



July 1, 2022

**Honorable Mayor and City Council,**

I respectfully present to you the Adopted Fiscal Year (FY) 2023 Financial Plan for the City of Norfolk, which is comprised of the General Fund, Enterprise Funds, Special Revenue Funds, Internal Service Funds, Capital Improvement Plan (CIP), and the Annual Plan for the Housing and Urban Development (HUD) Block Grants.

Discussions during our budget work sessions resulted in amendments to the Proposed FY 2023 Operating and Capital Budgets. These amendments to the Proposed FY 2023 Budget were adopted at the May 10, 2022 City Council meeting. The table below illustrates the final Adopted FY 2023 Financial Plan:

Adopted FY 2023 Financial Plan	
Fund	Adopted Budget
General Fund	\$1,008,355,624
Enterprise Funds	\$184,755,843
Special Revenue Funds	\$50,928,594
Internal Service Funds	\$117,374,103
<b>Total Operating Funds</b>	<b>\$1,361,414,164</b>
Capital Improvement Plan	\$299,822,385
<b>Total Operating and Capital Funds</b>	<b>\$1,661,236,549</b>
Annual Grants Plan	\$50,326,212
Annual Plan for HUD Block Grants	\$6,431,703
<b>Total Financial Plan</b>	<b>\$1,717,994,464</b>

The Adopted FY 2023 Budget charts the city's long-range plan for prosperity and puts into motion the city's investment plan for the \$154.1 million received from the State and Local Fiscal Recovery fund (SLFRF) through the American Rescue Plan Act (ARPA). The last two years have tested our resilience. We have worked tirelessly to make it through the pandemic. Our financial recovery is complete; revenues are now above our pre-COVID estimates. However, revenue recovery alone is not enough to ensure success as we transition into post-COVID operations. The Adopted FY 2023 Budget and our SLFRF investment plan were developed to prepare us to thrive after the pandemic. This budget continues the expansion of key services, provides city agencies with tools and resources to effectively operationalize service delivery, and utilizes federal recovery funds to invest in neighborhoods and community initiatives that benefit residents across the city.

#### **State and Local Fiscal Recovery Funds**

The city is both the direct and indirect recipient of federal and state grant funds through the American Rescue Plan Act (ARPA). The most noteworthy funding from this legislation is the \$154.1 million from the State and Local Fiscal Recovery Funds (SLFRF) coming directly from the federal government to the city. This \$154.1 million was the focus of public engagement efforts with residents that culminated in the City

Manager's recommended investment plan during the March Council Retreat. City Council recognized the balance of SLFRF funds under the revenue loss provision outlined by the U.S. Treasury on May 10, 2022. The funds were then used to cover eligible city services otherwise supported by local taxpayer dollars. This action resulted in budgetary savings that will be used to implement the investment plan outlined below:

### **State and Local Fiscal Recovery Funds – Investment Plan**

<b>Category</b>	<b>Allocation</b>
Downtown Floodwall Project	\$64,000,000
Continuity of Services	\$48,100,000
Neighborhood CIP Projects	\$24,000,000
Nonprofit Assistance <sup>1</sup>	\$13,000,000
Broadband Expansion <sup>2</sup>	\$5,000,000
<b>Total</b>	<b>\$154,100,000</b>

<sup>1</sup>Includes \$800,000 previously appropriated by Council to continue eviction mitigation services

<sup>2</sup>\$6M previously appropriated for Broadband Expansion – actual cost was \$5 million – remaining \$1 million re-allocated to Neighborhood CIP projects

Council approved spending for \$59.5 million of the SLFRF funds as part of the Adopted FY 2023 Budget. The Operating Budget Ordinance appropriated \$3.5 million for the Continuity of Services. This investment strategy helps ensure the city can continue to provide core services to residents without the need for a tax increase. The Capital Budget Ordinance appropriated \$56 million for Neighborhood CIP Projects (\$24 million) and the Downtown Floodwall Project (\$32 million).

### **Budget Highlights**

- No tax or fee increases (except for automatic increases)
- Five percent general wage increases for all employees
- Increases in city minimum wage
  - \$18/hour for permanent employees
  - \$15/hour for temporary employees
- \$8.8M and 85 FTEs to enhance direct services to residents
- \$4.8M and 23 FTEs to improve organizational effectiveness
- \$10.6M increases in local contribution to Norfolk Public Schools
- \$9.6M to purchase 104 vehicles/pieces of equipment
- \$4.0M to improve hardware and software systems
- \$70M in matching funds for Downtown Floodwall project
- \$50M in FY25 for a new Norfolk Fitness and Wellness Center
- \$27.5M to fund ARPA Neighborhood Projects in the CIP

City Council has made meaningful and important amendments to the Proposed FY 2023 Operating and Capital Budgets. These amendments will strengthen our public safety and make unprecedented investments in school construction. This memo details City Council's budget amendments and other technical adjustments to the proposed budget.

## **General Fund Operating Budget Amendments**

The following amendments to the Proposed General Fund Operating Budget reflect City Council directives and technical adjustments after proposal:

### ***Enhancements to Public Safety Pay and Pay Plan: \$2,400,000***

#### **Provide an additional step increase to all sworn Police, Fire-Rescue, and Sheriff employees**

City Council has made clear that their top FY 2023 budget priority is Public Safety. The Proposed FY 2023 Budget recommended a five percent wage increase for all City of Norfolk Employees – the largest citywide increase in over 20 years. This additional tenure-based step increase will cost \$2.4 million, impact 916 employees, and provide a total salary increase of no less than 7.5 percent for sworn staff with six or more years of service. Most importantly, it will help make sure we keep our most experienced Police Officers, Fire-Fighters, and Sheriff's Deputies on the job in Norfolk.

#### **Improve Public Safety Pay Plan**

Implement Master Police Officer and Senior Sheriff's Deputy ranks and regrade Fire-Fighter EMT-A and Sheriff's Deputy positions to align with regional peers. As a result of these structural changes, our Police Department will offer the highest police officer starting pay, the highest minimum salaries across all ranks from Police Officer to Assistant Chief and be among the highest in max pay across the same ranks compared to our regional peers. Most importantly, it will allow all officers the opportunity for a promotion into a Master Police Officer position after six years of service.

Starting pay for Fire-Fighters and Sheriff's Deputies will increase from \$43,724 to \$47,073 – a substantial increase that will address regional pay parity concerns. The addition of a Senior Deputy rank in the Sheriff's Office will have a similar result as the Master Police Officer rank mentioned above.

The structural changes to the pay plan will make us extremely competitive as we look to recruit and retain the best possible public safety employees. When combined with the five percent wage increase and the additional tenure-based step increase, the average public safety employee will see a salary increase of nearly 10 percent. Most importantly, these structural changes will not result in an overall increase to the public safety budget. A revision to our public safety personnel funding to align more closely with our current staffing level will fund these actions.

### ***Increase Department of Law Staffing: \$175,000***

The Proposed FY 2023 Budget included an additional City Attorney I position to work with the new business compliance unit. This action will add a City Attorney II position to help manage our growing workload in real estate transactions, and a Legal Secretary II position to provide staff support for the new attorneys.

### ***Assess Citywide Tennis Infrastructure: \$100,000***

This action adds one-time funds to assess the state of the tennis infrastructure citywide. At the conclusion of the assessment, staff will develop tiered options for investments in tennis court maintenance and renovations. FY 2022 budget savings will be used to fund this assessment.

### ***Expand Bank On Program: \$50,000***

Add a full-time Bank On staff position. The Bank On program helps improve the financial stability of unbanked and underbanked Norfolk residents. This action will facilitate increased resident awareness and expand the reach of the program.

### ***Increase Treasurer's Office Staffing: \$50,000***

This action adds a Deputy II – TR position to the Treasurer's personnel budget to improve the efficiency and security of the city's banking and treasury functions. The position would monitor daily payment files, projects, and accounts; analyze and maintain financial statements and schedules; prepare monthly reconciliations and financial statements by monitoring daily cash receipts, auditing cash balances, and preparing various reports and analyses as needed; and contribute to special projects.

### ***Add Additional Zookeeper Position: \$41,500***

This action will add an additional zookeeper position at the Virginia Zoo. This position will help improve animal welfare and operational efficiency. The Zoo Society has agreed to reduce its annual operating support from the city to fund this additional position.

### ***Expand PowerUp Program: \$0***

Review current PowerUp program to ensure that current eligibility requirements and discounts provide meaningful improvements to accessibility of city services. At the conclusion of the review, staff will bring recommendations to Council to adjust fees and charges for services where needed. Any reduction to city revenue will be accounted for in next year's operating budget.

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

### ***Create Norfolk Public Schools Operating Contingency: \$2,556,191***

Norfolk Public Schools (NPS) ended its most recent fiscal year (FY 2021) with \$11.2 million in unspent funds. These funds are called "Reversion Funds" as Virginia Law states that all monies left unexpended by school divisions at the end of a fiscal year revert to their localities. The NPS School Board has approved a resolution to request the use of \$2,556,196 of these reversion funds to create an operating contingency in the schools FY 2023 Budget.

### ***Provide Operating Support to the Elizabeth River Trail Foundation: \$150,000***

The Proposed FY 2023 Budget included \$150,000 in funding for the Elizabeth River Trail (ERT) Foundation for trail maintenance. This funding was incorrectly rolled into an incorrect funding line and, as a result, was not properly displayed in the budget document. This adjustment adds that funding as a new line item for the ERT Foundation in the Outside Agency section of the budget.

### ***Provide Operating Support to the Norfolk Innovation Corridor: \$50,000***

Operating support intended for the Norfolk Innovation Corridor was omitted from the Proposed Budget. This action adds that funding to a new line item in the Outside Agency section of the budget.

The tables below detail:

- The sources of funds that will be used to fund the amendments and adjustments outlined above, and
- A summary of the amendments and adjustments outlined above by cost and type of expense

<b>Sources of Operating Budget Amendments/Adjustments</b>	<b>One-time Amount</b>	<b>Ongoing Amount</b>
Freeze 20 Police Officer Positions	\$0	\$1,000,000
Transfer DEI grant program to SLFRF Non-Profit Assistance	\$0	\$400,000
Reduce Energy Cost Reserve Funds	\$0	\$300,000
Reduce Service Capacity Reserve	\$0	\$500,000
Increase State Compensation Board Revenue	\$0	\$225,000
Reduce Workers Compensation Funds	\$0	\$450,000
Reduce Zoo Society Operating Support Grant	\$0	\$41,500
NPS Reversion Funds	\$2,556,191	\$0
FY 2022 Budget Savings	\$100,000	\$0
<b>Totals</b>	<b>\$2,656,191</b>	<b>\$2,916,500</b>

<b>Uses of Operating Budget Amendments/Adjustments</b>	<b>One-time Amounts</b>	<b>Ongoing Amount</b>
Enhance public safety pay	\$0	\$2,400,000
Increase Department of Law staffing	\$0	\$175,000
Assess citywide tennis infrastructure	\$100,000	\$0
Expand Bank On program	\$0	\$50,000
Increase Treasurer's Office staffing	\$0	\$50,000
Add Zookeeper position	\$0	\$41,500
Create NPS Operating Contingency	\$2,556,191	\$0
Provide operating support to the ETR Foundation	\$0	\$150,000
Provide operating support to the Norfolk Innovation Corridor	\$0	\$50,000
<b>Totals</b>	<b>\$2656,191</b>	<b>\$2,916,500</b>

### Capital Improvement Plan (CIP) Amendments

The General Capital CIP amendments are primarily related to the city's new \$750 million school construction initiative. Funds to design and construct a new Maury High School and a new Norview Elementary School are included in the five-year CIP. The CIP also includes \$40 million to renovate Booker T. Washington High School, funded primarily with previously appropriated federal recovery funds. The projects and sources of funding are outlined below.

#### ***Construct Maury High School: \$150,000,000***

New capital improvement project as part of the city's \$750 million school construction initiative. Provides \$10 million in design funds in FY 2023 and an additional \$140 million in construction funds in FY 2025.

### ***Renovate Booker T. Washington High School: \$40,000,000***

New capital improvement project to fund major renovations at Booker T. Washington High School. NPS has already programmed nearly \$22 million in the coming year for major systems renovations. Funding will support upgrades to roofs, HVAC, doors, windows, and restrooms. Total funding is provided in FY 2023 and supported primarily with previously appropriated federal recovery funds.

### ***Construct Norview Elementary School: \$37,500,000***

New capital improvement project as part of the city's \$750 million school construction initiative. Provides \$37.5 million in FY 2026 to design and construct a new Norview Elementary School.

### ***Increase funding for School Maintenance: \$9,692,185***

Provide an additional \$9.7 million to support major maintenance projects in existing school facilities. Additional funding supported by FY 2021 reversion funds and FY 2021 revenue sharing true-up funding.

### ***Install security cameras at city parks: \$625,000***

Enhance citywide public safety through the installation of security cameras in three city parks – Northside Park, Barraud Park, and Ocean View Park. FY 2022 Budget savings will be used to support this action.

### ***Acquire Tree Watering Truck: \$125,000***

Provide funds to purchase a tree watering truck. This truck will enable the city to properly water newly purchased planted trees. FY 2022 budget savings will be used to support this action.

<b>Sources of CIP Amendment Funds</b>	<b>FY 2023 – FY 2027</b>
City Debt from School Construction Program	\$155,410,000
Previously appropriated NPS federal recovery funds	\$40,000,000
FY 2022 – FY 2026 NPS Reversion Funds	\$15,000,000
Casino – Sale of Land	\$10,000,000
FY 2021 Reversion Funds	\$8,644,000
FY 2021 NPS Local Revenue Allocation True-up Funds	\$8,138,185
FY 2022 Budget Savings	\$750,000
<b>Totals</b>	<b>\$237,942,185</b>

<b>Uses of CIP Amendment Funds</b>	<b>FY 2023 – FY 2027</b>
Construct Maury High School	\$150,000,000
Renovate Booker T. Washington High School	\$40,000,000
Construct Norview Elementary School	\$37,500,000
Increase Funding for School Maintenance	\$9,692,185
Install Security Cameras at City Parks	\$625,000
Acquire Tree Watering Truck	\$125,000
<b>Total</b>	<b>\$237,942,185</b>

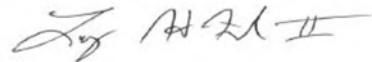
**FY 2023 - FY 2027 CIP Amendments**

Project	FY 2023 Adopted	Planned				Total
		FY 2024	FY 2025	FY 2026	FY 2027	
Construct Maury High School	\$10,000,000	\$0	\$140,000,000	\$0	\$0	\$150,000,000
Renovate Booker T. Washington High School	\$40,000,000	\$0	\$0	\$0	\$0	\$40,000,000
Construct Norview Elementary School	\$0	\$0	\$0	\$37,500,000	\$0	\$37,500,000
Increase Funding for School Maintenance	\$9,692,185	\$0	\$0	\$0	\$0	\$9,692,185
Install Security Cameras at City Parks	\$625,000	\$0	\$0	\$0	\$0	\$625,000
Acquire Tree Watering Truck	\$125,000	\$0	\$0	\$0	\$0	\$125,000
<b>Total</b>	<b>\$60,442,185</b>	<b>\$0</b>	<b>\$140,000,000</b>	<b>\$37,500,000</b>	<b>\$0</b>	<b>\$237,942,185</b>

**Next Steps**

As we move forward, the Administration will continue to partner with stakeholders to deliver high quality, efficient, and effective programs to our residents. On behalf of the dedicated members of Team Norfolk, I look forward to implementing the many initiatives supported by the Adopted FY 2023 Budget.

Sincerely,



Dr. Larry H. Filer II  
City Manager

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March 22, 2022

**Honorable Mayor and City Council,**

I respectfully submit to you the Proposed Fiscal Year (FY) 2023 Financial Plan for the City of Norfolk, which comprises the General Fund, enterprise funds, special revenue funds, internal service funds, the Capital Improvement Plan (CIP), the Annual Plan for Housing and Urban Development (HUD) Block Grant programs, and the Annual Grants Plan. A summary of the Proposed Financial Plan is shown in the table below:

<b>Proposed FY 2023 Financial Plan</b>	
<b>Fund</b>	<b>Proposed Budget</b>
General Fund	\$1,005,474,433
Enterprise Funds	\$188,569,726
Special Revenue Funds	\$50,928,594
Internal Service Funds	\$117,374,103
<b>Total Operating Funds</b>	<b>\$1,362,346,856</b>
Capital Improvement Plan	\$239,380,200
<b>Total Operating and Capital Funds</b>	<b>\$1,601,727,056</b>
Annual Plan for HUD Block Grants	\$6,431,703
Annual Grants Plan	\$50,326,212
<b>Total Financial Plan</b>	<b>\$1,658,484,971</b>

This budget proposal marks my third as City Manager. The first was during the opening stages of a global pandemic amid a virtual lockdown of the entire country. Economic conditions appeared ready to coalesce into a financial armageddon for our local tax revenue. I recommended that City Council make substantial budget cuts to limit the painful impact of the pandemic to a single year.

I proposed my second budget a year into a pandemic that no one thought would last more than a few months. City revenues never hit the lows I feared, and the stimulus provided by the feds kept the economy afloat. City Council's tough choices in the prior year set the stage for our recovery. As a result, last year's budget began the process of rebuilding city services and Team Norfolk.

As we set about the rebuilding it became clear that the pandemic's impacts were more widespread and pervasive than it first seemed. The employment environment was rapidly changing and evolving. Recruiting and retention issues began to appear in many of our core services areas as the labor market tightened. As a result, we have reached historically high vacancy levels that continue to hamper our ability to provide services to residents. While last year's budget provided new positions and funding to rebuild city services, market realities have hindered our ability to execute the plan.

The last two years have tested our resilience. We have worked tirelessly to make it through the pandemic. Our financial recovery is complete; revenues are now above our pre-COVID estimates. However, revenue recovery alone is not enough to ensure success as we transition into post-COVID operations. The Proposed FY 2023 Budget was developed to prepare us to thrive after the pandemic. It continues the expansion of key services and provides city agencies with tools and resources to effectively operationalize the plan. With this budget we are charting a long-range plan for prosperity.

### ***Economic Outlook***

Our local revenue has been more resilient to the impacts of the pandemic than we originally projected. In FY 2021 we ended the year with a revenue surplus driven by strong sales, meals, hotel, and business license tax revenue

In the current fiscal year – FY 2022 – revenues continue to outperform budget. Sales, meals, hotel, and personal property taxes are leading the way. A global shortage of new cars has led to a massive increase in the demand for used cars, pushing prices higher and higher. As a result, we are expecting about \$10M in additional revenue from the car tax this year from increased vehicle assessments. City Council is scheduled to vote on tax relief on March 22<sup>nd</sup> that will give back more than half of this to residents.

FY 2023 revenue projections are projected to exceed our pre-COVID estimates. Real estate assessment growth is projected at 8.6 percent and consumption tax revenues (sales, meals, hotel, admissions) are expected to be strong. This is aided by Patriotic Festival coming online and the return of our traditional festival lineup.

The strong revenue performance will be offset by historically high expenditure growth. Employee recruiting and retention are extremely competitive with a tight labor market pushing costs and expectations higher. We have felt this most acutely in positions that provide “core” government services – Police Officers, Refuse Collectors, Lifeguards, Equipment Operators, etc.

General Inflation combined with pandemic specific expenses have resulted in volatile cost increases. Energy costs are spiking with substantial increases in fuel, natural gas, and electricity – my proposed budget will include more than \$6.5M in cost increases.

As we transitioned to a remote work environment during the pandemic, we invested heavily in our IT infrastructure. Much of this investment comes with ongoing maintenance costs that are coming due. We've also seen substantial cost escalation in construction costs. General guidance is to assume a 25 percent premium over pre-pandemic construction prices.

***Projected FY 2023 Energy Cost Increase By Type***

Type	General Fund	All Funds
Electricity	\$1,160,565	\$1,494,557
Natural Gas	\$898,255	\$920,180
Gasoline and Diesel	\$1,728,524	\$3,634,047
Energy Cost Reserve	\$500,000	\$500,000
<b>Total</b>	<b>\$4,287,344</b>	<b>\$6,548,784</b>

Looking at our full five-year forecast (FY 2023 – FY 2027) I anticipate moderate revenue growth to follow this year's rapid growth. I anticipate we will have recurring structural budget deficits that begin to shrink in FY 2025 and become manageable by FY 2027.

## Five-Year Forecast Scenarios (in millions)

General Fund Operating Budget Forecast					
Scenario: Baseline	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Description	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
On-going Revenue	\$739.5	\$755.1	\$799.8	\$816.7	\$834.8
On-going Expenditures	\$750.8	\$774.2	\$809.2	\$826.4	\$841.2
Structural Surplus/(Deficit)	(\$11.3)	(\$19.1)	(\$9.4)	(\$9.7)	(\$6.4)
Cumulative Surplus/(Deficit)	(\$11.3)	(\$30.4)	(\$39.8)	(\$49.5)	(\$55.9)

\* Use of \$48 million of ARPA funds and \$8 million of FY 2022 surplus can close the structural gap under these assumptions

The most recent federal stimulus program, The American Rescue Plan Act (ARPA), will provide us with more than \$154M in State and Local Recovery Funds. These funds present us with the opportunity to manage our annual structural budget deficits through FY 2027 without having to raise taxes or reduce services. The ARPA Investment Plan I presented to City Council in early March recommends using about \$50M for this purpose.

We will continue to monitor our results and refine this forecast as necessary. However, City Council's decisive action at the outset of the pandemic and strong financial policies have provided the foundation from which we can build a path to a prosperous future.

### Budget Development Guiding Principles

I have worked closely with my Senior Executive Team and department heads to establish the guiding principles that are central to the development of this budget – they are outlined below:

#### ***Fund the right services for today and tomorrow rather than focus on the pre-COVID status quo***

It is tempting to compare staffing levels and businesses processes to a pre-COVID standard. However, this mindset can create a false dilemma that makes it challenging to move beyond the past. With the technology investments we have made, and the lessons learned from the pandemic, we want to build back with strategically aligned personnel. I am confident the additional positions in the FY23 budget reflect strategic personnel enhancements.

#### ***Strengthen our ability to recruit and retain the employees that provide core government services***

The post-Covid employment landscape is dramatically altered. Without substantial investment and modernization, we risk being unable to adequately staff core city services. More on this below.

#### ***Build a leaner more focused government***

Become more efficient in delivering current services. Consider new services only if an unmet need is identified. The FY23 budget contains position and program enhancements designed to further advance Council's goal to deconcentrate poverty and strengthen neighborhoods.

### Budget Overview

The Proposed FY 2023 General Fund Budget is \$1.01 billion – 8.9 percent more than last year. The total operating budget is \$1.36 billion – 7.4 percent more than last year. The total spending plan is more than \$1.66 billion and includes \$239.4 million in Capital Improvement Plan funds, \$6.4 million in HUD entitlement grants, and \$50.3 million in anticipated grant funding.

The budget includes:

- No tax or fee increases (except for automatic increases)
- Five percent general wage increase for all employees
- Increase in city minimum wage:
  - \$18/Hour for permanent employees

- \$15/Hour for temporary employees
- \$8.8M and 85 FTEs to enhance direct services to residents
- \$4.8M and 23 FTEs to improve organizational effectiveness
- \$10.6M increase in local contribution to Norfolk Public Schools
- \$9.6M to purchase 104 vehicles /pieces of equipment
- \$4.0M to improve hardware and software systems
- \$70M in matching funds for Downtown Floodwall project
- \$50M in FY 2025 for a New Norfolk Fitness and Wellness Center
- \$27.5M to fund ARPA Neighborhood Projects in the CIP
- \$55M more than planned for maintenance of city infrastructure

The budget has a structural deficit of \$12.3M. This deficit is funded with a combination of projected FY 2022 budget savings and ARPA funds. The city expects to return close to structural balance by FY 2027. Between now and then additional ARPA funds will be used to offset the anticipated budget deficits.

### ***Norfolk Public Schools***

#### **Operating Budget**

The school funding formula City Council adopted along with the FY 2020 budget has been an unqualified success. It has allowed the conversation between the Council and School Board to transition away from funding and has proved to be a valuable budget planning tool for both administrations. This year, because of the funding formula, the local contribution to NPS is projected to increase by more than \$10.6 million. This increase, along with \$16.7M in increased funding from the state and other sources, results in a 7.1 percent operating budget increase for NPS in FY 2023.



The increase in local support has helped NPS invest in substantial pay increases for teachers, administrators, and support staff and raise teacher starting pay by more than six percent. Details from the NPS Budget include:

- 4.9 percent increase in the starting pay for teachers from \$47,200 to \$49,500
- 5.8 percent average salary increase for teachers
- 7.5 percent average salary increase for classified employees
- 4.2 percent average salary increase for administrators

Proposed FY 2023 – FY 2027 capital funding for NPS includes \$33M for school maintenance and \$5 million for school buses.

#### ***FY 2023 - FY 2027 Proposed CIP - NPS Projects***

<b>Project Title</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>Total</b>
Address School Major Maintenance	\$9M	\$9M	\$9M	\$3M	\$3M	\$33M
Acquire School Buses	\$1M	\$1M	\$1M	\$1M	\$1M	\$5M

## **Investing in Team Norfolk**

As of early March 2022, we have more than 800 permanent position that are vacant – about 18 percent of our total positions. This includes:

- 183 sworn Police positions
- 56 Maintenance Mechanics/Workers
- 48 Equipment Operators
- 24 Case Managers
- 21 Family Service Workers
- 17 Benefits Program Specialists
- 14 Refuse Collectors
- 13 Lifeguards

Contrast this to early March of 2020, on the eve of the pandemic, when we had roughly 40 more positions overall but only roughly 500 vacancies – 11.8 percent of our total positions. Bottom line – we had 340 more employees providing services to residents than we do today – a 7.7 percent reduction.

The employment market has evolved and competition for employees is fierce. We are feeling the crunch most acutely in positions that provide “core” services. Job seeker expectations are higher than they were two years ago, and those expectations include going beyond higher pay. I am proposing the following actions to modernize our compensation and benefits offerings to put us in a strong position to recruit and retain talent now and into the future.

### **Salary Increase**

I am proposing a **Five Percent General Wage Increase (GWI)** for all positions effective July 2022. Pay range minimums and maximums will increase by two percent for general and constitutional officer employees. The Public Safety Pay Plan will see pay range minimums increased by 2.5 percent and maximums by five percent. This is the largest GWI for city employees in over 20 years.

### **Healthcare**

City of Norfolk employees will see **No Increase in Healthcare Premiums**. The city will pay the entire cost of the six percent premium increase. This is effectively a net wage increase.

### **Minimum Wage**

I am proposing an **\$18/Hour Minimum Wage** for all permanent employees effective January 2023. This is an increase of 43 percent over current living wage of \$12.60/hour. This action will impact 765 positions overall 465 of which are filled and 300 are vacant – a vacancy rate of 39.2 percent, more than twice the city average. Employees in the 465 filled positions will see an average salary increase of 16.8 percent.

I am also recommending an increase in the minimum wage for temporary / seasonal employees from \$11/hour to \$15/hour effective January 2023. This increase will be critical as we respond to seasonal increases in service demand.

### **Paid Family Leave**

I am proposing a new paid family leave policy providing **6 weeks of paid leave** to allow for baby bonding time for both parents and for staff who have special care needs for elderly or other family members. If we want regional employers to offer a benefit like this, we must lead by example.

### **Dependent Care Benefit**

The budget includes a dependent care benefit through ***a contribution of up to \$2,500 annually*** for employees with qualifying childcare or dependent care expenses. The average cost of childcare in Virginia is nearly \$1,200 a month for an infant and about \$900 a month for a four-year-old. The US Department of Health and Human Services qualifies childcare as affordable if it cost no more than seven percent of a family's income.

This metric means a Virginia family would need to earn more than \$205,000 a year for childcare for an infant to be considered affordable and more than \$154,000 a year for childcare for a four-year-old to be considered affordable. Whether you consider these metrics a good measure of affordability or not the reality is childcare is expensive and a barrier to employment for many, especially women. The pandemic showed that access to affordable childcare is critical to our workforce being able to deliver services effectively.

### **CDL Stipend**

I am recommending a ***\$5,000 annual stipend*** for employees with a Commercial Driver's License (CDL) in jobs that require it. This action will impact nearly 500 positions - many who provide our most essential core services:

- Refuse Collectors,
- Street Sweepers,
- Equipment operators in Parks and Recreation, Public Works, Utilities,
- and others

Federal guidelines that went into effect last month complicate the path to a CDL for many of our employees. They now require that candidate train with a federally registered training provider rather than relying on on-the-job training. The rule change will make retaining CDL holders more critical than ever as recruiting will become even more competitive.

The Stipend will result in salary increases of between six and 18 percent before GWI or the increased minimum wage. The Stipend plus the GWI and the increased minimum wage could result in our lowest paid CDL holders seeing salary increases of more than 50 percent

### **Other Initiatives:**

I am also proposing additional employee focused initiatives that will modernize our benefits package to bolster our recruiting and retention efforts. These initiatives include:

- Increasing the default employee contribution to 457 Plan from one percent to two percent (employees may opt out if they wish)
- Expanding the Deferred Retirement Option Program (DROP) beyond NPD and NFR to all eligible NERS retirees effective January 2023
- Providing an additional death benefit for active employees of month salary and \$10K of medical bills and,
- Adding two days of "Wellness Leave" for all qualifying employees

This investment in Team Norfolk is critical for our ability to meet demand for quality core government services. Our workforce is what makes Norfolk a vibrant city. This program may not make Norfolk the best paid in the region, but it will make us the employer of choice.

## **Improving Direct Services to Residents**

I am recommending \$8.8M and 85 FTEs to provide new and expanded services to residents. Some of these actions formalize ongoing funding for initiatives that began in the last year and were funded with grants or budget savings. Others are strategic investments to address identified needs or service gaps. All these actions are forward looking and invest in the right services for today and into the future.

### **Recreation and Library Services**

The proposed budgets for Parks and Recreation, Norfolk Public Libraries (NPL), and the Slover Library are at or near their pre-COVID levels. The FY 2023 budget adds about \$400,000 in Parks and Recreation for additional programming including an increase in the number of NEL intern positions and additional support for outdoor adventure, recreation, and fitness programming

I have also recommended new funding for additional programming for NPL and Slover Library. The Budget includes \$850,000 of unallocated funds to develop expanded programming and \$100,000 to fund staff for the Park Place Library which opened during FY 2022.

As I have communicated from the beginning of the pandemic the budget was not the limiting factor for Recreation and Library programming. Public health concerns closed facilities early in the pandemic and limited their use as the pandemic continued. As the public health landscape began to improve, staffing challenges continue to slow the expansion of programming.

I am confident the actions included in this budget to address recruiting and retention concerns will mitigate many of our staffing challenges. As a result, the proposed budget includes a Service Capacity Reserve that provides ongoing funding to allow further expansion of recreation and library services when we have the capacity and staffing to do so. This results in a total of \$2.4M in new funding for expanded recreation and library programming

### **Supporting our Most Vulnerable Residents**

It is without question that the pandemic hit our vulnerable populations the hardest. I am recommending \$2.8M and 38 FTEs to support two important initiatives that will provide service and support to these populations.

The first is “*The Center*” Homeless Shelter. The Center opened amid the pandemic to replace the NEST program and has been primarily funded with grant funds to date. The facility provides overnight shelter, day services, and resources and support for resident’s experiencing homelessness. It has a capacity to service 100 adults with a surge capacity of 120 – 150 if necessary. The proposed budget provides \$2.2M and 27 FTEs to continue operations.

The second is \$600,000 and 10 FTEs to enhance the Crisis Intervention Team (CIT) Center and provide 24/7 mobile crisis support services. Mobile crisis support services ensure individuals in a behavioral or mental health crisis are diverted from the criminal justice system to the behavioral health system. The program will provide the right assistance earlier in a crisis to decrease hospitalizations and incarcerations and result in better outcomes for vulnerable populations.

### **Business Compliance Unit**

In this budget I am proposing the addition of \$450,000 and 9 FTEs to create our Business Compliance Unit (BCU). The BCU will ensure consistent enforcement of codes related to compliance with conditional use permit requirements with a primary focus on activities that frequently occur after-hours including nightclubs and late-night entertainment and short-term rental activities.

This unit will be housed in City Planning but will take a multi-disciplinary approach and partner with departments across the city. The end goal is to first use data collection and analysis to identify problems before they erupt and then after-hours enforcement when necessary.

#### **Office of Diversity Equity and Inclusion (DEI)**

In the Adopted FY 2020 Budget, City Council created a Diversity and Inclusion Officer position and formalized the beginning of the city's DEI initiative. It has only gathered speed since then. In last year's budget we added additional staff to the program to focus on implementing the city's Economic Inclusion Plan and inclusive procurement efforts.

This budget continues our commitment to these principles with the creation of the Office of Diversity, Equity, and Inclusion. I am recommending \$350,000 and five new FTEs to join our three existing staff in the new Office. This new organization will aggressively pursue two specific objectives:

- **Equity in Action:** Advancing equitable outcomes for Norfolk residents, neighborhoods and businesses through policy recommendations, programming and service delivery offered throughout city departments
- **Minority Business Advancement:** Supporting the start and growth of small, minority and women owned businesses through training, one-on-one business counseling, and increased procurement opportunities.

I am also recommending \$400,000 in annual funding to start an ***Economic Inclusion Grant Program***. This program will further the reach of the Office through financial support for organizations focused on advancing minority and women owned businesses in Norfolk.

The Office will also continue to provide staff support and guidance for the Mayor's Commission on Social Equity and Economic Inclusion and help to further many of the goals included in City Council's Resolution in Support of Closing the Wealth Gap.

#### **Other Enhanced Services to Residents**

Beyond the initiatives outlined above, we looked across the organization for opportunities to strategically enhance services where:

- A critical need was identified, or
- Our current service level could be substantially improved with additional capacity.

The budget includes \$2.4M and 23 FTEs for investments in the following areas:

<ul style="list-style-type: none"><li>• Improved Pavement Markings Maintenance Cycle</li><li>• Staff to add Medic at Station Six</li><li>• Residential Rehab Program</li><li>• Mowing and Landscaping</li><li>• Additional Funds for Indigent Healthcare Services through EVMS</li></ul>	<ul style="list-style-type: none"><li>• Permanent Staffing for Norfolk Works</li><li>• Additional Seasonal Staff at Nauticus</li><li>• Additional Norfolk Cares Advisors</li><li>• Floodplain Management Software</li><li>• Additional Funds for Street Resurfacing</li><li>• Improved FOIA Response Times</li></ul>
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## ***Improving Organizational Effectiveness***

During this year's budget development process, I spent a great deal of time and effort with staff identifying opportunities strategically invest in direct services to residents. I am confident that the initiatives outlined in the previous section will help to move the needle towards a more prosperous future for our residents.

While new or improved resident services may headline the discussion of this budget. It is just as important to look inside the organization and assess our operations and processes. Information Technology (IT) infrastructure, Fleet vehicles and equipment, funding to train staff and develop work plans, and staffing sufficient to effectively keep the gears of government turning efficiently are cornerstones of an effective organization. This budget makes meaningful investments in these areas.

In FY 2019, City Council implemented a real estate tax increase – a portion of which went to address growing backlogs in our IT infrastructure and Fleet Vehicles and Equipment. This investment has continued in every budget since, and this year is no different. This budget allocates nearly \$14 million for IT and Fleet investments all of which will be funded with cash.

### **Technology Improvement Program**

		
<b>Management and Operations Systems</b> <ul style="list-style-type: none"><li>• Human Services Purchase of Service System</li><li>• Cemetery Management Software</li><li>• CIP Software</li><li>• eLearning Platform</li><li>• Plan review software</li></ul>	<b>Cybersecurity, Hardware, Public Wifi</b> <ul style="list-style-type: none"><li>• Multi-Factor Authentication Appliances</li><li>• Server Upgrades, Network Switches, Timeclocks</li><li>• Public Wifi expansion</li></ul>	<b>Public Safety Technology</b> <ul style="list-style-type: none"><li>• Body worn cameras and software support suite</li><li>• Sheriff Civil Process software and server upgrades</li><li>• Cloud-based evidence storage</li></ul>

### **Investing in Fleet Vehicles and Equipment**

<ul style="list-style-type: none"><li>• 28 Police Vehicles</li><li>• 19 Heavy Duty Trucks</li><li>• 15 Vans</li></ul>	<ul style="list-style-type: none"><li>• 14 Pieces of Equipment</li><li>• 12 Pickup Trucks</li><li>• 9 Refuse Trucks</li></ul>	<ul style="list-style-type: none"><li>• 5 SUVs</li><li>• A Fire Pumper Truck</li><li>• A Sedan</li></ul>
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## Enhancing Organizational Capacity and Effectiveness

As part of this year's budget development process, I asked our department heads to review their operations and processes to identify programs where they lacked the capacity to meet the demands for service. Demand could be regulatory compliance, a best practice, an established performance level, a defined expectation, or the impact on the existing backlog of work. As a result of those conversations, I am recommending \$5.4M of new spending and 23 FTEs across multiple programs to better align our capacity with demand for our services. Areas of investment include:

- Employee Engagement
- Strategic Communications
- Real Estate Auctions
- Cash Management
- Collections of Accounts Receivable
- Financial System Management
- Zookeeping Staff
- NACC Animal Care Staff
- VDOT Program Management
- Evidence Management
- Event Services
- Construction Project Management
- Grant Accounting
- Network Security
- Retirement Administration
- Flood Mitigation Investment Planning
- Affordable Housing
- Comprehensive Planning
- Purchase of Equipment
- Renovations of Leased Space

## Capital Budget Overview

The FY23-FY27 Proposed CIP provides much needed funding for neighborhood capital projects and maintenance and repair dollars to improve our existing city facilities and infrastructure.

### Capital Improvement Plan (CIP) Proposed FY 2023 – FY 2027

Fund	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Five-Year Total
General Capital	\$141.0	\$91.7	\$106.9	\$49.1	\$47.0	\$435.6
Parking Facilities	\$22.8	\$5.2	\$3.9	\$3.9	\$3.9	\$39.7
Wastewater Utility	\$17.0	\$18.0	\$18.6	\$18.6	\$18.6	\$90.8
Storm Water Utility	\$23.0	\$17.4	\$15.2	\$12.2	\$15.7	\$83.5
Water Utility	\$35.6	\$33.0	\$33.0	\$33.0	\$33.0	\$167.6
<b>Total</b>	<b>\$239.4</b>	<b>\$165.3</b>	<b>\$177.6</b>	<b>\$116.8</b>	<b>\$118.2</b>	<b>\$817.3</b>

- The Proposed FY 2023 CIP is \$239.4M and increase of \$41.3M over the planned amount.
- The Proposed five-year CIP is \$817.3M, an increase of \$170M over the planned amount

The increases are primarily related to a few main drivers:

### ARPA Neighborhood Capital Projects funded in the CIP (\$27.5M)

The ARPA Neighborhood Capital Projects that I recommended for funding at the Council Retreat earlier this month are included in the CIP. Funding the projects in the CIP with ARPA as the source of funds simplifies the administration of the projects and makes it easier to track the status of the projects. It also allows residents to find project information in the Budget rather than in a supplemental document they may not know to look for.

### Matching Funds for the Downtown Floodwall Project (\$70M)

Norfolk was recently awarded \$250M of federal infrastructure funding from the for Phase I of the Coastal Storm Risk Management (CSRM) project we have developed together with the Army Corp of Engineers. This award is great news. This project will begin to meaningfully address the existential threat that sea level rise poses to the city. However, it does require a substantial grant match – an

estimated \$134M – bringing the total project cost to \$384M. The CIP includes \$35M in FY 2023 and FY 2024 – a total of \$70M as a down payment on the match.

#### **Construction of a new Norfolk Fitness and Wellness Center (NFWC) in FY 2025 (\$50M)**

The FY 2022 Budget provided \$4M to design a combination recreation center and library facility on the site of the current NFWC. We recently kicked off the visioning process with residents to better understand community priorities for the facility. This budget includes the construction funding to build the new facility

#### **Additional Maintenance of city infrastructure (\$55M)**

The Proposed Budget includes \$25M in additional funding for the maintenance of city facilities and infrastructure. The most cost-effective investment we can make is timely infrastructure maintenance. This budget invests heavily in maintenance for city facilities, bridge infrastructure, parking facilities, improvements to the Scope/Chrysler Hall Complex, and others.

Council will notice that the Capital Plan, especially the FY 2023 General Capital CIP at \$140M, is larger than in recent years. While this is true, substantial cash investment in the CIP through ARPA, Budget Savings, SWIFT) will keep our debt levels manageable. As an example, the General Capital program has \$77M (54.7%) in cash in FY 2023 and \$161M (37.0%) planned over five years. This is an unprecedented level of cash investment in our capital program.

#### **Chrysler Hall Update**

Last year's CIP included a plan to provide \$55M for the renovation of Chrysler Hall beginning in FY 2023. The FY 2023 – FY 2027 CIP does not include funding for this project. Any discussion of the Chrysler Hall project must start with the understanding that significant investment in building system upgrades and back of the house renovations are necessary to continue to attract top tier shows and performers. That said, timing and circumstances have conspired to make this project difficult to fund. In many ways it is the right project at the wrong time.



First came our post-COVID pricing update that resulted in significant cost increases. The original renovation project was planned to cost between \$40M - \$50M. Our updated pricing is closer to \$90M. Then came the grant award for the \$384M Downtown Floodwall Project - a \$250M grant that requires a \$134M match. These circumstances forced us to re-think our plans.

We need partners and financial support beyond city debt to move this project forward. I have committed to Council that when we have substantial financial commitments from our philanthropic community, I will recommend funding this project in the CIP again.

The budget before you marks our transition out of the pandemic and makes strategic investments in city services, operations, staff, neighborhoods, and infrastructure. It aligns with our guiding principles – it is forward-looking, will enable us to compete for the staff that provides our core services, and leverages

technology and lessons learned from the pandemic to help us function as a leaner more efficient organization. This budget is the foundation from which we chart a long-range plan for prosperity.

A special thanks to my Senior Executive Team of Deputy City Managers and Department Heads who played an important role in building this budget. I believe is the foundation of our recovery. I would also like to thank the Department of Budget and Strategic Planning for their tireless work throughout the last year. I look forward to discussing this budget with you over the next six weeks.

Sincerely,

A handwritten signature in black ink, appearing to read "Larry H. Filer II".

Dr. Larry H. Filer II  
City Manager