-modal center in the United States when completed in 2024.

The Virginia Port Authority opened its 26-lane, \$42 million technology-driven North Gate complex at Norfolk International Terminals in June 2017. The gate was coupled in December 2017 with the \$176 million I-564 Intermodal Connector to give truckers direct interstate access. The Virginia Port Authority is creating a new intermodal gate complex at NIT. This project is expected to cost approximately \$29

million and connect with the I-564 intermodal connector project with the goals of easing commuting around NIT, reducing truck traffic on local roads and increasing cargo velocity and efficiency at NIT.

**Business, Industry and Commerce**

There are a large variety of industrial, commercial and service employers located within the City. Table V-12 that follows presents data regarding the major non-government employers in the City.

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**Table V-12**  
**City of Norfolk, Virginia**  
**Major Non-Government Employers in 1<sup>st</sup> Quarter 2019**

Employer	Number of Employees	Industry/Product/Service
	1,000+	
Sentara Healthcare		Hospitals
Old Dominion University		Educational Services
Children's Hospital of The King's Daughters		Hospitals
Portfolio Recovery Association		Professional Debt Services
Eastern Virginia Medical School		Hospitals
Anthem		Healthcare Services
Norfolk State University		Educational Services
Bon Secours DePaul Medical Center		Hospitals
Norshipco		Shipbuilding and Drydock Corporation
	500 – 999	
Wal-Mart		General Merchandise Stores
S.O.S Security, LLC		Security Services
CMA-CGM America		Support Activities for Transportation
Virginia International Terminal		Support Activities for Transportation
Tidewater Community College		Educational Services
Colonna's Shipyard		Ship and Boat Services
Top Guard Inc.		Security Services
Maersk Line Limited		Ship and Boat Services
CP&O LLC		Terminal Services
Food Lion		Food Distribution Service
	250 – 499	
Marine Hydraulics International		Ship and Boat Services
McDonald's		Food Services
Art FX Inc.		Textile Printer Services
Transit Management Company		Support Activities for Transportation
Virginia Wesleyan College		Educational Services
Nash Finch		Food Distribution Service
ODU Research Foundation		Educational Services
Booz, Allen and Hamilton		Management and Information Technology
Lake Taylor Hospital		Hospitals
Personal Touch Home Care, Inc.		Home Healthcare
Aramark Campus, LLC		Food Services
St. Mary's Home for Disable, Inc.		Healthcare
Coca-Cola Bottling Company		Manufacturing
Electronic Data Systems Corporation		Technology Equipment and Services
L-3 Unidyne Inc.		Design, Ship Repair, and Modernization
Dominion Virginia Power		Utilities
Metro Machine Corporation		Ship Builders and Repairers
Ed's Service Solutions, LLC		Personal and Laundry Services
Southwest Airlines		Jet Air Transportation
Harris Teeter Supermarket		Food Services
Delphinus Engineering, Inc.		Cyber Operations and Marine Engineering
Portfolio Recovery Associates, Inc.		Administrative and Support Services
W.R. Systems, Ltd.		Professional, Scientific and Technical Services

Source: Virginia Labor Market Information.

New development, expansion and retention of Norfolk's business community has led to continued economic growth over the past five years. Recent growth in areas such as manufacturing, research and technology, healthcare, residential apartments, craft brewing and boutique retail has increased the diversification of Norfolk's local economy. Since 2014, the City has realized over \$3 billion in new development, business expansion and announcements of pending projects. In December 2018, Norfolk Southern announced its plans to relocate its headquarters to Atlanta, Georgia. The relocation is anticipated to gradually occur through 2021.

## **Military**

The presence of the military in Norfolk has a significant impact on the local economy. The City is the home of the world's largest naval complex, celebrating its centennial in 2017, with headquarters for Commander in Chief of U.S. Atlantic Command, NATO's Supreme Allied Command Atlantic, Commander in Chief U.S. Atlantic Fleet and other major naval commands. Hampton Roads is the largest center of Coast Guard units in the world with the Atlantic Area Command and Maritime Defense Zone Atlantic in Portsmouth and its Maintenance & Logistic Command Atlantic headquarters in downtown Norfolk.

The military assigns to and reassigns from its various locations within the region ships, squadrons and personnel on a regular basis. Due to the ongoing military presence, the arrivals and departures from the region do not typically have a material impact on the economic condition of the City.

The Hampton Roads region is home to six aircraft carriers, including the Gerald R. Ford. While not a permanent homeporting, the Gerald R. Ford will be in the region for a few years due to schedule and maintenance requirements for the Navy bringing in more than 2,500 personnel to the region. The additional carrier joined the USS Dwight D. Eisenhower, USS John C. Stennis (currently undergoing overhaul at Newport News Shipbuilding), USS Harry S. Truman, USS George Washington and the USS George H.W. Bush at Naval Station Norfolk. In addition, the region is home port to approximately 65 ships and home to 39 aircraft squadrons with about 75 homeported operating units in the City. The Navy recently announced a new, \$150 million training facility at Naval Station Norfolk called the Combined Integrated Air and Missile Defense and Anti-Submarine Warfare Trainer. The trainer simulates the ship's Combat Information Center for cruisers and destroyers, so sailors can replicate realistic and rigorous combat. It is the second one in the nation.

According to the most recent data available to the City, the U.S. Navy's direct economic impact on the region was \$13.4 billion in fiscal year 2017, comprised of a total annual payroll of \$11.4 billion and the balance consumed on goods and services and procurement contracts. The impact was an increase of nearly \$600 million over the previous fiscal year. The region and particularly the City expects to continue as a center of activity for the U.S. Navy with current total personnel (military and civilian) of more than 71,000, with an additional 5,600 military contractor personnel.

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**APPENDIX A**

**CITY OF NORFOLK, VIRGINIA  
GENERAL PURPOSE FINANCIAL  
STATEMENTS FOR THE FISCAL YEAR  
ENDED JUNE 30, 2018**

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## INDEPENDENT AUDITORS' REPORT

The Honorable Members of City Council  
City of Norfolk, Virginia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norfolk, Virginia (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

The Honorable Members of City Council  
City of Norfolk, Virginia

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norfolk, Virginia as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

#### *Change in Accounting Principle*

During fiscal year ended June 30, 2018, the City adopted GASB Statement No 75. *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of the implementation of these standards, the City reported a restatement for the change in accounting principle (See Note XXVI). Our auditor's opinion is not modified with respect to the restatement.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Honorable Members of City Council  
City of Norfolk, Virginia

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Arlington, Virginia  
December 19, 2018

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **(Unaudited)**





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**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2018**

The management of the City of Norfolk (the "City") provides this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018. As readers, you are encouraged to read this discussion and analysis in conjunction with the transmittal letter and City's financial statement information included in this report. The intent of this discussion and analysis is to provide a summarized view of the City's financial performance as a whole; readers should also review the basic financial statements and supporting notes to enhance their understanding of the City's financial performance.

### **Financial Highlights**

- The assets and deferred outflows of resources of the City, on a government-wide basis excluding component units, exceeded its liabilities and deferred inflows of resources at the close of fiscal year 2018 by \$715,533,246 (net position). Of this amount, there is a negative unrestricted net position of \$9,835,060. Total net position increased by \$24,647,841 and unrestricted net position increased by \$54,941,591 from the prior fiscal year end.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$30,114,118, an increase of \$73,356,969 in comparison with the prior year. This increase was primarily attributable the issuance of bonds offset by the continuous usage of the City's line of credit for funding of capital projects. The City issued \$123,084,974 in general obligation bonds in fiscal year 2018. There is a negative unassigned total governmental fund balance of \$58,659,242 on June 30, 2018.
- The General fund, on a current financial resources basis, reported an increase in fund balance of \$8,452,455 from the prior year.
- At the end of the current fiscal year, the total unassigned fund balance for the General fund was \$70,962,327, or 8.3 percent of the original General fund budget.
- The City's total outstanding bonded indebtedness increased by \$15,974,090 during the current fiscal year primarily due to the issuance of bonds to pay for several large capital projects including a courthouse, five new schools and conference center.

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2018**

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The financial section of this report includes management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements and related notes themselves.

**Government-wide financial statements** – The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. These statements include all of the government's assets and deferred outflows and liabilities and deferred inflows using the accrual basis of accounting. The *government-wide financial statements* are comprised of the Statement of Net Position and the Statement of Activities.

The Statement of Net Position presents information on all of the City's assets plus deferred outflows and liabilities plus deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are mainly supported by taxes and intergovernmental revenues (governmental activities) from other functions intended to recover all or a significant portion of their cost through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, judicial administration, community development, health and public assistance, education, and culture and recreation. The business-type activities of the City include Water Utility, Wastewater Utility and Parking Facilities enterprise activities.

The government-wide financial statements include not only the City itself (known as the primary government), but also the following legally separate component units for which

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2018**

the City is financially accountable: Norfolk Public Schools ("School Board") and Norfolk Economic Development Authority ("EDA"). Financial information for these component units is reported separately from the financial information presented for the primary government and can be found on pages 70 - 71 of this report.

**Fund financial statements** – 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. In the basic financial statements, the emphasis is on major funds. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds** are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of a fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers can better understand the long-term impact of the government's near-term financing decisions. A reconciliation between the government-wide financial statements and the fund financial statements is included as part of the basic financial statements.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and governmental fund statement of revenues, expenditures and changes in fund balance for the general, capital projects and debt service funds, all of which are considered major funds. All other governmental funds are combined in a single, aggregated presentation. Individual fund data for each of the non-major funds are presented separately in the form of combined statements elsewhere in this report.

The City adopts an annual budget for certain funds. To demonstrate compliance with this budget, budgetary comparison statements have been provided in this report. (Reference Exhibits E-1 and E-2.)

The basic governmental fund financial statements can be found in pages 61 - 64 of this report.

**Proprietary funds** – The City maintains two types of proprietary funds: enterprise and internal service.

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2018**

The enterprise funds are used to account for Water and Wastewater Utilities and Parking Facilities operations. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

Internal service funds are an accounting mechanism to accumulate and allocate costs internally among the City's functions. The City had two internal service funds, Fleet Management and Healthcare during fiscal year 2018. The internal service funds are allocated to governmental activities at the entity wide level.

Proprietary funds provide the same type of information as the government-wide financial statements only in more detail. The proprietary fund financial statements provide separate information for the Water and Wastewater Utilities and the Parking Facilities operations, all of which are considered major funds. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements in this report.

The basic proprietary fund financial statements can be found on pages 65 – 67 of this report.

**Fiduciary funds** are used to account for resources held for the benefit of parties outside the City. The fiduciary funds of the City include the pension trust fund, the Commonwealth of Virginia agency fund and other agency funds. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are dedicated for specific non-city programs. The accounting for fiduciary funds is much like that used in proprietary funds.

The fiduciary fund financial statements can be found in pages 68 - 69 of this report.

**Notes to the financial statements** – The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 75.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary comparisons for the General fund, the City's Net Pension Liability and other post-employment benefits to its employees. Required supplementary information can be found on pages 157 – 171 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented on pages 177 - 178 and 181 -183, respectively, of this report.

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2018**

**Government-Wide Financial Analysis**

Over time, net position may serve as a useful indicator of the City's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$715,533,246 at the close of fiscal year 2018.

By far, the largest portion of the City's net position, \$682,866,373 or 95.4 percent is its investment in capital assets (e.g., land, buildings, equipment, intangibles and infrastructure) less accumulated depreciation and amortization and less any related outstanding debt and deferred inflows and outflows of resources used to acquire those assets. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, approximately 5.9 percent represent resources that are subject to external restrictions on how they may be used. The negative balance of \$9,835,060 of unrestricted net position is due to the adoption of GASB 68 and GASB 75 and the recognition of the net pension liability to the City's employee retirement system and the Virginia retirement system and total OPEB liability.

**Summary of the City of Norfolk's Net Position**

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Current and Other Assets						
Capital Assets	\$ 297,830,502	\$ 246,796,261	\$ 181,716,449	\$ 148,693,080	\$ 479,546,951	\$ 395,489,341
Total Assets	1,208,714,466	1,199,901,330	1,014,922,454	1,008,227,591	2,223,636,920	2,208,128,921
Deferred Outflows of Resources	1,506,544,968	1,446,697,591	1,196,638,903	1,156,920,671	2,703,183,871	2,603,618,262
Total Assets and Deferred Outflows of Resources	105,724,255	100,730,698	30,710,653	24,260,561	136,434,908	124,991,259
	\$ 1,612,269,223	\$ 1,547,428,289	\$ 1,227,349,556	\$ 1,181,181,232	\$ 2,839,618,779	\$ 2,728,609,521
Long-Term Liabilities	\$ 1,102,672,228	\$ 954,893,541	\$ 733,195,460	\$ 682,081,649	\$ 1,835,867,688	\$ 1,636,975,190
Other Liabilities	240,341,499	325,568,852	27,473,102	60,346,905	267,814,601	385,915,757
Total Liabilities	1,343,013,727	1,280,462,393	760,668,562	742,428,554	2,103,682,289	2,022,890,947
Deferred Inflows of Resources	19,250,936	13,554,031	1,152,308	1,279,138	20,403,244	14,833,169
Total Liabilities and Deferred Inflows of Resources	\$ 1,362,264,663	\$ 1,294,016,424	\$ 761,820,870	\$ 743,707,692	\$ 2,124,085,533	\$ 2,037,724,116
Net Position:						
Net Investment in Capital Assets	351,887,472	365,913,403	330,978,901	342,470,182	682,866,373	708,383,585
Restricted	6,485,061	12,041,423	36,016,872	35,237,048	42,501,933	47,278,471
Unrestricted	(108,367,973)	(124,542,961)	98,532,913	59,766,310	(9,835,060)	(64,776,651)
Total Net Position	\$ 250,004,560	\$ 253,411,865	\$ 465,528,686	\$ 437,473,540	\$ 715,533,246	\$ 690,885,405

For governmental activities, total net position decreased by \$3,407,305 or 1.3 percent overall during the current fiscal year. Factors that contributed to the change in total governmental net position include the adoption of GASB Statement No. 75 which

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2018**

increased long-term liabilities offset by a reduction in other liabilities primarily due paying down the line of credit liability.

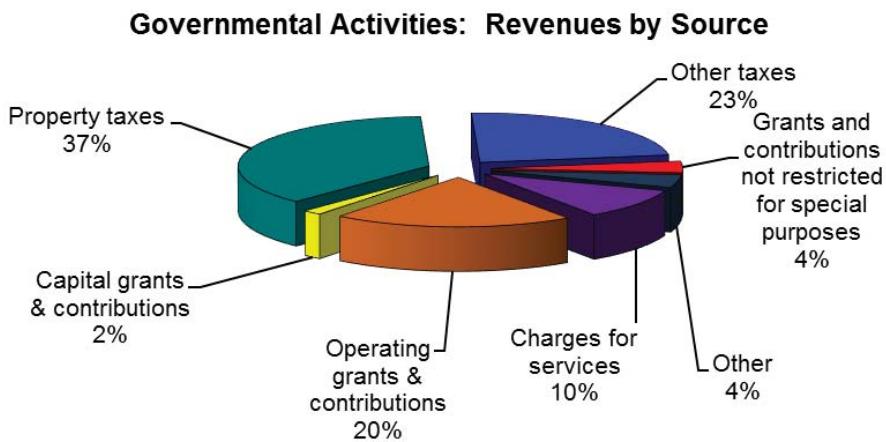
For business-type activities, net position increased by \$28,055,146 or 6.4 percent during the fiscal year. Of this amount, an increase of \$20,163,351, \$8,347,537, and a decrease of \$455,742 are changes attributed to the Water Utility, Wastewater Utility and Parking Facilities funds, respectively. Overall revenues increased by \$5,087,385 compared to prior year due to increases in rates and consumption for Water and Wastewater Utilities funds and an increase in activity for Parking Facilities fund.

The following presents key programmatic and functional elements of changes in government-wide net position:

**Changes in the City of Norfolk's Net Position**

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
<b>Revenues:</b>						
Program Revenues:						
Charges for Services	\$ 73,176,531	\$ 74,932,416	\$ 139,291,143	\$ 134,170,141	\$ 212,467,674	\$ 209,102,557
Operating Grants & Contributions	151,518,592	135,193,939	-	-	151,518,592	135,193,939
Capital Grants & Contributions	11,954,157	5,941,421	144,186	188,476	12,098,343	6,129,897
General Revenues:						
Property Taxes	277,131,597	271,460,824	-	-	277,131,597	271,460,824
Other Taxes	174,138,870	169,538,978	-	-	174,138,870	169,538,978
Grants and Contributions not restricted for specific purposes	28,158,027	36,440,122	-	-	28,158,027	36,440,122
Other	31,459,597	31,027,100	2,820,076	2,809,403	34,279,673	33,836,503
Total Revenues	<u>747,537,371</u>	<u>724,534,800</u>	<u>142,255,405</u>	<u>137,168,020</u>	<u>889,792,776</u>	<u>861,702,820</u>
<b>Expenses:</b>						
General Government	152,832,372	155,158,869	-	-	152,832,372	155,158,869
Judicial Administration	57,118,257	55,547,417	-	-	57,118,257	55,547,417
Public Safety	160,378,339	133,377,565	-	-	160,378,339	133,377,565
Public Works	69,193,737	80,825,192	-	-	69,193,737	80,825,192
Health and Public Assistance	87,826,832	89,102,636	-	-	87,826,832	89,102,636
Culture and Recreation	46,798,591	62,996,097	-	-	46,798,591	62,996,097
Community Development	23,320,454	15,402,399	-	-	23,320,454	15,402,399
Education	131,136,839	114,971,922	-	-	131,136,839	114,971,922
Interest on Long-Term Debt	24,965,263	19,326,292	-	-	24,965,263	19,326,292
Water Utility	-	-	61,275,639	65,319,522	61,275,639	65,319,522
Wastewater Utility	-	-	21,011,809	22,071,798	21,011,809	22,071,798
Parking Facilities	-	-	23,083,990	21,077,539	23,083,990	21,077,539
Total Expenses	<u>753,570,684</u>	<u>726,708,389</u>	<u>105,371,438</u>	<u>108,468,859</u>	<u>858,942,122</u>	<u>835,177,248</u>
Increase (decrease) in Net Position before Transfers	(6,033,313)	(2,173,589)	36,883,967	28,699,161	30,850,654	26,525,572
Transfers	10,000,000	10,000,000	(10,000,000)	(10,000,000)	-	-
Increase (decrease) in Net Position	<u>3,966,687</u>	<u>7,826,411</u>	<u>26,883,967</u>	<u>18,699,161</u>	<u>30,850,654</u>	<u>26,525,572</u>
Net Position Beginning of Year, Restated	246,037,873	245,585,454	438,644,719	418,774,379	684,682,592	664,359,833
Net Position End of Year	<u>\$ 250,004,560</u>	<u>\$ 253,411,865</u>	<u>\$ 465,528,686</u>	<u>\$ 437,473,540</u>	<u>\$ 715,533,246</u>	<u>\$ 690,885,405</u>

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2018**



**Governmental Activities** – The City's total revenues from governmental activities were \$747,537,371 for the fiscal year that ended June 30, 2018. The largest sources of revenue for the City are property taxes and other taxes which comprise 60 percent of total governmental revenues. Revenues from property taxes, which are comprised of personal and real estate taxes, increased by \$5,670,773 compared to prior year. The real estate (general tax) tax rate for fiscal year 2018 was \$1.15 per \$100 of assessed value which had previously changed to set aside \$0.02 for school construction technology and infrastructure spending. Revenues from other taxes increased by \$4,599,892 or 2.7 percent in comparison to the prior year. Other taxes include sales & use, consumers' utility, restaurant food, business license and hotel/motel taxes.

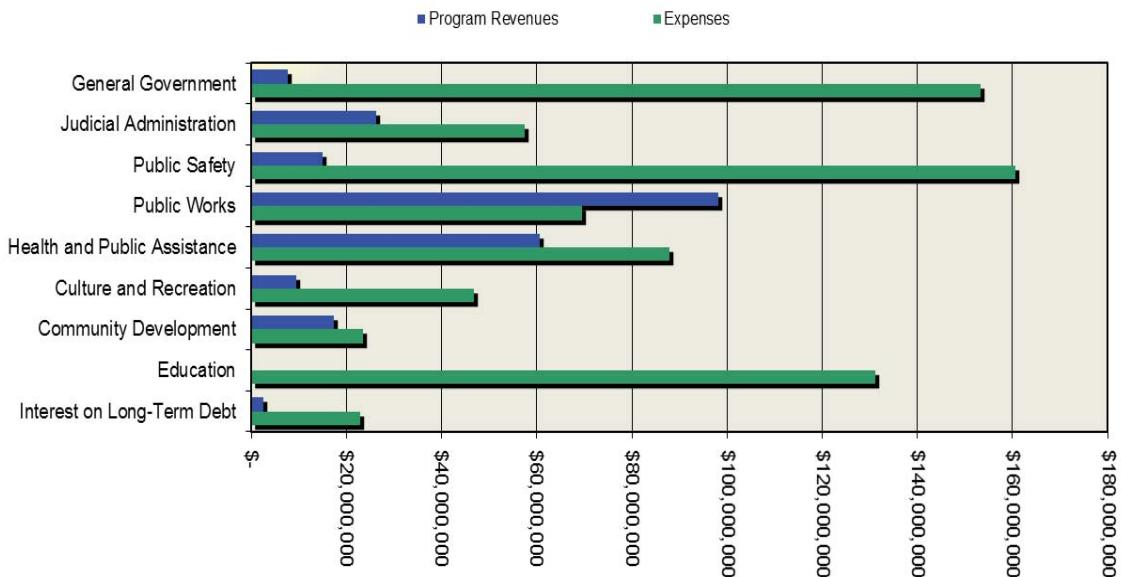
Operating grants and contributions for governmental activities ended the fiscal year at \$151,518,592 which represents an increase of approximately 12.1 percent from the prior year. For the 2018 fiscal year, there was \$28,158,027 in grants and contributions not restricted for specific programs which represents a decrease of approximately 22.7 percent from the prior year. Other revenue remained flat in comparison to prior year.

The City's expenses for governmental activities cover a wide array of services, with \$160,378,339 or 21.3 percent related to public safety, \$152,832,372 or 20.3 percent related to general government and \$131,136,839 or 17.4 percent for education, (including payments to the School Board, a component unit). Overall, expenses for governmental activities increased by 3.7 percent primarily due to cost of living increases as well as an increase in pension expense.

Depreciation expense for governmental activities of \$47,958,300 was recorded.

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2018**

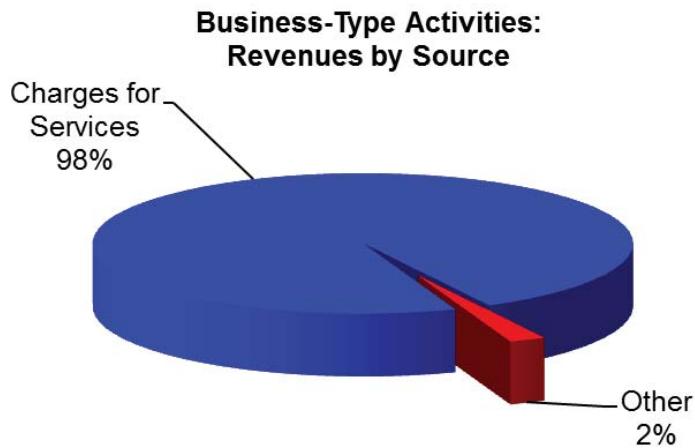
**Governmental Activities**  
**Expenses and Program Revenues**



**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2018**

**Business-type Activities** – Business-type activities increased the City's net position by \$26,883,967. Key elements of this change are as follows:

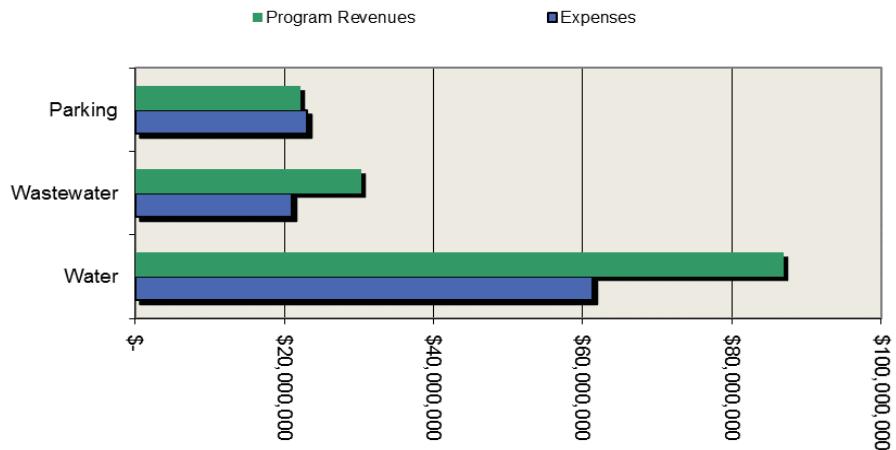
- Revenue from charges for services for business-type activities increased by 3.8 percent. Water Utility charges for services increased \$2,412,773 and Wastewater Utility charges for services increased \$1,136,152.
- Parking Facilities revenues increased 1,572,077 or 7.6 percent from the prior year.



Total operating expenses for business-type activities decreased overall by \$1,210,083 or 1.4 percent. The Water Utility fund's expenses decreased by \$1,413,515. The Wastewater Utility fund's expenses decreased by \$2,098,515. The Parking Facilities fund's expenses increased by \$2,301,947.

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2018**

**Business Type Activities -  
Expenses and Program Revenues**



**Financial Analysis of the Government's Funds**

As previously noted, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Governmental Funds** – The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. This information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The City's classifications of fund balance comprise a hierarchy based on the extent to which the City is bound to observe constraints imposed upon the use of the financial resources of the funds. Fund balance is reported in the following categories: nonspendable, restricted, committed, assigned and unassigned.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$30,114,418, an increase of \$73,356,969 over the prior year due to timing of the issuance of bonds. Of the total ending fund balance, \$6,485,061 is restricted. The restricted fund balance is that portion of fund balance that can only be spent for the specific purposes as stipulated by a third party or legislation. Funds that typically fall in this category are federal and state awards/grants, as well as certain tax dollars levied for specific purposes. Committed fund balance is \$16,669,715 of total ending fund balance and represents amounts within fund balance that have been

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2018**

designated for a specific purpose by City Council. Included in this classification are amounts designated by City Council for the City's self-insured workers' compensation and general liability programs. Assigned fund balance is \$65,618,884 of total ending fund balance and represents funds intended to be used by the City for specific purposes. Encumbrances that are not considered committed are included in this classification. The unassigned deficit balance of \$58,659,242 is due to the delay in issuance of debt and is covered by available cash and outstanding line of credit draws.

The City's primary governmental fund is its General fund. As a matter of fiscal policy, the City's unassigned fund balance is targeted to be no less than five percent of the general fund budget, which was \$42,863,808 for fiscal year 2018.

For the general fund, on the budgetary basis of accounting, the City ended the fiscal year with revenues over projections by \$5,898,707. Total expenditures were less than appropriations by \$18,104,184.

The general fund experienced an overall increase in revenue of \$11,104,991 or 1.8 percent over the prior year. Overall expenditures increased by \$23,645,191 or 4.4 percent from fiscal year 2017. General fund financial and budget highlights of the 2018 fiscal year include:

- General property tax revenues increased by \$7,860,583 or 3.0 percent;
- Other local tax revenues increased by \$4,008,132 or 2.5 percent;
- General government expenditures increased by \$8,806,730 or 7.4 percent; and
- Education expenditures increased by \$6,000,000 or 5.2 percent.

The City spent \$62,500,544 from the Capital Projects fund to support major capital projects, including construction of the second phase of the new courthouse, three new schools, repairs to City and School buildings, infrastructure and neighborhood improvements. The fund had a total fund balance (deficit) of \$128,798,692, primarily due to the use of a line of credit rather than issuing bond proceeds to finance all capital expenditures. In fiscal year 2018, the City issued bonds, but also used cash on hand and a line of credit to fund these expenditures.

The Debt Service fund did not have any assets, liabilities or net position at fiscal year-end. During the year bonds were issued to refund existing debt and new debt was also issued. Additionally, a net \$33,300,000 was repaid to the line of credit established for flexible, interim financing for the management of capital projects for governmental and business-type funds.

**Proprietary Funds** – The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Generally, the City can only use the net position of these funds to finance continuing operations of the

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2018**

enterprise operations. Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

**Capital Asset and Debt Administration**

**Capital Assets** – The City's net investment in capital assets for its governmental and business-type activities as of June 30, 2018, totaled \$682,866,373. 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, net of the debt outstanding that was used to finance the assets. Infrastructure assets represent 16.7 percent of total general governmental assets.

Major capital projects spending during the fiscal year included the following:

- Construction of the second phase of the new courthouse complex of \$4.7 million;
- \$4.8 million for construction of the new Broad Creek library;
- \$3.5 million in new fire facilities;
- \$3.5 million in improvements to neighborhood streets throughout the City; and
- \$19.6 million for new school construction.

Construction in progress totaled \$89.6 million for governmental activities at the end of the fiscal year. Construction in progress totaled \$43.2 million for business-type activities, which includes Water Utility, Wastewater Utility and Parking Facilities projects.

**Summary of the City of Norfolk's Capital Assets**  
 (net of accumulated depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Land	\$ 99,348,960	\$ 98,580,920	\$ 52,119,012	\$ 49,812,941	\$ 151,467,972	\$ 148,393,861
Buildings, equipment and vehicles	737,437,422	666,802,310	901,129,087	887,437,994	1,638,566,509	1,554,240,304
Improvements other than buildings	80,141,523	71,557,332	14,647,761	15,053,011	94,789,284	86,610,343
Construction in progress	89,634,487	156,944,974	43,166,572	52,180,462	132,801,059	209,125,436
Intangible assets	582,199	715,190	3,860,022	3,743,183	4,442,221	4,458,373
Infrastructure	201,569,875	205,300,604	-	-	201,569,875	205,300,604
Total	<u>\$ 1,208,714,466</u>	<u>\$ 1,199,901,330</u>	<u>\$ 1,014,922,454</u>	<u>\$ 1,008,227,591</u>	<u>\$2,223,636,920</u>	<u>\$2,208,128,921</u>

Additional information on the City's capital assets can be found in Note VI on pages 98 - 100 of this report.

**Long-term Debt** – At June 30, 2018, the City (including the enterprise funds) had total bonded debt outstanding of \$1,454,417,871. Of this amount, \$1,065,675,115

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2018**

comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

A summary of the City's outstanding bonded debt is as follows:

**City of Norfolk's Bonded Debt**

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 656,212,948	\$ 611,875,024	\$ 242,888,532	\$ 244,032,413	\$ 899,101,480	\$ 855,907,437
Line of Credit	156,573,635	189,802,546	10,000,000	10,088,750	166,573,635	199,891,296
Revenue bonds	-	-	388,742,756	382,645,048	388,742,756	382,645,048
Total	<u>\$ 812,786,583</u>	<u>\$ 801,677,570</u>	<u>\$ 641,631,288</u>	<u>\$ 636,766,211</u>	<u>\$ 1,454,417,871</u>	<u>\$ 1,438,443,781</u>

The City's total debt outstanding increased by \$15,974,090 or 1.1 percent during the fiscal year. The City used line of credit draws to meet cash flow capital needs.

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

- Debt service as a percent of the General Fund Budget will not exceed 10 percent; and
- Net debt as a percent of taxable property will not exceed 3.5 percent.

Business-type activities debt practices are governed by revenue bond indentures in addition to various rate affordability measures.

The latest credit ratings for the City's general obligation and water revenue bond programs as of the date of this report are as follows:

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

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

The Commonwealth of Virginia imposes a constitutional statutes limit for the amount of general obligation debt the City may issue up to 10 percent of its total assessed

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2018**

valuation. The City's general obligation debt outstanding is significantly below the City's current debt limitation of \$1,987,088,097.

Additional information on the City's long-term debt can be found in Note IX on pages 102 - 110 of this report.

**Economic Factors and Next Year's Budgets and Rates**

- The City has shown signs of rebounding from the recession. Real estate assessments which drive the City's largest locally generated revenue is projected to rise for the sixth straight year. Residential assessments which make up the majority of overall real estate assessments are projected to rise for the fifth straight year as the housing market continues to recover. Significant economic development as a result of the City's public-private partnerships are also beginning to come to fruition and are expected to generate new jobs and tax revenue. Considering the effects of the national, state and local economic conditions, the City has taken a diversified approach that analyzes ways to raise revenues, reduce expenditures, become more efficient, grow the economy, share services, and leverage resources to develop the fiscal year 2019 budget as in prior years.
- Taxable real estate assessments are projected to rise slightly in the 2018 fiscal year by 2.5 percent.
- The following reflects major other tax change projections in comparison to the fiscal year 2018 budget:
  - Hotel taxes – 8.2 percent increase;
  - Restaurant food taxes – 3.2 percent increase; and
  - Personal property taxes – 1.9 percent increase.
- Rate increases for the Storm Water, Water Utility and Wastewater Utility funds continue to provide necessary funding to finance capital improvements.

All of these factors were considered in preparing the City's budget for fiscal year 2019. The fiscal year 2019 operating budget includes transfers in from non-general funds of approximately \$17.3 million and carrying forward prior year unspent appropriations and closeout of accounts totaling approximately \$4.0 million.

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2018**

The adopted fiscal year 2019 budget includes a 10-cent increase in the real estate tax rate from \$1.15 to \$1.25 per \$100 of assessed value projected to generate approximately \$18.5 million. The following table represents changes in the Storm Water, Waste Management, Wastewater and Water Utility fees implemented with the City's fiscal year 2019 budget.

<b>Description</b>	<b>FY 2019 Approved</b>	<b>FY 2018 Approved</b>
Wastewater Fees	\$4.30/100 cubic feet	\$4.13/100 cubic feet
Water Fees	\$5.11/100 cubic feet	\$4.93/100 cubic feet
Stormwater Fees – Residential	\$11.70/month	\$11.40/month
Stormwater Fees – Commercial	\$8.38/month per 2,000 sq. ft.	\$8.16/month per 2,000 sq. ft.
Refuse Disposal – Residential Single or Multiple Units (4 or less)	\$25.01/unit/month	\$28.01/unit/month
Refuse Disposal – Residential Multiple Units (5 or more)	\$43.94/container/month	\$46.94/container/month
Refuse Disposal – Commercial Business once per week	\$61.18/unit/month	\$61.18/unit/month
Refuse Disposal – Commercial Business 5 times per week	\$151.64/unit/month	\$151.64/unit/month
Refuse Disposal – Commercial Combined Commercial and Residential	\$89.19/unit/month	\$89.19/unit/month

**CITY OF NORFOLK, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For the Fiscal Year Ended June 30, 2018**

**Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance, 810 Union Street, Suite 600, Norfolk, Virginia, 23510 or the City's website at [www.norfolk.gov](http://www.norfolk.gov).

# **BASIC FINANCIAL STATEMENTS**





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**CITY OF NORFOLK, VIRGINIA**

**Exhibit 1**

**Statement of Net Position**  
June 30, 2018

<b>Primary Government</b>					
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Component Units</b>	
<b>ASSETS</b>					
Cash and short-term investments	\$ 162,816,605	\$ 132,945,295	\$ 295,761,900	\$ 54,932,349	
Receivables, net:					
Taxes	42,620,119	-	42,620,119	-	
Accounts	17,479,980	20,596,267	38,076,247	8,795,269	
Notes	-	-	-	354,434	
Accrued investment income	103,492	99,112	202,604	-	
Internal balances	28,669,153	(28,669,153)	-	-	
Due from other governments	42,379,996	-	42,379,996	18,883,940	
Due from primary government	-	-	-	351,039	
Due from component unit	1,515,251	-	1,515,251	-	
Due from other fiduciary funds	47,648	-	47,648	-	
Inventories	-	2,862,026	2,862,026	1,439,659	
Deposits	189,324	-	189,324	-	
Property held for resale	-	-	-	947,952	
Prepaid items	2,008,934	62,443	2,071,377	1,304,606	
Restricted cash and investments	-	53,820,459	53,820,459	3,876,750	
Non-depreciable capital assets	189,048,461	97,973,364	287,021,825	1,962,141	
Depreciable capital assets, net	1,019,666,005	916,949,090	1,936,615,095	25,268,692	
Total assets	<u>\$ 1,506,544,968</u>	<u>\$ 1,196,638,903</u>	<u>\$ 2,703,183,871</u>	<u>\$ 118,116,831</u>	
<b>Deferred outflows of resources</b>					
Related to pensions	\$ 78,519,276	\$ 7,519,808	\$ 86,039,084	\$ 33,601,835	
Related to OPEB	3,566,242	265,457	3,831,699	6,037,047	
Loss on defeasance of bonds	23,638,737	22,925,388	46,564,125	-	
Total deferred outflow of resources	<u>105,724,255</u>	<u>30,710,653</u>	<u>136,434,908</u>	<u>39,638,882</u>	
<b>Total assets and deferred outflows of resources</b>	<u><u>\$ 1,612,269,223</u></u>	<u><u>\$ 1,227,349,556</u></u>	<u><u>\$ 2,839,618,779</u></u>	<u><u>\$ 157,755,713</u></u>	
<b>LIABILITIES</b>					
Vouchers payable	\$ 29,769,742	\$ 7,029,126	\$ 36,798,868	\$ 4,715,327	
Employees withholdings	2,345,007	-	2,345,007	-	
Contract retainage	8,778,123	1,747,326	10,525,449	5,308	
Accrued interest	10,121,071	6,124,144	16,245,215	-	
Accrued payroll	5,159,664	495,360	5,655,024	38,837,796	
Due to other governments	7,335,183	-	7,335,183	3,269,221	
Due to primary government	-	-	-	1,834,617	
Due to component unit	351,039	-	351,039	-	
Other payables	-	-	-	10,076,347	
Unearned revenue	10,338,121	-	10,338,121	842,652	
Other current liabilities	9,569,914	2,077,146	11,647,060	602,724	
Line of credit	156,573,635	10,000,000	166,573,635	-	
Long-term liabilities:					
Due within one year	63,476,769	30,910,394	94,387,163	7,797,765	
Net pension liability	261,892,552	25,078,170	286,970,722	292,589,142	
Net OPEB liability	66,529,614	2,868,813	69,398,427	92,586,358	
Due in more than one year	710,773,293	674,338,083	1,385,111,376	21,826,031	
Total liabilities	<u>\$ 1,343,013,727</u>	<u>\$ 760,668,562</u>	<u>\$ 2,103,682,289</u>	<u>\$ 474,983,288</u>	
<b>Deferred inflows of resources</b>					
Related to pensions	\$ 13,083,193	\$ 1,027,116	\$ 14,110,309	\$ 48,084,456	
Related to OPEB	5,968,385	108,246	6,076,631	15,491,403	
Gain on defeasance of bonds	199,358	16,946	216,304	-	
Total deferred inflows of resources	<u>19,250,936</u>	<u>1,152,308</u>	<u>20,403,244</u>	<u>63,575,859</u>	
<b>Total liabilities and deferred inflows of resources</b>	<u><u>\$ 1,362,264,663</u></u>	<u><u>\$ 761,820,870</u></u>	<u><u>\$ 2,124,085,533</u></u>	<u><u>\$ 538,559,147</u></u>	
<b>NET POSITION</b>					
Net investment in capital assets	\$ 351,887,472	\$ 330,978,901	\$ 682,866,373	\$ 10,810,833	
Restricted for:					
Endowed care - nonexpendable	5,673,814	-	5,673,814	-	
General government	145,000	-	145,000	-	
Judicial administration	162,602	-	162,602	-	
Public safety	311,369	-	311,369	-	
Health and public assistance	19,554	-	19,554	-	
Culture and recreation	157,782	-	157,782	-	
Community development	13,073	-	13,073	-	
Public works	1,867	-	1,867	-	
Capital projects	-	-	-	1,798,424	
Water utility	-	25,842,093	25,842,093	-	
Wastewater utility	-	214,085	214,085	-	
Parking fund	-	9,960,694	9,960,694	-	
Other Programs	-	-	-	13,125,592	
Unrestricted	(108,367,973)	98,532,913	(9,835,060)	(406,538,283)	
Total net position (deficit)	<u>\$ 250,004,560</u>	<u>\$ 465,528,696</u>	<u>\$ 715,533,246</u>	<u>\$ (380,803,434)</u>	
<b>Total liabilities, deferred inflows of resources and net position</b>	<u><u>\$ 1,612,269,223</u></u>	<u><u>\$ 1,227,349,556</u></u>	<u><u>\$ 2,839,618,779</u></u>	<u><u>\$ 157,755,713</u></u>	

The accompanying notes are an integral part of the basic financial statements.

**CITY OF NORFOLK, VIRGINIA**  
**Statement of Activities**  
**For the Year Ending June 30, 2018**

**Exhibit 2**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 152,133,372	\$ 4,727,734	\$ 2,841,885	\$ -	\$ (145,262,753)	\$ -	\$ (145,262,753)
Judicial administration	57,114,257	2,507,457	23,855,740	\$ -	(30,935,080)	\$ -	\$ (30,935,080)
Public safety	180,376,339	7,801,940	7,188,658	\$ -	(145,387,741)	\$ -	\$ (145,387,741)
Public works	69,193,737	41,184,830	44,944,949	11,954,157	\$ -	\$ 28,890,199	\$ 28,890,199
Health and public assistance	87,328,832	6,985,232	54,154,239	\$ -	(27,287,151)	\$ -	\$ (27,287,151)
Culture and recreation	46,781,591	9,305,202	184,430	\$ -	(37,309,159)	\$ -	\$ (37,309,159)
Community development	23,320,454	1,264,236	16,055,092	\$ -	(6,004,126)	\$ -	\$ (6,004,126)
Education	131,138,839	\$ -	\$ -	\$ -	(131,136,839)	\$ -	\$ (131,136,839)
Interest on long-term debt	24,965,263	\$ -	2,986,509	\$ -	(22,468,754)	\$ -	\$ (22,468,754)
Total governmental activities	<u>\$ 753,570,684</u>	<u>73,176,531</u>	<u>151,515,592</u>	<u>11,954,157</u>	<u>\$ (516,921,404)</u>	<u>\$ -</u>	<u>\$ (516,921,404)</u>
<b>Business-type activities:</b>							
Water utility	61,275,639	86,941,898	\$ -	2,537	\$ -	\$ 25,668,766	\$ 25,668,766
Wastewater utility	21,011,809	30,200,684	22,148,611	141,649	\$ -	9,330,504	9,330,504
Parking facilities	23,083,980	<u>139,291,143</u>	<u>139,291,143</u>	<u>144,186</u>	<u>\$ -</u>	<u>(935,379)</u>	<u>\$ (935,379)</u>
Total business-type activities	<u>\$ 65,042,122</u>	<u>\$ 212,467,674</u>	<u>\$ 151,515,592</u>	<u>\$ 12,098,343</u>	<u>\$ (516,921,404)</u>	<u>\$ 34,063,891</u>	<u>\$ 34,063,891</u>
Total primary government	<u>\$ 858,612,806</u>	<u>\$ 3,233,984</u>	<u>\$ 210,572,122</u>	<u>\$ 2,703,000</u>	<u>\$ -</u>	<u>\$ (482,857,519)</u>	<u>\$ (482,857,519)</u>
<b>Component units:</b>							
Norfolk Public Schools	\$ 343,637,981	\$ -	\$ 555,710	\$ -	\$ -	\$ (127,128,865)	\$ (127,128,865)
Norfolk Economic Development Authority	5,889,636	<u>\$ 3,233,984</u>	<u>\$ 555,710</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(5,133,026)</u>	<u>(5,133,026)</u>
Total component units	<u>\$ 349,327,597</u>	<u>\$ 3,233,984</u>	<u>\$ 3,785,614</u>	<u>\$ 2,703,000</u>	<u>\$ -</u>	<u>(132,292,791)</u>	<u>(132,292,791)</u>
<b>General revenues:</b>							
Taxes:							
General property taxes - real estate and personal property				277,131,597			
Consumption utility taxes				41,291,684			
Sales and use taxes				32,798,796			
Restaurant food taxes				37,989,576			
Business license taxes				28,528,845			
Hotel/Motel taxes				10,756,491			
Cigarette taxes				7,491,839			
Admissions taxes				4,555,453			
Motor vehicle licenses				4,759,778			
Franchise, incorporation and other miscellaneous local taxes				5,986,408			
Use of money and property				270,149			
Gains on investment				-			
Grants and contributions not restricted to specific programs				(52,211)			
Miscellaneous				28,158,027			
Commonwealth of Virginia				31,189,448			
Payments from Primary Government				-			
Transfers				-			
Total general revenues and transfers				<u>10,000,000</u>	<u>\$ (10,000,000)</u>	<u>\$ 513,708,167</u>	<u>\$ 513,708,167</u>
Changes in net position							
Net position - beginning							
Rest position related to OPEB							
Net position - ending							

The accompanying notes are an integral part of the basic financial statements.

**CITY OF NORFOLK, VIRGINIA**

**Exhibit A-1**

**Balance Sheet - Governmental Funds**  
**June 30, 2018**

	Major Funds			Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Capital Projects	Debt Service		
<b>ASSETS</b>					
Cash and short-term investments	\$ 103,811,095	\$ 15,486,124	\$ -	\$ 27,424,521	\$ 146,721,740
Receivables, net:					
Taxes	41,913,838	-	-	706,281	42,620,119
Accounts	5,001,931	-	-	8,460,151	13,462,082
Accrued investment income	102,534	-	-	958	103,492
Due from other funds	8,272,258	28,675,386	-	127,841	37,075,485
Due from other governments	24,134,435	1,589,394	-	15,899,696	41,623,525
Due from Other Agencies	1,515,251	-	-	-	1,515,251
Due from fiduciary funds	47,648	-	-	-	47,648
Deposits	12,676	176,648	-	-	189,324
Total assets	<u>\$ 184,811,666</u>	<u>\$ 45,927,552</u>	<u>\$ -</u>	<u>\$ 52,619,448</u>	<u>\$ 283,358,666</u>
<b>LIABILITIES, DEFERRED INFLOWS</b>					
Vouchers payable	\$ 20,466,729	\$ 4,292,384	\$ -	\$ 3,834,849	\$ 28,593,962
Employee withholdings	2,345,007	-	-	-	2,345,007
Contract retainage	331,215	8,252,477	-	194,431	8,778,123
Accrued payroll	4,786,082	-	-	327,544	5,113,626
Notes payable	-	156,573,635	-	-	156,573,635
Due to other funds	128,074	5,256,709	-	3,021,549	8,406,332
Due to other governments	36,253	-	-	-	36,253
Due to component unit	-	351,039	-	-	351,039
Unearned revenue	-	-	-	7,298,930	7,298,930
Other liabilities	3,261,156	-	-	5,899	3,267,055
Total liabilities	<u>\$ 31,354,516</u>	<u>\$ 174,726,244</u>	<u>\$ -</u>	<u>\$ 14,683,202</u>	<u>\$ 220,763,962</u>
<b>Deferred Inflow of Resources</b>					
Revenues' levied for the next year and unavailable revenue	<u>28,884,786</u>	<u>-</u>	<u>-</u>	<u>3,595,500</u>	<u>32,480,286</u>
<b>FUND BALANCES</b>					
Restricted	145,000	-	-	6,340,061	6,485,061
Committed	9,347,282	-	-	7,322,433	16,669,715
Assigned	44,117,755	-	-	21,501,129	65,618,884
Unassigned	70,962,327	<u>(128,798,692)</u>	<u>-</u>	<u>(822,877)</u>	<u>(58,659,242)</u>
Total fund balances (deficit)	<u>124,572,364</u>	<u>(128,798,692)</u>	<u>-</u>	<u>34,340,746</u>	<u>30,114,418</u>
Total liabilities and fund balances	<u>\$ 184,811,666</u>	<u>\$ 45,927,552</u>	<u>\$ -</u>	<u>\$ 52,619,448</u>	<u>\$ 283,358,666</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF NORFOLK, VIRGINIA**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Position**  
**June 30, 2018**

**Exhibit A-2**

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Fund balances - total governmental funds	\$ 30,114,418
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Gross capital assets at historical cost	\$ 2,808,470,722
Accumulated depreciation	<u>(1,602,977,734)</u>
	1,205,492,988
Recognition of deferred inflows as revenue in government wide statements	29,085,107
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Deferred inflows related to pensions	(12,968,821)
Deferred outflows related to pensions	77,611,956
Deferred inflows related to OPEB	(5,938,107)
Deferred outflows related to OPEB	3,536,441
Loss on defeasance	23,638,737
Gain on defeasance	(199,358)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:	
Bonds payable	(656,212,948)
Unamortized bond premium	(63,967,119)
Net pension liability	(258,900,595)
Other post-employment benefits	(66,187,356)
Compensated absences	(19,451,506)
Workers' compensation and claims liability	(31,616,500)
Prepaid debt service	1,829,131
Other	(2,734,458)
Accrued interest payable	<u>(10,121,071)</u>
	(1,107,362,422)
Internal service funds	6,237,150
Receivable for Build America Bonds - interest rate subsidy	756,471
Net position of governmental activities	<u><u>\$ 250,004,560</u></u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF NORFOLK, VIRGINIA**

Exhibit A-3

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ending June 30, 2018**

	Major Funds			Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Capital Projects	Debt Service		
<b>REVENUES</b>					
General property taxes	\$ 272,292,962	\$ -	\$ -	\$ 5,266,000	\$ 277,558,962
Other local taxes	163,653,948	-	-	10,484,922	174,138,870
Permits and licenses	3,292,146	-	-	-	3,292,146
Fines and forfeitures	1,067,796	-	-	(184)	1,067,612
Use of money and property	7,218,466	133,197	-	151,952	7,503,615
Charges for services	21,187,427	-	-	41,195,865	62,383,292
Miscellaneous	9,192,510	5	-	2,118,670	11,311,185
Intergovernmental	136,027,038	11,954,157	-	45,308,407	193,289,602
Total revenues	<u>613,932,293</u>	<u>12,087,359</u>	<u>-</u>	<u>104,525,632</u>	<u>730,545,284</u>
<b>EXPENDITURES</b>					
Current operating:					
General government	127,385,076	-	-	3,817,697	131,202,773
Judicial administration	48,968,656	-	-	3,043,667	52,012,323
Public safety	114,236,758	-	-	9,667,792	123,904,550
Public works	24,655,168	-	-	42,226,968	66,882,136
Health and public assistance	70,032,115	-	-	16,669,430	86,701,545
Culture and recreation	43,727,974	-	-	2,240,494	45,968,468
Community development	10,956,137	-	-	11,281,329	22,237,466
Education	120,971,922	-	-	-	120,971,922
Debt service:					
Principal	-	-	52,583,233	-	52,583,233
Interest and other charges	-	-	27,316,523	-	27,316,523
Debt issuance costs	(465,814)	1,238,543	134,319	-	907,048
Capital outlay	3,618,000	62,500,544	-	1,819,901	67,938,445
Total expenditures	<u>564,085,992</u>	<u>63,739,087</u>	<u>80,034,075</u>	<u>90,767,278</u>	<u>798,626,432</u>
Excess (deficiency) of revenues over expenditures	<u>49,846,301</u>	<u>(51,651,728)</u>	<u>(80,034,075)</u>	<u>13,758,354</u>	<u>(68,081,148)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Issuance of refunding bonds	-	-	27,743,705	-	27,743,705
Issuance of debt	-	95,305,270	-	-	95,305,270
Proceeds sale of capital assets	18,691,961	1,385,353	-	-	20,077,314
Payment to bond refunding escrow agent	-	-	(31,799,277)	-	(31,799,277)
Premium on bonds	-	15,921,216	4,189,889	-	20,111,105
Transfers in	16,888,089	3,902,456	79,899,758	7,859,918	108,550,221
Transfers out	(76,973,896)	(2,790,717)	-	(18,785,608)	(98,550,221)
Total other financing sources and uses	<u>(41,393,846)</u>	<u>113,723,578</u>	<u>80,034,075</u>	<u>(10,925,690)</u>	<u>141,438,117</u>
Net changes in fund balances	8,452,455	62,071,850	-	2,832,664	73,356,969
Fund balances - beginning	116,119,909	(190,870,542)	-	31,508,082	(43,242,551)
Fund balances - ending	<u>\$ 124,572,364</u>	<u>\$ (128,798,692)</u>	<u>\$ -</u>	<u>\$ 34,340,746</u>	<u>\$ 30,114,418</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF NORFOLK, VIRGINIA**

**Exhibit A-4**

**Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances to the Statement of Activities**

For the Year Ending June 30, 2018

Net change in fund balances--total governmental funds	\$ 73,356,969
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the asset.	
Add capital acquisitions	\$ 56,861,502
Subtract disposals	(90,065)
Subtract depreciation expense	<u>(47,715,336)</u>
	9,056,101
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.	(3,597,993)
Bonds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	
Less debt issued	(123,084,974)
Add debt repayment	78,747,050
Premium on bond sale	(19,901,110)
Loss on defeasance of debt	2,656,126
Gain on defeasance of debt	27,613
Amortization of premiums, gains and losses	<u>8,999,988</u>
	(52,555,307)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in non-capital long-term liabilities (Note VIII)	
Compensated absences	(1,188,087)
Retires life insurance	20,000
Net OPEB Liability, Net of changes in deferred inflows and outflows	(21,546,094)
Unpaid claims	301,733
Prepaid debt service	868,810
Landfill closure	(45,786)
Net Pension Liability, Net of changes in deferred inflows and outflows	(5,129,316)
Accrued interest payable	<u>(1,424,867)</u>
	(28,143,607)
Internal service funds are used by management to charge the costs of certain services to individual funds. The net revenue (expense) of the Internal Service funds is reported with governmental activity.	
	5,885,058
Adjustment for federal interest rate subsidy	(34,534)
Change in net position of governmental activities	
	<u>\$ 3,966,687</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF NORFOLK, VIRGINIA**  
**Statement of Fund Net Position - Proprietary Funds**  
**June 30, 2018**

Exhibit B-1

	<b>Business-Type Activities</b>				Governmental Activities-Internal Service Funds
	Water Utility	Wastewater Utility	Parking Facilities	Total	
<b>ASSETS</b>					
Current assets:					
Cash and short-term investments	\$ 87,030,356	\$ 24,995,355	\$ 20,919,584	\$ 132,945,295	\$ 16,094,865
Restricted short-term investments	-	132	-	132	-
Receivables, net					
Accounts	9,026,961	2,810,492	1,886,595	13,724,048	3,999,723
Unbilled accounts	5,110,413	1,394,654	367,152	6,872,219	-
Accrued investment income	91,046	3,976	4,090	99,112	-
Internal balances	30,377	-	-	30,377	-
Inventories	2,841,275	20,751	-	2,862,026	179,803
Prepaid Expenses	62,443	-	-	62,443	-
Restricted cash and investments	25,842,093	14,065,999	13,912,235	53,820,327	-
Total current assets	<u>130,034,964</u>	<u>43,291,359</u>	<u>37,089,656</u>	<u>210,415,979</u>	<u>20,274,391</u>
Noncurrent assets:					
Capital assets:					
Non-depreciable capital assets	49,466,915	12,526,342	35,980,107	97,973,364	415,000
Depreciable capital assets	771,499,463	354,742,679	233,150,235	1,359,392,377	10,946,100
Accumulated depreciation	<u>(254,103,048)</u>	<u>(94,277,036)</u>	<u>(94,063,203)</u>	<u>(442,443,287)</u>	<u>(8,139,622)</u>
Capital assets, net	<u>566,863,330</u>	<u>272,991,985</u>	<u>175,067,139</u>	<u>1,014,922,454</u>	<u>3,221,478</u>
Total assets	<u>\$ 696,898,294</u>	<u>\$ 316,283,344</u>	<u>\$ 212,156,795</u>	<u>\$ 1,225,338,433</u>	<u>\$ 23,495,869</u>
Deferred outflows of resources					
Related to pensions	5,049,890	1,518,840	951,078	7,519,808	907,320
Related to OPEB	174,958	59,828	30,671	265,457	29,801
Loss on defeasance of bonds	12,973,660	3,182,861	6,768,867	22,925,388	-
Total deferred outflows	<u>\$ 18,198,508</u>	<u>\$ 4,761,529</u>	<u>\$ 7,750,616</u>	<u>\$ 30,710,653</u>	<u>\$ 937,121</u>
Total assets and deferred outflows of resources	<u>\$ 715,096,802</u>	<u>\$ 321,044,873</u>	<u>\$ 219,907,411</u>	<u>\$ 1,256,049,086</u>	<u>\$ 24,432,990</u>
<b>LIABILITIES</b>					
Current liabilities:					
Vouchers payable	\$ 4,333,248	\$ 2,337,706	\$ 358,172	\$ 7,029,126	\$ 1,175,779
Contract retainerage	1,222,734	496,578	28,014	1,747,326	-
Accrued interest	2,676,763	1,400,825	2,046,556	6,124,144	-
Accrued payroll	331,218	107,519	56,623	495,360	46,038
Internal balances	13,266,296	226,145	15,207,089	28,699,530	-
Unearned Revenue	-	-	-	-	6,932,638
Current portion of bonds payable	14,200,000	11,729,554	3,927,755	29,857,309	-
Notes Payable	-	-	10,000,000	10,000,000	-
Compensated absences	693,578	217,942	141,565	1,053,085	154,327
Other current liabilities	1,587,947	256,751	232,448	2,077,146	6,295,000
Total current liabilities	<u>38,311,784</u>	<u>16,773,020</u>	<u>31,998,222</u>	<u>87,083,026</u>	<u>14,603,782</u>
Noncurrent liabilities:					
General obligation bonds payable	-	108,390,206	141,212,643	249,602,849	-
Revenue bonds payable	362,918,244	61,166,289	-	424,084,533	-
Net pension liability	16,800,083	5,012,377	3,265,710	25,078,170	2,991,946
Net OPEB liability	1,921,852	573,380	373,581	2,868,813	342,257
Compensated absences	398,966	157,358	94,377	650,701	113,205
Total noncurrent liabilities	<u>382,039,145</u>	<u>175,299,610</u>	<u>144,946,311</u>	<u>702,285,066</u>	<u>3,447,408</u>
Total liabilities	<u>\$ 420,350,929</u>	<u>\$ 192,072,630</u>	<u>\$ 176,944,533</u>	<u>\$ 789,368,092</u>	<u>\$ 18,051,190</u>
Deferred inflows of resources					
Related to Pensions	\$ 622,487	\$ 183,360	\$ 221,269	\$ 1,027,116	\$ 114,372
Related to OPEB	72,075	21,503	14,668	108,246	30,278
Gain on bonds refunding	-	15,514	1,432	16,946	-
Total deferred inflows of resources	<u>\$ 694,562</u>	<u>\$ 220,377</u>	<u>\$ 237,369</u>	<u>\$ 1,152,308</u>	<u>\$ 144,650</u>
Total liabilities and deferred inflows of resources	<u>\$ 421,045,491</u>	<u>\$ 192,293,007</u>	<u>\$ 177,181,902</u>	<u>\$ 790,520,400</u>	<u>\$ 18,195,840</u>
<b>NET POSITION</b>					
Net investment in capital assets	\$ 198,238,577	\$ 106,046,148	\$ 26,694,176	\$ 330,978,901	\$ 3,221,478
Restricted for:					
Other purposes:					
Water Utility fund operations	25,842,093	-	-	25,842,093	-
Wastewater Utility fund operations	-	214,085	-	214,085	-
Parking Facilities fund operations	-	-	9,960,694	9,960,694	-
Unrestricted	69,970,641	22,491,633	6,070,639	98,532,913	3,015,672
Total net position	<u>\$ 294,051,311</u>	<u>\$ 128,751,866</u>	<u>\$ 42,725,509</u>	<u>\$ 465,528,686</u>	<u>\$ 6,237,150</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF NORFOLK, VIRGINIA**

**Exhibit B-2**

**Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds**  
**For the Year Ending June 30, 2018**

	<b>Business-Type Activities</b>				Governmental Activities - Internal Service Funds
	Water Utility	Wastewater Utility	Parking Facilities	Total	
<b>Operating revenues:</b>					
Charges for services	\$ 86,941,868	\$ 30,200,664	\$ 22,148,611	\$ 139,291,143	\$ 90,428,356
Miscellaneous	1,946,239	114,414	-	2,060,653	16,197
Total operating revenues	<u>88,888,107</u>	<u>30,315,078</u>	<u>22,148,611</u>	<u>141,351,796</u>	<u>90,444,553</u>
<b>Operating expenses:</b>					
Personal services	15,568,266	4,727,120	7,932,890	28,228,276	2,825,866
Healthcare costs	-	-	-	-	73,324,995
Cost of goods sold	-	-	-	-	3,671,782
Plant operations	6,124,685	3,176,671	1,768,612	11,069,968	3,808,754
Chemicals	2,701,962	33,199	9,602	2,744,763	-
Depreciation and amortization	14,223,536	6,690,810	6,908,930	27,823,276	242,963
Retirement and OPEB expense	2,725,371	819,779	527,279	4,072,429	478,669
Administrative expenses	1,763,464	1,388,960	441,387	3,593,811	-
Other	8,945,749	1,202,933	611,054	10,759,736	206,466
Total operating expenses	<u>52,053,033</u>	<u>18,039,472</u>	<u>18,199,754</u>	<u>88,292,259</u>	<u>84,559,495</u>
Operating income (loss), net	<u>36,835,074</u>	<u>12,275,606</u>	<u>3,948,857</u>	<u>53,059,537</u>	<u>5,885,058</u>
<b>Nonoperating revenues (expenses):</b>					
Interest income	531,889	21,428	117,471	670,788	-
Intergovernmental revenue	-	142,057	-	142,057	-
Interest expense and fiscal charges, net of capitalized interest	(9,229,310)	(3,030,498)	(4,884,236)	(17,144,044)	-
Gain (loss) on sale or disposal of capital assets	6,704	58,161	-	64,865	-
Gain (loss) on investments	-	(52,211)	-	(52,211)	-
Miscellaneous revenue (expense)	(1,211)	-	-	(1,211)	-
Total nonoperating revenues (expenses)	<u>(8,691,928)</u>	<u>(2,861,063)</u>	<u>(4,766,765)</u>	<u>(16,319,756)</u>	<u>-</u>
Net income (loss) before contributions and transfers	28,143,146	9,414,543	(817,908)	36,739,781	5,885,058
Capital contribution	2,537	141,649	-	144,186	-
Transfers out	(8,500,000)	(1,500,000)	-	(10,000,000)	-
Changes in net position	19,645,683	8,056,192	(817,908)	26,883,967	5,885,058
Total net position - beginning	273,887,960	120,404,329	43,181,251	437,473,540	673,322
Restatement related to OPEB	517,668	291,345	362,166	1,171,179	(321,230)
Total net position - ending	<u>\$ 294,051,311</u>	<u>\$ 128,751,866</u>	<u>\$ 42,725,509</u>	<u>\$ 465,528,686</u>	<u>\$ 6,237,150</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF NORFOLK, VIRGINIA**

**Exhibit B-3**

**Statement of Cash Flows - Proprietary Funds**  
For the Year Ending June 30, 2018

	<b>Business-Type Activities</b>				Governmental Activities - Internal Service Funds
	Water Utility	Wastewater Utility	Parking Facilities	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Receipts from customers	\$ 87,568,516	\$ 30,249,771	\$ 21,941,403	\$ 139,759,690	\$ 88,056,826
Payments to suppliers	(9,502,420)	(3,409,994)	(1,333,768)	(14,246,182)	(3,209,814)
Payments to employees	(17,596,112)	(5,298,472)	(8,154,658)	(31,049,242)	(80,728,565)
Other payments	(9,514,610)	(2,409,392)	(1,106,768)	(13,030,770)	(208,064)
Net cash and short-term investments provided by (used in) operating activities	<u>50,955,374</u>	<u>19,131,913</u>	<u>11,346,209</u>	<u>81,433,496</u>	<u>3,910,383</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Internal activity	248,357	(63,637)	307,657	492,377	(32)
Intergovernmental revenues	-	142,057	362,166	504,223	-
Operating subsidies and transfers to other funds	(8,500,000)	(1,500,000)	-	(10,000,000)	-
Net cash provided by (used in) noncapital financing activities	<u>(8,251,643)</u>	<u>(1,421,580)</u>	<u>669,823</u>	<u>(9,003,400)</u>	<u>(32)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Proceeds from issuance of debt	161,245,000	17,103,018	32,732,904	211,080,922	-
Capital contributions	2,537	141,649	-	144,186	-
Purchases of capital assets	(22,830,725)	(13,123,462)	(1,622,843)	(37,577,030)	-
Proceeds from sale of capital assets	6,704	58,161	-	64,865	-
Proceeds from refunding debt	(143,535,000)	(2,255,000)	(30,855,000)	(176,645,000)	-
Principal paid on capital debt	(13,860,000)	(11,343,996)	(4,278,099)	(29,482,095)	-
Interest paid on capital debt	(1,946,988)	(2,289,569)	(3,476,038)	(7,712,595)	-
Net cash provided by (used in) capital and related financing activities	<u>(20,918,472)</u>	<u>(11,709,199)</u>	<u>(7,499,076)</u>	<u>(40,126,747)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Proceeds from sales and maturities of investments	30,530,445	22,111,993	(1,762,677)	50,879,761	-
Purchase of investments	(29,458,967)	(25,368,276)	-	(54,827,243)	-
Interest and dividends	446,536	17,919	114,128	578,583	-
Net cash provided by (used in) investing activities	<u>1,518,014</u>	<u>(3,238,364)</u>	<u>(1,648,549)</u>	<u>(3,368,899)</u>	<u>-</u>
Net increase (decrease) in cash and short-term investments	23,303,273	2,762,770	2,868,407	28,934,450	3,910,351
Cash and short-term investments - beginning of the year	<u>63,727,083</u>	<u>22,232,585</u>	<u>18,051,177</u>	<u>104,010,845</u>	<u>12,184,514</u>
Cash and short-term investments - end of the year	<u>\$ 87,030,356</u>	<u>\$ 24,995,355</u>	<u>\$ 20,919,584</u>	<u>\$ 132,945,295</u>	<u>\$ 16,094,865</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (used in) Operating Activities:</b>					
Operating income (loss)	\$ 36,835,074	\$ 12,275,606	\$ 3,948,857	\$ 53,059,537	\$ 5,885,058
Adjustments to reconcile operating income (loss) to net cash and short-term investments provided by (used in) operating activities:					
Depreciation expense and amortization	14,223,536	6,690,810	6,908,930	27,823,276	242,963
Change in assets, deferred outflows and liabilities, deferred inflows:					
Receivables, net	(1,319,591)	(65,307)	(207,208)	(1,592,106)	(2,534,358)
Inventories	245,177	(1,040)	680,143	924,280	(179,803)
Prepays	-	-	-	-	-
Vouchers payable	(904,997)	(199,084)	(22,201)	(1,126,282)	256,675
Accrued payroll	69,867	34,152	(10,541)	93,478	2,234
Net pension liability	1,004,136	170,061	118,558	1,292,755	92,487
OPEB liability	(376,478)	44,214	-	(332,264)	
Other liabilities	1,178,650	182,501	(70,329)	1,290,822	145,127
Net cash and short-term investments provided by (used in) operating activities	<u>\$ 50,955,374</u>	<u>\$ 19,131,913</u>	<u>\$ 11,346,209</u>	<u>\$ 81,433,496</u>	<u>\$ 3,910,383</u>
<b>Noncash investing, capital and financing activities:</b>					
Unrealized gain / (loss) on investments	\$ (1,211)	\$ (52,211)	\$ -	\$ (53,422)	\$ -
Loss on sale or disposal of capital assets	\$ 6,704	\$ 58,161	\$ -	\$ 64,865	\$ -
Acquisition of capital assets through change in contract retainerage	\$ (452,514)	\$ 242,007	\$ (270,351)	\$ (480,858)	\$ -
Acquisition of capital assets through vouchers payable	\$ (2,588,076)	\$ 10,013	\$ -	\$ (2,578,063)	\$ -
Capitalized interest, less interest earned on certain long-term construction contracts	\$ 932,160	\$ (85,823)	\$ -	\$ 846,337	\$ -
Deferred inflow of resources	\$ 380,168	\$ (111,830)	\$ 731,412	\$ 999,748	\$ 408,071

The accompanying notes are an integral part of the basic financial statements.

**CITY OF NORFOLK, VIRGINIA**  
**Statement of Fiduciary Net Position**  
**June 30, 2018**

**Exhibit C-1**

	Pension Trust Fund Employees' Retirement System	Agency Funds
<b>ASSETS</b>		
Cash and short-term investments	\$ 24,102,000	\$ 7,095,938
Investments, fair value:		
United States Treasury securities	63,560,000	-
Fixed income securities	113,245,000	-
Equity securities	78,009,000	-
Future/Options/Swaps	3,562,000	-
Balanced commingled funds:		
Equity	597,182,000	-
Fixed income	177,645,000	-
Real estate	80,566,000	-
Total investments	1,113,769,000	-
Receivables:		
Accounts, net of allowance for uncollectible accounts	14,000	-
Accrued investment income	945,000	-
Due from broker for securities sold	47,444,000	-
Other	-	173,544
Total assets	\$ 1,186,274,000	\$ 7,269,482
<b>LIABILITIES</b>		
Vouchers payable	\$ 2,255,000	\$ 341,838
Due to brokers for securities purchased	108,634,000	-
Due to governmental funds	-	47,679
Other liabilities	55,000	6,879,965
Total liabilities	\$ 110,944,000	\$ 7,269,482
<b>NET POSITION</b>		
Restricted for:		
Net position held in trust for pension benefits	\$ 1,075,330,000	\$ -

The accompanying notes are an integral part of the basic financial statements.

**CITY OF NORFOLK, VIRGINIA**  
**Statement of Changes in Fiduciary Net Position**  
**Pension Trust Fund - Employees' Retirement System**  
**For the Year Ending June 30, 2018**

---

**Exhibit C-2**

**Changes to net position attributed to:**

Investment income:

Net appreciation in fair value of investments	\$ 63,750,000
Interest	4,103,000
Dividends	6,286,000
Other	976,000
	<hr/>
	75,115,000
Less investment expense	<hr/>
	(2,452,000)
<b>Net investment income</b>	<hr/>
	72,663,000

Employer contributions

35,494,000

Employee contributions

9,668,000

Purchase of service

190,000

**Total**

---

118,015,000

Benefit payments and expenses:

Refunds of contributions	1,229,000.00
Benefits paid to plan members and beneficiaries	84,704,000
Administrative costs	764,000
<b>Total</b>	<hr/> 86,697,000

**Net decrease**

31,318,000

**Net position held in trust for pension benefits:**

Net position - beginning	1,044,012,000
<b>Net Position - end</b>	<hr/> \$ 1,075,330,000

The accompanying notes are an integral part of the basic  
financial statements.

**CITY OF NORFOLK, VIRGINIA**  
**Statement of Net Position - Component Units**  
**June 30, 2018**

**Exhibit D-1**

	Norfolk Public Schools	Norfolk Economic Development Authority	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 41,424,080	\$ 11,399,461	\$ 52,823,541
Accounts receivable, net of allowance for uncollectible accounts	8,778,722	16,547	8,795,269
Notes receivable	-	354,434	354,434
Due from primary government	351,039	-	351,039
Due from other governments	18,883,940	-	18,883,940
Inventories	1,439,659	-	1,439,659
Property held for sale	-	947,952	947,952
Restricted cash	-	3,876,750	3,876,750
Investments	-	2,108,808	2,108,808
Deferred rent receivable	-	1,304,606	1,304,606
Non-depreciable capital assets	487,500	1,474,641	1,962,141
Depreciable capital assets, net	10,244,068	15,024,624	25,268,692
Total assets	<u>81,609,008</u>	<u>36,507,823</u>	<u>118,116,831</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflows Related to pensions	33,601,835	-	33,601,835
Deferred Outflows Related to OPEB	6,037,047	-	6,037,047
Total assets and deferred outflows	<u>\$ 121,247,890</u>	<u>\$ 36,507,823</u>	<u>\$ 157,755,713</u>
<b>LIABILITIES</b>			
Vouchers payable	\$ 4,447,143	\$ 268,184	\$ 4,715,327
Contract retainage	5,308	-	5,308
Accrued payroll	38,837,796	-	38,837,796
Unearned revenues	277,573	565,079	842,652
Due to primary government	-	1,834,617	1,834,617
Revolving loan program	-	602,724	602,724
Due to other government agencies	3,269,221	-	3,269,221
Other payable	1,876,347	8,200,000	10,076,347
Current portion of long-term liabilities	7,697,765	100,000	7,797,765
Long-term notes payable	-	16,320,000	16,320,000
Net pension liability	292,589,142	-	292,589,142
Other post-employment benefits liability	92,586,358	-	92,586,358
Other long-term liabilities	5,506,031	-	5,506,031
Total liabilities	<u>\$ 447,092,684</u>	<u>\$ 27,890,604</u>	<u>\$ 474,983,288</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	48,084,456	-	48,084,456
Deferred inflows related to OPEB	15,491,403	-	15,491,403
Total liabilities and deferred inflows	<u>\$ 510,668,543</u>	<u>\$ 27,890,604</u>	<u>\$ 538,559,147</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 10,731,568	\$ 79,265	\$ 10,810,833
Restricted for:			
Capital projects	1,798,424	-	1,798,424
Child nutrition	9,617,259	-	9,617,259
Other programs	492,941	3,015,392	3,508,333
Unrestricted	(412,060,845)	5,522,562	(406,538,283)
Total net position (deficit)	<u>\$ (389,420,653)</u>	<u>\$ 8,617,219</u>	<u>\$ (380,803,434)</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF NORFOLK, VIRGINIA**  
**Statement of Activities - Component Units**  
**For the Year Ending June 30, 2018**

**Exhibit D-2**

	Expenses	Charges for Services	Program Revenues	Net (Expense) Revenue and Changes in Net Position		
				Operating Grant Contributions	Capital Grant Contributions	Norfolk Public Schools
				Norfolk Economic Development Authority		Totals
<b>Norfolk Public Schools:</b>						
Instructional	\$ 248,834,723	\$ 2,039,832	\$ 193,740,988	\$ -	\$ (53,053,993)	\$ (53,053,993)
Administration, attendance and health	16,603,028	-	-	-	(16,603,028)	(16,603,028)
Pupil transportation	11,384,155	-	-	-	(11,384,155)	(11,384,155)
Operation and maintenance	33,344,762	-	-	-	(33,344,762)	(33,344,762)
Information technology	11,076,104	-	-	-	(11,076,104)	(11,076,104)
School facilities	5,302,714	-	-	2,703,000	(2,599,714)	(2,599,714)
Food services	17,089,454	1,194,132	16,831,224	-	935,902	935,902
Community services	2,991	-	-	-	(2,991)	(2,991)
<b>Total Norfolk Public Schools</b>	<b>343,637,951</b>	<b>3,233,964</b>	<b>210,572,122</b>	<b>2,703,000</b>	<b>(127,128,865)</b>	<b>(127,128,865)</b>
<b>Norfolk Economic Development Authority:</b>						
Economic development	5,222,448	555,710	-	-	(4,666,738)	(4,666,738)
Interest expense	467,188	-	-	-	(467,188)	(467,188)
<b>Total Norfolk Economic Development Authority</b>	<b>5,689,636</b>	<b>555,710</b>	<b>-</b>	<b>-</b>	<b>(5,133,926)</b>	<b>(5,133,926)</b>
<b>Total component units</b>	<b>\$ 349,327,587</b>	<b>\$ 3,789,674</b>	<b>\$ 210,572,122</b>	<b>\$ 2,703,000</b>	<b>\$ (127,128,865)</b>	<b>\$ (132,262,791)</b>
General revenues:						
Use of money and property			692,304		1,904,238	2,596,542
Payment from Primary Government			120,971,933		1,243,705	122,215,638
Miscellaneous			961,507		961,507	961,507
Gain on investment			-	5,304,771	-	5,304,771
Intergovernmental revenue - Commonwealth of Virginia			30,899,041		30,899,041	30,899,041
Total general revenues			153,524,785		8,452,714	161,977,499
Changes in net position			26,395,020		3,318,788	29,714,708
Net position - beginning, restated			(415,816,573)		5,298,431	(410,518,142)
Net position - ending			<u>\$ (399,420,653)</u>		<u>\$ 8,617,219</u>	<u>\$ (380,803,434)</u>

The accompanying notes are an integral part of the basic financial statements.



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# **NOTES TO THE BASIC FINANCIAL STATEMENTS**





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**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

**I. Summary of Significant Accounting Policies**

**A. Financial Reporting Entity Information**

The City of Norfolk (the "City") was incorporated February 13, 1845, and operates under a charter adopted February 7, 1918, which mandates a Council-Manager form of government. The City and its component units provide the following municipal services to approximately 247,000 residents, as authorized by its charter or code: public safety, highway and street maintenance, water production and quality, solid waste management, wastewater treatment, cultural and parking facilities, environmental storm water management, public health, social programs, parks and recreation, public education, public improvements, planning and zoning code enforcement, public libraries and general administration.

**Blended Component Unit:** *The Employees' Retirement System of the City of Norfolk (ERS)* has a ten-member Board of Trustees. Eight members are appointed by City Council. The City Manager and the Director of Finance are ex-officio members. The ERS is the administrator of a single-employer contributory defined benefit plan that covers substantially all employees of the City of Norfolk, excluding School Board employees and certain employees of the Constitutional Officers covered by the Virginia Retirement System, as authorized by Section 143(a) of the City Charter. The ERS was established and placed under the management of the Board of Trustees for the purpose of providing retirement and death benefits as authorized by the provisions of Chapter 37 of the Norfolk City Code. The City makes its contributions, in conjunction with investment earnings of the ERS and certain employee contributions, to provide the funding for pension benefits and administrative costs.

**Discretely Presented Component Units:** Although these legally separate entities are in substance part of the City's operations, each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government. The component units discussed below are included in the City's financial reporting entity due to their financial relationships with the City.

*The School Board for the City of Norfolk (School Board)*, Norfolk Public Schools held elections for two of the seven seats on its School Board for the first time in May of 2016 with the remaining five seats being filled as a result of elections held in May of 2018. (In November 2014, voters elected to have School Board members elected and replace the City Council-appointed seven-member School Board.) In January 2015, City Council approved that the School Board members would be elected based on the same ward system used to elect City Council members. Beginning July 1, 2018, the School Board will be an elected body. The School Board is a corporate body and in its corporate capacity is vested with all of the duties, obligations and responsibilities imposed upon school boards by law. The City Council is required to appropriate annually to the School Board the amount needed for the support of the public schools in maintaining educational programs which meet the standards of quality prescribed by law. Categorical aid from the Commonwealth of Virginia (the Commonwealth) and the federal government designated for educational purposes is included in the City's General Fund budgetary revenue. This categorical aid, plus moneys derived from local sources, provides the funds for the major share of the School Board's operations. On an ongoing basis, the City also issues debt to finance needed capital

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

projects of the school system. The School Board presently operates 33 elementary schools, eight middle schools, five high schools and several auxiliary schools, including alternative, magnet and specialty programs.

*The Economic Development Authority (EDA), a political subdivision of the Commonwealth, was created by ordinance of the City of Norfolk in 1972, pursuant to the provisions of the Industrial Development and Revenue Bond Act. The EDA is authorized to acquire, own, lease and dispose of properties to the end that such activities may promote industry and develop trade by inducing manufacturing, industrial and commercial enterprises to locate or remain in the City and further the use of the Commonwealth's agricultural and natural resources. The EDA is empowered by the Commonwealth to authorize and issue industrial development bonds. The EDA acts as an intermediary between financial institutions and borrowers; it has no responsibility for borrowers' debt. Although Commissioners are appointed by City Council, the EDA designates its own management, maintains its own books of account and receives revenue from administrative fees charged to borrowers. Additionally, there is the potential of financial benefit to the City.*

Complete financial statements of the individual component units can be obtained from their respective administrative offices:

The City of Norfolk Retirement Board  
810 Union Street  
City Hall Building, Suite 309  
Norfolk, Virginia 23510  
[www.norfolk.gov/retirement](http://www.norfolk.gov/retirement)

The School Board for the City of Norfolk  
800 East City Hall Avenue  
P.O. Box 1357  
Norfolk, Virginia 23510  
[www.nps.k12.va.us](http://www.nps.k12.va.us)

The Norfolk Economic Development Authority  
999 Waterside Drive, Suite 2430  
Norfolk, Virginia 23510  
[www.norfolkdevelopment.com](http://www.norfolkdevelopment.com)

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the Primary Government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the Primary Government is reported separately from certain legally separate *component units* for which the *Primary Government* is financially accountable.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items that do not meet the criteria for classification as program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

The City reports the following major governmental funds:

- The *General fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Debt Service fund* accounts for financial resources that are restricted, committed or assigned to expenditures for principal and interest payments on long-term debt obligations of governmental funds.
- The *Capital Projects fund* accounts for financial resources that are restricted, committed or assigned to expenditures for capital outlays, which includes the acquisition and construction of major capital facilities of the City, some of which are also used by the School Board and other agencies.

The City reports the following major proprietary funds:

- The *Water Utility fund* accounts for the activities of the City's water system, treatment plant and distribution systems.
- The *Wastewater Utility fund* accounts for the activities of the City's sewage pumping stations and collection systems.
- The *Parking Facilities fund* accounts for the activities of City-owned or operated parking facilities.

Additionally, the City reports the following other fund types:

- *Special Revenue funds* account for proceeds of specific resources that are restricted, committed or assigned to expenditures for specific purposes other than debt service or capital projects. Examples include community development, emergency call center services, tax increment financing districts, environmental storm water, towing and recovery operations, waste management, and individual grant programs.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

- *Internal Service funds* account for the City's self-insured healthcare program and fleet management services whose services are provided to other departments or agencies of the City on a cost reimbursement basis. The Healthcare Fund was established in fiscal year 2014 and is described in Note XX.
- The *Pension Trust fund* accounts for the activities of the Employees' Retirement System (ERS), which accumulates resources for pension benefit payments to qualified employees.
- The *Endowed Care fund* is used to report resources that are restricted by the City Code to be used for perpetual and endowed care at certain City-owned cemeteries. Both the investment earnings and the principal may be used to support maintenance of City-owned cemeteries.
- The *Agency funds* are used to account for the assets held by the City as an agent for individuals, private organizations, other governmental units and/or other funds. Agency funds do not involve the measurement of results of operations as they are custodial in nature (assets = liabilities).

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Fiduciary Agency funds' financial statements do not have a measurement focus. The City's discretely presented component units are also included in the government-wide financial statements utilizing the same basis of accounting.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue and related assets are recorded when they become susceptible to accrual, that is, when they become both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City generally considers revenues, except for grant revenues, to be available if they are collected within 45 days of the end of the fiscal year. Real and personal property taxes are recorded as receivables when levied and billed, which corresponds with the fiscal year for which the taxes have been levied, net of allowances for uncollectible accounts. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the City, are recognized as revenues and receivables when the underlying exchange occurs and are remitted to the City by the state within two months of the transaction. In accordance with generally accepted accounting principles (GAAP) property taxes due and collected within 45 days after June 30 are recognized as revenue; those not collected within 45 days after year-end are reported as deferred inflows. Items such as license fees, permit fees and fines are recorded as revenue

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

when received. Intergovernmental revenue, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, is recognized at the time the specific expenditures expected to be funded by this revenue are made. Revenue from general purpose grants is recognized during the entitlement period.

Major sources of governmental fund revenue susceptible to accrual include the following:

- Real property taxes
- Personal property taxes
- Sales and use taxes
- Consumer utility taxes
- Environmental storm water billings
- Revenue from the Commonwealth
  - Shared expenses
  - Categorical aid
- Revenue from the federal government

Amounts reported as *program revenues* include: 1) charges for services, 2) operating grants and contributions and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues*, rather than as program revenues. Therefore, all taxes are general revenue.

Expenditures, other than interest on general long-term obligations, are recorded as related fund liabilities when incurred. Interest on general long-term obligations is recognized when due.

Since the governmental funds' financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a summary reconciliation of the difference between total fund balances as reflected on the governmental funds' Balance Sheet and total Governmental activities net position as shown on the Government-wide Statement of Net Position is presented in Exhibit A-2. In addition, a summary reconciliation of the difference between the total net change in fund balances as reflected on the governmental funds' Statement of Revenues, Expenditures and Changes in Fund Balances and the change in net position of governmental activities as shown on the Government-wide Statement of Activities is presented in Exhibit A-4.

Proprietary funds distinguish *operating revenues* and *expenses* from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues and expenses of the City's Water Utility, Wastewater Utility and Parking Facilities enterprise funds, and of the City's internal service funds are charges to customers for sales and services and administrative expenses, as well as depreciation on capital assets. Revenues and expenses not meeting this definition, including interest income or expense are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, less restrictive resources next – committed, assigned, and finally unassigned resources.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's proprietary funds and various

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other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**D. Budgets and Budgetary Accounting**

An operating budget is adopted each fiscal year for the General Fund, Water Utility enterprise fund, Wastewater Utility enterprise fund, Parking Facilities enterprise fund, Storm Water special revenue fund, Public Amenities special revenue fund, Cemeteries special revenue fund, Emergency Operations Center/911 special revenue fund, Golf special revenue fund, Towing & Recovery Operations special revenue fund, Tax Increment Financing special revenue fund, Waste Management special revenue fund, and internal service funds. The General Fund budget includes the budgets for Norfolk Public Schools, Maritime Center and the Community Services Board. Project length budgets are appropriated for the Capital Projects fund, Community Development special revenue fund and Grants special revenue fund. All funds are under formal budgetary control.

No less than 60 days before the end of the fiscal year, the City Manager must submit to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of funding them. Prior to the adoption of the budget, a public hearing is conducted, then on or before July 1, the budget is legally enacted through adoption of an ordinance. The property taxes included in the budget become a lien on real properties on July 1.

The ordinance for the annual operating budget appropriates funds by department. Additional budgetary controls are exercised administratively, both on an appropriation unit basis over parts, all, or any combination of object categories (budgetary account groups) such as: (1) personal services; (2) materials, supplies and repairs; (3) general operations and fixed charges; (4) equipment; (5) public assistance; and (6) all-purpose appropriations, as well as on a line item basis over individual objects (budgetary accounts). The City Manager is authorized to transfer funds between departments and funds without further approval by City Council.

The School Board manages and controls all funds made available for public school purposes by the City Council. In accordance with the Code of Virginia, the School Board has exclusive authority to expend funds within the total amounts appropriated by City Council.

Consistent with the enabling ordinance, the Schedules of Revenue and Expenditures – Budget and Actual of the General Fund presented in Exhibits E-1 and E-2 include the revenues and expenditures - budget and actual of the School Board.

A reconciliation of revenues and expenditures reported in accordance with U.S. generally accepted accounting principles (GAAP) and those presented in accordance with non-GAAP budgetary basis, for the General fund, can be found following Exhibit E-2. The budgets for the enterprise funds and internal service funds are prepared on a basis generally consistent with U.S. GAAP.

With the exception of capital projects and grants fund appropriations, unencumbered annual appropriations lapse at the end of the fiscal year. City Council may authorize

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supplemental appropriations to the operating budgets during the fiscal year. Budgeted amounts as reported in the financial statements represent the original appropriations, and all supplemental adjustments or appropriations.

City Council adopts a capital improvement budget on a project basis. As in the case of the General Fund budget, these budgets are submitted by the City Manager, public hearings are held and the budgets are legally enacted through adoption of an ordinance. Appropriations for these budgets continue until the purpose of the appropriation has been fulfilled. Amendments to these budgets are affected by City Council.

**E. Deposits and Investments**

The City's cash and short-term investments include cash on hand, demand deposits, and short-term investments with maturities of one year or less from the date of acquisition.

Investment statutes authorize the City and the School Board to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank) and Asian Development Bank, commercial paper rated A-1 by S & P Global Ratings or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, Virginia State Non-Arbitrage Program (SNAP) and the State Treasurer's Local Government Investment Pool (LGIP). SNAP and LGIP investments are valued at amortized costs and qualify as external investment pools per GASB 79, *Certain External Investment Pools and Pool Participants*. The LGIP and SNAP are not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Pursuant to the Code of Virginia, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their monthly meetings.

The City has no formal policy regarding credit risk, interest rate risk, concentration of credit risk, custodial credit risk, or foreign investment risk. The City's fixed income investments as of June 30, 2018 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale. The Pension Trust fund is authorized to invest in common stocks and other investments as directed by statutes of the Commonwealth.

Investments, with the exception of external investment pools and real estate which are reported at amortized cost or net asset value, are reported at fair value as established by generally accepted accounting principles. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See additional disclosure within footnote II.

The City uses the pooled cash investment method, and as a result individual fund overdrafts are reclassified as due to/due from other funds or internal balances for financial statement purposes. Income from the investment of pooled cash is allocated

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to the various funds based on the percentage of cash and temporary investments of each fund to the total pooled cash and temporary investments.

For purposes of the statements of cash flows, all highly liquid debt instruments, with a maturity of 90 days or less, and certificates of deposit are grouped into cash and short-term investments. The cash and investment pool discussed above is considered cash, since it has the same characteristics as a demand deposit account.

**F. Restricted Assets**

Restricted assets are those whose use is subject to externally imposed constraints such as debt covenants, grantors or laws or regulations of other governments.

**G. Interfund Transactions**

During the normal course of operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets and service debt. The accompanying fund financial statements generally reflect such transactions as transfers.

Internal Service funds record charges for services to all City departments and funds as operating revenue. All City funds record these payments to the Internal Service funds as operating expenditures or expenses. The Fleet Management fund, and the Healthcare fund primarily support governmental activities and are therefore included with governmental funds in the government-wide financial statements. A discrete presentation of the City's Internal Service funds can be found in the "Other Supplementary Information" section of this document.

The General fund provides administrative services to enterprise funds and internal service funds. Charges for these services are treated as operating expenses by the enterprise and internal service funds and as expense reimbursements by the General Fund in the fund financial statements.

**H. Inventories**

Inventories are stated at cost, using either the first-in, first-out or the moving average method. Proprietary funds expense inventories when consumed.

**I. Capital Assets**

Capital assets, which include property, plant, equipment, intangibles and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported at historical cost less accumulated depreciation and amortization in the applicable governmental or business-type activities column in the government-wide financial statements and in proprietary funds. Capital assets are defined by the City's capitalization policy as assets owned by the City with an initial, individual cost of more than \$5,000 and an estimated useful life greater than one year. Capital outlays of governmental funds are recorded as expenditures at the time of purchase and are not capitalized in the governmental funds. However, they are capitalized in the Government-wide Statement of Net Position if they meet the criteria for capitalization in the City's financial statements. Where historical cost records are not available, assets are

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recorded at estimated historical cost. Gifts or donated capital assets are recorded at their acquisition value on the date received. In the enterprise and internal service funds, interest costs incurred on funds borrowed for construction projects are capitalized, net of interest earned on the temporary investment of the unexpended portion of those funds. When an asset is retired or otherwise disposed of, the related cost and accumulated depreciation are eliminated, and any resulting gain or loss is reflected as non-operating revenue or expense.

The City evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the City are reported at the lower of the carrying value or fair value. Impairment losses on capital assets that will continue to be used by the City are measured using the method that best reflects the diminished service utility of the capital asset. Any insurance recoveries received as a result of impairment events or changes in circumstances that result in the impairment of a capital asset are netted against the impairment loss. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives is not capitalized.

Capital assets of the City, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives (in years):

	Governmental Funds	Enterprise Funds	Internal Service Funds
Building and improvements	40	10-75	40-50
Improvements other than buildings	15-25	10-99	15
Warehouse equipment and fixtures	-	-	7-10
Transmission and distribution mains	-	50-99	-
Service meters and meter installation	-	35-50	-
Pumping and other water/wastewater equipment	-	10-30	-
Vehicles and garage equipment	4-20	4-10	4-25
Data processing equipment	5-10	5-10	5-10
Furniture, fixtures and equipment	3-25	3-25	3-20
Infrastructure	5-100	-	-
Intangibles	5-10	5-10	5-10

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**J. Land and Land Improvement Held for Resale**

Land and land improvements held for resale are recorded at the lower of cost or estimated acquisition value. Cost is determined by acquisition price, if purchased, or at estimated acquisition value at the date of contribution, if contributed. Subsequent land improvements are added to land and land improvements held for sale.

**K. Compensated Absences**

It is the City and the School Board's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation leave is fully vested when earned by City employees. Accumulated vacation leave cannot exceed certain limits as codified in Section 2-49 in the City Code of Ordinances. Sick leave does not vest for City employees; however, upon retirement, City employees receive credit for each day of accumulated sick leave toward their pension benefit. There is no liability for unpaid accrued sick leave service since the City does not pay it when the employee separates from service. The additional retirement benefit is reflected in the actuarial liability of the ERS. The entire unpaid liability for vacation leave is recorded in the government-wide financial statements.

Upon retirement, School Board employees are paid \$20 for each day of accumulated sick leave. Accumulated vacation leave cannot exceed 50 days for School Board employees. School Board employees are paid for unused vacation leave, at their normal rate of pay, upon termination of employment. Most School Board employees have ten-month employment contracts and are not entitled to vacation.

**L. Net Position/Fund Balances**

Net position in government-wide and proprietary fund financial statements may be classified as net investment in capital assets; restricted; and unrestricted. Restricted net position has constraints on resources that are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through state statutes.

Fund balances in governmental fund financial statements are classified as nonspendable, restricted, committed, assigned and unassigned. Nonspendable fund balance includes amounts that are not in spendable form. Restricted fund balance includes amounts that can be spent only for specific purposes as stipulated by a third party or through enabling legislation. Committed fund balance includes amounts that can be used only for specific purposes as determined by City Council through formal action (ordinance). Committed amounts cannot be used for any other purpose unless approved by City Council by taking the same type of formal action. In the General fund, assigned fund balance includes amounts that are intended to be used by the City for specific purposes, but do not meet the criteria to be classified as restricted or committed. In the governmental funds, except for the General fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assignment authority has been given to the City Manager by the City Council. The unassigned fund balance classification is for all amounts not included in other classifications.

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Under GASB Statement No. 54, positive unassigned fund balances are only reported in the General fund. However, in governmental funds other than the General fund, expenditures incurred for a specific purpose might exceed the amount restricted, committed, or assigned to that purpose, and a negative residual amount may result which is classified as a negative unassigned fund balance in the applicable governmental fund. Negative unassigned fund balances within the Capital Projects fund and Grants fund are a result of timing and will correct themselves when permanent financing is put in place for all capital project expenditures incurred to date and when revenue generation occurs once encumbrances become expenditures, respectively.

**M. Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

**N. Bond Premiums, Discounts, Issuance Costs and Loss on Defeasance**

In the government-wide and proprietary fund financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported with the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred. Refer to Note IX for details on the amounts reported in Long-term Obligations.

Gains and losses on defeasance from refunding bonds are reported in the government-wide and proprietary fund financial statements as deferred inflows and outflows of resources and are amortized using the straight-line method over the term of the debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**O. Deferred Inflows and Outflows of Resources**

The City reports deferred inflows and outflows on its fund level balance sheets and government-wide statement of net position. Deferred inflows arise when potential revenue does not meet the "measurable" and "available" criteria for recognition in the current period. Certain intergovernmental receivables such as uncollected property tax not meeting the availability criteria have been deferred and will be realized in a subsequent period in governmental funds. Deferred outflows represent a consumption of net position in a future period.

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The City reports the gains and losses on defeasance from debt refundings and certain components of the net pension liability as deferred inflows and outflows.

**P. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position and the additions and deductions there to, of each of the plans that the City and its component units participate in, which include the Virginia Retirement System (VRS) City of Norfolk Constitutional Offices, VRS Teacher Retirement Plan, the VRS Political Subdivision Retirement Plan and the City of Norfolk Employees' Retirement Plan (ERS) have been determined on the same basis as they were reported by each respective plan. With the exception of deferred outflows related to employer contributions made after the measurement date, deferred inflows and outflows are amortized over a closed five-year period or the average remaining service life of the effected employees. Deferred outflows of resources related to employer contributions made after the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The allocation of proportionate shares of the ERS net pension liability and other pension amounts to participating funds is based on employer contributions.

**Q. Other Post-employment Benefits (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense of each of the plans that the City and its component units participate in have been determined on the same basis as they were reported by each respective plan. Deferred outflows of resources related to employer contributions made after the measurement date will be recognized as a reduction of the net OPEB liability in the next fiscal year. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. The allocation of proportionate shares of the net OPEB liability and other OPEB amounts to participating funds is based on employer contributions.

**II. Deposits and Investments**

**Custodial Credit Risk - Deposits**

The City maintains a cash and investments pool for all funds except the Pension Trust and Endowed Care funds. Each fund's portion of the pool is disclosed in the Statement of Net Position and respective fund balance sheets as cash and short-term investments. The cash and investments of the Pension Trust and Endowed Care funds, as well as certain restricted assets of the enterprise funds, are held separately from the pooled City funds.

All deposits of the City and its component units are collateralized in accordance with the Virginia Security for Public Deposits Act ("the Act"), Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, any

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public depository that receives or holds public deposits ("Qualified Public Depositories") shall elect to secure deposits by either the Pooled Method or the Dedicated Method (which became available by amendments made to the Act effective July 1, 2010). The Pooled Method requires any public depository that receives or holds public deposits to pledge collateral, ranging from 50 to 100 percent of the public deposits, to the State Treasury Board to cover public deposits in excess of Federal deposit insurance. The Pooled Method also provides that if any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of participating governmental entities. If the value of the pool's collateral were inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to members of the pool. Under the Dedicated Method, Qualified Public Depositories are responsible for securing their own public deposits, by the pledge and deposit of eligible collateral with a qualified escrow agent, equal to or in excess of required collateral amounts, priced at a minimum of 105 percent to 130 percent of all public deposits held by the bank, based on rating determined under the Act; and therefore will not be assessed for losses of another bank that is in default or has become insolvent. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks. Both methods of securing public deposits are similar to depository insurance. Funds deposited in accordance with the Act are considered to be fully insured. The City's primary banking institution has elected to be governed by the Dedicated Method.

**Custodial Credit Risk - Investments**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

The City's equity and fixed income investments (except for bank deposits) are not insured and are registered in the name of the City and held by State Street Bank as custodian. The remaining City investments are held by the City or in the City's name by the City's custodial banks. The policy for the Pension Trust fund (System) is that all securities purchased by or for the System be properly and clearly labeled as an asset of the System and held in safekeeping by a third party custodial bank or institution in compliance with Section 2.2-4515 of the Code of Virginia. The City and its other component units have no formal policy regarding custodial credit risk for investments.

**Interest Rate Risk**

The City's Pension Trust fund uses a "Duration" policy to manage its interest rate risk. The duration policy is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

Other than for the assets of the City's Pension Trust fund, neither the City nor discretely presented component units have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City uses the segmented time distribution method to evaluate interest rate risks as disclosed below as of June 30, 2018.

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**Primary Government and Fiduciary Funds**

Investment Type	Total Investments	Investment Maturities				
		Less than 1 year	1-3 years	3-6 years	6-10 years	10 years +
Corporate Bonds	\$ 41,691,599	\$ -	\$ 8,174,599	\$ 15,810,000	\$ 14,009,000	\$ 3,698,000
Futures/Options/Swaps	3,562,000	105,000	328,000	1,151,000	1,812,000	166,000
Asset Backed Securities	3,360,000	-	-	515,000	888,000	1,957,000
U.S. Government Securities	86,418,741	5,437,754	35,408,987	2,500,000	19,461,000	23,611,000
Mortgage Backed Securities	70,257,000	16,000	-	2,206,000	892,000	67,143,000
Equity Funds	597,182,000	-	-	-	-	597,182,000
Common Stock	8,955,000	-	-	-	-	8,955,000
Master Limited Partnerships	67,466,000	-	-	-	-	67,466,000
Municipal Bonds	3,397,893	-	-	-	-	2,934,000
Commercial Paper	4,765,798	4,765,798	463,893	-	-	-
Certificates of Deposit	4,778,946	3,199,871	1,579,075	-	-	-
Foreign Government Securities	3,301,531	-	3,301,531	-	-	-
Fixed Income Funds	177,645,000	-	-	-	-	177,645,000
Domestic Equity Funds	1,588,000	-	-	-	-	1,588,000
Real Estate Funds	80,566,000	-	-	-	-	80,566,000
External investment pools	67,423,807	67,423,807	-	-	-	-
Total	\$ 1,222,359,315	\$ 80,948,230	\$ 49,256,085	\$ 22,182,000	\$ 37,062,000	\$ 1,032,911,000

A reconciliation of the carrying value of deposit and investments as reported above to amounts reported in the Statement of Net Position (Primary Government) and the Statement of Fiduciary Net Position for the City is as follows:

Per Exhibit 1 (Primary Government):

Cash and unrestricted short-term investments	\$ 295,761,900
Restricted cash and investments	\$ 53,820,459
Total	\$ 349,582,359

Per Exhibit C-1 (Fiduciary):

Cash and short-term investments	\$ 31,197,938
Investments	\$ 1,113,769,000
Total	\$ 1,144,966,938

Total Primary Government and Fiduciary funds

\$ 1,494,549,297

Less cash

272,189,982

Deposits and investments reported above

\$ 1,222,359,315

**Credit Risk Related to Issuer**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's Pension Trust fund's formal policy governing credit risk is that securities rated below investment grade by two of the three primary rating agencies, Moody's Investors Service, Inc. ("Moody's"), Fitch Ratings ("Fitch"), and Standard and Poor's Global Ratings ("S&P"), are not permitted without the written permission of the board. PIMCO, one of the ERS fund managers, has been given the authority by the Board to invest 20% of the portfolio in below investment grade securities. The City's Pension Trust fund invests in certain derivatives including futures, swaps and options. Those securities are included in reported investments in the ERS's financial statements. Investments in derivatives with a fair value of \$3,562,000 were held at June 30, 2018. For accounting purposes, all derivative instruments are considered to be investments

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and not hedges. ERS primarily enters into derivative transactions in order to manage risks from exposure to foreign currency rate fluctuation and to shorten the duration of the fixed income investment portfolio. The City's rated debt investments as of June 30, 2018, were rated by S&P and/or an equivalent national rating organization and the ratings are presented below using the S&P credit quality rating scale.

Ratings (S&P)	The Primary Government's Rated Debt Investment													
	Corporate Debt	Futures/Options/ Swaps	Asset Backed Securities	Foreign Government Securities	Equity Funds	U.S. Government Securities	Mortgage Backed Securities	Commercial Paper	Certificates of Deposit	Common Stock	Master Limited Partnerships	Municipal Bonds	Fixed Income/ Equity Real Estate Funds	External Investment Pools
AAA	\$ 792,786	\$ -	\$ 1,268,000	-	-	\$ -	\$ 1,912,000	-	-	-	-	-	-	-
AAAm	-	-	-	-	-	-	-	-	-	-	-	-	66,489,389	-
AA+	2,044,433	-	1,529,000	3,301,531	-	80,098,741	67,857,000	-	-	-	-	87,000	-	934,418
AA	758,101	-	-	-	-	478,000	-	-	-	-	-	390,000	-	-
AA-	1,475,699	-	-	-	-	964,000	-	-	1,579,075	-	-	1,037,893	-	-
AAm-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A+	395,580	-	-	-	-	4,778,000	-	-	-	-	-	764,000	-	-
A	3,498,000	-	515,000	-	-	-	8,000	-	-	-	-	377,000	-	-
A-	5,130,000	-	-	-	-	-	-	4,765,798	3,199,871	-	-	513,000	-	-
BBB+	7,996,000	-	-	-	-	-	-	-	-	-	-	111,000	-	-
BBB	9,783,000	-	11,000	-	-	-	13,000	-	-	-	-	-	-	-
BBB-	8,683,000	-	-	-	-	-	-	-	-	-	-	-	-	-
BB+	646,000	-	-	-	-	-	-	-	-	-	-	-	-	-
BB	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BB-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B+ and Below	200,000	-	37,000	-	-	-	462,000	-	-	-	-	-	-	-
Not Rated	289,000	3,562,000	-	-	597,182,000	100,000	5,000	-	-	8,955,000	67,466,000	118,000	259,799,000	-
Total	\$ 41,691,599	\$ 3,562,000	\$ 3,360,000	\$ 3,301,531	\$ 597,182,000	\$ 86,418,741	\$ 70,257,000	\$ 4,765,798	\$ 4,778,946	\$ 8,955,000	\$ 67,466,000	\$ 3,397,893	\$ 259,799,000	\$ 87,423,807

**Concentration of Credit Risk**

Concentration risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. Mutual funds are excluded from this disclosure requirement. For the City's Pension Trust fund investment, no more than 20 percent of each account's fixed income portfolio, including cash equivalents, shall be invested in bonds rated Baa (1, 2 and 3) or BBB (+ or -). Upon written request from an investment manager, the Retirement Board of Trustees will consider allowing more than 20 percent in these ratings and the purchase of bonds rated below Baa3 or BBB-.

The following table represents the fair value of investments that represent 5% or more of the System's net position at June 30, 2018:

SSGA MSCI ACWI IMI Index Fund	\$ 597,182,000
SSGA Bond Market Index Fund	\$ 148,705,000

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**Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The City's Pension Trust does not have a formal policy; however, it manages its' exposure to fair value loss by requiring international securities investment managers to maintain diversified portfolios by issuer to limit foreign currency and security risks. The exposure to foreign currency risk in both cash and investments is presented below:

<b>Currency</b>	<b>Fixed-Income</b>
New Zealand Dollar	\$ 20,000
Canadian Dollar	22,000
Euro Currency	67,000
Japanese Yen	31,000
Pound Sterling	477,000
	<hr/>
	\$ 617,000

Neither the City, nor its component units, have a formal policy to limit foreign currency risk. Risk of loss arises from changes in currency exchange rates.

**Fair Value Measurement**

In accordance with the authoritative guidance on fair value measurements and disclosures under U.S. GAAP, the funds disclose the fair values of their investments in a hierarchy that prioritized the inputs to valuation techniques used to measure fair value. GAAP requires that investments be measured and reported at fair market value and the disclosure of inputs used in the valuation process. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (level 3 measurements). The guidance established three levels of the fair value hierarchy as follows:

Level 1 – Quoted prices in active markets for identical assets. Equity securities are priced using an exchange traded price or a broker quote in an active market.

Level 2 – Inputs other than quoted prices that are observable for the asset, including quoted prices for similar investments based on interest rates, credit risk and alike factors. The United States treasury and fixed income securities are priced using pricing models based on a compilation of primarily observable market information or a broker quote in a non-active market for an identical or similar security. The certificate of deposit is valued based on discounted cash flows using current interest rates at the stated maturity. The short-term investment trades daily without restriction at \$100 per unit.

Level 3 – Unobservable inputs for the assets, including the fund's own assumptions for determining fair value.

Portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

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The table below provides the inputs used to determine the fair value at June 30, 2018.

	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Observable Inputs (Level 2)	
<b>Investments measures at fair value</b>					
Cash Equivalents					
Short Terms	\$ 22,100,000	\$ -		\$ 22,100,000	
Short Term Fund	4,854,000	-		4,854,000	
	<u>\$ 26,954,000</u>	<u>\$ -</u>		<u>\$ 26,954,000</u>	
Fixed Income Securities					
U.S. Treasury Securities	\$ 86,418,741	\$ -		\$ 86,418,741	
Corporate Bonds	41,691,599	-		41,691,599	
Futures/Options/Swaps	3,562,000	-		3,562,000	
Commercial Paper	4,765,798	-		4,765,798	
Certificates of Deposit	4,778,946	-		4,778,946	
Municipals	3,397,893	-		3,397,893	
Asset Backed Securities	3,360,000	-		3,360,000	
Mortgage Backed Securities	70,257,000	-		70,257,000	
Foreign Government Securities	3,301,531	-		3,301,531	
Total Fixed Income Securities	<u>\$ 221,533,508</u>	<u>\$ -</u>		<u>\$ 221,533,508</u>	
Equity Securities					
Common Stock	\$ 8,955,000	\$ 8,955,000	\$ -	-	
Master Limited Partnerships	67,466,000	67,466,000	-	-	
Domestic Equity Funds	1,588,000	1,588,000	-	-	
Total Equity Securities	<u>\$ 78,009,000</u>	<u>\$ 78,009,000</u>	<u>\$ -</u>	<u>-</u>	
Commingled Securities					
Fixed Income Fund	\$ 28,940,000	\$ -		\$ 28,940,000	
Total Comingled Securities	<u>\$ 28,940,000</u>	<u>\$ -</u>		<u>\$ 28,940,000</u>	
<b>Total investments by fair value level</b>	<b>\$ 355,436,508</b>	<b>\$ 78,009,000</b>	<b>\$ -</b>	<b>\$ 277,427,508</b>	
<b>Investments Measured at the net asset value(NAV)</b>					
Commingled Funds					
Equity Funds	\$ 597,182,000				
Fixed Income Funds	148,705,000				
Real Estate Funds	80,566,000				
<b>Total investments measured at NAV</b>	<b>826,453,000</b>				
<b>Investments Measured at amortized costs</b>					
External Investment Pools	67,423,807				
Less Cash Equivalents	<u>(26,954,000)</u>				
<b>Total investments</b>	<b>\$ 1,222,359,315</b>				

External investment pools include the PFM, LGIP and SNAP. These investments are reported at amortized cost in accordance with Rule 2a-7, and qualify as external investment pools per GASB79, *Certain External Investment Pools and Pool Participants*. The City held \$38,703,037 in LGIP funds and \$28,720,770 in PFM funds (\$15,521,806 invested in the SNAP program) at June 30, 2018.

The remaining commingled funds are reported at net asset value (NAV) as a practical expedient, based on the fair market values of the underlying securities in the respective fund.

1. **Equity Funds.** This type includes an investment in an equity fund with an investment object to track the performance of the MSCI ACWI IMI index over the long-term. These investments can be redeemed semi-monthly with semi-monthly notice.
2. **Fixed Income Funds.** This type includes 2 investments in fixed income funds. An investment in a liquid short-term fund which invest approximately 65% of its total

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assets in a diversified portfolio of fixed income instruments. This investment can be redeemed within 3-7 business days with 1 day notice. An investment in a fund with an investment objective to track the performance of the Barclay's U.S. Aggregate Bond Index over the long-term. This investment can be redeemed within 1-15 days, depending on trade size, with 1 day notice.

3. Real estate funds. This type includes 2 investments in real estate funds that invest in U.S. real estate. These funds compare themselves to the NCREIF Fund index – Open-End diversifies Core Equity (NFI-ODCE) benchmark. These investments can be redeemed quarterly with a 45-60 day notice.

**School Board**

At June 30, 2018, the School Board had cash of \$53,686,524, including \$12,262,444 held in agency funds.

**Economic Development Authority (EDA)**

Cash includes cash on hand and cash deposited with financial institutions. At June 30, 2018, there was \$15,276,211 in cash and cash equivalents (\$3,876,750 which is considered restricted), including \$568,565 held in the Local Government Investment Pool (LGIP), which is carried at amortized cost because it qualifies as an external investment pool under GASB 79, *Certain External Investment Pools and Pool Participants*.

The Authority considers all funds with an original maturity of greater than three months, but less than one year, to be short-term investments. At June 30, 2018, the Authority held a certificate of deposit yielding 1% in the amount of \$2,108,808, which is carried at fair value.

The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When considering fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantively the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

Fair value of the certificate of deposit is determined based on a discounted cash flow analysis using prevailing rates over the stated term, which are level 2 inputs. Fair value approximates cost due to the short-term nature of the instrument.

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### III. Property Taxes

Local real property assessments are made under the direction of a City Assessor appointed by the City Council. The City has the power to levy taxes on property located within its boundaries for payment of its obligations without limitation as to rate or amount. Rates are established by the City Council. The rates in effect for the year ended June 30, 2018, on each \$100 of assessed value, were \$1.15 for real property, an additional \$0.16 for the Downtown Improvement District, \$4.33 for motor vehicles, \$4.33 for business furniture, fixtures and equipment, \$1.50 for recreational vehicles, \$4.25 for machinery and tools, \$1.15 for mobile homes, \$2.40 for airplanes, \$0.50 for recreational boats and \$1.50 for business boats. The City has a Real Estate Tax Relief/ Tax Deferral Program for Norfolk homeowners who are 65 and older or completely disabled and meet certain eligibility requirements.

**The property tax calendar is as follows:**

	Real Property	Other than Real Property
Lien date	July 1	January 1
Levy date for existing property	July 1	January 1
Levy date for real property improvement, new construction or newly acquired property	October 1, January 1 and April 1	Date of acquisition
Due dates	September 30, December 5, March 31 and June 5	June 5 or 30 days after acquisition
Collection dates	On or before due date	

In the event any installments of taxes on any of the above properties is not paid on or before the due date, penalties and interest are assessed in accordance with the City Code of Ordinances.

#### IV. Accounts Receivable

#### A. Unbilled Accounts Receivable

Following is a summary by fund of unbilled accounts receivable recognized at June 30, 2018:

Storm Water special revenue fund	\$ 870,646
Water Utility fund	5,110,413
Wastewater Utility fund	1,394,654
Parking Facilities fund	367,152
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	\$ 7,742,865

The associated revenue is included in charges for services. All amounts were billed in July 2018.

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**B. Allowances for Uncollectible Accounts Receivable**

Allowances for uncollectible accounts receivable are generally established using historical collection data, consideration of economic conditions, specific account analysis and subsequent cash receipts. The allowances at June 30, 2018, are as follows:

**Primary Government:**

General Fund:				
Taxes		\$ 12,169,287		
Accounts		17,949,200		
Community Services Board		635,119		
Total General Fund		30,753,606		
Storm Water special revenue fund		538,100		
Waste Management special revenue fund		1,181,400		
Parking Facilities fund		11,903,607		
Water Utilities fund		1,827,599		
Wastewater Utilities fund		1,000,000		
<b>Total Primary Government</b>		<b>\$ 47,204,312</b>		

**V. Due From Other Governments**

Amounts due from other governments, at June 30, 2018, are as follows:

	General Fund	Capital Projects Fund	Special Revenue Funds	Total Governmental Funds	Component Unit School Board
Commonwealth of Virginia:					
Non-categorical aid	\$ 23,942,391	\$ -	\$ -	\$ 23,942,391	\$ 6,401,697
Nonmajor governmental funds grants	-	-	2,554,933	2,554,933	-
<b>Total - Commonwealth of Virginia</b>	<b>23,942,391</b>	<b>-</b>	<b>2,554,933</b>	<b>26,497,324</b>	<b>6,401,697</b>
Federal Government:					
Major governmental funds	192,044	1,589,394	-	1,781,438	12,482,243
Nonmajor governmental funds grants	-	-	13,344,763	13,344,763	-
<b>Total - Federal Government</b>	<b>192,044</b>	<b>1,589,394</b>	<b>13,344,763</b>	<b>15,126,201</b>	<b>12,482,243</b>
<b>Total - Due from other governments</b>	<b>\$ 24,134,435</b>	<b>\$ 1,589,394</b>	<b>\$ 15,899,696</b>	<b>\$ 41,623,525</b>	<b>\$ 18,883,940</b>

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**VI. Capital Assets**

A summary of changes in capital assets, at June 30, 2018, follows:

	<b>Primary Government</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>
<b>Governmental activities:</b>				
Non-depreciable capital assets:				
Land	\$ 98,580,920	\$ 768,040	\$ -	\$ 99,348,960
Intangible assets	65,014	-	-	65,014
Construction in progress	156,944,974	42,943,694	(110,254,181)	89,634,487
Total non-depreciable assets	<u>255,590,908</u>	<u>43,711,734</u>	<u>(110,254,181)</u>	<u>189,048,461</u>
Depreciable assets:				
Buildings	1,024,977,843	99,250,270	-	1,124,228,113
Improvements other than buildings	106,719,810	13,381,219	-	120,101,029
Equipment and vehicles	150,947,736	4,338,271	(5,546,372)	149,739,635
Intangible assets	4,950,607	-	(12,924)	4,937,683
Infrastructure	1,225,831,073	6,434,188	(488,360)	1,231,776,901
Total depreciable assets	<u>2,513,427,069</u>	<u>123,403,948</u>	<u>(6,047,656)</u>	<u>2,630,783,361</u>
Less accumulated depreciation/amortization:				
Buildings	(402,600,329)	(25,107,675)	-	(427,708,004)
Improvements other than buildings	(35,162,478)	(4,797,028)	-	(39,959,506)
Equipment and vehicles	(106,522,940)	(7,755,689)	5,456,307	(108,822,322)
Intangible assets	(4,300,431)	(132,991)	12,924	(4,420,498)
Infrastructure	(1,020,530,469)	(10,164,917)	488,360	(1,030,207,026)
Total accumulated depreciation/amortization	<u>(1,569,116,647)</u>	<u>(47,958,300)</u>	<u>5,957,591</u>	<u>(1,611,117,356)</u>
Depreciable assets, net	<u>944,310,422</u>	<u>75,445,648</u>	<u>(90,065)</u>	<u>1,019,666,005</u>
Total governmental activities capital assets, net	<u>\$ 1,199,901,330</u>	<u>\$ 119,157,382</u>	<u>\$ (110,344,246)</u>	<u>\$ 1,208,714,466</u>
<b>Business-Type activities:</b>				
Non-depreciable capital assets:				
Land	\$ 49,812,941	\$ 2,306,071	\$ -	\$ 52,119,012
Intangible assets	2,474,561	213,219	-	2,687,780
Construction in progress	52,180,462	31,890,760	(40,904,650)	43,166,572
Total non-depreciable assets	<u>104,467,964</u>	<u>34,410,050</u>	<u>(40,904,650)</u>	<u>97,973,364</u>
Depreciable assets:				
Land improvements	20,787,445	-	-	20,787,445
Buildings	478,395,875	1,032,824	(191,107)	479,237,592
Equipment and vehicles	812,774,266	39,588,597	(469,514)	851,893,349
Intangible assets	6,890,727	583,264	-	7,473,991
Totals depreciable assets	<u>1,318,848,313</u>	<u>41,204,685</u>	<u>(660,621)</u>	<u>1,359,392,377</u>
Less accumulated depreciation/amortization:				
Land improvements	(5,734,434)	(405,250)	-	(6,139,684)
Buildings	(144,361,487)	(10,578,671)	-	(154,940,158)
Equipment and vehicles	(259,323,189)	(16,207,182)	468,675	(275,061,696)
Intangible assets	(5,669,576)	(632,173)	-	(6,301,749)
Total accumulated depreciation/amortization	<u>(415,088,686)</u>	<u>(27,823,276)</u>	<u>468,675</u>	<u>(442,443,287)</u>
Depreciable assets, net	<u>903,759,627</u>	<u>13,381,409</u>	<u>(191,946)</u>	<u>916,949,090</u>
Business-Type activities capital assets, net	<u>\$ 1,008,227,591</u>	<u>\$ 47,791,459</u>	<u>\$ (41,096,596)</u>	<u>\$ 1,014,922,454</u>
<b>Component units activities:</b>				
Non-depreciable capital assets:				
Land	\$ 1,962,141	\$ -	\$ -	\$ 1,962,141
Total non-depreciable assets	<u>1,962,141</u>	<u>-</u>	<u>-</u>	<u>1,962,141</u>
Depreciable assets:				
Buildings and mobile classrooms	7,785,898	-	-	7,785,898
Building improvements	14,766,578	95,481	-	14,862,059
Equipment and vehicles	36,804,284	2,396,736	(1,564,657)	37,636,363
Intangible assets	1,323,387	-	-	1,323,387
Total depreciable assets	<u>60,680,147</u>	<u>2,492,217</u>	<u>(1,564,657)</u>	<u>61,607,707</u>
Less accumulated depreciation:				
Buildings and mobile classrooms	(5,469,607)	(307,538)	-	(5,777,145)
Building improvements	-	(794,983)	-	(794,983)
Equipment and vehicles	(28,344,109)	(1,650,155)	1,471,053	(28,523,211)
Intangible assets	(1,175,353)	(68,323)	-	(1,243,676)
Total accumulated depreciation	<u>(34,989,069)</u>	<u>(2,820,999)</u>	<u>1,471,053</u>	<u>(36,339,015)</u>
Depreciable assets, net	<u>25,691,078</u>	<u>(328,782)</u>	<u>(93,604)</u>	<u>25,268,692</u>
Component units activities capital assets, net	<u>\$ 27,653,219</u>	<u>\$ (328,782)</u>	<u>\$ (93,604)</u>	<u>\$ 27,230,833</u>

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Depreciation expense was charged to governmental and business-type activities as follows:

General government	\$ 17,274,023
Judicial administration	4,051,497
Public safety	3,310,322
Public works, which includes the depreciation of infrastructure assets	11,903,438
Health and sanitation	189,781
Culture and recreation	10,973,177
Community development	13,099
In addition, depreciation on capital assets held by the City's internal service funds is charged to the various functions based on their usage of the assets	242,964
Total depreciation expense	<u><u>\$ 47,958,300</u></u>
Business-type activities:	
Water Utility fund	\$ 14,223,536
Wastewater Utility fund	6,690,810
Parking Facilities fund	6,908,930
Total depreciation expense	<u><u>\$ 27,823,276</u></u>
Component unit activities	
School Board	\$ 2,026,016
Norfolk Economic Development Authority	794,983
Total depreciation expense	<u><u>\$ 2,820,999</u></u>

The following is a summary by fund of interest expense/revenue capitalized during the fiscal year ended June 30, 2018:

	<b>Expense</b>	<b>Revenue</b>	<b>Capitalized</b>
Water Utility fund	\$ 1,232,430	\$ (300,270)	\$ 932,160
Wastewater Utility fund	164,925	(250,748)	(85,823)
	<u><u>\$ 1,397,355</u></u>	<u><u>\$ (551,018)</u></u>	<u><u>\$ 846,337</u></u>

## **VII. Property Held for Resale**

On October 18, 2013, the Norfolk Redevelopment and Housing Authority (NRHA) donated property, approximately 114 acres which was formerly part of the Lake Wright Golf Course to the Authority, with an estimated fair value of \$19,400,000, as determined by an independent appraiser. The Authority entered into an agreement on November 12, 2013, amended on July 1, 2014, to sell a portion of that property, approximately 51 acres, to Simon Acquisition II, LLC (Simon). The fulfillment of the sales agreement was accomplished in two separate transactions. On May 6, 2016, Simon closed on the purchase of the property of 44.39 acres of the property with a purchase price of \$4,217,050. On October 5, 2016, Simon closed on the purchase of an additional 6.279 acres of property with a purchase price of \$596,505. At closing, Simon took responsibility for the completion of the Force Main Relocation and the construction of certain infrastructure, which would be funded by the City (up to \$12,000,000) and the City's Wastewater Utility fund (approximately \$2,500,000), who would have title to the

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infrastructure assets. The total purchase price of both parcels of was \$4,813,555 funded by Simon through payment of the construction of infrastructure improvements on behalf of the City. The purchase price of these acres was below market which resulted in a loss. The decision to incur a loss was in support of the development plans of the City and also based on the purchaser paying for infrastructure costs. The infrastructure costs, consisting of items such as roads and a retention basin, became an asset of the Authority and ultimately were transferred to the City who has the responsibility to maintain the assets. As of June 30, 2017, infrastructure costs totaled \$11,752,510, excluding the \$2,500,000 in sewer improvements funded by the City's Wastewater Utility fund, and were completed in fiscal year 2017. These assets were transferred to the City in fiscal year 2017.

The Authority also entered into a real estate purchase agreement on August 28, 2014, to sell approximately 30 acres of the remaining Lake Wright Golf Course property to Northampton Development, LLC. The agreement was amended on July 17, 2015, to restate the "feasibility period" to commence on April 15, 2016, ending the earlier of two years from that date or eight months after the property is rezoned. On June 27, 2018, the Authority sold 32.93 acres for \$9,816,460 to Northampton Development, LLC. As part of the agreement, \$1,515,251 is due to the City and \$8,200,000 is due to Simon. 4.41 acres of Lake Wright Golf Course property was retained by the Authority and is held for resale recorded at \$602,952.

In addition, land and land improvements held for resale also includes three acres which are recorded at approximately \$115,000 per acre. On June 11, 2018, the Authority entered into a purchase and sale agreement with JSR Properties, LLC to purchase approximately 1.022 acres of this land for \$165,000. At June 30, 2018, they had not yet closed on the property.

## **VIII. Short-term Obligations**

### **A. Variable Rate Bonds**

#### **General Obligation Variable Rate Demand Bonds, Series 2007**

The City issued \$32,365,000 in General Obligation Variable Rate Demand Bonds, Series 2007 (AMT) on March 29, 2007, to finance the Half Moone Cruise & Celebration Center. As of June 30, 2018, \$24,605,000 remains outstanding and included in the City's long-term debt. The Series 2007 Bonds are general obligations of the City and the City's full faith and credit are irrevocably pledged to the repayment of principal and interest.

The Series 2007 Bonds shall bear interest from time to time in any one of seven Interest Rate Periods: (i) a Daily Rate Period, (ii) a Weekly Rate Period, (iii) a Monthly Rate Period, (iv) a Commercial Paper Period, (v) an Indexed Put Rate Period, (vi) a Medium Term Rate Period and (vii) a Fixed Rate Period. All Series 2007 Bonds must be in the same Interest Rate Period at any one time. Since delivery, the interest rate period on the Series 2007 Bonds has been at the Weekly Rate.

A portion of the Series 2007 Bonds maturing on August 1, 2037, in the amount of \$1,910,000 are subject to mandatory redemption. The remainder of the Series 2007 Bonds are subject to redemption at the direction of the City, in whole at any time or in part on any Interest Payment Date, at a redemption price equal to the principal

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amount thereof, plus accrued interest, if any, to the redemption date. The final maturity on the Series 2007 Bonds is August 1, 2037.

The City maintains a liquidity facility with respect to the Series 2007 Bonds to assist with the payment of Bonds tendered for purchase by the owners and not remarketed. In 2014, the existing liquidity facility was due to expire, and the City entered into a Standby Bond Purchase Agreement dated as of March 1, 2014 (the "Liquidity Facility") among the City, the Trustee and Royal Bank of Canada (the "Bank"). The annual Liquidity Facility fee is 39 basis points (0.39%) for a five-year term. Additionally, RBC provided a rate of 8 basis points (0.08%) to serve as Remarketing Agent. During the fiscal year ended June 30, 2018, the average weekly interest rate on the Series 2007 Bonds was 113 basis points (1.13%).

Under the Liquidity Facility, un-remarketed Bonds held by the Bank (the "Bank Bonds"), if any, shall bear interest at the Bank Rate and have interest payable to the Bank in accordance with the Liquidity Facility.

Through June 30, 2018, all the Series 2007 Bonds have been successfully remarketed by the remarketing agent.

**B. General Obligation Variable Rate Bond**

On November 7, 2013, the City entered into a private placement variable rate loan in the original principal amount of \$13,600,000 (the "2013D Variable Rate Loan") with Bank of America, N.A. As of June 30, 2018, \$12,005,000 remains outstanding and included in the City's long-term debt.

Interest on the 2013 Variable Rate Loan is payable semi-annually on each February 1 and August 1, beginning on February 1, 2014, at an interest rate of LIBOR, plus 0.95%. During the fiscal year ended June 30, 2018, the average weekly interest rate on the 2013D Variable Rate Loan was 253.21 basis points (2.5321%).

**C. Line of Credit**

On December 17, 2014, the City established a revolving line of credit agreement with Bank of America, N.A. ("BANA") for up to \$125,000,000 which was later amended in May 2016, to increase the maximum available credit to \$200,000,000. This line of credit has been used to provide flexible interim financing for capital improvements projects, including school construction. Further, the City maintains discretion over future increases and decreases to the line of credit maximum to the line of credit maximum available amount dependent upon future cash flow needs of capital improvement projects. Borrowings under the line of credit bear interest payable semi-annually in February and August. Tax-exempt borrowings are at a rate of 70 percent of LIBOR, plus 40 basis points. Taxable borrowings are 100 percent of LIBOR, plus 50 basis points. LIBOR can be the 1, 3, 6 or 12-month LIBOR rate, chosen by the City on the date of each advance, and will be applicable through the end of the chosen LIBOR period. The full faith and credit pledge of the City secures the line of credit which will be repaid through the issuance of general obligation bonds or other City sources. There is no minimum advance amount and each advance shall be made on three days' notice given by the City to BANA. The commitment fee on the unutilized

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portion of the line will be paid annually in arrears and will be waived in full for any year that has average utilization of at least 40 percent for that 12-month period.

On September 13, 2017, The City amended its existing credit agreement with BANA to extend the termination date of the Line of Credit from December 17, 2017, to December 17, 2018.

Activity for the year ended June 30, 2018 is as follows:

	Balance at June 30, 2017	Additions	Deductions	Balance at June 30, 2018
Capital Projects fund	\$ 189,802,546	\$ 141,752,018	\$ (174,980,929)	\$ 156,573,635
Parking Facilities fund	10,088,750	66,690	(155,440)	10,000,000
	<u>\$ 199,891,296</u>	<u>\$ 141,818,708</u>	<u>\$ (175,136,369)</u>	<u>\$ 166,573,635</u>

## **IX. Long-term Obligations**

### **A. General Obligation and Revenue Bonds**

The City has traditionally issued general obligation or revenue bonds to provide funds for the construction and acquisition of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. In 1993 and 2008, the City established Water revenue and Wastewater revenue bond programs, respectively.

General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds are limited liability obligations where revenues derived from the respective acquired or constructed assets are pledged to pay debt service.

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A summary of general obligation bond and revenue bond transactions for the fiscal year ended June 30, 2018, follows:

	Governmental Activities - General Obligation Bonds	Enterprise Funds					Total Enterprise Funds	
		Water Utility Bonds	Wastewater Utility Bonds	Parking Facilities Bonds				
General obligation bonds outstanding at July 1, 2017	\$ 611,875,024	\$ -	\$ 103,836,780	\$ 140,195,633	\$ 244,032,413			
Bonds retired	(47,337,050)	-	(7,487,077)	(4,278,099)	(11,765,176)			
Bonds refunded/defeased	(31,410,000)	-	(2,255,000)	(30,855,000)	(33,110,000)			
Bonds issued	123,084,974	-	10,998,391	32,732,904	43,731,295			
Bonds outstanding at June 30, 2018	656,212,948	-	105,093,094	137,795,438	242,888,532			
Unamortized (discount) premium	63,967,119	-	10,930,199	7,344,960	18,275,159			
General obligation bonds outstanding at June 30, 2018, adjusted for unamortized (discount) premium	<u>\$ 720,180,067</u>	<u>\$ -</u>	<u>\$ 116,023,293</u>	<u>\$ 145,140,398</u>	<u>\$ 261,163,691</u>			
Revenue bonds outstanding at July 1, 2017	\$ 319,630,000	\$ 63,015,048	\$ -	\$ -	\$ 382,645,048			
Bonds retired	(13,860,000)	(3,856,919)	-	-	(17,716,919)			
Bonds refunded	(143,535,000)	-	-	-	(143,535,000)			
Bonds issued	161,245,000	6,104,627	-	-	167,349,627			
Revenue bonds outstanding at June 30, 2018	323,480,000	65,262,756	-	-	388,742,756			
Unamortized (discount) premium	53,638,244	-	-	-	53,638,244			
Revenue bonds outstanding at June 30, 2018, adjusted for unamortized (discount) premium	<u>\$ 377,118,244</u>	<u>\$ 65,262,756</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 442,381,000</u>			
Total bonds outstanding at June 30, 2018, adjusted for unamortized (discount)/premium	<u>\$ 720,180,067</u>	<u>\$ 377,118,244</u>	<u>\$ 181,286,049</u>	<u>\$ 145,140,398</u>	<u>\$ 703,544,691</u>			

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General obligation and revenue bonds outstanding at June 30, 2018, are composed of the following individual issues:

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	Governmental Activities		Business-type Activities		Balance Outstanding
				Public Improvement	Wastewater Utility	Parking Facilities		
Series 1989 Property Acquisition	7/11/1989	\$ 1,500,000	6.76%	\$ 1,500,000	\$ -	\$ -	\$ -	\$ 1,500,000
Series 2002 Property Acquisition	8/14/2002	3,400,000	5.375%	3,400,000	-	-	-	3,400,000
Series 2003 GO Wastewater VRA	4/8/2003	9,423,794	2.00%	-	3,722,463	-	-	3,722,463
Series 2004 Property Acquisition	7/29/2004	1,775,000	7.00%	125,244	-	-	-	125,244
Series 2004 GO Wastewater VRA	9/17/2004	11,100,000	3.10%	-	5,367,856	-	-	5,367,856
Series 2006 GO Wastewater VRA	3/14/2006	11,187,809	2.25%	-	6,140,867	-	-	6,140,867
Series 2006B GO Wastewater VRA	9/28/2006	14,250,000	0.00%	-	7,125,000	-	-	7,125,000
Variable - June 30, 2018, rate of								
Series 2007 VRDB	3/29/2007	32,365,000	1.51%	24,605,000	-	-	-	24,605,000
Series 2008A&B Refunding	2/13/2008	17,160,000	4.625%	630,000	-	-	-	630,000
Series 2009A&B Refunding	5/21/2009	77,175,000	4.00 - 5.00%	5,602,287	97,713	-	-	5,700,000
Series 2010B Capital Improvement	1/21/2010	117,650,000	4.65 - 5.962%	94,027,143	7,632,857	-	-	101,660,000
Series 2010F Capital Improvement	2/25/2010	5,000,000	4.35 - 5.60%	3,250,000	-	-	-	3,250,000
Series 2010G Refunding	10/19/2010	90,165,000	4.00 - 5.00%	47,224,675	5,252,298	178,026	-	52,654,999
Series 2012A Refunding	5/30/2012	69,030,000	2.00 - 5.00%	50,661,667	4,961,469	1,271,864	-	56,895,000
Series 2012B Refunding	5/30/2012	7,805,000	2.00 - 3.00%	2,880,000	-	-	-	2,880,000
Series 2012C Capital Improvement	6/28/2012	114,270,000	4.00 - 5.00%	14,015,000	3,240,000	-	-	17,255,000
Series 2012D Capital Improvement	6/28/2012	7,350,000	4.35%	7,350,000	-	-	-	7,350,000
Series 2013A Capital Improvements and Refunding	11/7/2013	130,990,000	4.00 - 5.00%	33,750,000	2,290,000	-	-	36,040,000
Series 2013B Capital Improvements and Refunding	11/7/2013	81,715,000	1.941 - 4.955%	-	-	71,455,000	-	71,455,000
Series 2013C QECB	11/7/2013	2,470,000	4.855%	2,470,000	-	-	-	2,470,000
Variable - June 30, 2018, rate of								
Series 2013D Refunding	11/7/2013	13,600,000	3.04%	-	-	12,005,000	-	12,005,000
Series 2014 Refunding	4/2/2014	65,155,000	2.00 - 5.00%	47,383,692	11,921,308	-	-	59,305,000
Series 2014B Refunding	10/1/2014	9,900,000	3.290%	7,536,620	535,460	127,920	-	8,200,000
Series 2014C Refunding	9/30/2014	58,510,000	2.00 - 5.00%	49,242,050	7,817,950	-	-	57,060,000
Series 2015 Refunding	3/2/2015	16,320,000	3.320%	8,072,829	1,017,171	-	-	9,090,000
Series 2016A	10/19/2016	106,680,000	2.50-5.00%	69,430,000	19,815,000	6,690,000	-	95,935,000
Series 2016B Refunding	10/19/2016	69,870,000	3.00-5.00%	49,377,986	7,157,291	13,334,724	-	69,870,001
Series 2016C	10/19/2016	10,500,000	3.00-3.050%	10,500,000	-	-	-	10,500,000
Series 2017 GO Storm Water VRA	5/31/2017	2,405,791	0.000%	525,050	-	-	-	525,050
Series 2017A GO Capital Improvement	12/5/2017	103,520,000	3.00 - 5.00%	94,910,000	8,610,000	-	-	103,520,000
Series 2017B GO Capital Improvement	12/5/2017	3,590,000	3.793%	-	-	3,590,000	-	3,590,000
Series 2017C GO Refunding	12/5/2017	59,275,000	2.00 - 5.00%	27,743,705	2,388,391	29,142,904	-	59,275,000
Total General Obligation Bonds				\$ 656,212,948	\$ 105,093,094	\$ 137,795,438	\$ 899,101,480	
Business-type Activities								
Bond Issue/Purpose	Dated	Interest Rate	Water Utility	Wastewater Utility			Balance Outstanding	
Series 2007 Wastewater Revenue	11/9/2007	0.00%	-	9,775,000	-	-	9,775,000	
Series 2008 Water Revenue	4/23/2008	5.00%	1,355,000	-	-	-	1,355,000	
Series 2009 Wastewater Revenue	11/17/2009	0.00%	-	4,875,000	-	-	4,875,000	
Series 2010 Water Revenue	9/30/2010	2.50 - 4.50%	22,755,000	-	-	-	22,755,000	
Series 2010 Wastewater Revenue	10/19/2010	0.00%	-	7,000,000	-	-	7,000,000	
Series 2011 Wastewater Revenue	10/21/2011	0.00%	-	7,207,500	-	-	7,207,500	
Series 2012 Water Revenue Refunding	4/4/2012	5.00%	54,445,000	-	-	-	54,445,000	
Series 2012 Wastewater Revenue	12/18/2012	0.00%	-	9,569,454	-	-	9,569,454	
Series 2013 Wastewater Revenue	12/12/2013	0.00%	-	8,750,000	-	-	8,750,000	
Series 2015 Wastewater Revenue	3/2/2015	0.00%	-	8,083,620	-	-	8,083,620	
Series 2015A Water Revenue	4/16/2015	5.25%	29,660,000	-	-	-	29,660,000	
Series 2015B Water Revenue Refunding	4/16/2015	5.00 - 5.25%	54,020,000	-	-	-	54,020,000	
Series 2016 Wastewater Revenue	4/21/2016	0.00%	-	5,356,380	-	-	5,356,380	
Series 2017 Wastewater Revenue	5/31/2017	0.00%	-	4,594,457	-	-	4,594,457	
Series 2017 Water Revenue Refunding	12/18/2017	5.00%	134,545,000	-	-	-	134,545,000	
Series 2018 Water Revenue	3/26/2018	2.50 - 5.00%	26,700,000	-	-	-	26,700,000	
Series 2018 Wastewater Revenue	6/22/2018	0.00%	-	51,345	-	-	51,345	
Total Revenue Bonds				\$ 323,480,000	\$ 65,262,756	\$ 388,742,756		

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The Series 2007 General Obligation Variable Rate Demand Bonds, utilized to finance the construction of the cruise terminal, are remarketed weekly and reset at an interest rate of 1.48% as June 30, 2018 (see Note VIII).

The Series 2013D General Obligation Variable Rate Bond reset at an interest rate of 3.04% as of June 30, 2018 (See Note VIII).

**B. General Obligation Bonds**

A summary of the requirements to amortize general obligation bonds are as follows:

<b>Year Ending June 30,</b>	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2019	\$ 47,557,656	\$ 29,698,758	\$ 11,560,844	\$ 9,784,194
2020	55,972,895	26,226,673	12,545,160	9,308,656
2021	52,993,589	23,954,418	12,741,645	8,730,967
2022	49,480,455	21,593,359	12,549,961	8,355,983
2023	47,996,441	19,379,345	13,255,322	7,906,758
2024-2028	201,180,165	67,767,681	63,956,696	31,614,892
2029-2033	127,723,025	29,116,870	46,398,237	20,909,345
2034-2038	61,514,404	8,174,957	46,506,858	9,914,552
2039-2043	8,619,318	1,519,426	13,203,809	3,308,893
2044-2048	3,175,000	302,625	10,170,000	1,029,456
<b>Total</b>	<b>\$ 656,212,948</b>	<b>\$ 227,734,112</b>	<b>\$ 242,888,532</b>	<b>\$ 110,863,696</b>

The detailed requirements to amortize general obligation bonds for the major proprietary funds are as follows:

<b>Year Ending June 30,</b>	<b>Wastewater Utility Fund</b>		<b>Parking Facilities Fund</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2019	\$ 7,633,087	\$ 4,200,021	\$ 3,927,755	\$ 5,584,173
2020	8,002,033	3,866,308	4,543,127	5,442,348
2021	8,293,165	3,408,566	4,448,481	5,322,401
2022	8,324,975	3,177,942	4,224,986	5,178,041
2023	8,380,459	2,870,554	4,874,863	5,036,204
2024-2028	37,796,600	9,827,491	26,160,096	21,787,401
2029-2033	14,511,166	4,896,267	31,887,072	16,013,077
2034-2038	6,031,609	2,257,906	40,475,249	7,656,647
2039-2043	3,400,000	1,105,000	9,803,809	2,203,893
2044-2048	2,720,000	272,000	7,450,000	757,456
<b>Total</b>	<b>\$ 105,093,094</b>	<b>\$ 35,882,055</b>	<b>\$ 137,795,438</b>	<b>\$ 74,981,641</b>

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**C. Revenue Bonds**

The Water Revenue Bond covenants require that each year's Water Utility fund net revenue not be less than the greater of (i) the sum of 1.1 times senior debt service and 1.0 times subordinated debt service or (ii) 1.0 times the funding requirements for transfers from the revenue fund to the operating fund, the bond fund, the parity debt service fund, the debt service reserve fund, the subordinate debt service fund, the repair and replacement reserve fund and the rate stabilization fund. Pursuant to the terms of the revenue bond indenture, certain resources have been set aside for the repayment of the revenue bonds. These resources are classified as restricted cash and investments on the Statement of Net Position because their use is limited by applicable bond covenants.

The Wastewater Revenue Bond covenants require that each year's Wastewater Utility fund net revenue will equal at least 1.15 times the amount required during the fiscal year to pay the principal of the Wastewater Revenue Bond, the additional payments and all other indebtedness of the borrower payable from revenues, including without limitation, indebtedness under leases that are treated as capital leases under GAAP, but excluding any general obligation bonds issued to finance wastewater system property. These resources are classified as restricted investments on the Statement of Net Position because their use is limited by applicable bond covenants.

As of June 30, 2018, draws for project expenses of \$1,773,118, \$4,280,164 and \$51,345 from bond issuances in fiscal year 2016, 2017 and 2018 respectively, resulted in total Virginia Resources Authority ("VRA") drawdowns of \$6,104,628 for fiscal year 2018. In conjunction with the state water control board, the VRA administers and manages the Virginia Water Facilities Revolving Fund and the Bonds were sold at 0% interest.

The detailed requirements to amortize Water and Wastewater revenue bonds are as follows:

<u>Year Ending June 30,</u>	<u>Water Revenue</u>		<u>Wastewater Revenue</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 14,200,000	\$ 15,858,467	\$ 4,096,467	\$ -
2020	13,830,000	15,044,375	4,211,328	-
2021	15,965,000	14,311,275	4,212,612	-
2022	17,170,000	13,504,400	4,213,896	-
2023	18,335,000	13,027,150	4,213,896	-
2024-2028	81,395,000	49,803,025	21,069,478	-
2029-2033	49,375,000	34,121,969	16,844,478	-
2034-2038	44,580,000	23,071,275	6,279,322	-
2039-2043	42,670,000	12,791,769	121,279	-
2044-2048	25,960,000	2,029,850	-	-
<b>Total</b>	<b>\$ 323,480,000</b>	<b>\$ 193,563,555</b>	<b>\$ 65,262,756</b>	<b>\$ -</b>

\*Wastewater Revenue Bonds were issued to Virginia Resources Authority at 0% interest

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**D. Current and Advanced Refundings**

Previously, the City of Norfolk defeased certain general obligation and revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the fund's financial statements.

At June 30, 2018, the following defeased bonds from advance refunding are still outstanding:

General Obligation			
Defeased In	Original Issue	Amount	Redemption
2015	2009A	17,775,000	11/1/2019
2015	2012C	39,150,000	4/1/2021
2017	2009A	4,440,000	11/1/2019
2017	2012C	33,925,000	4/1/2021
2017	2013A	31,540,000	8/1/2023
2018	2010G	5,310,000	10/1/2020
2018	2013A	53,815,000	8/1/2023
		<u>\$ 185,955,000</u>	

Water Revenue Bonds			
Defeased In	Original Issue	Amount	Redemption
2015	2008	47,140,000	11/1/2018
2018	2010	17,815,000	11/1/2020
2018	2012	82,650,000	5/1/2022
2018	2013	43,070,000	5/1/2021
		<u>\$ 190,675,000</u>	

**E. Economic Development Authority**

In April 2016, the City and the Economic Development Authority of the City of Norfolk (the "EDA") entered into a financing agreement, with Bank of America, N.A. ("BANA") to provide funds for an economic development project in the City in the maximum principal amount of \$14,500,000. The City and the EDA also entered into a cooperation agreement related to the financing, whereby the City provides a general obligation guarantee of the payments required under the financing agreement. Principal advances under the agreement will bear interest at 1-month LIBOR rate plus 85 basis points which is set at the date of the first advance, and resets on the first day of the calendar month thereafter. Principal payments of \$100,000 are due February 1 in each of the first four years of the agreement, with the balance of the outstanding principal due at maturity in 2021. In addition to funds made available under the cooperation agreement, the EDA expects to pay for debt service on the financing agreement from other sources such as a portion of the City's cigarette tax revenues and lease revenue from the leasing of the facility. At June 30, 2018, \$14,420,000 in funds have been drawn of which \$13,920,000 was outstanding at the end of the year. No further draws will be made.

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**F. Lease Obligations**

Operating Leases:

The City leases various facilities for operational and office space from various lessors under operating leases. Total rental expenditures under these leases were \$4,507,567 for the fiscal year ended June 30, 2018.

Future year lease obligations are listed below:

<b>Year Ending June 30,</b>	<b>Operating Lease Obligations</b>
2019	4,415,295
2020	3,435,873
2021	3,106,643
2022	2,659,592
2023	1,479,214
2024-2028	3,042,020
2029-2033	658,044
<hr/>	
Total minimum lease payments	\$ 18,796,681

**G. Landfill Liability**

The Campostella Landfill was issued a permit by the Virginia Department of Health on February 18, 1983, to operate a construction demolition debris (CDD) waste landfill. The landfill accepted primarily CDD and inert waste in addition to sanitary and debris waste. The landfill stopped receiving waste on June 30, 1992. The Virginia Department of Environmental Quality (DEQ) approved the closure certification and officially designated the facility closed on August 2, 2002. State and federal laws require the City to perform certain maintenance and monitoring activities at the site for 10 years after regulatory closure. During the fiscal year ended June 30, 2010, the DEQ notified the City that it must demonstrate corrective action and years of post-close care costs beyond December 31, 2010. The \$2,589,457 reported as an obligation for landfill closure and post-closure costs at June 30, 2018, reflects the estimated total cost to perform these activities. Actual costs may be higher due to inflation, changes in technology and/or changes in laws.

The Campostella Landfill statistically exceeded groundwater protection standards in May 2002. Until a remedy for corrective action is chosen and approved, \$1,954,408 is included in the liability above for groundwater corrective action as required by state law. It is not anticipated that a corrective action will be approved within one year, as such the entire amount is reported as a long-term liability.

**H. Compensated Absences**

A liability for vested vacation and sick leave benefits is recorded as general long-term obligations. These benefits represent future obligations of the following funds and component units:

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Primary Government	
Governmental Activities:	
General Fund	\$ 17,970,634
Nonmajor governmental funds	1,480,872
Internal service funds	267,532
Total Governmental	<u>\$ 19,719,038</u>
Enterprise funds:	
Water Utility fund	\$ 1,092,544
Wastewater Utility fund	375,300
Parking Facilities fund	235,942
Total Enterprise funds	<u>\$ 1,703,786</u>
Component Unit - School Board	<u>\$ 9,086,289</u>

**I. Debt Limit**

The Commonwealth of Virginia imposes a legal limit of 10 percent of the assessed valuation of taxed real property as a ceiling in the amount of general obligation borrowings, which may be issued by the City without referendum. At June 30, 2018, the City's debt limit is \$1,987,088,097 of which \$907,492,982 is available for the issuance of additional debt. There are no overlapping tax jurisdictions.

**J. Bonds Authorized and Unissued**

A summary of bonds authorized and unissued as of June 30, 2018, are as follows:

Projects	Total
<b>General Obligation Bonds Authorized and Unissued:</b>	
General Capital Improvement Projects	\$ 235,102,265
Storm Water Capital Improvement	1,781,231
Parking Facilities Fund Projects	9,348,509
Wastewater Utility Fund Projects	11,018,569
<b>General Obligation Bonds Authorized and Unissued:</b>	<u>\$ 257,250,574</u>
<b>Revenue Bonds Authorized and Unissued:</b>	
Water Utility Fund Projects	\$ 57,490,656
<b>Revenue Bonds Authorized and Unissued:</b>	<u>\$ 57,490,656</u>
<b>Total Bonds Authorized and Unissued:</b>	<u>\$ 314,741,230</u>

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**K. Changes in Long-Term Obligations**

A summary of fiscal year 2018 changes in long-term obligations, net of unamortized discounts and premiums, are as follows:

	Primary Government			Amounts Due Within One Year
	Beginning Balance, restated	Additions	Reductions	Ending Balance
<b>GOVERNMENTAL ACTIVITIES:</b>				
Bonds and Line of Credit:				
General obligation bonds	\$ 611,875,024	\$ 123,084,974	\$ (78,747,050)	\$ 656,212,948
Net Premiums	53,065,997	19,901,110	(8,999,988)	63,967,119
Total Bonds	<u>664,941,021</u>	<u>142,986,084</u>	<u>(87,747,038)</u>	<u>720,180,067</u>
Other Liabilities:				
Vested compensated absences	18,263,419	11,720,066	(10,531,979)	19,451,506
Other post-employment benefits	48,988,931	26,068,409	(8,869,984)	66,187,356
Retiree's life insurance	165,000	-	(20,000)	145,000
Self-insurance	31,918,233	7,063,273	(7,365,006)	31,616,500
Net Pension Liability	254,616,212	161,278,256	(156,993,873)	258,900,595
Landfill closure and post-closure costs	2,543,671	45,786	-	2,589,457
Total Other Liabilities	<u>356,495,466</u>	<u>206,175,790</u>	<u>(183,780,842)</u>	<u>378,890,414</u>
Governmental Activities				
Long-term liabilities	1,021,436,487	349,161,874	(271,527,880)	1,099,070,481
Internal Service Funds:				
Net Pension Liability	\$ 3,060,974	\$ 1,590,935	\$ (1,659,952)	\$ 2,991,957
Other post-employment benefits	334,451	36,003	(28,196)	342,258
Vested compensated absences	266,541	146,382	(145,391)	267,532
Total Internal Service Funds	<u>3,661,966</u>	<u>1,773,320</u>	<u>(1,833,539)</u>	<u>3,601,747</u>
Total Governmental Activities	<u><u>\$ 1,025,098,453</u></u>	<u><u>\$ 350,935,194</u></u>	<u><u>\$ (273,361,419)</u></u>	<u><u>\$ 1,102,672,228</u></u>
				<u><u>\$ 63,476,769</u></u>
<b>BUSINESS-TYPE ACTIVITIES:</b>				
Bonds and Line of Credit:				
Water utilities	\$ 319,630,000	\$ 161,245,000	\$ (157,395,000)	\$ 323,480,000
Wastewater utilities	166,851,828	17,103,018	(13,598,996)	170,355,850
Parking facilities	140,195,633	32,732,904	(35,133,099)	137,795,438
Net Premiums	56,703,245	33,528,614	(18,318,456)	71,913,403
Total Bonds Payable	<u>683,380,706</u>	<u>244,609,536</u>	<u>(224,445,551)</u>	<u>703,544,691</u>
Other Liabilities:				
Vested compensated absences	1,738,323	1,059,503	(1,094,040)	1,703,786
Net Pension Liability	23,874,694	14,895,713	(13,692,237)	25,078,170
Other post-employment benefits	2,608,620	472,344	(212,151)	2,868,813
Total Other Liabilities	<u>28,221,637</u>	<u>16,427,560</u>	<u>(14,998,428)</u>	<u>29,650,769</u>
Total Business-Type Activities	<u><u>\$ 711,602,343</u></u>	<u><u>\$ 261,037,096</u></u>	<u><u>\$ (239,443,979)</u></u>	<u><u>\$ 733,195,460</u></u>
				<u><u>\$ 30,910,394</u></u>
<b>COMPONENT UNITS:</b>				
Other Liabilities:				
Vested compensated absences	\$ 9,247,154	\$ 10,771,332	\$ (10,932,197)	\$ 9,086,289
Other post-employment benefits	110,149,401	1,046,174	(18,609,217)	92,586,358
Net Pension Liability	350,483,940	-	(57,894,798)	292,589,142
Workers' compensation claims	3,590,006	492,569	(431,417)	3,651,158
Long-term Notes Payable	12,685,000	3,835,000	(100,000)	16,420,000
Claims liability	41,198	517,065	(91,914)	466,349
Component Units long-term obligations	<u><u>\$ 486,196,699</u></u>	<u><u>\$ 16,662,140</u></u>	<u><u>\$ (88,059,543)</u></u>	<u><u>\$ 414,799,296</u></u>
				<u><u>\$ 7,797,765</u></u>

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**X. Pension Plans**

The City and its component units participate in four defined benefit pension retirement plans. These include the Employees' Retirement System (ERS) of the City of Norfolk (Note X.A); a Virginia Retirement System (VRS) agent multiple-employer plan for the benefit of state employees in constitutional offices (Note X.B); a Virginia Retirement System (VRS) cost sharing plan administered by the Commonwealth of Virginia for the benefit of Norfolk School Board employees (Note X.B); and a VRS agent multiple-employer plan for the benefit of Norfolk School Board Political Subdivision Employee (Note X.B). In addition, the School Board has a defined contribution plan.

**A. Employees' Retirement System of the City of Norfolk (ERS):**

**Plan Description**

The ERS is the administrator of a single-employer contributory, defined benefit plan (the Plan) that covers substantially all employees of the City, excluding School Board employees and Constitutional Officers' employees who are covered by the VRS. The ERS provides retirement benefits, as well as death and disability benefits. Cost-of-living adjustments ("COLAs") are not required, are not regularly instituted and are available solely at the discretion of the City Council. The ERS and its benefits are established by Chapter 37 of the Code of the City of Norfolk, Virginia, as amended. ERS pension expenses and liabilities are allocated based on the employer's contribution to the Plan.

**Plan Membership**

As of June 30, 2017, the actuarial valuation and net pension liability measurement date, the following employees were covered by the benefit terms:

Retirees and Beneficiaries receiving benefits:		
General		2,691
Public Safety		1,222
Vested Former Members:		
General		957
Public Safety		286
Active Plan Members:		
General		2,851
Public Safety		1,240
		<u><u>9,247</u></u>

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**Plan Benefits**

The ERS provides retirement benefits, as well as death and disability benefits. All benefits vest after five years of creditable service. Employee eligibility requirements are as follows:

Retirement (for employees who became members prior to July 1, 1980): Normal retirement is the earlier of age 60 or after completion of 30 years of credited service for general employees, and the earlier of age 55 or after the completion of 25 years of credited service for public safety employees. The normal service retirement benefit per annum is equal to 2.0% of average final compensation (average of the three highest years of compensation) times years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5% of average final compensation times years of creditable service, not to exceed 65% of average final compensation. Mandatory retirement is age 65 for public safety employees.

Retirement (for employees who became members on or after July 1, 1980): Normal retirement is the earlier of age 60 or after completion of 30 years of credited service for general employees, and age 55 or after the completion of 25 years of credited service for public safety employees. The normal service retirement benefit per annum for general employees is equal to 1.75% of average final compensation times years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5% of average final compensation times years of creditable service, not to exceed 65% of average final compensation. Mandatory retirement is age 65 for public safety employees. There is no mandatory retirement age for general employees.

Effective December 13, 2011, all employees hired on or after December 2011 are required to meet the vesting requirement of five years in order to be eligible to receive benefits under the Plan with the exception of Norfolk Community Services Board employees. The aforementioned had their prior service with the Norfolk Community Services Board counted towards the five-year vesting requirement without this service being deemed creditable service in the Plan.

Effective January 1, 2015, the City Council adopted Ordinance Number 45,566 that established a Deferred Retirement Option Program (DROP) for policemen and firemen eligible for normal service retirement. Eligible members may elect to participate for a maximum of four years, deferring receipt of a reduced retirement benefit of seventy percent (70%) while continuing employment with the City without loss of any other employee benefits.

Upon the member's election to participate in the DROP; the amount of creditable service and the average final compensation becomes frozen for purposes of determining pension benefits. The participant is considered retired for all purposes related to the Plan and does not accrue additional retirement benefits, except for ad hoc costs-of-living adjustments ("COLAs"), if applicable. The DROP participant's monthly pension is held in lieu of being paid to the participant. Upon termination of employment, the participant will receive the DROP balance and will begin receiving

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the monthly pension directly. The participant's DROP balance is not credited with investment gains and losses.

**Contributions**

Section 37 of the Code of the City of Norfolk, Virginia, established the authority under which the City's obligation to contribute to the Plan is determined. Contribution requirements are actuarially determined at the end of each fiscal year and paid by the City in the ensuing year. Effective January 8, 2015, all Plan members pay contribution on a salary reduction basis in the amount of 5 percent of earnable compensation, with the exception of the City Council members hired before October 5, 2010. Employees of the Norfolk Community Services Board at June 30, 2012, who became City employees on July 1, 2012, were also required to pay member contributions effective January 8, 2015. Total employer contributions to the ERS plan were \$35,493,794 and \$33,457,377 for the years ended June 30, 2018 and 2017, respectively. These contributions combined with employee contributions of \$9,668,000 and \$9,450,000 for the year ended June 30, 2018 and June 30, 2017, respectively were expected to cover the actuarially determined contributions.

**Actuarial Assumptions**

The actuarial assumptions above are based on the presumption that the ERS will continue indefinitely. Were the ERS to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial accrued liability.

For the June 30, 2017 actuarial valuation, the actuarial assumptions included the following:

Actuarial Costs Method	Entry Age Normal
Amortization Method	Level Percent Closed, 20-year Layers
Amortization Growth Rate	3.0%
Asset Valuation Method	3-year Smoothed Value
Inflation Rate	3.0%
Salary Increases – General	Average of 5.64% over a 30-year career; based on rates that vary by year of service and are compounded annually
Salary Increases – Public Safety	Average of 6.68% over a 30-year career; based on rates that vary by year of service and are compounded annually
Investment Rate of Return	7.0%
Mortality	RP-2000 Combined Healthy Mortality projected to 2010 by Scale AA for health lives RP-2000 Disabled Mortality projected to 2010 by Scale AA for disabled lives

The long-term expected rate of return on the ERS investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target

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asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the following table:

<b>Asset Class</b>	<b>30-year 2017</b>	<b>Long-term Expected</b>	<b>Target</b>
		<b>Real Rate of Return</b>	<b>Allocations</b>
Private Core Real Estate	4.75%	7.5%	
Master Limited Partnerships	6.50%	7.5%	
Core Fixed Income	1.00%	30.0%	
Core Plus Income	1.50%	0.0%	
Equity (ACWI IMI)	5.15%	55.0%	
			<b><u>100.0%</u></b>

**Discount Rate**

The discount rate used to measure the total pension liability was 7.07%. The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The GASB 67 depletion schedule, as prepared by the actuary based on those assumptions was presented for 99 years. Based on the assumptions, the pension plan's fiduciary net position was projected to be available to make projected future payments and pay administrative expenses. Projected benefit payments are discounted at the long-term expected return of 7.07% (net of investment expenses) to the extent the fiduciary net position is available to make the payments and at the municipal bond rate to the extent they are not available. The single equivalent rate to determine the total pension liability as of the measurement date of June 30, 2017 was 7.07%.

**Net Pension Liability**

The net pension liability was measured as of June 30, 2017 with an actuarial valuation date of June 30, 2017. Pension expense and liability are allocated to governmental and enterprise funds based on the actual employer contributions. Governmental funds typically used to liquidate the pension liability include the General fund, Storm Water, Towing, Waste Management, Grants, Community Development, Cemeteries, EOC/911 and Resiliency special revenue funds. The employer contributions made in fiscal year 2018 of \$32,422,926 for governmental activities and \$3,070,868 for business-type activities are included as deferred outflows. As of June 30, 2018, the City reported a net pension liability of \$257,322,829 in governmental activities and \$25,078,171 in business-type activities. The net pension liability is allocated based on employer's contributions during the measurement period. The percentage for governmental activities and business-type activities for 2017 was 91.1% and 8.9%, respectively. Changes to the ERS net pension liability are as follows:

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	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
<b>Balances at June 30, 2016</b>	<b>\$ 1,245,862,000</b>	<b>\$ 974,522,000</b>	<b>\$ 271,340,000</b>
Service cost	26,310,000	-	26,310,000
Interest	86,974,000	-	86,974,000
Changes in Benefits Terms	590,000	-	590,000
Contributions - employer	-	33,457,000	(33,457,000)
Contributions - employee	-	9,450,000	(9,450,000)
Net investment income	-	111,228,000	(111,228,000)
Benefits payments, including refunds of member contributions	(83,977,000)	(83,977,000)	-
Difference between expected and actual Experience	(2,543,000)	-	(2,543,000)
Change in assumptions	53,197,000	-	53,197,000
Administrative expense	-	(668,000)	668,000
<b>Balances at June 30, 2017</b>	<b>\$ 1,326,413,000</b>	<b>\$ 1,044,012,000</b>	<b>\$ 282,401,000</b>

**Sensitivity of the net pension liability to changes in the discount rate**

The following presents the net pension liability, calculated using the discount rate of 7.07%, as well as what the City's ERS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.07%) or 1-percentage-point higher (8.07%) than the current rate:

	1% Decrease (6.07%)	Current Discount Rate (7.07%)	1% Increase (8.07%)
ERS Net Pension Liability	\$ 428,092,000	\$ 282,401,000	\$ 159,146,000

**Pension Expense and Deferred Inflows and Outflows of Resources Related to the ERS Pension**

Total pension expense included for the City is \$38,876,116 for Governmental activities and \$3,845,955 for business-type activities or \$42,722,071 combined for the City.

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At June 30, 2018, deferred (inflows) outflows reported in the City's financial statements are as follows:

	Deferred (Inflows) Outflows of Resources		
	Governmental Activities	Business-Type Activities	Total
Net difference between expected and actual experience	\$ (6,040,215)	\$ (585,772)	\$ (6,625,987)
Net difference between projected and actual earnings on plan investments	7,401,877	725,710	8,127,587
Change in assumptions	(3,561,580)	(343,662)	(3,905,242)
Change in assumptions	36,354,694	3,543,059	39,897,753
Net change in proportionate share (Internal Service Funds)	1,890	-	1,890
Net change in proportionate share (Parking Facilities)	-	(97,682)	(97,682)
Net change in proportionate share (Water and Wastewater Utility)	-	180,174	180,174
Net change in proportionate share (Governmental Funds)	(84,385)	-	(84,385)
	<u>\$ 34,072,281</u>	<u>\$ 3,421,827</u>	<u>\$ 37,494,108</u>

Deferred outflows related to pension contributions made after the measurement date of \$32,422,925 for governmental activities and \$3,070,865 for business-type activities, but before the end of the City's contributing reporting period will be recognized as a reduction of the net pension liability in the subsequent fiscal period. Other amounts related to deferred (inflows) outflows of resources will be recognized in pension expense as follows:

<b>Amortization of Deferred (Inflows) Outflows</b>				
Year Ended:	Governmental Activities	Business-type Activities	Total	
2019	\$ 4,553,396	\$ 500,868	\$ 5,054,264	
2020	23,485,298	2,323,083	25,808,381	
2021	14,060,843	1,331,619	15,392,462	
2022	(8,027,256)	(733,743)	(8,760,999)	
2023	-	-	-	
	<u>\$ 34,072,281</u>	<u>\$ 3,421,827</u>	<u>\$ 37,494,108</u>	

## B. Virginia Retirement System (VRS)

### Plan Description – Virginia Retirement System

The School Board and the City of Norfolk both participate in pensions offered by the Virginia Retirement System (VRS), which include two agent multiple-employer plans (for school employee political subdivisions and City of Norfolk state constitutional offices) and a cost-sharing multiple-employer (for teachers) defined benefit pension plan as well as a hybrid plan which contains both defined benefit and defined contribution aspects. All full-time, salaried permanent employees of the School Board, Constitutional Offices of the City of Norfolk, (Commissioner of the Revenue, City Treasurer, Circuit Courts, Commonwealth's Attorney, Sheriff employees) and

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other members of the School Board must participate in the VRS and are automatically covered by the respective VRS Plans upon employment. Members earn one month of service credit for each month they are employed and for which the City or the School Board and member pay contributions to VRS. Benefits vest after five years of service. Members hired before July 1, 2010, and who were vested as of January 1, 2013, are covered under Plan 1. Members hired or rehired on or after July 1, 2010, and Plan 1 members who were not vested on January 1, 2013, are covered under Plan 2. Members hired on or after January 1, 2014, are covered under the Hybrid Retirement Plan (Hybrid Plan), as well as Plan 1 and 2 members who are eligible and opted in during the election window which was January 1, 2014 to April 30, 2014. The Hybrid Plan combines the features of a defined benefit plan and a defined contribution plan. The defined benefit is based on a member's age, creditable service and average final compensation. The benefit from the defined contribution component is dependent upon member and employee contributions as well as investment performance. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2 and the Hybrid Plan, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for nonhazardous duty members is 1.70%. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013, unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. The multiplier for the Hybrid Plan is 1.0%. The 2014 valuation included hybrid retirement plan members for the first time.

Retirees are eligible for an annual cost-of-living-adjustment (COLA) effective July 1 of the second calendar year after retirement. Under Plan 1, the COLA cannot exceed 5.0%; under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.0%. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The VRS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for the VRS. The report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications> or obtained by writing the VRS System at P.O. Box 2500, Richmond, Virginia 23218-2500.

Detailed information about the VRS Teacher Retirement Plan's fiduciary net position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

The GASB 68 agent multiple-employer plan's annual actuarial report prepared by VRS for School Board contains combined information related to the School Board and Southeastern Cooperative Educational Programs (SECEP), a joint venture for which the School Board acts as a fiscal agent. As such, amounts reflected herein present only the School Board's proportionate share as of the measurement date which amounted to 99.26% and 99.18% as of June 30, 2017 and 2016, respectively. The

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City's participation in the VRS agent multiple-employer plan resides solely within the governmental activities. The GASB 68 cost sharing plan's actuarial report contains combined information related to the School Board, SECEP, the Governor's School and Access College. As such, amounts herein present only the School Board's proportionate share as of the measurement date of the VRS Teacher Retirement Plan which amounted to 2.701% as of June 30, 2017 and 2.403% as of June 30, 2016.

**Contributions**

The contribution requirement for active employees governed by Section 51.1-145 of the Code of Virginia (1950), as amended, by the Virginia General Assembly changed the funding requirements for VRS employees. Employees are required to contribute 5.00% of their annual reported compensation to the VRS. The Employers actuarially determined contribution rates as of June 30, 2017, not including the employee 5.00% contributions were 8.95% of covered payroll for the City of Norfolk employees, 14.66% of the annual covered payroll for School Board professional employees and 8.49% of annual covered payroll for the other school employees based on the June 30, 2015 actuarial valuation. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The School Board's contributions to the VRS for the fiscal years ended June 30, 2018, 2017 and 2016 for professional employees were \$29,028,062, \$26,582,248 and \$25,755,298, respectively: such amounts comprised 100% of the required statutory contributions for each of the three years. The School Board's contributions to the VRS for political subdivisions for the years ended June 30, 2018, 2017, and 2016 were \$1,434,613, \$1,408,370 and \$1,794,211, respectively.

The City of Norfolk contributions to the VRS for constitutional offices for the fiscal years ended June 30, 2018, 2017 and 2016 were \$2,337,890, \$2,406,428 and \$2,804,570, respectively, which is 100% of the actuarial determined contribution.

**Actuarial Assumptions**

The total pension liability was based on an actuarial valuation as of June 30, 2016, using the entry age normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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Actuarial cost method	Entry Age Normal
Amortization method	Level Percent Closed
Remaining amortization period	28, 20, and 19 years
Asset valuation method	5-year Smoothed Market
Actuarial assumptions	
Investment rate of return	7%, net of investment expense
Projected salary increases	3.50-5.35%
Includes inflation at	2.50%
Cost-of-living adjustments	2.25-2.5%
Mortality rates were based on the following (Agent Multiple Plans)	
Pre-Retirement	RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates
Post-Retirement	RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1% increase compounded from ages 70 to 90
Post-Disablement	RP-2014 Disabled Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates
Mortality rates were based on the following (Cost Sharing Plan+A30)	
Pre-Retirement	RP-2014 White Collar Employee rates to age 80, White Collar Healthy Annuitant rates at ages 81 and older projected with scale BB to 2020
Post-Retirement	RP-2014 White Collar Employee rates to age 49, White Collar Health Annuitant rates at ages 50 and older projected with scale BB; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2% increase compounded from ages 75 to 90
Post-Disablement	RP-2041 Disabled Mortality Rates projected with scale BB to 2020; 115% for males and females

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follow:

- Updated mortality table to 2020
- Lowered rates at older ages and changed final retirement from 70 to 75
- Adjust withdrawal rates to better fit experience
- Lowered disability rates
- Salary scale remained unchanged

The long-term expected rate of return on pension plan investments was determined using a lag-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected

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inflation. The target allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic	Weighted Average
		Long-term	Long-term
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
*Expected arithmetic nominal return			7.30%

\*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

#### **Discount Rate**

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, the assumption is that the employer will contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

#### **Pension Expense and Deferred Inflows and Outflows of Resources**

Deferred inflows and outflows are recorded for the net differences between actual and projected investment earnings, contributions made subsequent to the measurement date of June 30, 2017, and changes in proportionate share between June 30, 2017 and June 30, 2018. Pension expense reported for the fiscal year ended June 30, 2018 for the City of Norfolk, the School Board Political Subdivisions and the School Board Teachers was \$1,032,682, \$444,864 and \$16,191,191, respectively. At June

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30, 2018, the reported deferred inflows of resources related to pensions from the following sources:

<b>Deferred Inflows of Resources</b>					
	<b>Agent Multiple-Employer Plans</b>			<b>Cost Sharing Plan</b>	
	City of Norfolk Constitutional Offices	School Board Non-Professional		School Board Teachers	
Change in proportion and difference between contribution and proportionate rate	\$ -	\$ 12,826		\$ 16,244,230	
Change in assumptions	658,164	531,530		-	
Differences between expected and actual experience	1,328,606	868,785		20,099,179	
Net difference between projected and actual earnings on Plan investments	<u>1,410,243</u>	<u>4,157,218</u>		<u>6,170,688</u>	
	<u><u>\$ 3,397,013</u></u>	<u><u>\$ 5,570,359</u></u>		<u><u>\$ 42,514,097</u></u>	

<b>Deferred Outflows of Resources</b>					
	<b>Agent Multiple-Employer Plans</b>			<b>Cost Sharing Plan</b>	
	City of Norfolk Constitutional Offices	School Board Non-Professional		School Board Teachers	
Change in proportion and difference between contribution and proportionate rate	\$ -	\$ 9,873		\$ 69,018	
Differences between expected and actual experience	-	3,060,270		-	
Net difference between projected and actual earnings on plan investments	<u>-</u>	<u>-</u>		<u>-</u>	
	<u><u>\$ -</u></u>	<u><u>\$ 3,070,143</u></u>		<u><u>\$ 69,018</u></u>	

Contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. The City of Norfolk, the School Board Teachers and the School Board Political Subdivisions contributed \$2,337,890, \$29,028,062 and \$1,434,613, respectively in fiscal year 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Amortization of Deferred Inflows and Outflows**

Year Ended:	<b>Agent Multiple-Employer Plans</b>			<b>Cost Sharing Plan</b>	
	City of Norfolk Constitutional Employees	School Board Political Subdivisions		School Board Teachers	
2019	\$ (1,749,283)	\$ (1,772,535)		\$ (15,883,553)	
2020	(347,541)	(2,995)		(5,075,166)	
2021	(385,130)	30,212		(7,062,325)	
2022	(915,059)	(754,898)		(12,007,041)	
2023	<u>-</u>	<u>-</u>		<u>(2,416,994)</u>	
	<u><u>\$ (3,397,013)</u></u>	<u><u>\$ (2,500,216)</u></u>		<u><u>\$ (42,445,079)</u></u>	

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**Plan Membership**

As of June 30, 2016, actuarial valuation, the plan memberships consisted of the following:

	<b>Agent Multiple-Employer Plans</b>		
	City of Norfolk	School Board	
	Constitutional Offices	Political Subdivisions	
Inactive member or their beneficiaries			
currently receiving benefits	269	609	
Inactive members:			
Vested	92	44	
Non-vested	225	255	
Active elsewhere in the VRS	195	100	
Total inactive members	<u>512</u>	<u>399</u>	
Active members	<u>604</u>	<u>643</u>	
Total	<u><u>1,385</u></u>	<u><u>1,651</u></u>	

**Change in Net Pension Liability**

Below are the schedules of changes in Net Pension Liability for each of the agent multiple-employer plans:

**City of Norfolk**

	Total Pension Liability (a)	Increase(Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2016	\$ 97,751,527	\$ 87,540,574	\$ 10,210,953
Service cost	3,487,288	-	3,487,288
Interest	6,689,417	-	6,689,417
Change in assumptions	(893,223)	-	(893,223)
Difference between expected and actual	(599,933)	-	(599,933)
Contributions - employer	-	2,355,587	(2,355,587)
Contributions - employee	-	1,362,997	(1,362,997)
Net Investment income	-	10,677,625	(10,677,625)
Benefits payments, including			
refunds of employee contributions	(4,376,843)	(4,376,843)	-
Administrative expense	-	(61,057)	61,057
Other changes	-	(9,527)	9,527
Balance at June 30, 2017	<u><u>\$ 102,058,233</u></u>	<u><u>\$ 97,489,356</u></u>	<u><u>\$ 4,568,877</u></u>

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School Board Political Subdivisions

	Total Pension Liability (a)	Increase(Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<b>Balance at June 30, 2016</b>	<b>\$ 87,659,874</b>	<b>\$ 73,963,087</b>	<b>\$ 13,696,787</b>
Service cost	1,552,054	-	1,552,054
Interest	5,976,337	-	5,976,337
Change in assumptions	(850,485)	-	(850,485)
Difference between expected and actual	(645,773)	-	(645,773)
Contributions - employer	-	1,408,370	(1,408,370)
Contributions - employee	-	807,063	(807,063)
Net Investment income	-	8,876,608	(8,876,608)
Benefits payments, including refunds of employee contributions	(4,705,681)	(4,705,681)	-
Administrative expense	-	(52,631)	52,631
Change in proportionate share	75,502	41,197	34,305
Other changes	-	(17,088)	17,088
<b>Balance at June 30, 2017</b>	<b>\$ 89,061,828</b>	<b>\$ 80,320,925</b>	<b>\$ 8,740,903</b>

All amounts reflected in this schedule are based on the School Board's proportionate share as of the June 30, 2017 measurement date for the June 30, 2018 net pension liability of 99.26 %.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

1%	Current	1%
Decrease	Discount	Increase
(6.0%)	Rate (7.0%)	(8.0%)

**Agent Multiple-Employer Plans**

School Board non-professional employee net pension liability	\$ 23,730,918	\$ 8,740,903	\$ 5,234,423
City of Norfolk's constitutional offices net pension liability	\$ 18,924,065	\$ 4,568,877	\$ (7,269,185)

**Cost Sharing Plans**

School Board Teachers net pension liability	\$ 423,880,984	\$ 283,848,240	\$ 168,013,653
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**Payables to the Pension Plan**

As of June 30, 2018, the School Board reported a payable of \$196,949 for the outstanding amount of contributions to the political subdivision pension plan required for the year ended June 30, 2018.

As of June 30, 2018, the School Board reported a payable of \$3,590,980 for the outstanding amount of contributions to the teacher's pension plan required for the year ended June 30, 2018.

**XI. Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. In the calendar year 2018, the deferral may be up to 25 percent of gross income up to a maximum of \$18,500 per year with increases to the annual contribution limit for catch-up contributions for participants over age 50 or for participants for three years prior to normal retirement age. The benefits from the deferred compensation plan are not available to employees until termination, retirement, death or unforeseeable emergency.

The laws governing the City's deferred compensation plan have been complied with pursuant to the provisions of IRC Section 457. Accordingly, all assets of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

**XII. Other Post-employment Benefits (OPEB)**

**A. City of Norfolk Sponsored Other Post-employment Benefits**

**Plan Description**

The City of Norfolk and the Norfolk School Board provide post-retirement healthcare benefits, in accordance with adopted statutes, which require extending access to healthcare benefits to certain retirees. General City employees are eligible to participate at the earlier of age 55 and 15 years of creditable service or 25 years of creditable service. City firefighters and police officers, who have a mandatory retirement age of 65, are eligible to participate at the earlier of age 50 and 15 years of creditable service or 20 years of creditable service. Employees who retire on accidental disability are also eligible. Grandfathered school employees (hired prior to July 1, 2008) who are older than age 50 with at least 5 years of service are eligible as well as non-grandfathered school employees who are older than age 50 with 15 years of creditable service. Retirees that elect to participate may purchase healthcare coverage using the same health care plans and premium structures available to active employees. Retiree participation, plan/benefit elections and contributions, are administered by the City's Retirement Bureau and the City's and the School Boards' benefits offices based on the participation guidelines established by the Norfolk City Council and the Norfolk School Board. Benefits are currently managed on a pay-as-you-go basis and a separate financial report of the OPEB Plan is not issued. No assets

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are accumulated in a trust that meets the criteria established in paragraph 4 of Governmental Accounting Standards Board Statement No. 75. Therefore, rather than a net OPEB liability, the City and School Board report a total OPEB liability. The Plan is considered a single-employer plan. As of July 1, 2012, the City became responsible for payment of the Line of Duty Act benefits (LODA). These benefits, which cover certain hazardous duty personnel who are paid or who volunteer, are included as part of the total OPEB liability in the City's financial statements.

**Employees Covered by Benefit Terms**

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the Plan:

	City	Line of Duty	School Board
Inactive member or their beneficiaries			
currently receiving benefits	197	70	204
Active members	3,944	1,148	4,541
Total	<u>4,141</u>	<u>1,218</u>	<u>4,745</u>

**Contributions**

No employee contributions are required prior to retirement to participate in or fund the OPEB Plan. The City and the School Board committed to a set contribution amount as an explicit subsidy of \$25 or \$35 per month for the City and \$75 per month for the School Boards per participating retiree. Effective January 1, 2014, the City and the School Boards eliminated healthcare coverage for post 65 retirees (e.g. retirees eligible for Medicare) along with the \$25 or \$35 and \$75 monthly subsidy, respectively. The pre-65 retirees will continue to receive the subsidy and will participate in the consortium with the active employees. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans. The Plan sponsors also pay an implicit subsidy by allowing retirees to participate in the same benefit plans under the same premium structure as available to active employees, however, the Plan sponsors are not required to fund the plan other than the pay-as-you-go amount necessary to provide current benefits to employees.

**Total OPEB Liability**

The City's and the School Boards' total OPEB liability was measured as of June 30, 2017. The total OPEB liability was determined by an actuarial valuation performed as of June 30, 2017 using updated actuarial assumptions applied to all periods included in the measurement.

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**Actuarial Assumptions**

For the June 30, 2017 actuarial valuation, the actuarial assumptions included the following:

Actuarial Costs Method	Entry Age Normal
Amortization Method	Level Percent Open
Asset Valuation Method	Not Applicable
Investment Rate of Return	3.58%
Rate of Salary Increases	3.50%
Rate of Medical Inflation	7.55% (Pre-Medicare) grading to 3.00% over 18 years
Mortality (City)	108% of RP-2014 adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages<86) thereafter 100% of RP-2014 Disabled Mortality adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages<86) thereafter
Mortality (School Board)	RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020 RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant at ages 50 and older projected with Scale BB to 2020; males 1% increase compounded from ages 70 to 90; females setback 3 years with 1.5% increase compounded from ages 65 to 74 and 2% increase compounded from ages 75 to 90 RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; 115% of rates for males and females

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Actuarial valuations are subjected to continual revisions as actual results are compared to past expectations and new estimates are made about the future.

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**Discount Rate**

The discount rate used to measure the total OPEB liability as of June 30, 2017 was 3.58%. Since the Plan utilizes a pay-as-you-go contribution policy, the discount rate used at the June 30, 2017 measurement date was based on the Bond Buyer GO 20-Bond Municipal Bond Index.

**Changes in Total OPEB Liability**

The total pension liability was measured at of June 30, 2017 with an actuarial valuation date of June 30, 2017. OPEB expense and liability are allocated to governmental and enterprise funds. As of June 30, 2018, the City reported a total OPEB liability of \$66,256,614 in governmental activities and \$2,868,813 in business-type activities. Changes to the total OPEB liability are as follows:

	City	Line of Duty	School Board	Total OPEB Liability
<b>Balance at June 30, 2016</b>	<b>\$ 29,647,567</b>	<b>\$ 22,284,435</b>	<b>\$ 60,290,035</b>	<b>\$ 112,222,037</b>
Service cost	2,638,578	991,486	1,468,830	5,098,894
Interest	864,633	637,503	1,702,533	3,204,669
Change in benefits	-	19,652,972	-	19,652,972
Difference between expected and actual	(1,413,447)	(2,397)	(3,274,812)	(4,690,656)
Assumption changes	1,815,771	(5,648,603)	(10,475,847)	(14,308,679)
Contributions - employer	-	-	-	-
Net Investment income	-	-	-	-
Benefits payments	(1,247,913)	(822,158)	(2,580,746)	(4,650,817)
Administrative expense	-	-	-	-
<b>Balance at June 30, 2017</b>	<b>\$ 32,305,189</b>	<b>\$ 37,093,238</b>	<b>\$ 47,129,993</b>	<b>\$ 116,528,420</b>

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents the total OPEB liability using the discount rate of 3.58%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current rate:

	1%	Current	1%
	Decrease (2.58%)	Discount Rate (3.58%)	Increase (4.58%)
City	\$ 36,830,512	\$ 32,305,189	\$ 28,616,463
Line of Duty	\$ 42,289,273	\$ 37,093,238	\$ 32,857,795
School Board	\$ 53,731,980	\$ 47,129,993	\$ 41,748,517

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**Sensitivity of the Total OPEB Liability to Changes in Healthcare Cost Trend Rates**

The following presents the total OPEB liability as well as what the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

	Healthcare 1% Decrease (6.55% decreasing to 2.00%)	Cost Trend Rates (7.55% decreasing to 3.00%)	1% Increase (8.55% decreasing to 4.00%)
City	\$ 30,135,827	\$ 32,305,189	\$ 34,712,151
Line of Duty	\$ 34,602,349	\$ 37,093,238	\$ 39,856,943
School Board	\$ 43,965,115	\$ 47,129,993	\$ 50,641,507

**OPEB Expense and Deferred Inflows and Outflows of Resources**

OPEB expense reported for the fiscal year ended June 30, 2018 for the City (including Line of Duty) and the School Board was \$24,035,362 and \$1,206,982, respectively. At June 30, 2018, the reported deferred inflows of resources and deferred outflows of resources related to the OPEB Plan from the following sources:

<b>Deferred Inflows of Resources</b>			
	City	Line of Duty	School Board
Change in assumptions	\$ -	\$ 4,841,660	\$ 8,979,297
Net change in proportionate share (Internal Service Funds)	17,443		
Net change in proportionate share (Parking Facilities)	658		
Net change in proportionate share (Governmental Funds)	3,289		
Differences between expected and actual experience	1,211,526	2,055	2,806,981
<b>Total</b>	<b>\$ 1,232,916</b>	<b>\$ 4,843,715</b>	<b>\$ 11,786,278</b>

<b>Deferred Outflows of Resources</b>			
	City	Line of Duty	School Board
Change in assumptions	\$ 1,556,375	\$ -	\$ -
Net change in proportionate share (Water & Wastewater Utility)	21,390		
Differences between expected and actual experience	-	-	-
<b>Total</b>	<b>\$ 1,577,765</b>	<b>\$ -</b>	<b>\$ -</b>

Contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the fiscal year ended June 30, 2019. The City and the School Board contributed \$2,253,934 and \$1,262,442, respectively in fiscal year 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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**Amortization of Deferred Inflows and Outflows**

Year Ended:	City	Line of Duty	School Board
2019	\$ 57,475	\$ (807,285)	\$ (1,964,381)
2020	57,475	(807,285)	(1,964,381)
2021	57,475	(807,285)	(1,964,381)
2022	57,475	(807,286)	(1,964,381)
2023	57,475	(807,287)	(1,964,381)
2024-2028	<u>57,474</u>	<u>(807,287)</u>	<u>(1,964,373)</u>
	<u><u>\$ 344,849</u></u>	<u><u>\$ (4,843,715)</u></u>	<u><u>\$ (11,786,278)</u></u>

**Other OPEB Plans**

The City provides supplemental life insurance benefits through General fund appropriation to the state employees of its constitutional offices. The respective costs and related net OPEB liability of these benefits are not significant.

**B. Virginia Retirement System Post-employment Benefits Trust Funds**

The Virginia Retirement System (VRS) is an independent agency of the Commonwealth of Virginia. VRS administers several post-employment benefit trust funds. The School Board participates in two of those funds, the Group Life Insurance Plan (GLI) and the Retiree Health Insurance Credit Plan (HIC). The VRS Board of Trustees is responsible for the general administration and operation of the pension plans and other employee benefit plans. VRS issues a Comprehensive Annual Financial Report (CAFR) containing the financial statements and required supplementary information for all of the system's pension and other employee benefit trust funds. The VRS CAFR is publicly available on the VRS website at [www.varetire.org](http://www.varetire.org). The pension and other trust funds administered by VRS are classified as fiduciary funds and are included in the basic financial statements of the Commonwealth of Virginia.

**Group Life Insurance (GLI)**

The Virginia Retirement System Group Life Insurance Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLI program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers.

**Plan Description**

The VRS Group Life Insurance Program upon employment automatically covers all full-time salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions. In addition to the basic GLI benefits,

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members are also eligible to elect additional coverage for themselves as well as spouse or dependent children through the Optimal Group Life Insurance Program.

**Contributions**

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate of the GLI Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% of the 1.31% and the employer component was 0.52% of the covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability.

**Actuarial Assumptions**

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary Increases, including inflation	
Teachers	3.5% - 5.35%
Locality – General employees	3.5% - 5.35%
Investment Rate of Return	7.0% net of plan investment expenses, including inflation
Mortality Rates – Teachers:	
Pre-Retirement	RP-2014 White Collar Employee Rates to age 80, White Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020
Post-Retirement	RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant rates at ages 50 and older projected with Scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2% increase compounded from ages 75 to 90
Post-Disablement	RP-2014 Disability Mortality Rates with Scale BB to 2020; 115% of rates for males and females

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The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumption as a result of the experience study are as follows:

Mortality Rates	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

The estimated Group Life Insurance OPEB liability (NOL) applicable to the School Board determined by VRS in accordance with GASB Statement No. 74 less the School Board's proportion of the Plan Fiduciary Net Position is as follows:

Total GLI OPEB Liability	\$ 34,249,839
Plan Fiduciary Net Position	<u>18,089,171</u>
GLI Net OPEB Liability	<u>\$ 16,160,668</u>

#### **Discount Rate**

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projections of cash flows used to determine the discount rate assumed that employer contributions would be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the school divisions for the VRS GLI OPEB plan will be subject to the portion of the VRS Board certified rates that are funded by the Virginia Assembly. From July 1, 2019 on, school divisions are assumed to contribute 100% of the actuarially determined contribution rates.

#### **Long-Term Expected Rate of Return**

The long-term expected rate of return on VRS System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

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Asset Class (Strategy)	Target Allocation	Arithmetic	Weighted Average
		Long-term Expected Real Rate of Return	Long-term Expected Real Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
		Inflation	2.50%
		*Expected arithmetic nominal return	<u>7.30%</u>

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the net OPEB liability using the discount rate of 7.0%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
GLI Net OPEB Liability - Teachers	\$ 19,296,417	\$ 14,976,053	\$ 11,370,748
GLI Net OPEB Liability - Political Subdivisions	\$ 1,530,466	\$ 1,184,614	\$ 902,736

**VRS GLI OPEB Expense and Deferred Inflows and Outflows of Resources for Teachers**

For the year ended June 30, 2018, the School Board recognized OPEB Group Life Insurance expense of \$89,395. At June 30, 2018, the School Board reported deferred outflows of resources and deferred inflows of resources related to VRS GLI OPEB as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in proportion and difference between contribution and proportionate rate	\$ -	\$ 511,111
Change in assumptions	-	771,794
Differences between expected and actual experience	5,058	331,624
Net difference between projected and actual earnings on Plan investments	-	563,247
Contributions after measurement date	2,358,991	\$ 2,177,776
	<u>\$ 2,364,049</u>	<u>\$ 2,177,776</u>

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to GLI OPEB will be recognized in GLI OPEB expense as follows:

**Amortization of Deferred Inflows and Outflows**

Year Ended:	\$	
2019	\$	(473,166)
2020		(473,166)
2021		(473,166)
2022		(473,194)
2023		<u>(280,026)</u>
	<u>\$</u>	<u>(2,172,718)</u>

**VRS GLI OPEB Expense and Deferred Inflows and Outflows of Resources for Political Subdivisions**

For the year ended June 30, 2018, the School Board recognized OPEB Group Life Insurance expense of \$14,626 and a Net OPEB liability of \$1,184,614. At June 30, 2018, the School Board reported deferred outflows of resources of \$200,057, of which \$197,106 was due to contributions subsequent to the measurement date. The School Board also reported deferred inflows of resources \$131,624 related to VRS GLI OPEB.

**Employer Contribution**

Employers' proportionate shares were calculated based on historical employer contributions. Although GASB Statement No. 75 encourages the use of the employer's projected long-term contribution efforts to the other post-employment benefit plan, allocating on the basis of historical employer contributions is considered acceptable. Employer contributions recognized by the VRS GLI OPEB Plan that are not representative of the future contribution efforts are excluded in the determination of employers' proportionate shares. The School Board's total employer contribution into the GLI program for the year ended June 30, 2017 was \$1,205,119.

**Health Insurance Credit Plan (HIC)**

**Plan Description**

The Virginia Teacher Employee Health Insurance Credit Program automatically covers all full-time, salaried, permanent (professional) employees of public school divisions. This plan is administered by the Virginia Retirement System along with other pension and OPEB plans. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and end upon the retiree's death. The program was established in 1993 for retired teacher employees covered under VRS who retired with at least 15 years of service credit. At retirement, for teacher and other professional school employees, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount. For teachers

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or other professional employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is either:

- \$4.00 per month multiplied by twice the amount of service credit, or
- \$4.00 per month multiplied by the amount of service earned had the employee been active until age 60, whichever is lower.

**Contributions**

The contribution requirement for active employees is governed by §51.1-1401(E) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to the school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2018 was 1.23% of covered employee compensation for employees in the VRS Teacher Employee Health Insurance Credit Program. This rate was based on an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

**Actuarial Assumptions**

The total Teacher Health Insurance Credit OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary Increases, including inflation	3.5% - 5.95%
Investment Rate of Return	7.0% net of plan investment expenses, including inflation
Mortality Rates – Teachers:	
Pre-Retirement	RP-2014 White Collar Employee Rates to age 80, White Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020
Post-Retirement	RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant rates at ages 50 and older projected with Scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2% increase compounded from ages 75 to 90
Post-Disablement	RP-2014 Disability Mortality Rates with Scale BB to 2020; 115% of rates for males and females

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The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumption as a result of the experience study are as follows:

Mortality Rates	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

The net Health Insurance Credit OPEB liability (NOL) was determined in accordance with GASB Statement No. 74. As of June 30, 2017, the NOL portion of the VRS Teacher Health Insurance Credit Program applicable to the School Board is as follows:

Total Teacher HIC OPEB Liability	\$ 36,846,954
Plan Fiduciary Net Position	<u>7,551,257</u>
HIC Net OPEB Liability	<u><u>\$ 29,295,697</u></u>

Plan fiduciary net position as a percentage of the total Teacher HIC liability was 7.04%. The total Teacher HIC OPEB liability is calculated by the VRS actuary, and each plan's fiduciary net position is reported in the VRS financial statements.

#### **Discount Rate**

The discount rate used to measure the total HIC OPEB liability was 7.00%. The projections of cash flows used to determine the discount rate assumed that employer contributions would be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the school divisions for the VRS HIC OPEB plan will be subject to the portion of the VRS Board certified rates that are funded by the Virginia Assembly. From July 1, 2019 on, school divisions are assumed to contribute 100% of the actuarially determined contribution rates.

#### **Long-Term Expected Rate of Return**

The long-term expected rate of return on VRS System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of VRS System investment expense and inflation) are developed for each major asset class. The target asset allocation

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and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Asset Class (Strategy)</b>	<b>Target Allocation</b>	<b>Arithmetic</b>	<b>Weighted Average</b>
		<b>Long-term</b>	<b>Long-term</b>
		<b>Expected Real Rate of Return</b>	<b>Expected Real Rate of Return</b>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
<b>Total</b>	<b>100.00%</b>		<b>4.80%</b>
		<b>Inflation</b>	<b>2.50%</b>
*Expected arithmetic nominal return			<b>7.30%</b>

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the net OPEB liability using the discount rate of 7.0%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	<b>1% Decrease (6.0%)</b>	<b>Current Discount Rate (7.0%)</b>	<b>1% Increase (8.0%)</b>
HIC Net OPEB Liability	\$ 32,673,489	\$ 29,295,697	\$ 26,385,653

**VRS HIC OPEB Expense and Deferred Inflows and Outflows of Resources**

For the year ended June 30, 2018, the School Board recognized OPEB Health Insurance Credit expense of \$2,227,779. At June 30, 2018, the School Board reported deferred outflows of resources and deferred inflows of resources related to VRS HIC OPEB as follows:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Change in assumptions	\$ -	\$ 1,041,879
Differences between expected and actual experience	8,561	52,992
Net difference between projected and actual earnings on		
Plan investments	-	300,854
Contributions after measurement date	2,201,938	
	<b>\$ 2,210,499</b>	<b>\$ 1,395,725</b>

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Other amounts reported as deferred outflows of resources and deferred inflows of resources related to GLI OPEB will be recognized in GLI OPEB expense as follows:

**Amortization of Deferred Inflows and Outflows**

Year Ended:	\$	
2019	\$	(291,100)
2020		(291,100)
2021		(291,100)
2022		(290,864)
2023		<u>(223,000)</u>
	<u>\$</u>	<u>(1,387,164)</u>

**Employer Contribution**

Employers' proportionate shares were calculated based on historical employer contributions. Although GASB Statement No. 75 encourages the use of the employer's projected long-term contribution efforts to the other post-employment benefit plan, allocating on the basis of historical employer contributions is considered acceptable. Employer contributions recognized by the VRS HIC OPEB Plan that are not representative of the future contribution efforts are excluded in the determination of employers' proportionate shares. The School Board's total employer contribution into the HIC program for the year ended June 30, 2017 was \$2,022,912.

**Other OPEB Plans**

The City provides supplemental life insurance benefits through General fund appropriation to the state employees of its constitutional offices. The respective costs and related net OPEB liability of these benefits are not significant.

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**XIII. Interfund Receivable and Payable Balances**

The composition of interfund activity as June 30, 2018, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Capital Projects fund	\$ 5,256,709
	Non-major Governmental funds	2,874,453
	Water Utility fund	141,096
	<u>Total General fund</u>	<u>\$ 8,272,258</u>
Capital Projects fund	Parking Facilities fund	\$ 15,207,089
	Water Utility fund	13,125,200
	Wastewater Utility fund	196,001
	Non-major Governmental funds	147,096
	<u>Total Capital Projects fund</u>	<u>\$ 28,675,386</u>
Non-major Governmental funds	General fund	\$ 127,841
	<u>Total Non-major Governmental funds</u>	<u>\$ 127,841</u>
	<b>Total Governmental funds</b>	<b>\$ 37,075,485</b>
<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Utility fund	General fund	\$ 233
	Wastewater Utility fund	30,144
	<u>Total Water Utility fund</u>	<u>\$ 30,377</u>
	<b>Total Enterprise and Internal Service funds</b>	<b>\$ 30,377</b>
	<b>Total Due from Other funds</b>	<b>\$ 37,105,862</b>
<u>Payable Fund</u>	<u>Receivable Fund</u>	
General fund	Non-major Governmental funds	\$ 127,841
	Water Utility fund	233
	<u>Total General fund</u>	<u>\$ 128,074</u>
Capital Projects fund	General fund	\$ 5,256,709
	<u>Total Capital Projects fund</u>	<u>\$ 5,256,709</u>
Non-major Governmental funds	General fund	\$ 2,874,453
	Capital Projects fund	147,096
	<u>Total Non-major Governmental funds</u>	<u>\$ 3,021,549</u>
	<b>Total Governmental funds</b>	<b>\$ 8,406,332</b>
<u>Payable Fund</u>	<u>Receivable Fund</u>	
Water Utility fund	General fund	\$ 141,096
	Capital Projects fund	13,125,200
	<u>Total Water Utility fund</u>	<u>\$ 13,266,296</u>
Wastewater Utility fund	Capital Projects fund	\$ 196,001
	Water Utility fund	30,144
	<u>Total Wastewater Utility fund</u>	<u>\$ 226,145</u>
Parking Facilities Fund	Capital Projects fund	\$ 15,207,089
	<u>Total Parking Facilities fund</u>	<u>\$ 15,207,089</u>
	<b>Total Enterprise and Internal Service funds</b>	<b>\$ 28,699,530</b>
	<b>Total Due to Other funds</b>	<b>\$ 37,105,862</b>

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**XIV. Interfund Transfers**

The outstanding balances between funds result mainly from the time lag between the dates (1) interfund goods and services are provided or reimbursement occurs, (2) transactions are recorded in the accounting system and (3) payment between funds are made.

The following interfund transfers occurred during fiscal year 2018:

Fund	In	Out
General	\$ 16,888,089	\$ 76,973,896
Capital Projects	3,902,456	2,790,717
Debt Service	79,899,758	-
Non-major Governmental	7,859,918	18,785,608
Water Utility	-	8,500,000
Wastewater Utility	-	1,500,000
	<hr/> <u>\$ 108,550,221</u>	<hr/> <u>\$ 108,550,221</u>

The purpose of the transfer balances are as follows:

General fund transfers in of \$16,888,089 include \$8,500,000 from the Water Utility fund, \$185,824 from the Waste Management fund, \$1,500,000 from the Wastewater Utility fund, \$3,702,265 from the Tax Increment Financing special revenue fund, and \$3,000,000 from the Public Amenities special revenue fund.

The General fund transfers out of \$76,973,896 represent a transfer of \$70,617,439 to the Debt Service fund to fund general obligation debt, \$1,587,256 to the Capital Projects fund as a contribution for the annual capital improvement plan budget, \$3,974,057 to the Grants special revenue fund in support of grant projects, \$112,148 to the Cemeteries special revenue fund, \$85,472 to the Towing & Recovery Operations special revenue fund and \$570,834 to the Emergency Operations Center/911 special revenue fund.

The Capital Projects fund transferred \$2,790,717 to the Grants special revenue fund for matching. Capital projects transfers in included \$1,587,256 from the General fund, \$1,000,000 from the Public Amenities special revenue fund and \$1,315,200 from the Storm Water special revenue fund.

Debt service transfers in of \$79,899,758 include \$3,422,084 from the Storm Water special revenue fund, \$3,381,960 from the Public Amenities special revenue fund, \$203,402 from the Towing & Recovery Operations special revenue fund, \$711,139 from the Waste Management special revenue fund, \$1,563,734 from the Tax Increment Financing special revenue fund and \$70,617,439 from the General fund to fund the current fiscal year's debt service payments.

The Storm Water special revenue fund transferred \$3,422,084 to the Debt Service fund to cover its general obligation debt service cost, and \$1,315,200 to the Capital Projects fund to support the fund's capital related projects.

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The Public Amenities special revenue fund transferred \$3,000,000 to the General fund, \$1,000,000 to the Capital Projects fund and \$3,381,960 to cover its general obligation debt service cost.

The Towing & Recovery Operations special revenue fund transferred \$203,402 to the Debt Service fund to cover its general obligation debt service cost.

The Endowed Care special revenue fund transferred \$300,000 to the Cemeteries fund in support of the City's cemeteries.

The Tax Increment Financing special revenue fund transferred \$3,702,265 to the General fund and \$1,563,734 to the Debt Service fund to cover its general obligation debt service costs.

The Water and Wastewater Utility funds transferred \$8,500,000 and \$1,500,000 to the General fund, respectively.

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**XV. Fund Balance by Functional Category (GASB 54)**

In the fund financial statements, fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purpose for which amounts in the funds can be spent. Fund balances are reported in five components as follows:

	General fund	Capital Projects fund	Non-major Governmental funds	Total Governmental funds
<b>FUND BALANCES</b>				
Restricted				
General government	\$ 145,000	\$ -	\$ -	\$ 145,000
Judicial administration	-	-	162,602	162,602
Public safety	-	-	311,369	311,369
Public works	-	-	1,867	1,867
Health and public assistance	-	-	19,554	19,554
Culture and recreation	-	-	5,831,596	5,831,596
Community development	-	-	13,073	13,073
Total Restricted	145,000	-	6,340,061	6,485,061
Committed				
General government	9,347,282	-	-	9,347,282
Judicial administration	-	-	72,221	72,221
Public safety	-	-	27,251	27,251
Public works	-	-	6,092,791	6,092,791
Health and public assistance	-	-	1,018,333	1,018,333
Culture and recreation	-	-	111,837	111,837
Total Committed	9,347,282	-	7,322,433	16,669,715
Assigned				
General government	25,400,423	-	1,714,825	27,115,248
Judicial administration	-	-	-	-
Public safety	-	-	527,558	527,558
Public works	-	-	5,162,074	5,162,074
Health and public assistance	747,729	-	104,696	852,425
Culture and recreation	86,405	-	13,874,019	13,960,424
Community development	-	-	117,957	117,957
Education	15,000,000	-	-	15,000,000
(FY-2019 Budget appropriation)	2,883,198	-	-	2,883,198
Total Assigned	44,117,755	-	21,501,129	65,618,884
Unassigned				
Other	70,962,327	(128,798,692)	(822,877)	(58,659,242)
Total Unassigned	70,962,327	(128,798,692)	(822,877)	(58,659,242)
Total fund balances	\$ 124,572,364	\$ (128,798,692)	\$ 34,340,746	\$ 30,114,418

There is a fund deficit in the Capital Projects fund of \$128,798,692 resulting from a management decision to finance capital projects with existing cash and draws from a Line of Credit established with the Bank of America to reduce interest expense. The line of credit draws, over time, will be replaced with long-term debt.

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**XVI. Deferred Inflows and Outflows of Resources**

Deferred inflows and deferred outflows of resources, as represented in the entity wide and fund financial statements at June 30, 2018, are comprised of the following:

**A. Unavailable Revenues**

Deferred inflows in the General fund and nonmajor governmental funds, representing uncollected tax billings and other accounts receivable not available for funding of current expenditures, were \$28,884,786 and \$3,595,500, respectively as of June 30, 2018.

**B. Deferred Inflows and Outflows from Refunding Transactions**

Refunding transactions for the City of Norfolk have resulted in a Loss on Defeasance on the entity-wide financial statements of \$23,638,737 for governmental activities and \$22,925,388 for business-type activities which consists of a loss of \$12,973,660 for the Water Utility fund, \$3,182,861 for the Wastewater Utility fund and \$6,768,867 for Parking Facilities fund. Gains on the defeasance of debt are reported on the financial statements as deferred inflows of resources and were \$199,358 for governmental activities and \$16,946 for business-type activities, specifically \$15,514 for the Wastewater Utility fund and \$1,432 for Parking Facilities fund.

**C. Deferred Inflows and Outflows Related to Pensions**

Deferred inflows from pension-related items represent the difference between actual and estimated experience and is amortized over a five-year period or estimated remaining service life. As June 30, 2018, the amount reported as governmental activities was \$13,083,193 (which includes the Fleet Management fund of \$114,372), and the amounts reported in business-type activities were \$622,487 for the Water Utility fund, \$183,360 for the Wastewater Utility fund, and \$221,269 for the Parking Facilities fund.

Deferred outflows from pension-related items represent the difference between projected and actual investment earnings as well as contributions made in fiscal year 2018 that will not be reflected in the pension liabilities because they were made after the measurement date. The amounts included as deferred outflows of resources in the June 30, 2018 financial statements are \$78,519,276 for governmental activities (which includes \$907,320 in the Fleet Management fund), \$5,049,890 for the Water Utility fund, \$1,518,840 for the Wastewater Utility fund and \$951,078 for the Parking Facilities fund.

**D. Deferred Inflows and Outflows Related to OPEB**

Deferred inflows from OPEB-related items represent the difference between actual and estimated experience and changes in assumptions and are amortized over a seven-year period. As June 30, 2018, the amount reported as governmental activities was \$5,968,385 (which includes the Fleet Management fund of \$30,278), and the

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amounts reported in business-type activities were \$72,075 for the Water Utility fund, \$21,503 for the Wastewater Utility fund and \$14,668 for the Parking Facilities fund.

Deferred outflows from OPEB-related items represent the difference between actual and estimated experience and changes in assumptions as well as contributions made in fiscal year 2018 that will not be reflected in the OPEB liabilities because they were made after the measurement date. The amounts included as deferred outflows of resources in the June 30, 2018 financial statements are \$3,566,242 for governmental activities (which includes \$29,801 in the Fleet Management fund), \$174,958 for the Water Utility fund, \$59,828 for the Wastewater Utility fund and \$30,671 for the Parking Facilities fund.

**XVII. Commitments and Contingencies**

**A. Capital Projects**

Commitments for completion of capital projects in the business-type activities, authorized at June 30, 2018, are as follows:

Water Utility fund projects	\$24,995,454
Wastewater Utility fund projects	12,523,924
Parking Facilities fund projects	2,484,280
<b>Total</b>	<b><u>\$40,003,658</u></b>

See Exhibit J-3 Schedule of Expenditures – Budget and Actual for listing of capital projects in the governmental activities, authorized at June 30, 2018.

**B. Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**C. Litigation**

In fiscal year 2017, the City received notice of threatened litigation for unlawful conviction and incarceration for four separate plaintiffs. This litigation resulted in a settlement that has been accrued in fiscal year 2018. From time to time the City and its component units are defendants in a number of lawsuits. Although it is not possible to determine the final outcome on these matters, management and the City Attorney are of the opinion that the liability will not be material and will not have a significant effect on the City's financial condition.

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**D. Pollution Remediation Obligation**

GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. According to the standard, a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:

- Pollution poses an imminent danger to the public or environment and the government has little or no discretion to avoid fixing the problem;
- A government has violated a pollution prevention related permit or license;
- A regulator has identified (or evidence indicates it will identify) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the clean-up;
- A government is named (or evidence indicates that it will be named) in a lawsuit to compel it to address the pollution; and
- A government begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete).

At June 30, 2018, the Wastewater Utility fund recorded a liability for pollution remediation in the amount of \$294,102.

**E. Encumbrances**

Encumbrances as of June 30, 2018, in the General fund and Capital Projects fund totaled \$15,099,361 and \$58,216,933 respectively. Encumbrances as of June 30, 2018, for nonmajor governmental funds in the aggregate totaled \$30,456,119.

**XVIII. Surety Bonds and Insurance**

<u>Surety</u>	<u>Official</u>	<u>Amount</u>
Commonwealth of Virginia	C. Evans Poston Jr., Commissioner of the Revenue Daun Hester, City Treasurer Joe Baron, Sheriff George E. Schaefer, III Clerk of the Circuit Court Total Commonwealth of Virginia	\$ 3,000 1,500,000 30,000 2,235,000 <u>\$ 3,768,000</u>
Commonwealth of Virginia	All employees of the City Treasurer, Sheriff, Commissioner of the Revenue, Commonwealth's Attorney and Clerk of the Circuit Court Performance of Duty Bond	<u>\$ 500,000</u>
City of Norfolk	Travelers Insurance Co. All City employees	<u>\$ 1,000,000</u>

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**XIX. Tax Abatements**

As of June 30, 2018, the City provides tax abatements through five programs – the Tax Abatement Program, Technology Zone, New Business License Incentive Program, Local Utility Tax Relief and the Economic Development Program. The details of these programs for the fiscal year ended June 30, 2018, are as follows:

		Tax Abatement Program	Technology Zone	New Business License Incentive Program	Local Utility Tax Relief	Economic Development Program
<b>1</b>	<b>Purpose of the program</b>	Encourages significant improvement of residential, commercial and industrial properties throughout the City, that is of the highest construction quality and architectural design complementing the surrounding area.	Intended to reduce business, professional and occupational license tax for technology-related businesses up to 5 years if they are established in the "Technology Zone."	A temporary exemption in business license tax is available to new businesses that locate in Norfolk after January 1, 2016.	Intended to reduce business utility taxes for a five-year period if they are located in the "Enterprise Zone (EZ)."	To incentivize businesses to locate to the City of Norfolk.
<b>2</b>	<b>Type of tax abatement</b>	Property Tax	Business, professional and occupational license tax	Business License Tax	Utility Tax	Personal Property, Real Estate and Business Tangible Property
<b>3</b>	<b>Authority for program</b>	Norfolk Municipal Code Section 24-203 & Section 27-76	Norfolk Code of Ordinance Chapter 45.6	"Norfolk Municipal Code Section 24-25.9 and 24-25.2	City Ordinance § 45.5-5	City Council, designated to the City Manager
<b>4</b>	<b>Administering department</b>	Office of the Real Estate Assessor	Department of Development	Commissioner of the Revenue	Department of Development	Department of Development
<b>5</b>	<b>Criteria to be eligible to receive abatement</b>	A. Residential structure must be at least 15 years old and improvements will increase assessed value by at least 20%.  B. Multi-family, commercial or industrial structure must be at least 50 years old and improvements will increase assessed value by at least 40%.	Applicants must meet criteria of establishing their technology related business according to certain criteria mention in the above-mentioned ordinance.	The business must apply and meet several criteria. Below is a list of the top 3 requirements: 1) Must be locating to Norfolk for the first time (name change, merger or acquisition are disqualifiers). 2) Must not file a consolidated financial statement with a parent or other affiliated entity with combined taxable gross	Existing EZ businesses must make a \$100,000 taxable investment within the Enterprise Zone.  New EZ businesses must make a \$500,000 taxable investment within the Enterprise Zone.	The City evaluates all economic development opportunities on an individual basis. The economic development agreements are specific to each developer and generally constitute a significant economic development opportunity for the City and have a positive factor in achieving the objectives of the

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		Tax Abatement Program	Technology Zone	New Business License Incentive Program	Local Utility Tax Relief	Economic Development Program
				receipts of more than \$1 million. 3) Can't be considered an affiliated group or have a franchisee relationship.		City and are worthy of inducement.
6	<b>"How recipients' taxes are reduced</b>	Through a reduction of the property's assessed value recipients will not pay full taxes on those improvements for 14 years. The increase in assessed value due to the improvements will not be recognized for tax purposes for the first 10 years following the commencement of the tax abatement.	Through a reduction in business, professional and occupational license.	Reduction in business license tax.	Reduction in utility tax.	Taxes are reduced through performance grant payments that are provided to the recipient in the subsequent year.
7	<b>How the amount of abatement is determined</b>	The increase in assessed value due to the improvements will be recognized for tax purposes on a sliding scale in the 11th year through 15th year following the start of the tax abatement as soon:  • 11 <sup>th</sup> year – 20% • 12 <sup>th</sup> year – 40% • 13 <sup>th</sup> year – 60% • 14 <sup>th</sup> year – 80% • 15 <sup>th</sup> year – 100%	Below is the schedule for the reduction of tax:  • Year 1 - 2 = 100% • Year 3 - 4 = 50%	Receives a \$50 per tax class reduction for the first two years. The abatement eligibility is determined by a qualification process. The taxpayer must answer 25 questions to qualify.	Below is the schedule for the reduction of tax:  • 1 <sup>st</sup> year - 50% • 2 <sup>nd</sup> year - 40% • 3 <sup>rd</sup> year - 30% • 4 <sup>th</sup> year - 20% • 5 <sup>th</sup> year - 10%	Specific percentages are identified in each agreement that apply to various items (i.e. assessed value, value of business personal property, etc.). Percentages are not uniform and are independently determined during negotiation of agreement.
8	<b>Terms for recapture if conditions unmet</b>	Because taxes are not abated until after the improvements have been made, there is no provisions for recapturing abated taxes	Because taxes are not abated until after the requirements have been made, there is no provisions for recapturing abated taxes	If the business estimates its gross receipts will exceed \$1 million, but the actual gross receipts are less than \$1 million, the benefits of the program are not available unless the business completes the qualification	Because taxes are not abated until after the requirements have been made, there is no provisions for recapturing abated taxes	Because taxes are not abated until after the requirements have been made, there is no provisions for recapturing abated taxes

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		Tax Abatement Program	Technology Zone	New Business License Incentive Program	Local Utility Tax Relief	Economic Development Program
				process. Likewise, if the qualifying business estimated less than \$1 million and the actual gross receipts were more than \$1 million the business is responsible for the entire tax amount and will be removed from the program.		
9	Types of commitments made by the City, other than to reduce taxes	N/A	N/A	N/A	N/A	There are some, but they vary by contract. These include percentage back for gross receipts and utility charges.
10	Gross dollar amount, on accrual basis, by which the tax revenues were reduced due to the abatement	<u>2018</u> \$2,448,701	<u>2018</u> \$ -	<u>2018</u> \$12,424	<u>2018</u> \$2,725	<u>2018</u> \$1,858,476

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**XX. Self and Purchased Insurance Programs**

The City is exposed to various risks of losses related to torts, theft and destruction of assets, errors and omissions, injuries to employees, and natural disasters. On July 11, 1978, the City established a protected self-insurance program, pursuant to an ordinance adopted by City Council, to cover these risks. The program provides for the payment of claims liabilities, property losses, and related expenses covered by a combination of purchased insurance policies and self-insurance plans. The total of insurance premiums, self-insurance claims, and related expense payments made during fiscal year 2018 was \$9,425,772.

The City currently reports all these activities as part of the risk management function in the general government section of the General fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. For actuarial purposes, estimated outstanding losses are the accrual cost of unpaid claims valued as of each accounting date. The estimated outstanding losses include case reserves, the development on known claims and incurred but not reported (IBNR) claims. Allocated loss adjustment expenses (ALAE) are the direct expenses for settling specific claims. ALAE is included in the workers' compensation estimates, but excluded in the liability estimates. At June 30, 2018 these liabilities were estimated at \$31,616,500 with \$4,524,774 projected as the current portion anticipated to be paid within a year. Estimated liabilities at the end of fiscal 2018 were determined by an independent actuary.

Effective January 1, 2014, the Norfolk Healthcare Consortium (Consortium) began participating in a City-administered health insurance fund, which is reflected as an internal service fund. The Consortium is comprised of the City, the Norfolk Public Schools and Norfolk Redevelopment and Housing Authority. Each participating employee and employer deposits their respective premium into the fund. Medical claims, administrative costs, wellness programs costs, fees related to the Affordable Healthcare Act and benefit consultant costs are expended from the fund. Employee premiums from City departments are netted against related expenses as a recovered cost. The City has recorded \$6,295,000 for medical and pharmacy claims incurred, but not reported as of June 30, 2018. Payments from the Norfolk Public Schools are made in 10 payments per year instead of 12, so there is a portion recognized in the financial statements as unearned income. The unearned income as of June 30, 2018 was \$6,932,638. The City is responsible for deficit conditions that may exist when liabilities exceed assets and may make additional assessments to Consortium members as needed.

Changes in the City's claims liability amount in the fiscal years 2018 and 2017 are as follows:

	Workers' Compensation and Risk Management		Health Insurance		Total	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Estimated Outstanding Claims at the Beginning of year	\$ 31,918,233	\$ 29,296,575	\$ 6,582,000	\$ 6,187,000	\$ 38,500,233	\$ 35,483,575
Additional Incurred Claims or Changes in Estimates	7,063,273	8,420,622	74,443,438	80,841,472	81,506,711	89,262,094
Claims Paid	(7,365,006)	(5,798,964)	(74,730,438)	(80,446,472)	(82,095,444)	(86,245,436)
Estimated Outstanding Claims at the End of year	<u>\$ 31,616,500</u>	<u>\$ 31,918,233</u>	<u>\$ 6,295,000</u>	<u>\$ 6,582,000</u>	<u>\$ 37,911,500</u>	<u>\$ 38,500,233</u>

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

The City in its General fund has committed \$5,000,000 of fund balance to provide for risks of loss and claims payments that may not be fully covered by purchased insurance or annual budget appropriations. There have not been any significant reductions in insurance coverage, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Norfolk Public Schools (NPS) also self-insures its workers' compensation and general liability and its future expected self-insured losses as of June 30, 2018, projected at \$4,117,507 of which \$883,048 is the current portion and a longer-term projection of \$3,223,459. The NPS provides payments for that entity's risks of loss through a combination of purchased insurance policies and self-insurance plans. These losses are funded through the NPS operating budgets and/or the City's fund balance designation.

Changes in the School Board's liability amount in the fiscal years 2017 and 2018 are as follows:

	Estimated Outstanding Losses at the Beginning of Year	Additional Incurred Claims or Changes in Estimates	Claims Paid	Estimated Outstanding Losses at the End of Year
2017	\$ 3,734,035	\$ 237,046	\$ (339,877)	\$ 3,631,204
2018	\$ 3,631,204	\$ 1,009,634	\$ (523,331)	\$ 4,117,507

## **XXI. Jointly Governed Organizations**

### **A. Hampton Roads Regional Jail Authority (HRRJA)**

HRRJA is a regional organization which includes the cities of Chesapeake, Hampton, Newport News, Norfolk and Portsmouth, created for the purpose of providing, operating and maintaining a regional jail facility for the correctional overflow from each community. HRRJA is a primary government, with no component units, that is a body politic and corporate created pursuant to Article 3.1, Chapter 3, Title 53.1 of the Code of Virginia, as amended, and is governed by a twelve-member Board of Directors, consisting of three representatives appointed by each of the member cities. The budgeting and financing of HRRJA are subject to the approval of the Board of Directors, with each individual having a single vote. HRRJA is responsible for its own financial matters, maintains its own books of account and is audited annually by independent accountants that it engages.

The participating governments do not have an equity interest in the HRRJA, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2018. Complete financial statements of HRRJA can be obtained from HRRJA.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

**B. Hampton Roads Planning District Commission (the Commission)**

A regional planning agency authorized by the Virginia Area Development Act of 1968, was created by the merger of the Southeastern Virginia Planning District Commission and the Peninsula Planning District Commission on July 1, 1990. The Commission performs various planning services for the cities of Chesapeake, Franklin, Hampton, Newport News, Norfolk, Portsmouth, Poquoson, Suffolk, Williamsburg and Virginia Beach, and the counties of Gloucester, Isle of Wight, James City, Southampton and York. Revenue of the Commission is received primarily from member contributions and various state and federal grant programs.

The participating governments do not have an equity interest in the Commission, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2018. Complete financial statements of the Commission can be obtained from the Commission.

**C. Transportation District Commission of Hampton Roads (TDC)**

TDC known as Hampton Roads Transit (HRBT) a political subdivision of the common wealth, was formed on May 9, 1923, as a joint exercise of governmental power in accordance with Chapter 32 of Title 15.2 of the Code of Virginia. HRBT provides public transportation facilities and services within the cities of Norfolk, Chesapeake, Hampton, Newport News and Virginia Beach, Virginia. Oversight responsibility is exercised by all of the participating localities through their designated representatives. Responsibility for the day-to-day operation HRBT rests with professional management. HRBT was constructed the City's light rail system.

The participating governments do not have an equity interest in TDC, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2018. Complete financial statements of TDC can be obtained from TDC.

**XXII. Joint Ventures**

**A. Southeastern Public Service Authority (SPSA)**

SPSA is a joint venture of the cities of Chesapeake, Franklin, Norfolk, Portsmouth, Suffolk and Virginia Beach and the counties of Isle of Wight and Southampton, created for the purpose of providing, operating and maintaining a regional system for the collection, transfer, processing and disposal of solid waste refuse. SPSA is a primary government, with no component units, that is a public body politic and corporate created pursuant to the Virginia Water and Sewer Authorities Act, and is governed by a Board of Directors consisting of eight member representatives appointed by each of the member cities and counties. Budgeting and financing of SPSA is subject to the approval of the Board of Directors, with each individual having a single vote. The Authority is responsible for its own financial matters, maintains its own books of account and is audited annually by independent accountants that it engages.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

In June 2010, SPSA entered into a debt repayment plan with the Virginia Resources Authority (VRA) which required that the eight member communities guarantee repayment of the remaining VRA bonds outstanding through a general obligation pledge. The final payment on these bonds was made in fiscal year 2018, thus ending the requirement to guarantee repayment.

The participating governments do not have an equity interest in SPSA, and accordingly, no equity interest has been reflected in the City's financial statements June 30, 2018. Complete financial statements of the SPSA can be obtained from SPSA.

**B. The Slover Library Foundation (The Foundation)**

The Slover Library Foundation, a not-for-profit organization, was formed on October 31, 2008, to participate in the funding of a central library for the City. The new central library was named the Slover Library. Two historic downtown structures, the Seaboard Building and the Selden Arcade, were joined by an architecturally significant structure to create a new technologically advanced library. Funding provided by the Foundation in the future will be used for purchase and maintenance of technology used in the library. The Foundation designates its own management, maintains its own books of account, engages its own independent accountant and receives its revenue from third parties.

**C. Norfolk Botanical Garden Society (The Society)**

The City of Norfolk has an agreement with the Norfolk Botanical Garden Society to operate the Norfolk Botanical Garden which are owned by the City. This agreement expires on June 30, 2022. The Society receives annual funding from the City of Norfolk for improvements and operating costs.

**XXIII. Related Organizations**

**A. Norfolk Redevelopment and Housing Authority (NRHA)**

The Norfolk Redevelopment and Housing Authority (NRHA), a political subdivision of the Commonwealth, was created by the City on July 30, 1940, under the provisions of the United States Housing Act of 1937. NRHA provides subsidized public housing and administers redevelopment and conservation efforts within the City in accordance with State and federal legislation. The seven members of the Board of Commissioners are appointed by City Council. NRHA is responsible, through a contract with the City, for the administration of such activities as community development and urban renewal. The City does not exercise a significant degree of oversight responsibility for the NRHA develops its own operating budget without approval from City Council and executes contracts on its own behalf. NRHA is responsible for its own financial matters as it maintains its own book of accounts, is audited annually by independent accountants it engages, and has authority over earnings, deficits and moneys other than City contract funds. The City contracts with NRHA to complete specific projects, generally capital improvement projects.

The City currently has two significant projects with the NRHA; (1) Waterside Redevelopment and (2) Conference center hotel and garage. The City conveyed ownership of Waterside to the NRHA and agreed to provide \$32 million in development

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

support. NRHA will operate Waterside upon completion. The City and Professional Hospitality Resources, Inc. have constructed a conference center, hotel and parking garage that opened in fiscal year 2017. The City contributed up to \$64 million to the development costs. The conference center and garage will initially be owned by NRHA; however, ownership will revert back to the City once all agreements have been finalized. The ownership of the garage reverted back to the City in 2017.

**B. Norfolk Airport Authority (The Authority)**

Norfolk Airport Authority, a political subdivision of the Commonwealth, was created to operate an airport and to promote industrial growth and consists of both an Airport fund and an Investment fund. The Airport fund was established by the Authority to account for the operations of the Norfolk International Airport (the Airport). Revenue generated by airport operations is used to meet all operating expenses and to provide for payment of all principal and interest on debt of the Authority related to the Airport. The Investment fund was established by the Authority to provide for certain airport capital improvements. The Authority finances individual capital projects by issuing bonds or obtaining loans and intergovernmental grants in its own name and concurrently entering into leases which provide for payment of all principal and interest on the related obligations as they become due. Revenue includes rental income on non-airport property owned by the Authority and interest on investments. The Authority's Commissioners are appointed by City Council, but the Authority designates its own management and has oversight responsibility for its own fiscal matters. The City does not provide funds for the operations of the Authority and, pursuant to Section 144(q) of the City Charter, the Authority is required to submit its annual budget to the City Council for the purposes of information only. The City has the option to reacquire, without consideration, title to all property and equipment after payment by the Authority of all obligations relating to the improvements at the Airport.

**C. The Chrysler Museum, Inc. (The Museum)**

The Chrysler Museum, a Virginia non-stock, not-for-profit organization, was formed on January 1, 1980, by incorporating the Chrysler Museum in Norfolk. The main purpose of the Museum is the advancement, encouragement and promotion of the study and appreciation of art. The Museum designates its own management, which is self-sustaining, maintains its own books of account, engages its own independent accountant, and receives its revenue from facility rental fees, patron membership, planned giving and from other independent grants. The City owns the museum building and provides support for its maintenance.

**D. The Hospital Authority of Norfolk (HAN)**

The Hospital Authority of Norfolk, which has a nine-member Board of Commissioners appointed by City Council, is a tax-exempt, not-for-profit political subdivision of the Commonwealth created pursuant to an Agreement of Transfer dated July 1, 1998. HAN operates Lake Taylor Hospital as a long-term care facility licensed by the Virginia State Health Department to provide a continuum of patient care ranging from sub-acute hospital services to skilled nursing care.

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

**XXIV. Subsequent Events**

On October 23, 2018 the City transferred \$10,000,000 of General Obligation Capital Improvement Bonds, Series 2017A, previously issued to the Wastewater Fund, to the General Fund. The movement of bond proceeds was necessary to align the timing on bond issuance with funding of capital project expenditures.

On December 4, 2018, The City amended its existing credit agreement with Bank of America Merrill Lynch ("BAML") to extend the termination date of the Line of Credit from December 17, 2018, to December 17, 2019.

**XXV. Adoption of New Accounting Pronouncements**

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement applies to government employers who provide OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. GASB Statement No. 75 requires governments to report a liability on the financial statements for the OPEB that they provide. The Statement is effective for fiscal years beginning after June 15, 2017. As a result, opening net position as of July 1, 2017 has been restated and a total OPEB liability has been recorded.
- GASB Statement No. 85, *Omnibus 2017*. This Statement addresses practice issues that have been identified during the implementation and application of certain GASB statements including topics related to blending component units, goodwill, fair value measurement and postemployment benefits. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. There was no impact on net position or results of operations.

**XXVI. Restatement for a Change in Accounting Principle**

During the fiscal year ended June 30, 2018, the City adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This pronouncement requires the restatement of the June 30, 2017 net position as follows:

	Governmental Activities	Water Utility Fund	Wastewater Utility Fund	Parking Facilities Fund	Total Business-Type Activities	Total Primary Government	Total Component Unit
Balance, June 30, 2017, as originally reported	\$ 253,411,865	\$ 273,887,960	\$ 120,404,329	\$ 43,181,251	\$ 437,473,540	\$ 690,885,405	\$ (318,112,020)
Restatement for OPEB	(7,373,992)	517,668	291,345	362,166	1,171,179	(6,202,813)	(92,406,122)
Restated Balance at June 30, 2017	\$ 246,037,873	\$ 274,405,628	\$ 120,695,674	\$ 43,543,417	\$ 438,644,719	\$ 684,682,592	\$ (410,518,142)

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

**XXVII. Accounting Pronouncements Issued, But Not Yet Implemented**

The GASB has issued several pronouncements that will impact future financial presentations. Management has not determined what, if any, impact implementation of the following statements will have on the City.

- GASB Statement No. 83, *Certain Asset Retirement Obligations*. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. This Statement is effective for reporting periods beginning after June 15, 2018.
- GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported by establishing criteria for identifying fiduciary activities of all state and local governments. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.
- GASB Statement No. 87, *Leases*. The objective of this Statement is to improve accounting and financial reporting for leases by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Replacements*. The objective of this Statement is to improve the information that is disclosed related to debt, including direct borrowings and direct placements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period to enhance relevance and comparability of information while simplifying the accounting. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.
- GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

**REQUIRED SUPPLEMENTARY  
INFORMATION**  
*(OTHER THAN MANAGEMENT'S  
DISCUSSION & ANALYSIS)*

**(Unaudited)**





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**CITY OF NORFOLK**  
**Norfolk Employees' Retirement System**  
 Schedule of Changes in Net Pension Liability and Related Ratios (unaudited)  
 For Fiscal Years

	2018	2017	2016	2015
<b>Total Pension Liability</b>				
Service Costs	\$ 26,310,000	\$ 25,919,058	\$ 25,467,399	\$ 24,578,759
Interest	86,974,000	84,710,490	82,839,251	80,203,196
Changes of benefit terms	590,000	568,480	352,800	20,689,842
Difference between expected and actual experience	(2,543,000)	(2,665,615)	(2,471,392)	(10,654,079)
Changes in assumptions	53,197,000	(6,508,735)	-	-
Benefits payments, including refunds of member contributions	(83,977,000)	(80,783,975)	(79,031,490)	(77,065,376)
<b>Net change in total pension liability</b>	<b>80,551,000</b>	<b>21,239,703</b>	<b>27,156,568</b>	<b>37,752,342</b>
<b>Total Pension Liability - Beginning</b>	<b>1,245,862,000</b>	<b>1,224,622,781</b>	<b>1,197,466,213</b>	<b>1,159,713,871</b>
<b>Total Pension Liability - Ending</b>	<b><u>\$ 1,326,413,000</u></b>	<b><u>\$ 1,245,862,484</u></b>	<b><u>\$ 1,224,622,781</u></b>	<b><u>\$ 1,159,713,871</u></b>
<b>Plan Fiduciary Net position</b>				
Employer contributions	\$ 33,457,000	\$ 30,761,340	\$ 34,932,005	\$ 42,330,492
Employee contributions	9,450,000	8,733,481	4,914,726	1,671,644
Net investment income	111,228,000	3,278,018	16,596,553	157,291,834
Benefit payments, including refunds of member contributions	(83,977,000)	(80,783,975)	(79,031,489)	(77,065,376)
Administrative expense	(668,000)	(671,568)	(386,495)	(412,809)
<b>Net change in Fiduciary Net Position</b>	<b>69,490,000</b>	<b>(38,682,704)</b>	<b>(22,974,700)</b>	<b>123,815,785</b>
<b>Total Net Position - Beginning</b>	<b>974,522,000</b>	<b>1,013,204,260</b>	<b>1,036,178,960</b>	<b>912,363,175</b>
<b>Total Net Position - Ending</b>	<b><u>\$ 1,044,012,000</u></b>	<b><u>\$ 974,521,556</u></b>	<b><u>\$ 1,013,204,260</u></b>	<b><u>\$ 1,036,178,960</u></b>
<b>Net Pension Liability</b>				
Plan fiduciary net position as a percentage of the total pension liability	78.71%	78.22%	82.74%	86.53%
Covered payroll	\$ 188,068,000	\$ 175,678,692	\$ 178,467,817	\$ 177,560,789
Net Pension liability as a percentage of covered payroll	150.16%	154.45%	118.46%	90.83%

\*This schedule is intended to illustrate the requirement to show information for 10 years.  
 Additional years will be included as they become available.

See accompanying independent auditors' report

**CITY OF NORFOLK**  
**Norfolk Employees' Retirement System**  
 Schedule of Employer Contributions (unaudited)  
 Last 10 Fiscal Years  
 (Amounts in thousands)

Fiscal Year	Actuarially Determined Required Contributions*	Employer Contributions*	Contribution Deficiency (Excess)	Employer's Covered Payroll **	Contributions as a % of Covered Payroll
2018	\$ 35,494	\$ 35,494	\$ -	\$ 191,549	18.53%
2017	33,457	33,457	-	188,068	17.79%
2016	30,761	30,761	-	175,679	17.51%
2015	38,263	34,932	3,331	178,468	19.57%
2014	42,330	42,330	-	177,561	23.84%
2013	41,466	41,466	-	184,062	22.53%
2012	42,828	42,828	-	167,593	25.55%
2011	35,515	35,515	-	170,922	20.78%
2010	28,279	28,279	-	175,179	16.14%
2009	25,668	25,668	-	179,591	14.29%

\* The actuarially determined contribution and the employer contributions were adjusted for years prior to 2014 to retrospectively apply to the timing of recognition under GASB 67.

\*\* The actuarial determination of the ADC is based on the projection of covered payroll for the period for which the ADC will apply. The covered payroll was provided by the actuary. For the years 2014 through 2018, the balances exclude payroll for active employees participating in DROP for which contributions are not made.

See accompanying independent auditors' report

**CITY OF NORFOLK**  
**Virginia Retirement System State Constitutional Offices**  
 Schedule of Changes in Net Pension Liability and Related Ratios (unaudited)  
 For Fiscal Years

	2018	2017	2016	2015
<b>Total Pension Liability</b>				
Service costs	\$ 3,487,288	\$ 3,496,157	\$ 3,531,000	\$ 3,600,000
Interest	6,689,417	6,370,650	6,001,000	5,574,000
Difference between expected and actual experience	(599,933)	(1,331,914)	(763,000)	-
Changes in assumptions	(893,223)	-	-	-
Benefits payments, including refunds of member contributions	(4,376,843)	(3,585,300)	(3,377,000)	(2,798,000)
<b>Net change in total pension liability</b>	<b>4,306,706</b>	<b>4,949,593</b>	<b>5,392,000</b>	<b>6,376,000</b>
<b>Total Pension Liability - Beginning</b>	<b>97,751,527</b>	<b>92,801,934</b>	<b>87,410,000</b>	<b>81,034,000</b>
<b>Total Pension Liability - Ending</b>	<b>\$ 102,058,233</b>	<b>\$ 97,751,527</b>	<b>\$ 92,802,000</b>	<b>\$ 87,410,000</b>
 <b>Plan Fiduciary Net position</b>				
Employer contributions	\$ 2,355,587	\$ 2,804,570	\$ 2,830,000	\$ 3,167,000
Employee contributions	1,362,997	1,357,832	1,373,000	1,422,000
Projected earnings on plan investments	10,677,625	1,525,201	3,742,000	10,933,000
Benefit payments, including refunds of member contributions	(4,376,843)	(3,585,300)	(3,377,000)	(2,798,000)
Administrative expense	(61,057)	(52,120)	(50,000)	(57,000)
Other	(9,527)	(639)	(3,000)	1,000
<b>Net change in Fiduciary Net Position</b>	<b>9,948,782</b>	<b>2,049,544</b>	<b>4,515,000</b>	<b>12,668,000</b>
<b>Total Net Position - Beginning</b>	<b>87,540,574</b>	<b>85,491,030</b>	<b>80,975,000</b>	<b>68,307,000</b>
<b>Total Net Position - Ending</b>	<b>\$ 97,489,356</b>	<b>\$ 87,540,574</b>	<b>\$ 85,490,000</b>	<b>\$ 80,975,000</b>
 <b>Net Pension Liability</b>	 <b>\$ 4,568,877</b>	 <b>\$ 10,210,953</b>	 <b>\$ 7,312,000</b>	 <b>\$ 6,435,000</b>
Plan fiduciary net position as a percentage of the total pension liability	95.52%	89.55%	92.12%	92.64%
Covered payroll	\$ 26,351,750	\$ 27,083,985	\$ 26,861,778	\$ 26,952,068
Net Pension liability as a percentage of covered payroll	17.34%	37.70%	27.22%	23.88%

\*This schedule is intended to illustrate the requirement to show information for 10 years.  
 Additional years will be included as they become available.

See accompanying independent auditors' report

**CITY OF NORFOLK**  
**Virginia Retirement System State Constitutional Offices**  
 Schedule of Employer Contributions (unaudited)  
 Last 10 Fiscal Years  
 (Amounts in thousands)

Fiscal Year	Contractually Required Contributions	Contributions in Relation to Contractually Required Contributions	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 2,338	\$ 2,338	\$ -	\$ 27,840	8.40%
2017	2,356	2,356	-	26,352	8.94%
2016	2,805	2,805	-	27,084	10.36%
2015	2,830	2,830	-	26,862	10.54%
2014	3,167	3,167	-	26,952	11.75%
2013	3,135	3,135	-	27,300	11.48%
2012	3,212	3,212	-	24,677	13.02%
2011	3,289	3,289	-	24,539	13.40%
2010	3,371	3,371	-	24,539	13.74%
2009	3,490	3,490	-	25,997	13.42%

Note: Covered payroll prior to June 30, 2014, was calculated on payroll subject to pension coverage. Under GASB 68, covered payroll should include total payroll for employees covered under pension plan whether that payroll is subject to pension coverage or not.

See accompanying independent auditors' report

**SCHOOL BOARD OF THE CITY OF NORFOLK**  
**A Component Unit of the City of Norfolk**  
**Virginia Retirement System Teachers Retirement Plan**  
 Schedule of the School Board's Proportionate Share of the Net Pension Liability (unaudited)  
 For Fiscal Years  
 (Amounts in thousands)

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
School Board's proportion of the Net Pension Liability	2.701%	2.400%	2.430%	2.467%
School Board's proportionate share of the Net Pension Liability	\$ 283,848	\$ 336,787	\$ 305,901	\$ 298,089
Covered payroll	\$ 192,822	\$ 194,172	\$ 189,624	\$ 189,067
School Board's proportionate of the Net Pension Liability as a percentage of its covered payroll	147%	173%	161%	158%
Plan fiduciary net position as a percentage of the total pension liability	72.92%	68.28%	70.68%	70.88%

\*The schedule is intended to illustrate the requirement to show information for 10 years.  
 Since 2015 was the first year for presentation, no older data is available. Additional years will be included as they become available.

See accompanying independent auditors' report

**SCHOOL BOARD OF THE CITY OF NORFOLK**  
**A Component Unit of the City of Norfolk**  
**Virginia Retirement System Teachers Retirement Plan**

Schedule of School Board Contributions (unaudited)

Last 10 Fiscal Years

(Amounts in thousands)

Fiscal Year	Contractually Required Contributions	Contributions in Relation to Contractually Required Contributions			Employer's Covered Payroll	Contributions as a % of Covered Payroll
		Contractually Required Contributions	Contribution Deficiency (Excess)	Employer's Covered Payroll		
2018	\$ 29,028	\$ 29,028	\$ -	\$ 188,385	15.41%	
2017	26,582	26,582	-	192,822	13.79%	
2016	25,755	25,755	-	194,172	13.26%	
2015	26,206	26,206	-	189,624	13.82%	
2014	21,056	21,056	-	189,067	11.14%	
2013	20,911	20,911	-	144,714	14.45%	
2012	19,516	19,516	-	148,138	13.17%	
2011	16,027	16,027	-	135,016	11.87%	
2010	21,492	21,492	-	157,542	13.64%	
2009	26,461	26,461	-	157,178	16.84%	

Note: Covered payroll prior to June 30, 2014, was calculated on payroll subject to pension coverage. Under GASB 68, covered payroll should include total payroll for employees covered under pension plan whether that payroll is subject to pension coverage or not.

See accompanying independent auditors' report

**SCHOOL BOARD OF THE CITY OF NORFOLK**  
**A Component Unit of the City of Norfolk**  
**Virginia Retirement System School Board Political Subdivisions**  
 Schedule of Changes in the School Board's Net Pension Liability and Related Ratios (unaudited)  
 For Fiscal Years  
 (Amounts in thousands)

	2018	2017	2016	2015
<b>Total Pension Liability</b>				
Service costs	\$ 1,552	\$ 1,527	\$ 1,563	\$ 1,530
Interest	5,976	5,891	5,770	5,586
Changes in assumptions	(850)	-	-	-
Difference between expected and actual experience	(646)	(1,511)	(1,027)	-
Benefits payments, including refunds of member contributions	(4,706)	(4,814)	(4,343)	(4,659)
Change in proportionate share	76	1	21	
<b>Net change in total pension liability</b>	<b>1,402</b>	<b>1,094</b>	<b>1,984</b>	<b>2,457</b>
<b>Total Pension Liability - Beginning</b>	<b>87,660</b>	<b>86,566</b>	<b>84,582</b>	<b>82,125</b>
<b>Total Pension Liability - Ending</b>	<b>\$ 89,062</b>	<b>\$ 87,660</b>	<b>\$ 86,566</b>	<b>\$ 84,582</b>
 <b>Plan Fiduciary Net Position</b>				
Employer contributions	\$ 1,408	\$ 1,794	\$ 1,768	\$ 1,722
Employee contributions	807	800	785	775
Projected earnings on plan investments	8,877	1,248	3,321	10,151
Benefit payments, including refunds of member contributions	(4,706)	(4,814)	(4,343)	(4,659)
Administrative expense	(52)	(47)	(47)	(56)
Change in proportionate share	41	1	18	
Other	(17)	(17)	(11)	1
<b>Net change in Fiduciary Net Position</b>	<b>6,358</b>	<b>(1,035)</b>	<b>1,491</b>	<b>7,934</b>
<b>Total Net Position - Beginning</b>	<b>73,963</b>	<b>74,998</b>	<b>73,507</b>	<b>65,573</b>
<b>Total Net Position - Ending</b>	<b>\$ 80,321</b>	<b>\$ 73,963</b>	<b>\$ 74,998</b>	<b>\$ 73,507</b>
 <b>Net Pension Liability</b>	 <b>\$ 8,741</b>	 <b>\$ 13,697</b>	 <b>\$ 11,568</b>	 <b>\$ 11,075</b>
Plan fiduciary net position as a percentage of the total pension liability	90.19%	84.37%	86.64%	86.91%
Covered payroll	\$ 23,756	\$ 22,219	\$ 22,224	\$ 21,766
 Net Pension liability as a percentage of covered payroll	 36.79%	 61.65%	 52.05%	 50.88%

\*The schedule is intended to illustrate the requirement to show information for 10 years. Since 2016 was the first year for presentation, no older data is available. However, additional years will be included as they become available.

See accompanying independent auditors' report

**SCHOOL BOARD OF THE CITY OF NORFOLK**  
**A Component Unit of the City of Norfolk**  
**Virginia Retirement System School Board Political Subdivisions**

Schedule of School Board Contributions (unaudited)

Last 10 Fiscal Years

(Amounts in thousands)

Fiscal Year	Contractually Required Contributions	Contributions in Relation to Contractually Required Contributions			Employer's Covered Payroll	Contributions as a % of Covered Payroll
		1,435	\$	1,435	\$	
2018	\$ 1,435	1,435	\$	-	\$ 22,292	6.44%
2017	1,408	1,408		-	23,756	5.93%
2016	1,794	1,794		-	22,219	8.07%
2015	1,768	1,768		-	22,224	7.96%
2014	1,722	1,722		-	21,766	7.91%
2013	1,734	1,734		-	15,661	11.07%
2012	1,858	1,858		-	14,818	12.54%
2011	1,923	1,923		-	15,287	12.58%
2010	1,928	1,928		-	16,169	11.92%
2009	2,016	2,016		-	16,871	11.95%

Note: Covered payroll prior to June 30, 2014, was calculated on payroll subject to pension coverage. Under GASB 68, covered payroll should include total payroll for employees covered under pension plan whether that payroll is subject to pension coverage or not.

See accompanying independent auditors' report

**CITY OF NORFOLK**  
**City OPEB Liability**

Schedule of Changes in Total OPEB Liability and Related Ratios (unaudited)  
 For Fiscal Years

**2018**

**Total OPEB Liability**

Service Costs	\$ 2,638,578
Interest	864,633
Changes of benefit terms	-
Difference between expected and actual experience	(1,413,447)
Changes in assumptions	1,815,771
Benefits payments, including refunds of member contributions	<u>(1,247,913)</u>
<b>Net change in total OPEB liability</b>	<b>2,657,622</b>
<b>Total OPEB Liability - Beginning</b>	<b>29,647,567</b>
<b>Total OPEB Liability - Ending</b>	<b><u>\$ 32,305,189</u></b>

Covered employee payroll	\$ 196,905,143
Net OPEB liability as a percentage of covered employee payroll	16.41%

\*The schedule is intended to illustrate the requirement to show information for 10 years. Since 2018 was the first year for presentation, no older data is available. However, additional years will be included as they become available.

See accompanying independent auditors' report

**CITY OF NORFOLK**  
**City Line of Duty OPEB Liability**  
 Schedule of Changes in Total OPEB Liability and Related Ratios (unaudited)  
 For Fiscal Years

**2018**

**Total OPEB Liability**

Service Costs	\$ 991,486
Interest	637,503
Changes of benefit terms	19,652,972
Difference between expected and actual experience	(2,397)
Changes in assumptions	(5,648,603)
Benefits payments, including refunds of member contributions	<u>(822,158)</u>
 <b>Net change in total OPEB liability</b>	<b>14,808,803</b>
<b>Total OPEB Liability - Beginning</b>	<b>22,284,435</b>
<b>Total OPEB Liability - Ending</b>	<b><u>37,093,238</u></b>

Covered employee payroll	\$ 68,244,678
Net OPEB liability as a percentage of covered employee payroll	54.35%

\*The schedule is intended to illustrate the requirement to show information for 10 years. Since 2018 was the first year for presentation, no older data is available. However, additional years will be included as they become available.

See accompanying independent auditors' report

**CITY OF NORFOLK**  
**School Board OPEB Liability**

Schedule of Changes in Total OPEB Liability and Related Ratios (unaudited)  
 For Fiscal Years

2018

**Total OPEB Liability**

Service Costs	\$ 1,468,830
Interest	1,702,533
Changes of benefit terms	-
Difference between expected and actual experience	(3,274,812)
Changes in assumptions	(10,475,847)
Benefits payments, including refunds of member contributions	<u>(2,580,746)</u>
<b>Net change in total OPEB liability</b>	<b>(13,160,042)</b>
<b>Total OPEB Liability - Beginning</b>	<b>60,290,035</b>
<b>Total OPEB Liability - Ending</b>	<b><u>\$ 47,129,993</u></b>

Covered employee payroll	\$ 202,324,943
Net OPEB liability as a percentage of covered employee payroll	23.29%

\*The schedule is intended to illustrate the requirement to show information for 10 years. Since 2018 was the first year for presentation, no older data is available. However, additional years will be included as they become available.

See accompanying independent auditors' report

**SCHOOL BOARD OF THE CITY OF NORFOLK**  
**A Component Unit of the City of Norfolk**  
**Virginia Retirement System - Health Insurance Credit Program (HIC)**  
 Schedule of the School Board's Share of the Net OPEB Liability (unaudited)  
 For Fiscal Years  
 (Amounts in thousands)

	<b>2018</b>
School Board's proportion of contributions of the Net HIC OPEB Liability	2.70%
School Board's proportionate share of the Net HIC OPEB Liability	\$ 29,296
Covered payroll	\$ 177,333
School Board's proportionate of the Net HIC OPEB Liability as a percentage of its covered payroll	16.52%
Plan fiduciary net position as a percentage of the Total HIC OPEB Liability	7.00%

\*The schedule is intended to illustrate the requirement to show information for 10 years.  
 Since 2018 was the first year for presentation, no older data is available. Additional years will be included as they become available.

\*The amount presented have a measurement date of the previous fiscal year end.

See accompanying independent auditors' report

**SCHOOL BOARD OF THE CITY OF NORFOLK**  
**A Component Unit of the City of Norfolk**  
**Virginia Retirement System - Group Life Insurance Program (GLI) Teachers**  
 Schedule of the School Board's Share of the Net OPEB Liability (unaudited)  
 For Fiscal Years  
 (Amounts in thousands)

<b>2018</b>		
School Board's proportion of contributions of the Net GLI OPEB Liability		1.16%
School Board's proportionate share of the Net GLI OPEB Liability	\$	14,976
Covered payroll	\$	183,561
School Board's proportionate of the Net GLI OPEB Liability as a percentage of its covered payroll		8.16%
Plan fiduciary net position as a percentage of the Total GLI OPEB Liability		49.00%

\*The schedule is intended to illustrate the requirement to show information for 10 years.  
 Since 2018 was the first year for presentation, no older data is available. Additional years will be included as they become available.

\*The amount presented have a measurement date of the previous fiscal year end.

See accompanying independent auditors' report

**SCHOOL BOARD OF THE CITY OF NORFOLK**  
**A Component Unit of the City of Norfolk**  
**Virginia Retirement System - Group Life Insurance Program (GLI) Political Subdivisions**  
 Schedule of the School Board's Share of the Net OPEB Liability (unaudited)  
 For Fiscal Years  
 (Amounts in thousands)

	<b>2018</b>
School Board's proportion of contributions of the Net GLI OPEB Liability	0.09%
School Board's proportionate share of the Net GLI OPEB Liability	\$ 1,185
Covered payroll	\$ 14,529
School Board's proportionate of the Net GLI OPEB Liability as a percentage of its covered payroll	8.16%
Plan fiduciary net position as a percentage of the Total GLI OPEB Liability	49.00%

\*The schedule is intended to illustrate the requirement to show information for 10 years.  
 Since 2018 was the first year for presentation, no older data is available. Additional years will be included as they become available.

\*The amount presented have a measurement date of the previous fiscal year end.

See accompanying independent auditors' report

**SCHOOL BOARD OF THE CITY OF NORFOLK**  
**A Component Unit of the City of Norfolk**  
**Virginia Retirement System - Health Insurance Credit Program (HIC)**

Schedule of School Board Contributions (unaudited)

Last 10 Fiscal Years  
 (Amounts in thousands)

Fiscal Year	Contractually Required Contributions	Contributions in Relation to Contractually Required Contributions	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 2,181	\$ 2,181	-	\$ 177,333	1.23%

\*The schedule will eventually report 10 years of data as the information becomes available.

See accompanying independent auditors' report

**SCHOOL BOARD OF THE CITY OF NORFOLK**  
**A Component Unit of the City of Norfolk**  
**Virginia Retirement System - Group Life Insurance Program (GLI) Teachers**

Schedule of School Board Contributions (unaudited)

Last 10 Fiscal Years

(Amounts in thousands)

Fiscal Year	Contractually Required Contributions	Contributions in Relation to Contractually Required Contributions			Employer's Covered Payroll	Contributions as a % of Covered Payroll
		888	\$	888	\$	
2018	\$ 888			-	\$ 207,479	0.43%
2017	981		1,039	(58)	185,045	0.53%
2016	958		868	90	180,745	0.53%
2015	957		866	91	180,487	0.53%
2014	949		860	89	179,135	0.53%
2013	757		482	275	172,021	0.44%
2012	790		588	202	179,569	0.44%
2011	687		366	321	190,873	0.36%
2010	689		516	173	191,294	0.36%
2009	747		747	-	186,719	0.40%

See accompanying independent auditors' report

**SCHOOL BOARD OF THE CITY OF NORFOLK**  
**A Component Unit of the City of Norfolk**  
**Virginia Retirement System - Group Life Insurance Program (GLI) Political Subdivisions**

Schedule of School Board Contributions (unaudited)

Last 10 Fiscal Years

(Amounts in thousands)

Fiscal Year	Contractually Required Contributions	Contributions in Relation to Contractually Required Contributions		Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 75	\$ 75	\$ 75	-	\$ 14,529	0.52%
2017	75	68	7	\$ 14,112	0.53%	
2016	73	66	7	13,832	0.53%	
2015	72	65	7	13,600	0.53%	
2014	72	65	7	13,590	0.53%	
2013	57	36	21	12,952	0.44%	
2012	58	37	21	13,287	0.44%	
2011	51	28	23	14,143	0.36%	
2010	53	40	13	14,811	0.36%	
2009	58	58	-	\$ 14,493	0.40%	

See accompanying independent auditors' report

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**For the Year Ended JUNE 30, 2018**

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## **A. VRS Teacher Retirement Plan**

### **Changes of benefit terms and assumptions**

There have been no actuarially material changes to the VRS benefit provisions since the prior actuarial valuation. The 2014 valuation includes hybrid retirement plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is still a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 is not material.

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

- Updated mortality table to a more current table
- Lowered rates at older ages and changed final retirement from 70 to 75
- Adjusted withdrawal rates to better fit experience
- Lowered disability rates
- Salary scale remained unchanged

## **B. VRS Retirement Plan for Political Subdivisions**

### **Changes of benefit terms and assumptions**

There have been no actuarially material changes to the VRS benefit provisions since the prior actuarial valuation. The 2014 valuation includes hybrid retirement plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is still a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 is not material.

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

- Updated mortality table to a more current table
- Lowered rates at older ages and changed final retirement from 70 to 75
- Adjusted withdrawal rates to better fit experience
- Lowered disability rates
- Salary scale remained unchanged

**CITY OF NORFOLK, VIRGINIA**  
**Schedule of Revenue, Budget and Actual (Unaudited)**  
**General Fund**  
**For the Year Ending June 30, 2018**

**Exhibit E-1**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Budget Basis Actual</b>	<b>Positive (negative) Variance with Final Budget</b>
General property taxes	\$ 272,214,800	\$ 272,214,800	\$ 272,292,964	\$ 78,164
Other local taxes	166,625,000	166,625,000	163,653,946	(2,971,054)
Permits, privilege fees and licenses	3,191,900	3,191,900	3,298,466	106,566
Fines and forfeitures	1,215,000	1,215,000	1,067,796	(147,204)
Use of money and property	7,704,583	7,704,583	7,652,925	(51,658)
Charges for services	25,970,611	26,000,611	23,456,647	(2,543,964)
Miscellaneous revenue	8,970,789	8,970,789	24,999,761	16,028,972
Recovered costs	11,758,591	11,728,591	11,774,831	46,240
Non-categorical aid - Virginia	34,807,100	34,807,100	35,048,144	241,044
Shared expense - Virginia	21,377,000	21,377,000	21,663,467	286,467
Categorical aid - Virginia	265,985,727	265,985,727	261,736,804	(4,248,923)
Categorical aid - Federal	8,701,490	8,701,490	7,775,547	(925,943)
Other sources and transfers	28,753,463	33,853,463	33,853,463	-
 Total revenue budget	 \$ 857,276,054	 \$ 862,376,054	 \$ 868,274,761	 \$ 5,898,707

Exhibit A-3 for GASB 54 includes the General Fund, the Nauticus Fund and the Community Services Board.

See accompanying independent auditors' report

**CITY OF NORFOLK, VIRGINIA**  
**Schedule of Expenditures, Budget and Actual (Unaudited)**  
**General Fund**  
**For the Year Ending June 30, 2018**

**Exhibit E-2**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Budget Basis Actual</b>	<b>Positive (negative) Variance with Final Budget</b>
Legislative	\$ 5,121,896	\$ 5,121,896	\$ 4,726,284	\$ 395,612
Executive	4,056,549	4,183,549	4,109,315	74,234
Department of Law	4,613,010	4,613,010	4,686,066	(73,056)
Finance, City Treasurer, Commissioner of Revenue	10,640,713	11,127,713	10,945,208	182,505
Department of Human Resources	3,505,621	3,535,621	3,512,190	23,431
Courts, Sheriff and Detention	51,998,261	51,498,261	49,596,689	1,901,572
Department of Public Health	3,409,151	3,409,151	3,274,697	134,454
Department of Human Services	74,367,775	73,999,952	70,585,838	3,414,114
Department of Public Works	27,605,306	27,059,306	26,557,054	502,252
Recreation Parks and Open Space, Maritime Center	22,985,680	22,985,680	22,515,070	470,610
Education	325,292,145	325,292,145	319,940,089	5,352,056
Norfolk Public Libraries	12,184,268	12,184,268	11,711,945	472,323
Elections	862,298	862,298	865,305	(3,007)
Department of Planning & Community Development	5,032,672	4,826,307	4,614,682	211,625
Department of Neighborhood Development	4,360,937	4,389,937	4,256,044	133,893
Department of Cultural Facilities, Arts & Entertainment	5,872,356	5,872,356	5,914,239	(41,883)
Departmental Support	20,575,989	19,599,489	17,005,414	2,594,075
Outside Agencies	45,075,920	43,098,027	42,595,065	502,962
Department of Police	72,523,769	71,548,835	71,231,450	317,385
Department of Fire and Rescue	44,621,442	44,451,442	44,304,698	146,744
Debt service	66,639,496	77,239,496	76,705,820	533,676
Office of Budget and Strategic Planning	1,432,603	1,440,253	1,434,312	5,941
Resilience	370,766	374,631	318,557	56,074
General Services	25,560,491	25,495,491	24,886,942	608,549
Economic Development	2,163,109	2,163,109	2,146,739	16,370
Communications and Public Relations	24,616	17,758	13,543	4,215
Department of Information Technology	11,725,686	11,332,544	11,203,991	128,553
Virginia Zoological Park	4,353,369	4,353,369	4,318,921	34,448
Office of Homelessness	300,160	300,160	295,703	4,457
 Total expenditure budget	 \$ 857,276,054	 \$ 862,376,054	 \$ 844,271,870	 \$ 18,104,184

Exhibit E-2 for GASB 54 includes the General fund, the Maritime Center and the Community Services Board.

See accompanying independent auditors' report

**CITY OF NORFOLK, VIRGINIA**  
**Notes to Required Supplementary Information**  
**Reconciliation of (non-GAAP) Budgetary Basis to GAAP (Unaudited)**  
**For the Year Ending June 30, 2018**

	General Fund
<b>Sources/inflows of resources:</b>	
Actual amounts (budgetary basis) "available for appropriation" from Exhibit E-1	\$ 868,274,761
<b>Differences--budget to GAAP:</b>	
The effects of accounting for school revenue as a component unit	(195,198,369)
The effects of accounting for transfer from fund balance	(16,965,374)
General fund transfers from other funds are inflows of budgetary resources, but are not revenues for financial reporting purposes	(16,888,089)
The effects of reclassification of recovered costs	(16,012,314)
Gross proceeds from other financing sources	(9,278,322)
Total revenues as reported on the Statement of Revenues, Expenditure and Changes in Fund Balances - Governmental Funds	\$ 613,932,293
<b>Uses/outflows of resources:</b>	
Actual amounts (budgetary basis) "Total charges to appropriations" from Exhibit E-2	\$ 844,271,870
<b>Differences--budget to GAAP:</b>	
The effects of accounting for school expenditures as a component unit	(183,926,850)
The effects of accounting for Special Revenue fund as a non major fund	-
The effects of reclassification of recovered costs	(9,744,136)
Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes	(9,540,996)
General fund transfers to other funds are outflows of budgetary resources, but are not expenditures for financial reporting purposes	(76,973,896)
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	\$ 564,085,992

There were no material violations of the annual appropriated budget for the General fund for fiscal year 2018.

See accompanying independent auditors' report



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# **OTHER SUPPLEMENTARY INFORMATION**

## **COMBINING FINANCIAL STATEMENTS**

**~ Nonmajor Governmental Funds ~**  
**~ Agency Funds ~**  
**~ Internal Service Funds ~**

## **OTHER SCHEDULES**

**~ Schedule of Expenditures of Federal Awards ~**

**~ Notes to Schedule of Expenditures of Federal Awards ~**

**~ Schedule of Revenues and Expenditures – Budget and  
Actual – Special Revenue Funds ~**

**Schedule of Revenues and Expenditures – Budget and  
Actual – Internal Service Funds ~**

**Schedule of Expenditures – Budget and Actual –  
Capital Improvement Program ~**





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# Nonmajor Governmental Funds

## Special Revenue Funds

**The Special Revenue funds are used to account for proceeds of specific resources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. The individual special revenue funds are:**

Storm Water Fund: To account for the operation of the environmental storm water management system, including maintenance of storm water drainage facilities. The costs of providing services on a continuing basis are partially financed or recovered through user charges to Norfolk residents and commercial and industrial customers.

Towing & Recovery Operations Fund: To improve neighborhood livability by providing reliable dispatching of towing services, storage of vehicles and recovery or disposal of vehicles.

Waste Management Fund: To account for the costs and revenues associated with the City's solid waste and environmental management programs.

Grants Fund: To account for the receipt and disbursement of revenue from such sources as federal and state agencies, adjacent municipalities, and City matching funds and to finance special programs that may have reporting periods that do not correspond with the City's fiscal year.

Community Development Fund: To account for all entitlement funds received under Title I of the Housing and Community Development Act of 1974, commonly known as the Community Development Block Grant Program.

Cemeteries Fund: To account for the operation of the City's cemeteries.

Golf Fund: To account for the operation of the City's golf courses.

Public Amenities Fund: To promote cultural and entertainment activity in the downtown area.

Emergency Operations Center/911 Fund: To account for the operation of the City's emergency operations center/911.

Tax Increment Financing Fund: To account for debt service requirements for the general obligation bonds and property tax collections within the Broad Creek Renaissance Tax Increment Financing District.

Resiliency Fund: To account for the receipt and disbursement of revenue from the National Disaster Resilience Grant.



## **Nonmajor Governmental Funds (Cont'd.)**

Endowed Care Fund: The Endowed Care fund is used to report resources that are restricted by City Code. The City's Endowed Care fund is used to account for the perpetual care and endowed care at certain City-owned cemeteries. Both the earnings and principal are used for purposes that support the maintenance of City-owned cemeteries.



## CITY OF NORFOLK, VIRGINIA

Combining Balance Sheet - Nonmajor Governmental Funds  
June 30, 2018

Special Revenue Funds											Nonmajor Governmental Funds			
	Storm Water	Towing	Waste Management	Grants	Community Development	Cemeteries	Golf	Public Amenities	E/OC/ 911	Tax Increment	Total Special Revenue	Endowed Care Fund	Nonmajor Governmental Funds	
<b>ASSETS</b>														
Cash and short-term investments	\$ 2,137,596	\$ 31,244	\$ 3,680,762	\$ 2,040,681	\$ 2,145,760	\$ 463,371	\$ 254,184	\$ 11,540,254	\$ 282,208	\$ 1,714,825	\$ 21,689,162	\$ 5,735,159	\$ 27,424,521	
Receivables, net	3,048,722	31,394	2,533,743	593	66	-	-	721,827	-	-	9,152,377	13,455	9,166,432	
Accrued investment income	299	-	-	-	127,841	-	-	-	-	-	958	-	958	
Due from other funds	-	-	-	-	11,930,642	639,719	-	-	-	-	127,841	-	127,841	
Due from other governments	90,907	-	-	-	-	-	-	-	-	-	15,899,936	-	15,899,936	
Prepaid	-	-	-	-	-	-	-	-	-	-	-	-	-	
Restricted cash and cash equivalents	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Total assets</b>	<b>\$ 5,277,724</b>		<b>\$ 63,293</b>		<b>\$ 6,215,098</b>		<b>\$ 254,184</b>		<b>\$ 12,262,081</b>		<b>\$ 1,714,825</b>		<b>\$ 46,870,634</b>	
<b>LIABILITIES, DEFERRED INFLOWS</b>														
Vouchers payable	\$ 450,370	\$ 40,528	\$ 693,976	\$ 1,740,550	\$ 1,474	\$ 54,452	\$ -	\$ -	\$ 42,754	\$ -	\$ 3,759,849	\$ 75,000	\$ 3,834,649	
Contract retainerage	9,013	-	-	185,418	-	-	-	-	-	-	194,431	-	194,431	
Accrued payroll	94,232	9,503	80,261	34,584	-	23,761	-	-	85,203	-	32,544	-	32,544	
Accrued expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	
Unearned revenue	-	-	-	-	7,296,330	-	-	-	-	-	7,296,330	-	7,296,330	
Due to other funds	147,096	-	-	-	23,751	229,607	113,378	-	-	-	3,021,549	-	3,021,549	
Due to component units	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other liabilities	319	5,580	-	-	-	-	-	-	-	-	-	-	5,580	
<b>Total liabilities</b>	<b>\$ 701,030</b>		<b>55,161</b>		<b>774,237</b>		<b>9,283,233</b>		<b>231,081</b>		<b>191,591</b>		<b>14,683,202</b>	
<b>DEFERRED INFLOWS OF RESOURCES</b>														
Revenue not available for current obligations	537,329	-	2,042,040	-	863,009	153,122	-	-	-	-	3,595,500	-	3,595,500	
<b>FUND BALANCES</b>														
Nonspendable	-	-	-	-	-	-	-	-	-	-	-	-	-	
Restricted	-	-	-	666,247	-	-	-	-	-	-	666,247	-	666,247	
Committed	4,038,765	-	-	3,245,865	-	37,803	-	-	-	-	7,322,433	-	7,322,433	
Assigned	-	7,627	3,398,811	3,699,547	43,140	216,881	12,262,081	174,825	188,717	21,501,129	(82,2877)	21,501,129	(82,2877)	
Unassigned	-	-	(650,002)	(172,875)	-	-	-	-	-	-	-	-	-	
Total fund balances	4,038,765	7,627	3,398,811	6,961,157	6,219,735	254,184	12,262,081	174,825	158,717	28,661,632	5,673,514	34,340,746	(82,2877)	
Total liabilities and fund balances	<b>\$ 5,277,724</b>		<b>\$ 63,293</b>		<b>\$ 1,094,090</b>		<b>\$ 254,184</b>		<b>\$ 12,262,081</b>		<b>\$ 174,825</b>		<b>\$ 46,870,634</b>	

CITY OF NORFOLK, VIRGINIA

Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
Nonmajor Governmental Funds  
For the Year Ending June 30, 2018

Exhibit F-2

	Special Revenue Funds										Total		Total Nonmajor Governmental Funds	
	Storm Water	Towing	Waste Management	Grants	Community Development	Cemeteries	Golf	Public Amenities	EOC/ 911	Tax Incitement	Resiliency	Special Revenue	Endowed Care Fund	
<b>REVENUES</b>														
General property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,266,000	\$ -	\$ 5,266,000	\$ -	\$ 5,266,000
Other local taxes	-	-	-	-	(184)	-	-	6,913,326	3,571,956	-	-	10,484,922	-	10,484,922
Fines and forfeitures	-	-	-	6,327	531	-	-	15,000	-	-	-	(184)	-	(184)
Use of money and property	16,342,606	1,359,870	21,693,040	222,277	-	1,287,740	-	-	-	-	-	22,804	129,148	151,052
Charges for services	94,528	2,285	48,418	1,901,356	72,103	-	-	-	351	-	-	41,004,084	190,981	41,195,065
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	2,118,670	-	2,118,670
Intergovernmental:	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Commonwealth of Virginia	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Federal government	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	16,971,389	1,365,383	-	21,747,786	33,060,246	4,731,093	1,287,740	15,000	6,913,326	5,163,631	5,266,000	7,683,910	27,196,211	18,112,196
												104,205,503	320,129	104,525,632
<b>EXPENDITURES</b>														
General government	-	-	-	2,533,754	-	-	-	1,283,943	-	-	-	3,817,697	-	3,817,697
Judicial administration	-	-	-	3,045,667	-	-	-	-	-	-	-	3,043,667	-	3,043,667
Public safety	-	-	4,009,131	-	10,148,194	-	-	-	-	-	-	9,667,792	-	9,667,792
Public works	11,697,747	1,263,731	19,119,296	-	16,208,586	460,844	-	-	-	-	-	42,226,968	-	42,226,968
Health and public assistance	-	-	-	359,061	1,142,071	2,455,348	1,872,433	9,000	-	-	-	16,689,430	-	16,689,430
Cultural and recreation	-	-	-	-	-	1,819,901	-	-	-	-	-	2,240,494	-	2,240,494
Community development	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	11,697,747	1,263,731	19,119,296	37,442,464	4,738,093	1,872,433	9,000	1,283,943	5,658,661	-	-	7,683,910	1,819,901	11,281,29
												90,767,278	-	90,767,278
Excess (deficiency) of revenue over (under) expenditures	5,273,642	101,652	2,628,489	(4,382,218)	(5,000)	(584,693)	6,000	5,629,988	(495,030)	5,266,000	-	13,436,225	320,129	13,786,354
<b>OTHER FINANCING SOURCES (USES)</b>														
Transfers in	-	85,472	-	6,791,464	-	412,148	-	-	570,834	-	-	7,859,918	-	7,859,918
Transfers out	(4,737,284)	(203,402)	(896,962)	6,791,464	-	412,148	-	(7,381,960)	-	(5,266,000)	-	(18,485,908)	(300,000)	(18,795,808)
Total other financing sources and uses	(4,737,284)	(117,930)	(896,962)	6,791,464	-	412,148	-	(7,381,960)	570,834	(5,266,000)	-	(10,625,900)	(300,000)	(10,925,900)
Net change in fund balances	536,358	(16,278)	1,731,527	2,409,246	(6,000)	(172,545)	6,000	(1,752,577)	75,804	-	-	2,812,535	20,129	2,832,664
Fund balances-beginning	3,502,407	23,905	1,687,284	4,552,411	5,000	42,810	248,184	14,014,658	82,613	\$ 1,714,825	\$ -	25,854,397	\$ 5,653,685	31,508,082
Fund balances-ending	\$ 4,039,765	\$ 7,657	\$ 3,398,611	\$ 6,961,657	\$ -	\$ (129,735)	\$ 254,184	\$ 12,262,081	\$ 158,477	\$ 1,714,825	\$ -	\$ 28,663,932	\$ 5,673,814	\$ 34,340,746

## Internal Service Funds

**Internal service funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the government and to other government units, on a cost reimbursement basis. The individual internal service funds are:**

Fleet Management Fund – to provide the operating departments with maintenance, repair and service for the City fleet of vehicles, heavy equipment and miscellaneous machinery.

Healthcare Fund – to provide for the self-insured healthcare costs for the City of Norfolk, Norfolk Public Schools, NRHA and Pre-65 Retirees.





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**CITY OF NORFOLK, VIRGINIA**

**Exhibit G-1**

**Combining Statement of Net Position - Internal Service Funds**  
**June 30, 2018**

	Healthcare	Fleet	Management	Total
<b>ASSETS</b>				
Current assets:				
Cash and short-term investments	\$ 14,606,866	\$ 1,487,999	\$ 16,094,865	
Receivables, net	3,810,811	188,912	3,999,723	
Prepaid expenses	179,803	-	179,803	
Total current assets	<u>18,597,480</u>	<u>1,676,911</u>	<u>20,274,391</u>	
Noncurrent assets:				
Capital assets:				
Land	-	415,000	415,000	
Buildings and equipment, net	-	10,946,100	10,946,100	
Accumulated depreciation	-	(8,139,622)	(8,139,622)	
Total noncurrent assets	<u>-</u>	<u>3,221,478</u>	<u>3,221,478</u>	
Deferred outflows of resources				
Related to pensions	-	907,320	907,320	
Related to OPEB	-	29,801	29,801	
Total assets	<u>\$ 18,597,480</u>	<u>\$ 5,835,510</u>	<u>\$ 24,432,990</u>	
<b>LIABILITIES</b>				
Current liabilities:				
Vouchers payable	\$ 621,285	\$ 554,494	\$ 1,175,779	
Unearned revenue	6,932,638	-	6,932,638	
Compensated absences	-	154,327	154,327	
Accrued payroll	-	46,038	46,038	
Other liabilities	6,295,000	-	6,295,000	
Total current liabilities	<u>13,848,923</u>	<u>754,859</u>	<u>14,603,782</u>	
Noncurrent liabilities:				
Compensated absences	-	113,205	113,205	
Net pension liability	-	2,991,946	2,991,946	
Net OPEB liability	-	342,257	342,257	
Total noncurrent liabilities	<u>-</u>	<u>3,447,408</u>	<u>3,447,408</u>	
Deferred inflows of resources				
Related to pensions	-	114,372	114,372	
Related to OPEB	-	30,278	30,278	
Total deferred inflows	<u>-</u>	<u>144,650</u>	<u>144,650</u>	
Total liabilities	<u>\$ 13,848,923</u>	<u>\$ 4,346,917</u>	<u>\$ 18,195,840</u>	
<b>NET POSITION</b>				
Net investment in capital assets	\$ -	\$ 3,221,478	\$ 3,221,478	
Unrestricted	4,748,557	(1,732,885)	3,015,672	
Total net position	<u>\$ 4,748,557</u>	<u>\$ 1,488,593</u>	<u>\$ 6,237,150</u>	

**CITY OF NORFOLK, VIRGINIA**

Exhibit G-2

**Combining Statement of Revenues, Expenses and  
Changes in Fund Net Position - Internal Service Funds  
For the Year Ended June 30, 2018**

	Healthcare	Fleet Management	Total
<b>OPERATING REVENUES</b>			
Charges for services	\$ 79,256,365	\$ 11,171,991	\$ 90,428,356
Miscellaneous	-	16,197	16,197
Total operating revenues	<u>79,256,365</u>	<u>11,188,188</u>	<u>90,444,553</u>
<b>OPERATING EXPENSES</b>			
Personal services	-	2,825,866	2,825,866
Healthcare costs	73,324,995	-	73,324,995
Cost of goods sold	-	3,671,782	3,671,782
Plant operations	-	3,808,754	3,808,754
Depreciation and amortization	-	242,963	242,963
Retirement and OPEB expense	-	478,669	478,669
Other	-	206,466	206,466
Total operating expenses	<u>73,324,995</u>	<u>11,234,500</u>	<u>84,559,495</u>
Operating income (loss)	<u>5,931,370</u>	<u>(46,312)</u>	<u>5,885,058</u>
Net income (loss)	<u>5,931,370</u>	<u>(46,312)</u>	<u>5,885,058</u>
Net change in net position	5,931,370	(46,312)	5,885,058
Net position - beginning	(1,182,813)	1,856,135	673,322
Restatement related to OPEB	-	(321,230)	(321,230)
Net position - ending	<u>\$ 4,748,557</u>	<u>\$ 1,488,593</u>	<u>\$ 6,237,150</u>

**CITY OF NORFOLK, VIRGINIA**

**Exhibit G-3**

**Combining Statement of Cash Flows - Internal Service Funds**  
**For the Year Ended June 30, 2018**

	Healthcare	Fleet Management	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers	\$ 76,875,920	\$ 11,180,906	\$ 88,056,826
Payments to employees	-	(3,209,814)	(3,209,814)
Payments to suppliers	(73,721,647)	(7,006,918)	(80,728,565)
Other payments	-	(208,064)	(208,064)
Net cash provided by (used in) operating activities	<u>3,154,273</u>	<u>756,110</u>	<u>3,910,383</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Interfund activity	-	(32)	(32)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Purchases of capital assets	-	-	-
Capital Contributions	-	-	-
Net cash provided by capital and related financing activities	<u>3,154,273</u>	<u>756,078</u>	<u>3,910,351</u>
Net increase in cash and short-term investments	11,452,593	731,921	12,184,514
Cash and short-term investments - beginning of the year	<u>14,606,866</u>	<u>1,487,999</u>	<u>16,094,865</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (used in) Operating Activities</b>			
Operating income (loss)	\$ 5,931,370	\$ (46,312)	\$ 5,885,058
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	-	242,963	242,963
Change in assets, deferred outflows and liabilities and deferred inflows:			
Receivables, net	(2,527,076)	(7,282)	(2,534,358)
Prepaid expenses	(179,803)	-	(179,803)
Vouchers payable	(216,849)	473,524	256,675
Accrued payroll	-	2,234	2,234
Net pension liability	-	92,487	92,487
Unearned revenue	146,631	-	146,631
Other liabilities	-	(1,504)	(1,504)
Net cash provided by (used in) operating activities	<u>\$ 3,154,273</u>	<u>\$ 756,110</u>	<u>\$ 3,910,383</u>
<b>Noncash investing, capital, and financing activities:</b>			
Capital Contributions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



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## Agency Funds

**Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds:**

Agency Fund – Other; to account for other monies held for private organizations and other funds including Sheriff's inmate funds and funds held on behalf of employees.

Agency Fund – Commonwealth of Virginia; to account for monies on deposit with the City Treasurer held for the Treasurer of the Commonwealth of Virginia.





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**CITY OF NORFOLK, VIRGINIA****Exhibit H-1****Combining Balance Sheet - Agency Funds**  
**June 30, 2018**  
(unaudited)

	<b>Commonwealth of Virginia</b>			
	<b>Other</b>			<b>Total</b>
<b>ASSETS</b>				
Cash and short-term investments	\$ 7,086,543	\$ 9,395	\$ 7,095,938	
Other	173,544	-	173,544	
Total assets	<u>\$ 7,260,087</u>	<u>\$ 9,395</u>	<u>\$ 7,269,482</u>	
<b>LIABILITIES</b>				
Vouchers payable	\$ 341,838	\$ -	\$ 341,838	
Due to governmental funds	47,679	-	47,679	
Due to other agencies	6,870,570	9,395	6,879,965	
Total liabilities	<u>\$ 7,260,087</u>	<u>\$ 9,395</u>	<u>\$ 7,269,482</u>	

**CITY OF NORFOLK, VIRGINIA**  
**Combining Statement of Changes in Assets and Liabilities**  
**Agency Funds**

**Exhibit H-2**

**For the Year Ended June 30, 2018**  
 (unaudited)

	<b>Other</b>			
	<b>Balance</b>			<b>Balance</b>
	<b>June 30, 2017</b>	<b>Additions</b>	<b>Deductions</b>	<b>June 30, 2018</b>
<b>ASSETS</b>				
Cash and short-term investments	\$ 6,219,032	\$ 7,603,247	\$ 6,735,736	\$ 7,086,543
Other receivables	107,306	142,476	76,238	173,544
Total assets	<u>\$ 6,326,338</u>	<u>\$ 7,745,723</u>	<u>\$ 6,811,974</u>	<u>\$ 7,260,087</u>
<b>LIABILITIES</b>				
Vouchers payable	\$ 5,170	\$ 1,390,197	\$ 1,053,529	\$ 341,838
Due to governmental funds	-	407,065	359,386	47,679
Due to other agencies	6,321,168	8,834,226	8,284,824	6,870,570
Total liabilities	<u>\$ 6,326,338</u>	<u>\$ 10,631,488</u>	<u>\$ 9,697,739</u>	<u>\$ 7,260,087</u>
 <b>Commonwealth of Virginia</b>				
<b>ASSETS</b>				
Cash and short-term investments	\$ 4,795	\$ 5,686,356	\$ 5,681,756	\$ 9,395
Total assets	<u>\$ 4,795</u>	<u>\$ 5,686,356</u>	<u>\$ 5,681,756</u>	<u>\$ 9,395</u>
<b>LIABILITIES</b>				
Due to the Commonwealth of Virginia	\$ 4,795	\$ 5,686,356	\$ 5,681,756	\$ 9,395
Total liabilities	<u>\$ 4,795</u>	<u>\$ 5,686,356</u>	<u>\$ 5,681,756</u>	<u>\$ 9,395</u>
 <b>Total</b>				
<b>ASSETS</b>				
Cash and short-term investments	\$ 6,223,827	\$ 13,289,603	\$ 12,417,492	\$ 7,095,938
Other receivables	107,306	142,476	76,238	173,544
Total assets	<u>\$ 6,331,133</u>	<u>\$ 13,432,079</u>	<u>\$ 12,493,730</u>	<u>\$ 7,269,482</u>
<b>LIABILITIES</b>				
Vouchers payable	\$ 5,170	\$ 1,390,197	\$ 1,053,529	\$ 341,838
Due to other funds	-	407,065	359,386	47,679
Due to other agencies	6,325,963	14,520,582	13,966,580	6,879,965
Total liabilities	<u>\$ 6,331,133</u>	<u>\$ 16,317,844</u>	<u>\$ 15,379,495</u>	<u>\$ 7,269,482</u>

# **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**





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**CITY OF NORFOLK, VIRGINIA**  
**Schedule of Expenditures of Federal Awards**  
For the Year Ended June 30, 2018

<u>Federal Grant/Pass-Through Entity Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures (\$)</u>	<u>Program Total (\$)</u>	<u>Passed Through to Sub-Recipients (\$)</u>
<b>DEPARTMENT OF AGRICULTURE</b>				
<u>Pass-through Payments:</u> Direct Payments:				
Pilot Project to Reduce Dependence and Increase Work Requirements and Work Effort under SNAP	10,561	4,113,618		51,220
<u>Virginia Department of Agriculture</u>				
School Breakfast Program (Child Nutrition Cluster) - 1	10,553	4,239,768		9,936,523
National School Lunch Program (Child Nutrition Cluster) - 2	10,555	886,729		
Special Milk Program for Children	10,556	726,102		
Child and Adult Care Food Program	10,558	594,102		
Summer Food Service Program for Children (Child Nutrition Cluster)	10,559	318,946		
Fresh Fruit and Vegetable Program	10,582	34,272		
School Breakfast Program (Child Nutrition Cluster) - 1	10,553	53,809		
National School Lunch Program (Child Nutrition Cluster) - 2	10,555			
1 - Total for School Breakfast Program (10,553)		4,274,040		9,980,332
2 - Total for National School Lunch Program (10,556)				
<b>DEPARTMENT OF DEFENSE</b>				
<u>Pass-through Payments:</u> Direct Payments:				
Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools	12,556	449,189		10,418,444
Community Investment	12,600			
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>				
<u>Pass-through Payments:</u> Direct Payments:				
Community Development Block Grants/Entitlement Grants (CDBG - Entitlement Grants Cluster)	14,218	4,755,034		1,456,034
Emergency Solutions Grant Program	14,231	287,287		168,218
Shelter Plus Care	14,238	412,245		
Home Investment Partnerships Program	14,239	1,048,585		333,395
<u>Virginia Department of Housing and Community Development</u>				
National Resident Disaster Recovery Competition	14,272			
<b>DEPARTMENT OF INTERIOR</b>				
<u>Pass-through Payments:</u> Direct Payments:				
National Fish and Wildlife Foundation	15,153	2,528,830		
Hurricane Sandy Disaster Relief - Coastal Resiliency Grants				
<b>DEPARTMENT OF JUSTICE</b>				
<u>Pass-through Payments:</u> Direct Payments:				
Drug Court Discretionary Grant Program and Community Policing Grants	16,585	36,494		9,815
Edward Byrne Memorial Justice Assistance Grant	16,730	17,729		
Equitable Sharing Program	16,922	228,924		
<u>Virginia Department of Criminal Justice Services</u>				
Crime Victim Assistance	16,575	662,516		
Violence Against Women Formula Grants	16,588	147,472		
State Criminal Alien Assistance Program	16,606	2,303		
Edward Byrne Memorial Justice Assistance Grant	16,738	107,251		
3 - Total for Edward Byrne Memorial Justice Assistance Grant (46,738)		108,980		
<b>DEPARTMENT OF TRANSPORTATION</b>				
<u>Pass-through Payments:</u> Virginia Department of Transportation				
Highway Planning and Construction (Highway Planning and Construction Cluster)	20,205	3SRS	2,007,800	
State and Community Highway Safety (Highway Safety Cluster)	20,600	154AL-2016-56022-6222	43,642	
Alcohol and Open Container Requirements (Highway Safety Cluster)	20,607		40,030	
<b>NATIONAL ENDOWMENT FOR THE ARTS</b>				
<u>Pass-through Payments:</u> Direct Payments:				
Promotion of the Arts - Grants to Organizations and Individuals	45,024			
<b>ENVIRONMENTAL PROTECTION AGENCY</b>				
<u>Pass-through Payments:</u> Virginia Resource Authority				
Capitation Grants for Clean Water State Revolving Funds	66,458	C-515550(E-01, C-515574(E-01, C-515593(E-01, C-515595(E-02	6,499,897	
Clean Water State Revolving Fund Cluster)				

**CITY OF NORFOLK, VIRGINIA**  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2018

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2018

Federal Grantor/Pass-Through Entity/Program Title		Program Total (\$)		Passed Through to Sub-Recipients (\$)	
Department	Program Name	CFDA Number	Federal Expenditures (\$)	Program Total (\$)	Federal Expenditures (\$)
<u>DEPARTMENT OF EDUCATION</u>					
<u>Direct Payments:</u>					
Pass-through Payments:					
<u>Virginia Department of Education</u>					
Adult Education - Basic Grants to States	84.041		2,126.257		
Title I Grants to Local Educational Agencies	84.002	3ABE V0024100047 3CH1 S010300046, 3CH4 S01030046	263,014 14,355,939		
Special Education - Grants to States (Special Education Cluster)	84.027	3S12 S010300046	7,547,776		
Career and Technical Education - Basic Grants to States	84.048	3CPV V048A110046	81,687		
Special Education - Preschool Grants (Special Education Cluster)	84.173	3619 H173R120112	205,351		
Education for Homeless Children and Youth	84.196	3HLA G17810	185,901		
Twenty-first Century Community Learning Centers	84.287	\$287C 3L004	3,867,192		
English Language Acquisition State Grants	84.385	3LEP S385Y10046	44,689		
Improving Teacher Quality State Grants	84.387	3IT T387Y10044	1,692,139		
Investing in Innovation (IS) Fund	84.411	3IS 2241937101			
Preschool Development Grants	84.419	3VP1 S4198150070			
Special Education - Grants for Infants and Families	84.181		214,866		
<u>DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>					
<u>Direct Payments:</u>					
Pass-through Payments:					
<u>Virginia Department of Social Services</u>					
Promoting Safe and Stable Families	93.914		5,761,576		
Temporary Assistance for Needy Families (TANF Cluster) - 4	93.556	0950114, 0950115	129,915		
Refugee and Entrant Assistance - State Administered Programs	93.558	0400105, 0400116	3,867,761		
Low-Income Home Energy Assistance	93.566	0500105, 0500116	6,117		
Child Care and Development Block Grant	93.568	0600415, 0600416	50,676,78		
Child Care Mandate and Matching Funds of the Child Care and Development Fund	93.573	0780115, 0780116	60,437,12		
(C-CDP Cluster)	93.596				
Childcare Education and Training Vouchers Program (ETV)	93.599	9160114, 9160115	(1,936)		
Adoption Incentive Payments	93.603	9000115	4,539		
Stephanie Tubb's Jones Child Welfare Services Program	93.645	1100115, 1100116	1,034		
Foster Care - Title IV-E	93.658	1202115, 1202116	2,622,833		
Adoption Assistance	93.659	1202015, 1202016	2,485,715		
Social Services Block Grant	93.661	1000115, 1000116	2,853,41		
Charlie Poole Care Independence Program	93.667	9150115, 9150116	30,405		
Children's Health Insurance Program	93.674				
Medical Assistance Program - Administration (Medicaid Cluster)	93.767	0940115, 0940116	16,051		
Program of Assisted Transitions for the Homeless (PATH) Services	93.778		3,940,009		
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.150	SM016047-16			
Projects in Transition on Behalf of the Homeless (PATH) Services	93.243		107,819		
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.556		1,038,927		
Temporary Assistance for Needy Families (TANF Cluster) - 4	93.768	SM010053-16	54,592		
Opioz SIR	93.968	SM010053-16	54,514		
Mental Health Federal Block Grant	93.969	SM1010053-16	13,539		
Substance Abuse Federal Block Grant	93.969		1,51,5764		
4 - Total for <i>Temporary Assistance for Needy Families</i> (93.556)			3,932,663		
<u>DEPARTMENT OF HOMELAND SECURITY</u>					
<u>Direct Payments:</u>					
Pass-through Payments:					
<u>Virginia Department of Emergency Management</u>					
Hazard Mitigation Grant	97.056		1,755,572		
Port Security Grant Program - 5	97.067		20,850		
Homeland Security Grant Program	97.073		28,096		
State Homeland Security Program (SHSP)	97.154		19,754		
5 - Total for <i>Port Security Grant Program</i> (97.056)			326,689		

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2018**

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**1. General**

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards of the City. The City of Norfolk single audit reporting entity includes the primary government and the School Board and Community Services Board component units.

Federal awards not received through direct programs are passed through the departments and agencies of the Commonwealth of Virginia.

**2. Basis of Accounting**

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting. Expenditures are recorded when the liability is incurred or measurable. The related revenue is reported net of unexpended amounts returned to grantors.

**3. Relationship to the Basic Financial Statements**

Federal award revenue is reported in the City's basic financial statements as follows:

Major governmental funds	\$ 38,865,772
Non-major governmental funds	27,196,211
Total revenues from federal government	<u>66,061,983</u>

**Component Unit - School Board**

Total Federal Grants Awarded	\$ 49,430,042
Other Federal Amounts not reported on SEFA	
Direct Payments:	
Total - Norfolk Public Schools	49,430,042

CSA Pool - Medicaid Adjustment

<b>Total federal financial assistance reported in basic financial statements</b>	<u>\$ 115,492,025</u>
----------------------------------------------------------------------------------	-----------------------

Federal awards not reported as federal revenue in basic financial statements:

Enterprise - VRA Loan - Wastewater Fund & Storm Water Fund	6,499,897
VDOT	993,168
CSA	490,688

Federal awards not reported on the SEFA:

Norfolk Public Schools Direct Payments	(2,942,153)
Build America Bond Interest Rate Subsidy	(2,584,704)
Recognition of DOD Revenue	(1,535,713)
Other reconciling items	273,350

Grant funds recorded as revenue in financial statements, not on schedule of federal awards (CSB)

<b>Total federal awards</b>	<u>\$ 116,686,558</u>
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**Reconciliation to Exhibit A-3**

Revenues from federal government	\$ 66,061,983
Revenues from Commonwealth of Virginia	127,227,619
Total intergovernmental revenue	<u>\$ 193,289,602</u>

**CITY OF NORFOLK, VIRGINIA**  
**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2018**

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**4. Clusters**

Clustered programs for the year ended June 30, 2018 were as follows:

<b>Grant Program / Cluster</b>	<b>CFDA Number</b>	<b>Federal Expenditures</b>
School Breakfast Program	10.553	\$ 4,274,040
National School Lunch Program	10.555	9,990,332
Summer Food Service Program for Children	10.559	594,645
<b>Total Child Nutrition Cluster</b>		<b><u>\$ 14,859,017</u></b>
Community Development Block Grants/Entitlement Grants	14.218	\$ 4,735,049
<b>Total CDBG - Entitlement Grants Cluster</b>		<b><u>\$ 4,735,049</u></b>
Highway Planning and Construction	20.205	\$ 2,007,800
<b>Total Highway Planning and Construction Cluster</b>		<b><u>\$ 2,007,800</u></b>
State and Community Highway Safety	20.600	\$ 43,642
Alcohol and Open Container Requirements	20.607	40,030
<b>Total Highway Safety Cluster</b>		<b><u>\$ 83,672</u></b>
Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ 6,499,897
<b>Total Clean Water State Revolving Fund Cluster</b>		<b><u>\$ 6,499,897</u></b>
Special Education - Grants to States	84.027	\$ 7,547,778
Special Education - Preschool Grants	84.173	205,351
<b>Total Special Education Cluster</b>		<b><u>\$ 7,753,129</u></b>
Temporary Assistance for Needy Families	93.558	\$ 3,932,663
<b>Total TANF Cluster</b>		<b><u>\$ 3,932,663</u></b>
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	\$ 604,712
<b>Total CCDF Cluster</b>		<b><u>\$ 604,712</u></b>
Medical Assistance Program - Administrative	93.778	\$ 3,902,009
<b>Total Medicaid Cluster</b>		<b><u>\$ 3,902,009</u></b>

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2018**

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**5. Virginia Resources Authority Loans**

The City reports on the Schedule of Federal Awards, loan proceeds drawn from the Virginia Resources Authority. The loans are a pass-through award from the U. S. Environmental Protection Agency and administered by the Virginia Resources Authority Department of Environmental Quality. The balances at the end of the fiscal year 2018 are as follows:

<b>Loan number</b>	<b>June 30, 2017 VRA Loan Balances</b>	<b>Disbursements Made During FY 2018</b>	<b>Total Loan Amount Disbursed</b>	<b>Total Amount Available to be Drawn</b>	<b>June 30, 2018 Outstanding Loan Balances</b>
C-515550E-01	\$ 3,733,261	\$ 1,773,118	\$ 5,506,379	\$ 493,621	\$ 5,506,379
C-515574E-01	314,293	4,280,164	4,594,457	1,905,543	4,594,457
C-515593E-01	-	51,346	51,346	7,448,655	51,346
C-515565GE-02	93,781	395,269	489,050	2,405,791	489,050
<b>TOTALS</b>	<b>\$ 4,141,335</b>	<b>\$ 6,499,897</b>	<b>\$ 10,641,232</b>	<b>\$ 12,253,610</b>	<b>\$ 10,641,232</b>

**6. Indirect Cost Rate**

For the Fiscal Year 2018, the City did not use the 10 percent de minimis cost rate for indirect cost billings to federal grants where an indirect cost is permitted. The City develops an indirect cost rate with the cost allocation plan that is used by the Human Services department for indirect cost billings.



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# **SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL –**

**~Special Revenue Funds~**

**~Internal Service Funds~**

**~Capital Projects Fund~**





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## CITY OF NORFOLK, VIRGINIA

Exhibit J-1

**Schedule of Revenues and Expenditures - Budget and Actual**  
**Towing and Recovery Operations Special Revenue Fund**  
**For the Year Ending June 30, 2018**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
<b>Revenues:</b>			
Use of money and property	\$ -	\$ -	\$ -
Charges for services	1,809,130	1,358,870	(450,260)
Intergovernmental federal	-	4,248	4,248
Miscellaneous	19,000	2,265	(16,735)
Transfer in	-	85,472	85,472
<b>Total revenue</b>	<b><u>\$ 1,828,130</u></b>	<b><u>\$ 1,450,855</u></b>	<b><u>\$ (377,275)</u></b>
<b>Expenditures and transfers:</b>			
Towing and recovery	\$ 1,655,060	\$ 1,263,731	\$ 391,329
Transfer out	173,070	203,402	(30,332)
<b>Total expenditures</b>	<b><u>\$ 1,828,130</u></b>	<b><u>\$ 1,467,133</u></b>	<b><u>\$ 360,997</u></b>

**Schedule of Revenues and Expenditures - Budget and Actual**  
**Storm Water Utility Special Revenue Fund**  
**For the Year Ending June 30, 2018**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
<b>Revenues:</b>			
Use of money and property	\$ 565	\$ 946	\$ 381
Charges for services	16,422,016	16,342,606	(79,410)
Miscellaneous	51,116	94,528	43,412
Intergovernmental - federal	-	533,309	533,309
<b>Total revenue</b>	<b><u>\$ 16,473,697</u></b>	<b><u>\$ 16,971,389</u></b>	<b><u>\$ 497,692</u></b>
<b>Expenditures and transfers:</b>			
Public works	\$ 11,745,327	\$ 11,697,747	\$ 47,580
Transfer out	4,728,370	4,737,284	(8,914)
<b>Total expenditures</b>	<b><u>\$ 16,473,697</u></b>	<b><u>\$ 16,435,031</u></b>	<b><u>\$ 38,666</u></b>

**CITY OF NORFOLK, VIRGINIA**

Exhibit J-1

**Schedule of Revenues and Expenditures - Budget and Actual**  
**Golf Special Revenue Fund**  
**For the Year Ending June 30, 2018**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Charges for services	\$ 15,000	\$ 15,000	\$ -
Expenditures:			
Golf operations	\$ 15,000	\$ 9,000	\$ 6,000

**Schedule of Revenues and Expenditures - Budget and Actual**  
**Emergency Operations Special Revenue Fund (EOC 911)**  
**For the Year Ending June 30, 2018**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Other local taxes	\$ 3,571,596	\$ 3,571,596	\$ -
Charges for services	4,500	351	(4,149)
Recovered cost	1,392,000	1,591,684	199,684
Federal aid	113,617	-	(113,617)
Transfer in	1,346,241	570,834	(775,407)
Total revenue	<u>\$ 6,427,954</u>	<u>\$ 5,734,465</u>	<u>\$ (693,489)</u>
Expenditures:			
Operations	\$ 6,427,954	\$ 5,658,661	\$ 769,293
Total expenditures	<u>\$ 6,427,954</u>	<u>\$ 5,658,661</u>	<u>\$ 769,293</u>

**CITY OF NORFOLK, VIRGINIA**

**Exhibit J-1**

**Schedule of Revenues and Expenditures - Budget and Actual  
Cemeteries Special Revenue Fund  
For the Year Ending June 30, 2018**

	<u>Budget</u>	<u>Actual Budgetary Basis</u>	<u>Positive (Negative) Variance</u>
Revenues:			
Charges for services	\$ 1,386,217	\$ 1,287,740	\$ (98,477)
Recovered cost	300,000	300,000	-
Transfer in	339,088	112,148	(226,940)
Rollover from last year*	95,808	95,808	-
Total revenue	<u>\$ 2,121,113</u>	<u>\$ 1,795,696</u>	<u>\$ (325,417)</u>
Expenditures:			
Cemetery operations	<u>\$ 2,121,113</u>	<u>\$ 1,872,433</u>	<u>\$ 248,680</u>

\*Not considered as revenue on a GAAP basis

**Schedule of Revenues and Expenditures - Budget and Actual  
Public Amenities Special Revenue Fund  
For the Year Ending June 30, 2018**

	<u>Budget</u>	<u>Actual Budgetary Basis</u>	<u>Positive (Negative) Variance</u>
Revenues:			
Taxes-Hotel & Restaurant	\$ 6,644,000	\$ 6,913,326	\$ 269,326
Miscellaneous	77,000	-	77,000
Rollover from last year*	2,179,293	2,179,293	-
Total revenue	<u>\$ 8,900,293</u>	<u>\$ 9,092,619</u>	<u>\$ 346,326</u>
Expenditures:			
Transfer out (CIP)	\$ 1,000,000	\$ 1,000,000	\$ -
Transfer out (Debt Service)	3,381,960	3,381,960	-
Transfer out (General Fund)	3,000,000	3,000,000	-
All purpose	1,518,333	1,283,943	234,390
Total expenditures	<u>\$ 8,900,293</u>	<u>\$ 8,665,903</u>	<u>\$ 234,390</u>

\*Not considered as revenue on a GAAP basis

**CITY OF NORFOLK, VIRGINIA**

Exhibit J-1

**Schedule of Revenues and Expenditures - Budget and Actual  
Tax Increment Financing Special Revenue Fund  
For the Year Ending June 30, 2018**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Taxes-real property	\$ 5,266,000	\$ 5,266,000	\$ -
Rollover from last year	-	-	-
Total revenue	<u><u>\$ 5,266,000</u></u>	<u><u>\$ 5,266,000</u></u>	<u><u>\$ -</u></u>
Expenditures:			
Transfer out (Debt Service)	\$ 1,563,735	\$ 1,563,735	\$ -
Transfer out (General Fund)	3,702,265	3,702,265	-
Total expenditures	<u><u>\$ 5,266,000</u></u>	<u><u>\$ 5,266,000</u></u>	<u><u>\$ -</u></u>

**Schedule of Revenues and Expenditures - Budget and Actual  
Community Development Fund  
For the Year Ending June 30, 2018**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Intergovernmental Federal	<u><u>\$ 5,032,672</u></u>	<u><u>\$ 4,731,093</u></u>	<u><u>\$ (301,579)</u></u>
Expenditures:			
Operations	<u><u>\$ 5,032,672</u></u>	<u><u>\$ 4,736,093</u></u>	<u><u>\$ 296,579</u></u>

Note: Budgets for the Community Development fund are for multiple years and are not included in the annual presentation.

**Schedule of Revenues and Expenditures - Budget and Actual  
Waste Management Special Revenue Fund  
For the Year Ending June 30, 2018**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
Revenues:			
Use of money and property	\$ 11,535	\$ 6,327	\$ (5,208)
Charges for services	22,219,679	21,196,037	(1,023,642)
Recovered costs	420,000	497,003	77,003
Miscellaneous	15,000	48,418	33,418
Total revenue	<u><u>\$ 22,666,214</u></u>	<u><u>\$ 21,747,785</u></u>	<u><u>\$ (918,429)</u></u>
Expenditures and transfers:			
Public works	\$ 21,320,146	\$ 19,119,296	\$ 2,200,850
Transfer out	1,346,068	896,962	449,106
Total expenditures	<u><u>\$ 22,666,214</u></u>	<u><u>\$ 20,016,258</u></u>	<u><u>\$ 2,649,956</u></u>

## CITY OF NORFOLK, VIRGINIA

Exhibit J-1

**Schedule of Revenues and Expenditures - Budget and Actual  
Grants Funds  
For the Year Ending June 30, 2018**

	Budget	Actual Budgetary Basis	Positive (Negative) Variance
<b>Revenues:</b>			
Fines and forfeitures	\$ -	\$ -	\$ -
Use of money and property	- -	531	531
Charges for services	- -	322,277	322,277
Intergovernmental			
Federal	- -	14,765,116	14,765,116
State	- -	16,071,150	16,071,150
Operating Transfers	- -	6,791,464	6,791,464
Miscellaneous	- -	1,901,356	1,901,356
<b>Total revenue</b>	<b><u>\$ -</u></b>	<b><u>\$ 39,851,894</u></b>	<b><u>\$ 39,851,894</u></b>
<b>Expenditures and transfers:</b>			
General government	\$ -	\$ 2,533,938	\$ (2,533,938)
Judicial administration	- -	3,043,667	(3,043,667)
Public safety	- -	4,009,131	(4,009,131)
Public works	- -	10,146,194	(10,146,194)
Health and public assistance	- -	16,208,586	(16,208,586)
Cultural and recreation	- -	359,061	(359,061)
Community development	- -	1,142,071	(1,142,071)
<b>Total expenditures</b>	<b><u>\$ -</u></b>	<b><u>\$ 37,442,648</u></b>	<b><u>\$ (37,442,648)</u></b>

Note: Budgets for the Grants special revenue fund are for multiple years and are not included in the annual presentation.

**CITY OF NORFOLK, VIRGINIA**

**Exhibit J-2**

**Schedule of Revenues and Expenditures - Budget and Actual  
Fleet Internal Service Fund  
For the Year Ending June 30, 2018**

	<u>Budget</u>	<u>Actual Budgetary Basis</u>	<u>Positive (Negative) Variance</u>
Revenues:			
Charges for services	\$ 11,512,575	\$ 11,171,991	\$ (340,584)
Miscellaneous & capital contributions	118,865	16,197	(102,668)
Total revenue	<u>\$ 11,631,440</u>	<u>\$ 11,188,188</u>	<u>\$ (443,252)</u>
Expenditures:			
Fleet	<u>\$ 11,631,440</u>	<u>\$ 11,234,500</u>	<u>\$ 396,940</u>

**Schedule of Revenues and Expenditures - Budget and Actual  
Healthcare Management Internal Service Fund  
For the Year Ending June 30, 2018**

	<u>Budget</u>	<u>Actual Budgetary Basis</u>	<u>Positive (Negative) Variance</u>
Revenues:			
Charges for services	\$ 94,666,785	\$ 79,256,365	\$ (15,410,420)
Expenditures:			
Healthcare	<u>\$ 94,666,785</u>	<u>\$ 73,324,995</u>	<u>\$ 21,341,790</u>

**CITY OF NORFOLK, VA**  
**Capital Improvement Program**  
**Schedule of Expenditures - Budget and Actual**  
**From Inception and for the Year Ending June 30, 2018**

<b>Expenditures</b>					
	Project Budget	Prior Years	Current	Total	Available
<b>Community Development</b>					
Neighborhood Project Development	\$ 1,935,000	\$ 1,619,855	\$ -	\$ 1,619,855	\$ 315,145
Neighborhood Conservation/Revitalization	46,390,203	47,113,385	-	47,113,385	(723,182)
Broad Creek Renaissance	34,646,668	24,460,867	1,646,808	26,107,675	8,538,993
Neighborhood Streets Improvements	1,200,000	1,386,169	8,924	1,395,093	(195,093)
Neighborhood commercial Improvements	79,748,695	77,860,112	1,664,268	79,524,380	224,315
Create Special Service Areas	744,950	493,585	-	493,585	251,365
Other	974,774	798,024	176,750	974,774	-
Community Development Total	<b>165,640,290</b>	<b>153,731,997</b>	<b>3,496,750</b>	<b>157,228,747</b>	<b>8,411,543</b>
<b>Cultural Facilities</b>					
Attucks Theatre Renovations	2,550,629	2,558,762	-	2,558,762	(8,133)
Scope and Chrysler Hall Improvements	23,150,279	19,038,498	2,312,627	21,351,125	1,799,154
Chrysler Museum Improvements	14,358,912	13,366,111	850,000	14,216,111	142,801
Civic Building Improvements	1,229,595	1,217,017	-	1,217,017	12,578
Conference Center	68,960,523	65,619,457	-	65,619,457	3,341,066
Harrison Opera House Improvements	404,856	404,856	-	404,856	-
MacArthur Memorial Improvements	2,658,969	2,658,969	-	2,658,969	-
Nauticus/Maritime Center Improvements	4,337,500	824,619	-	824,619	3,512,881
USS Wisconsin Improvements	9,389,974	8,400,603	355,617	8,756,220	633,754
Other	7,411,339	5,204,158	329,824	5,533,982	1,877,357
Cultural Facilities Total	<b>134,452,576</b>	<b>119,293,050</b>	<b>3,848,068</b>	<b>123,141,118</b>	<b>11,311,458</b>
<b>Economic Development</b>					
Acquire/Dispose/Upgrade City Property	74,946,472	60,268,466	1,990,226	62,258,692	12,687,780
Nauticus/Cruise Terminal Development	37,821,404	38,114,269	-	38,114,269	(292,865)
Huntersville Redevelopment	1,000,000	924,423	-	924,423	75,577
Wachovia Center Development	3,553,101	3,553,101	-	3,553,101	-
Kroc Center Development	4,000,000	3,994,779	-	3,994,779	5,221
Other	16,553,258	16,065,758	-	16,065,758	487,500
Economic Development Total	<b>137,874,235</b>	<b>122,920,796</b>	<b>1,990,226</b>	<b>124,911,022</b>	<b>12,963,213</b>
<b>General/Other</b>					
Campostella Landfill Closure	4,000,000	2,084,898	281,848	2,366,746	1,633,254
Beach Erosion Control	30,962,900	28,384,514	491,012	28,875,526	2,087,374
Transfer to Debt Service	1,600,000	6,392,418	-	6,392,418	(4,792,418)
IFMS Implementation	5,900,224	5,900,407	-	5,900,407	(183)
Waterway Dredging Projects	6,709,341	5,788,028	65,039	5,853,067	856,274
Conservation and Green Vision Implementation	5,377,373	4,877,374	-	4,877,374	499,999
Public Safety Radio Communication System Upgrade	4,703,668	4,703,668	-	4,703,668	-
Upgrade and Expand Broadband Infrastructure	711,171	366,555	-	366,555	344,616
Other	27,233,847	15,213,400	3,889,454	19,102,854	8,130,993
General/Other Total	<b>87,198,524</b>	<b>73,711,262</b>	<b>4,727,353</b>	<b>78,438,615</b>	<b>8,759,909</b>
<b>Public Buildings and Facilities</b>					
Fire Station Emergency Generation Program	1,670,188	1,671,777	-	1,671,777	(1,589)
Infrastructure Improvements	18,189,028	4,087,102	609,783	4,696,885	13,492,143
Annual Roof Maintenance	8,771,000	8,772,413	140,204	8,912,617	(141,617)
Library Facilities - Anchor Branch	20,476,238	14,906,063	4,791,813	19,697,876	778,362
Police Precinct Replacement	20,328,986	20,328,986	-	20,328,986	-
Courts Replacement and Renovations	122,620,170	115,868,302	4,692,700	120,561,002	2,059,168
Jail Renovations	9,567,510	6,187,797	1,619,044	7,806,841	1,760,669
Selden Arcade Renovations	8,400,543	8,400,543	-	8,400,543	-
City Hall Building Renovations	20,746,839	15,235,218	1,179,225	16,414,443	4,332,396
Tow Yard Acquisition	697,045	337,027	-	337,027	360,018
Fire Facilities Replacement/Improvements	11,268,306	6,309,848	3,548,196	9,858,044	1,410,262
Police Training Facilities	656,000	656,000	-	656,000	-
Main Library Construction	69,727,997	67,466,575	-	67,466,575	2,261,422
Design /Construct Government Center Plaza	4,750,000	1,562,335	597,866	2,160,201	2,589,799
Other	15,720,132	12,582,363	164,910	12,747,273	2,972,859
Public Buildings and Facilities Total	<b>333,589,982</b>	<b>284,372,349</b>	<b>17,343,741</b>	<b>301,716,090</b>	<b>31,873,892</b>

**CITY OF NORFOLK, VA**  
**Capital Improvement Program**  
**Schedule of Expenditures - Budget and Actual**  
**From Inception and for the Year Ending June 30, 2018**

<b>Expenditures</b>					
	Project Budget	Prior Years	Current	Total	Available
Parks/Recreational Facilities					
Zoo Master Plan	28,407,037	27,085,163	405,150	27,490,313	916,724
Titustown Recreation Center Improvements	3,550,000	3,000,000	-	3,000,000	550,000
Botanical Gardens	2,494,413	1,998,823	-	1,998,823	495,590
Existing Recreation Center Improvements	14,096,438	12,588,740	517,001	13,105,741	990,697
Norview Recreation Center	7,947,756	7,947,756	-	7,947,756	-
Lambert's Point Golf Course	9,050,000	9,050,000	-	9,050,000	-
Lambert's Point Community & Recreational Center	6,854,193	6,854,193	-	6,854,193	-
Harbor Park Improvements	4,924,747	2,842,207	529,787	3,371,994	1,552,753
Athletic Field Renovations	2,685,903	2,685,903	-	2,685,903	-
Norfolk Fitness & Wellness Center Renovations	1,803,669	1,803,669	-	1,803,669	-
Broad Creek & Westside Neighborhood Parks	2,610,062	2,610,012	-	2,610,012	50
Town Point Park Improvements	11,478,749	11,478,749	-	11,478,749	-
Martin Luther King Park	116,019	116,019	-	116,019	-
Waterside Waterfront Renovations	3,446,789	3,166,626	-	3,166,626	280,163
Ingleside Gymnasium	6,920,874	6,920,874	-	6,920,874	-
Other	13,727,383	13,641,193	-	13,641,193	86,190
Parks/Recreational Facilities Total	<b>120,114,032</b>	<b>113,789,927</b>	<b>1,451,938</b>	<b>115,241,865</b>	<b>4,872,167</b>
Schools					
Blair Middle School Replacement	7,071,710	7,071,710	-	7,071,710	-
Norfolk Public School Initiative	5,265,000	5,263,456	-	5,263,456	1,544
Norview Construction	29,865,659	29,865,659	-	29,865,659	-
Southside Middle School	1,535,212	1,313,413	-	1,313,413	221,799
High School Athletic Field	1,495,091	1,495,091	-	1,495,091	-
Coleman Place Elementary Replacement	20,293,970	20,293,970	-	20,293,970	-
Crossroads Elementary Replacement	34,093,708	31,679,616	(7,310)	31,672,306	2,421,402
Larchmont Elementary School	23,109,625	21,513,149	1,297,504	22,810,653	298,972
Ocean View Elementary School	22,847,436	19,292,765	2,510,607	21,803,372	1,044,064
South Side TEM Academy at Campostella	35,629,524	33,999,924	59,817	34,059,741	1,569,783
Broad Creek Elementary School	21,961,042	21,457,784	21,157	21,478,941	482,101
Camp Allen Elementary School	28,686,000	7,426,776	13,023,055	20,449,831	8,236,169
Other	43,759,262	35,318,176	2,782,994	38,101,170	5,658,092
Schools Total	<b>275,613,239</b>	<b>235,991,489</b>	<b>19,687,824</b>	<b>255,679,313</b>	<b>19,933,926</b>
Storm Water					
Storm Water Quality Improvements	13,070,000	9,666,411	1,432,557	11,098,968	1,971,032
Storm Water Facility Improvements	19,003,340	15,484,223	-	15,484,223	3,519,117
Old Dominion University Master Plan	1,788,255	1,788,255	-	1,788,255	-
Drain Line Clean & Slip Lining	1,227,843	995,843	-	995,843	232,000
Neighborhood Flood Reduction	21,562,748	16,627,542	994,997	17,622,539	3,940,209
Bulkheading Master Project	2,100,000	2,087,100	-	2,087,100	12,900
Other	8,588,975	1,991,662	(336,577)	1,655,085	6,933,890
Storm Water Total	<b>67,341,161</b>	<b>48,641,036</b>	<b>2,090,977</b>	<b>50,732,013</b>	<b>16,609,148</b>
Transportation					
Old Dominion University Master Plan	10,304,203	5,610,091	-	5,610,091	4,694,112
VDOT Urban Support Program	9,773,025	8,582,158	13,424	8,595,582	1,177,443
Bridge Maintenance & Repair Program	37,918,240	30,750,726	2,114,445	32,865,171	5,053,069
Signal & Intersection Enhancements	12,681,470	11,365,356	350,396	11,715,752	965,718
Citywide Soundwall Program	8,405,656	8,397,670	1,995	8,399,665	5,991
Neighborhood Streets Improvements	75,023,285	69,103,938	2,198,984	71,302,922	3,720,363
Atlantic City Development	14,356,810	13,899,027	-	13,899,027	457,783
Citywide Boat Ramp Improvements	2,388,822	2,000,571	386,234	2,386,805	2,017
Construct Light Rail	105,010,914	70,303,888	-	70,303,888	34,707,026
Develop Multi-Modal Transfer Station at Harbor Park	4,350,000	3,846,809	-	3,846,809	503,191
Other	33,462,019	22,306,245	2,798,189	25,104,434	8,357,585
Transportation Total	<b>313,674,444</b>	<b>246,166,479</b>	<b>7,863,667</b>	<b>254,030,146</b>	<b>59,644,298</b>
Grand Total	<b>\$ 1,635,498,483</b>	<b>\$ 1,398,618,385</b>	<b>\$ 62,500,544</b>	<b>\$ 1,461,118,929</b>	<b>\$ 174,379,554</b>

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**APPENDIX B**  
**FORM OF BOND COUNSEL OPINION**

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September 19, 2019

Mayor and Council of the  
City of Norfolk, Virginia  
Norfolk, Virginia

**\$89,025,000**  
**City of Norfolk, Virginia**  
**General Obligation Refunding Bonds,**  
**Series 2019D (Taxable)**

Ladies and Gentlemen:

We have served as bond counsel to the City of Norfolk, Virginia (the "City"), in connection with the issuance and sale by the City of its \$89,025,000 General Obligation Refunding Bonds, Series 2019D (Taxable) (the "Bonds"), dated the date of their delivery.

In connection with this opinion letter, we have examined (i) the Constitution of Virginia (the "Constitution"), (ii) the applicable laws of (A) the Commonwealth of Virginia (the "Commonwealth"), including without limitation the Public Finance Act of 1991, Chapter 26, Title 15.2, Code of Virginia of 1950, as amended, and (B) the United States of America, including without limitation the Internal Revenue Code of 1986, as amended, and (iii) copies of proceedings and other documents relating to the issuance and sale of the Bonds by the City as we have deemed necessary to render the opinions contained herein.

As to questions of fact material to this opinion, we have relied upon and are assuming the accuracy of (i) certifications and representations of the City and others contained in certificates and other documents delivered at closing, including, without limitation, certifications as to the use of proceeds of the Bonds, and (ii) certificates of public officials furnished to us, without undertaking to verify them by independent investigation. In addition, without undertaking to verify the same by independent investigation, we have relied on computations provided to us by PFM Financial Advisors, LLC, financial advisor to the City, the mathematical accuracy of which was verified by Bingham Arbitrage Rebate Services Incorporated, relating to the yield on investments in the escrow fund established with a portion of the proceeds of the Bonds.

We have assumed that all signatures on documents, certificates, and instruments examined by us are genuine, all documents, certificates, and instruments submitted to us as originals are authentic, and all documents, certificates, and instruments submitted to us as copies conform to the originals. In addition, we have assumed that all documents, certificates, and instruments relating to this financing have been duly authorized, executed, and delivered by all

parties to them other than the City, and we have further assumed the due organization, existence, and powers of all parties other than the City.

Based on the foregoing, in our opinion, under current law:

1. The Bonds have been authorized and issued in accordance with the Constitution and laws of the Commonwealth and constitute valid and binding general obligations of the City.

2. The Council of the City has the power and is authorized and required by law to levy and collect annually, at the same time and in the same manner as other taxes of the City are assessed, levied and collected, a tax upon all taxable property within the City, over and above all other taxes authorized or limited by law, and without limitation as to rate or amount, sufficient to pay when due the principal of and premium, if any, and interest on the Bonds to the extent other funds of the City are not lawfully available and appropriated for such purpose.

3. Interest on the Bonds is includable in the gross income of the owners of the Bonds for federal income tax purposes. We express no opinion regarding any other federal tax consequences with respect to the Bonds.

4. Interest on the Bonds is excludable from gross income of the owners thereof for purposes of income taxation by the Commonwealth. We express no opinion regarding (i) other tax consequences arising with respect to the Bonds under the laws of the Commonwealth, or (ii) any consequences arising with respect to the Bonds under the tax laws of any state or local jurisdiction other than the Commonwealth.

This opinion is subject to the effect of any applicable bankruptcy, insolvency (including, without limitation, laws relating to preferences, fraudulent transfers and equitable subordination), reorganization, moratorium and other similar laws affecting creditors' rights generally. This opinion is subject to the effect of general principles of equity (regardless of whether considered in a proceeding in equity or at law), including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing.

Our services as bond counsel to the City have been limited to rendering the foregoing opinion based on our review of such legal proceedings as we deem necessary to opine on the validity of the Bonds and the income tax status of the interest on them. We express no opinion as to the accuracy, completeness or sufficiency of any offering material or information that may have been relied upon by any owner of the Bonds in making a decision to purchase the Bonds, including without limitation the Preliminary Official Statement of the City dated August 19, 2019, and the Official Statement of the City dated August 22, 2019. This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Very truly yours,

**APPENDIX C**  
**FORM OF CONTINUING DISCLOSURE AGREEMENT**

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## CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered as of September 19, 2019 (the "Closing Date"), by the City of Norfolk, Virginia (the "City"), in connection with the issuance by the City of its \$89,025,000 General Obligation Refunding Bonds, Series 2019D (the "Bonds"), pursuant to Ordinance No. 47,731, adopted by the City Council of the City on July 23, 2019 (the "Ordinance"). Pursuant to the Ordinance, the City approved the offering and sale of the Bonds to the public pursuant to an Official Statement relating to the Bonds, dated August 22, 2019 (the "Official Statement"). The City has determined that it constitutes an "obligated person" within the meaning of the Rule, as hereinafter defined, with respect to the Bonds and, accordingly, hereby represents, covenants and agrees as follows:

**Section 1. Definitions.** In addition to the definitions set forth elsewhere in this Disclosure Agreement, the following capitalized terms shall have the following meanings:

**"Annual Financial Information"** with respect to any Fiscal Year of the City means the following:

(i) the financial statements (consisting of at least a statement of net assets, a statement of cash flows and a statement of revenues, expenses and changes in fund net assets for all governmental/enterprise funds) of the City, which (A) are prepared annually in accordance with generally accepted accounting principles in effect from time to time consistently applied (provided that nothing in this Disclosure Agreement will prohibit the City after the date of the Official Statement from changing such principles so as to comply with generally accepted accounting principles as then in effect or to comply with a change in applicable Virginia law); and (B) are audited by an independent certified public accountant or firm of such accountants in accordance with generally accepted auditing standards as in effect from time to time; and

(ii) updates of the operating data contained in the sections in the Final Official Statement titled "Table II-3, Key Debt Trends," "Table II-6, Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita," "Table III-2, Assessed Valuations and Estimated Actual Values of Taxable Property," "Table III-5, Real and Personal Property Tax Levies and Collections," "Table III-6, Ten Principal Real Property Taxpayers" and "Table III-12, Comparative Statement of Revenue and Expenditures, General Fund."

**"Dissemination Agent"** shall mean the City, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

**"Fiscal Year"** shall mean the twelve-month period, at the end of which the financial position of the City and the results of its operations for such period are determined. Currently, the City's Fiscal Year begins July 1 and continues through June 30 of the next year.

**"Holder"** shall mean, for purposes of this Disclosure Agreement, any person who is a record owner or beneficial owner of a Bond.

**"Make Public" or "Made Public"** has the meaning set forth in Section 4 of this Disclosure Agreement.

**"MSRB"** shall mean the Municipal Securities Rulemaking Board.

**"Participating Underwriter"** shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of such Bonds.

**"Rule"** shall mean Rule 15c2-12 under the Securities Exchange Act of 1934 and any similar rules of the SEC relating to disclosure requirements in the offering and sale of municipal securities, all as in effect from time to time.

**"SEC"** shall mean the U.S. Securities and Exchange Commission.

**Section 2. Purpose of the Disclosure Agreement; Representation.** This Disclosure Agreement is being executed and delivered by the City for the benefit of the Holders and in order to assist the Participating Underwriters in complying with the Rule. The City acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this Disclosure Agreement.

**Section 3. Obligations of the City.** (a) The City shall complete the preparation of the Annual Financial Information with respect to any Fiscal Year of the City not later than March 31 after the end of such Fiscal Year.

(b) The City shall, in accordance with the Rule, Make Public or cause to be Made Public by the Dissemination Agent (if other than the City), the Annual Financial Information within 30 days after it is prepared in final form.

(c) The City shall Make Public or cause to be Made Public by the Dissemination Agent (if other than the City), in a timely manner not in excess of 10 business days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on any credit enhancement maintained with respect to the Bonds reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 - TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

- (vii) modifications to rights of Holders, if material;

- (viii) bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the City;
- (xiii) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (xv) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material. "Financial Obligation" means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of a payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term Financial Obligation does not include municipal securities as to which a final official statement has been otherwise provided to the MSRB under the Rule; and
- (xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.

Provided that nothing in this subsection (c) shall require the City to maintain any debt service reserve, credit enhancement or credit or liquidity providers with respect to the Bonds or to pledge any property as security for repayment of the Bonds.

(d) The City shall Make Public or cause to be Made Public by the Dissemination Agent (if other than the City), in a timely manner, notice of a failure of the City to provide the Annual Financial Information, on or before the date specified in this Disclosure Agreement.

(e) The City shall notify the MSRB of any change in its Fiscal Year not later than the date on which it first provides any information to the MSRB in the current Fiscal Year.

**Section 4. Information Made Public.** Information shall be deemed to have been "Made Public" for purposes of this Disclosure Agreement if transmitted to the MSRB, in an electronic format as prescribed by the MSRB. Should the SEC approve any additional or subsequent

filings system for satisfying the continuing disclosure filing requirements of the Rule, any filings required under this Disclosure Agreement may be made by transmitting such filing to such system, as described in the applicable SEC regulation or release approving such filing system.

**Section 5. Incorporation by Reference.** Any or all of the Annual Financial Information may be incorporated by specific reference from other documents, including official statements containing information with respect to the City, which are available to the public on the internet website of the MSRB or filed with the SEC. The City shall clearly identify each such other document so incorporated by reference.

**Section 6. CUSIP Numbers.** The City shall reference, or cause the Dissemination Agent (if not the City) to reference, the CUSIP prefix number for the Bonds in any notice provided to the MSRB pursuant to Sections 3 and 4.

**Section 7. Termination of Reporting Obligation.** The obligations of the City under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance or final retirement of the Bonds.

**Section 8. Dissemination Agent.** The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the City shall be the Dissemination Agent.

**Section 9. Identifying Information.** All documents provided to the MSRB hereunder shall be accompanied by identifying information as prescribed by the MSRB.

**Section 10. Amendment.** Notwithstanding any other provision of this Disclosure Agreement, the City may amend this Disclosure Agreement, if such amendment is supported by an opinion of independent counsel with expertise in federal securities laws addressed to the City and to the Participating Underwriters for the Bonds to the effect that such amendment is permitted or required by the Rule.

**Section 11. Additional Information.** Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of occurrence of an event listed in Section 3(c), in addition to that which is required by this Disclosure Agreement. If the City chooses to report any information in any Annual Financial Information or include any information in a notice of occurrence of an event listed in Section 3(c), in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Financial Information or notice of occurrence of such an event.

**Section 12. Default.** Any Holder, whether acting jointly or severally, may take such action as may be permitted by law against the appropriate public official to secure compliance with the obligations of the City under this Disclosure Agreement. In addition, any Holder, whether acting jointly or severally, may take such action as may be permitted by law to challenge the adequacy of

any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the City hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under the Ordinance or any other debt authorization of the City, or any Bond and the sole remedy under this Disclosure Agreement in the event of any failure of the City to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any Holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

**Section 13. Beneficiaries.** This Disclosure Agreement shall inure solely to the benefit of the City, the Participating Underwriters and the Holders and shall create no rights in any other person or entity.

**Section 14. Counterparts.** This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

[Signature Page Follows]

**IN WITNESS WHEREOF**, the undersigned have executed this Continuing Disclosure Agreement on behalf of the City of Norfolk, Virginia, as of the Closing Date.

**CITY OF NORFOLK, VIRGINIA**

By: \_\_\_\_\_

Douglas L. Smith  
City Manager, City of Norfolk, Virginia

By: \_\_\_\_\_

Christine Garczynski  
Director of Finance, City of Norfolk, Virginia

Approved as to Form and Correctness:

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Office of the City Attorney  
City of Norfolk, Virginia

[Signature Page to Continuing Disclosure Agreement]

**APPENDIX D**  
**BOOK-ENTRY ONLY SYSTEM**

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## **BOOK-ENTRY ONLY SYSTEM**

**The description which follows of the procedures and recordkeeping with respect to beneficial ownership interests in the Bonds, payments of principal of and interest on the Bonds to DTC, its nominee, Direct Participants, as hereinafter defined, or Beneficial Owners, as hereinafter defined, confirmation and transfer of beneficial ownership interests in the Bonds and other bond-related transactions by and between DTC, the Direct Participants and Beneficial Owners is based solely on information furnished by DTC.**

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Bonds in the aggregate principal amount of such issue and will be deposited with DTC. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC.

DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of the Bonds (the "Beneficial Owner") is in turn to be recorded on the Direct Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, the Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC

has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts the Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the security documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to a Bond unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an omnibus proxy (an "Omnibus Proxy") to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts such Bond is credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and distributions on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the bond registrar or paying agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct Participants or Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct Participants or Indirect Participant and not of DTC, the City or the bond registrar and paying agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and distributions to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the bond registrar and paying agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the bond registrar and paying agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

Neither the City nor the bond registrar and paying agent has any responsibility or obligation to the Direct Participants or Indirect Participants or the Beneficial Owners with respect to (i) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant; (ii) the payment by any Direct Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal of and interest on the Bonds; (iii) the delivery or timeliness of delivery by any Direct or Indirect Participant of any notice to any Beneficial Owner that is required or permitted to be given to such owners; or (iv) any other action taken by DTC, or its nominee, Cede & Co., as Holder, including the effectiveness of any action taken pursuant to an Omnibus Proxy.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references in this Official Statement to the holders of the Bonds or Bondholders mean Cede & Co. and not the Beneficial Owners, and Cede & Co. will be treated as the only Holder of the Bonds.

The City may enter into amendments to the agreement with DTC or successor agreements with a successor securities depository, relating to the book-entry system to be maintained with respect to the Bonds without the consent of Beneficial Owners or Bondholders.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

