



City of Virginia Beach

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April 10, 2020

The Honorable Robert M. Dyer, Mayor
Members of City Council

Subject: Revised Resource Management Plan

Dear Mayor and Council Members:

Due to the economic impacts of COVID-19 on our City, I present this Revised FY 2020-21 Operating Budget and FY 2020-21 through FY 2025-26 Capital Improvement Plan budget in brief.

Just over two short weeks ago, staff presented the Proposed Resource Management Plan. At that time, we acknowledged that the budget as presented may no longer be viable as the impacts of COVID-19 were beginning to be felt in our community, the Commonwealth and throughout the nation. It is now clear that we must modify the budget that was proposed as economic conditions have become more uncertain.

Developing the proposed budget required a complex balancing of needs and services. This revised budget requires us to make difficult choices amid an extremely uncertain economic period. Most economic downturns develop over a course of months, or sometimes even years; however, this downturn has occurred in just over one month.

The economic expansion we were experiencing as we crafted the proposed budget allowed us to address several City Council priorities, as revenues, especially consumer-driven revenues, were estimated to grow in FY 2020-21 and beyond. Now we are faced with the reality that some of our citizens are losing their jobs and no longer have the means to pay their bills. This reality requires us to reduce many of the resources that made the proposed budget possible.

We must also use caution when reducing the budget and thus impacting our programs, as many of our residents will rely more heavily on City services to get through this uncertain time. We are already seeing evidence of the increased demands in some areas.

The budget in brief for the Revised FY 2020-21 Operating Budget and FY 2020-21 through FY 2025-26 Capital Improvement Plan is detailed below. We used the following overarching principles to develop this plan:

Maintain Current Level of Service with the Least Amount of Community/Service Disruption

While I believe all of the new initiatives included in the Proposed Budget and CIP were important to accomplishing City Council's goals and moving our community forward, we must focus on our current services and programs until we can fully understand the depth and length of the economic shock resulting from the COVID-19 pandemic. Nearly all new positions and initiatives included in the FY 2020-21 Proposed Budget have been eliminated from this revised plan.

The results of a fall 2019 survey of our residents indicated a very high level of citizen satisfaction with most of our programs and services. Our goal is to maintain our current level of service and be in a position to restore and move forward with some of these new initiatives in FY 2020-21 if the economy improves, or in FY 2021-22.

Ensure Flexibility

We have positioned the Revised FY 2020-21 Budget and CIP to be flexible during this uncertain economic period. If revenues return to normal during FY 2020-21, City Council will be in a position to amend the budget by appropriating the higher than estimated revenue and fund some of the programs and services that are proposed for elimination.

This revision recommends not using attrition savings (lapsed salary savings) to balance the budget for the upcoming year. This will position the City to be able to continue to provide services in the event the economy worsens beyond our projections and/or we have an active hurricane season. In the aftermath of Hurricane Matthew, City Council appropriated \$8.7 million in fund balance from the General Fund. Without the availability of this funding from lapsed salary savings, this emergency funding may not have been possible without adversely impacting the City's fund balance policy of 8% to 12%.

We believe the decisions we are making, which include the hiring freeze, eliminating the use of vacancy savings to balance the budget, and delaying non-essential expenditures, will position the revised budget to remain flexible for the uncertain economic times ahead.

Revised Revenue Estimates

On Tuesday April 7, City Council approved the elimination of penalties and interest for all late payments of real estate taxes and personal property taxes through August 1, 2020. Council also approved a two-month meal tax "holiday" for May and June reducing the City's meal tax rate from 5.5% to 0% for those two months. Council also suspended late payment and penalties due in April, May, and June for meal taxes, admissions taxes and hotel taxes. These adjustments to penalties and interest, along with the meal tax holiday, should provide taxpayers a level of flexibility and relief.

Projecting revenue is an inexact science during stable economic times. The COVID-19 impacts on the overall economy are unknown. For the purposes of this revised budget, however, we have assumed that economic activity will return to near "normal" levels in December 2020. The following table illustrates the assumptions utilized in preparing our revised revenue estimates.

Revised Monthly Collections as Percentage of Originally Proposed

	July	Aug	Sept	Oct	Nov	Dec
Sales	75%	80%	85%	90%	95%	100%
Hotel	50%	60%	70%	80%	90%	100%
Meals	25%	80%	85%	90%	95%	100%

This reduction in anticipated collections, along with the tax holiday and waiver of penalties and interest, result in decreased estimates for each of our consumer driven revenues. Specifically, we are estimating a loss of \$15.7 million (21.3%) in meal tax revenue, \$12.6 million (31.7%) in hotel taxes, \$6.4 million (9.2%) in general sales tax, and \$3.5 million (48.7%) in admissions taxes.

In addition to our consumer driven revenues, we are also reducing estimates for real estate and personal property tax revenue. While assessments are growing for the upcoming fiscal year in both categories, we likely will not achieve the consistent historical collection rates on which the revenue estimates in the City Manager’s Proposed Budget were based. When compared to the proposed budget, we are estimating a loss of \$7.5 million in real estate tax revenue (1.2%) and an additional loss of \$11.3 million (6.7%) in personal property tax revenue.

We are also reducing our business license revenue (BPOL) estimates by \$5.1 million (10.0%). These estimates are based on business income and is due in March of each year.

The table below illustrates total revenue by source for the Proposed Budget compared to the revised estimate for FY 2020-21.

Revenue by Source

	Original Proposed FY 21	Revised FY 21	Difference	Percent Change
Real Estate	\$626,961,518	\$619,456,651	(\$7,504,867)	-1.2%
Personal Property	169,497,601	158,213,730	(11,283,871)	-6.7%
General Sales	69,591,147	63,159,899	(6,431,248)	-9.2%
BPOL	51,432,832	46,289,549	(5,143,283)	-10.0%
Hotel	39,817,872	27,187,850	(12,630,022)	-31.7%
Restaurant Meals	73,877,745	58,145,358	(15,732,387)	-21.3%
Amusement	7,223,932	3,705,707	(3,518,225)	-48.7%
Bank Net Capital	4,061,214	3,655,093	(406,121)	-10.0%
Tax on Deeds	8,020,428	7,218,385	(802,043)	-10.0%
State Revenue	540,285,581	540,285,581	-	0.0%
Federal Revenue	123,642,100	123,642,100	-	0.0%
All Other	431,199,831	427,354,283	(3,845,548)	-0.9%
Total	\$2,145,611,801	\$2,078,314,186	(\$67,297,615)	-3.1%
Compared to FY 20	64,999,074	(2,298,541)		

In total, revenue is being revised to \$2.08 billion. This represents a \$67.3 million decrease from the proposed budget and a \$2.3 million decrease from the FY 2019-20 Adjusted Operating Budget.

While overall revenue is estimated to decline by \$67.3 million compared to the proposed budget, this decrease will be spread over several funds, as illustrated by the following table. The City’s General Fund is estimated to decrease by \$47.8 million, and a portion of this loss will be shared with the Schools’ Operating Fund.

Other funds experiencing a decrease in revenue based on the revised estimates include the Tourism Investment Program (TIP) Fund which is being impacted by decreases in the meals tax (receives a dedication of 1.06% of the 5.5% rate) the hotel tax (receives a dedication of 5% of the 8% percentage portion of the hotel tax as well as \$1 of the \$2 per room night tax), and the amusement tax (receives a dedication of 100% of all amusement tax revenue). In total, the TIP fund is estimated to decrease by \$12.4 million as compared to the proposed budget.

Revenue Adjustments by Fund

	Original Proposed FY 21	Revised FY 21	Difference	Percent Change
General Fund	737,070,021	709,699,196	(27,370,825)	-3.7%
Schools	458,949,640	438,551,631	(20,398,009)	-4.4%
TIP Fund	41,943,213	29,559,555	(12,383,658)	-29.5%
TAP Fund	13,276,751	9,642,000	(3,634,751)	-27.4%
Sandbridge SSD	478,031	478,031	-	0.0%
Sandbridge SSD Pay-Go	4,576,341	2,582,922	(1,993,419)	-43.6%
Open Space Fund	3,398,220	2,145,629	(1,252,591)	-36.9%
ARP Fund	5,187,624	5,133,253	(54,371)	-1.0%
Parks & Rec Fund	43,627,805	43,417,814	(209,991)	-0.5%
All Other	837,104,155	837,104,155	-	0.0%
Total	2,145,611,801	2,078,314,186	(67,297,615)	-3.1%
Compared to FY 20	64,999,074	(2,298,541)		

The Tourism Advertising Program (TAP) Fund is also being impacted by revised revenue estimates for the meals tax and hotel taxes. The Fund, which receives dedications from both revenue sources is estimated to decrease by \$3.6 million when compared to the proposed budget.

In addition, dedications to the Agricultural Reserve Program (ARP), Open Space Program, the Parks & Recreation Special Revenue Fund, and the Sandbridge Special Service District (SSD) Fund are experiencing declines in estimated revenue as compared to the Proposed Budget. A complete list of revenue dedications can be found on page 75 of the original Proposed Executive Summary.

This revised budget does not include any major tax increases and maintains tax and fee adjustments shown on p. 76 of the original Proposed Executive Summary which include: the ERU rate increase of 3.5¢ daily previously approved by City Council to address recurrent flooding, a 2¢ reduction in the Sandbridge Special Service District rate, and annual increases in recreation center fees.

For FY 2020-21, City Council and the School Board approved a revised revenue sharing policy and formula to allocate local tax revenue between the two entities. The following table illustrates the revenue to be allocated to the Schools based on the proposed budget as well as the new

allocation based on revised revenue estimates. As the table illustrates, the Schools will receive \$20.4 million less in local revenue.

City and School Revenue Sharing Formula

General Fund, Non-Dedicated Local Taxes:	Original Proposed FY 2020-21	Revised FY 2020-21	Difference
Real Estate	\$ 588,229,612	\$ 580,989,106	(\$7,240,506)
Personal Property	169,497,601	158,213,730	(11,283,871)
General Sales	69,591,147	63,159,899	(6,431,248)
Utility Taxes	25,426,434	25,426,434	-
Virginia Telecommunications	20,334,449	20,334,449	-
Business License	51,432,832	46,289,549	(5,143,283)
Cigarette	9,043,505	9,043,505	-
Hotel Room	8,377,389	5,799,968	(2,577,421)
Restaurant Meals	47,067,656	37,028,864	(10,038,792)
Automobile License	11,578,052	11,578,052	-
Bank Net Capital	4,061,214	3,655,093	(406,121)
City Tax on Deeds	8,020,428	7,218,385	(802,043)
City Tax on Wills	100,070	100,070	-
Total Non-Dedicated Local Taxes	\$1,012,760,390	\$ 968,837,104	(\$43,923,286)
Less Outdoor Initiative Dedication	(2,826,128)	(2,797,735)	28,393
Less: EDIP Dedication	(2,067,087)	(2,067,087)	-
Less: Stormwater Dedication	(15,032,595)	(14,881,568)	151,027
Less: City Council Priorities	(11,124,120)	(11,012,360)	111,760
Total Local Taxes Net Dedications	\$ 981,710,460	\$938,078,354	(\$43,632,106)
Formula %	46.75%	46.75%	-
Revenue Sharing Formula Revenues	\$458,949,640	\$438,551,631	(\$20,398,009)

The table below illustrates the revised budget for both City and Schools and shows the percent change from the adopted FY 2019-20 operating budget to the revised FY 2020-21 operating budget. While the Schools' budget is now estimated to increase by 2% despite a loss of \$20.4 million in local revenue through the revenue sharing formula, this could fluctuate depending on changes in revenue from federal and state sources.

Revised FY 2020-21 Budget by Entity

	FY 2019-20 Adjusted	FY 2020-21 Original Proposed	FY 2020-21 Revised	Percent Change Adopted to Revised
City	\$1,142,426,239	\$1,168,507,440	\$1,121,607,834	(1.8%)
Schools	938,186,488	977,104,361	956,706,352	2.0%
Total	\$2,080,612,727	\$2,145,611,801	\$2,078,314,186	(0.1%)

Revised Appropriations

With these revenue losses, an equal amount of appropriations must be reduced or replaced by an alternative funding source in order to maintain a balanced budget. The revised budget includes several adjustments to budgeted appropriations proposed in the City Manager's FY 2020-21 Resource Management Plan. This includes targeted reductions of existing positions, delays in some existing programs, as well as the elimination or delay of new initiatives and programs presented in the proposed budget. Several of the existing appropriations being reduced in this revised budget were presented by City departments during the development of the original proposed budget.

The following sections provide a description of each change to the proposed budget and the impact they will have on City services and programs.

Appropriation Changes and Impacts to Current Services

Firefighter Positions for the New Burton Station Fire/EMS Station

Amount: \$1,060,692

FTE: 15.0

Proposed Budget Reference: N/A

Burton Station Fire and EMS Station was funded in the CIP to address an underserved area of the City. The elimination of these positions, combined with the delayed construction of the facility, will maintain current service in the Burton Station area. These positions were funded in FY 2019-20 in order to have a fully trained unit to staff the newly constructed facility. As the construction of the fire station is delayed one year, the budgeted positions to staff the station are also delayed, as well as the fire vehicle apparatus.

Paramedic Positions for the New Burton Station Fire/EMS Station

Amount: \$180,195

FTE: 2.0

Proposed Budget Reference: Operating Budget Page 149

Burton Station Fire and EMS Station was funded in the CIP to address an underserved area of the City. The elimination of these positions, combined with the delayed construction of the facility, will maintain current service in the Burton Station area. Ambulance staffing will remain at current levels citywide. As the construction of the station is delayed one year, the budgeted positions to staff the station are also delayed.

Police Officers Positions

Amount: \$479,648

FTE: 8.0

Proposed Budget Reference: N/A

The elimination of these vacant positions will have minimal impact on the current services provided by the Police Department, as in recent years the department has struggled to fill all police officer vacancies. However, this reduction in FTEs will eliminate some of the year-end personnel

savings that falls to General Fund fund balance and used to finance the CIP and maintain an adequate level of fund balance in the event of emergencies and revenue shortfalls.

Call Taker Positions

Amount: \$134,790

FTE: 2.0

Proposed Budget Reference: N/A

These positions are responsible for receiving, processing and relaying requests for Police, Fire and Emergency Medical Services. This reduction in funding will eliminate two vacant positions from the department and will eliminate the department's ability to be fully staffed. Lack of staffing results in increased queue times as well as slower dispatch and ultimately public safety response times.

City Manager's Office Executive Assistant

Amount: \$70,107

FTE: 1.0

Proposed Budget Reference: N/A

The reduction of one executive assistant to the City Manager's Office will reduce administrative support to the Management Leadership Team and City Council.

Budget and Management Services' Account Clerk

Amount: \$38,660

FTE: 1.0

Proposed Budget Reference: N/A

The loss of this vacant FTE will reduce the administrative support to the Department of Budget and Management Services which could reduce response times to internal city departments.

Human Resources Staffing and Compensation Analyst Position

Amount: \$71,645

FTE: 1.0

Proposed Budget Reference: N/A

The loss of the Staffing and Compensation analyst will add additional workloads to existing Staffing and Compensation Division staff who would assume the duties associated with posting and processing of job openings. This will result in delays for processing bonus requests, administrative increase requests, classification determinations and administration of temporary service contracts and reduce turnaround times for advancing and closing job vacancies.

General Fund Vehicle Replacement

Amount: \$1,000,000

FTE: 0.0

Proposed Budget Reference: Operating Budget Page 221

The General Fund Vehicle Replacement Program is consistently funded at approximately \$5 million. As new vehicles have been added to the fleet, this amount has remained constant for the

last six fiscal years, when it was reduced by nearly \$1 million in FY 2014-15. Between 2015 and 2018, 102 vehicles (excluding generators) were added to the City's fleet. Vehicles are typically replaced every 10 years depending on mileage, condition, and purpose. Reduced funding to the vehicle replacement program will decrease the amount of equipment that can be replaced in a given fiscal year, putting additional strain on the city's fleet. In FY 2018-19, approximately 162 vehicles were replaced.

Appropriation Changes in the Proposed CIP

Funding Eliminated in Year 1

CIP 9-063 17th Street Improvements

Amount: \$1,000,000

FTE: 0.0

Proposed Budget Reference: CIP Page 356

Reduced funding will lessen the City's ability to improve 17th Street from Cypress Avenue to Birdneck Road. Upgrades include the undergrounding of overhead utilities, traffic safety improvements, better bicycle and pedestrian accommodations, utility and stormwater upgrades, and aesthetic improvements such as street trees and pedestrian lights.

CIP- 9-081 SGA Projects

Amount: \$500,000

FTE: 0.0

Proposed Budget Reference: CIP Page 377

Decreased funding to this project will result in reduced implementation of SGA area initiatives including RASAP updates.

CIP 3-697 City Software Upgrade

Amount: \$1,000,000

FTE: 0.0

Proposed Budget Reference: CIP Page 15

Decreased funding will reduce Information Technology's ability to update various City software systems to modernized cloud-based systems for increased service delivery. While this project is being reduced by \$1.0 million, \$1.5 million is still being appropriated in Year 1 of the CIP. This will require Information Technology to reprioritize the systems to be replaced or upgraded based on the revised level of funding.

CIP 2-184 Rural Road Recurring Flooding

Amount: \$500,000

FTE: 0.0

Proposed Budget Reference: CIP Page 90

Decreased funding in the first year of the CIP will reduce the ability of Public Works to raise road segments and intersections within the rural areas of the city to minimize impacts from recurring

flooding and address sea level rise. Without sustained funding, many roadways in the southern area of the city will continue to flood and impact residents and public safety response to that part of the city. Programmed funding in years two through six remains in place as proposed in the CIP.

Delayed until FY 2021-22

CIP 3-047 Landfill Phase I Capping

Amount: \$6,242,000

FTE: 0.0

Proposed Budget Reference: CIP Page 132

The Landfill's solid waste permit allows Landfill Phase #1 cell to be filled until 12/31/20 and capping the cell to begin within 6 months (by July 1, 2021). The capping project is under design and has all the necessary permits. This funding is moved to FY 2021-22 to ensure the Landfill will not be out of compliance.

CIP- 3-135 Fire Apparatus

Amount: \$1,400,000

FTE: 0.0

Proposed Budget Reference: CIP Page 123

Because of the delay of construction for the Burton Station Fire and EMS station, the funding for replacement Fire Apparatus is not needed in FY 2020-21. This funding was scheduled to be used to replace a heavy-duty rescue truck, a tiller, and a hazmat truck and trailer. The apparatus for this station has already been purchased and will be used in the City's fleet until Burton Station is completed.

New Operating Budget Initiatives Deferred Beyond FY 2020-21

Security Division

Amount: \$1,000,000

FTE: 4.0

Proposed Budget Reference: Executive Summary Page 23

The proposed budget added four FTEs and funding for operating costs in order to establish a Facility Security Division within the Office of Emergency Management. This division would prioritize and address facility security issues including improved physical security, employee and public safety training and education, and overall management of security at City facilities. Without this funding, the City will be unable to implement this portion of the Hillard Heintze recommendations in FY 2020-21, and security will be handled consistent with current practice.

Public Safety Building Access

Amount: \$150,000

FTE: 0.0

Proposed Budget Reference: Executive Summary Page 23

In response to Hillard Heintze recommendations, additional resources were included in the FY 2020-21 proposed budget for "breach kits." These kits would aid VBPD personnel in accessing

secured areas of all City facilities immediately during a critical incident and assist SWAT and other first responders in forcing entry into critical areas.

Emergency Training/Exercises

Amount: \$200,000

FTE: 0.0

Proposed Budget Reference: Executive Summary Page 23

Additional resources were included in the FY 2020-21 proposed budget to hold more robust public safety incident response exercises. Without this funding, the City will be unable to conduct more frequent emergency exercises beyond what is included in the budget of the Office of Emergency Management.

New Positions to Centralize Human Resources

Amount: \$1,490,147

FTE: 15.0

Proposed Budget Reference: Executive Summary Page 23

The proposed budget provided funding for an additional 15 FTEs to serve in human resource capacities within major city departments, as recommended by Hilliard Heintze. These liaisons were proposed to work directly in their assigned departments but report to the Director of Human Resources in order to centralize the City's HR functions, and ensure that all departments have consistently implemented the same policies and procedures. These additional positions would also have established a threat assessment team to centralize workplace violence prevention within the Department of Human Resources and provide training to managers and supervisors to understand and detect early warning behaviors. Without these additional staff members, HR will not have the capacity to expand and centralize its functions across city departments.

Employee Training

Amount: \$200,000

FTE: 0.0

Proposed Budget Reference: Executive Summary Page 22

In response to the Hilliard Heintze recommendations, the proposed budget included \$200,000 for employee training. Without this funding the City will be unable to increase employee training for crisis response, behavioral health, and other areas identified in the report.

Disparity Study Implementation and Payroll Financial Specialist

Amount: \$366,541

FTE: 1.0

Proposed Budget Reference: Executive Summary Page 14 and 60

The elimination of this funding will suspend the implementation of the 2018 disparity study. This funding was intended for the annual disparity study to benchmark the City's progress toward increased SWaM support, the implementation of the Social Impact Measurement Model (SIMM), and a full-time financial specialist position dedicated to the SWaM initiative. Existing City staff will continue to focus on implementation of the recommendations of this initiative.

New CIP Initiatives Deferred or Eliminated

CIP- 3-166 Facilities Access Systems

Amount: \$300,000

FTE: 0.0

Proposed Budget Reference: Executive Summary Page 23-24

The proposed budget included an additional \$300,000 to this CIP project for a total yearly project cost of \$425,000. This reduced funding will impact the number of door locks, cameras, and other safety features that can be installed in city facilities.

CIP- 3-183 City Security Enhancements

Amount: \$2,220,585

FTE: 0.0

Proposed Budget Page Reference: Executive Summary Page 23

Without this funding, the new City Security Enhancement project will not be established in FY 2020-21. This project would have enabled a working group to identify and prioritize City assets and personnel to be protected, identify threats to those assets and personnel, assess the likelihood of threats to those assets and personnel, assess the risk of loss associated with each asset and determine appropriate measures to be taken to mitigate the threats, reduce the likelihood and reduce the risks. This CIP funding would also be used for the planning, design, construction, purchase, or implementation of identified security measures, features, and possible building alterations. Without additional funding, the CIP and Operating budget will have to absorb the costs of any necessary security upgrades or they will have to be delayed.

CIP 4-059 Southern Rivers Watershed Site Acquisition Program

Amount: \$5,222,694

FTE: 0.0

Proposed Budget Reference: CIP Page 189

The elimination of this project will prohibit Parks and Recreation from acquiring property in the southern rivers watershed which would help alleviate flooding in the southern part of the city due to rain and tidal events.

New Operating Budget Initiatives Eliminated

Occupational Health and Safety Vaccine Cost Increase, Defibrillator Replacement, and RN

Amount: \$135,658

FTE: 1.0

Proposed Budget Reference: Operating Budget Page 184-185

In the past two years, Occupational Health and Safety has seen an increase in cases requiring ongoing case management and processing of FMLA and ADA paperwork. Without the addition of the RN position, Occupational Health will continue to have a heavy caseload. In addition, vaccinations are the largest medical supply cost and are required to comply with OSHA and CDC

standards and guidelines. In recent years the cost to provide vaccines has significantly increased due to the amount of vaccines needed and increased pricing from drug manufactures. The reduction of the funding for AEDs eliminates the ability for the City to replace approximately 14 AEDs in publicly owned buildings. The City will continue to explore funding options to ensure the health and safety of employees and the public.

Building 19 Training Room Renovations

Amount: \$54,464

FTE: 0.0

Proposed Budget Reference: Operating Budget Page 184

This funding would have enabled Human Resources to finish upgrades to the Building 19 training room. This would allow for increased functionality of the space to be used for meetings, including the annual meetings between City Council and the School Board.

Market Salary Survey

Amount: \$200,000

FTE: 0.0

Proposed Budget Reference: Executive Summary Page 15

The City has not conducted a market salary survey since 2011. Without this funding, Human Resources will be unable to ensure the salaries offered by the City remain competitive with other public entities.

Library Assistant Supervisor Position

Amount: \$68,280

FTE: 1.0

Proposed Budget Reference: Operating Budget Page 208

Without the addition of a new Library assistant supervisor, the current management capacity will be retained at the Oceanfront Area Library. This position was intended to enhance both managerial roles and customer service by assisting with the career online high school program, outreach efforts, and on-going literacy programs for all ages.

Water Quality Engineers and BMP Maintenance Crew

Amount: \$504,984

FTE: 7.0

Proposed Budget Reference: Executive Summary Page 54-55

Current staffing levels within the Water Quality division are insufficient to fully implement the mandatory compliance requirements of the MS4 stormwater permit. The proposed budget included two new engineers to support the Stormwater Quality monitoring program and management of water quality improvement projects, Stormwater Pollution Prevention Training Program, the City Facility Good Housekeeping Program, and the administration of the Virginia Stormwater Management Program (VSMP) and Virginia Erosion and Sediment Control Program (VESCP) for Public Works Engineering Capital Improvement Projects. Without these positions, the current workload of the engineering staff will remain. In addition, the elimination of the

proposed BMP maintenance crew will keep current maintenance cycles of the City's stormwater BMPs which need to be maintained in a timelier manner to improve water quality.

Short-Term Rental Program Support

Amount: \$253,433

FTE: 4.0

Proposed Budget Reference: Executive Summary Page 56

Four additional positions were included in the proposed budget to streamline the short-term rental application process. Without these positions, Planning and Community Development will not have dedicated staff for the program which could lead to application delays and long response times for inspection of properties and citizen complaints.

Planning Technician

Amount: \$55,451

FTE: 1.0

Proposed Budget Reference: Operating Budget Page 241

The additional planning technician position was added to the proposed budget to provide additional administrative support to enhance customer service. Without this position, the same level of customer service will be maintained within the Department of Planning and Community Development.

Expanded Lifeguard Service at Sandbridge

Amount: \$49,999

FTE: 1.75

Proposed Budget Reference: Executive Summary Page 57

This funding and additional part-time staffing would have provided lifeguard coverage in the shoulder season months at Sandbridge, to mirror that of the resort beach. Without the funding, lifeguard coverage will remain unchanged and will not be provided in the months of May, September, and October. Fire, EMS and other responders will respond to emergencies as they occur.

Courtroom Audio Visual Upgrades

Amount: \$215,000

FTE: 0.0

Proposed Budget Reference: Executive Summary Page 66

The sound systems in the courtrooms in the Virginia Beach Circuit Court were installed when the Courthouse was originally constructed in 1994. Due to the age of the sound system, it is becoming increasingly difficult to find parts for and repair the system. This can greatly limit the usability of a courtroom when repairs are needed, as repairs can take between three and five months. In addition, this funding was intended to improve AV systems in the courtrooms for use with body worn camera footage. Without this dedicated funding, replacement of the sound systems and upgrades to AV for body worn camera footage will either be delayed or canceled which could lead to backlogs in court cases should courtrooms be unavailable for use.

Enhanced Marketing, New Forklift and Positions for Re-opening of the Marsh Pavilion

Amount: \$300,804

FTE: 3.0

Proposed Budget Reference: Operating Budget Page 70-71 Executive Summary Page 66

The Marsh Pavilion is scheduled to reopen in May 2021 and the FY 2020-21 proposed Operating Budget provided the department with funding for enhanced marketing to promote the new exhibits, a forklift for the facility, and three positions for new programming. The reduction of funding will prohibit the department from expanding marketing efforts in an effort to promote the Aquarium to tourists which could impact projected visits and therefore departmental revenue. Without the additional staff, the Aquarium will have to reallocate existing staff in order to expand programming in the newly remodeled facility.

Mobile Co-Responder Team (MCRT)

Amount: \$186,516

FTE: 2.0

Proposed Budget Reference: Executive Summary Page 61

The intent of the MCRT is to provide specialized responses to help deescalate tense situations involving citizens in crisis for whom non-traditional law enforcement response may be best suited. As part of this response, representatives of Human Services accompany Police to the scene of a call. In its first year, the MCRT responded to 722 calls. Of these, over 40% ended with referral to health or human services while only 10 total (1.4%) resulted in an arrest. Currently, Human Services uses staff, as available, from its Emergency Services Unit to join police officers at designated times. Without the addition of these two positions, the department will be unable to respond to more incidents and will be unable to have follow-up visits that will ensure some of the City's most vulnerable citizens are able to access the services that were recommended to them at the time of an initial MCRT response.

CPS Case Workers

Amount: \$49,704

FTE: 2.0

Proposed Budget Reference: Operating Budget Page 193

Currently, there are 20 family services case workers in the Department of Human Services. Without the addition of these two positions, the caseload per specialists will remain at an average of 16.15 instead of being reduced to 14.68.

Urban Forestry and Landscape Maintenance for New Facilities

Amount: \$98,608

FTE: 0.0

Proposed Budget Reference: Operating Budget Page 230 and Executive Summary Page 67

This additional funding provided Parks and Recreation the ability to ensure newly completed capital projects had contractual landscape services. These new areas include the 4th Police Precinct, Witchduck Road Phase II, BioPark Roadway, Price Street BMP, and Princess Anne Road Phase VII. In addition, the proposed budget enhanced the City's Urban Forestry Management Program. The goal of the Urban Forestry Management Program is to maintain neighborhood street

tree pruning as well as roadway street tree plantings throughout the city. Preventative tree maintenance is essential to a healthy urban forestry. Trees that are cyclically maintained in neighborhoods generally live longer and provide physical, environmental, economic, and health benefits.

Contracted Manpower in Circuit Court Judges Office to Part-Time FTE

Amount: \$1,571

FTE: 0.6

Proposed Budget Reference: Operating Budget Page 126

This long-time contracted manpower position was initially proposed to become a part-time City Position and reduce the hours from 30 to 29 per week.

Reduction of General Fund Transfer and New Part Time Positions for Sheriff

Amount: \$134,688

FTE: 2.68

Proposed Budget Reference: Operating Budget Page 283

Without an additional General Fund transfer to the Sheriff's Special Revenue fund, the Sheriff's Office will have to absorb the increased cost of the VRS employer contribution rate, reducing the department's capacity for other personnel expenditures such as overtime. In addition, the Sheriff's Office was proposed to receive additional 2.68 FTEs for an attorney, clerk positions, and a media and communications coordinator.

Positions for Timekeeping and Mail Clerk

Amount: \$225,082

FTE: 3.0

Proposed Budget Reference: Operating Budget Page 273

The FY 2020-21 budget included funding for two new positions to support the upcoming deployment of the enterprise timekeeping and scheduling system. Currently, the City does not have a centralized system to track time and attendance and many departments still rely on physical time sheets. Without a timekeeping system, it is possible for employees to over or under-report their hours because it is very difficult to manually validate every claim. Without these two positions to be subject matter experts on the system before it goes live in February of 2021, the rollout of the system may be delayed. In addition, the reduction of the FTE for the mailroom will result in IT continuing the use of a long-term full-time contractual position which can result in higher turnover and decreased efficiency of the service.

Payroll Financial Specialist

Amount: \$64,504

FTE: 1.0

Proposed Budget Reference: Executive Summary Page 51

The elimination of the newly established payroll specialist will maintain the current workload in the department. The division has faced an increased workload in recent years since short- and long-term disability, retirements, and maternity claims have all increased. Hybrid employees require additional records and service from Payroll compared to their Virginia Retirement System (VRS)

Plan 1 and 2 counterparts and the hybrid-exclusive, short- and long-term disability program also requires much more paperwork than the division is currently equipped to handle. Over the past year and a half, the number of Hybrid Plan employees has increased by 73%, while health and maternity claims have increased nearly 50% over the past three years.

Homeless Services Administrative Specialist and Convert Contracted Code Enforcement Position to Full-Time

Amount: \$70,049

FTE: 2.0

Proposed Budget Reference: Executive Summary Page 60

The addition of a Homeless Services Administrative Specialist was intended to provide analytical and reporting support to ensure that the funding for homeless service programs is being used as effectively as possible to have the greatest possible impact on the community. Decreasing the level of homelessness in the city is a high City Council priority. The elimination of the conversion of a contractual employee to fulltime code inspector will result in the department continuing to struggle to fill the position with qualified personnel which will reduce response times to citizen complaints.

New Marketing Position and Additional Funding for Atlantic Wildfowl and Lifesaving Museum

Amount: \$21,711

FTE: 2.0

Proposed Budget Reference: Executive Summary Page 47

The Cultural Affairs' proposed FY 2020-21 budget included a new event coordinator position intended to be responsible for marketing the City's historic properties for special event rentals. Without this position, the city will continue to underutilize these spaces for event rentals and not receive more revenue as a result. This addition proposed eliminating a contracted position and replacing it with a full-time position. By eliminating the position, the contracted manpower will have to be restored to the department. In addition, the City will not increase the support to the Atlantic Wildfowl Museum or the Lifesaving Museum which could negatively impact the operations of these nonprofits.

General Fund Portion of Grinder for Landfill

Amount: \$200,00

FTE: 1.0

Proposed Budget Reference: Operating Budget Page 273

In order to increase efficiency and safety of employees, the Landfill requires the purchase of a new grinder for mulching of yard debris. This mulch is used on City property and as such, the General Fund, Waste Management Fund, and TIP were going to split the cost of the purchase. Without General Fund support, the Waste Management Fund will assume a larger share of the cost and will have to reprioritize their vehicle replacement list for FY 2020-21 or use a greater amount of fund balance to support the purchase.

Asset Management Software Implementation

Amount: \$150,000

FTE: 0.0

Proposed Budget Reference: Executive Summary Page 66

Public Works Facilities Management has begun using a new asset management software to replace their 20-year old system and various manual processes. This funding would have provided the department funding to hire outside contractual services to assess each city owned facility and capture extensive data elements of each. Without this funding, the department will be unable to fully utilize the new functionality of this software.

Commissioner of the Revenue Part Time Administrative Support

Amount: \$33,479

FTE: 0.8

Proposed Budget Reference: Operating Budget Page 105

Without this funding, the Commissioner of the Revenue will not have funding for the office's part time executive assistants which will decrease the administrative support for the department.

Real Estate Assessor New Appraiser Position

Amount: \$65,886

FTE: 1.0

Proposed Budget Reference: Executive Summary Page 55

Without the addition of this position, the Office of the Real Estate Assessor will still not meet the International Association of Assessing Officers (IAAO) standard of canvassing each taxable property in the City no less than every six years. Currently the department has 22 appraisers responsible for assessing 158,586 taxable parcels across the City, meaning that each appraiser assessed an average of over 7,200 parcels each year. The number of taxable parcels is expected to climb to 159,086 in FY 2020-21, which will increase the workload of existing staff.

Contributions to Regional Organizations

Amount: \$246,300

FTE: 0.0

Proposed Budget Reference: Operating Budget Page 218

The proposed budget included funding for new regional organization grants including \$15,000 for Hampton Roads Pride, \$25,000 for Eggleston, and \$150,000 for the African American Cultural Center. The funding for these new organizations has been eliminated from the revised budget. In addition, some contributions to organizations that previously received funding have been reduced to the current year amounts. These reductions include \$50,000 to the Virginia Arts Festival and \$6,300 to STOP Inc.

All Compensation Increases and Programs Eliminated

Public Safety Workforce Development Program and Sheriff's Pay Parity

Amount: \$2,861,829

FTE: 0.0

Proposed Budget Reference: Executive Summary Page 19

This reduction in funding will eliminate both the workforce development program for the Police, Fire, and Emergency Medical Services department and the Virginia Beach Sheriff's Office as well as the Sheriff's pay parity program. The workforce development program allowed police officers, firefighters, Sheriff's deputies, and paramedics to receive a 5% salary increase after their first three years with the City, a 10% salary increase after six years with the City, and a 5% salary increase after nine years with the City assuming the completion of certain career development milestones. The Sheriff's pay parity initiative is a four-year phase in of salary increases to align the Sheriff's Office salaries with that of comparable positions in the Police Department.

Supervisor Midpoint Program

Amount: Undetermined

FTE: 0.0

Proposed Budget Reference: Executive Summary Page 18

The proposed budget continued the implementation of the three-year phase-in of moving all City supervisory positions to the midpoint of their salary ranges. The revised budget eliminated this program which will impact the City's ability to reduce vertical salary compression.

State Clerk Salary Supplements

Amount: \$120,414

FTE: 0.0

Proposed Budget Reference: N/A (This was a new initiative in FY 2019-20 Adopted Budget)

This funding provided state employees a supplement intended to retain clerks in the General District and Juvenile and Domestic Relations courts. Without this funding, the City will no longer supplement the pay of these employees and the courts will continue to face recruitment and retention issues.

Engineer Recruitment and Retention Program

Amount: \$667,230

FTE: 0.0

Proposed Budget Reference: Executive Summary Page 19

This funding was intended to provide all City engineers and architects a 5% pay raise, additional training to assist in reaching the PE (Professional Engineer) level and hiring bonuses. Without this funding, the current inability for departments to hire and retain qualified engineers will persist as Virginia Beach salaries for engineers' lags both the private sector and other public entities.

2.5% Merit Increase

Amount: \$10,000,000

FTE: 0.0

Proposed Budget Reference: Executive Summary Page 18

A \$5 million reserve was established in the Proposed Operating Budget to fund a 2.5% merit salary increase for all City employees. The elimination of this reserve will result in no merit pay increases for City employees in FY 2020-21 which could impact retention. Please note that the other half of the 2.5% merit increase was covered by attrition savings which the revised budget proposes to eliminate.

Other Known Revenue Changes

Reduction in State Revenue for Roadways

Amount: \$10,000,000

Proposed Budget Reference: CIP Pages 76 and 104

The revised budget eliminates the \$10 million grant provided by the Commonwealth for CIP 2-088 West Neck Parkway Phase IV and CIP 2-501 Nimmo Parkway Phase II-A. This grant allowed previously appropriated funds within these two projects to be transferred to CIP 3-174 Operations Facilities Renovations for renovations of Buildings 1, 2, and 11. With this change in revenue, additional PFRBs have been programmed in the CIP to offset the loss. This will result in additional debt service payments in future years.

Reduction in Recordation Tax and offset with Reduction in HRT Contribution

Amount: \$1,994,172

Proposed Budget Reference: Operating Budget Page 241

Since 1993, the Commonwealth of Virginia has distributed part of the recordation tax on transfers of property to cities and counties. In this year's session of the General Assembly, legislators opted to reduce the amount to distribute to localities and decided to use the remaining portion available exclusively to provide dedicated funding for mass transit in the Hampton Roads Transit service area.

As this exchange of funds was unexpected, HRT has agreed to reduce the FY 2020-21 local contributions by the amount of recordation tax revenue that was lost by each city. However, it depends upon all cities in the HRT service area adopting a resolution to change the HRT funding allocation formula. If this does not happen, we will still lose the recordation tax, and not realize any reduction in HRT payments.

This reduction will be achieved by funding existing MAX commuter service routes with the new dedicated revenue streams and reallocating the federal and state money currently used to support MAX routes to reduce the cost of each cities' regular bus routes. This swap will make local governments whole while also not impacting the mass transit services. This solution is for one year only; further future use of the dedicated revenues will be determined in the upcoming Transit Strategic Plan.

Total Changes in FTEs

The FY 2020-21 Proposed Operating Budget added a total of 59.81 FTEs when compared to the Adjusted FY 2019-20 budget. This revised budget eliminates most of those additional positions as well as 33.2 existing FTEs for a total reduction of 92.83 positions when comparing the revised budget to the proposed. The following table illustrates changes in FTEs from the proposed to the revised budget by department for all funds.

Proposed to Revised FTE Changes

Department	Proposed FY 2020-21	Revised FY 2020-21	Difference
Agriculture	9.00	9.00	0.00
Budget and Management Services	14.00	13.00	(1.00)
City Attorney	43.61	43.61	0.00
City Auditor	8.00	8.00	0.00
City Clerk	6.00	6.00	0.00
City Manager's Office	20.00	19.00	(1.00)
City Real Estate Assessor	36.00	35.00	(1.00)
City Treasurer	77.60	77.60	0.00
Commissioner of the Revenue	65.73	64.93	(0.80)
Commonwealth's Attorney	103.83	103.83	0.00
Communications Office	20.50	20.50	0.00
Convention and Visitors Bureau	123.28	120.28	(3.00)
Courts and Courts' Support	74.63	74.03	(0.60)
Cultural Affairs	14.50	12.50	(2.00)
Economic Development	21.00	21.00	0.00
Emergency Communications and Citizen Services	137.75	135.75	(2.00)
Emergency Medical Services	99.30	95.55	(3.75)
Finance	63.00	61.00	(2.00)
Fire	541.23	526.23	(15.00)
Health	7.38	7.38	0.00
Housing and Neighborhood Preservation	82.00	80.00	(2.00)
Human Resources	70.00	53.00	(17.00)
Human Services	1192.70	1188.70	(4.00)
Information Technology	196.00	193.00	(3.00)
Library	253.50	252.50	(1.00)
Municipal Council	11.00	11.00	0.00
Office of Emergency Management	11.00	7.00	(4.00)
Parks and Recreation	887.53	887.53	0.00
Planning and Community Development	146.00	141.00	(5.00)
Police	1059.86	1051.86	(8.00)
Public Utilities	415.00	415.00	0.00
Public Works	961.88	950.88	(11.00)
Sheriff's Office	539.50	536.82	(2.68)
Strategy, Transparency, Innovation & Resiliency Office	6.00	6.00	0.00
Virginia Aquarium	140.50	137.50	(3.00)
Voter Registration & Elections	12.00	12.00	0.00
Total	7470.81	7377.98	(92.83)
Compared to FY 20	59.81	(33.02)	

Impact on Other Funds

Due to the dedication of various revenues by City Council, a number of funds have been impacted and require a decrease of appropriations or an increase in another revenue source in order to remain

balanced. The following table highlights the amount of appropriation reductions required based on the revised budget.

In the TIP Fund, three positions associated with the new Sports Center and four positions to enhance beach maintenance are being deferred. Fund reserves for future use in the CIP are also being reduced. In addition to these appropriation strategies, fund balance from the TIP fund will likely be utilized to balance the fund. In the event that fund balance from the TIP Fund is appropriated in order to make up a portion of the revenue loss generated by declining meal, hotel, and admission taxes the amount of appropriation change reflected in the table below would be modified. In order to balance the TAP Fund, marketing and advertising contracts will be reduced.

Change in Appropriations from Proposed to Revised

	Original Proposed FY 21	Revised FY 21	Difference
TIP Fund	\$41,943,213	\$29,559,555	(12,383,658)
TAP Fund	\$13,276,751	\$9,642,000	(3,634,751)
Sandbridge SSD	\$5,054,372	\$3,060,953	(1,993,419)
Open Space Fund	\$3,398,220	\$2,145,629	(1,252,591)
ARP Fund	\$5,187,624	\$5,133,253	(54,371)
Parks & Rec Fund	\$43,627,805	\$43,417,814	(\$209,991)

In the Sandbridge SSD Fund and the Open Space Fund, transfers to the CIP will be reduced, thus reducing CIP 8-026 “Sandbridge Beach Restoration III” and CIP 4-306 “Open Space and Park Infrastructure Development and Maintenance II” respectively. In the ARP and the Parks & Recreation Special Revenue Funds, budgeted reserves will be reduced to balance both funds.

The following table summarizes appropriation changes from the Adjusted FY 2019-20 Operating Budget to the Revised FY 2020-21 Operating Budget. Though the City’s budget is decreasing by \$20.8 million, enterprise funds will increase in total by \$4.3 million. The increase in appropriations for the enterprise funds is primarily driven by the previously approved 3.5¢ stormwater fee increase. The increase in appropriations to the Schools is attributable to increased state revenue. In total, the net budget is reduced by \$2.3 million. The Revised City Budget is decreasing by 1.8% while the Schools’ budget is increasing by 2.0%, for a combined reduction of 0.1% from FY 2019-20.

Change in Appropriations from FY 20 Adjusted to Revised FY 21

	Adjusted FY 20	Revised Proposed FY 21	Difference	% Change
City General Fund	\$738,976,655	\$727,832,304	(\$11,144,351)	-1.50%
City Other Funds	\$180,456,497	\$166,503,366	(13,953,131)	-7.70%
City Enterprise Funds	\$222,993,087	\$227,272,164	4,279,077	1.90%
Total City	\$1,142,426,239	\$1,121,607,834	(20,818,405)	-1.80%
Total Schools	\$938,186,488	\$956,706,352	18,519,864	2.00%
Combined	\$2,080,612,727	\$2,078,314,186	(\$2,298,541)	-0.10%

Impact on Schools

As discussed earlier, the Schools will be losing \$20.4 million in local revenue when compared to the FY 2020-21 City Manager's Proposed Budget based on the newly adopted revenue sharing formula. We have provided this revised estimate to the Schools and will be working with them over the next few weeks to better understand the impact of this loss and their plan to mitigate this decrease in local revenue. We have asked the Schools to provide their reconciled budget at the April 28 City Council meeting.

Revised General Fund – Fund Balance

The proposed FY 2020-21 Budget estimated the FY 2019-20-year end unassigned fund balance at \$126.4 million or 10.30% of FY 2020-21 revenues. It is the City's policy to remain within 8% to 12% to ensure adequate coverage in case of emergency or economic downturn. The revisions to the proposed budget and the reduction in estimated revenue within the current year have changed the estimated fund balance at June 30, 2020 to \$99.7 million, or 8.45%. A copy of the fund balance calculation is included on the next page.

Process Moving Forward

While we have made our best effort to analyze the data available to us and develop this Revised Budget, further discussion and possible refinement of the impact on various funds may be necessary. We also will be reviewing departmental revenue, especially those that receive a large portion of their revenue from user fees such as Parks & Recreation, Public Utilities, Public Works, Libraries, the Virginia Aquarium, and the Convention and Visitors Bureau. This review may result in the need to make additional modifications to the items identified in this revised budget.

City Council asked that we review and consider the feasibility of appropriating funding on a quarterly basis. While we will continue to review the merits of this approach, we recognize there are a number of complicating factors if this approach were to be implemented. The most significant of these concerns is how this approach would be implemented for many City contracts funded in the operating budget. State law requires that a full appropriation be in place before a contract can be signed and this could delay all contracts until the 4th quarter of the year when the full appropriation would be in place. Schools may also have complications implementing such an approach as many of their staff (teachers) are on yearlong contracts. We also assume that the CIP would be exempted from this approach.

As we discussed when presenting the City Manager's Proposed Budget on March 24, staff will closely monitor revenue collections on a monthly basis. If revenue collections require adjustments in appropriations, staff will provide City Council with recommendations necessary to realign appropriations with realized revenue.

Projection of General Fund Balance

At June 30, 2020

Beginning Fund Balance at July 1, 2019 (CAFR)*	\$211,828,049
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Add: Revenues		
FY 2019-20 General Fund Revenues-Revised Estimate	\$1,121,122,637	
Surplus from Sandbridge TIF	<u>13,722,694</u>	<u>1,134,845,331</u>

Total Fund Balance and Revenues	\$1,346,673,380
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Less: Anticipated FY 2019-20 Expenditures:		
Operating Expenditures	\$646,439,536	
Attrition	\$5,140,801	
School Operations**	445,386,937	
Other Transfers**	<u>98,650,453</u>	<u>1,195,617,727</u>

Total Projected Fund Balance at June 30, 2020	\$151,055,653
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Less: Anticipated Uses of Fund Balance:		
Loans, Advances, and Inventory	\$10,934,636	
Encumbrances and Carryforwards	10,000,000	
Aquarium Parking Lease	2,270,795	
Human Services	250,000	
Community Services Board	2,901,470	
Aquarium Marsh Pavilion	134,661	
School Operating Budget	409,000	
FY 2020-21 Capital Budget	24,457,715	
Attrition	<u>0</u>	<u>51,358,277</u>

Total Estimated Unassigned Fund Balance at June 30, 2020	\$99,697,376
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Calculation of Unassigned General Fund Balance

Projected FY 2020-21 General Fund Revenues***	\$1,179,411,634
Unassigned Fund Balance as a percentage of FY 2020-21 Revenues	8.45%

Notes:

*The total General Fund balance reported in the FY2019 CAFR was \$230,579,796. This included \$17,299,308 for the School Reserve Fund and \$1,452,439 in Trust and Gift funds that are reported with the General Fund in the CAFR but not included in the number above.

** Reflects full transfer of budgeted amounts

*** Net of Fund Balance Usage

Conclusion

Over the past two weeks, staff has worked diligently to prepare this revised budget due to the economic changes caused by the rapidly evolving COVID-19 pandemic. While we have revised this budget based on our best professional estimates after reviewing literature from a multitude of sources, it is unknown how long and how deep the economic impacts may last.

The Honorable Mayor Dyer and Members of City Council
Revised Resource Management Plan
April 10, 2020
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While there are many important initiatives this revised budget removes from what was proposed just a few short weeks ago, maintaining our current levels of service, as best as we can, is critical to helping our community through this unprecedented time. It is also essential that we maintain budgetary flexibility based on the uncertain economic conditions.

I look forward to discussing this revised plan with you in the coming weeks.

Respectfully,



Thomas M. Leahy, P.E.
Acting City Manager