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# Budget Overview

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# READER'S GUIDE TO THE BUDGET

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## PURPOSE

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The budget is a document that summarizes all public service programs provided by the City government. It is the annual plan for coordinating revenues and expenditures. The budget presented covers the period of July 1, 2011 to June 30, 2012. The amounts for FY 2012 are appropriated by the City Council.

## BUDGET OVERVIEW

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This section provides information on budget and financial policies, fund structures, basis of accounting, the 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 2010 provided in the summaries do not include encumbrances, designations, and carry-forwards and do not reflect all financial adjustments posted after June 30, 2010.

## GENERAL FUND REVENUE AND EXPENDITURE

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The General Fund is used to account for primary government services. A summary of estimated revenue from each source and expenditure by department is provided for the General Fund. For each department within the General Fund, a summary of historical and recommended expenditures is provided. Historical revenue and expenditure amounts for FY 2010 do not include encumbrances, designations, and carry-forwards and do not reflect all financial adjustments posted after June 30, 2010.

## DEPARTMENT BUDGETS

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This section provides detailed information on the budget of each department within the General Fund. Historical revenue and expenditure amounts for FY 2009 and FY 2010 provided in the department summaries do not include encumbrances, designations, and carry-forwards and do not reflect all financial adjustments posted after June 30.

## EDUCATION FUNDS

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This section conveys the proposed Norfolk Public Schools Operating Budget.

## SPECIAL REVENUE, ENTERPRISE, AND INTERNAL SERVICE FUNDS

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These sections provide detailed information on budget related to the City's Special Revenue, Enterprise and Internal Service Funds. Historical revenue and expenditure for FY 2009 and FY 2010 provided in the department summaries do not include encumbrances, designations, and carry-forwards and do not reflect all financial adjustments posted after June 30.

## CAPITAL IMPROVEMENT PLAN

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This section provides detailed budget information on the five-year Capital Improvement Plan. However, the only year certain is the current budget year, FY 2012, with future years reflecting planning and not commitment.

## STATISTICAL/GENERAL INFORMATION

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

## GLOSSARY/INDEX

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The glossary provides definitions of budget-related terms. The index contains an alphabetical reference of information contained in this document.

## ANNUAL PLAN

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This section contains the Annual Plan that identifies the annual funding of the City's priority community development projects and activities as outlined in the Consolidated Plan.

# FINANCIAL POLICIES AND PRACTICES

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## OPERATING BUDGET

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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 must submit 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 proposed expenditures based on detail estimates furnished by departments and other divisions of the City government. The budget is presented in a manner that identifies recommended appropriations, taxes, and estimated revenues with comparative statements. The budget is prepared by fund function 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, including the proposed real estate tax rate. The Code of Virginia requires that notice for the public hearing for the proposed real estate tax rate be given to the public at least 30 days prior to the date of the hearing. The public hearing for the operating budget shall be 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 budgetary controls are exercised administratively on an appropriation unit basis over combinations of object categories (budgetary account groups: personal services, materials, supplies and repairs, general operations and fixed charges, equipment, public assistance, all purpose appropriations and debt service), as well as on a line item basis over individual objects (budgetary accounts). Department heads may transfer funds within a departmental budget with approval from the City Manager or the Office of the Budget and Management.

The City Manager is authorized to transfer money within a fund without further approval by City Council. Basic policies and guidelines for the development of the City's annual budget are provided below.

## GENERAL FUND BALANCE RESERVES

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Annually, after the fiscal year end close, the Department of Finance & Business Services must produce a schedule of all fund variance with the final budget. Analysis of compliance with the City's reserve requirements and a plan for the use of excess funds shall be included in a year-end report submitted by the City Manager to the City Council. The City Manager may recommend policy or procedure changes based upon circumstances identified in the year-end analysis.

The purpose of a reserve is to act as the City's "savings" account to meet emergency and unanticipated needs without jeopardizing the ongoing provision of City services. The establishment and maintenance of general operating reserves is considered one of the most effective management practices a local government can employ. Reserves help to cushion against annual cash flow disruptions. The appropriate size of reserves depends on variability of revenues and expenditures and the City's cash flow needs. The general fund reserve policy and practices include the following:

**Unassigned General Fund Balance** – The City maintains an assigned general fund balance equal to at least five percent of the annual general fund budget to help mitigate current and future risks and to provide for temporary funding of unforeseen emergency or catastrophic needs. The goal for FY 2011 of \$39,319,806 is based on the FY 2011 General Fund Budget of \$786,396,120, which reflects the budget amendment related to the Virginia Department of Transportation funds for city street maintenance project. However, under GASB 54, including Maritime Center (Nauticus) and Cruise Ship Terminal funds in the General Fund Budget, the goal for FY 2011 would be \$39,606,336.

**Risk Management Reserve** – Because the City is self-insured for many of its risk exposures, the City has targeted a reserve equal to 1.5 times the annual risk management budget of approximately \$7.7 million in the event of major unanticipated workers compensation or general liability claims. The balance in the Risk Management Reserve was enhanced in FY 2010 by \$1,058,409, bringing the Reserve to \$1,898,571.

**Economic Downturn/Leveling Reserve** – The City strives to meet the goal of a \$10 million reserve to abate the impact of short-term economic downturns on the overall budget and to build adequate reserves to transition the impact of extreme swings in revenues and/or expenditures such as retirement contribution, health insurance, etc. For FY 2011, the City's Economic Downturn/Leveling Reserve is \$2,000,000 or 40 percent of the City's goal of \$10 million.

Reserve	Purpose	Goal FY 2011	Projected FY 2011
Undesignated General Fund Balance	Good management practices recommend the accumulation of undesignated funds to mitigate current and future risks and to provide for temporary funding of unforeseen emergency or catastrophic needs.	39,319,806 (see note above)	41,559,263
Risk Management Reserve	Because the City is self-insured, a reserve is needed in the event of major unanticipated workers compensation or general liability claims.	11,600,000	1,898,571
Economic Downturn/ Leveling Reserve	To abate the impact of short-term economic downturns on the overall budget and to build adequate reserves to transition the impact of extreme swings in revenues and/or expenditures. The reserve is intended to be used as needed whereas the Undesignated Reserve is to be used for catastrophic needs or unforeseen emergencies.	10,000,000	2,000,000

Note: Amounts above exclude reserves for encumbrances and other legally restricted reserves and designations for specific appropriations.

## DEFINITION AND USE OF SURPLUSES

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The budget is a plan based on the best data available at the time the budget is approved. Budgeted revenues and expenditures are projections and are not exact. Through strict monitoring, funds in excess of the budget projections may occur and are referred to as surpluses. In terms of budget forecasts, the Commonwealth of Virginia has a goal or benchmark to be within two percent of the projected budget.

The City uses surpluses to meet the aforementioned reserve goals, reduce outstanding debt and avoid future debt. After meeting the City's reserve requirements, excess surplus amounts may be used for the following purposes:

- Retirement of Existing Debt: Surplus funds may be used to pay principal on existing revenue bonds or any other existing debt;
- Capital Replacement Programs: Excess reserves may be directed to provide cash funding for certain capital equipment replacement programs; or,
- Cash Payments for Capital Improvement Projects: Excess funds may be used to provide cash funding for Capital Improvement projects, thereby reducing the future debt burden upon the City.

To the same extent that the City Administration attempts to match one-time revenues with one-time expenses, a one-time surplus is also matched with one-time expenditures.

## DEBT MANAGEMENT

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The Commonwealth of Virginia imposes a legal limit of 10 percent of the assessed valuation of taxed real property as a ceiling in the amount of general obligation borrowings. Based on this legal limit, the City can issue debt in excess of \$875 million (see City Indebtedness section). While this is the legal limitation, the City is well aware it cannot take on expenditures beyond its fiscal means of affordability. Therefore, the City strives to adhere to the following internal debt ratios to guide the development of the Capital Improvement Plan (CIP):

- Debt Service as a percent of the general fund budget should not exceed 10 percent; and,
- Net debt as a percent of taxable real estate should not exceed 3.5 percent.

In determining general obligation debt limitations, certain classes of indebtedness may be excluded, such as 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 enterprise operations for Water, Wastewater and Parking bonded debt are a combination of self-supporting, general obligation and revenue bonds. The City's operation for Storm Water bonded debt is self-supporting utilizing general obligation bonds.

The City has never defaulted on the payment of either principal or interest on any debt.

## CAPITAL IMPROVEMENT PLAN

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The City uses several guiding principles and best practices to manage the Capital Improvement Plan (CIP). The principles that govern the CIP are intricately intertwined with the debt management practices mentioned in the previous section. Using the principles as a foundation, the CIP is developed to promote capital infrastructure that support the City Council's vision and priorities 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 and citizens.

The CIP should include projects that meet at least one of the City Council established the following policy areas for General Fund supported projects (see CIP section for definitions):

- Education;
- Transportation;
- Economic Development;
- Cultural Facilities;
- Neighborhood Development;
- Public Buildings;
- Parks and Recreation Facilities; and,
- General and Other.

In addition, approved projects must also meet the minimum cost threshold of \$50,000 or more and should extend the useful life of an existing asset or create an asset with a useful life that exceeds the life of the debt instrument used to finance the project.

Various sources of funding are used to fund the CIP. These sources include general fund supported debt and non-general 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 of 12.5 percent for the CIP.

# FUND STRUCTURE

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## FUND STRUCTURE

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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 TYPE

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

### **General Fund**

The general operating fund of the City accounts for all financial transactions of the general government, except those required or preferred to be accounted for in another fund. The General Fund accounts for the normal recurring activities of the City, such as police, public works, general government, etc. These activities are funded by such revenue sources as general property taxes, other local taxes, licenses and permits, fines and forfeitures, use of money and property, charges for services, recovered costs and non-categorical aid, shared expenses and categorical aid from the Commonwealth and Federal Government.

### **Special Revenue Funds**

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

### **Capital Project Fund**

The Capital Project Fund accounts for the acquisition, construction or renovation of major capital facilities of the City and the School Board.

## PROPRIETARY FUNDS TYPE

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The City maintains two types of Proprietary Funds - Enterprise Funds and Internal Service Funds. Proprietary Funds account for operations similar to those found in the private sector, and they include the Parking Facilities, Wastewater Utility, and Water Utility Funds. The Proprietary Fund measurement focus is based upon determination of net income, financial position and changes in financial position. The full accrual basis of budgeting is used for all Proprietary Funds.

### **Enterprise Funds**

#### **Parking Facilities Fund**

The Parking Facilities 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 (fees) for long-term and short-term customer use and fines for parking violations.

**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.

**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. These customers include Norfolk residential, commercial customers, the U.S. Navy, and other regional localities.

**Internal Service Funds**

These funds account for the financing of goods and services supplied to other funds of the City and other governmental units on a cost-reimbursement basis. Internal service funds have been established for the Storehouse and Fleet Management Funds.

**COMPONENT UNIT FUNDS**

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**Education**

The City's total budget includes the funds of the Norfolk Public Schools. The primary sources of revenue, exclusive of the transfer from the City's General Fund, are basic school aid and sales tax revenues from the Commonwealth of Virginia and educational program grants. Major expenditures are for instructional salaries and facility operating costs for the schools.

**School Operating Fund**

The School Operating Fund is the general fund of the School Board. It is used to account for all financial resources except those required to be accounted for in another fund, such as, the Schools Grants Funds and School Child Nutrition Service described below.

**School Grants Fund**

This fund accounts for revenues and expenditures for Federal, State and other grants for specific programs pertaining to education.

**School Child Nutrition Service**

This fund accounts for the administration of the school breakfast and lunch program.

**FIDUCIARY FUNDS AND PERMANENT FUND**

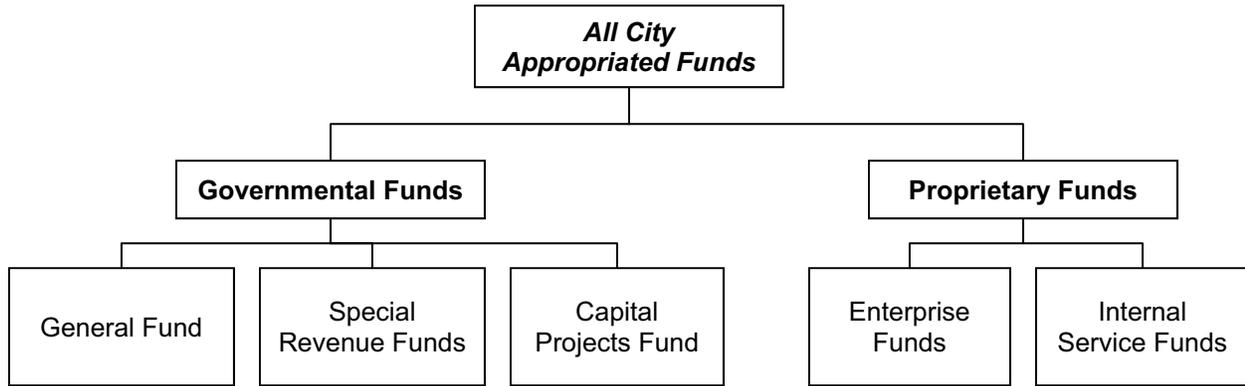
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Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The fiduciary funds include the City's Pension Trust Fund, the Commonwealth of Virginia Agency Fund and the Miscellaneous Agency Fund. The permanent fund is used to report resources that are legally restricted to the extent that only earnings (not principal) may be used to support the program. The permanent fund includes the Cemetery Perpetual and Endowed Care. Fiduciary and permanent funds are not included in the City Government's budget or financial statements, because the resources in such funds are not available to support the City's programs. Fiduciary fund statements are presented separately within the City's Comprehensive Annual Financial Report (CAFR).

# CITY OF NORFOLK FUND STRUCTURE

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## City of Norfolk Fund Structure



- Includes School Operating Fund
- National Maritime Center (Nauticus)
- Cruise Ship Terminal

- Storm Water Management
- Towing and Recovery Operations
- Cemeteries
- Golf Operations
- Emergency Preparedness & Response
- Public Amenities
- Tax Increment Financing

- Water Utility
- Wastewater Utility
- Parking Facilities

- Storehouse
- Fleet Management

# BASIS OF BUDGETING AND ACCOUNTING

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## BASIS OF BUDGETING

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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. The accrual basis of budgeting is generally used 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, however, purchase orders issued and other contractual commitments are considered expenditures when executed. Revenues are recorded when they are measurable and available.

The level of control, or level at which expenditures may not legally exceed the budget, is at the department level for the General Fund and the fund level for all other funds. Any change in appropriation level of the Fund must be approved by the City Council or unless otherwise specified. The City Manager may approve any changes within a Fund which do not require an alteration of the appropriation level. Appropriations lapse at fiscal year-end, except appropriations for the Grants Fund and the Capital Improvement Fund, which are carried forward until such time as the grant or project is completed or terminated.

## BASIS OF ACCOUNTING

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The Comprehensive Annual Financial Report (CAFR) 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), as opposed to being expended when paid (Budget);

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

## ACCOUNTING CHANGES – GASB 54

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The Government Accounting Standards Board (GASB) is the agency charged with establishing accounting standards for governments. GASB recently issued Statement 54 (GASB 54) which deals with two main areas: (1) Fund Balance Reporting and (2) Governmental Fund Type Definitions. GASB 54 is in effect for reporting periods after June 15, 2010.

### FUND BALANCE REPORTING

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Fund balance refers to the difference between assets and liabilities. Prior to GASB 54, there were two components to allocate fund balance: reserved and unreserved. Within unreserved fund balance, there were two sub components: designated and undesignated.

GASB 54 establishes an entirely new scheme for reporting fund balances. The new requirement establishes five different classifications of fund balance, summarized below. The City will be required to report these classifications in its annual audit.

- Non-Spendable                      Cannot be spent (legally restricted or in unspendable form)
- Restricted                              Externally imposed (law, creditor, bond covenant)
- Committed                              Constraints approved by City Council
- Assigned                                Constrained by intent by City Council or by the City Manager or by a body to which City Council delegates the authority
- Unassigned                              Available to spend, unrestricted

### GOVERNMENTAL FUND TYPE DEFINITIONS

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GASB 54 also deals with the establishment and classification of governmental fund types. In particular, it changes the use and definition of special revenue funds. Under GASB 54, special revenue funds are used to account for a revenue source (or sources) that is restricted or committed to a specified purpose, and that the revenue source should constitute a substantial portion of the resources reported in the fund.

In light of the new definition of special revenue funds under GASB 54, the special revenue funds listed below will have to be reclassified into the General Fund budget. Also, any amounts transferred by the General Fund to these special revenue funds (ie., fund-to-fund transfers) will no longer be reported in the General Fund (GF) budget but will be reflected in their respective operating budgets. The impact of the changes is highlighted throughout the budget document. For comparison, the budget document also highlights the impact of the changes in FY 2011 and FY 2010.

<b>Funds Affected by GASB 54</b>	<b>Changes Implemented in FY 2012</b>	<b>Amount</b>
National Maritime Center (Nauticus)	Operating budget added to General Fund	5,310,200
	Transfer from Departmental Support in GF will be reflected only in Nauticus' budget	-2,276,581
	Transfer from Cultural Facilities in GF will be reflected only in Nauticus' budget	-9,663
Cruise Ship Terminal Fund	Operating budget added to General Fund	2,638,400
Land Acquisition/Revolving Fund	Fund balance will be recorded under Committed General Fund balance	3,517,961
Various Special Revenue Accounts	Remaining balances will be appropriated from GF Fund Balance	5,271,174

# BUDGET PROCESS

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## FORMULATION OF THE CITY MANAGER’S APPROVED BUDGET

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

The annual budget process commences each fall. The budget calendar is developed which establishes the timelines for the process, including dates for submission of departmental requests, budget work sessions and public hearings that lead to final adoption of the budget.

Department requests are based on budget instructions. Each request must relate to the organization’s program objectives. 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, Water Utility Fund, Wastewater Utility Fund, Parking Fund, Storm Water Fund, Special Revenue Funds (Cemeteries, Emergency Preparedness and Response, Golf Operations, Public Amenities, Tax Increment Financing, and Towing and Recovery Operations), and Internal Service Funds (Fleet Management and Storehouse). Budgets are also individually adopted for a Special Revenue (Grants) Fund. Ordinances are generally approved when a grant to the City has been awarded.

All funds are under formal budgetary control, the most significant of which is the General Fund. No less than sixty 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.

## CITY COUNCIL’S AUTHORIZATION AND APPROPRIATION

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After general distribution of the proposed operating budget, one or more public hearings may be conducted to obtain comments and recommendations from the public. No less than thirty days before the end of the fiscal year, the City Council shall pass an annual appropriation ordinance which shall be based on the budget submitted by the City Manager. The annual operating budget ordinance appropriates funds, subject to certain conditions, for use by departments. The ordinance authorizes salaries, wages and personnel positions as set forth in the detailed budget document. Amounts appropriated to each department are to be expended for the purposes designated by object group, i.e., categories including: personnel services; materials, supplies and repairs; general operations and fixed charges; equipment; public assistance; all purpose appropriations and debt service.

## CITY MANAGER’S AUTHORIZATION

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In accordance with the City Charter, at least sixty 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 is authorized to transfer from any department, fund or activity which has a budgetary excess of funds appropriated to any department, fund or activity as necessary.

## BUDGET IMPLEMENTATION

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Once the budget is adopted, it is effective on July 1 and becomes the legal basis for the programs of each department of the City during the fiscal year. No department or other agency of the city government may spend in excess of approved and appropriated amounts. Financial and programmatic monitoring of departmental activities to ensure conformity with the Adopted Budget takes place throughout the year. Copies of the Adopted Budget can be found in the Main Library, on the City Website, or may be obtained from the Office of Budget and Management. Unencumbered appropriations lapse at the end of the fiscal year and are returned to fund balance for re-appropriation. The City Manager is responsible for maintaining a balanced budget at all times. In the event it is identified there is a gap between revenues and expenditures, the City Manager will take such actions necessary to rebalance the budget. Budget amendments may be made by City Council in order to meet the changing needs of the City. The means by which City Council may amend the budget include, but are not limited to, appropriation of additional funds and decrease the amount of appropriated funds.

## CAPITAL IMPROVEMENT PLAN

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City Council also adopts a Capital Improvement Plan Budget and a Consolidated Plan Budget. As in the case of the Operating Budget, these budgets are submitted by the City Manager, 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 is otherwise terminated. Amendments to these budgets are effected by City Council action. The level of budgetary control is on a project basis with additional administrative controls being exercised.

## BUDGETARY PRINCIPLES AND POLICIES

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Budgetary principles and policies include:

- 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 unbudgeted revenues and other major changes to the adopted budget;
- Preparation of a five-year forecast, which serves as the basis for the City Manager's annual recommended budget;
- Requirement that the City Manager prepare a Five-Year Capital Improvement Plan that incorporates operating costs and is stated in "year of expenditure dollars;" and,
- Provisions for the City to continue its goal to include 12.5 percent of General Capital Improvements in cash (pay as you go) contributions.

# BUDGET CALENDAR

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<b>Date</b>	<b>Responsible Party</b>	<b>Description</b>	<b>Legal Requirement</b>
September 2010	Budget Office	Capital Improvement Plan (CIP) Instructions Provided to Departments	
October 2010	City Departments	Departments Submit CIP Budget Requests	
December 2010	City Departments	Departments Submit FY 2012 Operating Budget Requests	
January -- March 2011	Executive Staff, City Departments, Budget Office	Department Meetings with Budget Staff and Executive Budget Team	
February -- March 2011	Executive Staff, Budget Office, Communications	Budget Community Outreach Program	
April 1, 2011	School Board	School Board presents Proposed Operating Budget to City Council	Code of Virginia 15.2-2503
April 26, 2011	City Manager	City Manager Presentation of Proposed Budget to City Council	City of Norfolk Charter Sec. 67
April 27, 2011	City Clerk	Public Notice of the Operating and Capital Improvement Plan Budgets	Code of Virginia 15.2-2506
April 27, 2011	City Clerk	Public Notice of the Community Development Block Grant (CDBG)	U.S. Dept. of Housing and Urban Development
May 3, 2011	City Council	First City Council Work Session	
May 4, 2011	City Council	Public Hearing on the Operating and Capital Improvement Plan Budgets and the Community Development Block Grant (CDBG)	Code of Virginia 15.2-2506
May 10, 2011	City Council	Second City Council Work Session	
May 17, 2011	City Council	Third City Council Work Session	
May 17, 2011	City Council	Budget Adoption by City Council	City of Norfolk Charter Sec. 68; Code of Virginia 15.2-2506

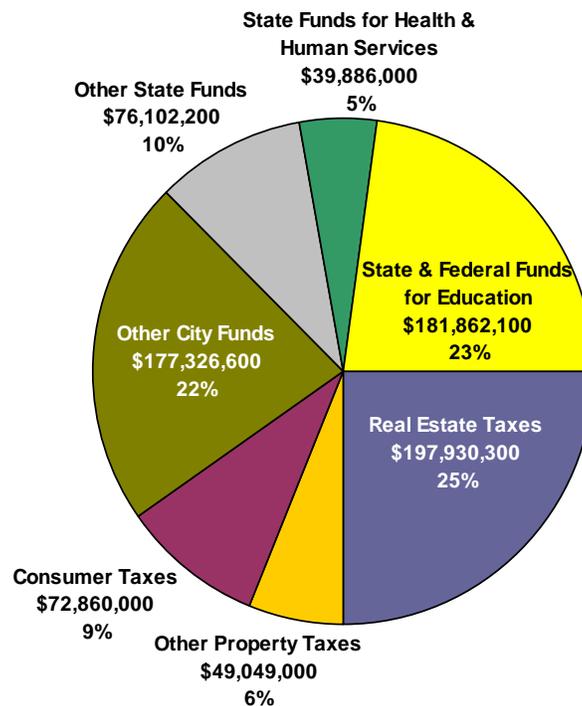
# GENERAL FUND BUDGET OVERVIEW

## FY 2012 Approved General Fund Revenues \$795,016,200

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

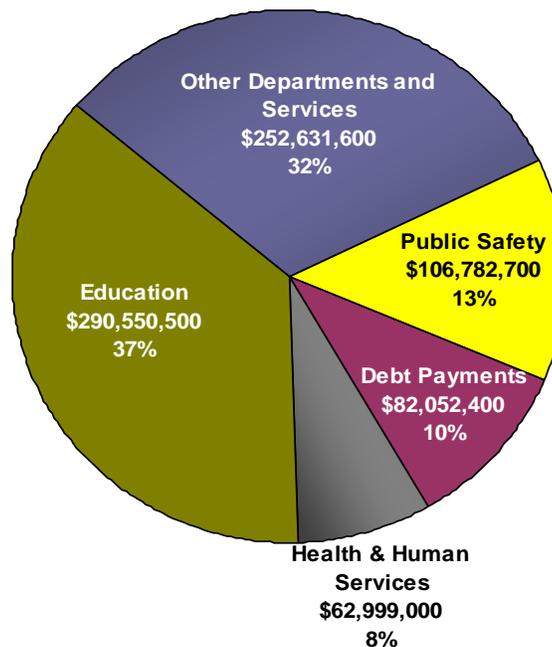
“Other City Funds” include local taxes, fees, fines, rent and interest.

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



## FY 2012 Approved General Fund Expenditures \$795,016,200

In the FY 2012 budget breakdown, "Other Departments and Services" includes public works, libraries, recreation, cultural facilities, economic development, planning, human resources, IT, legislative and executive, finance, courts and sheriff, treasurer, commissioner of revenue, outside agencies, and nondepartmental appropriations.

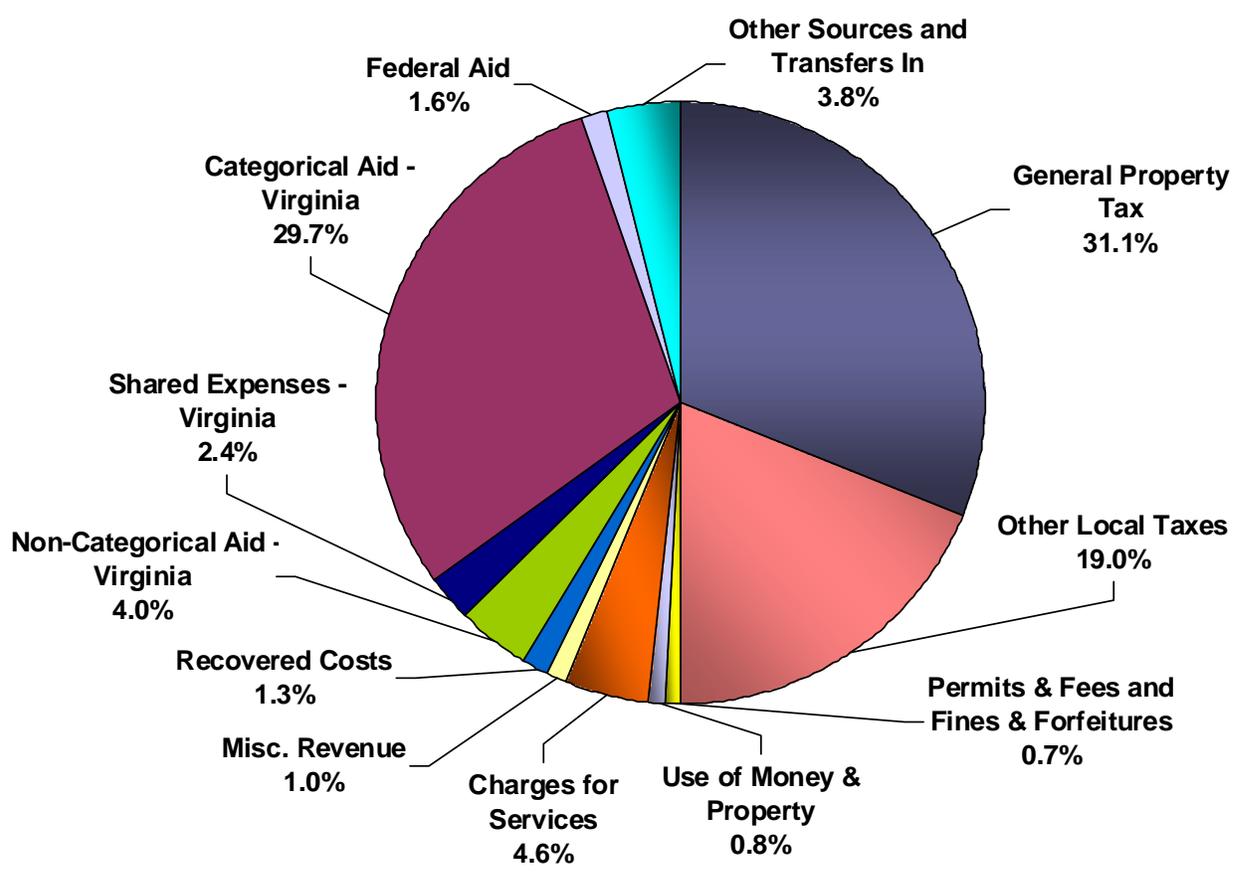


# ESTIMATED GENERAL FUND REVENUES BY SOURCE

The following table compares the General Fund FY 2012 Approved Budget to the FY 2011 General Fund Approved Budget and the FY 2010 Actual. 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 2010 Actual	FY 2011 Approved	FY 2012 Approved	FY 2011 vs. FY 2012	
				\$ Change	% Change
General Property Taxes	256,561,095	251,403,800	246,979,300	-4,424,500	-1.8%
Other Local Taxes	145,065,893	147,748,000	150,730,000	2,982,000	2.0%
Permits and Fees	3,526,259	4,473,000	3,856,300	-616,700	-13.8%
Fines and Forfeitures	1,163,491	1,349,000	1,250,000	-99,000	-7.3%
Use of Money and Property	6,044,924	6,387,000	5,811,300	-575,700	-9.0%
Charges for Services	33,071,699	32,368,100	33,929,900	1,561,800	4.8%
Miscellaneous Revenue	5,113,200	7,670,300	8,298,300	628,000	8.2%
Recovered Costs	8,207,635	10,507,000	10,579,200	72,200	0.7%
Non-Categorical Aid - State	32,164,855	32,262,700	31,857,000	-405,700	-1.3%
Shared Expenses - State	20,032,014	20,254,700	19,153,000	-1,101,700	-5.4%
Categorical Aid - State	270,287,951	244,922,500	236,303,700	-8,618,800	-3.5%
Federal Aid	7,606,449	5,589,600	12,345,200	6,755,600	120.9%
Other Sources & Transfers In	13,307,663	20,703,000	28,260,600	7,557,600	36.5%
<b>Subtotal*</b>	<b>802,153,128</b>	<b>785,638,700</b>	<b>789,353,800</b>	<b>3,715,100</b>	<b>0.5%</b>
* Several accounting adjustments are made below to reflect GASB 54 requirement for governmental fund type definitions:					
Adjustment to reflect the reporting of fund-to-fund transfers no longer required under GASB 54	-3,520,903	-3,220,903	-2,286,200	934,703	-29.0%
National Maritime Center (Nauticus)	4,076,448	5,797,100	5,310,200	-486,900	-8.4%
Cruise Ship Terminal	2,208,547	3,154,400	2,638,400	-516,000	-16.4%
<b>General Fund Total</b>	<b>804,917,220</b>	<b>791,369,297</b>	<b>795,016,200</b>	<b>3,646,903</b>	<b>0.5%</b>

### Approved FY 2012 General Fund Revenues by Source

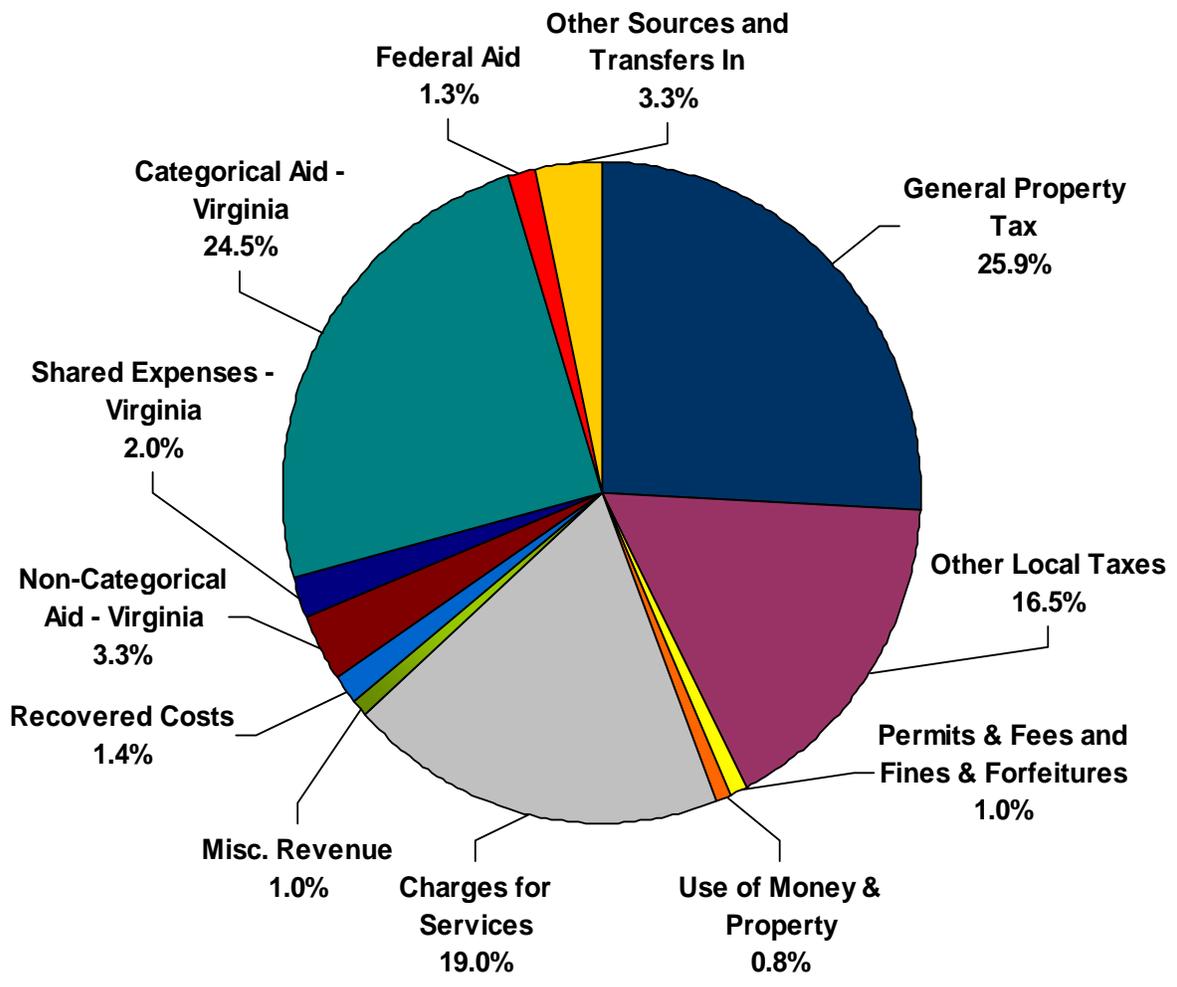


# ESTIMATED REVENUES BY SOURCE (ALL FUNDS)

The following table compares the All Funds FY 2012 Approved Budget as compared to the FY 2011 Approved Budget and the FY 2010 Actual amount. Funding sources by category are shown to provide an overview of the sources of revenue for all operating funds of the City. Revenues are contained in those categories where they are originally raised.

Source	FY 2010 Actual	FY 2011 Approved	FY 2012 Approved	FY 2011 vs. FY 2012	
				\$ Change	% Change
General Property Taxes	259,905,395	255,065,600	249,778,621	-5,286,979	-2.1%
Other Local Taxes	153,615,005	156,479,488	159,512,296	3,032,808	1.9%
Permits and Fees	5,835,904	6,671,300	6,026,600	-644,700	-9.7%
Fines and Forfeitures	2,864,118	3,197,000	3,250,000	53,000	1.7%
Use of Money and Property	8,539,969	10,021,798	8,224,090	-1,797,708	-17.9%
Charges for Services	175,981,047	180,027,238	183,187,303	3,160,065	1.8%
Miscellaneous Revenue	5,879,275	8,140,671	9,542,491	1,401,820	17.2%
Recovered Costs	11,273,571	13,490,954	13,731,149	240,195	1.8%
Non-Categorical Aid - State	32,164,855	32,262,700	31,857,000	-405,700	-1.3%
Shared Expenses - State	20,032,014	20,254,700	19,153,000	-1,101,700	-5.4%
Categorical Aid - State	270,287,951	244,922,500	236,303,700	-8,618,800	-3.5%
Federal Aid	7,713,566	5,653,217	12,408,817	6,755,600	119.5%
Other Sources & Transfers In	26,185,462	32,391,334	34,231,933	1,840,599	5.7%
<b>Total*</b>	<b>980,278,132</b>	<b>968,578,500</b>	<b>967,207,000</b>	<b>-1,371,500</b>	<b>-0.1%</b>
* Several accounting adjustments are made below to reflect GASB 54 requirement for governmental fund type definitions:					
Adjustment to reflect the reporting of fund-to-fund transfer no longer required under GASB 54	-3,520,903	-3,220,903	-2,286,200	934,703	-29.0%
<b>All Funds Total</b>	<b>976,757,228</b>	<b>965,357,597</b>	<b>964,920,800</b>	<b>-436,797</b>	<b>0.0%</b>

### Approved FY 2012 Revenues by Source (All Funds)



# ESTIMATED EXPENDITURES BY USE (ALL FUNDS)

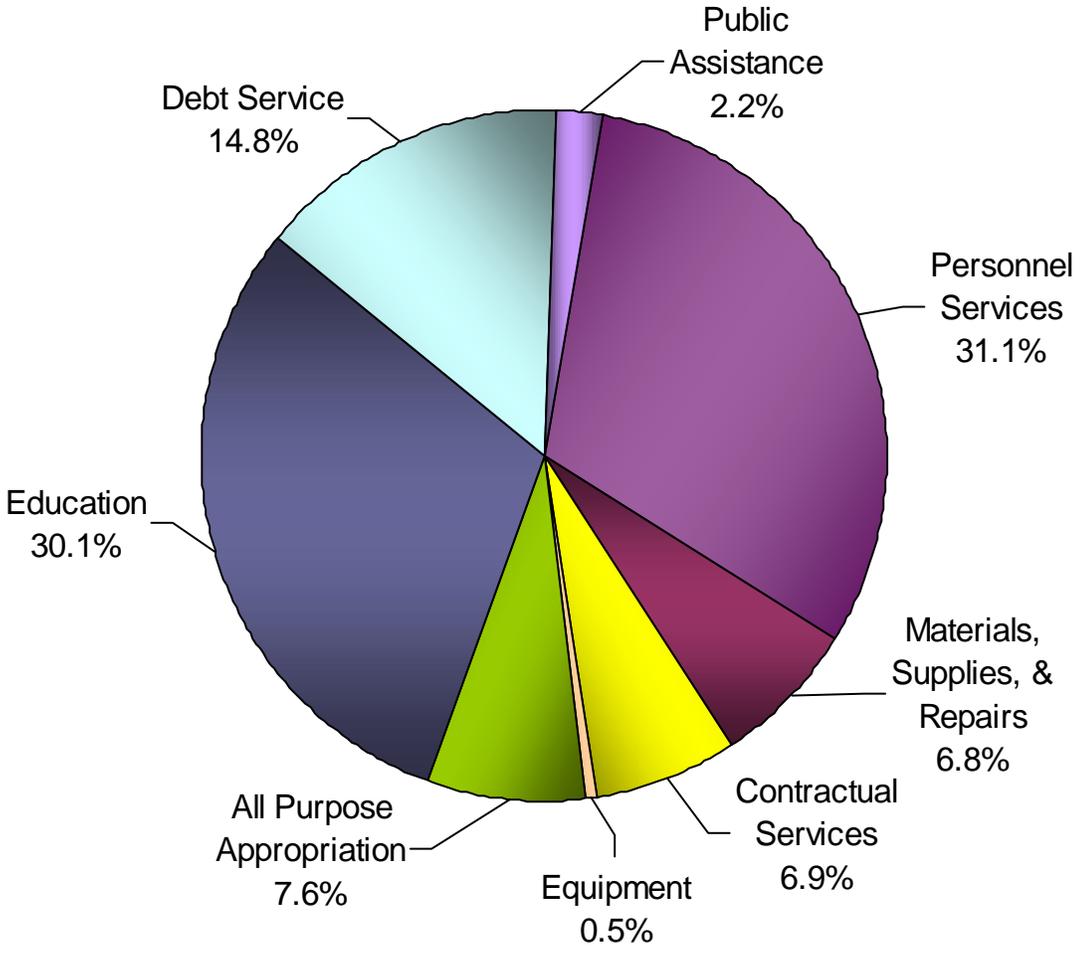
The following table compares the FY 2012 Approved Operating Budget to the FY 2011 Approved Operating Budget and the FY 2010 Actual amount. Funding uses by category are shown to provide an overview of the principal uses of expenditures for all operating funds of the City. Expenditures are contained in those categories where they are originally spent.

Uses	FY 2010	FY 2011	FY 2012	FY 2011 vs. FY 2012	
	Actual	Approved	Approved	\$ Change	% Change
Personnel Services	288,301,419	294,096,995	300,403,138	6,306,143	2.1%
Materials, Supplies, & Repairs	58,324,167	63,435,886	65,981,526	2,545,640	4.0%
Contractual Services	75,646,059	74,312,077	66,144,215	-8,167,862	-11.0%
Equipment	5,739,426	6,691,069	5,137,745	-1,553,324	-23.2%
All Purpose Appropriation	69,952,148	75,230,739	74,692,880	-537,859	-0.7%
Education	318,728,374	295,657,800	290,550,500	-5,107,300	-1.7%
Debt Service	104,661,014	137,452,539	143,047,135	5,594,596	4.1%
Public Assistance	19,415,594	21,701,395	21,249,861	-451,534	-2.1%
<b>Total*</b>	<b>940,768,201</b>	<b>968,578,500</b>	<b>967,207,000</b>	<b>-1,371,500</b>	<b>-0.1%</b>

\*Several accounting adjustments are made below to reflect GASB 54 requirement for governmental fund type definitions:

Adjustment to reflect the reporting of fund-to-fund transfers no longer required under GASB 54	-3,520,903	-3,220,903	-2,286,200	934,703	-29.0%
<b>All Funds Total</b>	<b>937,247,298</b>	<b>965,357,597</b>	<b>964,920,800</b>	<b>-436,797</b>	<b>-0.0%</b>

### Approved FY 2012 Expenditures by Use (All Funds)



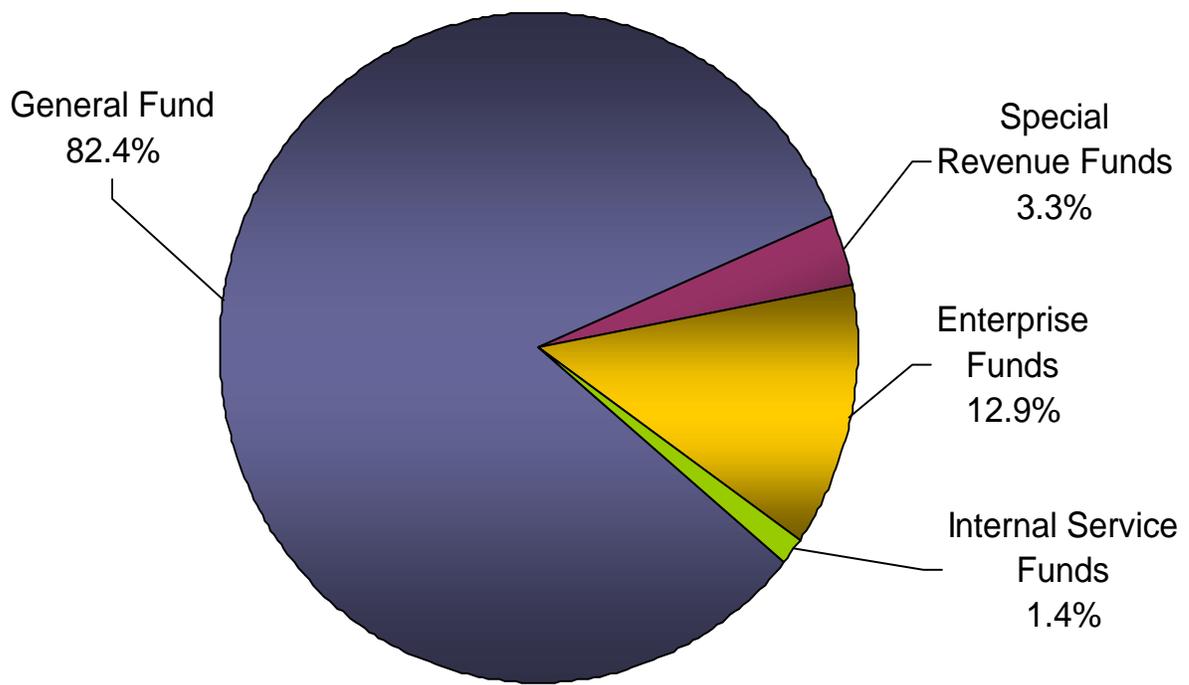
# ESTIMATED EXPENDITURES BY FUND TYPE

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The following table compares expenditures by fund type in the FY 2012 Approved Operating Budget with the FY 2011 Approved Operating Budget and the FY 2010 Actual amount.

Fund Type	FY 2010 Actual	FY 2011 Approved	FY 2012 Approved	FY 2011 vs. FY 2012	
				\$ Change	% Change
General Fund	794,065,001	791,369,297	795,016,200	3,646,903	0.5%
Special Revenue Funds	39,623,125	36,548,000	32,226,900	-4,321,100	-11.8%
Enterprise Funds	94,535,397	125,152,200	124,480,700	-671,500	-0.5%
Internal Service Funds	12,544,678	12,288,100	13,197,000	908,900	7.4%
<b>Total</b>	<b>940,768,201</b>	<b>965,357,597</b>	<b>964,920,800</b>	<b>-436,797</b>	<b>0.0%</b>

### Approved FY 2012 Expenditures by Fund Type (All Funds)

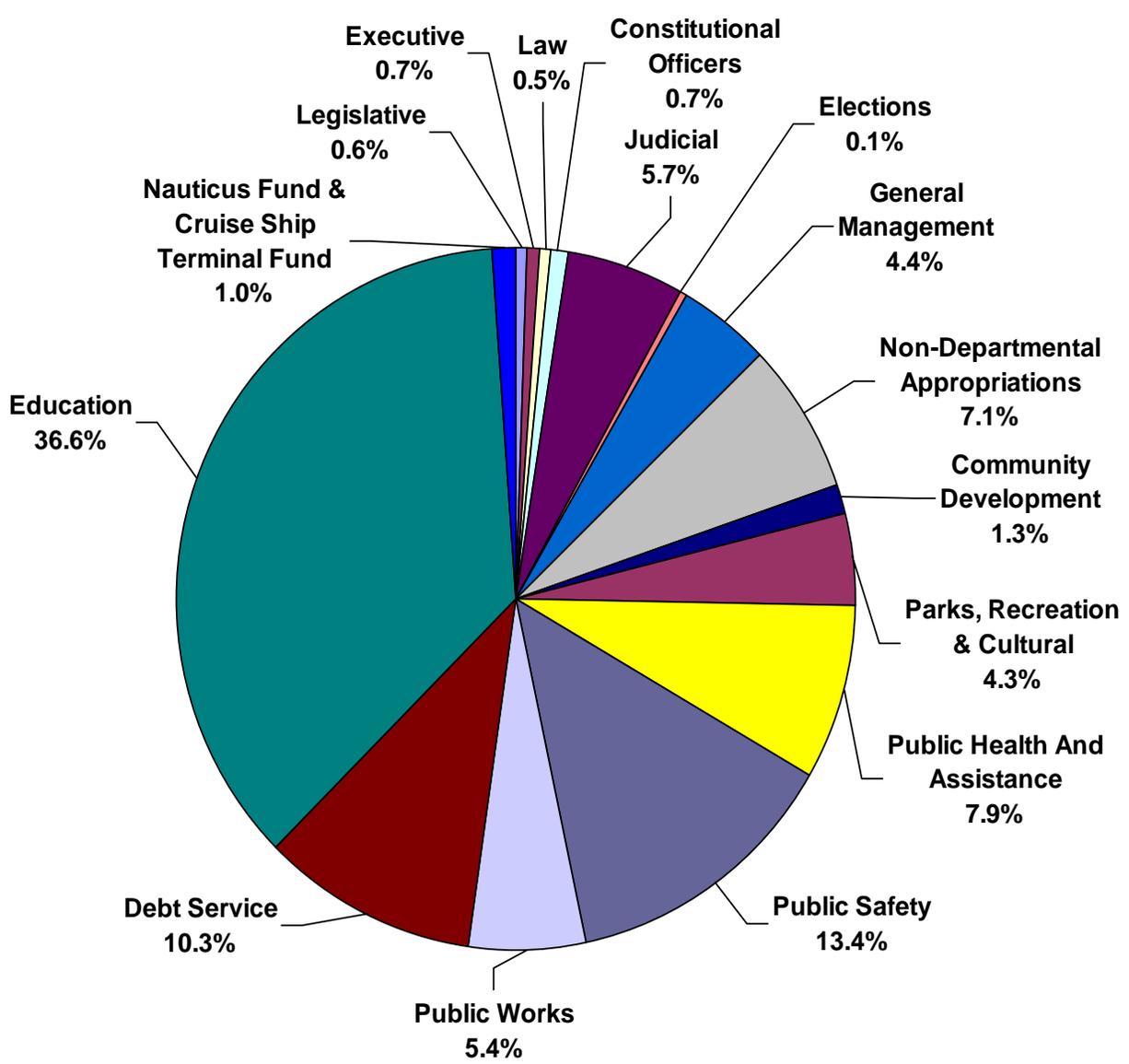


# ESTIMATED GENERAL FUND EXPENDITURES BY AREA

The following table compares the FY 2012 Approved General Fund Operating Budget to the FY 2011 Approved General Fund Operating Budget and the FY 2010 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 2010	FY 2011	FY 2012	FY 2011 vs. FY 2012	
	Actual	Approved	Approved	\$ Change	% Change
Legislative	4,480,956	4,416,700	4,438,800	22,100	0.5%
Executive	5,336,059	6,658,600	5,170,300	-1,488,300	-22.4%
Law	3,691,381	3,912,500	3,941,200	28,700	0.7%
Constitutional Officers	5,360,023	5,202,200	5,343,900	141,700	2.7%
Judicial	45,206,183	45,630,600	45,634,100	3,500	0.0%
Elections	644,743	618,100	906,300	288,200	46.6%
General Management	31,557,550	17,233,300	35,231,000	17,997,700	104.4%
Non-Departmental	53,095,374	57,969,100	58,455,000	485,900	0.8%
Appropriations	6,892,763	11,245,000	10,615,700	-629,300	-5.6%
Community Development	39,240,601	32,401,800	34,136,000	1,734,200	5.4%
Parks, Recreation & Cultural	61,042,517	63,692,800	62,999,000	-693,800	-1.1%
Public Health & Assistance	102,254,140	105,029,400	106,782,700	1,753,300	1.7%
Public Safety	48,271,390	62,055,300	43,096,900	-18,958,400	-30.6%
Debt Service	68,262,947	73,915,500	82,052,400	8,136,900	11.0%
Education	318,728,374	295,657,800	290,550,500	-5,107,300	-1.7%
<b>Subtotal*</b>	<b>794,065,001</b>	<b>785,638,700</b>	<b>789,353,800</b>	<b>3,715,100</b>	<b>0.5%</b>
*Several accounting adjustments are made below to reflect GASB 54 requirement for governmental fund type definitions:					
Adjustment to reflect the reporting of fund-to-fund transfers no longer required under GASB 54	-3,520,903	-3,220,903	-2,286,200	934,703	-29.0%
National Maritime Center (Nauticus)	4,229,296	5,797,100	5,310,200	-486,900	-8.4%
Cruise Ship Terminal	1,653,330	3,154,400	2,638,400	-516,000	-16.4%
<b>General Fund Total</b>	<b>794,065,001</b>	<b>791,369,297</b>	<b>795,016,200</b>	<b>3,646,903</b>	<b>0.5%</b>

### Approved FY 2012 General Fund Expenditures by Area



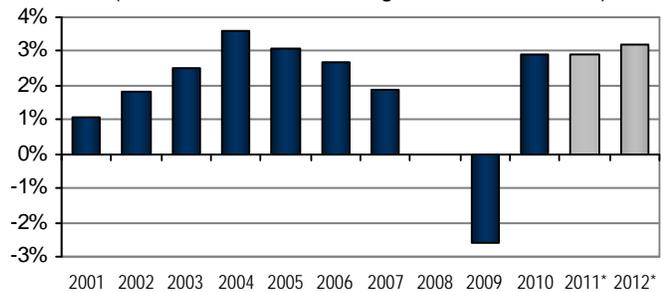
# MAJOR REVENUE SOURCES

Evaluating the City's current and long-term financial health requires a review of the economy and major revenue sources. Overall, General Fund revenues are projected to increase slightly. However, two key revenue sources, the real estate tax and revenue from the Commonwealth, are projected to continue to decline in FY 2012.

## ECONOMIC OVERVIEW

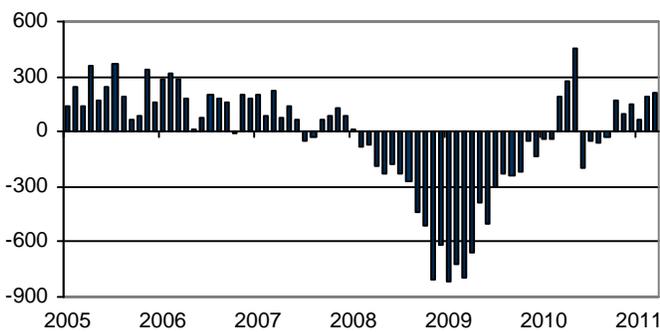
The economy has grown modestly since the national recession technically ended in the 2<sup>nd</sup> quarter of 2009. By the end of 2010, real gross domestic product (GDP), which is the broadest measure of economic activity, has risen back to its pre-recession level. The growth of the economy was driven by consumer spending, businesses building up their inventory, and business investment in equipment and software. The Blue Chip Consensus forecast in April - a consensus forecast by financial institutions and business consultants - projects real GDP to continue to increase slightly above trend growth in 2011 and 2012. However, the pace of the recovery has not been as robust as previous recoveries that followed a deep recession.

**Economic Growth Expected to Continue**  
(Real GDP Annual % Change from Previous Year)



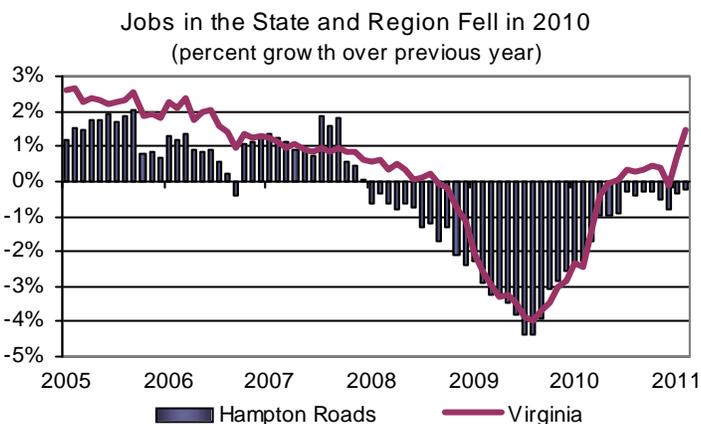
\* Blue Chip Consensus forecast (April 2011)

**Economy Added Jobs in 2010**  
(month-to-month change in the number of jobs)



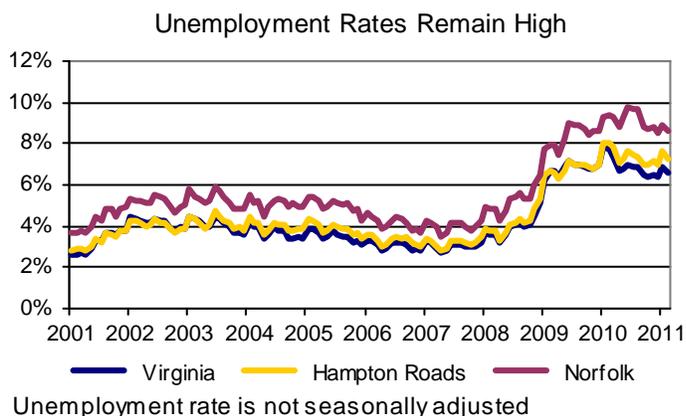
The economy added 940,000 jobs in 2010, the first annual gain since 2007. Job growth continued through the first quarter of 2011. The private sector added about 564,000 jobs during the first three months of the year, while the unemployment rate fell below 9 percent for the first time since April 2009. However, it will take some time for the economy to recover the 8.7 million jobs lost in 2008 and 2009.

Unlike the rest of the nation, the number of jobs in Virginia and in Hampton Roads continued to decline in 2010. However, the job losses have not been as steep as in 2009. In 2010, employment fell by 0.4 percent (15,100 jobs) in Virginia and 1% (7,300 jobs) in Hampton Roads. In comparison, Virginia lost 120,700 jobs in 2009, while Hampton Roads lost 25,600 jobs. The Hampton Roads region continued to have job losses in professional and business services, retail and wholesale trade, and manufacturing continued in 2010.



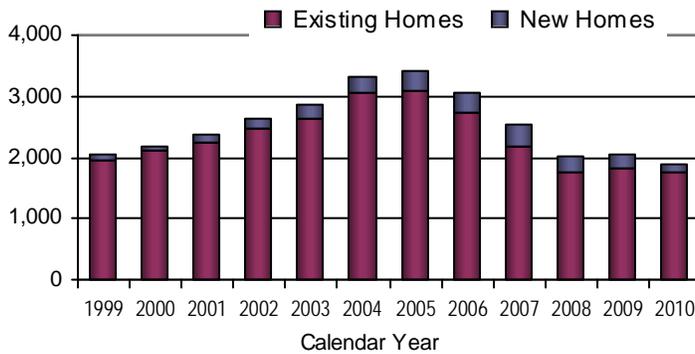
Statewide, through February 2011, the number of jobs has been increasing year-over-year in almost every month except December 2010, since June 2010. However, the Hampton Roads region is still experiencing year-over-year job losses in every month since January 2008.

Although the statewide, regional and local unemployment rates remain high, unemployment has been steadily declining from their historic high point. According to the Virginia Employment Commission (VEC), the state's unemployment rate of 6.6 percent in February 2011 is 1.2 percentage point lower than the historic high of 7.8 percent rate reached in January 2010. Similarly, Norfolk's unemployment rate of 8.6 percent in February 2011 is 1.2 percentage point lower than the rate last year. However, some of the decline can be attributed to fewer people in the labor force. In February 2011, the labor force in Norfolk fell to its lowest level since December 2006.



The economic recovery appears to be having a positive impact on the Commonwealth's fiscal condition. The state's fiscal condition is of consequence to Norfolk, since approximately 36 percent of its general fund resources comes from the state. In FY 2010, the state ended the fiscal year with a slight surplus. In recent months, the state's general fund revenues has been rising steadily, which has led the state to revise upwards its revenue forecast mid-year. Income tax and sales tax, which make up nearly 90 percent of the state's general fund revenue, are closely tied to economic activity. However the recovery of the state's revenues has not resulted in the restoration of the significant reductions in aid to localities made in the previous years.

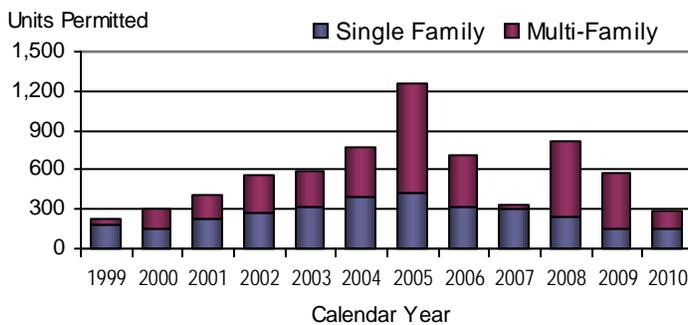
### Homes Sales in Norfolk Declined in 2010



Unlike the Commonwealth, Norfolk’s locally generated revenues have not seen the same level of recovery. This is because, like other localities, the City is highly dependent on property taxes, which have declining as a result of the weak housing market and the economy. For FY 2012, the Real Estate Assessor’s Office is projecting overall real estate assessments (that is, residential and commercial properties, apartments, and vacant land assessments combined) will decline by 4.95 percent over the previous year. This is the second consecutive decline in overall assessments in Norfolk in over 30

years. Moreover, the 4.95 percent projected decline in FY 2012 is steeper than the 3.1 percent decline in FY 2011. The assessed value of residential properties is projected to decline 4.33 percent, which follows the 4.35 percent decline in FY 2011. Commercial property assessments are projected to decline by 9.3 percent, which is significantly greater than the 0.29 percent decline in FY 2011. The decline in residential assessments is a reflection of the continued weakness in the housing market. The average sales price of homes sold in Norfolk fell 6.3 percent in 2010; however, the decline was significantly less than the 11.2 percent decline in 2009. The assessed value of commercial real estate, income properties in particular, have been impacted by the national recession. In 2010, the overall year-end office vacancy rate in Downtown Norfolk rose to 17.5 percent from 9.4 percent in 2008. However, the increase in the vacancy rate is due, in part, to the completion of the Wells Fargo Tower.

### Housing Units Permitted in Multi-Family Structures in Norfolk Declined in 2010



Residential building activity fell significantly in 2010. The number of housing units permitted for construction decreased in calendar year 2010, mainly due to housing units permitted in multi-family structures. Housing units permitted in single-family structures rose slightly. However, calendar year 2010 did see an increase in the value of building permits issued for non-residential (“commercial”) projects, which included the next phase of the Wells Fargo tower, Eastern Virginia Medical Schools (EVMS) research and education building, and the Hampton Roads Transit bus facility. It is important to note that Norfolk is built out. Consequently, much of the building activity is

mainly redevelopment and infill development.

## 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 provide the revenue to fund general services such as police, fire, parks and recreation, street maintenance, local commitment to education, human services, and central administrative revenue.

The Commonwealth of Virginia provides approximately 36 percent of General Fund revenues which consist of funding for dedicated purposes such as education, social services, transportation and constitutional

officers, HB 599 funds for law enforcement, City's share of personal property tax relief funds, and the tax on rental of cars also make up revenue from the Commonwealth. As a result of a decline in revenues in recent years, the state reduced direct aid to education, HB 599, Constitutional Officers salaries and benefits, jail per diems, and funds for street maintenance and eliminated Norfolk's share of ABC profits and wine tax. In addition, the state has continued to impose an additional flexible cut to Norfolk's state aid to localities since FY 2009. The City has very little discretion on how the revenue from the state are spent. It is important to keep in mind that Norfolk, being landlocked and prohibited from annexation, is restricted from creating funding mechanisms that allow the City to independently make up any deficiencies in state funding.

The remaining revenue comes from the federal government (mainly funds dedicated towards education), recovered costs, inter-fund transfers, and carry-forward funds from accumulated savings. Inter-fund transfers represent a return on investment from the Water and Wastewater utility operations. Carry-forward funds for one-time expenditures are made possible from current and prior year savings.

Preliminary General Fund revenue projections were presented in February, based on historical trends and the latest economic data. Projections were updated through April to incorporate the most recent information available. Estimates for each revenue source are based on the analysis of the collection history and patterns, the underlying drivers that impact the revenue source, and the overall economic environment projected for the City in the coming year. Revenue projections include a FY 2011 end of year estimate and a FY 2012 estimate. After GASB 54 accounting adjustments, the FY 2012 General Fund revenue is \$3.6 million (0.5 percent) above that of FY 2011, bringing total revenues to \$795 million.

### Total General Fund Revenues

Source	FY 2010	FY 2011	FY 2012	FY 2011 vs FY 2012	
	Actual	Approved	Approved	\$ Change	% Change
General Property Taxes	256,561,095	251,403,800	246,979,300	-4,424,500	-1.8%
Other Local Taxes	145,065,893	147,748,000	150,730,000	2,982,000	2.0%
Permits and Fees	3,526,259	4,473,000	3,856,300	-616,700	-13.8%
Fines and Forfeitures	1,163,491	1,349,000	1,250,000	-99,000	-7.3%
Use of Money and Property	6,044,924	6,387,000	5,811,300	-575,700	-9.0%
Charges for Services	33,071,699	32,368,100	33,929,900	1,561,800	4.8%
Miscellaneous Revenue	5,113,200	7,670,300	10,098,300	2,428,000	31.7%
Recovered Costs	8,207,635	10,507,000	10,579,200	72,200	0.7%
Non-Categorical Aid-State	32,164,855	32,262,700	31,857,000	-405,700	-1.3%
Shared Expenses - State	20,032,014	20,254,700	19,153,000	-1,101,700	-5.4%
Categorical Aid-State	270,287,951	244,922,500	236,303,700	-8,618,800	-3.5%
Federal Aid	7,606,449	5,589,600	10,545,200	4,955,600	88.7%
Other Sources and Transfers In	13,307,663	20,703,000	28,260,600	7,557,600	36.5%
<b>Subtotal*</b>	<b>802,153,128</b>	<b>785,638,700</b>	<b>789,353,800</b>	<b>3,715,100</b>	<b>0.5%</b>

\*Several accounting adjustments are made below to reflect the GASB 54 requirement for governmental fund type definitions:

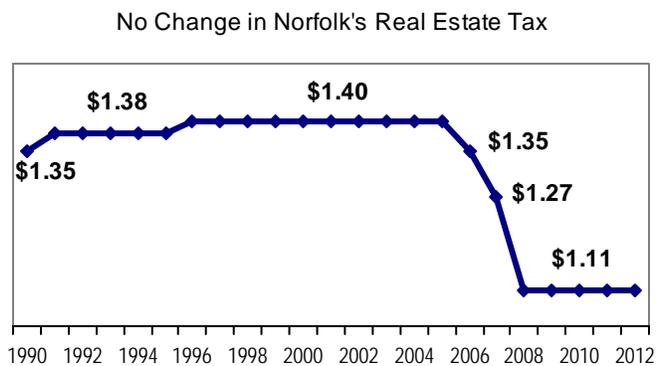
Adjustment to reflect the reporting of fund-to-fund transfers no longer required under GASB 54	-3,520,903	-3,220,903	-2,286,200	934,703	-29.0%
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Cruise Ship Terminal	2,208,547	3,154,400	2,638,400	-516,000	-16.4%
<b>General Fund Total</b>	<b>804,917,220</b>	<b>791,369,297</b>	<b>795,016,200</b>	<b>3,646,903</b>	<b>0.5%</b>

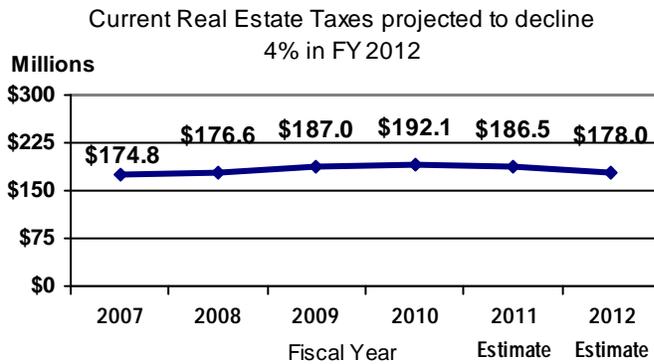
## REVENUE MONITORING

Collection patterns for all of the City’s revenue sources are monitored throughout the year. Data from monthly financial reports are monitored to determine the accuracy of budgetary projections. This allows for appropriate administrative action if actual results differ substantially from projections. A detailed collections database is compiled to project future revenue collections taking into account unique patterns or seasonal fluctuations. Strong collection rates for locally generated taxes and fees reflect the commitment and fulfillment of responsibility that Norfolk residents show to their City.

## GENERAL PROPERTY TAXES

General Property Taxes are levied on the assessed value of real and personal property and represent approximately 31 percent (\$247 million) of the City’s General Fund revenues. Real estate taxes make up the largest component of general property taxes. Current real estate taxes make up about 22 percent (\$178 million) of the FY 2012 revenues. The FY 2012 estimate for current real estate taxes reflects no change in the tax rate of \$1.11 and setting aside \$7.5 million to provide tax relief to seniors and disabled residents and veterans.

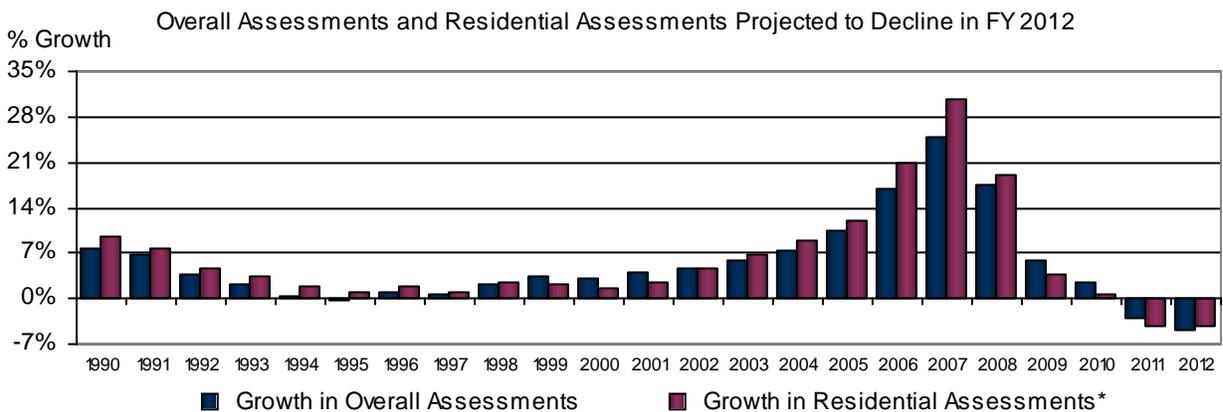




In FY 2012, current real estate taxes will decline 4 percent over the FY 2011 budget. The decline in real estate taxes is based on the Real Estate Assessor's Office projection of a 4.95 percent decline in overall real estate assessments. This is the second consecutive decline in overall assessments in over 30 years. Residential and commercial assessments (excluding vacant land and apartments) are projected to decline by 4.33 percent and 9.3 percent, respectively. However, an increase in collections of delinquent general property taxes is expected to offset some of the decrease in current real estate collections, with

the City's expansion of collection methods. Considerations about the City's growth in real estate assessments and tax rate should also take into account that about 36 percent of real property in the City is tax-exempt mainly due to federal land ownership.

Another key component of general property taxes is the personal property tax, which is levied on all tangible personal property, including motor vehicles, boats, aircraft, business furnishings and office equipment. Household goods and personal effects are exempt. Personal property tax (current) for the General Fund, which totals \$33.9 million, makes up about 4 percent of the FY 2012 estimate and is generally levied on motor vehicles, business personal property (such as, furniture, fixtures, and equipment), recreational and commercial boats, and airplanes. The general tax rate on personal property (current) rate is \$4.33 per \$100 of assessed value. The FY 2012 estimate also assumes a 55% state car tax relief rate for tax year 2012 (that is, tax bills due on June 5, 2012), which is anticipated to fully exhaust relief funds provided to the City by the Commonwealth of Virginia under the Personal Property Tax Relief Act. For qualifying vehicles with an assessed value of more than \$1,000, a 55% rate of tax relief shall be applied to the first \$20,000 in value of the qualifying vehicle. Qualifying vehicles with an assessed value of \$1,000 or less would receive 100% rate of tax relief. In 2004, the state passed legislation that placed a cap on 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 state's personal property tax relief funds rather than a reimbursement of 70 percent of the total property tax eligible for reimbursement. Norfolk's share is \$16,871,056. Personal property tax relief funds received and not used in FY 2012 shall be carried forward and used to increase the funds available for car tax relief. With the state capping the amount of funds available for car tax relief, the percentage of the state reimbursement compared to the total tax is expected to decrease over time and residents will pay an increasing share of the car tax.



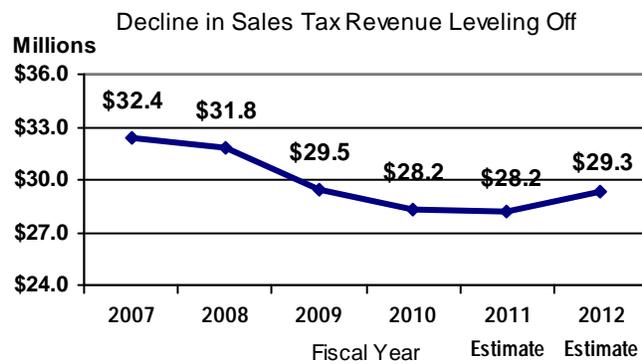
\* excludes residential vacant land and apartments

The machinery and tools tax is the remaining key component of general property taxes. This tax is levied on machinery and tools used in manufacturing, mining, radio and television broadcasting, cable television, dry cleaning or laundry businesses. Revenue from this source has been flat since FY 2008. The significant decline in FY 2008 was due to the Ford Plant closing in June 2007 and General Assembly actions designating idle machinery and tools exempt from taxation.



## OTHER LOCAL TAXES

Other local taxes are comprised of consumer and business-based taxes, including excise taxes on utilities, sales, hotel/motel, restaurant, admissions, and cigarettes, as well as franchise, business license, and recordation taxes. In FY 2012, other local taxes are projected to make up about 19 percent (\$150.7 million) of the City's General Fund revenues.



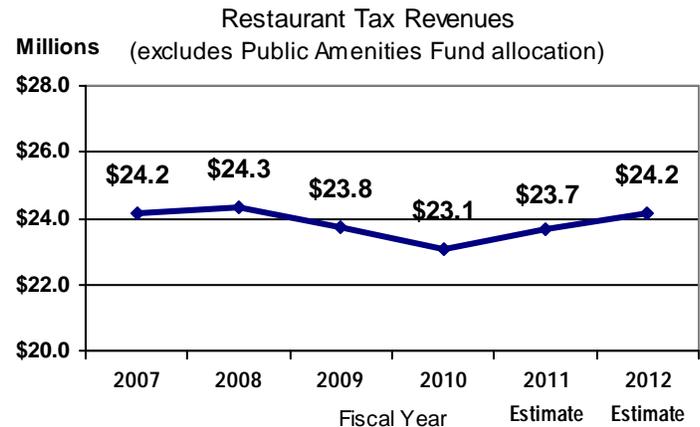
Sales tax is levied on the selling, distribution, use, or consumption of tangible personal property, the leasing or renting of tangible personal property and the storage of personal property inside or outside Virginia that is for use in Virginia. Revenue from this source is sensitive to the state of the economy, household income, and underlying price level changes. Current year estimates are used in projecting next year's revenues. Changes in the local retail market (such as opening of new stores, performance of existing stores, job growth, consumer confidence, and overall economic health) are used for projecting this revenue. Sales tax receipts are projected to increase by 3.2 percent or \$900,000 over the FY 2011 approved budget, due to a modest recovery of the economy.

Consumer's utility tax is levied on the purchase of utility service including water, gas, and electricity. The tax is assessed on the amount charged, exclusive of any federal tax. 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 were abolished and replaced by a statewide Communications Sales and Use Tax and the E-911 tax on telephones was replaced by a uniform \$0.75 tax per phone on January 1, 2007. In FY 2012, revenue from the consumer utility tax and communications sales and use tax combined are projected to be level as compared to the FY 2011 budget but are projected to be 2.5 percent above the FY 2011 end of year estimate, which reflects refunds that are projected to occur before the end of the fiscal year.

Business license taxes are collected from anyone who engages in a business, trade, profession, occupation or other activity in the City. It is generally imposed as a percentage of gross receipts. It is also applied to individuals that maintain a place of business, either permanent or temporary, or conduct a business-related activity. Rates vary depending on business classification and amount of gross receipts generated. This revenue source (approximately \$26.3 million) makes up 3.3 percent of General Fund revenues. It is

projected to be 1.1 percent below the FY 2011 budget but 3.3 percent above the FY 2011 end of year estimate due to a modest recovery in the economy.

Restaurant taxes are collected on prepared meals. The tax rate is 6.5 percent of the value of the meal, with one percentage point of the tax rate allocated to the Public Amenities Fund and the remaining 5.5 percentage points allocated to the General Fund. Until the recent economic downturn, restaurant taxes grew due to the increase in the number of restaurants that have opened City-wide including, downtown Norfolk and the Military Highway corridor. In FY 2012, this revenue source is projected to continue to grow modestly by 2.1 percent above FY 2011 budget.



\* excludes Public Amenities Fund allocation

Hotel taxes are levied on hotel rooms rented. The hotel tax rate is 8 percent of the room rate. Like the restaurant tax, one percentage point is allocated to the Public Amenities Fund and the remaining 7 percentage points are allocated to the General Fund. In FY 2012, hotel tax revenue is projected to be 4.6 percent below the FY 2011 budget but is projected to grow 3.6 percent over the FY 2011 end of year estimate. The estimate, however, does not include the revenue from the \$1 surcharge per room night, which was approved by City Council in FY 2006 at the request of the Norfolk

Hotel-Motel Association. The City began collecting this tax on April 1, 2006. Revenue generated from the surcharge is designated solely for the Norfolk Convention and Visitors Bureau for visitor promotion and advertising for conventions and tourism in Norfolk and is budgeted and accounted for as a separate line item from the hotel tax. For FY 2012, the City Council raised the bed tax by an additional \$1 per room night, which will support a new initiative, the Norfolk Arts and Culture Consortium.

Cigarette taxes are projected to increase in FY 2012 due to the increase in the tax rate from 65 cents to 75 cents per pack of 20 cigarettes approved by the City Council. The last time the City Council approved a tax rate increase was in FY 2008, when the rate increased from 55 cents to 65 cents per pack of 20 cigarettes.

## PERMITS AND FEES

Permits are issued to regulate new construction and ensure public safety. Permits, privilege fees, and licenses are comprised of fees from parks and recreation, fees for permits, licenses and other privileges subject to City regulation, partially to cover the expense of providing regulatory services (taxi permits, zoning inspections, construction permits, right-of-way, etc.) in the City. Revenue from this source represents less than one percent (\$3.9 million) of General Fund revenues, not including the revenues from Nauticus and Cruise Ship Terminal which will be incorporated into the General Fund due to GASB 54.

## FINES AND FORFEITURES

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Fines and forfeitures consist of revenues received from the courts as fines and forfeitures for violations of City ordinances. These provide less than one percent (\$1.25 million) of General Fund revenues.

## CHARGES FOR SERVICES

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Charges for Services consist of revenues from fees for services, including Zoo admission, the serving of legal papers by local law enforcement officers, refuse disposal, court costs, paramedical rescue service, and miscellaneous school fees. This revenue category represents approximately 4 percent (\$33.9 million) of General Fund revenues, not including the revenues from Nauticus and Cruise Ship Terminal which will be incorporated into the General Fund due to GASB 54. The 4.8 percent (or \$1.6 million) increase of charges for services over the FY 2011 budget can be attributed in part to annualizing the increase in zoo admissions and enhanced collection of paramedic rescue/ambulance fees.

## USE OF MONEY AND PROPERTY

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Revenue from the Use of Money and Property is comprised primarily of interest earned on cash balances, rents from short-term and long-term property leases, and prudent management of City assets. Revenues from this source represent approximately 0.7 percent (\$5.8 million) of the City's General Fund revenues, not including the revenues from Nauticus and Cruise Ship Terminal which will be incorporated into the General Fund due to GASB 54. The FY 2012 estimate is approximately \$576,000 or 9 percent lower than the FY 2011 approved budget. The majority of the decline can be attributed to a projected decrease in interest and earnings of Norfolk Public Schools.

## RECOVERED COSTS

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Recovered costs consist of revenues recovered from expenses associated with employee costs, City and outside agencies, and the public. In FY 2012, recovered costs are projected to be \$10.6 million and constitute 1.3 percent of General Fund revenues. The FY 2012 estimate is 0.7 percent (or approximately \$72,000) above the FY 2011 approved budget.

## MISCELLANEOUS REVENUE

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Miscellaneous revenue consists of revenues that are not classified in the other categories. Included in this category are revenue from payments in lieu of taxes, fee for services from the Navy housing public private venture, and proceeds from land sales. In FY 2012, the City is expecting to receive about \$8.3 million which makes up approximately 1 percent of the General Fund revenues.

## NON-CATEGORICAL AID - VIRGINIA

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Non-Categorical Aid contains State revenues shared with localities without restriction as to use. In FY 2012, non-categorical aid is projected to decrease by approximately 1.3 percent (\$406,000) over the FY 2011 budget, due to the state's reduction of HB 599 funds for local law enforcement. Non-categorical aid makes up about 4 percent (\$31.9 million) of General Fund revenues.

## SHARED EXPENSES

Shared Expenses consist of recovered costs from the State for a portion of the salaries and benefits of constitutional and other offices serving the Norfolk community, including the Sheriff, City Treasurer, Commissioner of the Revenue, Clerk of the Circuit Court, and Commonwealth's Attorney. The shared expenses revenue category makes up about 2 percent (\$19.2 million) of General Fund revenues. The 5.4 percent decrease in FY 2012 reflects the City's intent to use a portion of shared expenses for its share of the state's flexible cut in aid to localities.

## STATE CATEGORICAL AID

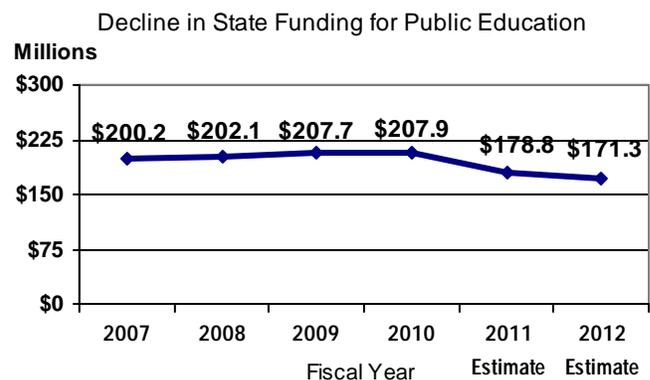
Categorical Aid from the Commonwealth consists of revenues for education, public assistance grants and social service programs, Virginia Department of Transportation (VDOT) funding for street maintenance and port funding, and local adult correctional facility. Categorical Aid constitutes about 30 percent (\$236.3 million) of General Fund revenues. The majority of Categorical Aid (\$171.3 million) is earmarked for education.

Categorical Aid decreased \$8.6 million (3.5 percent) over the FY 2011 budget. The majority of the decline was due to state funds for education.

State funding for education (\$171.3 million) decreased by \$8.6 million (4.8 percent) over the City's FY 2011 approved budget. However, the decrease is offset by \$4.5 million in federal aid that Norfolk Public Schools is anticipating to receive through the Education Jobs Fund. Categorical aid for schools includes the State Sales and Use Tax and State School Funds, which is the revenue from the City's proportionate share of the one percent of the State Sales and Use Tax, designated for education purposes. The City's share is based on the ratio of the number of school age children in the City to the number of school age children statewide. Additionally in FY 2005, half of the one-half cent sales tax increase approved by the General Assembly was earmarked for local school systems and real estate tax relief. This amounts to an additional one-quarter percent on the sales tax dedicated to schools. Half of that quarter percent is distributed in the same manner as the one percent return discussed above. The other half of the quarter percent goes to support the Standards of Quality (SOQ) funding reflected in State School Funds.

State School Funds reflect the schools operational costs. The rate of reimbursements is based on the SOQ formula. Reimbursement rates vary 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. Currently, Norfolk more than funds its share of local effort. Norfolk's composite index increased in the 2010 – 2012 biennium, which increases the City share of funding public education and reduces state's funding. However, the state approved budget includes funding to hold localities harmless from an increase in the composite index; however, the hold harmless funding will not be continued into the 2012-2014 biennial budget.

State reimbursements for the cost of operating the Social Services Department include cost of personnel, fringe benefits, non-personal services, rent for buildings and parking, etc. The reimbursement rate varies by program from 50 to 70 percent of the overall costs incurred.



The 2010 General Assembly modified jail per diem rates. Effective March 1, 2010, per diem payments for local responsible inmates in local or regional jails decreases from \$8 per day to \$4 per day, and changes from \$8 or \$14 per day to \$12 per day for state inmates housed in local jails. Payment for jail contract beds falls to \$8 per day (from \$14 per day). The change in the per diem rate resulted in a \$2 million decline in jail funding.

In FY 2012, the state appropriated a 4 percent increase in street construction and maintenance funds. The funds 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 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 CATEGORICAL AID

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Federal Categorical Aid primarily consists of education funds from the federal government and is nearly 2 percent (\$12.3 million) of the FY 2012 General Fund revenues. The FY 2012 estimate includes funding from the Education Jobs Fund.

## OTHER SOURCES AND TRANSFERS

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Other Sources and Transfers consist of intra-governmental transfers and carry over funds, which amount to nearly 4 percent (\$28.3 million) of the City's General Fund revenues, not including the revenues from Nauticus and Cruise Ship Terminal which will be incorporated into the General Fund due to GASB 54. The estimate includes: transfers in from non-General Funds (\$12.2 million); carrying forward unspent appropriations from prior years and closeout of accounts; and FY 2011 savings realized from the mid-year reduction.

# TAX RATES AND FEES

Description	FY 2011 Approved	FY 2012 Approved
<b>Property Taxes</b>		
Real Estate (General Tax)	\$1.11/\$100 Assessed Value	\$1.11/\$100 Assessed Value
Real Estate (Downtown Improvement District)	\$1.27/\$100 Assessed Value	\$1.27/\$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	\$0.50/\$100 Assessed Value	\$0.50/\$100 Assessed Value
Machinery & Tools	\$4.25/\$100 Assessed Value	\$4.25/\$100 Assessed Value
<b>Other Local Taxes</b>		
Amusement and Admissions	10%	10%
Cigarette	65 cents/pack of 20 cigarettes (32.5 mils/cigarette)	75 cents/pack of 20 cigarettes (37.5 mils/cigarette)
Emergency 911 (Landline)	Repealed and replaced by a statewide E-911 tax rate of \$0.75/line/month	Repealed and replaced by a statewide E-911 tax rate of \$0.75/line/month
Hotel/Motel Lodging	8%	8%
Bed Tax	\$1 per room night	\$2 per room night
Restaurant Meal	6.5%	6.5%
Motor Vehicle License:		
Small Trailers (<2,000 pounds)	\$6.50	\$6.50
Motorcycles	\$15.00	\$15.00
Cars & Small Trucks	\$26.00	\$26.00
Semi Trailers	\$20.00	\$20.00
Mid-Size Trucks/Vans (>4,000 pounds)	\$31.00	\$31.00
Large Vehicles (19,000 pounds and over)	\$1.60-\$1.80/1,000 pounds of gross weight	\$1.60-\$1.80/1,000 pounds of gross weight
Passenger (>10)	\$0.30/100 pounds of weight (not less than \$26)	\$0.30/100 pounds of weight (not less than \$26)
<b>Refuse Disposal Residential</b>		

<b>Description</b>	<b>FY 2011 Approved</b>	<b>FY 2012 Approved</b>
Single Units & Multiple Units (four units or less)	\$27.01/unit/month	\$27.01/unit/month
Multiple Units (five units or more)	\$45.27/container/month	\$45.27/container/month
<b>Commercial</b>		
Business 1 times per week	\$59.00/unit/month	\$59.00/unit/month
Business 5 times per week	\$146.24/unit/month	\$146.24/unit/month
Combined Commercial and Residential	\$86.01/unit/month	\$86.01/unit/month
<b>Water and Wastewater Fees</b>		
Water	\$3.87/100 cubic feet	\$4.01/100 cubic feet
Wastewater	\$3.13/100 cubic feet	\$3.26/100 cubic feet
<b>Storm Water Fees</b>		
Residential	\$8.46/month	\$8.70/month
Commercial	\$5.79/month per 2,000 sq. ft.	\$6.00/month per 2,000 sq. ft.
<b>Utility Taxes</b>		
<b>Commercial</b>		
Gas	\$3.225 + \$0.167821/CCF 0-70 CCF + \$0.161552/CCF 71-430 CCF + \$0.15363/CCF on balance/month (Max of \$500/month)	\$3.225 + \$0.167821/CCF 0-70 CCF + \$0.161552/CCF 71-430 CCF + \$0.15363/CCF on balance/month (Max of \$500/month)
Electricity (Manufacturing)	\$1.38 + \$0.004965/kWh 0-3,625,100 kWhs + \$0.004014/kWh on balance/ month (Max of \$53,000/month)	\$1.38 + \$0.004965/kWh 0-3,625,100 kWhs + \$0.004014/kWh on balance/ month (Max of \$53,000/month)
Electricity (Non-Manufacturing)	\$2.87 + \$0.017933/kWh 0-537 kWh + \$0.006330/kWh on balance/month	\$2.87 + \$0.017933/kWh 0-537 kWh + \$0.006330/kWh on balance/month
Telephone (Cellular, Landline)	Repealed and replaced by the State Communications Sales & Use Tax 5% of sales price of services	Repealed and 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
<b>Residential</b>		
Cable and Satellite Service Telephone (Cellular, Landline)	Repealed and replaced by the State Communications Sales & Use Tax	Repealed and 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

# SUMMARY OF CHANGES IN FUND BALANCES

## General Fund

	FY 2010 Actual	FY 2011 Approved	FY 2012 Approved
<b>Operating Revenues</b>			
General property taxes	256,561,095	251,403,800	246,979,300
Other local taxes	145,065,893	147,748,000	150,730,000
Permits and fees	3,526,259	4,473,000	4,566,300
Fines and forfeitures	1,163,491	1,349,000	1,250,000
Commonwealth	322,484,820	297,439,900	287,313,700
Federal	7,460,892	5,589,600	12,345,200
Charges for services	33,071,699	32,368,100	36,273,900
Miscellaneous	5,258,757	7,670,300	8,328,300
Recovered costs	8,207,635	10,507,000	10,579,200
<b>Total Operating Revenues</b>	<b>782,800,541</b>	<b>758,548,700</b>	<b>758,365,900</b>
<b>Operating Expenses</b>			
Personnel services	240,032,028	247,803,774	257,297,744
Contractual services	51,173,026	50,057,307	46,348,157
Materials, supplies and repairs	33,526,723	36,034,774	38,758,123
All purpose appropriations	362,440,524	346,514,222	343,988,236
Public assistance	19,041,763	21,701,395	21,249,861
<b>Total Operating Expenses</b>	<b>706,214,064</b>	<b>702,111,472</b>	<b>707,642,121</b>
<b>Operating Income (Loss)</b>	<b>76,586,477</b>	<b>56,437,228</b>	<b>50,723,779</b>
<b>Non-Operating Revenues (Expenses)</b>			
Money and use of property	6,044,924	6,387,000	6,711,300
Capital outlay	(2,404,208)	(3,712,049)	(2,863,849)
Debt service	(65,888,430)	(73,305,834)	(82,083,190)
Acctg. for Encumbrances for Budget not GAAP	1,129,017	-	-
<b>Total Non-Operating Revenue/Expense</b>	<b>(61,118,697)</b>	<b>(70,630,883)</b>	<b>(78,235,739)</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>15,467,780</b>	<b>(14,193,655)</b>	<b>(27,511,960)</b>
Operating transfers in	12,566,907	14,913,000	12,202,900
Operating transfers out	(609,666)	(6,509,345)	(2,427,040)
<b>Total Operating Transfers</b>	<b>11,957,241</b>	<b>8,403,655</b>	<b>9,775,860</b>
<b>Net Income (Loss) (restatement)*</b>	<b>3,510,539</b>	<b>(6,930,200)</b>	<b>(17,736,100)</b>
<b>Beginning fund balance at July 1</b>	<b>58,625,970</b>	<b>77,983,772</b>	<b>71,053,572</b>
<b>Ending fund balance at June 30 (restatement)*</b>	<b>77,983,772</b>	<b>71,053,572</b>	<b>53,317,472</b>

\* Restatement of FY 2010 ending fund balance and FY 2011 net income/(loss) reflects accounting adjustments due to GASB 54. The FY 2010 ending fund balance and FY 2011 net income/(loss) are preliminary pending the completion of the year-end independent financial audit.

## Special Revenue Funds

	FY 2010 Actual	FY 2011 Approved	FY 2012 Approved
<b>Operating Revenues</b>			
General property taxes	3,344,300	3,661,800	2,799,321
Other local taxes	8,549,112	8,731,488	8,782,296
Permits and fees	-	710,000	-
Fines and forfeitures	-	-	-
Commonwealth	-	-	-
Federal	127,135	63,617	63,617
Charges for services	17,154,918	16,301,570	15,602,523
Miscellaneous	1,420,561	455,371	363,587
Recovered costs	305,580	1,641,186	1,751,223
<b>Total Operating Revenues</b>	<b>30,901,606</b>	<b>31,565,032</b>	<b>29,362,567</b>
<b>Operating Expenses</b>			
Personnel services	12,982,460	15,760,939	12,182,947
Contractual services	5,167,736	5,418,904	3,488,874
Materials, supplies and repairs	2,696,299	3,959,731	3,344,937
Depreciation	-	-	-
Bad debt expense	-	-	-
All purpose appropriations	3,720,655	3,952,750	4,888,745
<b>Total Operating Expenses</b>	<b>24,567,150</b>	<b>29,092,324</b>	<b>23,905,503</b>
<b>Operating Income (Loss)</b>	<b>6,334,456</b>	<b>2,472,708</b>	<b>5,457,064</b>
<b>Non-Operating Revenues (Expenses)</b>			
Money and use of property	356,224	2,253,534	865,000
Capital outlay	(1,791,978)	(2,242,045)	(1,485,045)
Interest and fiscal charges	-	-	-
Debt service	(3,945,066)	(7,195,153)	(3,633,391)
<b>Total Non-Operating Revenue/Expense</b>	<b>(5,380,820)</b>	<b>(7,183,664)</b>	<b>(4,253,436)</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>953,636</b>	<b>(4,710,956)</b>	<b>1,203,628</b>
Operating transfers in	6,263,685	6,159,548	817,374
Operating transfers out	(6,913,210)	(6,969,978)	(3,202,961)
<b>Total Operating Transfers</b>	<b>(649,525)</b>	<b>(810,430)</b>	<b>(2,385,587)</b>
<b>Net Change in Fund Balance (restatement)*</b>	<b>304,111</b>	<b>(4,381,186)</b>	<b>(1,181,959)</b>
<b>Beginning fund balance at July 1</b>	<b>15,392,553</b>	<b>13,921,822</b>	<b>9,540,636</b>
<b>Ending fund balance at June 30 (restatement)*</b>	<b>13,921,822</b>	<b>9,540,636</b>	<b>8,358,677</b>

\* Restatement of FY 2010 ending fund balance and FY 2011 net change in fund balance reflects accounting adjustments due to GASB 54. The FY 2010 ending fund balance and FY 2011 change in fund balance are preliminary pending the completion of the year-end independent financial audit.

# SUMMARY OF CHANGES IN NET ASSETS

## Enterprise Funds

	FY 2010 Actual	FY 2011 Approved	FY 2012 Approved
<b>Operating Revenues</b>			
General property taxes	-	-	-
Other local taxes	-	-	-
Permits and fees	-	1,488,300	1,460,300
Fines and forfeitures	-	1,848,000	2,000,000
Commonwealth	-	-	-
Federal	-	-	-
Charges for services	121,582,120	119,182,349	118,271,796
Miscellaneous	3,431,713	15,000	850,604
Recovered costs	-	1,239,865	1,244,600
<b>Total Operating Revenues</b>	<b>125,013,833</b>	<b>123,773,514</b>	<b>123,827,300</b>
<b>Operating Expenses</b>			
Personnel services	31,023,947	26,477,571	26,848,047
Contractual services/Other	11,346,951	17,871,985	15,340,182
Materials, supplies and repairs	16,516,824	16,234,751	15,776,046
Depreciation	20,419,401	-	-
Bad debt expense	414,835	-	-
All purpose appropriations	-	1,950,910	1,068,564
<b>Total Operating Expenses</b>	<b>79,721,958</b>	<b>62,535,217</b>	<b>59,032,839</b>
<b>Operating Income (Loss)</b>	<b>45,291,875</b>	<b>61,238,297</b>	<b>64,794,461</b>
<b>Non-Operating Revenues (Expenses)</b>			
Money and use of property	618,180	1,371,286	646,000
Capital outlay	-	(675,097)	(726,973)
Intergovernmental revenue	65,450		
Contributions	82,302		
Gain/(Loss)-Sale of fixed assets & investments	2,744,446	7,400	7,400
Debt service	(23,584,549)	(51,941,886)	(54,720,888)
<b>Total Non-Operating Revenue/Expense</b>	<b>(20,074,171)</b>	<b>(51,238,297)</b>	<b>(54,794,461)</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>25,217,704</b>	<b>10,000,000</b>	<b>10,000,000</b>
Capital Contribution	366,363	-	-
Operating transfers in	-	-	-
Operating transfers out	(13,054,009)	(10,000,000)	(10,000,000)
<b>Total Operating Transfers/Capital Contrib.</b>	<b>(12,687,646)</b>	<b>(10,000,000)</b>	<b>(10,000,000)</b>
<b>Net Income (Loss)</b>	<b>12,530,058</b>	<b>0</b>	<b>0</b>
<b>Beginning Net Assets at July 1</b>	<b>320,534,149</b>	<b>333,064,207</b>	<b>333,064,207</b>
<b>Ending Net Assets at June 30</b>	<b>333,064,207</b>	<b>333,064,207</b>	<b>333,064,207</b>

## Internal Service Funds

	FY 2010 Actual	FY 2011 Approved	FY 2012 Approved
<b>Operating Revenues</b>			
General property taxes	-	-	-
Other local taxes	-	-	-
Permits and fees	-	-	-
Fines and forfeitures	-	-	-
Commonwealth	-	-	-
Federal	-	-	-
Charges for services	13,473,596	12,175,219	13,039,084
Miscellaneous	153,105	-	-
Recovered costs	-	102,903	156,126
<b>Total Operating Revenues</b>	<b>13,626,701</b>	<b>12,278,122</b>	<b>13,195,210</b>
<b>Operating Expenses</b>			
Personnel services	3,940,624	4,054,711	4,070,100
Cost of Goods Sold	10,491,544	-	-
Contractual services/Other	1,028,623	963,881	964,002
Materials, supplies and repairs	275,056	7,206,630	8,100,020
Depreciation	310,816	-	-
Bad debt expense	-	-	-
All purpose appropriations	-	1,000	1,000
<b>Total Operating Expenses</b>	<b>16,046,663</b>	<b>12,226,222</b>	<b>13,135,122</b>
<b>Operating Income (Loss)</b>	<b>(2,419,962)</b>	<b>51,900</b>	<b>60,088</b>
<b>Non-Operating Revenues (Expenses)</b>			
Money and use of property	1,790	9,978	1,790
Capital outlay	(53,541)	(61,878)	(61,878)
Interest and fiscal charges	-	-	-
Gain/(Loss)-Sale of fixed assets & investments	-	-	-
Debt service	-	-	-
<b>Total Non-Operating Revenue/Expense</b>	<b>(51,751)</b>	<b>(51,900)</b>	<b>(60,088)</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>(2,471,712)</b>	<b>0</b>	<b>0</b>
Operating transfers in	-	-	-
Operating transfers out	-	-	-
<b>Total Operating Transfers</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Income (Loss)</b>	<b>(2,471,712)</b>	<b>0</b>	<b>0</b>
<b>Beginning Net Assets at July 1</b>	<b>10,713,795</b>	<b>8,242,083</b>	<b>8,242,083</b>
<b>Ending Net Assets at June 30</b>	<b>8,242,083</b>	<b>8,242,083</b>	<b>8,242,083</b>

# 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, non-anticipated needs without jeopardizing the ongoing provision of city services. Reserves help to cushion against cash flow challenges, as seen in FY 2004 with the expenses of Hurricane Isabel. The appropriate size of reserves depends on variability of revenues and expenditures and an organization's cash flow needs.

In FY 2008, the balance in the Risk Management Reserve was reduced by \$4.9 million from \$5,740,162 to \$840,162 to settle a major general liability claim. Because the City is self-insured the Risk Management Reserve was created in the event of a major unanticipated workers compensation or general liability claim. In FY 2010, the City Council approved distributing \$1,058,409 from FY 2008 and FY 2009 year-end undesignated funds in accordance with the City's practice to replenish the Risk Management Reserve. Adding these undesignated funds raised the total Risk Management Reserve balance to \$1,898,571.

## General Fund Balance Reserves

Reserve	FY 2010 Actual	FY 2011 Goal	FY 2011 Projected
Unassigned Reserve	41,559,263	39,319,806	41,559,263
Risk Management Reserve	1,898,571	11,600,000	1,898,571
Economic Downturn/ Leveling Reserve	4,000,000	10,000,000	2,000,000
<b>General Fund Balance Reserves at June 30*</b>	<b>47,457,834</b>	<b>60,919,806</b>	<b>45,457,834</b>

Note: Amount excludes reserves for encumbrances and other legally restricted reserves and designations for specific appropriations.

The goal for FY 2011 unassigned reserve of \$39,319,806 is based on the FY 2011 General Fund Budget of \$786,396,120, which reflects the budget amendment related to the Virginia Department of Transportation funds for city street maintenance project.

However, under GASB 54, including Maritime Center (Nauticus) and Cruise Ship Terminal funds in the General Fund Budget, the goal for FY 2011 would be \$39,606,336.

# TRANSFERS FROM/TO

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The tables below represent: payments made by the general fund to support capital projects and special revenue funds; transfers from enterprise activities to the general fund; and funds to support capital projects.

**FY 2012**

**From General Fund to:**

Capital Improvement Program	1,609,666
Cemetery Fund	200,000
Emergency Preparedness and Response Fund	367,374
Golf Fund	250,000
<b>Total Transfer from General Fund*</b>	<b>2,427,040</b>

\* Reporting of the General Fund transfers to the National Maritime Center (Nauticus) and the Cruise Ship Terminal done in previous years are no longer required under GASB 54.

**To General Fund from:**

Water Fund	8,500,000
Wastewater Fund	1,500,000
Broad Creek Tax Increment Financing Fund	2,202,961
<b>Total Transfer to General Fund</b>	<b>12,202,961</b>

**To Capital Improvement Plan from:**

General Fund	1,609,666
Public Amenities Fund	1,000,000
<b>Total Transfer to Capital Improvement Plan</b>	<b>2,609,666</b>

# PERSONNEL STAFFING SUMMARY

	FY 2010 Approved	FY 2011 Current	FY 2012 Approved	Change FY 2011 to FY 2012
<b>Total Permanent Positions by Department</b>				
<b>General Fund</b>				
City Council	8	8	8	0
City Clerk	17	14	14	0
City Real Estate Assessor	26	24	23	-1
City Auditor	8	7	7	0
Office of Community Empowerment	3	0	0	0
Office of Youth and Childhood Development <sup>1</sup>	0	8	0	-8
City Manager <sup>1</sup>	21	18	16	-2
Office of Budget & Management	16	15	15	0
Intergovernmental Relations	2	0	0	0
Communications and Public Information <sup>1</sup>	16	19	12	-7
Office to End Homelessness	3	3	3	0
Department of Law	37	35	34	-1
Commissioner of the Revenue	41	38	38	0
City Treasurer	31	31	31	0
Clerk of Circuit Court	51	50	50	0
Circuit Court Judges	5	5	5	0
Commonwealth's Attorney	68	65	65	0
Sheriff and Jail	484	472	472	0
Elections	9	9	9	0
Information Technology	96	97	95	-2
Finance <sup>1</sup>	128	42	33	-9
General Services <sup>1</sup>	0	0	96	96
Human Resources	36	33	27	-6
Planning & Community Development <sup>1</sup>	80	128	117	-11
Development	19	17	17	0
Libraries	98	84	81	-3
Cultural Facilities, Arts & Entertainment <sup>1</sup>	70	67	66	-1
Zoological Park	54	57	56	-1
The National Maritime Center (Nauticus) <sup>2</sup>	34	50	50	0
Neighborhood Preservation	86	0	0	0
Recreation, Parks and Open Space <sup>1</sup>	236	220	214	-6
Cruise Ship Terminal <sup>2</sup>	3	6	6	0
Public Health	36	34	34	0
Human Services	536	497	493	-4
Police	893	869	869	0

	<b>FY 2010 Approved</b>	<b>FY 2011 Current</b>	<b>FY 2012 Approved</b>	<b>Change FY 2011 to FY 2012</b>
Fire-Rescue	517	525	525	0
Public Works <sup>1</sup>	340	422	331	-91
<b>Total General Fund</b>	<b>4,108</b>	<b>3,969</b>	<b>3,912</b>	<b>-57</b>
<b>Special Revenue Funds</b>				
Storm Water Management <sup>1</sup>	83	83	86	3
Towing & Recovery Operations	9	9	9	0
Cemeteries	39	38	35	-3
Emergency Preparedness and Response	91	90	90	0
<b>Total Special Revenue Funds</b>	<b>222</b>	<b>220</b>	<b>220</b>	<b>0</b>
<b>Enterprise Funds</b>				
Water Utility Fund	290	290	290	0
Wastewater Utility Fund	103	103	103	0
Parking Facilities Fund	101	101	89	-12
<b>Total Enterprise Funds</b>	<b>494</b>	<b>495</b>	<b>482</b>	<b>-12</b>
<b>Internal Service Funds</b>				
Storehouse	11	11	11	0
Fleet	66	66	66	0
<b>Total Internal Service Funds</b>	<b>77</b>	<b>77</b>	<b>77</b>	<b>0</b>
<b>Total All Funds</b>	<b>4,901</b>	<b>4,760</b>	<b>4,691</b>	<b>-69</b>

<sup>1</sup> Position changes due to a strategic reorganization. See individual department pages for details.

<sup>2</sup> Previously in Special Revenue Funds

Personnel numbers do not include positions that are part of the Voluntary Retirement Incentive Program.

# CITY INDEBTEDNESS

The Virginia Constitution authorizes a city 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 enterprise operations for Water, Wastewater and Parking bonded debt are a combination of self-supporting, general obligation and revenue bonds. The City's operations for Storm Water, Maritime, and Towing and Recovery bonded debt are intended to be self-supporting general obligation bonds.

The following table shows the estimated general obligation Legal Debt Margins for the current fiscal year as of June 30, 2011, and for the past four fiscal years.

As of	Taxable Real Property Assessed Value <sup>(1)</sup>	Debt Limit: 10% of Assessed Value	Projected Debt Applicable to Debt Limit	Amount of Debt as % of Debt Limit	Legal Margin for Additional Debt
June 30, 2011 <sup>(2)</sup>	19,312,156,495	1,931,215,650	1,055,897,651	54.68%	875,317,999
June 30, 2010	19,940,273,451	1,994,027,345	889,556,676	44.61%	1,104,470,669
June 30, 2009	19,395,789,387	1,939,578,939	738,173,200	38.06%	1,201,405,739
June 30, 2008	18,401,851,069	1,840,185,107	697,450,234	37.90%	1,142,734,873
June 30, 2007	15,496,207,804	1,549,620,780	579,224,191	37.38%	970,396,589

<sup>1</sup> 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). Taxable real property estimates are as of March 31, 2011.

<sup>2</sup> Estimated – assumes issuance of all previously authorized General Obligation bonds.

## 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 district indebtedness. There is no overlapping debt.

## STATEMENT OF NO PAST DEFAULT

The City has never defaulted on the payment of either principal or interest on any debt.

## OUTSTANDING DEBT

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Debt service for the City's General Capital Improvements is funded from its general fund. The debt of the enterprise and other fee supported operations are paid from their respective revenues. The City's estimated outstanding bonded indebtedness at the end of FY 2011 is estimated to be \$1,285,813,665.

## GENERAL CAPITAL IMPROVEMENTS—AFFORDABILITY MEASURES

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The City's Capital Improvement Plan for General Capital Improvements (those bonds not supported by self-supporting user fees) is guided by two measures of affordability. These measures or debt limits, based on the approved Capital Improvement Plan, are as follows:

- Debt Service as a percent of the general fund budget (not to exceed 10 percent)
- Net debt as a percent of taxable real estate (not to exceed 3.5 percent)

The FY 2012 Capital Improvement Plan is within the two measures of affordability listed above. However, in order to finance some major essential governmental projects, such as, a new City courthouse, elementary school and a new main library, the City may be challenged to stay within these measures in the outyears of the Capital Improvement Plan.

## ENTERPRISE OPERATIONS DEBT

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Norfolk's Water, Wastewater and Parking Revenue Bond programs are governed by bond indentures of trust, 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 in each respective indenture 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 2011 meet their debt coverage requirements. As previously noted, outstanding Water, Wastewater and Parking bonds are a combination of general obligations of the City and revenue bonds. As a matter of practice, the City pays such general obligation bonds from its respective enterprise activities. In the event that 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.

## COMPUTATION OF LEGAL DEBT MARGIN, JUNE 30, 2011 (ESTIMATED)

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Total Assessed Value of Taxed Real Property as of March 31, 2011 (estimated)		<b><u><u>\$19,312,156,495</u></u></b>
Debt Limit - 10 percent of Total Assessed Value		<b><u><u>\$1,931,215,650</u></u></b>
Amount of Debt Applicable to Debt Limit:		
Gross Debt *	\$1,029,358,112	
General Obligation (QRBs)	10,430,000	
General Obligation (QZABs)	1,684,539	
General Obligation (Guaranty)	1,540,000	
HUD Section 108 Loan	12,885,000	<b><u><u>\$1,055,897,651</u></u></b>
Legal Debt Margin		<b><u><u>\$875,317,999</u></u></b>
Amount of Debt as a percent of Debt Limit		<b><u><u>54.68%</u></u></b>

\*Estimated – assumes issuance of all previously authorized General Obligation Bonds.

# YEARLY MATURITY OF LONG-TERM DEBT

Fiscal Year	General Obligation			General Obligation Equipment			Water Revenue		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2011	58,615,282	32,766,091	91,381,373	2,297,728	567,224	2,864,952	9,875,000	16,527,844	26,402,844
2012	62,413,946	30,263,224	92,677,170	4,299,288	486,001	4,785,289	11,285,000	16,773,159	28,058,159
2013	55,064,324	27,500,069	82,564,393	4,443,057	340,887	4,783,944	11,825,000	16,227,660	28,052,660
2014	48,798,956	25,263,869	74,062,825	3,227,851	268,286	3,496,137	12,400,000	15,652,373	28,052,373
2015	48,891,787	23,211,196	72,102,983	2,236,785	204,354	2,441,139	13,025,000	15,034,060	28,059,060
2016	46,681,394	21,009,437	67,690,831	1,864,822	125,099	1,989,921	13,690,000	14,365,657	28,055,657
2017	43,326,600	18,973,377	62,299,977	1,350,460	45,297	1,395,757	14,405,000	13,648,154	28,053,154
2018	41,650,563	17,158,949	58,809,511	610,000	17,446	627,446	15,170,000	12,878,160	28,048,160
2019	41,511,600	15,282,717	56,794,317	-	-	-	15,990,000	12,064,069	28,054,069
2020	40,330,189	13,722,327	54,052,516	-	-	-	16,850,000	11,202,432	28,052,432
2021	38,400,302	12,043,448	50,443,750	-	-	-	17,765,000	10,286,444	28,051,444
2022	37,554,124	10,642,370	48,196,493	-	-	-	18,720,000	9,326,283	28,046,283
2023	36,109,846	9,165,917	45,275,764	-	-	-	19,755,000	8,310,233	28,065,233
2024	34,838,532	7,717,774	42,556,306	-	-	-	20,830,000	7,228,076	28,058,076
2025	30,683,461	6,391,834	37,075,295	-	-	-	17,320,000	6,211,253	23,531,253
2026	27,748,857	5,150,318	32,899,175	-	-	-	18,265,000	5,265,239	23,530,239
2027	26,679,941	4,031,384	30,711,325	-	-	-	10,870,000	4,516,500	15,386,500
2028	21,671,981	3,035,083	24,707,063	-	-	-	11,410,000	3,973,131	15,383,131
2029	11,720,000	2,113,474	13,833,474	-	-	-	11,985,000	3,404,234	15,389,234
2030	11,865,000	1,637,518	13,502,518	-	-	-	7,010,000	2,956,369	9,966,369
2031	12,005,000	1,199,490	13,204,490	-	-	-	7,330,000	2,633,050	9,963,050
2032	1,495,000	730,348	2,225,348	-	-	-	7,675,000	2,295,228	9,970,228
2033	4,970,000	498,562	5,468,562	-	-	-	5,775,000	1,988,334	7,763,334
2034	1,650,000	387,038	2,037,038	-	-	-	6,045,000	1,713,981	7,758,981
2035	1,730,000	301,206	2,031,206	-	-	-	6,335,000	1,426,625	7,761,625
2036	1,820,000	211,272	2,031,272	-	-	-	6,635,000	1,128,278	7,763,278
2037	1,910,000	116,006	2,026,006	-	-	-	5,515,000	851,656	6,366,656
2038	2,005,000	16,754	2,021,754	-	-	-	5,770,000	598,150	6,368,150
2039	-	-	-	-	-	-	6,030,000	335,956	6,365,956
2040	-	-	-	-	-	-	2,555,000	150,850	2,705,850
	792,141,684	290,541,050	1,082,682,735	20,329,991	2,054,594	22,384,585	350,770,000	219,023,314	569,793,314

Fiscal Year	Parking Revenue*			Wastewater Revenue			Totals		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2011	2,635,000	4,319,683	6,954,683	850,000		850,000	74,273,010	54,180,841	128,453,851
2012	2,565,000	4,176,575	6,741,575	1,225,000		1,225,000	81,788,234	51,698,958	133,487,192
2013	2,690,000	4,051,025	6,741,025	1,725,000		1,725,000	75,747,381	48,119,642	123,867,023
2014	2,835,000	3,918,825	6,753,825	1,725,000		1,725,000	68,986,807	45,103,352	114,090,159
2015	2,970,000	3,779,000	6,749,000	1,725,000		1,725,000	68,848,572	42,228,611	111,077,182
2016	3,085,000	3,654,300	6,739,300	1,725,000		1,725,000	67,046,217	39,154,493	106,200,709
2017	3,240,000	3,512,000	6,752,000	1,725,000		1,725,000	64,047,060	36,178,828	100,225,888
2018	3,385,000	3,362,550	6,747,550	1,725,000		1,725,000	62,540,563	33,417,105	95,957,667
2019	3,545,000	3,206,375	6,751,375	1,725,000		1,725,000	62,771,600	30,553,161	93,324,761
2020	3,755,000	3,056,075	6,811,075	1,725,000		1,725,000	62,660,189	27,980,834	90,641,023
2021	3,945,000	2,871,725	6,816,725	1,725,000		1,725,000	61,835,302	25,201,617	87,036,919
2022	4,145,000	2,678,025	6,823,025	1,725,000		1,725,000	62,144,124	22,646,677	84,790,801
2023	4,350,000	2,474,013	6,824,013	1,725,000		1,725,000	61,939,846	19,950,163	81,890,009
2024	4,555,000	2,259,400	6,814,400	1,725,000		1,725,000	61,948,532	17,205,250	79,153,782
2025	4,780,000	2,034,650	6,814,650	1,725,000		1,725,000	54,508,461	14,637,737	69,146,198
2026	5,025,000	1,797,725	6,822,725	1,725,000		1,725,000	52,763,857	12,213,282	64,977,139
2027	5,275,000	1,548,650	6,823,650	1,725,000		1,725,000	44,549,941	10,096,534	54,646,475
2028	4,840,000	1,287,175	6,127,175	1,725,000		1,725,000	39,646,981	8,295,389	47,942,370
2029	5,100,000	1,032,375	6,132,375	1,725,000		1,725,000	30,530,000	6,550,083	37,080,083
2030	5,195,000	763,850	5,958,850	1,300,000		1,300,000	25,370,000	5,357,736	30,727,736
2031	5,480,000	485,000	5,965,000	875,000		875,000	25,690,000	4,317,540	30,007,540
2032	945,000	190,825	1,135,825	500,000		500,000	10,615,000	3,216,401	13,831,401
2033	990,000	146,425	1,136,425	-		-	11,735,000	2,633,321	14,368,321
2034	1,035,000	99,900	1,134,900	-	-	-	8,730,000	2,200,919	10,930,919
2035	1,090,000	51,250	1,141,250	-	-	-	9,155,000	1,779,081	10,934,081
2036	-	-	-	-	-	-	8,455,000	1,339,550	9,794,550
2037	-	-	-	-	-	-	7,425,000	967,662	8,392,662
2038	-	-	-	-	-	-	7,775,000	614,904	8,389,904
2039	-	-	-	-	-	-	6,030,000	335,956	6,365,956
2040	-	-	-	-	-	-	2,555,000	150,850	2,705,850
	87,455,000	56,757,395	144,212,395	34,075,000	-	34,075,000	1,284,771,676	568,376,353	1,853,148,029

\*Figures exclude debt service due on the City's \$75,305,000 General Obligation Bond Anticipation Notes, Series 2011A and 2011B. The City currently expects to refinance the principal over a longer period prior to the January 1, 2014.

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