

**Remarks of Mayor Paul D. Frain
Regent University Executive Leadership Series
at The Founders Inn, Virginia Beach, Va
March 9, 2009
12 Noon**

Good afternoon.

Sal, I want to first thank you for inviting me to be on the program today. I know Regent's Executive Leadership Series has hosted a number of the country's top public and private sector leaders, so it's a real honor to have the chance to join you for this session.

I'm also pleased to be appearing together with my friends Mayor Alan Krasnoff and Mayor Will Sessoms, and appreciate the quality of leadership they are providing to their cities and the region.

The topic we've been asked to speak with you about this afternoon could hardly be more timely . . . I don't think a day goes by without hearing more bad news on the economy.

Two weeks ago, the Virginia General Assembly adjourned following one of the most financially challenging sessions in anyone's memory.

Now that we know how the nearly \$3 billion State revenue shortfall will be addressed we're shifting into high gear to bring our budget into line with some significant reductions in State aid.

As challenging as this budget was for the legislature, without the federal stimulus package things could have been much worse. That's the good news.

No one – and I mean no one - can predict with any certainty when we'll start to pull out of what's now described as the deepest economic downturn since 1933.

So the stimulus package should perhaps be considered - at best - a safety net that gives us time to plan more carefully how we're going to deal with at least two tough budget years. The stimulus package does not mean it's business as usual.

As local governments wrestle with cutting budgets one thing is clear - it's going to be painful.

In Norfolk, for example, State aid makes up 41% of an operating budget of roughly \$827 million. It helps pay for basic services like education, public safety, social services, road maintenance and support for State constitutional offices.

According to our calculations, more than \$5 million in State aid reductions will need to be absorbed in our current operating budget that ends June 30th. Another \$22.5 million must come out of next year's budget – the one that's being put together now.

But it doesn't stop there. The largest source of local revenue comes from the real estate tax, and we all know what's happening with real estate values. It's important to understand that real estate assessments lag. That means what we're seeing in the current real estate environment won't be reflected in the upcoming 2010 budget, but in the 2011 budget.

We're also experiencing declining revenue collections from sources tied to the economy such as retail sales, meals, hotels and admissions.

All told, the City of Norfolk is looking to bridge a projected \$35 million gap for the fiscal year that begins this July 1.

From what I read and hear, the budget story is the same for Norfolk's neighbors.

Despite the fact that the regional economy is outperforming the State and national economies . . . despite the fact that we were one of only 7 large U.S. metropolitan regions that experienced job growth in 2008, adding more than 17,000 jobs for a 2.2% growth . . . and despite the fact that economic forecasts call for the worst of the recession to by-pass Hampton Roads on the strength of increased defense spending and the port, this is going to be a very challenging time for all of us.

Having said that, the question is, what do we do?

Local governments are constitutionally required to have a balanced budget, so the simple answer is we have to reduce spending . . . and we will.

How we get there is a more nuanced question.

We've all seen media reports of hiring and salary freezes, layoffs and furloughs. With personnel costs representing 75% of Norfolk's operating budget, some downsizing of the workforce is certainly a possibility - although we're striving to avoid that. In the future we're also likely to be reading about program reductions and eliminations.

Those are the obvious and necessary steps that sometimes have to be taken. However, the nature of this downturn persuades me that local government is going to look much different two years from now than it does today.

I mentioned we are preparing the budget for fiscal year 2010. As a part of that process we're conducting a fundamental review of all city services and departments. The goal is to identify services that encompass the City's core mission and preserve those judged most critical. We're also looking at services the city could provide less often or live without entirely, and will be making decisions on their future.

But let me be quick to say here that we also view this as an opportunity . . . an opportunity to reinvent ourselves and the way we do business. We should not waste this crisis.

Let me share a couple of examples of how we're planning to do that, and then I want to say a few words about the future.

One way we'll be doing business differently in Norfolk is by including something called Managed Competition in our upcoming budget.

Managed competition is a process in which public employees compete with the private and non-profit sectors to provide City services on a contractual basis.

In managed competition, city employees restructure, innovate and compete against contractors and vendors to provide service.

The value of managed competition is that it enables the City to identify and implement the most cost-effective methods of delivering services.

We'll also be looking at redefining appropriate levels of service. I believe this is possible – and desirable – and you do it by becoming a more data-driven organization. So, we intend to take a hard look at our standards of service – how often grass is cut or streets are swept, for instance – and see how they might be adjusted.

One of our most valuable resources is the knowledge and experience of our employees, and we'll be tapping into that as well.

Some amazing cost savings ideas come from our employees and I'll give you one example.

Many months ago one of our solid waste truck drivers had a simple, but brilliant idea. He suggested that drivers get out of their trucks before they're weighed at the transfer station. Cities are charged by the ton for waste disposal, so if you multiply, let's say, a 190 pound driver by the thousands of trips our trucks make to the transfer station each year you come up with some pretty serious savings.

Now, not all ideas will be so dramatic, but employee ideas should be encouraged and examined and implemented if they make sense.

We'll also be asking our citizens in a survey to tell us what their priorities are, and to take their input into consideration when making budget decisions.

Keep in mind, though, that Norfolk is one of the Commonwealth's most fiscally stressed cities. 35% of our 63 square miles is off the tax rolls – most of it federally or state owned property. We have a higher poverty rate than our neighbors, an older housing stock and our unemployment levels are higher than our neighbors.

So there's not a lot of fat there for us to cut.

We are committed to education and public safety, we are committed to mass transit, we are committed to continuing the transformation of our downtown, to improving our neighborhoods and to supporting important quality of life assets such as the arts. These areas enjoy broad support in our community and deserve our best work.

I said I wanted to mention the future. I think it's important that we not stop planning and building for the future. You're either moving forward or you're moving backwards, and I believe all of us want to keep moving forward. We may not move as fast as we'd like, but we need to keep moving.

Our cities should consider examining – together - ways to achieve economies of scale in areas like employee health insurance which cost Norfolk \$17 million this year. We should share best practices and work more closely together on areas like transportation, human services and solid waste disposal to achieve taxpayer savings.

A great example of how we are moving forward is found in the regional partnership between the cities of Chesapeake, Norfolk, Portsmouth and Virginia Beach to combat homelessness. This has resulted in two new apartment developments – one in Norfolk, the other in Virginia Beach – that added 120 units of transitional housing for the homeless. This partnership is having a real impact, and has led to participation from the private sector and the faith community.

I believe Hampton Roads communities can achieve similar results in other areas on projects that make the region more attractive to businesses and tourism such as transportation improvements and joint marketing and promotion efforts. . . on projects such as early childhood education that contribute to achieving higher graduation rates and a more educated work force. . . and on projects that contribute to growing the region's job base.

The degree of connectivity between our communities is surprisingly strong. Let me share a couple of examples.

In Norfolk we were very concerned about the closing of the Jordan Bridge. Not only because it interrupted the traffic patterns of commuters between Chesapeake and Portsmouth, but because we knew it would place more of a burden on the overburdened

crossings at the Downtown and Mid-Town Tunnels, slowing traffic moving in and out of Norfolk.

Coupled with the re-building of the Gilmerton Bridge, which will soon take two more lanes of travel out of service - then you will have moved daily a total of 4600 more cars to the Downtown Tunnel and 1700 more to the Mid-Town. By the way, the Mid-Town Tunnel was already the most heavily traveled two lane road in Virginia. The construction is scheduled to begin around May and will impact our congested roads immediately thereafter, but no where more so than in Downtown Norfolk.

Every portion of the regional transportation network is becoming more important to each one of us everyday and a clear example of why Norfolk believes so strongly in mass transit.

It is also very important to note that the economies of our cities are completely interwoven.

Consider this:

It is estimated that there are over 223,000 jobs in Norfolk today.

Of that number, some 65,000 of them are filled by residents of Virginia Beach who drive to Norfolk to work daily. Approximately 30,000 jobs are filled by Chesapeake residents.

To put it another way, approximately 43% of the Norfolk workforce is filled by Virginia Beach and Chesapeake residents.

On the flipside, nearly 20,000 Norfolk residents drive to Virginia Beach to work and 8,000 to Chesapeake. These numbers say that 16% of the Norfolk workforce drives to Virginia Beach and Chesapeake everyday to earn a living.

We are absolutely joined at the hip by geography and economy. If Norfolk fails, the jobs in Norfolk will not necessarily go to Virginia Beach and Chesapeake; they will go everywhere, most out of the region.

Everyday it becomes more clear that we will weather this economic downturn together or not at all. We must work more closely as a region to maintain our edge in an increasingly competitive national and global economy.

We are in this together.

We also shop in one another's cities, we dine in one another's cities, we attend events in one another's cities and we have family members living in one another's cities. By now it should be clear that what's good for Chesapeake and Virginia Beach – and

Hampton, Newport News, Portsmouth, Suffolk and Williamsburg is also good for Norfolk and vice versa.

As we adapt our budgets and our policies to these unprecedented economic conditions, we should not and will not lose sight of the future. We will continue to invest in developments like the hotel and conference center that will grow our tax base and our jobs base. We will continue to invest in our public school system and in our neighborhoods. We will continue to reach out to our neighbors as we seek more and better ways to work together for the benefit of the citizens of Hampton Roads.

And we will stand ready to assist our sister cities reach their full potential so Norfolk can reach hers.

Thank you.