

July 1, 2020

Honorable Mayor and City Council

I respectfully submit to you the Adopted Fiscal Year (FY) 2021 Financial Plan for the City of Norfolk, which comprises the General Fund, enterprise funds, special revenue funds, internal service funds, the Capital Improvement Plan (CIP), the Annual Plan for Housing and Urban Development (HUD) Block Grant programs, and the Annual Grants Plan. The table below illustrates the final Adopted FY 2021 Financial Plan:

Adopted FY 2021 Financial Plan	
Fund	Adopted Budget
General Fund	\$883,480,216
Enterprise Funds	\$173,366,457
Special Revenue Funds	\$46,840,662
Internal Service Funds	\$115,739,232
Total Operating Funds	\$1,219,426,567
Capital Improvement Plan	\$151,020,200
Total Operating and Capital Funds	\$1,370,446,767
Annual Plan for HUD Block Grants	\$7,786,683
Annual Grants Plan	\$32,641,736
Total Financial Plan	\$1,410,875,186

Our initial proposed budget represented more than eight months of work, aligned with City Council priorities, and incorporated input from all levels of city staff and the feedback we have received from residents on their budget priorities. However, that budget was built prior to the COVID-19 emergency, amidst economic conditions that have been dramatically altered by the pandemic.

While we cannot determine with certainty either the short or long-term financial impact of this pandemic, we are projecting a General Fund operating revenue loss of up to \$40 million in FY 2021. Our guiding principles for adjusting the operating budget, summaries of the impact to department budgets and personnel, and the details on the strategies that were used to close the budget gap, along with the resulting impact to service levels are detailed below.

Guiding Principles for Revised FY 2021 General Fund Operating Budget

There are several principles that helped guide decision-making on the proposed operating adjustments required to rebalance the General Fund expenditure authority to match projected revenue loss:

- Prepare for the worst – To the extent possible, make this a one-year event and limit difficult budget decisions to this year.
 - Requires ongoing reductions as opposed to one-time fixes

- Begin the fiscal year in a conservative stance budgetarily – fund core services; some facilities and programs remain closed.
 - No service reductions to refuse collection, public safety, social services, and water and sewer utilities.
 - Open only main and anchor branch libraries and six recreation centers.
 - Impact existing staff only after other options have been explored

- Restore programs and services based on the pace of revenue recovery.

Impact to Department Budgets and Personnel

The revised operating budget includes \$40 million in budget reductions. These reductions impact department budgets and personnel. Budget staff worked with city departments, City Council Appointees, and Constitutional Officers to develop reduction strategies and communicate the projected impact to services to City Council. Details of the reductions by department can be found in the Department Budget Strategies section of the Adopted FY 2021 Budget Document. These reductions resulted in the elimination of 100 full-time vacant positions and the furlough of 78 full-time employees, for a total reduction of 178 positions. In addition, most of the city’s part-time positions that were placed on furlough during the fourth quarter of FY 2020 will be separated from city employment beginning July 1, 2020 (FY 2021).

Included in the guiding principles above is the goal of keeping this to a one-year event and limiting difficult budget decisions around programs and services to FY 2021. This can only be accomplished through budget reductions that are ongoing rather than one-time in nature. While this is a painful and difficult process in the short-run, it is financially prudent and will help ensure that we are on a sustainable path. To that end, of the \$40 million in budget reductions, \$29.5 million are ongoing savings while \$10.5 million are one-time in nature.

Enterprise and Special Revenue Fund Departments

Enterprise and Special Revenue fund department budgets remained mostly unchanged. Water and Wastewater budgets were revised down slightly to reflect lower commercial water usage. We will work with the Parking Fund during the year to make any budget adjustments that are necessary based on the impact of the pandemic. Waste Management and Storm Water operating budgets remain unchanged.

Revised Capital Improvement Plan (CIP)

The revised CIP five-year plan does not eliminate any projects, but delays funding based on categorization. Non-essential projects are delayed rather than eliminated and are included within the five-year CIP between FY 2022 and FY 2025. Essential projects will still receive funding in FY 2021. Essential projects include legal obligations or commitments, St. Paul’s Area Transformation, and critical infrastructure and maintenance. Delaying the funding will potentially slow the growth of the city’s debt service costs in FY 2022 and FY 2023. This action also reduces the cash that was going to be transferred to the CIP from the General Fund, which will instead be used as reserves as we work to close the budget gap in FY 2021.

While the plan is to simply delay funding of projects, it is quite possible that non-essential projects will need to be further delayed or eliminated from the current five-year plan should future financial conditions necessitate.

Guiding Principles for Revised FY 2021 – FY 2025 CIP

We employed three principles in the decision-making for funding of projects:

- Delay instead of eliminating projects
- Fund essential projects including legal obligations or commitments, St. Paul’s Area
 - Transformation, and critical infrastructure and maintenance
- Reprioritize prior-year, unobligated funds for necessary maintenance during FY 2021
- Continue enterprise funds capital programs as planned, including enhanced investment in Storm Water Resilience initiatives

Use of Prior Year Funds

As of April 2020, the city had almost \$49.3 million in prior-year, unobligated funds in the General Capital program. Departments have been asked to review prior-year unobligated funds in projects that have not yet been started and weigh them against planned projects for FY 2021. After reprioritizing projects, the prior-year unobligated funds will be used to manage the necessary projects and maintenance for FY 2021.

General Capital Summary

The recommended CIP reduces the proposed General Capital CIP Five-Year total by \$23,952,000 from \$328,177,000 to \$304,225,000. These actions reduce the FY 2021 CIP by \$75,977,000 from \$124,127,000 to \$48,150,000.

Summary of Adjustments to Proposed FY 2021 – FY 2025 General Capital CIP

Fiscal Year	Pre-COVID-19	Post COVID-19	Change
FY 2021	\$124,127,000	\$48,150,000	(\$75,977,000)
FY 2022	\$59,350,000	\$56,125,000	(\$3,225,000)
FY 2023	\$45,875,000	\$96,875,000	\$51,000,000
FY 2024	\$46,150,000	\$51,400,000	\$5,250,000
FY 2025	\$52,675,000	\$51,675,000	(\$1,000,000)
5 Year Total	\$328,177,000	\$304,225,000	(\$23,952,000)

Enterprise Funds CIP

Enterprise Funds – Water, Wastewater, and Storm Water – will continue with their proposed CIPs although the timeline of the projects will be impacted by revenue collections and adhering to their adopted financial policies. The Parking Fund will delay the majority of their CIP until FY 2022.

Operating Budget Amendments

City Council had productive discussions during budget work sessions on May 5th and May 12th. Those discussions resulted in amendments to the Revised FY 2021 Operating Budget presented by City staff.

Arts and Humanities Grants: This amendment restores \$220,524 of funding to the Arts and Humanities Grants program which was eliminated in the Revised FY 2021 Budget. This amendment is funded through an additional 1.2 percent reduction to Arts and Culture Consortium members. As a result of this action, all Consortium members will see an 11.2 percent reduction over FY 2020 funding levels. The table below details the impact:

Norfolk Consortium Member Funding

Member	FY 2020 Adopted	FY 2021 Amended	Reduction	Percent Reduction
Chrysler Museum of Art	\$2,928,047	\$2,600,106	\$327,941	11.2%
Norfolk Botanical Garden	\$1,232,497	\$1,094,457	\$138,040	11.2%
Norfolk Commission on the Arts and Humanities	\$248,338	\$220,524	\$27,814	11.2%
Norfolk Convention and Visitor's Bureau	\$3,830,304	\$3,401,310	\$428,994	11.2%
Norfolk Festevents	\$2,240,820	\$1,989,848	\$250,972	11.2%
Norfolk NATO Festival	\$185,063	\$164,336	\$20,727	11.2%
Virginia Arts Festival	\$982,851	\$872,772	\$110,079	11.2%
Virginia Opera	\$318,255	\$282,610	\$35,645	11.2%
Virginia Stage Company	\$293,755	\$260,854	\$32,901	11.2%
Virginia Symphony	\$305,755	\$271,510	\$34,245	11.2%
TOTAL	\$12,565,685	\$11,158,328	\$1,407,357	11.2%

Human Services Grants: This amendment restores \$400,000 of funding for the Human Services Grant program which was eliminated in the Revised FY 2021 Budget. Human Services Grants provide resources to Norfolk's at-risk populations of children, families, the elderly and disabled, impoverished, and those experiencing housing instability or homelessness. Funding for this year's program will focus on mitigating the impact of the COVID-19 pandemic. This amendment is funded through a combination of an additional furlough-day for city employees and a technical adjustment to recognize additional healthcare savings as a result of fewer positions.

Mowing Cycle and Bed Maintenance: This amendment restores \$140,388 in funding to the Department of Recreation, Parks, and Open Space (RPOS) for mowing and landscape maintenance. The Revised FY 2021 Budget reduced funding to this program which would have resulted in mowing cycles changing from 12-14 days to 16-21 days and landscape bed maintenance changing from two times per month to once per month. This amendment restores these maintenance cycles to prior year levels. This action is funded through a combination of the remaining funding from the additional furlough-day for city employees and a technical adjustment to recognize additional healthcare savings as a result of fewer positions.

Amendment actions are detailed in the table below:

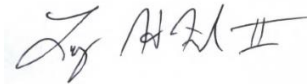
FY 2021 City Council Budget Amendments

Budget Amendments	Amount
Fund Arts and Humanities Grants	\$220,524
Fund Human Services Grants	\$400,000
Restore Mowing to 12-14 day cycle	\$140,388
Total Amendments	\$760,912

Funding Sources for Budget Amendments	Amount
Further reduce funds for Arts and Culture Consortium members	(\$220,524)
Add one additional furlough day - total of five	(\$350,000)
Healthcare savings	(\$190,388)
Total Sources	(\$760,912)

I look forward to working with you in the coming months as we continue to navigate these unprecedented times. We will continue to monitor and forecast the financial impact of this public health crisis, communicating important trends to you and our residents to ensure the city's financial outlook remains stable and secure.

Sincerely,



Dr. Larry H. Filer II
City Manager

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