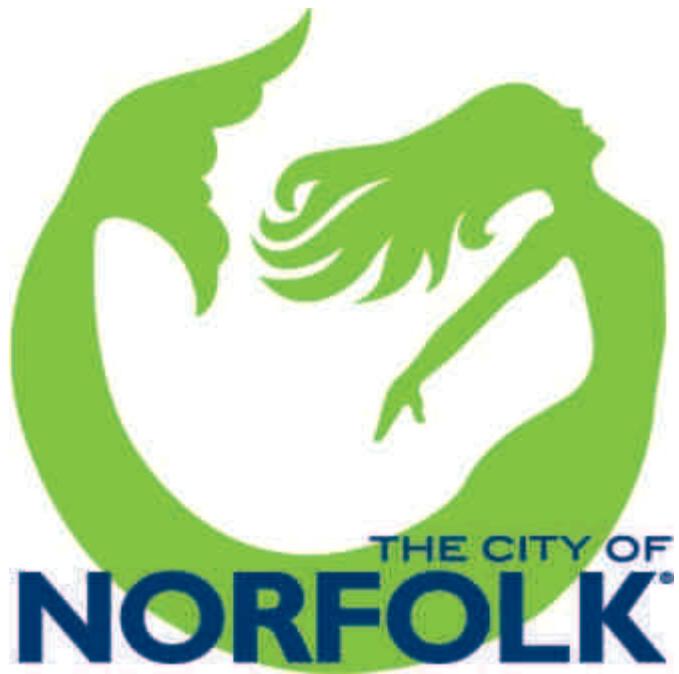

Budget Overview



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ACKNOWLEDGMENTS

The preparation of the city's annual resource allocation plan requires a tremendous amount of hard work and dedication on the part of many people. Developing expenditures and revenues information requires varying sources of data and multiple perspectives.

The FY 2023 Budget was developed with the assistance of many who deserve acknowledgment and appreciation:

- Residents of the city and civic league members, particularly those who attended community outreach meetings
- Members of the city's Employee Relations Committee
- Executive budget team
- Department and office directors
- Members of the business community
- Council Appointees
- Constitutional Officers

Special recognition and gratitude to the Department of Budget and Strategic Planning staff who worked to prepare this year's budget.

Director, Department of Budget and Strategic Planning

Gregory Patrick

Department of Budget and Strategic Planning Staff

Jason Beasley, Moira Facer, Patricia Harrison, Carl Larsen, Pamela Marino, Betty Meyer, Izek Montebon, Seth Parker, Cecelia Rieb, Natasha Singh-Miller, Crystal Skinner, Anne Marie Strano, Genevieve Thomas, Natasha Turner, Emily Uselton, Andréa Vargas, and Amanda Workman.

City Manager,



Larry H. Filer, Ph.D.

DISTINGUISHED BUDGET PRESENTATION AWARD



GOVERNMENT FINANCE OFFICERS ASSOCIATION

Distinguished Budget Presentation Award

PRESENTED TO

**City of Norfolk
Virginia**

For the Fiscal Year Beginning

July 01, 2021

A handwritten signature in black ink that reads "Christopher P. Morill".

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented an award of Distinguished Presentation to the City of Norfolk, Virginia for its annual budget for the fiscal year beginning July 1, 2021. The review process by GFOA has not commenced for the annual budget for the fiscal year beginning July 1, 2022.

This prestigious award is presented to governmental entities that prepare budget documents which exhibit the highest qualities in meeting or exceeding both the guidelines established by the National Advisory Council on State and Local Budgeting and GFOA's standards of best practices. Documents submitted for the Budget Awards Program are reviewed by selected members of the GFOA professional staff and by outside reviewers with experience in public-sector budgeting. The award is valid for a period of one year. The FY 2023 budget continues to conform to program requirements and will be submitted to GFOA for award eligibility.

CITY OF NORFOLK GOVERNMENT

Norfolk City Council is the legislative body of the city government. It is authorized to exercise all the powers conferred upon the city by the Commonwealth of Virginia in the state constitution, state laws, and the Charter of the City of Norfolk.

City Council is composed of eight members. Seven members are elected through a ward system, and the Mayor is elected at large by the residents of Norfolk. These members elect a vice president (Vice Mayor) of the Council. For further information on the duties, powers, and meetings of the Council, call the Office of the City Clerk, 757-664-4253.

The City Council meets the first, second, and fourth Tuesday of each month in Norfolk City Hall. There are two formal meetings held at 7:00 p.m. in the Council Chambers on the second and fourth Tuesday. Work sessions are held prior to the formal meetings and on the first Tuesday of each month. Starting times of the work sessions are determined by the agenda.

The City of Norfolk operates under a Council-Manager form of government whereby the Council appoints a chief executive, the City Manager, Larry "Chip" Filer, PhD. The Council also appoints a City Attorney, Bernard A. Pishko; City Auditor, Tammie Dantzler; City Clerk, Richard A. Bull; and City Real Estate Assessor, W.A. (Pete) Rodda.

NORFOLK CITY COUNCIL AND CITY MANAGER



Mayor
Kenneth Cooper Alexander, Ph.D.



Vice Mayor
Martin A. Thomas Jr.
Ward 1



Council Member
Courtney R. Doyle
Ward 2



Council Member
Mamie B. Johnson
Ward 3



Council Member
Paul R. Riddick
Ward 4



Council Member
Thomas R. Smigiel Jr.
Ward 5



Council Member
Andria P. McClellan
Superward 6

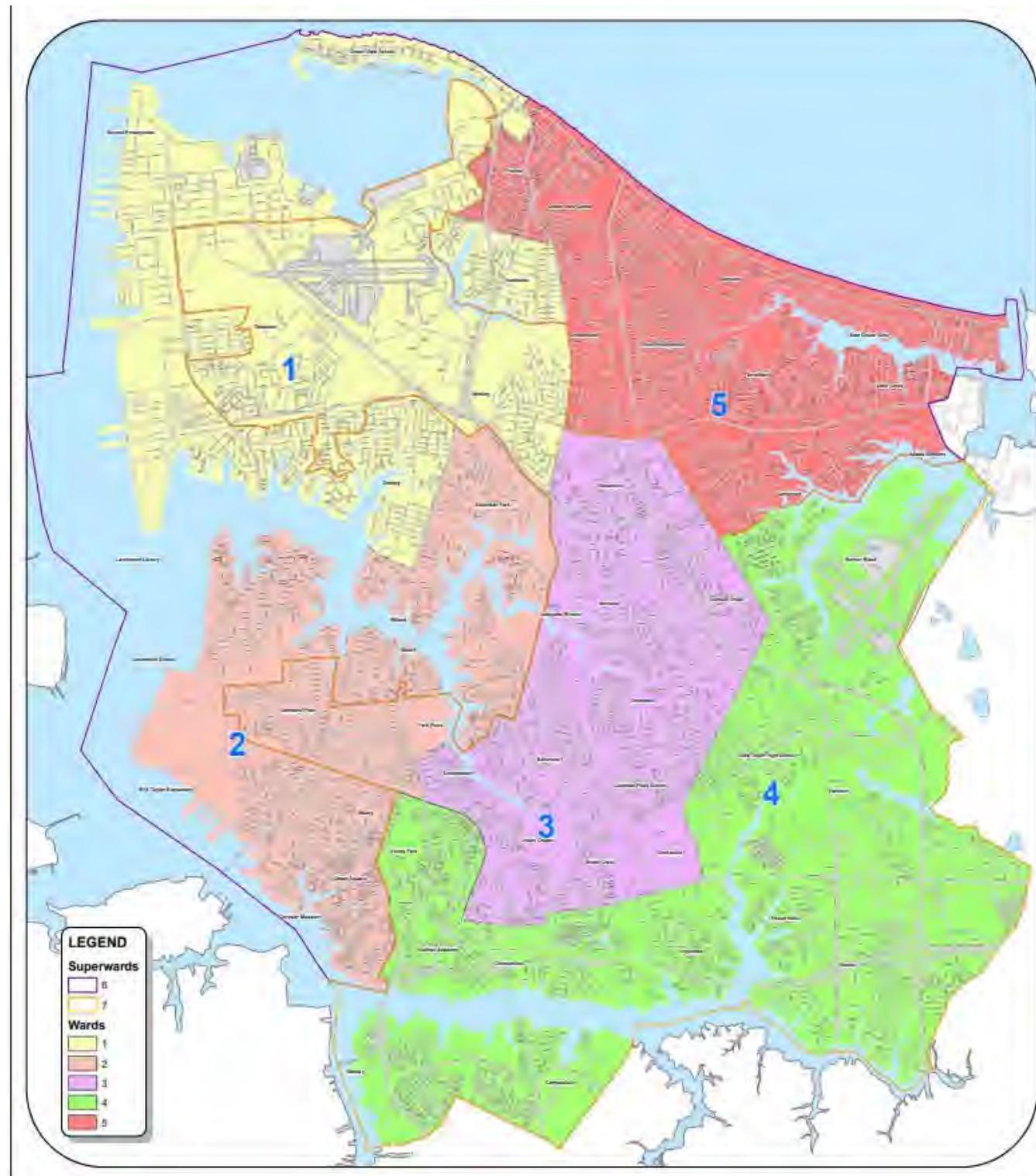


Council Member
Danica Royster
Superward 7



City Manager
Larry "Chip" Filer, Ph.D.

CITY OF NORFOLK WARD MAP

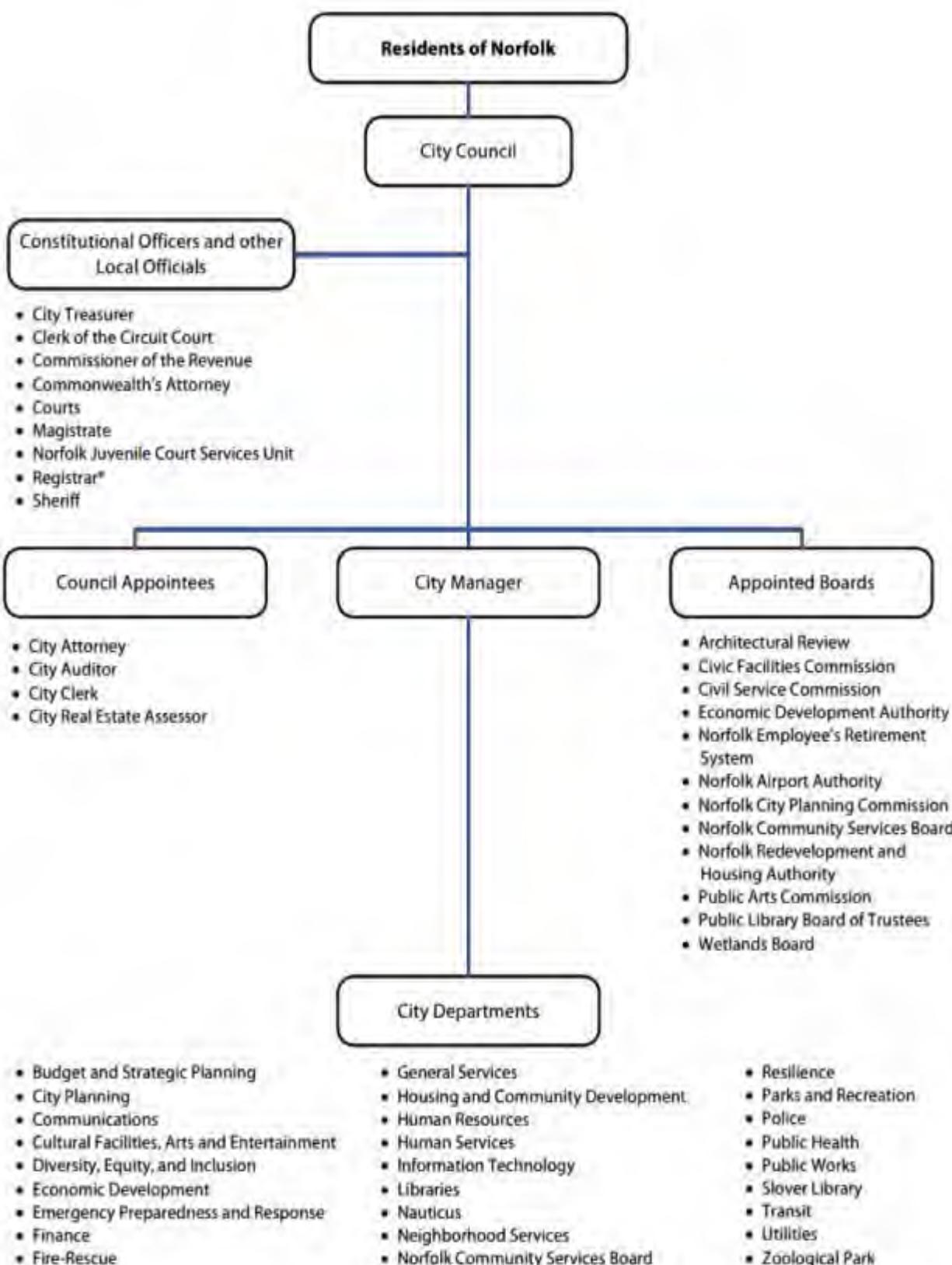


CITY COUNCIL'S VISION FOR NORFOLK

Vision Statement

- Norfolk is a national leader in the quality of life offered to all its citizens.
- This is achieved through effective partnerships between city government and its constituents.
- As a result, Norfolk is a physically attractive, socially supportive, and financially sound city.
- Here, the sense of community is strong.
- Neighborhoods are designed so that people of all ages can know their neighbors and travel the streets and sidewalks safely.
- The sense of community exists citywide.
- Norfolk is known nationally as a strategically located place where there are abundant and fulfilling employment, recreational, and educational opportunities.

CITY OF NORFOLK ORGANIZATIONAL CHART



*Appointed by State Board of Elections

READER'S GUIDE TO THE BUDGET

PURPOSE

The budget is an instrument that sets policy and summarizes public service programs provided by the city government and how the programs are funded. It is the annual plan for coordinating revenues and expenditures. The budget presented covers the period of **July 1, 2022 to June 30, 2023**. The Adopted Budget document may include technical changes made after the City Manager's presentation of the proposed budget to City Council.

BUDGET OVERVIEW

This section provides information on budget and financial policies, fund structure, basis of budget and accounting, budget process, budget calendar, and the city's organizational chart. The section also includes revenue and expenditure summaries, discussion of major revenue sources, indebtedness, and personnel staffing. Historical revenue and expenditure amounts for FY 2021 provided in the summaries do not include designations and financial adjustments posted after June 30, 2021. FY 2023 adopted amounts may include technical changes made after the City Manager's presentation of the proposed budget to the City Council.

GENERAL FUND REVENUE AND EXPENDITURE

The General Fund is used to account for primary government services. A summary of historical and estimated revenue from each source is provided for the General Fund. For each department within the General Fund, a summary of historical and approved expenditures is provided. Historical revenue and expenditure amounts for FY 2021 do not include designations and financial adjustments posted after June 30, 2021. FY 2023 adopted amounts may include technical changes made after the City Manager's presentation of the proposed budget to the City Council.

ANNUAL GRANTS PLAN

This section provides an overview of the grants that the city anticipates to receive annually from federal, state, and other agencies that are dedicated for specific purposes. This information provides readers a more complete picture of the city's resources available to provide programs and services for residents.

DEPARTMENT PROGRAM BUDGETS

This section provides detailed budget information by program for every department within the General Fund. This includes a brief description of adopted FY 2023 budget actions, their impact on the budget and full time equivalent (FTE) personnel. FY 2023 will be a transition year for program budget pages and performance measures. Performance measures for each program are included in program budget pages to measure outcome and impact of the program. Program enhancements that were requested by the department but not funded in the FY 2023 budget are also provided in this section. Historical revenue and expenditure amounts for FY 2020 and FY 2021 provided in the department summaries do not include designations and financial adjustments posted after June 30 of each fiscal year. FY 2023 adopted amounts may include technical changes made after the City Manager's presentation of the proposed budget to the City Council.

PUBLIC SCHOOL EDUCATION

This section provides information on the proposed appropriation for Norfolk Public Schools.

SPECIAL REVENUE, ENTERPRISE, AND INTERNAL SERVICE FUNDS

These sections provide detailed budget information by program for the city's Special Revenue, Enterprise, and Internal Service Funds. A brief description of adopted FY 2023 budget actions, their impact on the budget and full time equivalent (FTE) personnel are provided in this section. FY 2023 will be a transition year for program budget pages and performance measures. Performance measures for each program are included in program budget pages to measure outcome and impact of the program. Program enhancements that were requested by the department but not funded in the FY 2023 budget are also provided in this section. Historical revenues and expenditures for FY 2020 and FY 2021 provided in the department summaries do not include designations and financial adjustments posted after June 30 of each fiscal year. FY 2023 adopted amounts may include technical changes made after the City Manager's presentation of the proposed budget to the City Council.

CAPITAL IMPROVEMENT PLAN

The city's debt service as a percentage of the General Fund budget must not exceed eleven percent (11%). Net debt, as a percentage of property, must not exceed four percent (4%). Due to these affordability measures, the city cannot afford to fund all requested General Capital projects. The Unfunded CIP Request Report shows projects that were requested by departments, but not included in the five-year Capital Improvement Plan.

ANNUAL PLAN - U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) ENTITLEMENT GRANT PROGRAM

This section contains the Annual Plan for the Community Development Block Grant (CDBG), HOME Investment Partnerships Program, and Emergency Solutions Grant Program. The Annual Plan identifies the annual funding of the city's priority community development projects and activities as outlined in the five-year Consolidated Plan.

NORFOLK STATISTICAL INFORMATION

This section provides statistical and general information about the city such as an overview of the organization, services, and selected functions.

GLOSSARY

The glossary provides definitions of budget-related terminology.

FINANCIAL POLICIES

OPERATING BUDGET

The operating budget for the city is developed pursuant to Section 67 of the Charter of the City of Norfolk, Virginia. In accordance with the City Charter, the City Manager submits to the City Council, no less than 60 days before the end of the fiscal year, a proposed operating budget for the ensuing fiscal year. The operating budget includes expenditure amounts based on detailed estimates furnished by departments and other divisions of the city government. The budget is presented in a manner that identifies appropriations, taxes, and estimated revenues with comparative statements. The budget is prepared by fund and department.

Following the formal presentation of the proposed budget by the City Manager, a public hearing is conducted to provide an opportunity for the public to make comments on the proposed operating budget and any proposed tax and fee adjustments such as, proposed changes to the real estate tax rate. The public hearing for the operating budget is held at least seven days prior to City Council's approval of the budget. City Council is required to approve a final operating budget no later than 30 days before the end of the current fiscal year.

The formal approval of the budget is executed by the adoption of the ordinance delineating appropriations by fund. Additional budget controls are exercised administratively on an appropriation unit basis over combinations of object categories (account groups: personnel services, materials, supplies and repairs, contractual services, equipment, public assistance, department specific appropriation, and debt service), as well as on a line item basis over individual objects (budget accounts). Departments may transfer funds within a departmental budget with approval from the City Manager or the Department of Budget and Strategic Planning.

The City Manager or designee is authorized to transfer from any department, fund, or activity which has an excess of funds appropriated for its use to any department, activity, or fund all or any part of such excess. Basic policies and guidelines for the development of the city's annual budget are provided below.

The administration is committed to high standards of financial management and currently maintains and follows financial practices and guidelines. On February 26, 2019, City Council passed a resolution to update the city's policies on reserves, debt affordability, and surplus funds utilization, and adopt new financial policies on pension funding and enterprise fund financial management. On May 11, 2021. City Council passed a resolution updating the Pension Funding Policy to allow for the positive impacts garnered from the sale of debt to refinance a portion of the city's pension liability. The update also provides a framework of when the city's existing reserves will be utilized. The city's Reserve Policy documents the city's approach to establishing and maintaining strong reserves across the spectrum of city operations. The policy is designed to:

- Identify city operations and functions for which reserves should be established and maintained, considering risks to the operation from unexpected events and the availability of other resources to address such events, and the volatility of expenditures and revenues of the operation;
- Establish target reserve levels and provide a timeframe for meeting reserve targets, using a phased approach where necessary so that reserve goals are balanced appropriately with current budget availability; and
- Establish criteria for the use of reserves and the process to replenish reserves.

Financial policies demonstrate commitment to consistent financial practices, operational efficiencies, and best practices; preserve fiscal integrity; and improve fiscal stability to promote long-term fiscal sustainability. Sound financial management practices contribute to maintaining high city credit ratings and lower borrowing costs for capital projects.

RESERVE FUNDS

Description	Policy
General Fund Unassigned Reserve	Maintained for the purpose of sustaining General Fund operations in the case of public emergency such as a natural disaster or other unforeseen catastrophic event, and will not be accessed to meet operating shortfalls or to fund new programs or personnel. At least ten percent (10%) of General Fund expenditures plus General Fund transfers out. City Council must approve all planned uses.
Risk Management Reserve	Provide funding sources for certain claims made against the City. Maximum funding of eight million dollars (\$8,000,000) and no less than five million dollars (\$5,000,000). City Council must approve all withdrawals.
Economic Downturn Reserve	Serves as a countercyclical reserve or "bridge funding". The Council may use this to transition expenditure growth to match slower revenue growth during an economic recession, or to mitigate the impact of a severe, but temporary revenue loss, or to fund one-time economic stimulus to speed the city's recovery from an economic downturn. Fund at no less than two and one-half percent (2.5%) of the three (3) year average of real estate tax revenues, not-to-exceed five million dollars (\$5,000,000). City Council must approve all withdrawals.
Inclusive Development Opportunity Fund	The Fund can be used to advance inclusive economic development and reduce inequities by improving the health, stability and economic security of residents and neighborhoods; fostering business and job growth; increasing household wealth; and supporting people, places, and actions that promote inclusive economic growth throughout the city's diverse communities. Supports inclusive economic growth, with a targeted threshold of two million dollars (\$2,000,000). City Council must approve all withdrawals.
Reserve Replenishment	In the event a reserve, is used to provide for temporary funding needs, the city shall restore the reserve to the minimum level within five (5) fiscal years following the fiscal year in which the event occurred and shall include a projected timeline for full reimbursement in the authorizing ordinance.

PENSION FUNDING

Description	Policy
Pension Funding Policy	The year following the issuance of pension obligation bonds, the contribution will be the current year's actuarially defined contribution plus debt service on the bonds. Each subsequent year, the city's total pension contribution will be the greater of the prior year's contribution or the current year's actuarially defined contribution. The contribution may be adjusted if one of the following conditions is met: 1). NERS' funded ratio reaches 100%, 2). the year over year increase in the city's total pension contribution exceeds six percent (6%) or 3). if the total pension contribution rises above eighty million dollars (\$80,000,000). The city will strive to fund the actuarially defined contribution plus debt service on the pension obligation bonds in any year. The city's enterprise funds will pay their respective portion, from dedicated fees and revenues, of pension costs including debt.

DEBT AFFORDABILITY MEASURES

Description	Policy
Net Debt as a Percent of the Total Assessed Value of Taxable Property	Keep General Fund net debt below three and one-half percent (3.5%) with a not-to-exceed of four percent (4.0%) of the total assessed value of taxable property. For purposes of this ratio, the city will exclude debt issued to fund pension costs, as that debt is replacing an existing liability rather than funding a new capital project.
Debt Service as Percent of General Fund Budget	Keep General Fund debt service below ten percent (10%) with a not-to-exceed of eleven percent (11%) of General Fund budget. For purposes of this ratio, the city will exclude the debt service on debt issued to fund pension costs, as that debt is replacing an existing liability rather than funding a new capital project.
Ten-year (10) General Obligation Payout Ratio	Strive to repay the principal amount of the long-term general obligation bonds by at least fifty-five percent (55%) or greater within ten (10) years.
Overlapping Debt – e.g. Special service district financing or tax increment financing that would be subject to annual appropriation	The total amount of overlapping debt not to exceed one-half percent (0.5%) of total assessed value of taxable property.
Variable Rate Debt	Limit the city's outstanding debt with variable interest rate to no more than twenty percent (20%) by fund.

USE OF SURPLUS

Description	Policy
	Use of Surplus
Surplus Policy	Entire prior fiscal year-end surplus will fund reserves until the minimum requirement of each reserve has been met. 1 If reserves are not at their required minimum. Funding of reserves will be in the following priority. 1. General Fund Unassigned Reserve 2. Risk Management Reserve 3. Economic Downturn Reserve 4. Inclusive Development Opportunity Reserve
	2 If reserves have met the required minimum, but not the maximum. Fifty percent (50%) of prior fiscal year-end surplus will fund reserves and fifty percent (50%) will cash fund (pay-go) the Capital Improvement Plan.
	3 If reserves are fully funded at the maximum requirement. Entire prior fiscal year-end surplus will cash fund (pay-go) the Capital Improvement Plan or one-time technology and equipment purchases.

PARKING FUND

Description	Policy
Debt Service Coverage	Maintain debt service at a minimum of 1.1 times.
Unrestricted Cash	Maintain a minimum of 240 days of operating and maintenance expense.

Parking Fund (continued)

Description	Policy
Repair & Replacement Reserve	Intended to be used for emergency or unforeseen capital needs. Maintain a repair and replacement reserve of one million dollars (\$1,000,000) within five (5) years. City Council must approve all withdrawals.
Ten-Year Financial Plan	Develop a ten-year financial plan annually that integrates revenue and expense projections and project cashflow forecasts relative to the financial policies.

WATER UTILITY FUND

Description	Policy
Debt Service Coverage	Maintain debt service at a minimum of 1.5 times gross of ROI and PILOT.
Unrestricted Cash	Maintain a minimum of 240 days of operating and maintenance expense.
Repair & Replacement Reserve	Intended to be used for emergency or unforeseen capital needs. Maintain a repair and replacement reserve of two million dollars (\$2,000,000) within five (5) years. City Council must approve all withdrawals, and the intended use must comply with all legal and Master Indenture of Trust requirements.
Return on Investment ("ROI")	The General Fund ROI transfer from the Water Utility Fund shall not exceed \$8.5 million in a given year. Additional transfers may only be considered in the event the Water Utility Fund receives one-time, significant revenues and provided that the additional transfer would not cause the Fund to fail to adhere to any other financial policies.
Payment in Lieu of Taxes ("PILOT")	The PILOT paid by the Water Utility Fund to the General Fund to be based on the taxable assessed value of real property using the applicable tax rate.
Ten-Year Financial Plan	Develop a ten-year financial plan annually that integrates revenue and expense projections and project cashflow forecasts relative to the financial policies.

WASTEWATER UTILITY FUND

Description	Policy
Debt Service Coverage	Maintain revenue bond debt service at 1.15 times and 1.1 times combined coverage (General Obligation and Revenue) minimum gross of ROI and PILOT.
Unrestricted Cash	Maintain a minimum of 180 days of operating and maintenance expense.
Repair & Replacement Reserve	Intended to be used for emergency or unforeseen capital needs. Maintain a repair and replacement reserve of one million dollars (\$1,000,000) within five (5) years. City Council must approve all withdrawals.
Return on Investment ("ROI")	The General Fund ROI Transfer from the Wastewater Utility Fund shall not exceed \$1.5 million in a given year. Additional transfers may only be considered in the event the Wastewater Utility Fund receives one-time, significant revenues and provided that the additional transfer would not cause the Fund to fail to adhere to any other financial policies.

Wastewater Utility Fund (continued)

Description	Policy
Payment in Lieu of Taxes ("PILOT")	The PILOT paid by the Wastewater Utility Fund to the General Fund to be based on the taxable assessed value of real property using the applicable tax rate.
Ten-Year Financial Plan	Develop a ten-year financial plan annually which integrates revenue and expense projections and project cashflow forecasts relative to the financial policies.

STORM WATER UTILITY FUND

Description	Policy
Debt Service Coverage	Maintain revenue bond debt service coverage minimum at 1.15 times coverage and 1.1 times combined coverage (General Obligation and Revenue).
Unrestricted Cash	Maintain a minimum of 180 days of operating and maintenance expense.
Repair & Replacement Reserve	Intended to be used for emergency or unforeseen capital needs. Maintain a repair and replacement reserve of one million dollars (\$1,000,000) within five (5) years. City Council must approve all withdrawals.
Ten-Year Financial Plan	Develop a ten-year financial plan annually that integrates revenue and expense projections and project cashflow forecasts relative to the financial policies.

CAPITAL IMPROVEMENT PLAN

The city uses several guiding principles and best practices to manage the Capital Improvement Plan (CIP). The principles (see Guiding Principles under CIP section) governing the CIP are closely linked with the debt affordability measures in the financial policies described in the previous section. Using the principles as a foundation, the CIP is developed to promote capital infrastructure to support the city policies by establishing a five-year capital implementation plan. In formulating this long-range plan, input is solicited from various parties such as city departments, City Council, residents, and businesses. The CIP includes projects that meet the following city policy areas (see CIP section for definitions):

- Education
- Economic Development
- Environmental Sustainability
- Cultural Facilities
- General and Other
- Neighborhood Development
- Public Buildings
- Parks and Recreation Facilities
- Transportation

To be included in the CIP, the project must cost \$75,000 or more and should enhance, increase the value of, or extend the life of the asset by more than the life of the debt instrument used to finance the improvement or grant program. Various sources of funding are used to fund the CIP. These sources include General Fund supported debt and

nongeneral fund supported debt, such as revenue bonds or cash contributions from various resources. For general capital improvements, the city strives to achieve an annual pay-as-you-go cash contribution.

MULTI-YEAR PLANNING

The city's multi-year planning process includes preparing a long-term base budget forecast annually. The long-term forecast of base revenues and expenditures enables the city to identify potential financial challenges and plan for the upcoming fiscal year's budget. In addition, the annual budget development process incorporates a two-year lens, whereby each recommended budget action is analyzed to determine its impact not just in the upcoming fiscal year but also in the following year.

In the summer of each fiscal year, the Department of Budget and Strategic Planning (Budget Office) initiates the process of compiling information for the long-term forecast from city departments, regional and city partner agencies, state and federal agencies, and state and regional economists. In FY 2019, the Budget Office integrated the long-term forecast submission process in the performance budgeting ("budget") system. As a result of the budget system enhancement, items in the forecast were seamlessly incorporated in the department's base budget for the upcoming fiscal year. The actions in the Adopted FY 2022 Budget that impact the following fiscal year's base budget are incorporated in the start point of the following year's long-term forecasting process. Also, the long-term base revenue forecast is updated to reflect actions in the adopted budget. During the fall, the Budget Office refined the long-term forecast compiled during the summer. At the fall financial update in October 2021, the long-term forecast was presented to the City Council. The forecast highlighted the projected fiscal impact from the Norfolk casino coming online, the city's structural deficit, and the use of one-time funds to bridge that deficit. The preliminary long-term forecast provided the start point of the development of the budget for the upcoming fiscal year (FY 2023) as well as the base budget outlook for the following year. In March, the long-term forecast was updated and presented to the City Council at the Mid-Year Budget Update and Outlook.

The long-term base budget forecast annually incorporates adjustments to base revenues and expenditures due to: state, federal, and local mandates; debt and other inflationary or contractual cost increases needed to maintain existing levels of service; the estimated impact of the Norfolk Public Schools (NPS) revenue sharing formula; obligations related to regional partnerships; the opening of new city facilities; economic development projects coming to fruition; national, state, and regional economic forecasts; state budget actions enacted by the General Assembly; state budget forecasts; annualization of prior year prorated costs; and removal of one-time budgetary items. However, the base revenue and expenditure forecast does not include: new fees; fee or tax rate changes; the cost of budget enhancements such as, future salary increases, new programs or initiatives, and program or service expansion; or policy changes under consideration and requiring City Council or administrative action. The chart above summarizes the General Fund's long-term revenue forecast presented to City Council in March 2022. The long-term forecast is also considered for monitoring the city's debt affordability measures.

Five-Year Forecast Scenarios (in millions)					
General Fund Operating Budget Forecast					
Scenario: Baseline					
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

FUND STRUCTURE

The city uses fund accounting to ensure and demonstrate compliance with finance-related legal and regulatory requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The city's funds can be divided into four categories: governmental funds, proprietary funds, component unit funds, and fiduciary funds.

GOVERNMENTAL FUNDS

Governmental funds consist of the General Fund, Special Revenue Funds, Capital Projects Fund, Debt Service Funds, and Permanent Fund. Most governmental functions of the city are financed through these funds. Governmental funds are supported by taxes and intergovernmental revenues. The modified accrual basis of accounting is used for the budgets of all governmental funds.

General Fund

The general operating fund of the city accounts for all financial transactions of the general government, except those required to be accounted for in another fund. The General Fund accounts for the city's normal recurring activities such as police, fire-rescue, public education (K-12), and public works. These activities are supported by revenue from: general property and other local taxes; permits, fees and licenses; fines and forfeitures; use of money and property; charges for services; recovered costs; and aid from the Commonwealth and Federal Government.

Special Revenue Funds

The Special Revenue Funds account for the proceeds of specific revenue resources restricted or committed to expenditure for specific purposes (other than expendable trusts or major capital projects) and require separate accounting because of legal or regulatory provisions or administrative action.

Capital Projects Fund

The Capital Projects Fund accounts for the acquisition, construction, or renovation of major capital facilities of the city and Norfolk Public Schools.

PROPRIETARY FUNDS

Proprietary funds consist of Enterprise Funds and Internal Service Funds. Enterprise Funds account for operations similar to those found in the private sector and include Water Utility, Wastewater Utility, Storm Water Management, and Parking Facilities. Internal Service Funds account for the financing of goods and services provided by one department to other departments in the city on a cost reimbursement basis and include Healthcare and Fleet Management. The Proprietary Funds measurement focus is based upon determination of net income, financial position, and changes in financial position.

Enterprise Funds

Water Utility Fund

This fund accounts for the operations of the city-owned water system. The cost of providing services is financed or recovered through user charges to customers, which include Norfolk residents, commercial customers, the U.S. Navy, and other regional localities and authorities.

Wastewater Utility Fund

This fund accounts for the operation of the city-owned wastewater (sewer) system. The cost of providing services is financed or recovered through user charges to Norfolk residential and commercial customers.

Storm Water Management Fund

This fund accounts for the operation of the environmental storm water management system, including maintenance of storm water drainage facilities. The cost of providing services is financed or recovered through user charges to Norfolk residents and commercial and industrial customers.

Parking Facilities Fund

This fund accounts for the operation of city-owned parking facilities (garages, lots, and on-street meters). The cost of providing services is financed or recovered through user charges for long-term and short-term customer use and fines for parking violations.

Internal Service Funds

Healthcare Fund

This fund accounts for the financing of medical coverage provided to employees of the Norfolk Healthcare Consortium through a city-administered health insurance plan. The Consortium includes the City of Norfolk, Norfolk Public Schools, and the Norfolk Redevelopment and Housing Authority. Employees and the Consortium share the costs of the health insurance premium, medical claims, administrative costs, wellness program costs, fees related to the Affordable Care Act, and benefit consultant expenses are paid by the Healthcare Fund.

Fleet Management Fund

This fund accounts for the maintenance, repair, and service for the city fleet of vehicles, heavy equipment, and miscellaneous machinery on a cost reimbursement basis.

COMPONENT UNIT FUNDS

Education

The city's total budget includes the funds of the Norfolk Public Schools. The primary sources of revenue are the city's local contribution, basic school aid and sales tax revenues from the state, and educational program grants. Major expenditures are for instructional salaries and schools' facility operating costs.

School Operating Fund

The School Operating Fund is the General Fund of the School Board. It accounts for all financial resources except those required to be accounted for in another fund, such as School Nutrition Services.

School Grants

This fund accounts for revenues and expenditures for federal, state, and other grants for educational programs.

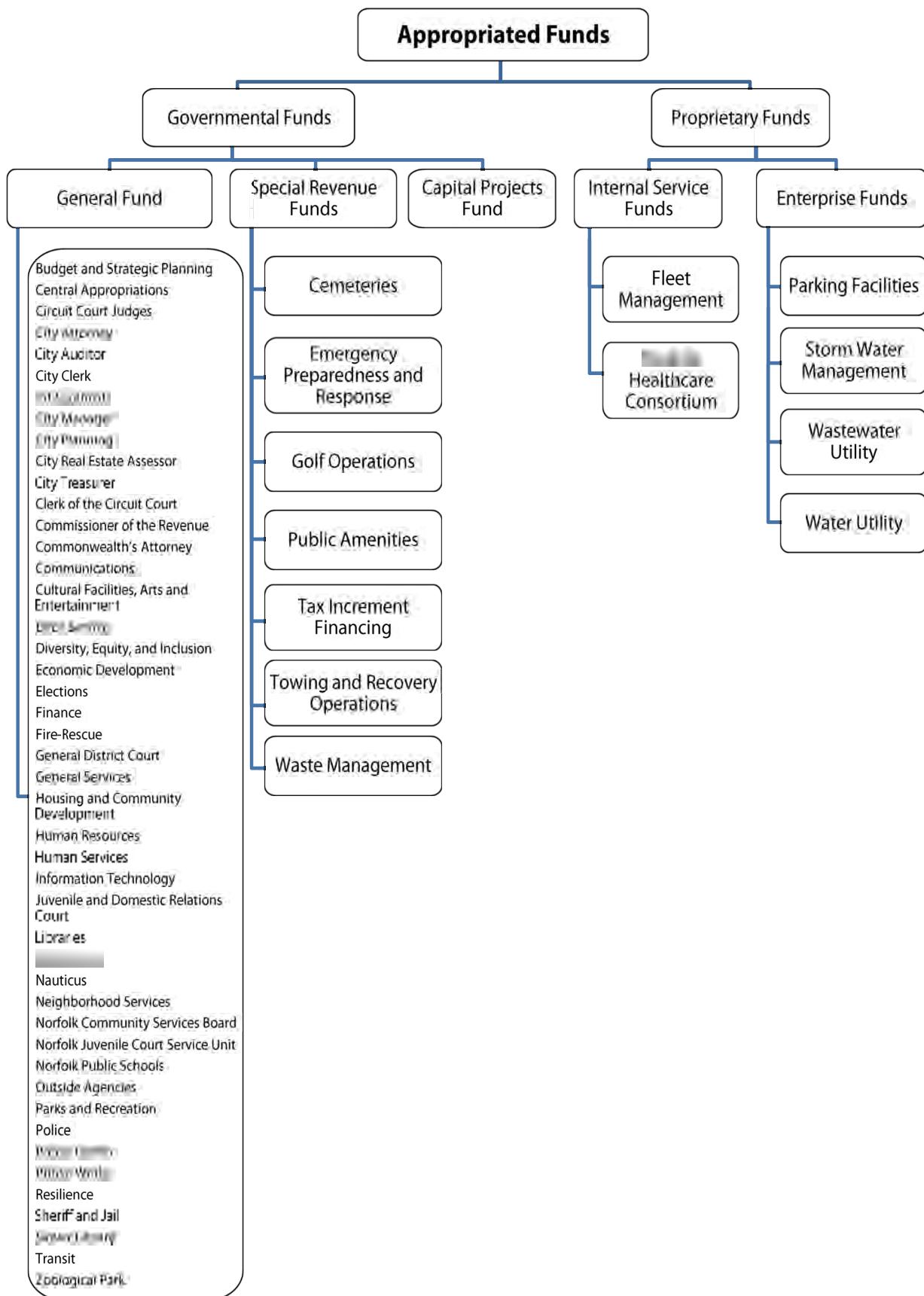
School Nutrition Services

This fund supports the school breakfast and lunch program. School Nutrition Services is a self-funded non-reverting operation supported through cafeteria sales and federal and state reimbursements.

FIDUCIARY FUNDS AND PERMANENT FUND

Fiduciary Funds are used to account for resources held for the benefit of parties outside the city and include the city's Pension Trust Fund, Commonwealth of Virginia Agency Fund, and Other Agency Fund. The Permanent Fund is used to report resources legally restricted to the extent that only earnings (not principal) may be used to support the program and includes the Cemetery Endowed Care Fund. Fiduciary and Permanent Funds are not included in the city's budget, since its resources are not available to support the city's own programs. Fiduciary Fund statements are presented separately within the city's Annual Comprehensive Financial Report.

FUND STRUCTURE



BASIS OF BUDGETING AND ACCOUNTING

BASIS OF BUDGETING

The budgets of governmental fund types (General Fund, Special Revenue, and Capital Projects Funds) of the city are generally prepared on the modified accrual basis of accounting. The accrual basis of accounting is generally used to budget for the Enterprise Funds and Internal Service Funds except for depreciation, debt principal payments, capital outlay, and contractual commitments (see Basis of Accounting below).

For the modified accrual basis, expenditures are recorded as expenditures when the related fund liability is incurred (other than interest on general long-term liabilities). For budgetary purposes, purchase orders issued and other contractual commitments are considered expenditures when executed. Revenues are recorded when they are measurable and available. The accrual basis recognizes expenses when the liability is incurred regardless of the related cash flows. Revenues, however, are recognized when earned. The accrual methodology is based upon known present and future expenses and revenues and not upon cash spent or received.

The level of control at which expenditures may not exceed the budget is at the department level for the General Fund and fund level for all other funds. The City Manager or designee is authorized to transfer funds from any department, fund, or activity that has an excess of funds appropriated for its use to any other department, activity, or fund. Appropriations lapse at the end of the fiscal year, except appropriations that are designated or are for the Grants (Special Revenue) and Capital Improvement Programs, which are carried forward until the designation, grant, or project is completed or terminated.

BASIS OF ACCOUNTING

The Annual Comprehensive Financial Report (ACFR) presents the status of the city's finances in accordance with Generally Accepted Accounting Principles (GAAP). In most cases this conforms to how the city prepares its budget. Exceptions are as follows:

- Compensated absences are recorded as earned by employees (GAAP basis), as opposed to being expended when paid (Budget basis);
- Principal payments on long-term debt within the Proprietary Funds reduce the amount of debt remaining on a GAAP basis as opposed to being expended on a Budget basis;
- Capital Outlay within the Proprietary Funds is recorded as assets on a GAAP basis and expended on a Budget basis;
- Depreciation expenses are recorded on a GAAP basis only; and,
- Recording unfulfilled purchase orders and contractual obligations as expenditures in the year executed.

In addition to the fund financial statements, government-wide financial statements are prepared on the accrual basis of accounting. In government-wide financial statements, certain funds are grouped together for reporting purposes.

BUDGET PROCESS

FORMULATION OF THE CITY MANAGER'S BUDGET

The City Charter requires the City Manager to prepare and submit to the City Council an annual budget.

The annual budget process commences at the beginning of the fiscal year. The budget calendar establishes the timeline for the process, dates for submission of department requests, budget work sessions, and public hearings leading to final adoption of the budget.

Department requests are based on budget instructions. Each request must relate to the organization's program objectives and the priorities of the city. The requests are received and compiled by the budget staff. Due to revenue constraints, departments are generally encouraged to develop proposals to realign or reduce expenditures rather than seek additional funding.

An operating budget is adopted each fiscal year for the General Fund, Enterprise Funds (Water Utility, Wastewater Utility, Storm Water Management, and Parking Facilities), Special Revenue Funds (Cemeteries, Emergency Preparedness and Response, Golf Operations, Public Amenities, Tax Increment Financing, Towing and Recovery Operations, and Waste Management), and Internal Service Funds (Fleet Management and Healthcare). Budgets are also individually adopted within the Special Revenue (Grants) Fund. Ordinances are generally adopted when a grant to the city has been awarded. Recurring grants identified in the Annual Grants Plan section are appropriated as part of the operating budget ordinance.

All funds are under formal budget control, the most significant of which is the General Fund. No less than 60 days before the end of the current fiscal year, the City Manager submits to the City Council a proposed operating budget for the next fiscal year. The operating budget includes recommended expenditures and the means to finance them. The adopted budget may include technical changes made after the City Manager's presentation of the proposed budget to City Council.

CITY COUNCIL'S AUTHORIZATION AND APPROPRIATION

After general distribution of the proposed budget, public hearings are conducted to obtain comments and recommendations from the public. No less than 30 days before the end of the fiscal year, the City Council shall pass an annual appropriation ordinance which shall be based on the budget document submitted by the City Manager and subsequent changes made by the City Council. The annual operating budget ordinance appropriates funding for use by departments for salaries, benefits and positions, and nonpersonnel as set forth in the detailed budget document. Amounts appropriated to each department are intended to be expended for the purposes designated by object group categories including: personnel services; materials, supplies and repairs; contractual services; equipment; public assistance; department specific appropriation; and debt service.

CITY MANAGER'S AUTHORIZATION

In accordance with the City Charter, at least 60 days before the end of each fiscal year, the City Manager shall prepare and submit to the City Council an annual budget for the ensuing fiscal year. The budget shall be balanced at all times. The total amount of appropriations shall not exceed the estimated revenues of the city.

In a given year, the City Manager or designee is authorized to transfer from any department, fund, or activity with excess funds appropriated to any department, fund, or activity as necessary.

BUDGET IMPLEMENTATION

Once the budget is adopted, it is effective on July 1 and becomes the legal basis for the programs and services of each department of the city during the fiscal year. No department or other agency of the city government may spend in excess of adopted and appropriated amounts, unless authorized by budget transfer as approved by the City Manager or designee. Financial and programmatic monitoring of departmental activities to ensure conformity with the budget takes place throughout the year. The budget can be found in the libraries and on the city website. The City Manager is responsible for maintaining a balanced budget at all times. In the event a gap is identified between revenues and expenditures, the City Manager will take actions necessary to rebalance the budget. Budget amendments may be made by the City Council to meet the changing needs of the city. The means by which the City Council may amend the budget include, but are not limited to, appropriation of additional funds and decreasing the amount of appropriated funds.

CAPITAL IMPROVEMENT PLAN, ANNUAL GRANTS PLAN, AND ANNUAL PLAN

City Council also adopts a Capital Improvement Plan, Annual Grants Plan, and the Annual Plan budget. These budgets are submitted by the City Manager with the operating budget, and public hearings are held and the budgets are legislatively enacted through adoption of ordinances.

Appropriations for project funds and grant funds do not lapse at year end, but continue until the purpose of the appropriation has been fulfilled or terminated. Amendments to these budgets may be affected by City Council actions. The level of budget control is on a project basis with additional administrative controls being exercised.

BUDGET PRINCIPLES AND POLICIES

These include the following:

- Provisions to strive for a structurally balanced budget whereby ongoing expenditures are supported by ongoing revenues;
- Preparation of a mid-year budget update, reporting projected revenues and expenditures for the entire fiscal year and receipt of unanticipated revenues and other major changes to the adopted budget;
- Preparation of a five to ten-year forecast, which serves as the basis for the City Manager's annual recommended budget; and
- Requirement that the City Manager prepare a Five-Year Capital Improvement Plan that incorporates operating costs and is stated in "year of expenditure dollars."

BUDGET CALENDAR

Date	Responsible Party	Description	Legal Requirement
August - September 2021	City Departments	Long-term Forecast Operating Budget Requests	N/A
September 2021 - January 2022	City Departments	Departments Submit Operating and Capital Improvement Budget Requests Department Program Budget Development with Budget Staff	N/A
December 2021 - February 2022	Budget and Strategic Planning Management Leadership Team City Departments	Department Meetings with Management Leadership Team on Operating and Capital Budget Requests	N/A
March 4, 2022	Budget and Strategic Planning	City Manager's Mid-Year Budget Review and Financial Update	N/A
March 16, 2022	Norfolk Public Schools	School Board approves FY 2023 Educational Plan and Budget	Code of Virginia 15.2-2503
March 22, 2022	Budget and Strategic Planning	Public Hearing Notice of the HUD Grant (CDBG, ESG, and HOME) Budget	U.S. Department of Housing and Urban Development (HUD)
March 22, 2022	City Manager	City Manager Presentation of Proposed Budget to City Council	City of Norfolk Charter Sec. 67
March 28, 2022	City Clerk	Public Hearing Notice of the Real Estate Tax Increase (increased revenue caused by annual reassessment)	Code of Virginia 58.1-3321
March 29, 2022	City Clerk	Public Hearing Notice of the Operating and Capital Improvement Plan Budgets	Code of Virginia 15.2-2506, 58.1-3007
April 6, 2022	City Council	Public Hearing on the Operating, Capital Improvement Plan, and HUD Grant (CDBG, ESG and HOME) Budgets	Code of Virginia 15.2-2506, 58.1-3007
April 12, 2022	City Council	City Council Budget Worksession	N/A
April 26 2022	City Council	City Council Budget Worksession	N/A
April 26 2022	City Clerk	Public Hearing on the Real Estate Tax Increase (increased revenue caused by annual reassessment)	Code of Virginia 58.1-3321
May 3, 2022	City Council	City Council Budget Worksession	N/A
May 10, 2022	City Council	City Council Budget Adoption	City of Norfolk Charter Sec. 68 Code of Virginia 15.2-2503

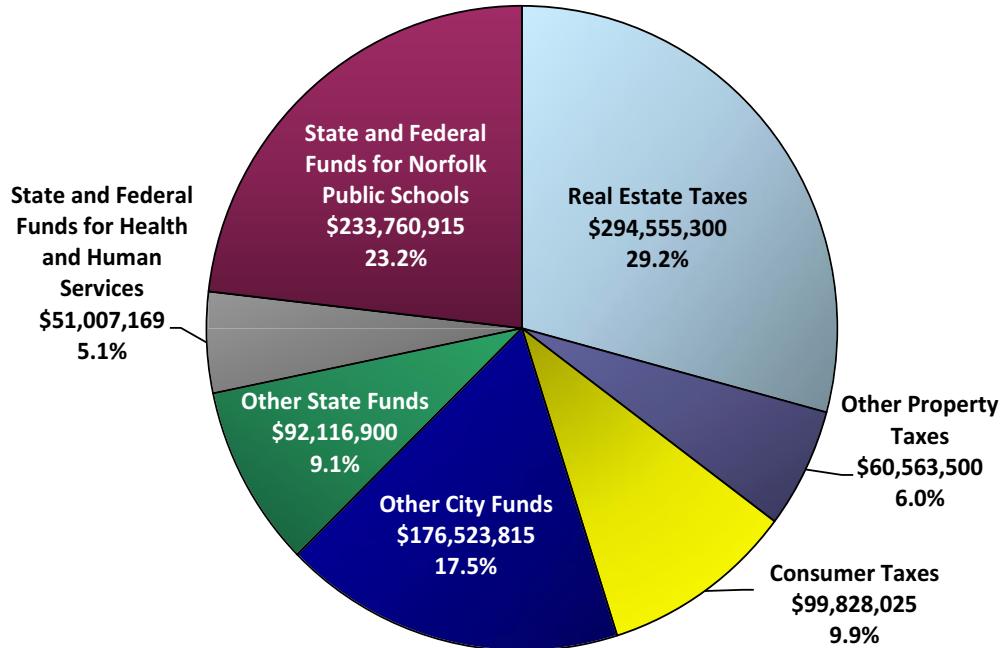
GENERAL FUND BUDGET OVERVIEW

Adopted FY 2023 General Fund Revenues \$1,008,355,624

Funding for Norfolk comes from a variety of sources as shown at right.

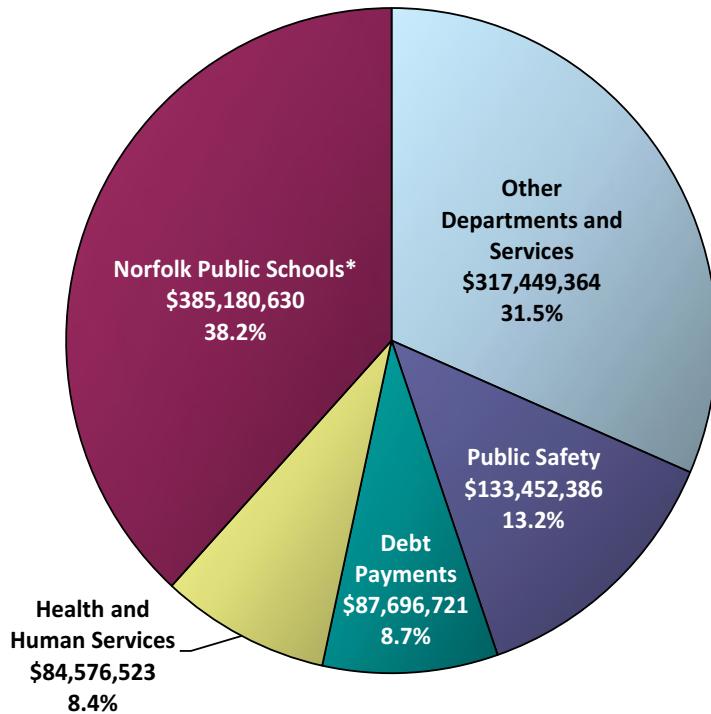
"Other City Funds" include local taxes, fees, charges, fines, rent and interest.

"Consumer Taxes" include sales, hotel, meals, admissions and cigarette taxes.



Adopted FY 2023 General Fund Expenditures \$1,008,355,624

In the FY 2023 budget, "Other Departments and Services" include public works, transit, libraries, Slover library, recreation, cultural facilities, zoo, Nauticus, planning, neighborhood development, economic development, finance, human resources, information technology, general services, legislative, executive, law, judicial, constitutional officers, outside agencies, and central appropriations.



Note: Percentages may not total to 100 due to rounding. *Does not include in-kind support.

ESTIMATED GENERAL FUND REVENUES BY SOURCE

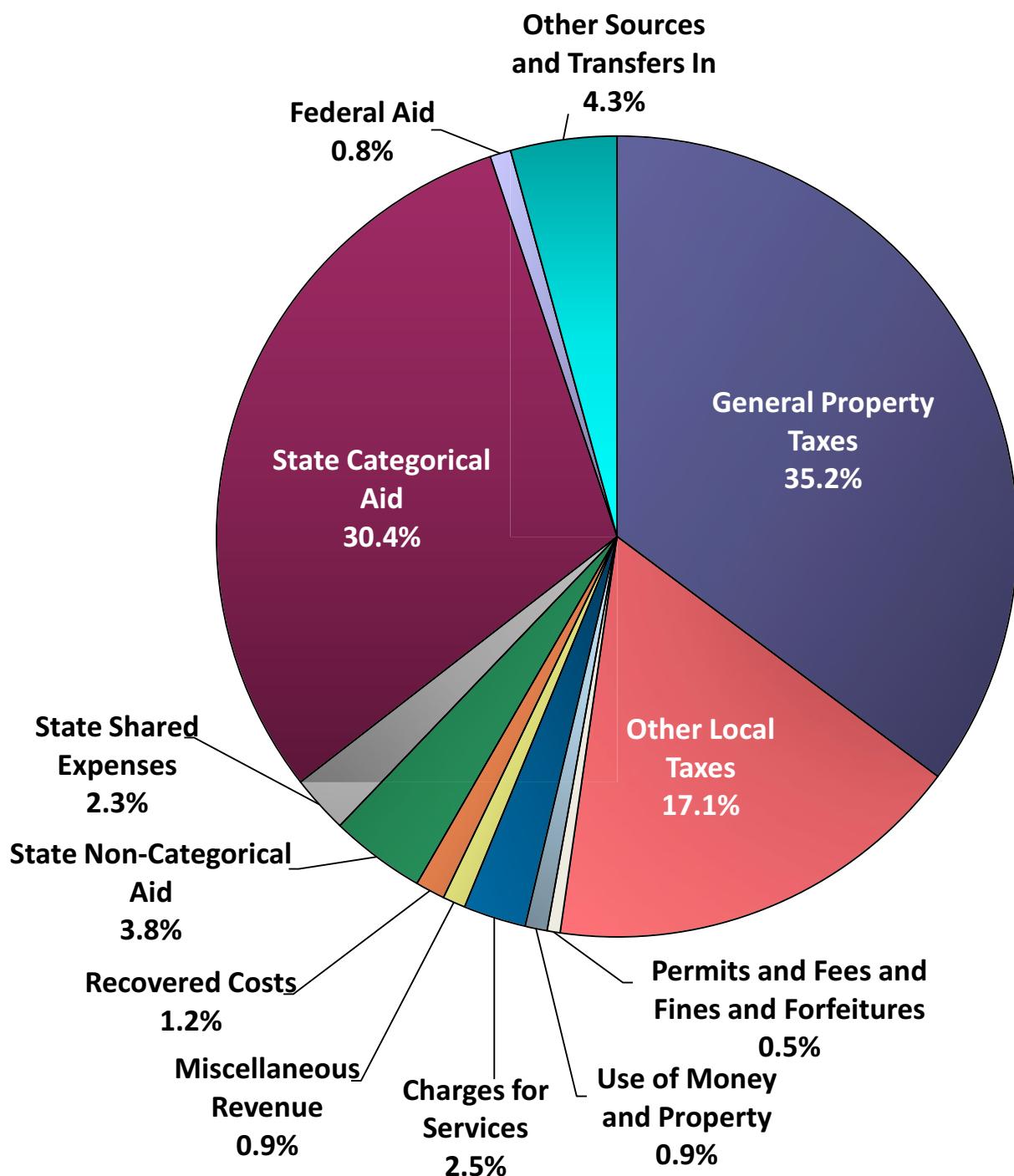
The following table compares the Adopted FY 2023 General Fund Operating Budget to the Adopted FY 2022 General Fund Operating Budget and the FY 2021 Actual amount. Funding sources are shown by category to provide an overview of the principal sources of revenue for the general operating fund of the city. These revenue sources support general government operations. The tables and charts in the pages that follow show revenues and expenditures for all funds.

Source	FY 2021 Actual	FY 2022 Adopted	FY 2023 Adopted	FY 2022 vs. FY 2023 \$ Change	FY 2022 vs. FY 2023 % Change
General Property Taxes	321,256,588	322,871,000	355,118,800	32,247,800	10.0%
Other Local Taxes	165,042,172	161,646,000	171,966,025	10,320,025	6.4%
Permits and Fees	3,495,082	3,608,000	3,965,900	357,900	9.9%
Fines and Forfeitures	977,880	1,218,000	1,340,000	122,000	10.0%
Use of Money and Property	6,059,279	7,711,765	9,013,620	1,301,855	16.9%
Charges for Services	19,582,845	23,379,568	25,491,731	2,112,163	9.0%
Miscellaneous Revenue ¹	24,704,813	8,976,770	9,227,966	251,196	2.8%
Recovered Costs	10,109,571	11,183,290	12,058,130	874,840	7.8%
Non-Categorical Aid - State	37,783,449	35,777,200	38,682,200	2,905,000	8.1%
Shared Expenses - State	21,960,917	22,395,400	23,544,200	1,148,800	5.1%
Categorical Aid - State	273,182,194	288,618,441	306,286,328	17,667,887	6.1%
Federal Aid	7,355,358	8,790,256	8,420,256	-370,000	-4.2%
Other Sources and Transfers In	36,668,000	33,005,400	43,240,468	10,235,068	31.0%
General Fund Total	928,178,148	929,181,090	1,008,355,624	79,174,534	8.5%

¹ The FY 2021 amount reflects the proceeds from sale of land for the Sustainable Water Initiative for Tomorrow (SWIFT).

Note: FY 2021 amounts may not sum to total due to rounding.

Adopted FY 2023 General Fund Revenues by Source



Note: Percentages may not total to 100 due to rounding.

ESTIMATED REVENUES BY SOURCE (ALL FUNDS)

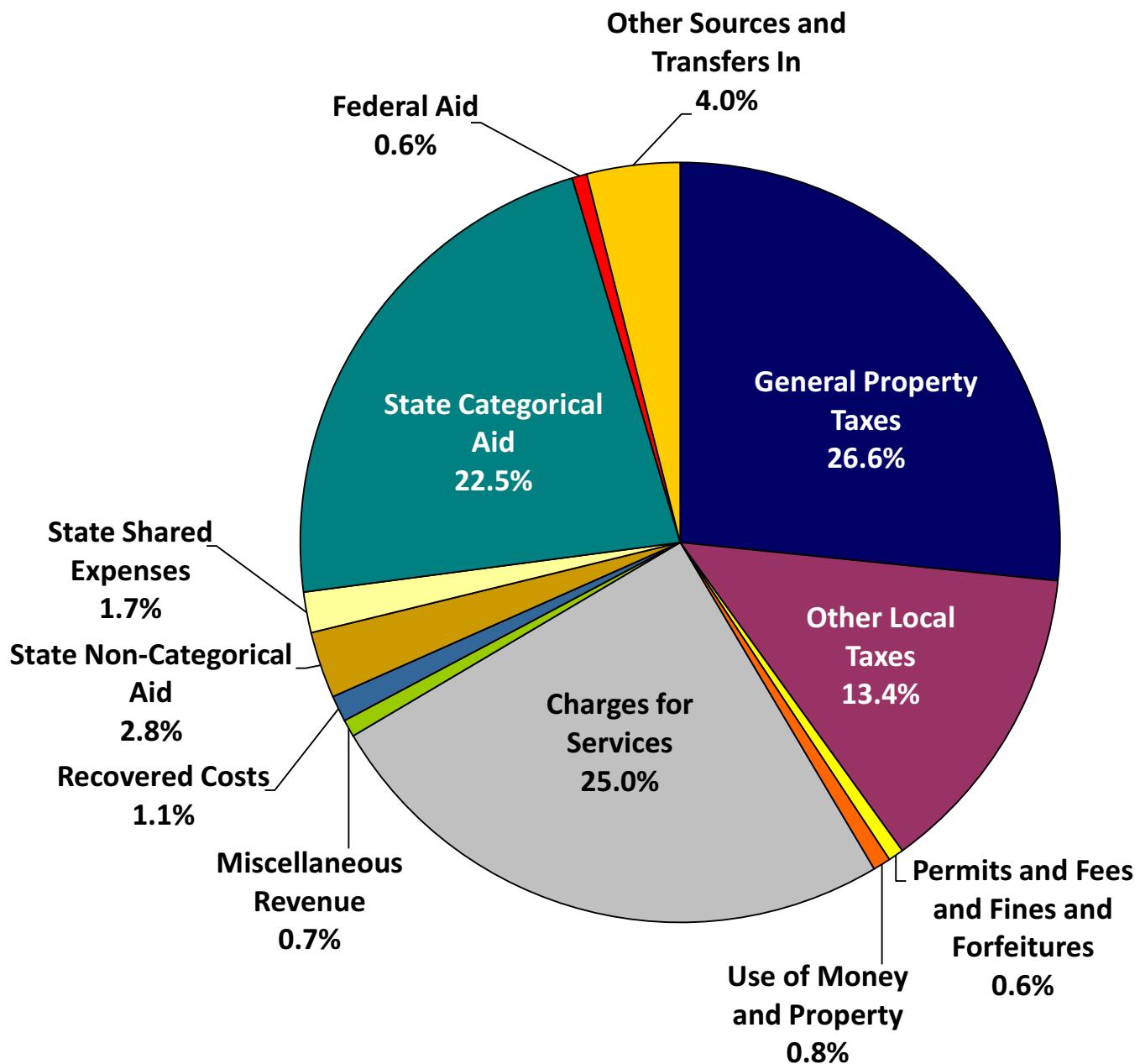
The following table compares the Adopted FY 2023 Operating Budget to the Adopted FY 2022 Operating Budget and the FY 2021 Actual amount. Funding sources by category are shown to provide an overview of the sources of revenue for the general and nongeneral operating funds of the city. Revenues are reflected in those categories where they are originally raised.

Source	FY 2021 Actual	FY 2022 Adopted	FY 2023 Adopted	FY 2022 vs. \$ Change	FY 2023 % Change
General Property Taxes	327,738,588	329,639,400	362,319,500	32,680,100	9.9%
Other Local Taxes	175,216,636	171,668,596	183,035,801	11,367,205	6.6%
Permits and Fees	4,324,030	4,469,569	4,829,469	359,900	8.1%
Fines and Forfeitures	2,887,516	3,757,022	4,009,028	252,006	6.7%
Use of Money and Property	7,034,927	10,611,375	10,291,475	-319,900	-3.0%
Charges for Services	300,431,038	330,751,827	340,867,459	10,115,632	3.1%
Miscellaneous Revenue ¹	25,376,941	9,739,156	10,021,378	282,222	2.9%
Recovered Costs	13,880,674	13,858,549	15,045,189	1,186,640	8.6%
Non-Categorical Aid - State	37,783,449	35,777,200	38,682,200	2,905,000	8.1%
Shared Expenses - State	21,960,917	22,395,400	23,544,200	1,148,800	5.1%
Categorical Aid - State	273,197,283	288,730,441	306,422,328	17,691,887	6.1%
Federal Aid	7,355,358	8,903,873	8,533,873	-370,000	-4.2%
Other Sources and Transfers In	40,299,011	44,076,377	53,812,264	9,735,887	22.1%
Total All Funds	1,237,486,369	1,274,378,785	1,361,414,164	87,035,379	6.8%

¹ The FY 2021 amount reflects the proceeds from sale of land for the Sustainable Water Initiative for Tomorrow (SWIFT).

Note: FY 2021 amounts may not sum to total due to rounding.

Adopted FY 2023 Revenues by Source (All Funds)



Note: Percentages may not total to 100 due to rounding.

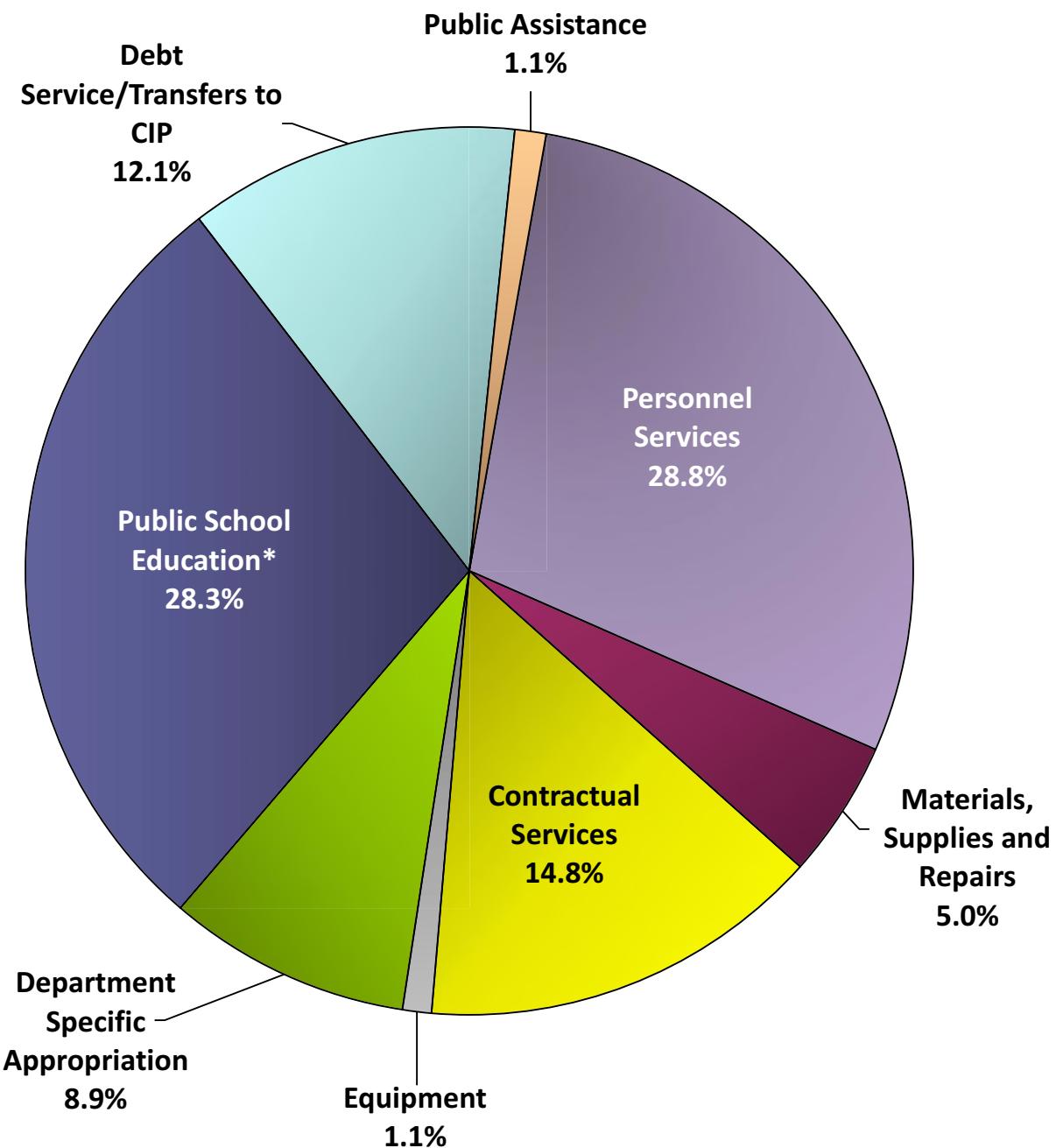
ESTIMATED EXPENDITURES BY USE (ALL FUNDS)

The following table compares the Adopted FY 2023 Operating Budget to the Adopted FY 2022 Operating Budget and the FY 2019 Actual amount. Funding uses by category are shown to provide an overview of the principal uses of expenditures for the general and nongeneral operating funds of the city. Expenditures are reflected in those categories where they are originally spent.

Uses	FY 2021 Actual	FY 2022 Adopted	FY 2023 Adopted	FY 2022 vs. FY 2023 \$ Change	FY 2022 vs. FY 2023 % Change
Personnel Services	314,154,577	374,757,645	392,312,688	17,555,043	4.7%
Materials, Supplies and Repairs	57,368,290	62,809,452	68,186,480	5,377,028	8.6%
Contractual Services	164,387,988	193,808,016	200,860,116	7,052,100	3.6%
Equipment	8,005,027	14,070,513	14,300,879	230,366	1.6%
Department Specific Appropriation	79,309,435	109,309,075	120,844,305	11,535,230	10.6%
Public School Education	321,441,213	354,868,309	385,180,630	30,312,321	8.5%
Debt Service/Transfers to CIP	146,338,255	149,920,101	164,289,513	14,369,412	9.6%
Public Assistance	13,171,789	14,835,674	15,439,553	603,879	4.1%
Total All Funds	1,104,176,574	1,274,378,785	1,361,414,164	87,035,379	6.8%

Note: FY 2021 amounts may not sum to total due to rounding.

Adopted FY 2023 Expenditures by Use (All Funds)



Note: Percentages may not total to 100 due to rounding.

*Does not include "in-kind" support. See Public School Education section.

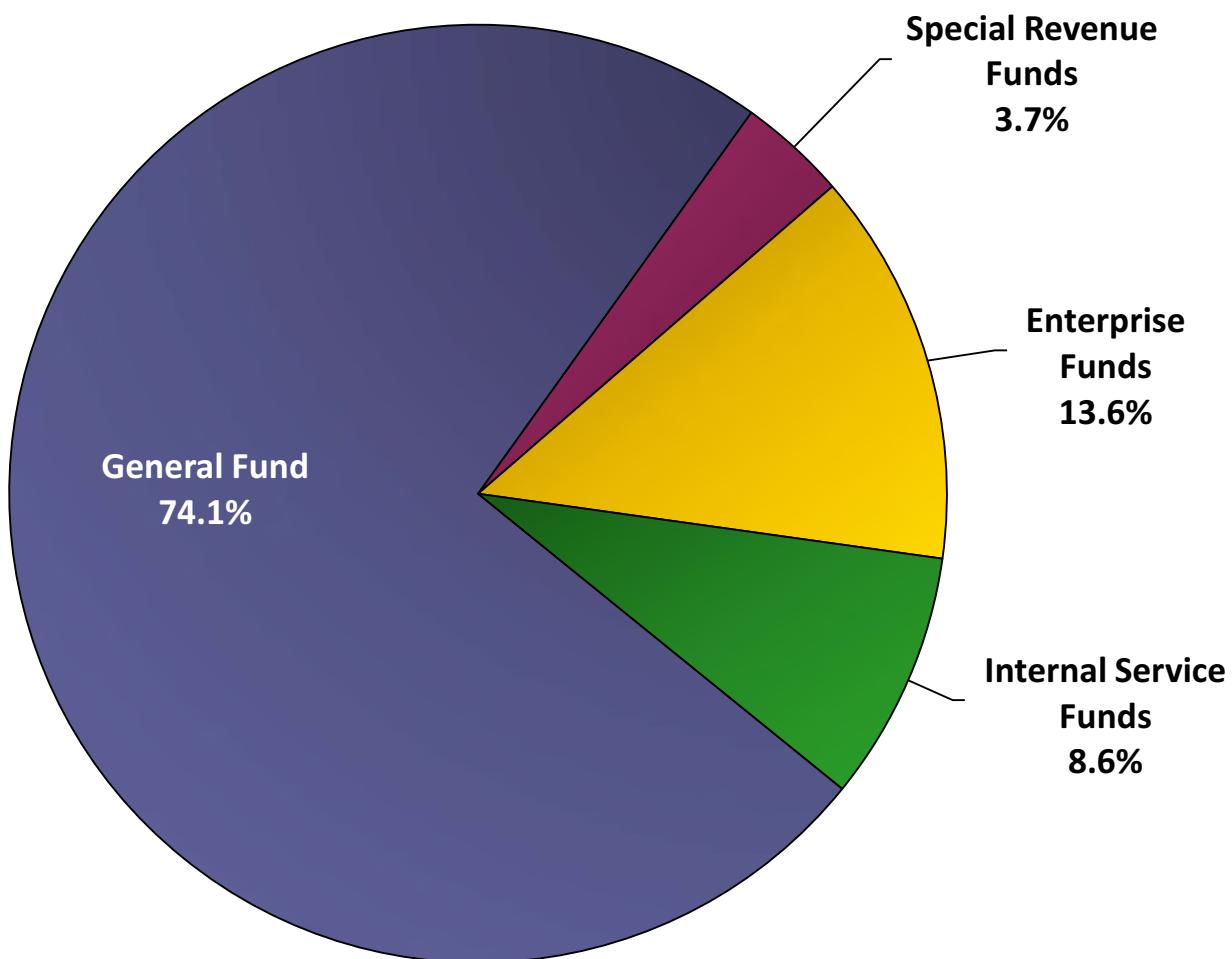
ESTIMATED EXPENDITURES BY FUND TYPE

The following table compares expenditures by fund type in the Adopted FY 2023 Operating Budget to the Adopted FY 2022 Operating Budget and the FY 2021 Actual amount.

Fund Type	FY 2021 Actual	FY 2022 Adopted	FY 2023 Adopted	FY 2022 vs. FY 2023 \$ Change	FY 2022 vs. FY 2023 % Change
General Fund	835,653,756	929,181,090	1,008,355,624	79,174,534	8.5%
Special Revenue Funds	44,424,273	47,873,951	50,928,594	3,054,643	6.4%
Enterprise Funds	134,096,729	179,851,885	184,755,843	4,903,958	2.7%
Internal Service Funds	90,001,816	117,471,859	117,374,103	-97,756	-0.1%
Total All Funds	1,104,176,574	1,274,378,785	1,361,414,164	87,035,379	6.8%

Note: FY 2021 amounts may not sum to total due to rounding.

**Adopted
FY 2023 Expenditures by Fund Type (All Funds)**



Note: Percentages may not total to 100 due to rounding.

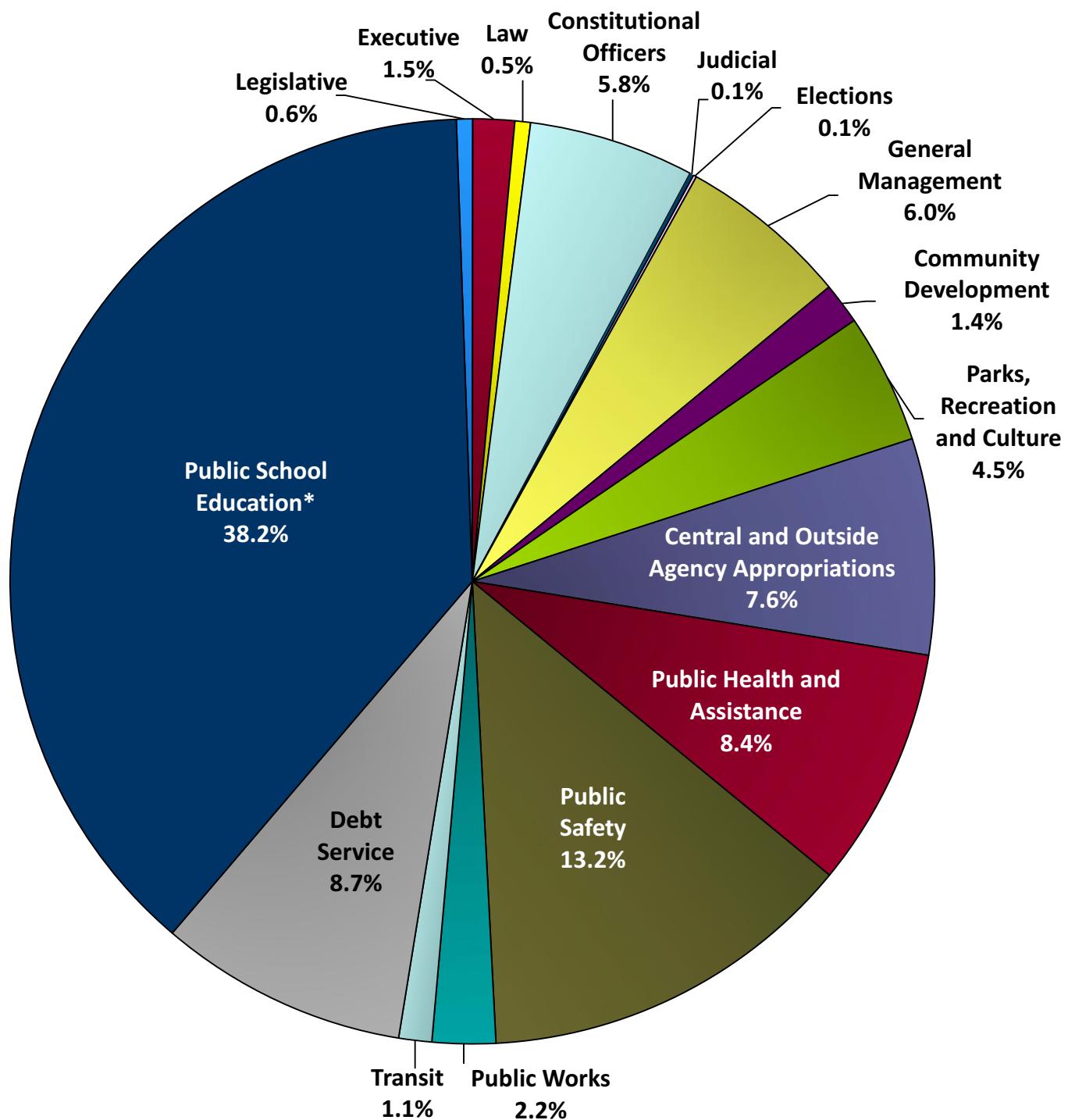
ESTIMATED GENERAL FUND EXPENDITURES BY AREA

The following table compares the Adopted FY 2023 General Fund Operating Budget to the Adopted FY 2022 General Fund Operating Budget and the FY 2021 Actual amount. Major areas of service are shown to provide a broad overview of the expenditures for the general operating fund of the city.

Service Area	FY 2021 Actual	FY 2022 Adopted	FY 2023 Adopted	FY 2022 vs. FY 2023 \$ Change	FY 2022 vs. FY 2023 % Change
Legislative	4,982,754	5,513,857	5,765,596	251,739	4.6%
Executive	8,910,553	12,512,308	14,642,550	2,130,242	17.0%
Department of Law	4,676,807	5,226,300	5,509,385	283,085	5.4%
Constitutional Officers	47,569,253	52,156,276	58,356,436	6,200,160	11.9%
Judicial	1,263,973	1,416,511	1,446,826	30,315	2.1%
Elections	1,219,426	1,022,942	1,031,721	8,779	0.9%
General Management	49,766,822	54,945,762	60,235,927	5,290,165	9.6%
Community Development	11,123,186	12,367,410	14,570,246	2,202,836	17.8%
Parks, Recreation and Culture	33,837,605	40,057,937	45,806,308	5,748,371	14.4%
Central and Outside Agency Appropriations	71,433,900	71,631,093	76,153,863	4,522,770	6.3%
Public Health and Assistance	71,028,654	79,935,964	84,576,523	4,640,559	5.8%
Public Safety	97,702,580	131,207,173	133,452,386	2,245,213	1.7%
Public Works	14,566,387	18,674,269	22,366,099	3,691,830	19.8%
Transit	11,885,126	11,939,581	11,564,407	-375,174	-3.1%
Debt Service	84,245,517	75,705,398	87,696,721	11,991,323	15.8%
Public School Education	321,441,213	354,868,309	385,180,630	30,312,321	8.5%
General Fund Total	835,653,756	929,181,090	1,008,355,624	79,174,534	8.5%

Note: FY 2021 amounts may not sum to total due to rounding.

Adopted FY 2023 General Fund Expenditures by Area



Note: Percentages may not total to 100 due to rounding.

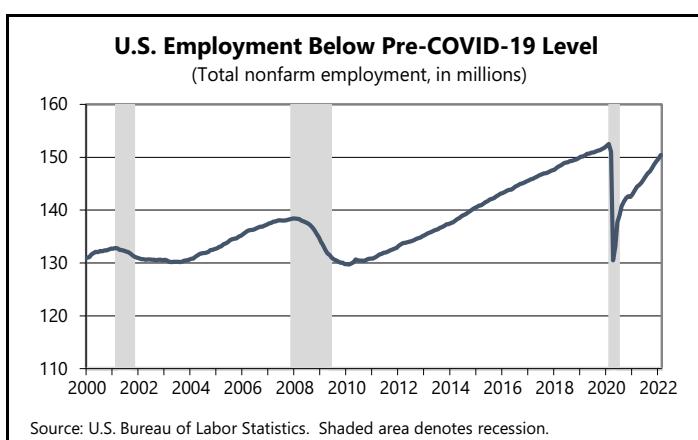
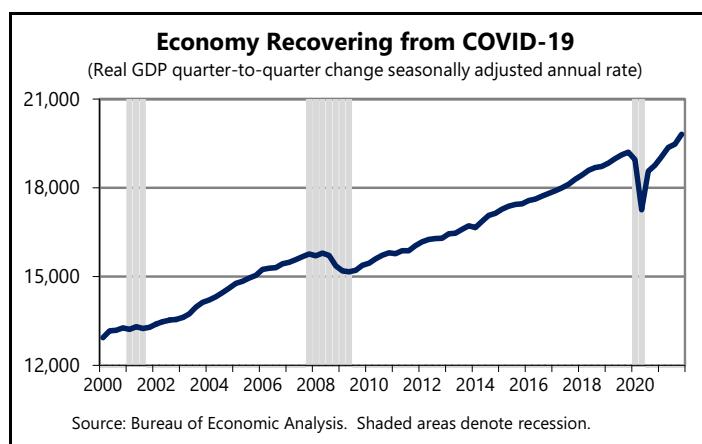
*Does not include "in-kind" support. See Public School Education section.

MAJOR REVENUE SOURCES

Evaluating the city's current and long-term financial health requires a review of the economy and major revenue sources. Overall, the city's revenues are anticipated to continue to recover in FY 2023 from the impact of the COVID-19 pandemic. General Fund revenues are projected to increase by 8.5 percent while revenues citywide (all funds) are projected to increase 6.8 percent. Real estate assessments, which drives real estate taxes, the largest locally generated General Fund revenue source are projected to grow by approximately 8.61 percent in FY 2023, the largest increase since FY 2008.

ECONOMIC OVERVIEW

The economy has continued to recover since declining sharply in the first and second quarter of 2020, due to the severe lockdowns and social distancing measures implemented to prevent the spread of the COVID-19 virus. Real gross domestic product (GDP) which is the broadest measure of economic activity, grew 5.7 percent (second estimate) in 2021, after declining 3.4 percent in 2020. Much of the growth in 2021 came from consumer spending on both goods and services overall which rose 7.9 percent (second estimate). The growth follows the sharp decline in 2020 of 3.8 percent due to the impact of COVID-19 on consumer spending on services. Business investment and government spending and investment overall also contributed positively to the growth in 2021, having risen 9.6 percent and 0.5 percent (second estimate) respectively. The consensus view on the risks to the economic recovery include continued uncertainty on the course of the COVID-19 virus, elevated inflation and supply chain issues, and geopolitical conflicts.



National employment also continued to recover in 2021. The Bureau of Labor Statistics (BLS) reported the average annual nonfarm employment grew by 2.8 percent, after declining 5.8 percent in 2020. The economy added an average of 562,000 jobs per month, and all the major sectors overall gained jobs in 2021. Job growth has continued in the first two months of 2022. However, despite the job growth to date, the preliminary figures reported for February 2022 indicates nonfarm employment continues to be below the pre-pandemic level in February 2020 by approximately 2.1 million (preliminary). The leisure and hospitality sector, which was hit hardest by the pandemic, accounts for most of

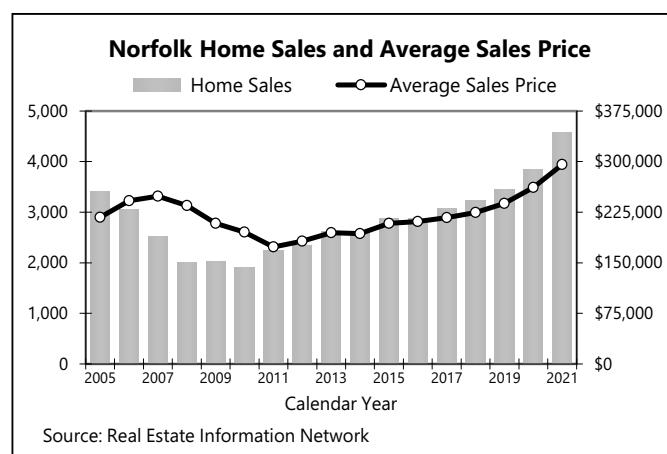
the job loss, as its employment level remains below the pre-pandemic level in February 2020 by approximately 1.5 million jobs (preliminary). The national unemployment rate also continues to be above pre-pandemic. In February 2022, the unemployment rate stood at 3.8 percent (seasonally adjusted) compared to 3.5 percent (seasonally adjusted) pre-pandemic in February 2020.

Similar to the nation, nonfarm employment in Virginia remains below the pre-pandemic level. The Virginia Employment Commission reported nonfarm employment in Virginia stood at 3,988,100 (seasonally adjusted) in December 2021, which was 102,900 jobs or 2.5 percent (preliminary) below the pre-pandemic level of 4,091,000 (seasonally adjusted) in February 2020. Among the Virginia metropolitan statistical areas (MSA), Richmond MSA had

the largest decline, losing 39,500 jobs (seasonally adjusted) or 5.7 percent in December 2021 from February 2020. The decline in Richmond MSA was followed by Hampton Roads MSA (31,000 jobs or 3.9 percent) and Northern Virginia MSA (29,400 jobs or 1.9 percent). However, these figures are subject to revision with the upcoming release of the annual benchmark revision.

The Commonwealth's fiscal condition is also continuing to recover from the COVID-19 pandemic. Its General Fund resources grew 14.2 percent in FY 2021 from FY 2020 which exceeded the forecasted growth of 2.7 percent. As a result, the Commonwealth ended the year \$2.6 billion above the forecast. The revenue growth continues through FY 2022 and the upcoming 2022-2024 biennium. The mid-session forecast for FY 2022 presented in February 2022 indicated that there is projected \$1.25 billion more General Fund resources from the FY 2022 December standard forecast. This increase is on top of the \$3.1 billion increase in the FY 2022 December standard forecast from the FY 2022 Official standard forecast. However, the mid-session forecast recommended no changes to the upcoming 2022-2024 biennium due to significant uncertainty for FY 2023 and FY 2024. Virginia's fiscal stability is important to Norfolk, since nearly 37 percent of the General Fund budget in FY 2023 comes from the Commonwealth. These resources support Norfolk Public Schools, social services, street maintenance, public safety, and other core city services.

GENERAL FUND REVENUE OVERVIEW



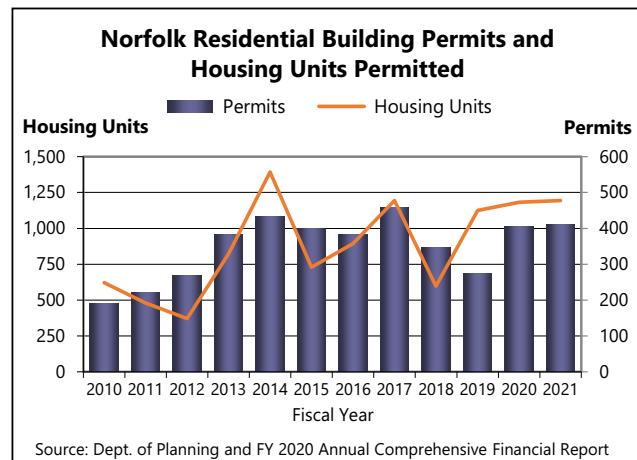
The city generates revenue through taxes, user charges, and intergovernmental transfers from the state and federal government. Over half of the city's General Fund revenues are generated locally from various taxes and fees including real estate, personal property, retail sales, permits, fines, and user charges. These sources fund municipal services such as police, fire-rescue, parks and recreation, libraries, street maintenance, public education (K-12), public health, and human services.

Similar to other Virginia localities, Norfolk is highly dependent on real estate taxes to fund the city's general operations. Real estate taxes are the city's largest source of locally generated revenue. For FY 2023, the Office of the

Real Estate Assessor is estimating that the land book value of taxable real estate assessments on July 1, 2022 will increase by approximately 8.61 percent from the July 1, 2021 land book value. This would mark the tenth consecutive year of growth and is the largest increase since FY 2008.

The increase is largely from residential assessments which reflects the continued strength in the local housing market. The local housing market was hotter in calendar year 2021 compared to the previous calendar year. The number of homes sold in Norfolk increased by approximately 19 percent, after increasing by 11 percent in 2020. The average sales price of homes sold also continued to increase in 2021, rising by approximately 13 percent after increasing by nearly 10 percent in 2020.

New housing units permitted also continues to increase. In FY 2021, the number of housing units permitted rose again, increasing to 1,194 in FY 2021 from 1,182 in FY 2020. In contrast, the number and value of nonresidential (or "commercial") building permits decreased in FY 2021 from FY 2020. The new residential and commercial building



activity and improvements to existing structures permitted throughout the city should support future growth in real estate assessments. It is important to note that the city of Norfolk is built out, and the building activity occurring currently is mainly redevelopment, infill development, and vertical expansion.

The Commonwealth of Virginia provides approximately 37 percent of General Fund revenues in the FY 2023 General Fund budget. Revenue from the Commonwealth consists of funding that are mostly for dedicated purposes such as K-12 education, social services, transportation, and shared expenses of constitutional officers. HB 599 funds for law enforcement, the city's share of the Commonwealth's personal property tax ("car tax") relief funds, and the tax on rental of cars also comprise revenue from the Commonwealth. In total, it is the largest revenue source category in the General Fund.

As a result of the Great Recession, the Commonwealth saw a significant decline in revenues and in turn, reduced direct aid to education, HB 599, Constitutional Officers salaries and benefits funding, jail per diem, and funds for street maintenance. The Commonwealth also imposed a "flexible cut" to state aid to localities and permanently eliminated the local share of ABC profits and wine tax. Not all revenues from the Commonwealth have returned to the pre-recession peak such as, HB 599 and jail per diem funding, even though the Commonwealth's General Fund revenues have been above its last pre-recession peak since FY 2012. The Adopted FY 2023 Budget for revenues from the Commonwealth are based on the Governor's Introduced Budget as House and Senate budget conferees have not come to an agreement on budget amendments to date. Also, the various proposals that would eliminate the local share of the statewide grocery tax have not been incorporated in the city's Adopted FY 2023 General Fund Budget.

The remaining revenue comes from the federal government, recovered costs, interfund transfers, and carryforward of prior year funds. Revenue from the federal government are mostly dedicated to Norfolk Public Schools and the Norfolk Community Services Board. Interfund transfers include a return on investment from Utilities (water and wastewater) operations. It also includes funding from the Public Amenities Fund to support the Norfolk Consortium (see Outside Agencies) and excess revenues from the Tax Increment Financing Fund. Carryforward funds are generated through a combination of projected current year savings, realized savings from prior years, and account closeouts. For FY 2022 and FY 2023, the budgeted carryforward also includes FY 2021 budget savings generated from the use of Coronavirus Relief Fund (CARES Act) to offset qualifying expenses. Carryforward funds may also include the re-appropriation of prior year(s) unspent designated funds.

Preliminary General Fund revenue projections, based on historical data and current economic data, were presented during the City Manager's financial and budget updates at the City Council financial update in the fall in October 2021 and the mid-year update in March 2022. Projections were updated through February to incorporate the current information available from the city, Commonwealth, and Norfolk Public Schools. Initial revenue estimates were based on the analysis of the collection history and patterns, underlying drivers that impact a revenue source, information from departments that collect revenue, overall economic environment, and developments projected for the city in the coming year. The revenue amounts shown in the discussion that follows include the FY 2022 budget and FY 2023 budget.

The Adopted FY 2023 General Fund budget is approximately \$1.0 billion, which is 8.5 percent (\$79.2 million) above the Adopted FY 2022 Budget.

General Fund Revenue Summary

Source	FY 2021 Actual	FY 2022 Adopted	FY 2023 Adopted	FY 2022 vs. FY 2023 \$ Change	FY 2022 vs. FY 2023 % Change	FY 2022 % of Total
General Property Taxes	321,256,588	322,871,000	355,118,800	32,247,800	10.0%	35.2%
Other Local Taxes	165,042,172	161,646,000	171,966,025	10,320,025	6.4%	17.1%
Permits and Fees	3,495,082	3,608,000	3,965,900	357,900	9.9%	0.4%
Fines and Forfeitures	977,880	1,218,000	1,340,000	122,000	10.0%	0.1%
Use of Money and Property	6,059,279	7,711,765	9,013,620	1,301,855	16.9%	0.9%
Charges for Services	19,582,845	23,379,568	25,491,731	2,112,163	9.0%	2.5%
Miscellaneous Revenue ¹	24,704,813	8,976,770	9,227,966	251,196	2.8%	0.9%
Recovered Costs	10,109,571	11,183,290	12,058,130	874,840	7.8%	1.2%
Non-Categorical Aid - State	37,783,449	35,777,200	38,682,200	2,905,000	8.1%	3.8%
Shared Expenses - State	21,960,917	22,395,400	23,544,200	1,148,800	5.1%	2.3%
Categorical Aid - State	273,182,194	288,618,441	306,286,328	17,667,887	6.1%	30.4%
Federal Aid	7,355,358	8,790,256	8,420,256	-370,000	-4.2%	0.8%
Other Sources and Transfers In	36,668,000	33,005,400	43,240,468	10,235,068	31.0%	4.3%
General Fund Total	928,178,148	929,181,090	1,008,355,624	79,174,534	8.5%	100.0%

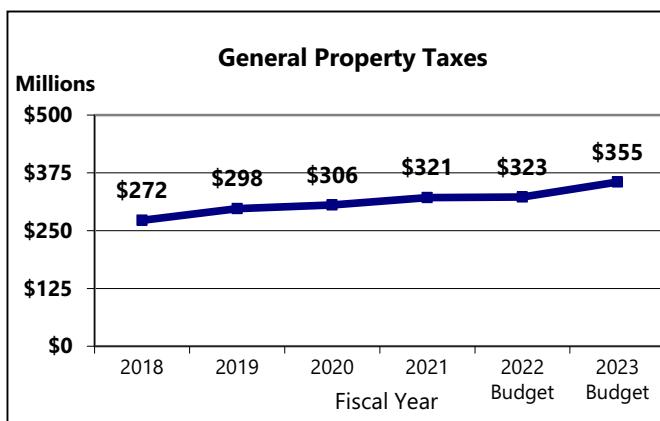
Note: Percentages may not total to 100 due to rounding.

¹The FY 2021 amount reflects the proceeds from sale of land for the Sustainable Water Initiative for Tomorrow (SWIFT).

REVENUE MONITORING

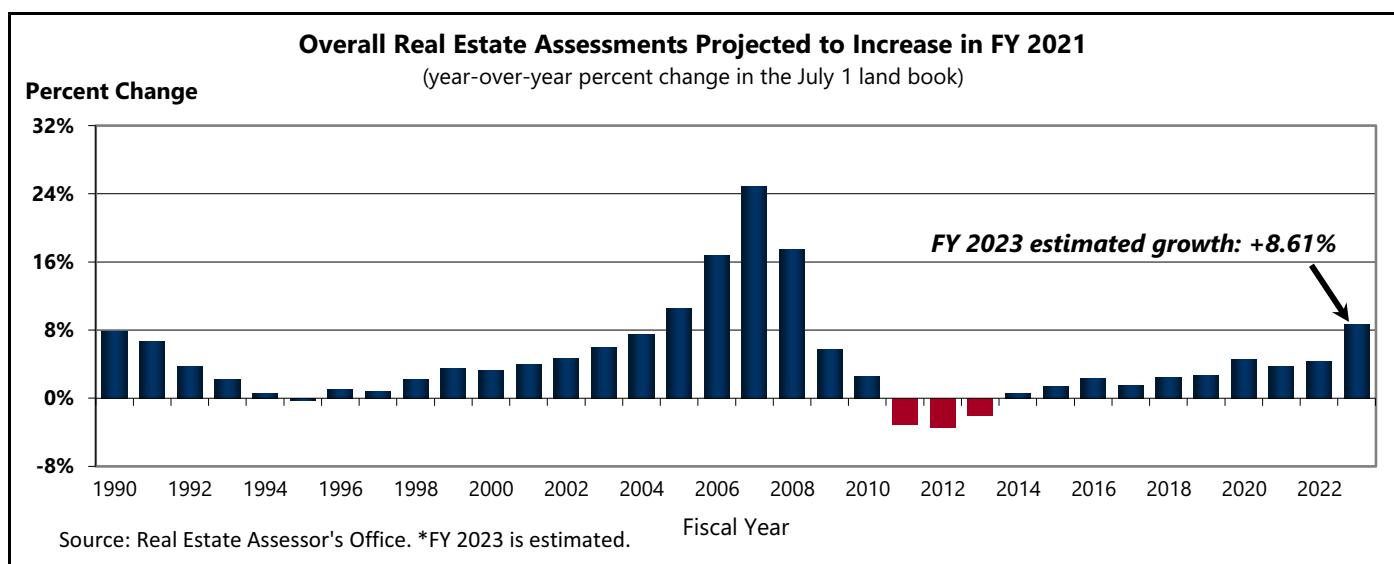
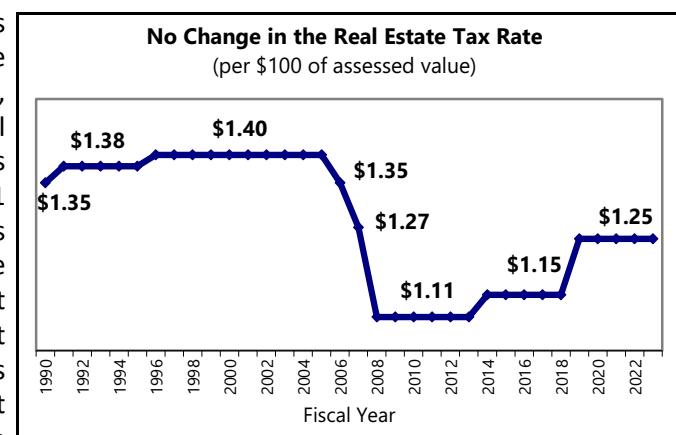
Collection of the city's revenue sources are monitored throughout the year. Financial reports are monitored monthly and quarterly to determine the accuracy of budget projections. This allows for appropriate administrative action if actual results differ substantially from projections. A detailed analysis is completed to project future revenue collections taking into account revenue drivers, information from departments that administer revenues, seasonal fluctuations, and economic conditions. Strong collection rates for locally generated taxes and fees reflect Norfolk residents' commitment and fulfillment of responsibility to the city.

GENERAL PROPERTY TAXES



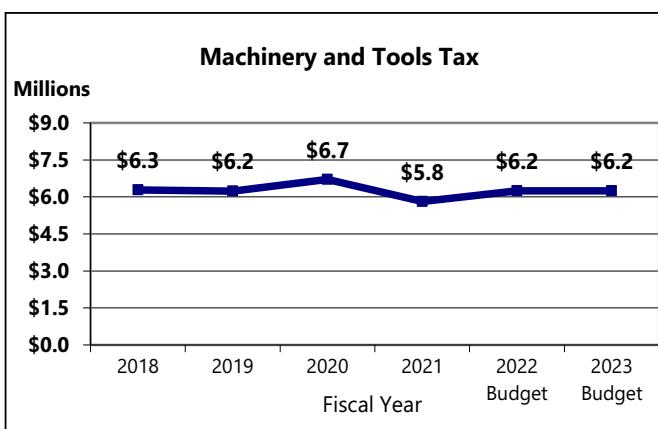
General property taxes are levied on the assessed value of real estate and personal property including machinery and tools. These taxes make up approximately 35 percent or \$355 million of the city's FY 2023 General Fund revenues. Real estate tax revenue is the largest component of general property taxes, comprising approximately \$295 million or 29 percent of FY 2023 General Fund revenues. It includes current and delinquent real estate taxes as well as, the tax on public service corporations and the additional \$0.16 per \$100 of assessed value levied on real estate located within the Downtown Improvement District (DID). The estimate for current real estate taxes reflects the real estate tax rate of \$1.25 per \$100 of assessed value and setting aside a sum sufficient amount estimated at \$5.3 million for real estate tax relief to qualifying senior and disabled homeowners and to state mandated disabled veterans and surviving spouses of the armed forces killed in action.

The current real estate tax revenue estimate also reflects the Office of the Real Estate Assessor's estimate of the overall taxable assessments in the land book on July 1, 2022. The most recent update from the Office of the Real Estate Assessor indicated that overall taxable assessments on July 1, 2022 are projected to be approximately 8.61 percent above the land book value on July 1, 2021. This would be the tenth consecutive year of growth and the highest growth since FY 2008. In comparison, over the past ten years, taxable real estate assessments have increased at an average annual rate of 2.1 percent. The increase is largely from residential assessments due to the robust housing market. It is also important to note that due to the significant property owned by federal, state, and local governments, and religious and secular organizations in Norfolk, approximately 35 percent of the city's real estate assessed value is tax exempt. This would be equivalent to a potential revenue loss of approximately \$148 million based on the FY 2022 assessed value and the current real estate tax rate of \$1.25 per \$100 of assessed value.



The second largest component of general property taxes is the personal property tax, which is levied on tangible personal property, including motor vehicles, boats, aircraft, business furnishings, and office equipment. Household goods and personal effects are exempt from taxation. Personal property taxes in total include current and delinquent collections, refunds, and taxes from public service corporations. In FY 2023, these comprise approximately 5.4 percent or \$54 million of General Fund revenues. Personal property taxes are estimated to be approximately 15 percent above the FY 2022 budget and 6.2 percent above the FY 2022 estimate due to the unanticipated significant increase in the value of motor vehicles in FY 2022.

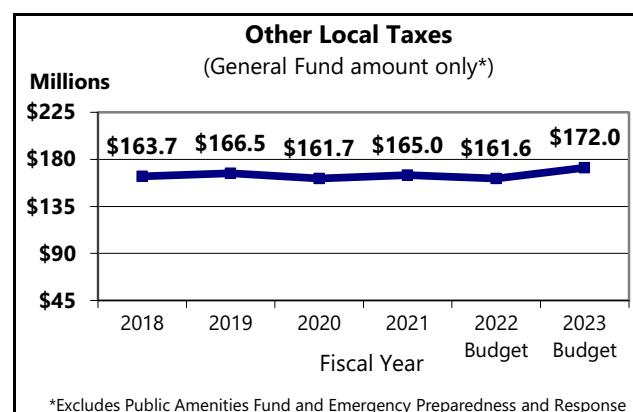
The FY 2023 budget assumes no change in the general tax rate on personal property at \$4.33 per \$100 of assessed value. The estimate also assumes the state car tax relief is unchanged at 55 percent (55%) rate for FY 2023 (tax bills due June 5, 2023). The 55 percent relief rate is anticipated to fully exhaust relief funds provided to the city by the Commonwealth under the Personal Property Tax Relief Act. This means that qualifying vehicles with an assessed value of more than \$1,000 will receive a 55 percent (55%) tax relief rate on the vehicle's first \$20,000 of assessed value. Qualifying vehicles with an assessed value of \$1,000 or less will receive 100 percent (100%) tax relief rate. Prior to FY 2006, qualifying vehicles with an assessed value of more than \$1,000 were reimbursed for 70 percent of the total property tax eligible for relief. State legislation passed in 2004 capped car tax relief funds statewide at \$950 million beginning in FY 2006. Consequently, each locality in the state now receives a fixed share of the \$950 million of statewide personal property tax relief funds per state code. Each locality's share was determined based on the proportional share of actual personal property tax relief payments received in tax year 2005, as certified by the Virginia Auditor of Public Accounts, of which, Norfolk's share is \$16,871,056. Personal property tax relief funds received and not used in FY 2023 shall be carried forward and used to increase the funds available for car tax relief.



The machinery and tools tax is the third largest component of general property taxes. In FY 2023, the tax makes up approximately 0.6 percent or \$6.2 million of General Fund revenues. The tax is levied on machinery and tools used in manufacturing, mining, radio and television broadcasting, cable television, dry cleaning or laundry businesses at a rate of \$4.25 per \$100 of assessed value. That tax rate is eight cents below the tax rate on general personal property of \$4.33 per \$100 of assessed value. Machinery and tools tax revenue is expected to remain stable in FY 2023. It is important to note that there have been several attempts by state legislators to curtail or eliminate localities' taxing authority over this source.

OTHER LOCAL TAXES

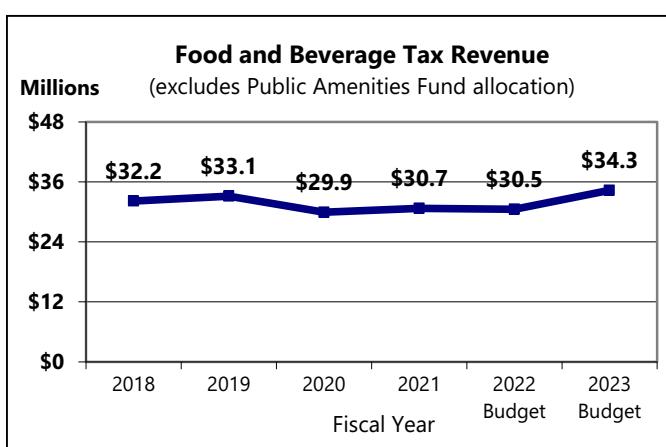
Other local taxes are comprised of consumer and business-based taxes, including taxes on utilities (water, gas, electricity, and communications), sales, hotel, restaurant/meals, admissions, and cigarettes, as well as franchise, business license, and recordation taxes. Historically, the revenue category are sensitive to changes in economic conditions and was most impacted by the economic effects of COVID-19. Other local taxes are projected to comprise approximately 17 percent or \$172 million of General Fund revenues in FY 2023 and are 6.4 percent above the FY 2022 budget. Other local taxes include consumption-based taxes, which have been especially impacted by measures taken to limit the spread of COVID-19 such as, the closure of businesses and schools and restricting or cancellation of events and large gatherings. Citywide (all funds), other local taxes make up



approximately 13 percent or \$183 million of the operating budget in FY 2023 and are approximately 6.6 percent above the FY 2022 budget. The citywide amount includes the Public Amenities Fund portion of the hotel and food and beverage taxes and Emergency Preparedness and Response portion of the telecommunications sales and use tax

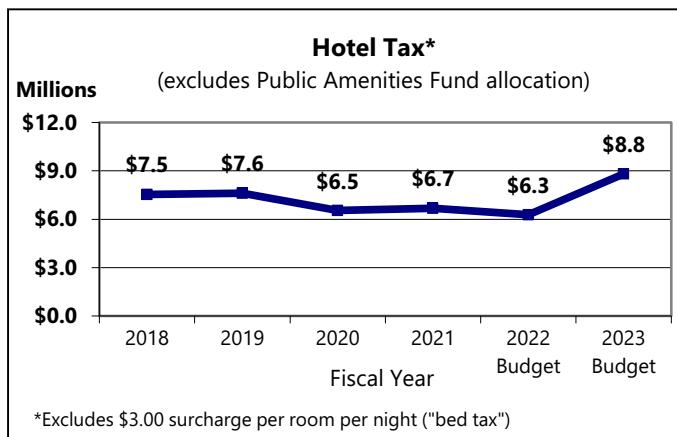
The sales and use tax makes up approximately 4.3 percent or \$43.1 million of the city's General Fund revenue in FY 2023 which is approximately 12.6 percent above the FY 2022 budget. The growth reflects the recovery from the impact of the COVID-19 pandemic; however, the estimate does not reflect legislative proposals from the General Assembly to eliminate the sales and use tax on groceries and personal hygiene products. The sales and use tax is levied on selling, distribution, leasing, or renting of tangible personal property, use or consumption of tangible personal property, as well as taxable services in Virginia. Revenue from this source has historically been sensitive to the state of the economy, household income, and underlying price level changes. Changes in the local retail activity (such as new businesses, expansions, closures, and job changes) and in the local economy impact the projection of this revenue source. Also, much of the growth in FY 2020 and FY 2021 was largely due to Wayfair-related legislation. Since July 1, 2019, sales tax requirements have been in place for remote sellers and marketplace facilitators that have an economic nexus in Virginia. Under the law enacted during the 2019 session of the General Assembly, a remote seller or marketplace facilitator who meet the economic nexus standards of selling or facilitating the sale of more than \$100,000 in annual gross retail sales or 200 or more transactions to Virginia customers began collecting sales tax on July 1, 2019. Prior to the law, mainly businesses with a physical presence in Virginia were required to collect the state's sales and use tax. Adjustments made by the Virginia Department of Taxation for overpayments and underpayments of the tax by businesses also affect sales and use tax collections.

Consumer utility taxes on water, gas, electricity, and the communications sales and use tax combined, make up approximately 3.2 percent or \$32.5 million of the city's General Fund revenue in FY 2023. The consumer utility tax is levied on the purchase of utility service including water, gas, and electricity. Monthly receipts are monitored and used as a basis for estimating the revenue yield, taking seasonal variations into consideration. The consumer utility tax on telephones, cell phones, and cable TV was abolished and replaced by a statewide uniform communications sales and use tax on January 1, 2007. The Emergency 911 (E-911) tax on telephones was also replaced by a statewide uniform \$0.75 tax per phone at the same time. The E-911 tax is distributed to the city together with the communications sales and use tax in one lump sum. Consequently, a portion of the city's communications sales and use tax is allocated to directly support emergency communications (E-911) in the Emergency Preparedness and Response Special Revenue Fund (approximately \$3.6 million). The FY 2023 estimate is 4.0 percent below the FY 2022 budget, due to the communications sales and use tax. The General Fund portion of the communications sales and use tax is estimated to be \$11.5 million in FY 2023 which is approximately 13 percent below the FY 2023 budget. Since the inception of the tax, revenue has fluctuated due to adjustments for overpayments and underpayments of the tax by telecommunications service providers. Revenue has also been on a downward trend due to changes in technology and lower utilization of communications services subject to the tax such as, landline telephones. State legislation to modernize local taxation authority to reflect technological changes in communication services were proposed during the 2018 General Assembly Session but were not enacted.



Taxes are collected on prepared food and beverages. The tax rate is 6.5 percent of the value of the meal. One percentage point is allocated to the Public Amenities Fund, and 5.5 percentage points is allocated to the General Fund. The revenue generated by 1.0 percentage point of the tax rate for the Public Amenities Fund is estimated to be approximately \$6.2 million in FY 2023, and the revenue generated from the 5.5 percentage points of the tax rate allocated to the General Fund is estimated to be approximately \$34.3 million or 3.4 percent of General Fund revenues in FY 2023. The FY 2023 estimate is approximately 12 percent above the FY 2022 budget, reflecting the recovery from the impact of the COVID-19 pandemic. Prior to the COVID-19 pandemic,

revenue from the food and beverage tax had been growing steadily as the city continues to draw restaurants to open in several commercial districts such as, downtown Norfolk, the Military Highway corridor, and Ghent and Colley Avenue areas.



Hotel taxes are levied on occupied hotel rooms at the rate of 8.0 percent of the room charge. Similar to the food and beverage tax, one percentage point is allocated to the Public Amenities Fund and 7.0 percentage points is allocated to the General Fund. The revenue generated by 1.0 percentage point of the tax for the Public Amenities Fund is estimated to be nearly \$1.3 million in FY 2023, and the revenue generated from the 7.0 percentage points allocated to the General Fund is estimated to be approximately \$8.8 million or 0.9 percent of General Fund revenues in FY 2023. The FY 2023 estimate is 40 percent above the FY 2022 budget. The increase reflects the recovery from the impact of the COVID-19 pandemic. Prior

to the pandemic, hotel tax revenue was growing steadily which is similar to the trends seen in other consumption-based taxes impacted by the COVID-19 pandemic.

The hotel tax estimate does not include the \$3.00 surcharge per room night ("bed tax"), estimated to generate approximately \$3.3 million in FY 2023. The bed tax was enacted on April 1, 2006 at the rate of \$1.00 per room night with support from the Norfolk Hotel-Motel Association and the revenue designated for Norfolk Convention and Visitor's Bureau (Visit Norfolk) for visitor promotion and advertising for conventions and tourism. In FY 2012, the bed tax was raised to \$2.00 per room night with the additional \$1.00 revenue designated for the Norfolk Consortium (see Outside Agencies section). In FY 2019, the bed tax was raised to \$3.00 per room night (current rate) to offset budget reductions to Outside Agencies (see Outside Agencies section).

Business license taxes are collected from entities that engage in a business, trade, profession, or occupation in the city. It is generally imposed as a percentage of gross receipts generated during the previous calendar year. It is also applied to individuals that maintain a place of business, either permanent or temporary, or conduct a business-related activity. Business license tax rates vary depending on business classification and gross receipts generated. Norfolk's rates are at the state maximum allowed for the main business classifications. Revenue collections in recent years have been reduced by refunds of overpayments. Business license taxes makes up approximately 3 percent or \$30.3 million of General Fund revenues in FY 2023.

PERMITS AND FEES

Permits are issued to regulate new construction and ensure public safety. Revenues from this source are comprised of fees for permits, licenses, and other privileges subject to city regulation. The revenues partially cover the expense of providing regulatory services such as, zoning inspections, building code inspections, plan review, right-of-way permitting, and fire inspections in the city. Revenue from this source has generally fluctuated based upon the level of building construction activity in the city and large commercial projects. Permits and regulatory fees are projected to be approximately 0.4 percent or \$4.0 million of General Fund revenues in FY 2023 and is approximately 10 percent above the FY 2022 budget.

FINES AND FORFEITURES

Fines and forfeitures in the General Fund largely consist of revenues received from the courts as fines and forfeitures for violations of city ordinances. In FY 2023, fines and forfeitures provide approximately 0.1 percent or \$1.3 million of

General Fund revenues. The FY 2023 budget is approximately 10 percent or \$122,000 above the FY 2022 budget. Citywide, fines and forfeitures total approximately \$4 million of revenues from all operating funds in FY 2023. The majority of the revenues from this source citywide are generated from fines for parking citations which support the operations of the Parking Facilities Fund (nongeneral fund).

USE OF MONEY AND PROPERTY

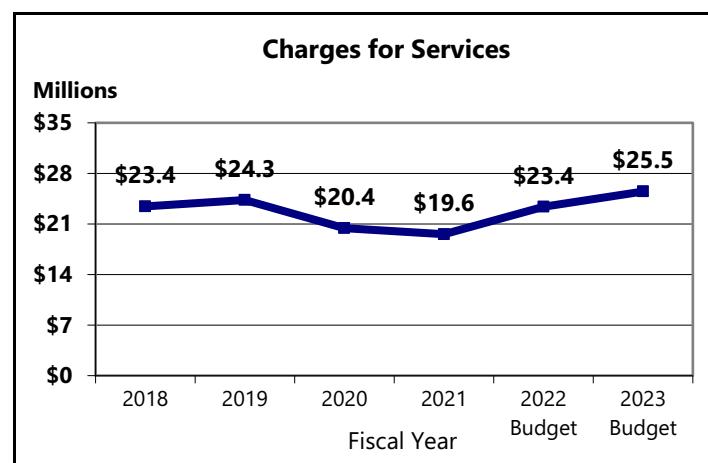
Revenue from use of money and property is comprised primarily of interest earned on cash balances, rent from short-term and long-term property leases, income from cultural facilities venues, and prudent management of city assets. In FY 2023, revenue from this source makes up approximately 0.9 percent or \$9.0 million of General Fund revenues. The FY 2023 budget is approximately 17 percent above the FY 2022 budget. The growth reflects the continued recovery of revenue from the impact of the COVID-19 pandemic on cultural facilities events and increased rental income anticipated from city-owned property.

CHARGES FOR SERVICES

Charges for services include fees charged for various programs and services such as, recreation centers, Virginia Zoo, courts (judiciary), paramedical rescue, Norfolk Public School activities, Norfolk Community Services Board (NCSB), cruise ship terminal, and Nauticus.

Charges for services make up approximately 2.5 percent or \$25.5 million of FY 2023 General Fund revenues. The FY 2023 budget is 9 percent above the FY 2022 budget which reflects increased utilization of city facilities such as, the cruise ship terminal, Nauticus, recreation centers, and libraries anticipated in FY 2023.

Citywide, most of the revenue from this source are charges for services by nongeneral funds. Charges for services citywide make up approximately \$341 million of operating budget, over ten times the amount in the General Fund alone. Nongeneral fund charges are mostly from user fees for utilities (water and wastewater services), parking facilities, storm water management, and refuse disposal. The rates for these user fees are set to ensure operations are fully supported by the fees collected. See Selected Tax Rates and Fees section for changes in the rates for nongeneral fund charges for services in FY 2023.



MISCELLANEOUS REVENUE

Miscellaneous revenue consists of revenues not classified in other categories and includes revenue from payments in lieu of taxes (PILOT), fee for services provided to the U.S. Navy for the Navy housing public-private venture, administrative fees, and proceeds from the sale of city-owned land. In FY 2023, the city is estimating to receive approximately \$9.2 million, which represents 0.9 percent of FY 2023 General Fund revenues. The FY 2023 budget includes a portion of the proceeds from the sale of land for the Tern development project anticipated to be received in FY 2023.

RECOVERED COSTS

Recovered costs consist of revenue from nongeneral funds, partner agencies, and the public for certain expenses, such as indirect costs, employee compensation, debt service, and communications and information technology services. Recovered costs make up approximately 1.2 percent or \$12.1 million of FY 2023 General Fund revenues. The FY 2023 budget is approximately 7.8 percent (\$0.9 million) above the FY 2022 budget. The increase in the FY 2023 adopted budget from FY 2022 is largely due to the distribution and allocation of indirect costs to nongeneral fund departments.

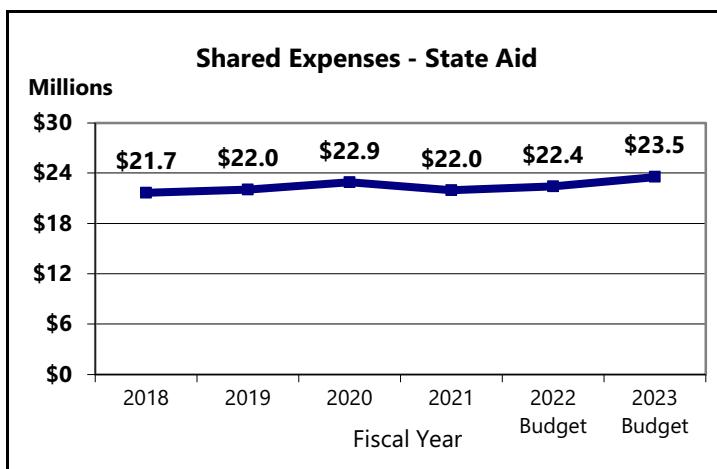
REVENUE FROM THE COMMONWEALTH

Revenue from the Commonwealth totals approximately \$369 million or 37 percent of FY 2023 General Fund revenues and is 6.3 percent above the FY 2022 budget. Revenue from the Commonwealth consists mostly of funding for dedicated purposes (categorical aid). Revenue from the Commonwealth is divided into three categories which are discussed below: Non-categorical aid (\$38.7 million), Shared expenses (\$23.5 million), and Categorical aid (\$306.3 million).

NON-CATEGORICAL AID - VIRGINIA

Non-categorical aid consists of revenue from the Commonwealth without restriction as to use. Non-categorical aid is estimated to be 3.8 percent or \$38.7 million of General Fund revenues and is approximately 8.1 percent above the FY 2022 budget. The increase is mostly from the car rental tax which reflects current utilization and anticipated return of visitors and travel to the region. The increase also reflects the anticipated opening of a temporary gambling facility affiliated with the casino project in 2023 calendar year. The FY 2023 estimate also reflects no change in the state aid for HB 599 (Public Safety) based on the Governor's Introduced Budget.

SHARED EXPENSES



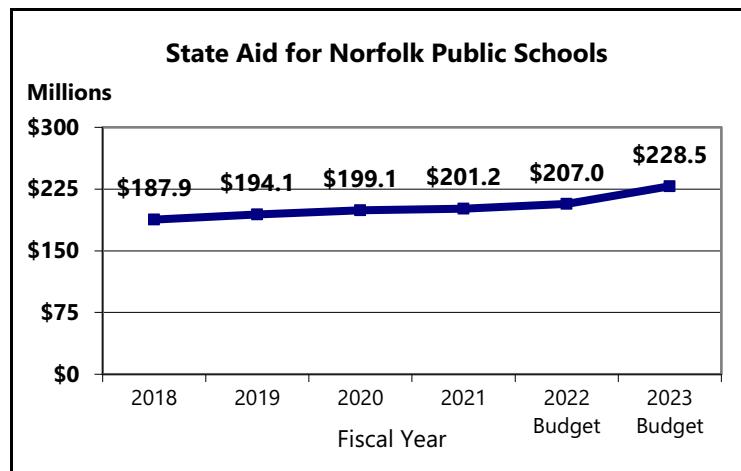
Shared expenses consist of recovered costs from the Commonwealth for a portion of the state-supported salaries and benefits, and qualifying nonpersonnel expenses of constitutional offices and other offices serving the Norfolk community, including the Norfolk Electoral Board, Sheriff, City Treasurer, Commissioner of the Revenue, Clerk of the Circuit Court, and Commonwealth's Attorney. Shared expenses make up approximately 2.3 percent or \$23.5 million of the FY 2023 General Fund revenues. The FY 2023 amount is approximately 5.1 percent above the FY 2022 budget. The increase largely reflects the five percent state salary increase of state-supported constitutional officers and staff, along with the registrar and electoral board members included in the Governor's Introduced Budget.

STATE CATEGORICAL AID

Categorical aid from the Commonwealth consists mainly of revenues earmarked for core services including, K-12 education, social services administration and public assistance grants, Norfolk Community Services Board (NCSB),

libraries, Virginia Department of Transportation (VDOT) funding for street maintenance and localities that host port-owned facilities, and local adult correctional facility. State categorical aid makes up approximately 30 percent or \$306.3 million of General Fund revenues in FY 2023 which is approximately 6.1 percent above the FY 2022 budget. The increase is largely for Norfolk Public Schools (\$16.2 million), street maintenance and human services.

Of the \$306.3 million of state categorical aid estimated to be received in FY 2023, most of the revenue is earmarked for Norfolk Public Schools, approximately \$228.5 million of the \$306.3 million. Categorical aid for Norfolk Public Schools includes the state sales and use tax and state school funds. State sales and use tax for schools is the revenue from the city's proportionate share of the state sales and use tax designated for public education. Since July 1, 2012, the city's share of the state sales and use tax is based on the population estimate provided by the Weldon Cooper Center for Public Service at the University of Virginia. In addition, in FY 2014, state sales and use tax dedicated to public education increased to 1½ cent as part of the statewide transportation bill. Prior to FY 2014, 1¼ cent of the state sales and use tax was dedicated to public education, which reflected the change in FY 2005 when half of the one-half cent sales and use tax increase adopted by the General Assembly was earmarked for local school divisions and real estate tax relief. Half of that quarter percent is distributed in the manner discussed above. The other half of the quarter percent goes to support the Standards of Quality (SOQ), which is included in state school funds. State school funds support school operational costs. The rate of reimbursements is based on the SOQ formula with reimbursement rates varying by program and area of emphasis. Changes in enrollment figures affect this revenue source. Localities are required to match the state contribution based on a composite index. Norfolk continues to provide more than its required share of local effort.



Categorical aid also includes the state reimbursement for the cost of operating the Department of Human Services and Norfolk Community Services Board, estimated to be approximately \$38.8 million and \$9.2 million, respectively. State aid is tied to operating costs that include the cost of personnel, fringe benefits, nonpersonal services, and rent for buildings and parking. The reimbursement rate of the overall costs varies by program.

The jail per diem estimate is approximately \$1.9 million in FY 2023 with no changes anticipated in the jail per diem rates based on the estimate provided by the Virginia Compensation Board. Since the 2016-2018 biennium, the amount appropriated by the Commonwealth has been based on the expected cost of jail per diems. In prior years, the General Assembly did not appropriate the full estimated statewide cost for jail per diems and the funding shortfall was addressed in the mid-biennium or caboose budget. However, if the appropriation falls short due to statewide inmate population being higher than anticipated, the Compensation Board will prorate the amounts distributed to local jails. The last time jail per diem rates were changed was during the 2010 session of the General Assembly. Since March 1, 2010, per diem payments for local responsible inmates in local or regional jails was reduced to \$4.00 per day from \$8.00 per day, while the per diem payments for state inmates housed in local jails was changed to \$12.00 per day from \$8.00 or \$14.00 per day (reflecting the \$6.00 bonus payment for certain state inmates). Payment for jail contract beds fell to \$8.00 per day from \$14.00 per day. These changes in the per diem rates resulted in approximately a \$2.0 million decline in jail per diem funding to the city.

Categorical aid also includes funds received from the Virginia Department of Transportation (VDOT) for street construction and maintenance and support for localities that host Virginia Port Authority owned real estate, estimated in total to be approximately \$27.7 million in FY 2022. The funds for street construction and maintenance are received from VDOT to maintain the city's principal and minor arterials, collector roads, and local streets based on moving lane miles. The revenue allocated to the city is based on a statewide maintenance index of the unit costs used on roads and bridges. Changes in the index are used to calculate and implement annual per-land-mile rates. The rates

fluctuate on index changes and number of miles assessed. These funds offset qualifying operating costs recorded in the city's budget.

FEDERAL AID

Aid from the federal government primarily includes funds for Norfolk Public Schools and Norfolk Community Services Board. Federal aid totals approximately \$8.4 million or 0.8 percent of General Fund revenues in FY 2023 and is 4.2 percent (\$370,000) below the FY 2022 budget. The FY 2023 budgeted amount does not include Federal funds provided to assist individuals, businesses, and state and local governments in response to the COVID-19 pandemic.

OTHER SOURCES AND TRANSFERS IN

Revenue from other sources and transfers in consist of intra-governmental transfers and carry forward funds. It totals approximately \$43.2 million or 4 percent of General Fund revenues in FY 2023, which is an increase of approximately \$10.2 million from the FY 2022 budget. In FY 2023, other sources and transfers in includes transfers in of \$19.2 million from nongeneral funds such as: Utilities (\$10 million); Tax Increment Financing Fund (\$5.7 million) which consists of the annual transfer of excess revenue; and Public Amenities Fund (\$3.5 million) to support the Norfolk Consortium. See Outside Agencies section of the budget document for details on the Norfolk Consortium. The remaining amount of approximately \$24.0 million consists of: carryforward of prior year savings by the Norfolk Community Services Board (\$2.0 million); carryforward of budget savings in FY 2021 from the use of Coronavirus Relief Funds to offset qualifying expenses (\$7.5 million), carryforward of proceeds from the sale of land for the Tern project (\$0.4 million), carryforward of prior year and anticipated current year savings (\$11.5 million), and appropriation of Norfolk Public Schools reversion funds (\$2.6 million).

APPROPRIATIONS

Department	FY 2023 Adopted
GENERAL FUND	
LEGISLATIVE	
City Auditor	1,042,808
City Clerk	1,778,547
City Council	386,839
City Real Estate Assessor	2,557,402
Total Legislative	5,765,596
EXECUTIVE	
Budget and Strategic Planning	2,587,555
City Manager	3,233,643
Communications	2,106,434
Diversity, Equity, and Inclusion	644,931
Housing and Community Development	5,374,169
Resilience	695,818
Total Executive	14,642,550
DEPARTMENT OF LAW	
CONSTITUTIONAL OFFICERS	
City Treasurer	2,957,092
Clerk of the Circuit Court	3,324,301
Commissioner of the Revenue	3,355,447
Commonwealth's Attorney	6,828,146
Sheriff and Jail	41,891,450
Total Constitutional Officers	58,356,436
JUDICIAL	
Circuit Court Judges	924,547
General District Court	260,761
Juvenile and Domestic Relations Court	81,833
Magistrate	11,656
Norfolk Juvenile Court Service Unit	168,029
Total Judicial	1,446,826
ELECTIONS	
GENERAL MANAGEMENT	
Finance	7,495,935

Department	FY 2023 Adopted
General Services	28,474,152
Human Resources	4,255,590
Information Technology	20,010,250
Total General Management	60,235,927
COMMUNITY DEVELOPMENT	
City Planning	6,479,106
Economic Development	2,945,437
Neighborhood Development	5,145,703
Total Community Development	14,570,246
PARKS, RECREATION AND CULTURE	
Cultural Facilities, Arts and Entertainment	6,553,328
Libraries	9,765,433
Nauticus	4,253,414
Parks and Recreation	18,010,193
Slover Library	2,657,176
Virginia Zoological Park	4,566,764
Total Parks, Recreation and Culture	45,806,308
CENTRAL AND OUTSIDE AGENCY APPROPRIATIONS	
Central Appropriations	23,215,132
Outside Agencies	52,938,731
Total Central and Outside Agency Appropriations	76,153,863
PUBLIC HEALTH AND ASSISTANCE	
Human Services	51,986,403
Norfolk Community Services Board	29,346,599
Public Health	3,243,521
Total Public Health and Assistance	84,576,523
PUBLIC SAFETY	
Fire-Rescue	53,197,406
Police	80,254,980
Total Public Safety	133,452,386
PUBLIC WORKS	22,366,099
TRANSIT	11,564,407
DEBT SERVICE	87,696,721
PUBLIC SCHOOL EDUCATION (Norfolk Public Schools)	385,180,630
Total General Fund	1,008,355,624

Department	FY 2023 Adopted
SPECIAL REVENUE FUNDS	
Cemeteries	2,022,127
Emergency Preparedness And Response	6,310,365
Golf Operations	15,000
Public Amenities	8,639,216
Tax Increment Financing	7,200,700
Towing and Recovery Operations	1,753,747
Waste Management	24,987,439
Total Special Revenue Funds	50,928,594
ENTERPRISE FUNDS	
Parking Facilities	22,690,177
Storm Water Management	22,861,584
Utilities - Wastewater	36,004,626
Utilities - Water	103,199,456
Total Enterprise Funds	184,755,843
INTERNAL SERVICE FUNDS	
Fleet Management	11,673,565
Healthcare	105,700,538
Total Internal Service Funds	117,374,103
TOTAL CITY OPERATIONS	1,361,414,164
CAPITAL IMPROVEMENT PLAN	299,822,385
ANNUAL GRANTS PLAN¹	50,326,212
ANNUAL PLAN	6,431,703
TOTAL APPROPRIATIONS	1,717,994,464

¹The amount reflects the “up to” amount appropriated by the operating budget ordinance. The actual grant award will vary annually.

SELECTED TAX RATES AND FEES

Description	FY 2022 Adopted	FY 2023 Adopted
PROPERTY TAXES		
Real Estate (General Tax)	\$1.25/\$100 Assessed Value	\$1.25/\$100 Assessed Value
Real Estate (Downtown Improvement District)	\$1.41/\$100 Assessed Value	\$1.41/\$100 Assessed Value
Personal Property		
Airplane	\$2.40/\$100 Assessed Value	\$2.40/\$100 Assessed Value
Motor Vehicle	\$4.33/\$100 Assessed Value	\$4.33/\$100 Assessed Value
Recreational Vehicle	\$1.50/\$100 Assessed Value	\$1.50/\$100 Assessed Value
Business Furniture, Fixtures, and Equipment	\$4.33/\$100 Assessed Value	\$4.33/\$100 Assessed Value
Watercraft - Business	\$1.50/\$100 Assessed Value	\$1.50/\$100 Assessed Value
Watercraft - Recreational	\$0.000001/\$100 Assessed Value	\$0.000001/\$100 Assessed Value
Machinery & Tools	\$4.25/\$100 Assessed Value	\$4.25/\$100 Assessed Value
OTHER LOCAL TAXES		
Amusement and Admissions	10%	10%
Cigarette	95 cents/pack of 20 cigarettes (47.5 mils/cigarette)	95 cents/pack of 20 cigarettes (47.5 mils/cigarette)
Emergency 911 (Landline)	Replaced by the statewide E-911 tax rate of \$0.75/line/month	Replaced by the statewide E-911 tax rate of \$0.75/line/month
Hotel/Motel Lodging	8%	8%
Bed Tax	\$3.00 per room night	\$3.00 per room night
Food and Beverage	6.5%	6.5%
Recreational Boat License:		
Boats under 16 feet in length	\$15.00	\$15.00
Boats 16 feet and over in length	\$40.00	\$40.00
Motor Vehicle License:		
Small Trailers (<2,000 pounds)	\$11.50	\$11.50
Motorcycles	\$20.00	\$20.00
Cars and Small Trucks	\$31.00	\$31.00
Mid-Size Trucks/Vans (>4,000 pounds)	\$36.00	\$36.00
Large Vehicles (over 19,000 pounds)	\$1.60-\$1.80/1,000 pounds of gross weight (additional \$5 flat fee)	\$1.60-\$1.80/1,000 pounds of gross weight (additional \$5 flat fee)

Description	FY 2022 Adopted	FY 2023 Adopted
REFUSE DISPOSAL		
Residential		
Single or Multiple Units (four units or less)	\$27.01/unit/month	\$27.01/unit/month
Multiple Units (five units or more)	\$45.94/container/month	\$45.94/container/month
Commercial		
Business 1 times per week	\$61.18/unit/month	\$61.18/unit/month
Business 5 times per week	\$151.64/unit/month	\$151.64/unit/month
Combined Commercial and Residential	\$88.19/unit/month	\$88.19/unit/month
WATER AND WASTEWATER UTILITY FEES		
Water	\$5.67/100 cubic feet	\$5.87/100 cubic feet
Wastewater	\$4.84/100 cubic feet	\$5.03/100 cubic feet
STORM WATER FEES (rate calculated based on a 30-day month)		
Residential	\$12.72/month	\$13.05/month
Commercial	\$12.72/month per 2,000 sq. ft.	\$13.05/month per 2,000 sq. ft.
UTILITY TAXES		
Commercial		
Gas	Rate/month: \$3.225 + \$0.167821/CCF 0-70 CCF + \$0.161552/CCF 71-430 CCF + \$0.15363/CCF on balance (maximum of \$500/month)	Rate/month: \$3.225 + \$0.167821/CCF 0-70 CCF + \$0.161552/CCF 71-430 CCF + \$0.15363/CCF on balance (maximum of \$500/month)
Electricity (Manufacturing)	Rate/month: \$1.38 + \$0.004965/kWh 0-3,625,100 kWhs + \$0.004014/kWh on balance (maximum of \$53,000/month)	Rate/month: \$1.38 + \$0.004965/kWh 0-3,625,100 kWhs + \$0.004014/kWh on balance (maximum of \$53,000/month)
Electricity (Non-Manufacturing)	Rate/month: \$2.87 + \$0.017933/kWh 0-537 kWh + \$0.006330/kWh on balance	Rate/month: \$2.87 + \$0.017933/kWh 0-537 kWh + \$0.006330/kWh on balance
Telephone (Cellular, Landline)	Replaced by the State Communications Sales & Use Tax 5% of sales price of services	Replaced by the State Communications Sales & Use Tax 5% of sales price of services
Water	25% on first \$75, plus 15% of bill in excess of \$75	25% on first \$75, plus 15% of bill in excess of \$75
Residential		
Cable and Satellite Service Telephone (Cellular, Landline)	Replaced by the State Communications Sales & Use Tax	Replaced by the State Communications Sales & Use Tax
Electricity	\$1.75 + \$0.016891/kWh monthly (capped at \$3.75/month)	\$1.75 + \$0.016891/kWh monthly (capped at \$3.75/month)
Gas	\$1.50/month	\$1.50/month
Water (5/8" Meter)	25% on first \$22.50/month	25% on first \$22.50/month

GENERAL FUND BALANCE RESERVES

The establishment and maintenance of general operating reserves is considered one of the most effective management practices a local government can employ. The purpose of a reserve is to act as the city's "savings" account to meet emergency, unanticipated needs without jeopardizing the ongoing provision of city services. Reserves help to cushion against cash flow challenges such as providing an interim source of funding for emergency costs from a significantly large unexpected expenses such as a hurricane. The appropriate size of reserves depends on variability of revenues and expenditures and an organization's cash flow needs.

City Council's resolution passed on February 26, 2019, updated the city's policies on reserves, debt affordability, and surplus funds utilization, and adopted new financial policies on pension funding and enterprise fund financial management. On May 11, 2021, City Council passed a resolution updating the Pension Funding Policy to allow for the positive impacts garnered from the sale of debt to refinance a portion of the city's pension liability. The update also provides a framework of when the city's existing reserves will be utilized. The city's Reserve Policy documents the city's approach to establishing and maintaining strong reserves across the spectrum of city operations. The city's financial policies demonstrate its commitment to consistent financial practices, operational efficiencies and best practices. Sound financial management practices contribute to maintaining high city credit ratings and lower borrowing costs for capital projects, preserve fiscal integrity, and promote long-term fiscal sustainability. The Financial Policies section provides more detail on the policies.

General Fund Balance Reserves

Reserve	FY 2021 Estimated	FY 2021 Minimum	FY 2021 Maximum	FY 2022 Projected
General Fund Unassigned Reserve¹	\$66,085,337	\$62,277,403	N/A	\$66,085,337
Risk Management Reserve	\$7,194,809	\$7,194,809	\$8,000,000	\$8,000,000
Economic Downturn Reserve	\$4,600,000	\$5,000,000	\$5,000,000	\$5,000,000
Inclusive Development Opportunity Fund	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
General Fund Balance Reserves at June 30²	\$79,880,146			\$81,085,337

¹The amounts are in accordance with the most recent financial policies adopted by City Council. The FY 2021 General Fund unassigned reserve policy minimum is equal to ten percent (10%) of General Fund expenditures, plus General Fund transfers out as of June 30, 2021. The FY 2021 Estimate and FY 2022 Projection are equal to the FY 2020 policy minimum and assumes no change from the FY 2020 General Fund Unassigned Reserve amount.

² The amounts above exclude reserves for encumbrances and other legally restricted reserves and designations for specific appropriations. The FY 2022 Projection includes allocation of the FY 2021 surplus in accordance with financial policies.

ESTIMATED GENERAL FUND - FUND BALANCE

Beginning General Fund - Fund Balance, July 1, 2021*	<u>\$230,994,873</u>
<hr/>	
Add Revenues**	
Revenues (excluding transfers)	\$896,175,690
Return from water and wastewater utility funds	10,000,000
Return from tax increment financing fund	5,268,400
Public amenities fund support for Norfolk Consortium	3,500,000
Total Fund Balance and Revenues	<u>\$1,145,938,963</u>
<hr/>	
Less: Anticipated Expenditures**	
Norfolk Public Schools operating budget	\$354,868,309
Public safety	131,207,173
Public health and assistance	79,935,964
Other city departments	215,833,153
Central appropriations and outside agencies	71,631,093
Debt service	75,705,398
Projected Fund Balance at June 30, 2022 with budgeted FY 2022 expenditures	<u>\$216,757,873</u>

*Amount reported in the FY 2021 Annual Comprehensive Financial Report

**Based on FY 2022 Adopted Budget

SUMMARY OF CHANGES IN FUND BALANCE

General Fund

	FY 2021 Actual	FY 2022 Adopted	FY 2023 Adopted
Operating Revenues			
General property taxes	321,256,588	322,871,000	355,118,800
Other local taxes	165,042,172	161,646,000	171,966,025
Permits and fees	3,495,082	3,608,000	3,965,900
Fines and forfeitures	977,880	1,218,000	1,340,000
Charges for services	19,582,845	23,379,568	25,491,731
Miscellaneous	24,704,813	8,976,770	9,227,966
Recovered costs	10,109,571	11,183,290	12,058,130
Commonwealth	332,926,560	346,791,041	368,512,728
Federal	7,355,358	8,790,256	8,420,256
Total Operating Revenues	885,450,869	888,463,925	956,101,536
Operating Expenses			
Personnel services	270,746,879	317,541,332	333,017,455
Contractual services	52,816,282	53,489,887	59,692,587
Materials, supplies and repairs	36,215,366	38,128,993	42,667,443
Department specific appropriation	376,581,520	420,482,630	460,111,179
Public assistance	13,462,234	14,835,674	15,439,553
Total Operating Expenses	749,822,281	844,478,516	910,928,217
Operating Income (Loss)	135,628,588	43,985,409	45,173,319
Non-Operating Revenues (Expenses)			
Use of money and property	6,059,279	7,711,765	9,013,620
Capital outlay	(3,682,774)	(5,020,541)	(6,972,755)
Debt service	(85,689,034)	(75,711,821)	(88,268,047)
Acctg. for Encumbrances for Budget not GAAP	2,751,955	0	0
Total Non-Operating Revenue/Expense	(80,560,574)	(73,020,597)	(86,227,182)
Income (Loss) Before Operating Transfers	55,068,014	(29,035,188)	(41,053,863)
Operating transfers in	24,382,000	18,768,400	21,756,891
Operating transfers out	(3,471,797)	(3,970,212)	(2,186,605)
Total Operating Transfers	20,910,203	14,798,188	19,570,286
Net Change in Fund Balance	75,978,217	(14,237,000)	(21,483,577)
Beginning Fund Balance at July 1	155,016,656	230,994,873	216,757,873
Ending Fund Balance at June 30	230,994,873	216,757,873	195,274,296

Note: FY 2021 amounts are based on figures in the city's Annual Comprehensive Financial Report. The majority of the FY 2023 net change in fund balance reflects the carryforward of anticipated FY 2022 budget savings and FY 2021 budget savings from the use of Coronavirus Relief Funds (CARES Act) to offset FY 2021 qualifying expenses.

Special Revenue Funds

	FY 2021 Actual	FY 2022 Adopted	FY 2023 Adopted
Operating Revenues			
General property taxes	6,482,000	6,768,400	7,200,700
Other local taxes	10,174,464	10,022,596	11,069,776
Fines and forfeitures	0	11,000	11,000
Charges for services	25,460,343	23,201,507	23,975,192
Miscellaneous	53,494	528,070	561,775
Recovered costs	0	1,607,794	1,919,594
Commonwealth	1,301,275	112,000	136,000
Federal	3,492	113,617	113,617
Total Operating Revenues	43,475,068	42,364,984	44,987,654
Operating Expenses			
Personnel services	11,912,253	13,964,841	14,678,212
Contractual services	10,733,611	12,023,191	13,193,813
Materials, supplies and repairs	2,831,804	2,786,059	2,605,862
Department specific appropriation	318,393	937,157	937,157
Total Operating Expenses	25,796,064	29,711,248	31,415,044
Operating Income (Loss)	17,679,004	12,653,736	13,572,610
Non-Operating Revenues (Expenses)			
Use of money and property	11,045	850,335	925,335
Capital outlay	(2,751,529)	(2,858,998)	(3,564,798)
Debt service	(5,704,692)	(6,535,305)	(6,748,052)
Total Non-Operating Revenue/Expense	(8,445,176)	(8,543,968)	(9,387,515)
Income (Loss) Before Operating Transfers	9,233,828	4,109,768	4,185,095
Operating transfers in	797,648	1,929,635	1,499,321
Operating transfers out	(9,982,000)	(8,768,400)	(9,200,700)
Total Operating Transfers	(9,184,352)	(6,838,765)	(7,701,379)
Net Change in Fund Balance	49,476	(2,728,997)	(3,516,284)
Beginning Fund Balance at July 1	12,707,447	12,756,923	10,027,926
Ending Fund Balance at June 30	12,756,923	10,027,926	6,511,642

Note: FY 2021 amounts are based on figures in the city's Annual Comprehensive Financial Report. The majority of the FY 2023 net change in fund balance reflects the change in fund balance of the Public Amenities Fund and Waste Management Fund. See Public Amenities Fund and Waste Management Fund sections for details.

SUMMARY OF CHANGES IN NET ASSETS

Enterprise Funds

	FY 2021 Actual	FY 2022 Adopted	FY 2023 Adopted
Operating Revenues			
Permits and fees	0	861,569	863,569
Fines and forfeitures	0	2,528,022	2,658,028
Charges for services	167,825,333	167,069,258	174,684,561
Miscellaneous	2,755,519	234,316	231,637
Recovered costs	0	1,003,600	1,003,600
Total Operating Revenues	170,580,852	171,696,765	179,441,395
Operating Expenses			
Personnel services	40,769,520	38,706,266	39,851,746
Contractual services/Materials, supplies and repairs	37,447,664	38,429,056	39,444,042
Depreciation	30,271,189	0	0
Department specific appropriation	0	22,059,562	24,276,578
Total Operating Expenses	108,488,373	99,194,884	103,572,366
Operating Income (Loss)	62,092,479	72,501,881	75,869,029
Non-Operating Revenues (Expenses)			
Use of money and property	130,098	2,045,775	349,020
Capital outlay	0	(5,024,603)	(2,619,613)
Intergovernmental revenue	324,617	0	0
Miscellaneous revenue (expense)	(13,817)	0	0
Interest and Fiscal Charges	(14,485,941)	0	0
Gain/(Loss)-Sale of fixed assets & investments	7,105,615	7,400	7,400
Debt service	0	(62,867,198)	(66,032,166)
Total Non-Operating Revenue/Expense	(6,939,428)	(65,838,626)	(68,295,359)
Income (Loss) Before Operating Transfers	55,153,051	6,663,255	7,573,670
Capital Contribution	0	0	0
Operating transfers in	0	0	0
Operating transfers out	(15,900,000)	(12,765,200)	(12,531,698)
Total Operating Transfers/Capital Contribution	(15,900,000)	(12,765,200)	(12,531,698)
Net Income (Loss)	39,253,051	(6,101,945)	(4,958,028)
Beginning Net Assets at July 1	557,846,178	597,099,229	590,997,284
Ending net assets at June 30	597,099,229	590,997,284	586,039,256

Note: FY 2021 amounts are based on figures in the city's Annual Comprehensive Financial Report. The FY 2022 and FY 2023 net income change is due to the Parking Facilities Fund. See Parking Facilities Fund section for details.

Internal Service Funds

	FY 2021 Actual	FY 2022 Adopted	FY 2023 Adopted
Operating Revenues			
Charges for services	95,366,472	117,101,494	116,715,975
Miscellaneous	62,152	0	0
Recovered costs	0	63,865	63,865
Total Operating Revenues	95,428,624	117,165,359	116,779,840
Operating Expenses			
Personnel services	3,968,117	4,545,206	4,765,275
Cost of Goods Sold	2,402,071	0	0
Contractual services	86,119,093	108,900,804	108,337,713
Materials, supplies and repairs/Other	4,924,619	3,987,825	4,210,059
Depreciation	322,678	0	0
Total Operating Expenses	97,736,578	117,433,835	117,313,047
Operating Income (Loss)	(2,307,954)	(268,476)	(533,207)
Non-Operating Revenues (Expenses)			
Use of money and property	0	3,500	3,500
Capital outlay	0	(38,024)	(38,790)
Miscellaneous revenue (expense)	0	0	0
Gain/(Loss)-Sale of fixed assets & investments	0	3,000	3,000
Debt Service	0	0	(22,266)
Total Non-Operating Revenue/Expense	0	(31,524)	(54,556)
Income (Loss) Before Operating Transfers	(2,307,954)	(300,000)	(587,763)
Capital Contribution	1,318,117	0	0
Operating transfers in	0	0	0
Operating transfers out	0	0	0
Total Operating Transfers	1,318,117	0	0
Net Income (Loss)	(989,837)	(300,000)	(587,763)
Beginning Net Assets at July 1	1,506,801	516,964	216,964
Ending net assets at June 30	516,964	216,964	(370,799)

Note: FY 2021 amounts are based on figures in the city's Annual Comprehensive Financial Report. FY 2021 net income loss is due to the Healthcare Fund, which impacts the FY 2023 projected ending net assets loss. See the FY 2021 Annual Comprehensive Financial Report for details. The budgeted FY 2022 and FY 2023 net income change is due to the Fleet Management Fund. See Fleet Management Fund section for details. Ending net assets at June 30 will vary based on actual revenues and expenditures.

TRANSFERS FROM/TO

The tables below present certain fund to fund transfers which include: General Fund support of capital projects and special revenue funds; transfers from enterprise activities and special revenue funds to the General Fund; and cash contribution from General Fund and nongeneral funds for capital projects.

Transfer from General Fund to FY 2023

Capital Improvement Plan	687,284
Cemetery Fund	350,662
Emergency Preparedness and Response Fund	1,148,659
Grants Fund (estimated) ¹	6,904,232
Total Transfers from General Fund	9,090,837

Transfer to General Fund from

Public Amenities Fund	3,500,000
Tax Increment Financing Fund	5,700,700
Wastewater Utility Fund	1,500,000
Water Utility Fund	8,500,000
Total Transfers to General Fund	19,200,700

Capital Improvement Plan Cash Sources

General Fund ²	72,637,284
Norfolk Public Schools ²	59,692,185
Federal Earmark	2,900,000
Storm Water Management Fund	1,315,200
Wastewater Utility Fund	9,000,000
Water Utility Fund	20,600,000
Total Capital Improvement Plan Cash Sources	166,144,669

¹Amount of funds expected to be awarded in FY 2023. See Annual Grants Plan section for details. Actual amount transferred from the General Fund to the Grants Fund may vary based upon the actual grant award.

² See CIP Funding Sources section for details.

FULL TIME EQUIVALENT (FTE) STAFFING SUMMARY

	FY 2021 Adopted FTE	FY 2022 Adopted FTE	FY 2023 Adopted FTE	Change FY 2022 to FY 2023
General Fund				
Budget and Strategic Planning	23.0	19.0	22.0	3.0
Circuit Court Judges	5.0	5.0	5.0	0.0
City Attorney	34.0	34.0	37.0	3.0
City Auditor	9.0	9.0	9.0	0.0
City Clerk	13.0	13.0	13.0	0.0
City Council	8.0	8.0	8.0	0.0
City Manager	13.0	16.0	18.0	2.0
City Planning	61.0	63.0	71.0	8.0
City Real Estate Assessor	25.0	25.0	25.0	0.0
City Treasurer	31.0	31.0	32.0	1.0
Clerk of Circuit Court	46.0	46.0	46.0	0.0
Commissioner of the Revenue	37.0	37.0	37.0	0.0
Commonwealth's Attorney	64.0	64.0	64.0	0.0
Communications	16.0	16.0	14.0	(2.0)
Cultural Facilities, Arts & Entertainment	41.0	41.0	46.0	5.0
Diversity, Equity, and Inclusion	0.0	0.0	8.0	8.0
Economic Development	16.0	16.0	22.0	6.0
Elections	6.0	6.0	6.0	0.0
Finance Department	54.0	55.0	65.0	10.0
Fire-Rescue	514.0	514.0	523.0	9.0
General Services and Administration	126.4	128.4	127.4	(1.0)
Housing and Community Development	0.0	19.0	28.0	9.0
Human Resources	28.0	31.0	33.0	2.0
Human Services	483.0	490.5	486.5	(4.0)
Information Technology	82.0	84.0	85.0	1.0
Libraries	76.0	95.0	100.0	5.0
Nauticus	27.0	27.0	27.0	0.0
Neighborhood Services	50.0	52.0	56.0	4.0
Norfolk Community Services Board	271.8	272.8	310.5	37.7
Parks and Recreation	151.0	180.0	202.0	22.0
Police	859.0	859.0	830.0	(29.0)
Public Health	7.0	7.0	7.0	0.0
Public Works	129.0	141.0	138.0	(3.0)

	FY 2021 Adopted FTE	FY 2022 Adopted FTE	FY 2023 Adopted FTE	Change FY 2022 to FY 2023
Resilience	5.0	6.0	7.0	1.0
Sheriff and Jail	440.0	440.0	436.0	(4.0)
Slover Library	27.0	30.0	30.0	0.0
St. Paul's Area Transformation	5.0	7.0	0.0	(7.0)
Transit	62.0	62.0	57.0	(5.0)
Zoological Park	47.0	48.0	51.0	3.0
Total General Fund	3,892.2	3,997.7	4,082.4	84.7
Special Revenue Funds				
Cemeteries	25.0	26.0	29.0	3.0
Emergency Preparedness and Response	82.0	76.5	82.0	5.5
Towing and Recovery Operations	8.0	8.0	8.0	0.0
Waste Management	106.0	106.0	106.0	0.0
Total Special Revenue Funds	221.0	216.5	225.0	8.5
Enterprise Funds				
Parking Facilities	63.2	67.2	66.4	(0.8)
Storm Water Management	105.0	111.0	112.0	1.0
Wastewater Utility	103.0	103.0	102.0	(1.0)
Water Utility	290.0	289.0	289.0	0.0
Total Enterprise Funds	561.2	570.2	569.4	(0.8)
Internal Service Funds				
Fleet	52.0	52.0	52.0	0.0
Healthcare	8.0	8.0	13.0	5.0
Total Internal Service Funds	60.0	60.0	65.0	5.0
Total All Funds	4,734.4	4,844.4	4,941.8	97.4

Note: Totals may not add up due to rounding.

Only permanent positions are reflected in the Budget Document.

CITY INDEBTEDNESS

The Virginia Constitution authorizes cities and counties in Virginia to issue general obligation bonds secured by a pledge of its full faith and credit. For the payment of such bonds, the governing body of the city is required to levy an ad valorem tax on all property subject to local taxation to ensure debt service payment. The issuance of general obligation bonds is subject to a limit of 10 percent of the assessed value of taxable real property in the city.

The Public Finance Act of Virginia authorizes a city in Virginia to issue limited liability revenue bonds provided that the rates, rents, fees, or other charges are sufficient to pay the cost of operation and administration and the principal and interest on the bonds when due. In determining general obligation statutory debt limitations, certain classes of indebtedness may be excluded, including revenue anticipation notes maturing in one year or less, general obligation bonds payable from a specified revenue producing undertaking, so long as the undertaking is self-supporting, capital leases, and revenue bonds. The city's Wastewater and Storm Water enterprise operations finance capital needs through a combination of self-supporting, general obligation and revenue bonds and the water enterprise utilizes only revenue bonds for its financing needs. The city's Parking, Nauticus, Towing and Recovery and Waste Management operations finance capital needs with self-supporting general obligation bonds.

The following table shows the estimated General Obligation Legal Debt Margin for the current fiscal year as of June 30, 2022, and for the past four fiscal years.

As of	Taxable Real Property Assessed Value ⁽¹⁾	Debt Limit: 10% of Assessed Value	Debt Applicable to Debt Limit ⁽⁴⁾⁽⁵⁾	Amount of Debt as % of Debt Limit	Legal Margin for Additional Debt
June 30, 2022 ⁽²⁾⁽³⁾	22,955,937,734	2,295,593,773	1,214,775,687	52.92%	1,080,817,086
June 30, 2021	22,087,340,659	2,208,734,066	1,010,638,068	45.76%	1,198,095,998
June 30, 2020	21,134,551,094	2,113,455,109	1,099,194,913	52.01%	1,014,260,196
June 30, 2019	20,344,603,804	2,034,460,380	988,038,371	48.57%	1,046,422,009
June 30, 2018	19,870,880,970	1,987,088,097	1,079,595,115	54.33%	907,492,982

(1) The figure includes the assessed valuation of the following properties: public service corporations (as assessed by the State Corporation Commission and the Virginia Department of Taxation); and residential, commercial, apartments and vacant land (as assessed by the City Assessor).

(2) Taxable Real Property Assessed Value is estimated as of March 31, 2022.

(3) Projected Debt Applicable to Debt Limit excludes \$216,113,229 of General Obligation Bonds authorized by ordinance for Capital Improvement Projects, but not yet issued.

(4) Includes \$50,375,000 that has been economically defeased, but must be included as part of the city's debt subject to the debt limit.

(5) Existing Debt as March 31, 2022. Exclusive of any future amount borrowed on the Line of Credit and future bond issuance.

OVERLAPPING DEBT

The City of Norfolk is autonomous and independent of any county or other political subdivision and is not subject to taxation by any county or school district, nor is it liable for any county or school division indebtedness. Currently, there is no overlapping debt.

STATEMENT OF NO PAST DEFAULT

The city has never defaulted on the payment of either principal or interest on its general obligation debt.

OUTSTANDING DEBT

Debt service for General Capital Improvements is funded from the General Fund. The debt of the enterprise and other fee-supported operations are paid from the respective revenues. The estimated total outstanding bonded indebtedness, including revenue bonds, at the end of FY 2022 is estimated to be \$1,510,433,858 (exclusive of the bonds economic defeased, the amount borrowed on the Line of Credit and any future bond issuance).

GENERAL CAPITAL IMPROVEMENTS—AFFORDABILITY MEASURES

City Council's has adopted policies on debt affordability measures. The city's financial policies demonstrate its commitment to sound financial practices and recognize that they contribute to maintaining the city's high credit ratings and lower borrowing costs for capital projects, preserve fiscal integrity, and promote long-term fiscal sustainability. The Capital Improvement Plan (CIP) for General Capital Improvements (bonds not supported by self-supporting user fees) is now guided by five measures of affordability. These measures, or internal debt limits, are as follows:

- Debt Service as a percent of the General Fund budget (remain below 10 percent, with a not to exceed of 11 percent of the General Fund budget)
- Net Debt as a percent of taxable property (remain below 3.5 percent, with a not to exceed of 4 percent of the total assessed value of taxable property)
- Ten-year General Obligation Payout Ratio (retirement of the principal amount of the long-term general obligation bonds by at least 55 percent or greater within 10 years)
- Overlapping Debt Limit (overlapping debt not to exceed 0.5 percent of total assessed value of taxable property)
- Variable Rate Debt Limits (the city's outstanding debt with variable interest rate will not exceed 20 percent by fund)

The FY 2023 Capital Improvement Plan is within the five measures of affordability listed above, and the city plans to continue to remain below a debt to taxable property ratio of 3.5 percent or less and a debt service to budget expenditures ratio of 10 percent or less. However, the new policy levels provide the city flexibility to consider projects of significance and importance in moving the city forward in addressing our resiliency challenges of coastal flooding, neighborhoods resiliency, and economic vibrancy.

ENTERPRISE OPERATIONS DEBT

Norfolk's Water, Wastewater, and Storm Water Revenue Bond programs are governed by bond indentures of trust and financing agreements, which specify debt coverage requirements for their respective operations. Each of the revenue bond programs are backed by the revenues of their respective system. The city has covenanted that it will establish, fix, charge and collect rates, fees, and other charges so that in each Fiscal Year Net Revenues are not less than the debt service coverage requirement. All revenue bond programs, historically and estimated for FY 2022 meet debt coverage requirements. As previously noted, outstanding Wastewater and Storm Water bonds are a combination of general obligations of the city and revenue bonds and Water bonds are solely revenue bonds. The

city's Parking operations finance capital needs with self-supporting general obligation bonds. As a matter of practice, the city pays such general obligation bonds from its respective enterprise activities. If money in the respective funds is not sufficient to pay debt service on the general obligations, the city is obligated to pay such debt service from the General Fund or other available revenues. Per the city's adopted Financial Policies, the Parking Facilities coverage requirement is 1.1 times its total annual debt service and noncompliance must be cured within five years. While the Parking Facilities Fund was out of compliance with this policy in Fiscal Year 2019, as of June 30, 2021, the Parking Facilities Fund was in compliance with this policy. Due to the COVID-19 pandemic, the Parking Fund experienced lower year-over-year revenue resulting from a rapid decrease in parking service needs. However, at this time the city reasonably believes that the Parking Facilities Fund will continue to be compliance with the coverage requirement in Fiscal Year 2022.

BOND RATINGS

Bond or credit ratings are an independent opinion of the general creditworthiness of an issuer, such as the city, based on relevant risk factors. Long-term general obligation ratings are based on an issuer's ability and willingness to repay fully the principal and interest of its debt obligations, on a timely basis. Municipal credit ratings are primarily based on four main factors: the issuer's financial position, the issuer's current and future debt burden, financial management and the economy. Often an investor places significant emphasis on a bond's credit rating to help evaluate a price or willingness to hold the investment.

Each of the three major credit rating agencies in the U.S.: Moody's Investors Service ("Moody's"), S&P Global Ratings ("S&P") and Fitch Ratings ("Fitch") applies its own methodology in measuring creditworthiness and uses a specific rating scale to communicate its ratings opinions. Typically, ratings are expressed as letter grades that range, from 'AAA' to 'D' to communicate the agency's opinion of relative level of credit risk. Credits are further distinguished with "notches" within each rating category. Credit ratings for the city's General Obligation and Water Revenue Bond programs are as follows:

Bonding Program	Moody's	S&P	Fitch
General Obligation	Aa2	AAA	AA+
Water Revenue	Aa2	AA+	AA+

Norfolk's rating on its General Obligations Bonds are considered very strong and continue to assist the city in achieving least cost of funds to finance key capital projects throughout the city. In general, AA category rating signifies very high-quality bonds with some elements of long-term risks and AAA signifies the highest-quality bonds.

The city's Wastewater and Storm Water Revenue Bonds do not maintain an underlying, or stand-alone unenhanced, credit rating.

Computation of Legal Debt Margin

June 30, 2022 (Estimated)

Total Assessed Value of Taxed Real Property as of March 31, 2021	\$22,955,937,734
Debt Limit: 10 percent of Total Assessed Value	\$2,295,593,773
Amount of Debt Applicable to Debt Limit: ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	
Gross Debt	\$940,760,687
Economic Defeasance	\$50,375,000
Series 2021 (Pension Obligation Bonds)	\$210,800,000
Line of Credit	\$12,840,000
Legal Debt Margin	\$1,080,817,086
Amount of Debt as a percent of Debt Limit	52.92%

(1) Includes all non-general fund supported General Obligation debt such as Wastewater, Parking, Storm Water, Nauticus, Towing and Recovery Operations and Waste Management.

(2) The Legal Debt Margin computation does not include any Revenue Bond debt issued by the city, because such debt is not subject to the Commonwealth's Constitutional Debt Limit.

(3) Excludes \$216,113,229 of General Obligation Bonds authorized by ordinance for Capital Improvement Projects, but not yet issued.

(4) Existing Debt Service as of March 31, 2022. Exclusive of any future amount borrowed on the Line of Credit and any future bond issuance.

YEARLY MATURITY OF LONG-TERM DEBT

Fiscal Year	General Obligation ⁽¹⁾⁽²⁾			General Obligation Equipment ⁽¹⁾			Water Revenue ⁽¹⁾		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2023	75,147,429	34,642,925	109,790,354	2,030,000	212,050	2,242,050	18,335,000	12,632,275	30,967,275
2024	76,002,722	32,027,840	108,030,563	585,000	148,275	733,275	19,440,000	11,687,900	31,127,900
2025	77,878,016	29,577,824	107,455,841	460,000	120,750	580,750	18,075,000	10,757,525	28,832,525
2026	77,703,311	27,318,241	105,021,552	355,000	100,375	455,375	19,170,000	9,833,900	29,003,900
2027	78,518,606	25,139,016	103,657,622	355,000	82,625	437,625	12,010,000	9,051,200	21,061,200
2028	78,923,902	22,814,352	101,738,254	190,000	69,000	259,000	12,700,000	8,426,875	21,126,875
2029	72,793,949	20,424,603	93,218,552	1,285,000	32,125	1,317,125	13,505,000	7,764,775	21,269,775
2030	70,290,290	18,230,279	88,520,569	-	-	-	8,700,000	7,202,263	15,902,263
2031	66,025,290	16,219,034	82,244,324	-	-	-	9,395,000	6,755,025	16,150,025
2032	66,170,290	13,838,835	80,009,125	-	-	-	9,695,000	6,296,125	15,991,125
2033	59,720,290	12,038,979	71,759,268	-	-	-	8,080,000	5,856,644	13,936,644
2034	41,800,290	10,009,548	51,809,837	-	-	-	8,515,000	5,432,450	13,947,450
2035	41,320,290	8,811,960	50,132,250	-	-	-	9,000,000	4,984,694	13,984,694
2036	48,940,290	7,500,421	56,440,771	-	-	-	9,485,000	4,520,213	14,005,213
2037	49,755,290	6,155,480	55,910,770	-	-	-	8,565,000	4,076,256	12,641,256
2038	46,865,290	4,521,383	51,386,673	-	-	-	9,015,000	3,648,931	12,663,931
2039	38,200,145	3,298,387	41,498,532	-	-	-	9,490,000	3,201,763	12,691,763
2040	14,515,000	2,545,400	17,060,400	-	-	-	7,705,000	2,790,644	10,495,644
2041	14,615,000	2,014,442	16,629,442	-	-	-	8,075,000	2,421,731	10,496,731
2042	5,670,000	1,520,325	7,190,325	-	-	-	8,480,000	2,016,988	10,496,988
2043	7,025,000	1,323,706	8,348,706	-	-	-	8,920,000	1,570,613	10,490,613
2044	7,215,000	1,103,108	8,318,108	-	-	-	10,050,000	1,079,869	11,129,869
2045	7,410,000	877,020	8,287,020	-	-	-	10,590,000	541,981	11,131,981
2046	7,600,000	643,921	8,243,921	-	-	-	1,685,000	223,875	1,908,875
2047	7,935,000	395,553	8,330,553	-	-	-	1,770,000	137,500	1,907,500
2048	5,400,000	178,431	5,578,431	-	-	-	1,865,000	46,625	1,911,625
2049	2,860,000	45,560	2,905,560	-	-	-	-	-	-
Total	1,146,300,687	303,216,575	1,449,517,262	5,260,000	765,200	6,025,200	262,315,000	132,958,638	395,273,638

*Fiscal Year amounts may not add to total due to rounding.

YEARLY MATURITY OF LONG-TERM DEBT (CONTINUED)

Fiscal Year	Wastewater Revenue ⁽¹⁾			Storm Water Revenue ⁽¹⁾			Totals ⁽¹⁾		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2023	8,301,763	85,166	8,386,930	34,491	762	35,254	103,848,684	47,573,178	151,421,862
2024	8,327,090	59,840	8,386,930	34,578	676	35,254	104,389,390	43,924,532	148,313,921
2025	8,254,955	55,504	8,310,459	34,664	590	35,254	104,702,635	40,512,193	145,214,828
2026	8,175,376	58,456	8,233,832	34,751	503	35,254	105,438,437	37,311,475	142,749,912
2027	7,472,202	44,206	7,516,408	34,838	416	35,254	98,390,646	34,317,463	132,708,109
2028	6,788,625	36,949	6,825,574	34,925	329	35,254	98,637,452	31,347,505	129,984,957
2029	6,078,245	34,829	6,113,074	35,012	241	35,254	93,697,207	28,256,573	121,953,780
2030	5,655,376	32,698	5,688,074	35,100	154	35,254	84,680,765	25,465,394	110,146,159
2031	5,232,518	30,557	5,263,074	35,188	66	35,254	80,687,995	23,004,682	103,692,677
2032	4,859,670	28,404	4,888,074	-	-	-	80,724,960	20,163,365	100,888,324
2033	4,361,833	26,241	4,388,074	-	-	-	72,162,123	17,921,864	90,083,987
2034	4,131,507	24,067	4,155,574	-	-	-	54,446,796	15,466,065	69,912,861
2035	3,611,208	21,883	3,633,091	-	-	-	53,931,498	13,818,537	67,750,034
2036	3,073,420	19,687	3,093,107	-	-	-	61,498,710	12,040,320	73,539,030
2037	2,492,730	17,480	2,510,210	-	-	-	60,813,020	10,249,217	71,062,236
2038	2,090,892	15,263	2,106,155	-	-	-	57,971,182	8,185,577	66,156,759
2039	1,880,166	13,034	1,893,200	-	-	-	49,570,310	6,513,183	56,083,494
2040	1,770,361	10,794	1,781,155	-	-	-	23,990,361	5,346,838	29,337,199
2041	1,597,272	8,543	1,605,815	-	-	-	24,287,272	4,444,716	28,731,988
2042	1,174,194	6,280	1,180,474	-	-	-	15,324,194	3,543,593	18,867,787
2043	456,468	4,006	460,474	-	-	-	16,401,468	2,898,325	19,299,793
2044	458,753	1,721	460,474	-	-	-	17,723,753	2,184,698	19,908,451
2045	-	-	-	-	-	-	18,000,000	1,419,001	19,419,001
2046	-	-	-	-	-	-	9,285,000	867,796	10,152,796
2047	-	-	-	-	-	-	9,705,000	533,053	10,238,053
2048	-	-	-	-	-	-	7,265,000	225,056	7,490,056
2049	-	-	-	-	-	-	2,860,000	45,560	2,905,560
Total	96,244,625	635,609	96,880,234	313,546	3,737	317,282	1,510,433,857	437,579,758	1,948,013,616

(1) Existing Debt Service as of June 30, 2021. Exclusive of bonds economic defeased, the amount borrowed on the Line of Credit, and any future bond issuance.

(2) General Obligation bonds have been used to finance Wastewater, Parking, Storm Water, Nauticus, and Towing and Recovery, and Waste Management projects. The bonded debt associated with those projects is self-supported by the respective funds. The Debt Service portion of the General Fund budget finances only General Capital projects, and equipment, but not its self-supporting funds.