

FY 2020-2021 Virginia Beach Budget Response to Council Questions

Question Number: FY 21 06

Question: Page 76: What is the impact if Council decides not appropriate the previously authorized increase in the Stormwater Management fee? As we all know no prior City Council can obligate a future Council. We also know, an authorization without an appropriation has no effect. If City Council were to decide to supplant the fee with unrestricted General Fund revenues, what are three possible scenarios of executable offsets to provide the necessary funding for flooding projects equal to the now proposed rate increase?

Date Requested: March 29, 2020

Requested By: Councilmember Moss

Department: Budget & Management Services / Public Works

Response:

In the FY 2019-20 Operating Budget, City Council approved a six-year, annual increase to the Stormwater Equivalent Residential Unit (ERU) fee. In FY 2020-21, the ERU is expected to increase from 49.3¢ daily, to 52.8¢, which will generate approximately \$48.6 million, a \$3.1 million increase from the current year. The revenue generated from the rate increase was entirely directed towards pay-as-you go in the Stormwater CIP.

In order to reduce expenditures in the Stormwater fund in the amount of \$3.1 million without reducing the amount provided to the CIP for flood control projects the following changes could be made:

1. Postpone the planned fall 2020 bond sale for the stormwater fund. This would equal \$1.5 million in immediate savings but would later have to be addressed when the bonds are sold.
2. Reduce the fund's reserves including the regular reserve for contingencies, the compensation reserves, and the engineer pay increase reserve. This would equal \$720k in savings. In addition, the fund's planned vehicle replacements in FY 2020-21 could be delayed one year, resulting in a \$500,000 savings.
3. Reduce pay-as-you-go to the CIP fund in any amount and swap with bonds or fund balance as a funding source. Using additional debt will provide an immediate cash savings to the fund; however, the fund would have to account for future debt service when the bonds are issued. In FY 2020-21 stormwater pay-as-you-go is programmed at \$25,591,818, fund balance is \$1,500,000, and

programmed bonds is \$34,708,495.

If City Council chose to suspend the ERU rate increases and not reduce the Stormwater Utility Fund's Operating Budget or CIP, three possible scenarios are as follows:

1. Reduce the General Fund pay-as-you-go to non-Stormwater capital project(s) by \$3.1 million and transfer to the Stormwater CIP. A full list of funded capital projects is included on pages 3-11 of the Capital Improvement Program document. Examples of projects with year one funding greater than \$3.1 million include:
 - a. 3-315 Fire Apparatus IV- \$3.2 million
 - b. 3-714 Network Infrastructure Replacement III- \$6.8 million
 - c. 4-059 Southern Rivers Watershed Site Acquisition- \$5.2 million
2. Postpone the hiring of additional water quality engineers and the stormwater BMP maintenance crew to be funded by General Fund in FY 2020-21, and \$1 million in associated new equipment to be funded by the stormwater fund. This equals a \$1.5 million dollar savings between the two funds which could be redirected to the Stormwater CIP. The additional \$1.6 million needed in the scenario could be funded through delayed or reduced non-Stormwater CIP projects.
3. Increase the use of fund balance as a one-time funding source to the Stormwater CIP from the General Fund, Agricultural Reserve Program, or Tourism Investment Program. This would not be sustainable long term, but could be used in one fiscal year, to backfill a delayed ERU rate increase.

Any changes to the CIP would have a "ripple through" effect on the operating budget, and no changes are made in isolation. For example, should the General Fund use additional fund balance, the unassigned fund balance as a percentage of next year's revenues would decrease. In addition, increased use of bonds would increase future debt service payments. The fifteen-year Stormwater plan presented to Council in FY 2018-19 was predicated on the 3.5¢ rate increase through FY 2024-25.