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Members of City Council

Subject: FY 2020-21 Operating Budget and CIP Reconciliation

Dear City Council Members:

On March 24, 2020, the Acting City Manager presented his original Proposed FY 2020-21 Operating Budget and Capital Improvement Program (CIP). Due to the economic impacts of COVID-19 on our City, the City Manager provided a Revised FY 2020-21 Operating Budget and CIP on April 10, 2020. The Revised Budget outlined reductions associated with decreases in tax revenue as a result of the COVID-19 pandemic and returned services to FY 2019-20 levels. These reductions are highlighted in green on Attachment A.

Last Thursday, we provided a proposal for reconciliation of the Proposed Budget and CIP. We believe this revised letter incorporates some of the concerns addressed at Thursday's budget workshop and includes tax relief for businesses and citizens as well as an additional strategy to meet revenue shortfalls in FY 2020-21 if revenue is not meeting estimates. As discussed on Thursday, two tax/fee relief programs have already been addressed in the letter below - see items 4 (personal property tax relief for volunteer Emergency Medical Services and volunteer fire personnel) and 11 (assistance monthly City Services Bill).

At the same time we vote for the Budget and CIP next week, we recommend that City Council consider a \$3 million tax relief plan to take effect within the current fiscal year (FY 2019-20): \$2 million for providing both real estate and personal property tax relief for citizens in need and \$1 million to provide additional business tax relief through the Small Business Emergency Assistance Program implemented by the Virginia Beach Development Authority (VBDA). Supporting these tax relief initiatives will be the appropriation of fund balance from the Parks and Recreation Special Revenue Fund.

As we begin the new fiscal year with economic uncertainty, it is critical that the City Manager and staff provide monthly financial updates on revenues and expenditures. The Revised FY 2020-21 Operating Budget has created a great deal of flexibility; however, it is possible that additional City Council action could be required should revenues decline below current estimates. To provide extra flexibility and preserve the City's cash position during these uncertain times, it is recommended that appropriations within the following Capital Improvement

Projects (CIP) be placed in a reserve entitled “COVID-19 Revenue Shortfall Stabilization.” This reserve totals \$21.8 million and can only be utilized after City Council approval. If FY 2020-21 revenue is meeting estimates after quarterly reviews, funding can be returned to the CIP projects listed below with City Council approval. If revenue is not meeting estimates, the reserve can be used to offset revenue shortfalls. The following is the list of projects totaling \$21.8 million:

- CIP # 8-025 “Beach Replenishment II” (\$2,550,000)
- CIP # 3-718 “Police Radio Encryption” (\$3,302,428) Partial ATD
- CIP # 2-094 “Bus Stop Infrastructure and Accessibility Improvements” (\$648,969) Partial ATD
- CIP # 2-414 “Shipp’s Corner Road Improvements” (\$2,100,000) ATD
- CIP # 2-047 “Upton Drive Extended and Dam Neck Stations Imp.” (\$1,286,780) ATD
- CIP #3-153 “Various Site Acquisitions III” (\$343,644)
- CIP #3-132 “Heritage Building Maintenance II” (\$575,000)
- CIP #4-300 “Community Recreation Centers Repairs and Renovations III” (\$1,000,000)
- CIP #4-301 “Parks and Special Use Facilities Development/Reno” (\$950,000)
- CIP #3-703 “PD – Special Investigations Video Storage” (\$400,000)
- CIP #2-056 “Pleasure House Road Street Imp. – Phase I” (\$150,000)
- CIP #2-057 “Pleasure House Road Street Imp. – Phase II” (\$357,376)
- CIP #9-006 “Winston-Salem Avenue Improvements” (\$7,565,191) ATD
- CIP #3-184 “Virginia Aquarium Monument Signs” (\$600,000) ATD

When combined with the total anticipated salary vacancy savings from the position freeze (which we recommend continuing into FY 2020-21) and fully funding full-time salaries (not budgeting for attrition), a minimum of \$10 million of vacancy savings (compared to previous years) should be available to offset potential revenue shortfalls. Between these two initiatives, over \$30 million should be available to offset revenue shortfalls if the economy does not improve.

Please note we also recommend placing CIP # 3-174 “Operations Facilities Renovations” (\$30,000,000) in a reserve until City Council approves the release of funds. This project is anticipated to be funded by bonds and the resulting debt service will impact the budget beyond FY 2020-21. While this project (renovations of buildings 1, 2 and 11) is important in the aftermath of the 5/31 tragedy, we believe the City should not initially expend these funds to ensure that our cash flow is sufficient pending improvement of the economy.

We also recommend that the City Manager continue limiting expenditures to essential services only as we begin the new fiscal year.

As noted on page 22 of the April 10 letter, the City Manager’s Revised Budget provided a balancing strategy for most funds; however, additional analysis was required to determine the best strategy for balancing both the Tourism Investment Program (TIP) and the Tourism Advertising Program (TAP) Funds. These funds are projected to have their original FY 2020-21 revenue estimates reduced by a combined \$16 million. Balancing these funds through expenditure reductions alone would result in almost a complete elimination of current services

provided through the TIP Fund (programs such as beach maintenance, trash collection, beach events, etc.) and a reduction of 25% in TAP Fund advertising and marketing efforts.

As the economy begins to reopen, TIP and TAP programs and services will be essential to the recovery of the local tourism industry. For that reason, it is recommended that the primary balancing strategy of the TIP and the TAP funds include the use of \$14.8 million of fund balance from the TIP Fund. Of this use, \$9.8 million will be appropriated within the TIP Fund and \$5 million will be transferred to the TAP Fund. Additional funding within the TAP Fund will allow the City to not only maintain current services but also enhance marketing and advertising efforts across the City. The enhanced marketing and advertising campaign plan will occur in two phases. The first phase includes an additional \$2 million between now and July 1 with City Council action anticipated in May. The second phase will include an additional \$1.6 million appropriated on July 1 as a part of the FY 2020-21 Operating Budget. The projected fund balance of the TIP Fund at year end FY 2020-21 is \$1.7 million, or 4% of the following year's revenue estimate. This results in an overall increase to the net budget change as reflected in the April 10 presentation. These recommendations are highlighted in blue on Attachment A.

Also noted within both the letter (page 22) and presentation, additional refinements were needed as a result of department specific revenue reductions. These reductions resulted in the additional elimination of nearly 24 FTEs and are highlighted orange on Attachment A. In total, the City Manager's Revised FY 2020-21 Operating Budget includes a net reduction of 58.02 FTEs when compared to the FY 2019-20 Operating Budget.

The modification of FY 2020-21 revenue estimates resulted in the reduction of \$20.4 million in local revenue shared with Schools. On page 22 of the April 10th letter as a part of the process moving forward, it was noted that City staff was continuing to work with School staff to modify the Schools FY 2020-21 Operating Budget accordingly. On April 28, the School Board reduced approximately \$28 million in their FY 2020-21 Operating Budget. In order to incorporate the budget amendment adopted by the Virginia Beach School Board, the following adjustments were necessary:

- 1) Reduce the transfer from the City's General Fund by \$20,372,434 and reduce estimated revenue from the Commonwealth by \$6,926,614. These reductions in revenue are offset with the elimination of the following appropriations:
 - a. \$19,532,825 originally approved for a 0.5% experience step increase and 3.0% cost of living adjustment (COLA).
 - b. Elimination of 69.55 FTEs and \$4,492,077 in related salaries and operating supplies.
 - c. \$2,774,146 in other operating cost within the School Operating Fund.
 - d. \$500,000 transfer to the Schools' Capital Improvement Program.

- 2) Reduce School's CIP Project # 1-107 "Princess Anne High School Replacement" by \$26.5 million over the six-year CIP period. This results in a corresponding reduction in the School's CIP means of pay-as-you-go financings in year 1 by \$500,000, year 2 by \$1 million and by \$1.5 million each of the remaining years 3 through 6. Also reduced is the School's use of fund balance from the School Reserve Special Revenue Fund in the CIP

by \$3.6 million in year 2, \$3.7 million in year 3, \$3.8 million in year 4, \$3.9 million in year 5 and \$4 million in year 6.

The City Manager's Revised FY 2020-21 Operating Budget retained several proposals that should help in hiring and retaining our valued workforce, including:

- Increasing the Hybrid Employee Paid Time Off (PTO) accrual of an additional 1.5 days per year and expanding the maximum allowable carryover by six days.
- Expansion of the City's Maternity/Paternity leave program from three to six weeks.

After listening to public input at the public hearings and via email as well as discussions with City Council members, it is recommended that the City Manager's Revised FY 2020-21 Operating Budget and CIP, as reflected on Attachment A, be adopted with the following adjustments:

- 1) Reinstatement of the originally proposed initiatives to implement recommendations of the 2018 Disparity Study. This increases the Department of Finance's budget by \$366,541 including one additional position.
- 2) Reinstatement of the following compensation initiatives previously approved by City Council:
 - a. Year 2 Public Safety Workforce Development
 - b. Year 2 phase-in of moving supervisors to their pay range mid-point

Through these initiatives, the City will continue to address critical compensation needs and continue to build off previous efforts to address compression across the City. A compensation reserve of \$1,188,714 in the General Fund is established to address these initiatives.

- 3) Elimination of the 2% planned increase in City employee health insurance premium rates scheduled to take place on January 1, 2021. City employee premium rates will remain at the same level as 2020 health insurance premium rates. The Schools also eliminated their 2% planned increase. Since both the City and Schools will be eliminating pay increases, we believe this will help reduce the financial impacts to City and School employees with no pay increases planned for FY 2020-21. The total impact to the Health Insurance Fund is approximately \$630,000. The 3% employer increase remains in both the Schools and City budget.
- 4) Provide personal property tax relief for volunteer Emergency Medical Services and volunteer fire personnel. To provide this tax relief, qualifying personal property will be taxed at a lowered rate of one millionth of one cent (\$.000001) on each one hundred dollars (\$100) of assessed valuation. This reduction will result in the projected loss of \$60,000 in personal property tax revenue.

- 5) Reinstatement of the originally proposed funding increases of \$7,000 to the Atlantic Wildfowl Heritage Museum and \$15,000 to the Virginia Beach Surf and Rescue Museum.
- 6) Move the \$135,000 Museum of Contemporary Arts (MOCA) education grant from the Department of Cultural Affairs to Non-Departmental Organization Grants. This will provide additional transparency in the future budgeting of this grant initiative.
- 7) Even during these tough economic times, it is critical to address the safety and security of our employees and citizens. We recommend beginning the implementation of the Hillard Heintze recommendations including the centralization of Human Resources and establishing a Security Office as follows:
 - a. Four Human Resource positions to begin the phased centralization of Human Resource functions. This increases the department's operating budget by \$397,373.
 - b. One Security Office position to begin conducting facility security assessment needs. This increases the Office of Emergency Management's operating budget by \$64,504.

Starting these two initiatives in FY 2020-21 will allow staff to determine the type and amount of resources necessary to further implement the recommendations. If revenues are performing favorably based on a mid-year review by staff, additional consideration will be given to funding more of these recommendations in FY 2020-21.

- 8) Increase funding contribution to the African American Cultural Center by \$50,000.
- 9) Based on updated fuel cost projections, additional savings are likely to occur in FY 2020-21 due to lower fuel prices. General Fund budgeted fuel cost are reduced by \$299,132.
- 10) Increase General Fund VDOT Roadway Maintenance funding by \$1,850,000. The FY 2020-21 Commonwealth of Virginia's Budget reflects a 3.7% increase for Financial Aid for City Road Maintenance resulting in the estimated increase of funding. Virginia Beach's portion of this revenue source has historically been 13% of the state's budget. Estimating this additional revenue to the Department of Public Works creates capacity to redirect other local revenue sources to fund the previously identified General Fund initiatives.
- 11) The Department of Public Utilities is developing a program to assist individuals recently unemployed due to the COVID-19 pandemic with their monthly City Services Bill (water, sewer, stormwater and waste management fees). Working with the Department of Human Services and Information Technology, Public Utilities is developing criteria and the appropriate technology platform for participation in the program with an implementation goal of July 1, 2020. The fee relief program totals \$4 million and will be in place until funding is exhausted. Once all program details have been finalized, information will be shared with City Council and our citizens prior to implementation. Funding for this one-time program consists of \$2.4 million from the Fund Balance of the Water and Sewer Fund and \$1.6 million from the Fund Balance of the General Fund.

Until a final implementation plan is developed, these appropriations will be placed into a dedicated reserve for future allocation which could include the transfer of appropriations between funds.

- 12) Provide \$2 million to CIP project 4-059 “Southern Rivers Watershed Site Acquisition Program” in year one of the CIP. This is a new project in the FY 2020-21 CIP. This project is one of the strategies to reduce the impact of flooding in the southern part of our city. This appropriation will be supported through the use of Fund Balance from the General Fund.

Some City Council members have requested reestablishment of part or all of the 2.5% pay increases originally included in the City Manager’s Proposed Budget. Before implementing compensation increases or other items, we recommend reviewing FY 2020-21 revenue estimates in January 2021 after the accounting records are finalized for revenue collection through December 31, 2020. At that point, we should have a better understanding of the financial impacts of the COVID-19 pandemic on our local economy as well as any federal/state financial support that may be provided. Please note if revenue decreases beyond estimates additional City Council action might be required to adjust the budget accordingly.

The details for the funding sources and City Council adjustments provided above are reflected on Attachment B.

We want to thank the public who participated in public hearings to offer their comments on the FY 2020-21 Operating Budget and CIP as well as staff for their efforts to provide answers to our various questions. If you have any questions, please contact us directly.

Sincerely,

Robert “Bobby” M. Dyer, Mayor

James L. Wood, Vice Mayor

Attachments

- Attachment A
- Attachment B