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Dear Colleagues and Virginia Beach residents,

In advance of the upcoming public hearings two weeks from now and a good three weeks in advance of budget reconciliation, this letter communicates my threshold [**Alternative 1**] and objective [**Alternative 2**] alternatives to the City Manager's recommendation. I do not want anyone to say that the public was not aware of my recommendations in advance of the public hearings. The public will certainly be more aware of my recommendations than any actions that may take place between budget reconciliation and actual adoption of the budget. The foregoing being shared, I have been socializing budget adjustments via social media since the City Manager's recommended budget was transmitted to both the public and City Council. Feedback has been mostly favorable, although anecdotal feedback is not statistically significant.

It is not just School Board and City employees who are experiencing the financial stress imposed by the COVID-19 pandemic, and not benefiting from our K-shaped economic recovery. Most Virginia Beach households have received non-taxable payments from the Federal government under the CARES ACT and now the American Rescue Care Act. Fewer employees, and no seniors or federal employees (military and civilians) received additional bonuses last year like School Board and City employees. Unlike government workers at all levels, many of our Virginia Beach households have experienced unemployment, reduced wages, and demotions. Most that are still working did not receive a raise last year or the year before, creating financial hardship which, for some, includes a loss of their business or their home. My walk-about in the community find few people resenting or opposing the three percent raise even though they themselves do not receive the same generous retirement and leave benefits as City employees. Virginia Beach residents do find the across-the-board 5% raise for School Board employees as unsupportable. They actually use a lot stronger language expressed with emotional energy. Residents, in large part, support the 5% raise for teachers and share, when asked, that they support better pay for police officers. Almost universally, at some point in the conversation, they express that City Council should reduce taxes. I interpret the former statement as a question: where is my pay raise by reducing my taxes?

The fiscal tools available to City Council do not empower us to make granular targeted progressive tax rates. We can and should adopt, at a minimum, the state law default revenue neutral tax rate of \$0.9887 cents. It is true that a lower tax rate does not mean that the actual real estate taxes you pay will be less, as that is a function of your property's appreciation, or that an apartment owner or business owner will pass on any real reduction they receive in the prices they charge. The fact that we are not enabled by state law to exercise the flexibility we would like is not a reason to raise money that should remain in the private sector. Money that should remain in the private sector is a pay raise too, though a much smaller one than the City Manager's current recommended 6.1% increase in revenues. If there is the will among a majority of this body to do the heavy lifting, then an even lower real estate tax rate is possible. A 5% raise and more for uniformed officers is doable, and the School Board should target a like raise for teachers in the classroom that actually make the lesson plans they teach, interact with students in a learning environment, put grades in the grade book in the evenings and weekends, call parents at night and on the weekends, and offer extra help to students after their normal work is over. The School Board should then target a 3% raise to all other employees. We cannot direct the School Board, but we can add our voice to the public's voice.

It is going to be an unnecessary increased challenge to secure the voters' approval for a \$455 million Flooding Mitigation Bond Referendum if we as a Council do not align both our available bond borrowing capacity to flood mitigation in anticipation of their approval and our revenues to the people's priorities by making the hard choices businesses and residents have to make, and if we do not adopt, at a minimum, a revenue neutral real estate tax rate of \$0.9887. This is an achievement we should all find easy to accomplish well in advance of budget reconciliation and create the foundational credibility necessary to gain the voters' support for the downstream tax increases that will be necessary to fund the life cycle cost of a \$455 million Flooding Mitigation Bond Referendum this November.

I am recommending a threshold and objective real estate tax rate to the City Manager's recommended real estate tax rate of \$1.0075 to \$0.9887 and \$0.98 respectively. Additionally, I am recommending:

- **Reallocating** the proposed net increase of **\$69 million** of our very limited **available bond borrowing capacity from** the School Board's six-year Capital Improvement Program (CIP) to accelerate school construction and modernization of Princess Anne High School, Betty F. Williams, and Bayside High School **to the City Council's top priority public safety** (people – police and property-flood mitigation).
- **Reallocating \$4 million per year from** General Fund “pay-go” in each year of the CIP **to the Police Department** for increased salaries and other compensation flexibilities and capital investments to be specified in the plan submitted by the Police Chief. Details and reasoning are provided in subsequent paragraphs.
- **Alternative 1: Threshold adds \$1.9 million to Police Department** for a total of \$5.9 million by a 0.45% reduction in General Fund positions now proposed to be appropriated at one hundred percent.
- **Alternative 1: Threshold offsets the City share of the 1.88 cents real estate tax rate reduction from** the City Manager's recommended rate of \$1.0075 - \$6.2 million – by increasing the vacancy rate in General Fund positions by 1.55% for a total of 2%.
- **Alternative 2: Objective builds on Alternative by reducing the real estate tax rate from \$0.9887 to a flat \$0.98.** An additional \$0.0087 reduction in the real estate tax rate equates to approximately \$5.4 million. The City share would be approximately an additional \$2.86 million. The School share would be approximately an additional \$2.54 million.

- **Offsetting the City's share of \$2.54 million** could be absorbed by additional imposed vacancy rate in General Fund appropriated positions or eliminating the \$1.9 million added to the Police Department, reducing pay go in the CIP an additional \$700,000 across the six-year CIP, or other equivalent offset (for example, reducing the reserve for future pay adjustment from \$3 million to \$2.3 million in recognition of the impact in part of pay adjustment of uniformed police officers provided for in Alternatives 1 and 2).

Other than increases to the Police Department and compensation adjustments for uniformed officers, no changes in compensation for City positions is provided for in Alternatives 1 or 2. Details and reasoning will follow in subsequent paragraphs. You may recall under state law that the real estate tax rate shall be established at the revenue neutral rate (in our case \$0.9887) unless after a public hearing not sooner than ten days prior to a vote to establish a higher rate, the City Council by affirmative vote adopts a rate not in excess of the rate published for in the public hearing. As a refresher, the real estate tax rate proposed by the City Manager, \$1.0075, represents a real estate tax rate increase of 1.88 cents (1.0075-.9887) or a 1.9015 percent real estate tax rate increase. A change from the current rate of \$1.0175 to any rate higher than \$0.9887 (state law revenue neutral rate) is not a rate reduction. A penny of the recoverable property real estate tax rate revenue is \$6.2 million per the City Budget, which is less than the \$6.33 million reported by the City Assessor due to the City's experienced collections of real estate owed.

Threshold rate reduction: (final budget ordinance numbers to be provided by City Budget Office)

To lower the real estate tax rate from \$1.0075 to \$0.9887 requires a revenue reduction in the total City budget (city and schools combined) of \$11.7 million. The \$11.7 million per the School Funding Formula is split roughly on 53 (city)/47(schools) percentage basis. The City required offset is an estimated \$6.2 million. \$11.7 million (6.2 million times 1.88) is just over one-half of 1% of the total City budget of approximately \$2.2 billion, which is hardly a taxing, no pun intended, imposition on a less than totally lean budget to absorb. Families and businesses having to pay local tax rates proposed to us have experienced much worse reductions in their spending.

Trust you are still with me on this walk. So where does the City share of offset, approx. \$6.2 million come from you ask (School Board will have to decide how they want to balance with approximately \$4.5 million less revenue, which also is not a threat to education quality). Pre-Covid/current execution year budget, the City historically experienced an annual vacancy rate of 4% to 5%. Yet, until most recently, every authorized position was funded as if it was filled every day – a zero vacancy rate

This year the City Manager has fully funded all 7,375.83 plus positions, as if the City would experience zero vacancies. I believe that the City Manager is a smart guy and knows the City will never fully expend the resources for labor he has requested. Being the smart city manager he is, he has laid in trade-space that does not involve a major unraveling of his budget recommendation to allow for Council adjustments to meet the expectation and need for real estate tax relief for Beach residents.

A one percent vacancy rate for General Fund positions yields \$4 million. Therefore, funding FTEs at 98% versus 100% is far from a risky proposition. Two percent is half of the lower range of the average experience-based vacancy rates. When applied to General Fund positions, a 2% vacancy rate generates an \$8 million potential revenue asset. \$8 million is in excess of the requirement to enact a real estate tax rate of \$0.9887. Remember that adopting a real estate tax rate of \$0.9887 requires an offset of approximately \$6.2 million, which leaves an asset of \$1.2 million on the table.

A program average vacancy rate of 1.55% is all that is needed to offset the \$6.2 million. The additional 0.45 percent vacancy rate, for a total of 2%, would generate \$1.9 million to increase funding for police annually. By reprogramming \$4 million of General Fund “pay go” each year out of \$20 million annually in the CIP, City Council could invest an additional \$5.9 million next year to improve police pay to include recruitment and retention bonuses. Since public safety of people from violence is secured by uniformed police officers -and safety of property from flooding is maintenance of legacy drainage and creating new drainage capability and capacity, our adopted Operating Budget and CIP must give preferential priority to each. An annual \$5.9 million increase in the Police Department beginning with next year’s budget puts us on the right path to cure the manning deficiencies identified by the Police Chief on Tuesday, March 27, 2021.

Much more is possible if a City Council majority has a greater appetite for better aligning the budget to the public’s priorities and taking measured risk in areas where additional risk taking is judged acceptable. Without an indication of a stronger appetite from a majority of my peers, I did not find it productive to provide more aggressive excursions. I do judge that Alternative 1 is a non-stretch goal by any measure that I trust you will find has broad appeal to the public we serve. I take no singular credit for what I have proposed. I have spoken with a number of you and your feedback was greatly appreciated. If you find things you like, I give the credit to others. If you find things you do not like, attribute that to me.

Risk Assessment:

The Revenue forecast on which the recommended budget was largely based was delivered to us last November. Back then, our GDP growth rate estimate looking forward was less than 3%. The consensus estimate of the GDP growth rate for this year is now 6%. The American Rescue Plan Act, independent of yet Congressionally passed and President enactment of an American Infrastructure Act, is going to drive up transactional revenues this year ahead of current estimates.

It is not a stretch then to project that 80% of our population (estimated at 450,000), or 360,000 residents, will be receiving a \$1,400 check this year, which comes to an estimated \$504,000,000. Assuming just 50% is expended on sales transactions, the half-of-one cent sales tax that is directly passed back to the City exclusive of the school through put would generate an estimated additional \$1.26 million in sales tax revenues over the baseline included in the proposed budget. The latter estimate does not include a multiplier effect that would produce additional revenue.

It is also not a stretch to expect that the additional economic stimulus generated by other facets of local payments to NGOs, businesses, and individuals, distinct from the direct checks to households under the American Rescue Plan Act, will also generate revenues of at least a million over and above the current revenue forecast. On a conservative basis, that is an additional \$2.2 million in revenue. Since this would be one-time s when realized, it would enable back filling of CIP requirements for the City and the Schools because these revenues are split transactional revenue sources.

There is no downside risk under any reasonable criteria to conclude that Alternative 1 is easily executable. The only question is whether we as a City Council want to upgrade our revenue baseline for the budget we adopt, or reprogram additional funds out of CIP “pay-go” with a policy of backfilling with revenue generation in excess of the revenue baseline in the City Manager’s recommended budget.

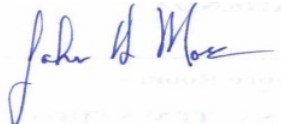
Way forward:

I have asked the City Attorney working with the City Budget Office to put Alternative 1 into ordinance form so it will be available to both the public and you very shortly. Since the offset adjustments are not setting a new precedent and are executable with low risk, Council can quickly provide the compensation shaping tools to provide structural adjustments necessary to provide market competitive compensation to our uniformed police officers and provide force shaping incentives well to will enable the Police Chief to reverse the assessment, he gave us last Tuesday, March 23, 2021. The assessment was that the current on-board count, which is 100 less than his authorized uniformed officer force structure, is insufficient to meet the public safety mission he his assigned to perform. The Police Chief and the community, in the interim, are having to endure a less than acceptable level of risk and place an unsustainable readiness fatigue on our police officers.

I petition you, my colleagues, to give serious consideration to my recommendation, and I petition the public to show their support consistent with their assessment of its merits. As I expressed earlier, I take no pride of authorship and this is an integrated compilation of inputs I have received and the application of my professional experience and personal observations of the community's health over the last sixteen months.

I request that this letter be posted on the City's web page along with other budget documents to include the Alternative 1 budget ordinances when they become available. We can fashion and adopt a budget for next year that gives all the stakeholders a raise in one fashion or another.

Sincerely,

A handwritten signature in blue ink that reads "John D. Moss". The signature is written in a cursive style and is positioned above a faint, light blue rectangular stamp or watermark.

John D. Moss

cc: City Manager
City Attorney
City Clerk
Virginia Beach Delegation to the General Assembly
Virginia Beach School Board
Virginia Beach Chapter of the Chamber of Commerce
The Hotel Motel Association
The Restaurant Association
The Council of Civic Leagues
Various social media postings