



NORFOLK

Office of the City Manager

July 1, 2012

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

I respectfully present to you the Approved Fiscal Year 2013 financial plan for the City of Norfolk. A summary of the Approved Budget is shown in the table below.

Fiscal Year (FY) 2013 Financial Plan	
Fund	Approved Budget
General Fund	\$799,790,809
Enterprise Funds	\$129,768,060
Special Revenue Funds	\$34,845,449
Internal Service Funds	\$13,658,100
Total Operating	\$978,062,418
Norfolk Community Services Board (NCSB)	\$25,986,097
Total Operating with Norfolk Community Services Board	\$1,004,048,515
Annual Capital Improvement Program	\$93,580,300
Total Operating and Capital	\$1,097,628,815
Annual Plan for HUD Entitlement Grants	\$8,782,379
Total Financial Plan	\$1,106,411,194

The Proposed FY 2013 Budget was presented on April 24, 2012. Based on discussions during the Council work sessions, several adjustments were made to the Operating Budget and the Capital Improvement Program. The chart below illustrates expenditure adjustments totaling \$973,000 for the Approved FY 2013 General Fund Operating Budget. The actual net increase from the Proposed Budget to the Approved Budget is only \$770,000 due to a \$203,000 reduction in Central Appropriations due to updated personnel expenditures for the Norfolk Community Services Board. The revenue and expenditure adjustments are listed below:

Operating Amendments

Resource Adjustments and Redistributions	Amount
Increase real estate tax revenue	\$150,000
Increase FY 2012 refuse tonnage savings	\$620,000
Adjust personnel expenditures for Norfolk Community Services Board	\$203,000
Total Adjustments to Revenues	\$973,000

Expenditure Adjustments and Redistributions	Amount
Additional Auditor position	\$75,000
Increase support for select Outside Agencies	
Botanical Gardens	\$50,000
Chrysler Museum of Art	\$25,000
Festevents	\$50,000
Virginia Arts Festival	\$25,000
Visit Norfolk	\$50,000
Re-open Libraries on Mondays	\$500,000
Support CaribFest	\$50,000
Increase support for Sister Cities	\$3,000
Increase support for St. Mary's	\$5,000
Additional Support for Norfolk Public Schools	\$140,000
Total Adjustments to the Expenditures	\$973,000

Capital Amendments

Capital adjustments to the Proposed Budget are listed below:

Project	Amount	Comments
Repair Neighborhood Streets/Sidewalks/Walkways	\$350,000	Includes funds to address curbs and gutter issues in neighborhoods such as Ingleside and Huntersville
Improve Neighborhood Streets - Major	\$100,000	Includes funds to address access for refuse collection in the Tanner's Creek neighborhoods
Improve Existing Libraries	\$200,000	Support for major maintenance of library branches
Improve Recreation Centers	\$100,000	Additional funds to an existing project of \$300,000
Total Adjustment to the Capital Improvement Program	\$750,000	

Reserve Fund Amendments

In response to strengthening the city's fiscal health and addressing concerns raised by the bond rating agencies, City Council expressed an interest in increasing the city's existing reserve funds. To this extent, the remaining \$2.9 million in fund balance in excess of the projected FY 2012 amount is recommended for distribution in the following manner.

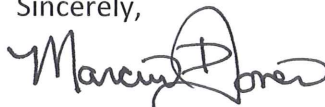
Fund	Definition	Projected FY 2012	Revised FY 2012 Balance	Total
Undesignated General Fund Balance	Used to mitigate current and future risks and to provide for temporary funding of unforeseen emergency or catastrophic needs	\$41,559,263	\$41,559,263	\$42,332,591
Fund Balance above FY 2012 Projected		\$2,874,757		
Redistribution			\$773,328	
Risk Management Reserve	Needed in the event of major unanticipated workers compensation or general liability claims	\$1,898,571	\$1,898,571	\$3,000,000
Redistribution			\$1,101,429	
Economic Downturn/Leveling Reserve (Rainy Day)	Abate the impact of short-term economic downturns and extreme swings in revenues and/or expenditures	\$2,000,000	\$2,000,000	\$3,000,000
Redistribution			\$1,000,000	
Total		\$48,332,591	\$48,332,591	\$48,332,591

The Approved FY 2013 Budget continues the process of building a well-managed government. As part of our efforts to have a well managed government, this budget focuses on aligning funding with the communities' highest-priority programs and core services. Additionally, this budget strengthens the city's financial position by moving closer to having future budgets that are structurally balanced.

As we move forward into FY 2013, it is important that the city consider reforms that either raise more revenue or lower the projected cost associated with ongoing government operations and future commitments in order to achieve long-term fiscal sustainability and to maintain core services. We will work diligently in FY 2013 to provide you with data and recommendations associated with revenue and expenditure adjustments as well as report back on the effectiveness of existing programs and services.

It is my pleasure to present to you the City of Norfolk's Approved FY 2013 Budget.

Sincerely,



Marcus D. Jones
City Manager



NORFOLK

Office of the City Manager

April 24, 2012

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

I respectfully submit to you the Proposed Fiscal Year 2013 financial plan for the City of Norfolk. A summary of the Proposed Budget is shown in the table below:

Fund	Proposed Budget
General Fund	\$ 799,020,809
Enterprise Funds	129,768,060
Special Revenue Funds	34,845,449
Internal Service Funds	13,658,100
Total Operating	977,292,418
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Total Operating with Norfolk Community Services Board	1,003,481,515
Annual Capital Improvement Plan	92,830,300
Total Operating and Capital	1,096,311,815
Annual Plan for HUD Entitlement Grants	8,782,379
Total Financial Plan	\$ 1,105,094,194

The proposed General Fund budget is \$799,020,809. The total General Fund budget increase is \$4,004,609 or approximately a 0.5 percent increase from the FY 2012 Approved Budget. The Proposed FY 2013 Budget:

- Realigns, reallocates and refocuses resources in order to fund city priorities without raising taxes;
- Provides a strategy to fully fund Norfolk Public Schools (NPS) FY 2013 budget request;
- Provides funds in the five-year Capital Improvement Plan (CIP) to construct the next two schools and design two additional schools;
- Provides a two percent salary increase for city employees;
- Provides a two percent cost of living adjustment for Norfolk retirees;
- Provides additional funds for the Norfolk Community Services Board to stabilize the organization's funding structure and ensure a continual emphasis on customer service; and
- Begins the process of establishing the City of Norfolk as an "Employer of Choice" by re-establishing training opportunities, strengthening supervisor training programs, developing career ladders and emphasizing a working environment where employees are an important part of the decision making process.

GUIDING PRINCIPLES

The development of the Proposed FY 2013 Budget continues efforts launched by the Administration in February 2011 to become a well-managed government. At that time, we began laying the groundwork for a new budget process for fiscal year 2013 focusing on being a *data-driven organization that provides effective and efficient programs and services that are responsive, accountable, inclusive, and customer focused*.

The city, as you know, was in a precarious financial position in 2011. The impact of the recession, declining revenue, and an initial funding gap of more than \$32 million required us to take a different approach to address the financial difficulties facing the city at that time. Developing a balanced budget for FY 2012 was a difficult task with such a large gap and steep decline in real estate assessments; however, we were able to address this situation without raising the real estate tax rate, without significant layoffs that would have affected hundreds of city employees and their families, and without damaging across-the-board cuts to city services. That was then.

Today, again in the face of a slow economic recovery and another year of declining real estate tax assessments, we are addressing a gap for FY 2013 of \$25 million. But this year's budget development process has been different. Keeping the principles of well-managed government in the forefront of every decision made, we were able to close the gap and are submitting to you a Proposed Budget that is balanced. This balanced budget is an achievement, because it has been accomplished:

- Without requesting a tax increase;
- Without laying off or furloughing any city employees; and/or
- Without gutting core services.

This Proposed Budget uses principles of a well-managed government to achieve results including: strategically reinvesting existing resources to fund our highest priorities; engaging employees and residents in the budget discussions; eliminating waste from the budget; and increasing employee productivity throughout the organization. Moreover, the budget objectives we developed last year and this year have laid the foundation to having a more structurally balanced budget that in the coming years will further strengthen the city's fiscal health.

The strides we have made over the last year are the result of the collaboration between you, our hard working city employees, and the wonderful residents of Norfolk. Our approach to having a philosophy of a well-managed government began the moment I returned to Norfolk when we reached out to employees to gather their ideas for efficiency initiatives and budget saving strategies. This outreach effort was taken to the community where we met with hundreds of residents in an engagement process that was recognized by the International City/County Management Association (ICMA) as a model for replication by other cities. This successful outreach initiative was no small feat considering that a big part of the dialogue with our residents, as well as, our employees focused on trust and building mutual respect and understanding.

The feedback we received was astonishing. Combined with our conversations with employees and residents, we received more than 1,000 ideas on how to improve city operations, enhance service delivery, and improve the overall quality of life in the community. Furthermore, we found out that the community was ready to roll up its sleeves and take an active role in our governance process.

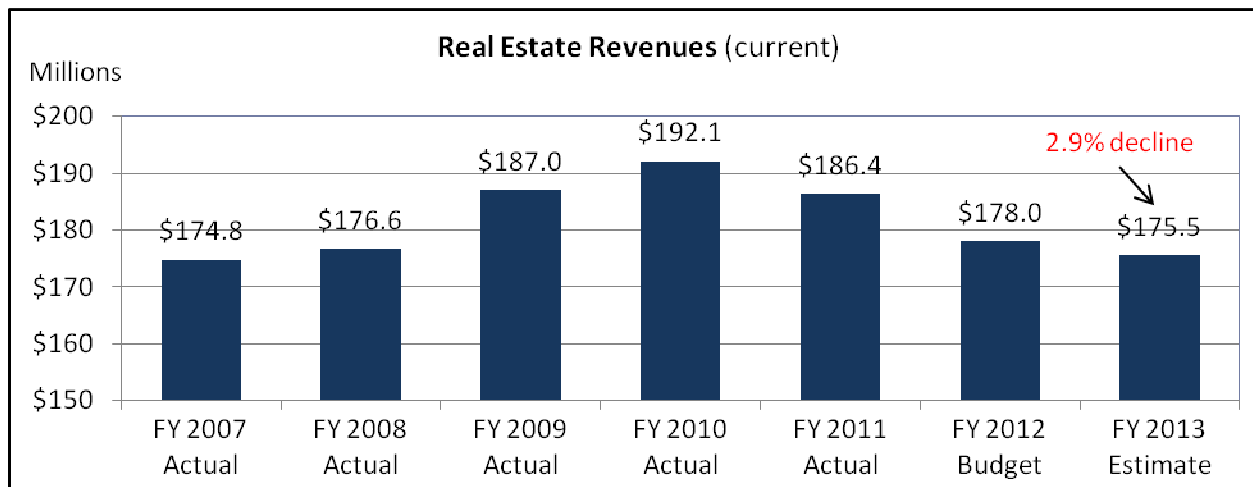
FINANCIAL BACKDROP

Recession and Recovery

The economy is showing positive signs in this recovery, but still has a long way to go to get back to pre-recession levels. For the first time since 2007, the Hampton Roads region added jobs in 2011 and the national job market has added nearly four million jobs since employment began to rise in February 2010. However, these gains represent less than half the jobs lost during the recession and unemployment remains high. The housing market is also beginning to improve, but foreclosures are holding back its recovery. During these tough economic times, we are forced to manage our way through by using one-time revenues as a temporary measure to bridge the gap in hopes that the economy will soon recover. Through this slow recovery period, we continue to seek ways to right-size our organization while becoming more efficient. Being more prudent in how we use our resources has become a necessity in this new economic environment. In previous budgets, mid-year reductions that were made were not continued into the next fiscal year. In order to establish the principle of a structurally sound budget, the Proposed FY 2013 Budget continues many of the reductions made during FY 2012.

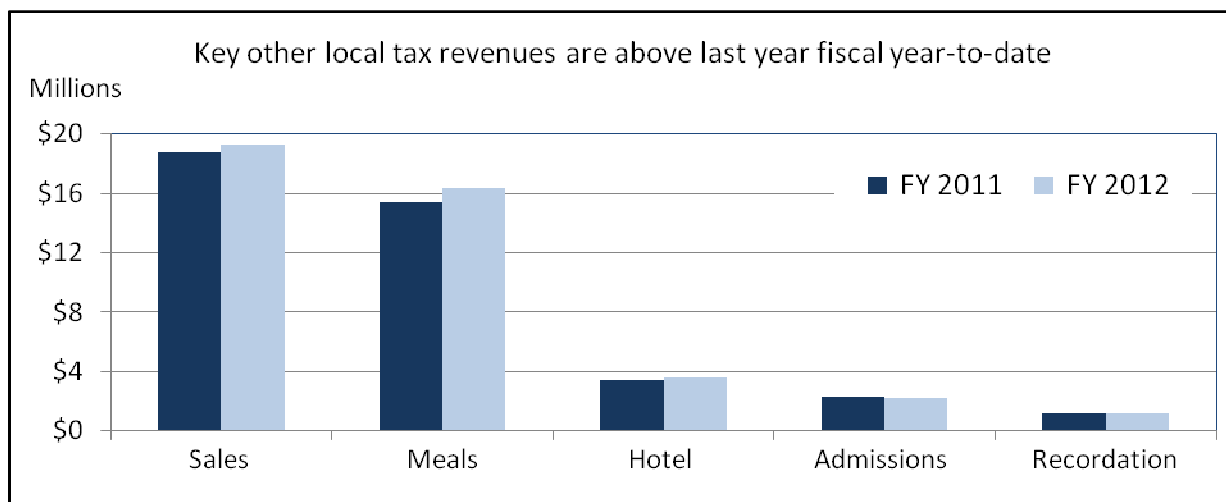
Revenue Picture

Real estate tax revenue, which makes up a quarter of the city's General Fund revenue and is our largest locally-generated revenue source, is projected to decline again in FY 2013. According to the Real Estate Assessor's office, real estate assessments overall in Norfolk are projected to decline by approximately 2.9 percent in FY 2013 from the previous year. This would be the third consecutive year of declining assessments in the city. Moreover, residential assessments (excluding condominiums) are projected to decline by 4.49 percent in FY 2013. For these homeowners, tax bills will on average be about \$2,230, which is a savings of \$320 from FY 2010. Consequently, the city will see an estimated \$17 million decline in real estate revenues from FY 2010. This is no small loss. For real estate revenue to get back to the FY 2010 level, assessments overall would have to grow by about nine percent.



Fortunately, it is not all bad news. With the gradual improvement of the economy, other local taxes are expected to increase by 1.9 percent from FY 2012, which will generate an additional \$2.9 million in General Fund revenue. These revenue sources make up nearly 20 percent of General Fund revenue and include various taxes such as, sales and use, hotel and motel, meals and admissions that are highly sensitive to the economy. Other local taxes overall began to rise in FY 2011 after declining for two

straight years and have been gradually rising back to the pre-recession level as indicated in the table below:



Impact of the Commonwealth's Budget

Approximately 36 percent of the city's General Fund revenue comes from the Commonwealth, which means state budget actions have a significant impact on the city's operating budget. Revenue from the Commonwealth consists mostly of pass-through funds dedicated to essential programs and services including, Norfolk Public Schools, social services, local law enforcement, street maintenance, and city jail operations. Due to a lack of consensus among state legislators, the General Assembly delayed passing the upcoming biennial budget until April 17. The last time a similar occurrence happened was during the 2006 Session when the General Assembly did not pass a budget until late June. While the Commonwealth has projected state revenue to continue to grow over the next biennium, the growth of state revenue has not resulted in the restoration of the significant reductions in Aid to Localities made in previous years. It is important to note that the city is expecting to see a decline in state funds for social services. This decline is mainly due to changes the Virginia Department of Social Services made in the middle of FY 2012 on how reimbursements are handled in two childcare programs: (1) Fee Child Care; and (2) TANF/VIEW Working and Trans Child Care. These charges will no longer come to the city for payment, but will now go directly to the vendor from the Commonwealth. These changes are not expected to impact the level of childcare provided, but will reduce the General Fund by \$7.4 million.

Expenditure Challenges – Operating Budget

Even as we move toward developing a priority based budget, there are external factors that impact operations that the city has little or no control over in the short-term such as: inflationary costs, energy costs, health care costs, and/or retirement costs. Our residents, similar to government, are not insulated from these issues. We all feel the impact of higher fuel prices each time we fill up our vehicles and we see the increasing cost of cooling and heating our homes on each monthly billing statement. Similar to household budgets, the city is facing increasing costs for fuel and utilities and must either reallocate resources or find new sources of revenue to pay for these costs. While we have limited control over these issues in the short-term, efforts to identify alternatives in the long-term to manage energy costs are ongoing. The long-term strategy for cost containment will include a combination of initiatives such as upgrading the fleet to more fuel efficient or alternative vehicles, expanding

awareness and enhancing vehicle idling policies, and implementing energy efficiency upgrades to existing facilities.

Health care is another area where increasing costs are not unique to the city. Every business, large or small, public or private, is grappling with cost containment strategies for health insurance. Health insurance costs for the city are expected to rise 7.7 percent in FY 2013. Because our employees have not had a raise in recent years, this increase will be largely absorbed by the city. Also, in an effort to more effectively manage costs; our wellness program will continue to partner with suppliers and employees to promote healthy lifestyles and a fit workforce. Additionally, other external pressures facing the budget include increases in the Virginia Retirement System's (VRS) rate as well as an increase in the Group Life Insurance rate.

Expenditure Challenges – Capital Improvement Plan

Both internal and external challenges impact the city's Capital Improvement Plan (CIP). The CIP is like a credit card. We can buy things today with the promise to repay the lender in the future. Initial payment may be low; however, as we increase borrowing, the payments continue to grow. The city's general CIP (those bonds not supported by self-supporting user fees) is guided by two measures of affordability. One measure is tied to the value of revenue producing real property and the other measure is a proportionate share of the general fund budget. These measures, or self-imposed debt limits, based on the approved CIP, are as follows:

- Debt Service as a percent of the General Fund budget (not-to-exceed 10 percent) and
- Net debt as a percent of taxable real estate (not-to-exceed 3.5 percent).

The Proposed FY 2013 CIP is within the two measures of affordability listed above. However, in order to finance the continuation of certain major essential governmental projects, such as the new city courthouse, elementary schools and the new main library, the city is challenged to stay within these measures as we provide funding in the out years of the CIP. The funding challenge of the out years results from a combination of several factors. The global economic recession that officially ended in June 2009 continues to restrain national, state and local budgets. In Norfolk, the recession has caused a reduction of state and local revenue. These recessionary factors have negatively impacted the General Fund budget and therefore our ability to afford debt.

The fiscal condition of cities typically lags general economic conditions. The lag is a function of tax collections, particularly for property tax, which is the largest form of locally-generated revenue. The impact of the recession and declining property values lead to temporary reductions in assessed value and the corresponding real property tax revenue. Accordingly, the net debt as a percent of taxable real estate measure has been impacted as well.

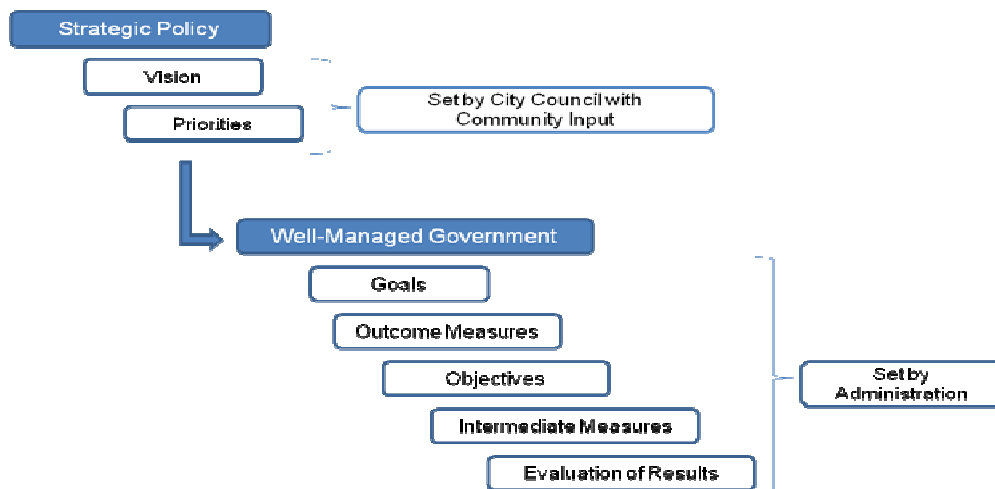
The city, even with the challenges facing the CIP, continues to improve the infrastructure as well as the amenities that add to the character and soul of the community. Large capital projects such as the Colonel Samuel L. Slover Memorial Library, the Consolidated Courts Complex, ongoing school construction and flood control projects are still moving forward even as the city is closing in on its debt capacity. In order to move these projects forward, I am proposing to reduce the planned General Fund capital projects from \$55.7 million to \$48.6 million in FY 2013. Moreover, we are proposing to fund only a small number of new projects in FY 2013.

In addition to the large projects mentioned above, the city's commitment to Norfolk's neighborhoods remains strong. The proposed CIP continues support for the neighborhood plan projects with funding for neighborhoods such as Broad Creek, Fairmount Park, Wards Corner and Southside. Also, in FY 2013, we will celebrate four major CIP projects that will have a significant impact on Norfolk's resident's quality of life. The opening of the new K-8 Crossroads School this fall is part of the ongoing commitment by the city to modernize Norfolk Public School facilities. We will also see the long awaited opening of the 20,000 square foot aquatics center on the Southside in May 2013. This facility will not only serve as an economic and leisure asset to the community, but also support one of City Council's long-standing goals to have every Norfolk child become a proficient swimmer. Also, the renovated Therapeutic Recreation Center and the new Ingleside Gymnasium are opening in FY 2013.

PRIORITIES

Our efforts for a well-managed government require vision and purpose. In an effort to build on the foundation of a well-managed government, the Administration came to you in June 2011 to begin developing new priorities. The city's priorities, as you know, had not been updated since the 1990s. At that time, I stated that if you, the Council, set the priorities, the Administration would develop short and long term goals and objectives and focus on outcomes. We asked that Well-Managed Government be included as one of your top priorities. Your response to the Administration was that well-managed government was an expectation.

Under this direction, that is exactly what we have done. One year later, our management philosophy is breaking down silos and working in a cross-departmental portfolio structure to gather greater organizational synergy. Cross departmental teams with greater employee involvement in the decision making process is the preferred method of doing business. This strategy was rolled out as part of the recently completed citywide priority setting process.



Budgeting Based on Priorities

The Proposed FY 2013 Budget is built around your new priorities and funding is dedicated to programs and services that support these priorities. Moreover, in the current economic environment where resources are limited, we are re-purposing existing funds and resources as well as leveraging community, state and federal resources to address the City Council's six highest priorities: Well-Managed Government; Lifelong Learning; Safe, Healthy and Inclusive Communities; Economic Vitality and Workforce Development; Accessibility, Mobility and Connectivity; and Environmental Sustainability.

Highlights of our plan to support Well-Managed Government strategies are detailed as follows:

Priority: Well-Managed Government

Key Priority Activities

- **FY 2013 Efficiency Initiatives**
- **Fleet**
- **Recycling**
- **Technology**
- **Contract Reduction**

The priority of Well-Managed Government is to create a data-driven organization that provides effective and efficient city programs and services that are responsive, accountable, inclusive, and customer focused.

In these difficult economic times, our organizational focus has been on examining existing operations, identifying core services and looking for operational efficiencies. Our efforts for a well-managed government require vision and purpose.

As we weave the concepts of well-managed government into the fabric of the organization, it is apparent that city employees are up to the challenge. Since January 2008, the organization's workforce has been reduced by a significant number of positions. It should be noted that our success in shrinking the organization may have resulted in the pendulum swinging too far. We have successfully made government smaller, but at what cost? Reductions in operating hours at recreation centers and reductions to library book budgets have raised concerns among many of our residents. Landscaping and tree-trimming services have been cut back to the point where in many instances our gateways no longer reflect the pride our residents feel for this beautiful city. In the past, other issues such as tidal and precipitation flooding had been continuously pushed out into the future with no action plan to address this issue.

This Proposed Budget focuses on funding for our communities' highest-priority programs and core services. Specifically, in the Proposed FY 2013 Budget Document, departments have linked their goals and objectives to the citywide priorities. Furthermore, throughout this process, we have put everything on the table for review and taken the stance that all programs must achieve their intended results. Additionally, in this budget, existing resources are being re-purposed in support of some fundamental services. This course of action is necessary to ensure Norfolk's residents get the most out of their hard earned tax dollars.

Our employees understand improvements in efficiency are critical to organizational success. As a result, they are taking the lead to promote higher efficiency levels that produce increased levels of service and reductions in service costs. Moreover, our dedicated employees have seized upon this effort even though they have not received additional compensation since 2008. While the revenue lag resulting from the slow economic recovery still requires us to undertake a cautious approach to making commitments that have an ongoing financial impact on future budgets, I am proposing a two percent across the board salary increase for all employees effective July 1, 2012. This two percent increase is just one component of our efforts to make Norfolk an "Employer of Choice."

Based on my conversations with employees, I know that just as important as receiving a salary adjustment, is having a place of employment that provides a good work environment and opportunities for employees to be engaged. To promote the Administration's efforts to have our local government become an "Employer of Choice" we are working to create a workplace environment that attracts and retains superior employees. The "Employer of Choice" initiative in this Proposed Budget increases employee salaries and restores tuition reimbursement. Additionally, this initiative provides greater opportunities for employees to strengthen their skills for professional growth and development as well as have opportunities for cross training and career advancement.

Efficiency and Effectiveness FY 2013

We are faced daily with answering the question of how effectively are we managing the tax dollars of Norfolk residents. One measurement of our success is that Fitch, Standard and Poor's and Moody's ratings agencies each have re-affirmed that the city has a "very strong capacity" to meet its debt payments. The ratings of "AA+" from Fitch, "AA" from Standard and Poor's and "Aa2" from Moody's are only slightly below "AAA", the highest rating available. However, these agencies have voiced concern regarding the city's financial reserve levels. It is important that we build and in some cases replenish these reserves. To maintain the city's excellent credit rating and to keep borrowing costs as low as possible, I am proposing in the FY 2013-2017 CIP a cautious approach to future borrowing to bring the city under its self-imposed debt limits.

The recession has also resulted in all city departments re-evaluating their operations. We are identifying opportunities for operational efficiencies that improve productivity and focus on cost avoidance. In FY 2012, several departments and offices that provided internal centralized services were merged into the Department of General Services including Fleet Management, Facility Maintenance, Purchasing, Storehouse, Real Estate Management, Security Management, and Parking. Additional efficiency efforts such as these will continue in FY 2013. Some of these efforts are listed below.

Fleet Management

Fleet Management is currently evaluating a number of opportunities to increase efficiencies while holding the line on costs. A big component of Fleet's expense is the cost of fuel. As such, I have asked Fleet to commit to more economical vehicles and practices. Beginning in FY 2013, Fleet will purchase more fuel efficient vehicles; for example, vehicles using compressed natural gas (CNG) for large items in the fleet such as solid waste vehicles. We are also evaluating a plan to responsibly reduce the overall number of vehicles and equipment in the city's fleet between five and ten percent in FY 2013. Additionally, Fleet's parts shop will be outsourced to provide not only monetary savings on an annual basis but also to increase operational efficiencies through a just-in-time delivery system. No layoffs will result from this efficiency change. Norfolk is following the same trend as many other cities by moving to a just-in-time delivery system.

Recycling

As a best management practice, the city is reviewing proposals from regional recycling contractors for residential recycling collection to increase organizational efficiencies. This initiative, if determined to be feasible, will allow Public Works' Waste Management Division in FY 2013 to focus exclusively on residential and commercial waste disposal with the long-term goal of working collaboratively with the private sector to increase the city's overall diversion rate of waste going to the land-fill. Additionally, by outsourcing the collection of recycled materials, we envision the development of greater markets for

these materials as well as the development of collaborative marketing campaigns between the city and the contractor to raise overall recycling tonnage throughout the city.

Technology

The Proposed FY 2013 Budget also includes an efficiency initiative in the Department of Information Technology to reduce the annual cost of Blackberry phone services and other mobile devices currently in use for city business. Through restructuring of service plans and changes in technology, this initiative will reduce ongoing costs without impacting service delivery.

Contract Reductions

It should be noted that in many cases it is more efficient and/or cost effective to outsource certain services. However, there are cases in which the city can offer a higher level of service at the same or lower costs. For FY 2013, we have decided to reduce the amount of contracted work for certain street maintenance and street light maintenance activities. This will not only increase the level of service provided in those areas, but will also reduce the existing backlog.

Highlights of our plan to support Lifelong Learning strategies are detailed as follows:

Priority: Lifelong Learning

Key Priority Activities

- **Strategy to fully fund Norfolk Public School's funding request**
- **Funds for constructing two schools and planning of two additional schools**
- **CIP planning funds for a career/technical education school**
- **Support for Norfolk Public School's volunteer effort**
- **Norfolk Emerging Leaders and Youth Program**

The priority of Lifelong Learning is to ensure residents of all ages are able to reach their full potential, achieve personal goals, and support a prosperous economy through the development of knowledge, skills, abilities, and talents.

School Operating Funds

Education continues to be one of the city's top priorities. Norfolk Public Schools (NPS) is our partner and we share a similar vision to ensure that all students receive a quality education and become productive members of society. The city is committed to supporting NPS. The delay in the passage of the state budget made budget development difficult for both the city and NPS. Stemming from state budget uncertainty and declining federal revenues, the School Board is requesting an additional \$6.6 million dollars to ensure core services remain funded. The City Administration has worked with the NPS Administration to provide a strategy for closing the gap.



Norfolk Public Schools
NATIONALLY RECOGNIZED. GLOBALLY COMPETITIVE.

This strategy includes a mixture of refined revenue estimates, additional funds from the city, additional funds from the state, and re-purposing funds previously earmarked by NPS for the purchase of school

buses. There is a significant backlog for school bus purchases and the NPS previously set aside funds will not adequately address the backlog. Therefore, the Proposed FY 2013 Budget recommends that this financial burden be removed from NPS and given to the city. This effort will save NPS millions of dollars in the future and provide for a steady replacement of school buses. Currently, NPS does not have a long-term funding strategy to address school bus replacement. Based on this proposed strategy, NPS will receive more buses than originally planned in FY 2013.

School Capital Funds

An important component of supporting the mission of NPS is addressing the school system's infrastructure. The average age of NPS school sites is about 41 years. In the Proposed Five-Year CIP, we continue funding for major facility maintenance and school construction. In FY 2013, NPS will use prior CIP funds to begin the design of two new school construction projects; a school in the Broad Creek area and one on the Southside. Once these schools are under construction, two additional school sites will move into the planning and design stage for rebuilding or renovation in the FY 2016 CIP. Additionally, we are looking forward to the ribbon cutting ceremony for the new Crossroads K-8 School that is projected to open in the fall of 2012.

In addition to new school construction funds, the city provides ongoing support for the maintenance and repair of school facilities. Maintenance and repair work includes roof repairs, heating and cooling systems and other structural needs. In the Proposed FY 2013 Budget, the city will provide NPS \$3.0 million in maintenance funds.

Proposed FY 2013-2017 CIP for School Construction

(in millions)

	Prior Funding	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Total
School #2	\$9.5	\$0.0	\$12.3	\$5.0	\$0.0	\$0.0	\$26.8
School #3	\$0.0	\$0.0	\$12.3	\$5.0	\$0.0	\$0.0	\$17.3
School #4	\$0.0	\$0.0	\$0.0	\$0.0	\$2.2	\$0.0	\$2.2
School #5	\$0.0	\$0.0	\$0.0	\$0.0	\$2.2	\$0.0	\$2.2
School #1 (Crossroads) Complete in FY 2012	\$29.4	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$29.4
Total	\$38.9	\$0.0	\$24.6	\$10.0	\$4.4	\$0.0	\$77.9

School # 2: Uses a portion of the prior funding of \$9.45 million to begin planning in FY 2013 and construction in FY 2014 and completion in FY 2015

School # 3: Uses a portion of the prior funding of \$9.45 million to begin planning in FY 2013 and construction in FY 2014, and completion in FY 2015

School # 4: Begin design in FY 2016

School # 5: Begin design in FY 2016

Continuing our efforts to foster a community value of life lifelong learning, this Proposed Budget supports enhancing education access for our residents at all walks of life. To this end, the Administration is partnering with NPS on the career/technical education initiative. Additionally, I have included \$320,000 in the CIP to support the consolidation of the Governor's School for the Arts. This brings the city's support for this project to a total of \$620,000.

Career/Technical Education

The Greater Norfolk Corporation has taken the lead in examining the feasibility of establishing a full time career/technical high school in Norfolk that harnesses the applied teaching strategies of high quality career/technical education and infuses them into college-preparatory academics. I am proposing that the city provide \$500,000 in the FY 2013 CIP for planning of the new high school.

Partnerships

Our partnership with Norfolk Public Schools (NPS) is not just focused on bricks and mortar. The students that attend Norfolk Public Schools are our children. The teachers, administrators and support staff are our neighbors and friends. Our support of NPS is embedded in the fabric of our community. In an effort to strengthen our partnership with NPS, we are proposing to allow city employees the opportunity to perform four hours of community service a year with Norfolk Public Schools. This opportunity for enhanced community service can make a difference in our ability as a community to help NPS staff achieve desired outcomes.

Norfolk Emerging Leaders (NEL)

Another initiative which has received recognition is the Norfolk Emerging Leaders (NEL) Program. NEL provides valuable work experiences to promising young talent of Norfolk's Public Schools and Virginia institutions of higher education by working in various city departments. Although the city has offered youth summer jobs in the past, NEL has been refocused by an inter-departmental team with experience working with aspiring young adults and workforce development. The FY 2013 NEL program will employ 210 Norfolk youth, ranging in age from 16 to 19 along with 20 municipal college interns. The program also seeks to reinforce workplace behavior, skill development, financial literacy education, and introduces participants to civic engagement in our community. In addition, there are funds set aside to establish a summer youth leadership program in partnership with Norfolk Public Schools.

Highlights of our plan to support Safe, Healthy and Inclusive Communities strategies are detailed as follows:

Priority: Safe, Healthy and Inclusive Communities

Key Priority Activities

- Community Policing
- Fire Facilities
- Recreation Centers
- Community Services Board
- Drug Court
- Second Chances
- Homearama

The priority of Safe, Healthy and Inclusive Communities is to ensure residents of diverse backgrounds and interests come together to assist in the development of safe and healthy neighborhoods that foster a sense of well-being, and make Norfolk a fun place to live, work, and play.

To implement and maintain ***Safe, Healthy and Inclusive Communities***, we are looking to harness the power of available resident resources to provide enhanced levels of service at a time when local governments cannot afford to do so using traditional methods. For more than a year now, Norfolk

residents have repeatedly asked me how they can take the lead in addressing issues facing their neighborhoods as well as the community at large. Neighbors Building Neighborhoods is a philosophy designed not only to build capacity through empowerment of residents, but also to help residents develop their own solutions and action plans for identified issues. We will support Neighbors Building Neighborhoods, which has taken off in neighborhoods throughout the city by providing hands-on training, information and other educational resources.



I firmly believe that this time next year we will share with you stories from around the city about communities coming together to devise solutions for a better Norfolk. Some of these stories will be small and some will be large and complex such as the recent renovation of the Azalea/Fleet Park Little League Complex. This renovation was a joint effort between the city, the two leagues, parents, volunteers and businesses to devise a solution and create a viable action plan. Volunteers from both leagues worked weekends to remove weeds, prepare fields, remove debris and shovel gravel. Several local companies donated heavy equipment and free labor to install light poles and lights. I see this project as a benchmark for other great community collaborations during FY 2013.

The Healthy Norfolk Initiative has undertaken a comprehensive, long-term strategy to promote health for a lasting impact. To date, Healthy Norfolk has established the Bike Technical Advisory Committee which is committed to creating safe and vibrant passageways throughout the city, as well as connecting Norfolk by bike paths and bike lanes to adjoining jurisdictions. Additionally, Healthy Norfolk took the lead in spearheading the Norview Track pilot program. The Norview community, since the opening of the new Norview High School in 2005, has attempted to gain access to the track for public use. The recently signed joint use agreement between the city and NPS will provide public access to the track facilities. It is initiatives such as Healthy Norfolk, which are allowing our residents to create exciting new opportunities that are contributing to and sustaining our community's quality of life.



Community Policing

A key component of a community's quality of life is feeling safe and secure. With this Proposed Budget, we are going back to the basics to ensure our efforts make Norfolk's communities safe. Focusing on our core services and what we do best, I am proposing returning jail booking to the Norfolk Sheriff's Office. The Sheriff is supportive of this proposal that will provide a net gain of 31 police officers to be redeployed, the vast majority of these officers will be back on the streets, in targeted neighborhoods to strengthen our crime prevention measures.

Our renewed focus on community policing will be based on the philosophy that crime prevention and the solving of crime is a community partnership. We will have our officers engaged in the community, building trust and being champions of the neighborhoods they patrol both in the cars and on foot. In total, the repurposing of these resources will support citywide community policing initiatives, including:

- Strengthening the Student Safety Consortium involving motivated student populations from local universities and representatives from the Police Department;

- Strengthening business community initiatives such as the “Business Watch” which to date have 326 local businesses actively involved in improving their physical and personnel security; and
- Strengthening NPD’s Public Information and Outreach Division in order to improve communication with the residents of Norfolk.

The Proposed Budget also provides for an additional police recruit class in FY 2013. This additional class will ensure that in the near future, the Police Department will be closer to full strength ensuring the safety of Norfolk residents.

Fire and Rescue Facilities

To maintain fire station readiness, I am proposing additional funds to address maintenance backlogs at existing fire stations. These repairs are long overdue and address general maintenance issues such as roof repairs, heating and cooling systems as well as general station repairs. Funding is also included in the out-years of the CIP to build a new fire station. The proposed fire station construction project would be the first new fire facility constructed in 15 years since Station #1 on St. Pauls Boulevard was built in 1997.

Recreation Parks and Open Space

Another prevention initiative that is an investment in our future is the restoration of funding for the Department of Recreation, Parks and Open Space. In FY 2013, we will continue to take the necessary steps to improve services to all segments of the community, especially our youth. I am proposing more than \$500,000 in new funding to:

- Re-open 17 small recreation centers on Saturdays all year-round;
- Re-open Norview and Lambert’s Point Community Centers on Wednesdays year-round;
- Expand aquatic hours;
- Expand teen hours at recreation centers during summer months; and
- Provide staff for Northside Skate Park.

Program expansion only gets us back to where we were at the beginning of FY 2010. It is our goal that we will be able to leverage these resources to build additional capacity in the department to meet community needs. Additionally, this budget provides a platform for greater community input to partner with the staff to bring exciting new programming into our centers.

The Proposed Budget also includes one additional tree crew. The new tree crew will assist in addressing the backlog of 4,000 tree service requests and cyclical maintenance of trees. As stated earlier, new initiatives such as this one proposed for Recreation, Parks and Open Space are a result of funding our highest priorities. To determine the effectiveness of these programs, we will monitor their impact through the development of performance measurements that include community feedback.

Norfolk Community Services Board (NCSB)

As we move forward to bring the Norfolk Community Service Board (NCSB) into the city, we are undertaking this effort by holding the employees and consumers harmless. The Proposed Budget for the first time truly integrates the NCSB into the city structure. As part of the budget development process, we were able to access more detailed information regarding the agencies operations and financial strength. Our review revealed that the current service delivery model is not sustainable. A

great deal of the agency's support came from its fund balance. The FY 2010 fund balance was \$8.5 million and going into FY 2013 it will shrink down to \$2.0 million.

The depletion of fund balance and the potential shortfall in operating funds will require the city to provide \$1.5 million in additional support as part of this transition. These funds are above the \$2.8 already provided in FY 2012, bringing the total Proposed FY 2013 city contribution to \$4.3 million. Additionally, the remaining fund balance of \$2.0 million is also needed to cover the agency's operation in FY 2013. As a fully integrated city department, this fund balance is no longer necessary.

These funding sources are extremely important to ensure a smooth transition of services for consumers. Moreover, based on our review of the agency's current financial situation, we will be looking to the Board to provide guidance regarding service delivery models that are sustainable and best suited for Norfolk. Additionally, moving forward through the budget adoption process, I will bring forward to you ordinances that will convert the NCSB from an operating board to an administrative policy board. For the past four months, the Administration has worked with the dedicated NCSB employees to identify the ideal structure for the delivery of services. The Board and NCSB employees are committed to ensuring an efficient, well-managed, integrated and responsive system focusing on a comprehensive service delivery model.

Drug Court

Another important aspect of maintaining Safe, Healthy and Inclusive Communities is the work we do to provide assistance to individuals that are in need or hurting. An important program in our criminal justice system is the work of the Norfolk Drug Court. I am proposing \$212,000 for expansion of court docket activities targeted to therapeutic cases. Many of these therapeutic cases involve our veterans who have experienced post-traumatic stress disorder (PTSD) and commit crimes. In this manner, a separate co-occurring track for veterans and others who may suffer from PTSD, depression, drug and alcohol addictions, and have committed crimes are therapeutically placed.

Second Chances

I am also proposing in this budget to strengthen the Second Chances program, a prisoner re-entry program that addresses barriers that prevent or make it difficult for ex-offenders to obtain and maintain employment as well as re-establish relationships with family members. Second Chances also addresses issues related to generational incarceration through the Kids of Incarcerated Parents Care Program. Specifically, I am proposing to develop a one year memorandum of understanding (MOU) with the Southeastern Tidewater Opportunity Program, Inc. (STOP) that will begin the termination of this relationship. A key to this proposal is that we will forge a relationship with Second Chances and Norfolk Criminal Justice Services. During the year, we will attempt to bring the functions of Second Chances in-house. An alternative would be to assist Second Chances in establishing its own independent 501 (c) 3 agency during this transition period.

Homearama

Another indicator of our successful partnership with the business community will be on display this fall as we head back to the beach; Norfolk's East Beach. The East Beach community will host the Tidewater Builders Association's Fall Homearama for an unprecedented third time October 13 through October 28. The city and its partner NRHA will jointly support Homearama, which has come to symbolize the rebirth of Norfolk's neighborhoods.



Highlights of our plan to support Economic Vitality and Workforce Development strategies are detailed as follows:

Priority: Economic Vitality and Workforce Development

Key Priority Activities

- Smart Processing
- Employ Norfolk
- CitySites
- Neighborhood Funding
- Partnerships with NRHA
- Small, Minority, and Women Owned Businesses

The priority of Economic Vitality and Workforce Development focuses attention and resources on a growing and diversified economy that enhances the quality of life for residents through a wide range of housing, shopping, educational, cultural, business, and employment opportunities.

Our community's economic vitality is primarily the result of work undertaken in the private sector. To this extent, Norfolk has a bright future. The city's civilian employment base is diverse, with no sector of the economy garnering more than 15 percent of the total workforce. In support of the work being carried out in the private sector, the Administration will convene an internal economic development workgroup that will be made up of staff from the Department of Planning, Department of Development, NRHA, our education partners, and business leaders. This work group is charged with reviewing existing operations and making recommendations for implementation that will position Norfolk for the future through a number of initiatives focusing on enhancing the city's business climate and improving our internal operations through "Smart Processing."

Smart Processing

Smart Processing is a philosophy for ensuring the city's internal business processes support the work carried out in the private sector. It is our goal to serve as a catalyst for business development by providing permitting and development services that are efficient, reliable and understand the time sensitive nature of work being conducted in the private sector. We will be working over the next year to enhance services in our Department of Planning and Community Development. The department in previous budget cycles has lost important positions related to the plan review and inspection process. It is essential, in response to rising demand, that we quickly re-establish operations so that we can support investment made into our community by the private sector.

In the Proposed Budget, I am recommending four new positions to address the increasing demand for plan review and inspection services as well as three new code enforcement inspection positions to support existing efforts in our neighborhoods. The department will work collaboratively with the Department of Development and NRHA to ensure the business community and homeowners have positive experiences going through the city's development process. Additionally, in an effort to assist the Department of Planning and Community Development in focusing on its core mission, I am

proposing to transfer the Animal Care Center to the Department of General Services. This move emphasizes the Administration's efforts to have departments focus their efforts on their core mission.

Employ Norfolk

The Administration has begun a new workforce development initiative led by the Department of Development to **Employ Norfolk**. This new initiative is designed to build individual capacity and address readiness gaps including leveraging existing resources in collaboration with our workforce development partners from across the region to structure training to the specific needs of Norfolk's employers. **Employ Norfolk** is working with all sectors of the workforce population: the unemployed, new entrants, under-employed and existing workers. The goal is to connect Norfolk's residents with employment that offers not only financial stability, but career growth and development. In addition to strengthening the skill set of the civilian workforce, the city is working with veterans through a targeted approach by using a dedicated person to address the needs of those who have protected our freedom. This specialized assistance will match our talented veteran population with employment opportunities.

CitySites

In support of the ongoing efforts in the private sector, the Department of Development is going live with "citysites" an online database and marketing campaign to return city-owned properties to the revenue producing tax rolls and market city-owned rental space. The goal of this program is to provide a transparent way to market city-owned property to spur development of a particular location and/or to maximize the benefit to the city's tax rolls. In addition, the department will take on the management and task of marketing city-owned leasing opportunities. Select city-owned properties may be available for unsolicited proposals. In addition, the department will be working with the Military Economic Development Advisory Committee to provide guidance and to enhance coordination between the city and the Navy to grow the military's presence (in all branches) in Norfolk.



Neighborhood Funding

Addressing the backlog of infrastructure issues is key to supporting the quality of life of our neighborhoods. This Proposed Budget has a number of initiatives designed to support infrastructure needs that support continued business investment in our neighborhoods. In addition to the funding in the CIP for the four neighborhood plans, there is continued support to rebuild our water and sanitary sewer lines throughout the city. Efforts also continue on refreshing major business corridors in support of development opportunities.

Partnerships with NRHA

One of our most effective relationships in promoting economic vitality is with the Norfolk Redevelopment and Housing Authority (NRHA). Over the last year, NRHA has been a tremendous partner in our efforts to change the way we do business. Similar to the ongoing shared services initiatives, we are working closely with NRHA to increase operational efficiencies in areas of development and economic revitalization. While the city and NRHA are both faced with dwindling resources, working together and leveraging our talent pools will enable us to continue striving toward mutual goals that focus on building sustainable communities. Within the next six months, I will report back to you on specific initiatives between the city and NRHA designed to improve our collaborative efforts across the city.

Small, Minority, and Women Owned Businesses

The majority of all businesses in the Commonwealth are classified as small businesses. In order to have sustained economic growth in Norfolk, we must ensure there is a healthy business environment for small businesses in planning and accessing capital. In support of small, women, and minority owned businesses, I am proposing to provide support by accessing \$350,000 in funding available through the Economic Development Authority. These funds will help spur economic activity and support this up and coming segment of our marketplace. The Administration will work with partners and provide an overall strategy to Council in the first quarter of the new fiscal year.

Highlights of our plan to support Accessibility, Mobility and Connectivity strategies are detailed as follows:

Priority: Accessibility, Mobility and Connectivity

Key Priority Activities

- **Intercity Passenger Rail**
- **Bus Transfer station**
- **Sharrows**

The priority of Accessibility, Mobility and Connectivity focuses attention and resources on instituting a comprehensive system of accessibility options, addressing all traditional transportation modes as well as new technologies, that connects people, goods, and information.

As one of the most vibrant cities in Hampton Roads, it is important that the local community, region and state invest in ensuring that Norfolk is accessible and connected locally as well as internationally to stay competitive in global markets.

Intercity Passenger Rail

The opening of the new intermodal terminal at Harbor Park will connect Norfolk to intercity passenger rail service when it opens in December of this year. The new intercity service brings choice to the marketplace allowing residents to ride from Norfolk to Washington DC in four hours. Additionally, the new AMTRAK train service will connect Norfolk to all major cities north on the eastern seaboard to Boston, further solidifying our position as a major transportation hub. To ensure the success of this project, additional funding is needed to complete the station as well as the St. Julian Street layover station.

Bus Transfer Station

We are also working closely with Hampton Roads Transit (HRT) to improve municipal bus service by upgrading the bus transfer station currently located at Cedar Grove. Current service levels at Cedar Grove are unacceptable requiring a response from government that ensures respect and dignity for all involved in the process. Our partner, HRT, has applied for a \$2 million grant to help establish a new upgraded bus transfer station. This provides us a great opportunity to leverage these potential dollars toward a solution that not only addresses the issues with the transfer station, but also improves the overall system-wide services provided by HRT.

Sharrows

A dedicated group of residents have worked collaboratively with the city to promote bicycling as a viable alternative mode of transportation. These residents have advocated for dedicated bike lanes as well as “Sharrows”, the shared lane pavement markings that allow vehicles and bikes to share the road. In support of this effort, the Departments of Public Works and Recreation, Parks and Open Space are working to identify appropriate opportunities for additional bike lanes as well as “Sharrows” when road repair and repaving work is ongoing. To this end, I am proposing \$200,000 of existing road resurfacing funds be dedicated to the development of a more accessible Norfolk community.

Highlights of our plan to support Environmental Sustainability strategies are detailed as follows:

Priority: Environmental Sustainability

Key Priority Activities

- **Flooding**
- **Storm Water Management**

The priority of Environmental Sustainability focuses on maintaining the community’s status of being a premier waterfront community that thrives economically and culturally, avoids detrimental environmental impacts while creating a positive, regenerative effect on its environment.

Flooding

There are a number of environmental issues that impact the quality of life in Norfolk. One of these issues, which cannot be understated, is flooding. During the September 2011 City Council retreat, the Administration was directed to develop an action plan to address citywide tidal and precipitation flooding issues. At that time, the city had little success in engaging the federal government or the Commonwealth in partnering with us on this issue. The thought process at that time was that the city would have to address this massive issue alone. Seven months later, much has changed. The work plan over the past seven months has evolved into a four-pronged strategy: Plan, Prepare, Mitigate, and Communicate.



This comprehensive approach addresses precipitation and tidal flooding across the entire city with the implementation of a long-term tidal and precipitation flooding analysis as well as a shoreline protection analysis. The scope and magnitude of flooding issues, as you are already aware, are beyond the fiscal capabilities of the city to move forward alone. As a result, we are working collaboratively with the Army Corps of Engineers and our congressional delegation, seeking to have Norfolk included in federal studies on flooding. Additionally, the Administration is continuing to devise an action plan that uses an intergovernmental approach between the federal, state and local governments.

This strategy is reaping benefits at the state level. The General Assembly in its most recent session approved a joint resolution requesting the Virginia Institute of Marine Science with participation of the Hampton Roads Planning District Commission and its member localities, and Old Dominion University to

study strategies for adaptation to prevent recurring flooding in Tidewater and the Eastern Shore localities. Additionally, in the FY 2013 CIP, there are several flood control projects proposed for funding.

Storm Water Management

While this is a start, it is not enough to address the challenges and millions of dollars needed to resolve this issue. Included in the above mentioned funding, we are proposing a \$1.00 per month increase in residential storm water rates to begin addressing the citywide flooding issues and future pollution prevention initiatives.

An environmental issue that we must face head on now is addressing the federal Environmental Protection Agency's, Total Maximum Daily Load (TMDL) as it relates to the Chesapeake Bay. The TMDL is a comprehensive pollution prevention initiative that has rigorous accountability measures to initiate sweeping actions to restore clean water in the Chesapeake Bay and the region's streams, creeks and rivers. As reported earlier to you, current estimated costs to meet TMDL requirements over the next 17 years are estimated to be in the \$200-\$300 million range. To tackle these issues, we will focus on developing a comprehensive strategy for determining how to stay in compliance with the regulations as well as a long-term funding strategy.

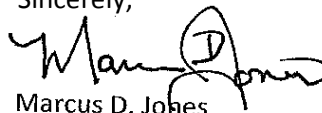
Conclusions and Next Steps

The Proposed FY 2013 Budget continues the process of building a well-managed government. Through a continuous improvement process, we are committed to providing high value for the services offered in support of the stated quality of life identified by you. As we move into FY 2013, there are a number of programs and services that the Administration will undertake to improve operating efficiencies. Three key areas that will be examined in FY 2013 include the Cemeteries, Golf and Parking funds.

These operations are all significant to our community; however, a long-term strategy needs to be developed for each to maintain their competitiveness and viability in the marketplace. In addition to looking at operations that are currently not self-sufficient, we will also continue to examine alternative methods to provide core services to our residents.

In order to achieve long-term fiscal sustainability and to maintain core services, the city must consider reforms that either raise more revenue or lower the projected cost associated with ongoing government operations and future commitments. We will work diligently in FY 2013 to provide you with data and recommendations associated with revenue and expenditure adjustments.

Sincerely,



Marcus D. Jones
City Manager