



March 26, 2024

Honorable Mayor and City Council,

I am submitting to you the Proposed Fiscal Year (FY) 2025 Financial Plan for the City of Norfolk, which is comprised of the General Fund, enterprise funds, special revenue funds, internal service funds, the Capital Improvement Plan (CIP), the Annual Plan for Housing and Urban Development (HUD) Block Grant programs, and the Annual Grants Plan. A summary of the Proposed Financial Plan is shown in the table below:

Proposed FY 2025 Financial Plan	
Fund	Proposed Budget
General Fund	\$1,158,573,606
Enterprise Funds	\$201,582,761
Special Revenue Funds	\$49,459,253
Internal Service Funds	\$120,042,025
Total Operating Funds	\$1,529,657,645
Capital Improvement Plan	\$323,122,220
Total Operating and Capital Funds	\$1,852,779,865
Annual Plan for HUD Block Grants	\$6,405,865
Annual Grants Plan	\$113,979,259
Total Financial Plan	\$1,973,164,989

The FY 2025 proposed budget continues the process of realigning the city’s planned expenditures with recurring revenues. During the pandemic, the city received a large influx of one-time federal funding including the State and Local Fiscal Recovery Funds (SLFRF). These funds allowed the city to continue to provide services under extremely challenging economic conditions and provided a buffer during an unpredictable post-pandemic recovery period. This budget maintains the high-quality services that our residents expect and enhances a variety of services while strategically reallocating funding where appropriate. The proposed budget ensures that the city remains responsive to community and infrastructure needs, while assuring financial sustainability and alignment with City Council policies.

The fall 2022 resident survey provided invaluable data regarding resident priorities that was instrumental in the development of the FY 2024 budget. Those priorities remain a focus of the FY 2025 proposed budget with the next resident survey slated for spring 2024. In the interim, the city has enhanced its public engagement and outreach with the launch of the Citizen Cents online budget public engagement hub and increased staff attendance at community events. These opportunities to engage with residents provided additional feedback used to develop this proposed budget. In addition to the traditional public hearing on April 10, an online public comment form will be available on the city’s Citizen Cents webpage to give residents multiple ways to provide input on the budgeting process. A summary of resident responses will be provided to Council.

BUDGET OVERVIEW

Economic Outlook

Revenue growth has moderated in FY 2024 and revenues are projected to continue to grow in FY 2025, albeit at a slower rate. Norfolk's economy continues to perform well. The city's unemployment rate stands at 3.3% which is 65% below its recessionary peak of 9.6% in 2009. Nationwide, the labor force participation rate is 62.5%, remaining below pre-pandemic levels. These conditions continue the challenging hiring environment with the city experiencing higher vacancy rates. Inflation has declined but remains above the Federal Reserve's target. Overall prices remain elevated compared to pre-pandemic levels which continues to increase the cost of city operations and construction costs.

Norfolk's Real Estate Assessor is projecting a 6.4% increase in assessments, slightly below last year's increase of 7.8%. Personal property taxes are projected to increase. Used car values, while moderating, remain well above pre-pandemic levels. There is healthy revenue growth for consumption-based taxes (i.e., hotel, sales, and admissions), with projected growth of 11.1% above last year's budget. This growth reflects a trend since FY 2022 of consumption-based taxes reflecting a stronger economic recovery than anticipated, accompanied by increased prices due to inflation.

High interest rates positively impact the city's interest earnings on available funds for investment; however, they are also simultaneously driving higher debt service for the Capital Improvement Plan (CIP) that is financed largely by the issuance of bonds. The proposed CIP complies with City Council's policies for debt affordability. If the five-year CIP is fully executed, the city's annual borrowing, with the highest annual borrowing set to occur in the out-years, may put increased pressure on the operating budget in the event revenues do not meet expectations. Principal and interest payments on the city's debt have increased significantly in recent years and will continue to increase by approximately \$6.7 million in FY 2025.

Tax Relief

Recognizing that property assessments have increased significantly over the last few years, the FY 2025 budget includes a two-cent decrease in the real estate tax rate from \$1.25 to \$1.23 (per \$100 of assessed value). This action will partially offset some of the growth in assessments and provide relief to real property owners. The city provides additional tax relief measures to both residents and businesses including:

- Real estate tax exemption or deferral for seniors and permanently disabled homeowners, including disabled veterans; with the assessed home value cap increased in FY 2024 to \$267,609 to expand relief eligibility
- Residents with qualifying vehicles with an assessed value of \$1,000 or less receive 100% personal property tax relief; vehicles with an assessed value greater than \$1,000 receive a 51% relief rate on the first \$20,000 of assessed value
- Qualifying businesses located in the Norfolk Innovation Corridor can receive a reduction to their Business, Professional, and Occupational License (BPOL) or their Machinery and Tool Tax

Budget Highlights

The proposed FY 2025 operating budget is \$1.5 billion – 6.24% more than last year. The total spending plan is more than \$1.9 billion and includes \$323.1 million in CIP funds, \$6.4 million in HUD entitlement grants, and nearly \$114 million in anticipated grants. Some highlights of the budget include:

- Two-cent decrease in the real estate tax rate

- No fee increases aside from the established automatic fee increases for Storm Water, Water, and Wastewater systems, necessary to maintain current operations
- Employee compensation:
 - 3.5% general wage increase for all general, constitutional, and nonsworn employees
 - A 1% increase to the public safety pay scale and a step increase (for a minimum of a 3.5% increase), for sworn Public Safety employees and 911 telecommunicators
- **Improve neighborhood safety and quality of life:** \$10 million and 14 full-time equivalent (FTE) employees in the operating budget and \$60 million in the FY 2025 CIP
- **Address homelessness, mental illness, and substance abuse:** \$1.7 million and 14 FTE in the operating budget and \$1.5 million in the FY 2025 CIP
- **Maintain and repair city facilities, systems, and infrastructure:** \$1.8 million and 8 FTE in the operating budget and \$223.6 million in the FY 2025 CIP
- **Enhance organizational effectiveness and improve customer service:** \$2.2 million and 25 FTE in the operating budget and \$8.3 million in the FY 2025 CIP

Investments in Team Norfolk

The proposed FY 2025 budget includes funding in support of our ongoing recruitment and retention efforts. Like last year, employees will see no rate increases for healthcare contributions. FY 2025 will also see the implementation of annual cancer screenings and monitoring for all sworn Fire-Rescue personnel who are at greater risk for developing cancer than the general population. At the request of many employees, we look to restore the city's employee recognition and service award programs, which have declined in recent years.

Based on the structure of the pay plan for public safety employees (Pay Plan 5), a number of employees are eligible to receive up to a 6% increase, depending on certain key career progression steps. All increases will be effective July 1, 2024.

Other proposed changes include a retention bonus program for 911 call takers and telecommunicators as well as increased flexibility for supplemental pay for certain mental health workers. I am also proposing to initiate a phased compensation study to address the growing concerns of salary compression and regional competitiveness.

FY 2025 CORE FOCUS AREAS

The enhancements and projects proposed in the FY 2025 budget fall into one of four focus areas:

- Improve neighborhood safety and quality of life
- Address homelessness, mental illness and substance abuse
- Maintain and repair city facilities, systems and infrastructure
- Enhance organizational effectiveness and improve customer service

Improve Neighborhood Safety and Quality of Life

Public Safety

The proposed FY 2025 budget makes various investments in public safety, including:

- Three new Operational Safety Officer positions in Fire-Rescue to provide greater occupational safety oversight for firefighters
- Mechanical ventilators to improve patient care during ambulance transit
- A study to evaluate the strategic location needs for all Fire-Rescue facilities
- Eight analysts for the Real Time Crime Center, the city's central intelligence hub for public safety

- Additional vehicles, equipment, and funds for technology for Police
- An additional Park Ranger position to improve safety in city parks
- A new pumper truck for the Fire-Rescue Department
- Two new ambulances

Neighborhood Quality

To maintain and improve the character and appearance of our city, this proposed budget includes:

- Funding for enhanced beautification and landscaping
- Contractual support for mowing and tree maintenance to allow groundskeeping crews to focus on maintaining parks and athletic fields
- A new street sweeper and GPS/software to improve citywide street sweeping, protect the storm water system, meet water quality requirements, and maintain clean city streets
- The implementation of recommendations from the Midtown Plan

The proposed five-year CIP also includes continued funding for the generational project to revitalize the St. Paul's area, now known as Kindred, and the construction of the Blue/Greenway.

Neighborhood Development and Affordable Housing

Providing quality and affordable housing is essential for quality of life and growing the city's economic base. Along with the proposed budget, I am making a policy recommendation to Council to establish a Housing Trust Fund in FY 2025. A Housing Trust Fund is a flexible source of funding designed to address local housing needs, including funding the last gap in affordable housing projects, investing in a variety of housing initiatives, and unlocking a greater amount of federal, philanthropic, and private funding. Staff will develop options including program design, administration, and the associated financial policy changes necessary to support the fund. We anticipate bringing this policy to Council for consideration in late calendar year 2024. Furthermore, in this year's proposed budget, funds are included to:

- Hire a consultant to implement a training program for local residential developers
- Redevelop Moton Circle as conceptualized in the Broad Creek Revitalization and Implementation Plan
- Improve infrastructure at the John T. (J.T.) West site to support future housing development in the Olde Huntersville neighborhood

Libraries

To remain responsive to resident needs and enhance library access and programming, I am proposing:

- Extended Monday operating hours at all three anchor branches (Mary D. Pretlow, Jordan-Newby at Broad Creek, Richard A. Tucker Memorial) from 10am-4pm to 10am-8pm and at The Slover Downtown Branch Library from 10am-2pm to 10am-6pm
- Enhanced access to literacy with an additional \$120,000 for digital books

Funds are also included to revitalize the lower level of The Slover to create a unique and versatile venue with new furnishings and lighting.

Recreation

To enhance opportunities for recreation, Ingleside Recreation Center will reopen in FY 2025. The budget also supports a passive recreation space at Lambert's Point. The proposed CIP includes funds for community needs assessments and related planning for recreation facilities for Berkley and the east side of the city. The proposed FY 2025 CIP also funds:

- Phased development of recreational amenities for the Berkley community

- Renovation of Sutton Street Park
- Development of a plan to increase ADA compliance, and access to city recreation facilities and parks
- Completion of Phase II of beach access improvements to install accessible paths across the beach
- Improvements to city tennis and pickleball courts at Lafayette Park, Lakewood Park, and Berkley Park

As part of our partnership with the Elizabeth River Trail (ERT), the city will continue to maintain the ERT in addition to contributing \$150,000 for general operating support.

Continued funding for the revitalization of Ocean View Beach Park is also proposed; funds will support updated ADA compliant restrooms, intersection improvements, and upgrades to improve the aesthetics and safety of the area. Ongoing phases of this project will be funded by a reallocation of \$2.9 million previously appropriated for the Pretty Lake Boat Ramp, a project that must be deferred due to limitations of the identified project site.

In both FY 2026 and 2027, \$5 million is planned as a local match for the U.S. Army Corps of Engineers beach renourishment project. Additionally, the dredging of portions of the Lafayette River for recreational boating is also funded in FY 2025, with other dredging projects planned in subsequent years of the proposed CIP.

Entertainment and Culture

Norfolk is home to many entertainment and cultural venues including Scope Arena, Chrysler Hall, Virginia Zoo, Harbor Park, Nauticus, and the Half Moone Cruise Terminal. Funds to improve and maintain these facilities and venues are included in the five-year CIP. The proposed FY 2025 – FY 2029 CIP includes funding to renovate and maintain Scope Arena and Chrysler Hall, cultural facilities that not only provide entertainment but also generate revenue.

Public Health

The budget supports a Family and Consumer Sciences Agent within the Virginia Cooperative Extension program. This position will deliver research-based educational programs on topics such as financial literacy, diabetes prevention, and chronic health disease management. Funds are also included to retrofit and furnish a new clinic and community outreach location on the north side of the city that is supported by local match savings from the state.

Address Homelessness, Mental Illness, and Substance Abuse

As a part of the city’s continued efforts to address homelessness, the proposed FY 2025 budget will establish a homelessness taskforce that will be a street-level intervention focusing on housing stability, outreach, and prevention strategies. The taskforce will be a results-oriented and multi-agency effort working to match residents’ needs to appropriate services and reduce homelessness. Additionally, \$1.5 million is provided in the proposed FY 2025 CIP to expand and upgrade The Center, the city’s homeless shelter. Funds are also provided for six permanent full-time custodial positions for The Center to ensure a safe, sanitary, and welcoming environment.

The proposed budget also includes two Program Coordinator positions within the Norfolk Community Services Board to expand outreach to underserved communities, implement violence prevention services, and assist youth in the aftermath of community violence. Three new positions for the Infant Toddler Connection program are also provided for developmental assessments and therapy for children. Additionally, funds for Vivitrol, a medication prescribed to Drug Court participants to help prevent relapses into substance abuse, are included.

Maintain and Repair City Facilities, Systems and Infrastructure

Maintaining, repairing, and improving our infrastructure is essential to ensure the city's long-term safety and sustainability. Funds are included to improve the city's capacity and increase staffing necessary to maintain and repair city facilities and fleet by establishing an apprenticeship program to provide on-the-job training for trade positions. The proposed FY 2025 operating budget also adds \$500,000 to expand the Small Repairs and Improvement Program to address repairs and improvements at city facilities with a cost under \$100,000. To ensure that the city has capacity to manage the significant number of large-scale capital improvement projects, the FY 2025 budget includes seven new positions dedicated to project design and management, inspections, and additional financial administration and procurement support. To maintain city facilities and systems, the CIP funds:

- Development of an Operations Facilities Master Plan and an accompanying City Buildings Assessment Master Plan to provide an assessment of the current condition and useful life of facilities and guide future funding prioritization
- Upgraded security at city facilities and improved elevators citywide
- Additional funding for parking facilities maintenance
- Ongoing maintenance of fire stations to include various upgrades and improvements
- \$10 million to construct the new Norfolk Animal Care Center
- Improvements to the city jail including the renovation of the 8th floor for medical services, as well as funds to renovate the Sheriff Administration Building and the jail satellite building

To improve and maintain the city's infrastructure, the proposed CIP funds:

- Essential water and wastewater infrastructure upgrades including advanced metering infrastructure and compliance with new Environmental Protection Agency requirements for lead and copper
- Maintenance of existing bridges and transportation infrastructure
- Improved pedestrian and multimodal infrastructure citywide, to increase connectivity and safety for all pedestrians, bicyclists, and transit users
- Funds to complete improvements to the NEON district streetscape
- Signals and intersections to improve safety, traffic flow, and facilitate emergency operations, including a new signal at Tidewater Drive and Marvin Avenue

Resilience, Flooding, and Storm Water Investments

There are several projects underway to ensure that Norfolk is a resilient and sustainable coastal city. The Coastal Storm Risk Management (CSR) project includes a large-scale extension of the Downtown Norfolk Floodwall and the design and construction of storm surge barriers, levees, and pump stations to be completed in five phases over the next decade. The planned non-federal contribution to the project in FY 2025 is \$73.85 million. Our ability to pay the required non-federal match will be substantially tied to the state being an equal partner in the project. As state funding decisions change, the city will continue to modify assumptions for funding and specifics of the project.

Other projects to address neighborhood flooding include the inspection, replacement, or improvement of bulkheads and shoreline structures; these structures are vital to protecting roadways from rising tides. Funds for improvements to Richmond and Surrey Crescents, the living shoreline between Myrtle Park and Larchmont Library, and the Hague Bulkhead are also included.

The Storm Water Utility Fund will not debt finance any new capital projects in FY 2025 to allow for progress to be made on currently funded projects, including neighborhood flooding projects. However, to support ongoing Storm Water capital needs, \$5 million in FY 2023 prior year funds were appropriated in March

2024 to fund various neighborhood flooding and storm water improvements citywide. Additional information on specific project timelines can be found in the CIP section.

Enhance Organizational Effectiveness and Improve Customer Service

Organizational effectiveness and excellent customer service are the foundation for the provision of high-quality government services. This budget allocates \$4 million for Fleet purchases including 76 vehicles/pieces of equipment and two ambulances, as well as \$4.1 million for technology purchases. These purchases will be funded with cash, resulting in lower costs to taxpayers. One replacement Fire-Rescue pumper truck is funded in the CIP.

In January 2024, Emergency Communications (911) transitioned into a new division of the Norfolk Police Department to enhance responsiveness. That transition will allow the new Office of Emergency Management to focus solely on emergency preparedness and recovery. Additionally, Norfolk Cares will transfer from the Department of Neighborhood Services to the City Manager's Office to increase responsiveness to resident requests and ensure departments are accountable. As part of this effort, five positions will be added to provide improved customer service.

Five Neighborhood Code Enforcement positions will be moved from the Department of Neighborhood Services to the Department of City Planning to function as Zoning Inspectors and enhance neighborhood code enforcement efforts. Efforts are also underway to enhance the Department of City Planning's in-office presence to improve customer service, with space identified on the first floor of City Hall for the Development Services Center.

To enhance event permitting for open-air events, a position will be added to manage community event permitting in city parks to improve customer service.

NORFOLK PUBLIC SCHOOLS

Operating Budget

With the continued decrease in average daily membership, NPS will receive less state funding than in FY 2024; total state, federal, and other outside funding will decrease by approximately \$2.5 million. Based on the new 2024 – 2026 biennium budget from the Virginia General Assembly, Norfolk's required local contribution increased by 2% to \$72.1 million. The city's contribution to NPS, consistent with the revenue sharing formula, is projected to increase by approximately \$8.6 million, for a total local contribution of \$164.2 million. This means that the city will be providing over \$92 million above the state-required local contribution. Highlights of the Superintendent's budget include:

- Increased starting pay for teachers from \$53,000 to \$57,500, a nearly 8.5% increase
- At least one step and a cost-of-living increase for all employees
- The implementation of the final year of the decompression plan for teachers behind on steps
- Increased hourly rates for substitutes
- Use of \$30.5 million in one-time reversion funds to support teacher pay initiatives including a one-time retention bonus for employees, bonus opportunities, and replacement of equipment and musical instruments

Capital Improvement Plan

Proposed FY 2025 – FY 2029 capital funding for NPS includes \$30.7 million for school maintenance and \$5 million for school buses. NPS received a \$30 million grant from the state along with \$10 million of prior-year city funding to construct a new Maury High School. The remaining funding for Maury has been strategically allocated to ensure NPS has sufficient time to spend down the state funding; city funding will be made available when required for the project’s timeline. Until casino revenues are realized to support debt service for the project, costs for Maury will be supported by existing General Fund revenues. To focus fully on the construction of Maury, funding for Norview Elementary School has been delayed to future fiscal years, with funds for design planned in FY 2029.

Project Title	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total
Address Major School Maintenance	18.7M	3M	3M	3M	3M	30.7M
Acquire School Buses	1M	1M	1M	1M	1M	5M
Construct Maury High School	10M	10M	117M	0M	0M	137M
Construct Norview Elementary School	0M	0M	0M	0M	1M	1M
Total	29.7M	14M	121M	4M	5M	173.7M

CONCLUSION

The proposed budget makes strategic investments in the city’s infrastructure and operational capacity, while maintaining and enhancing services and programs for residents and investing in our workforce. The budget places an emphasis on financial stability, beginning the process of realigning the city’s ongoing expenditures with ongoing revenues. We will continue to solicit resident feedback throughout the reconciliation process.

I would also like to thank the Department of Budget and Strategic Planning for their work on this document and the Finance Department for their financial guidance. I look forward to discussing this budget with you over the next several weeks.

Sincerely,



Patrick Roberts
City Manager