

NORFOLK, VIRGINIA
CITY COUNCIL
BUDGET WORK SESSION

TUESDAY, MAY 5, 2020 - 4:00 P.M.

Mayor Alexander called the meeting to order at 4:00 p.m.

Mayor Alexander announced this meeting is being held Pursuant to and in Compliance with City of Norfolk Ordinance 47,967 as authorized by Virginia Code Section 15.2-1413. This meeting will be held as an electronic meeting due to the emergency and disaster represented by the spread of COVID-19 which makes it impracticable or unsafe to assemble in one location. This meeting will be conducted by the following electronic communication means: telephonically and electronically through WebEx. Each item has been found to be necessary for Council consideration to continue operations of the City Council and the discharge of its lawful purposes, duties, and responsibilities.

The members of the Council were present by remote/electronic WebEx: Mrs. Courtney R. Doyle, Mrs. Angelia Williams Graves, Mrs. Mamie B. Johnson, Mrs. Andria P. McClellan, Mr. Paul R. Riddick, Mr. Tommy Smigiel, and Mr. Martin Thomas Jr.

Presenter: Dr. Larry H. Filer, II, City Manager

Dr. Filer provided an update on the FY 2020 general fund pre-COVID-19 and how it has been impacted. We anticipate an estimated budget shortfall of \$15 million for Quarter 4 (Q4). COVID-19's impact has caused a sharp decline in consumption-based revenues and other local revenues. Cost cutting measures have been identified that will aid in the closing of the Q4 gap.

Actions Taken to Address the FY 2020 Revenue Shortfall	Estimated Savings
Furloughed part-time staff	\$3.0 million
Held final FY 2020 payments to Arts and Culture partners	\$2.5 million
Halted discretionary spending	\$1.0 million
Implemented hiring freeze	\$0.5 million
Estimated Savings from Strategies	\$7.0 million
Projected NPS Revenue Loss	\$3.0 million
Total Estimated Savings	\$10 million

Councilman Smigiel asked if savings anticipated in energy costs from buildings being closed, and in fuel costs from less city vehicles on the road? Mr. Patrick answered they've worked with all departments to develop spend plans through the rest of the fiscal year and a lot of those expenses are captured in the discretionary spending.

Councilman Riddick asked if there are savings opportunities with the St. Paul's project since it has been put on hold until mid-2021? Dr. Filer answered there may be flexibility there, but some of those funds could be tied to other funds coming from the state and federal levels. Councilwoman Graves stated to her knowledge, the St. Paul's project is **not** on hold, and there has been nothing in writing from the U.S. Department of Housing and Urban Development (HUD) stating so. **The work regarding relocation has halted, but counseling with residents continues.**

Councilwoman Doyle asked for an explanation on the line item regarding projected Norfolk Public Schools (NPS) revenue loss. Dr. Filer answered that is the revenue sharing piece that is anticipated since revenues are going to be under projections. He added there have been discussions with NPS and they have a process internally by which they're going to try and close that gap. There is also a possibility of using Sustainable Water Initiative for Tomorrow (SWIFT) funds. Mayor Alexander asked if we are still above the floor that we set in revenue sharing? Mr. Filer answered that the city is still abiding by the statutory rates inside the funding formula on all the various taxes that accrue through the revenue sharing formula. Mr. Patrick added we are still well above the base of \$123 million. Councilwoman Johnson recommended the information on how NPS is funded be made available to citizens.

Councilwoman Johnson asked when the hiring freeze went into effect and if there were any new hires in March and April and what were those positions? Mr. Patrick answered the effective date for the hiring freeze was March 17th and as part of the hiring freeze, we established classifications that were considered essential and non-essential. Essential classifications: police officers, fire fighters, waste collectors, 9-1-1 telecommunicators, utilities' workers, and health workers. To the extent that there are openings in those positions, recruitment is on-going, and positions are being filled.

Councilman Riddick suggested postponing the new gangplank at the Half Moone Cruise Terminal and using that \$3 million elsewhere due to the impact on the cruise industry. Dr. Filer stated the Administration is in discussions with Carnival Cruise Line and trying to evaluate how they're going to move forward.

Councilwoman Graves asked if NPS has an economic downturn fund in their budget. Are they solely dependent on city, state, and federal funds? Mr. Patrick answered no school division in Virginia can have a fund balance or reserves on their own books. At year's end, any surplus funds are remitted back to the city and under the revenue sharing policy, and there is a process by which schools could ask for those funds to be re-appropriated. Mayor Alexander added that school divisions in the State of Virginia have no taxing authority or the ability to assess fees. They are completely dependent on city, state and federal funds. Councilman Smigiel stated that annual rollover funds can only be used for one-time expenses and it's possible NPS could use them to close the gap. He added that Dr. Byrdsong and the School Board are concerned about funding for building maintenance.

Councilwoman McClellan asked if an approved NPS FY 2021 budget and/or a revised budget been received? Mr. Patrick stated the School Board provided an initial adopted FY 2021 budget that aligned with the revenue sharing funds and funds from the state. However, they will have to reevaluate their budget after Council adopts the city's budget. Councilwoman McClellan asked if NPS receives any funding from the CARES Act or from any federal funding sources? Mr. Patrick noted that the state is in the process of determining how the funds will be allocated, but they were not designed to replace revenue loss. Councilman Smigiel added that Senator Kaine's office indicated Virginia was getting \$238 million for schools, but a large portion of that is for child nutrition. The Virginia Municipal League (VML) has been working with the Governor's office to determine how the money will be distributed to localities.

Dr. Filer stated the expenditure estimate of \$894 million and the estimates of cost savings strategies leaves a reserve usage for Q4 somewhere between \$1 to \$7 million dollars.

Fiscal year 2021. Dr. Filer stated that a major concern going forward is the number of establishments operating post-pandemic, which can cause an extended impact on tax collections. The hope is that most of these businesses will rebound as we start to reopen, but the reality is that some businesses will not reopen. Addressing revenue at this point is a mixture of a structural weakness and a cyclical weakness.

Strategies to Address a Revenue Shortfall

There are three ways to address a revenue shortfall: Lowering expenses, raising revenues, or using reserves. In each of these strategies you have one-time strategies and on-going strategies.

- One-time strategies: Reduce expenses and use reserves.
- On-going strategies: Reduce expenses and raise revenue.

Plan to Close the Gap: Lower Expenses and Use Reserves FY 2020

- No tax increases
- Expenditure reductions
- Use reserves

FY 2021

- No tax increases
- One-time expenditure/service reduction
- On-going expenditure/service reductions
- One-time Fed/State COVID-19 funds
- Use reserves

Potential Actions: (check mark denotes City Manager strongly suggests)

- ✓ Federal/State stimulus funds
- Pass on portion of healthcare cost increase to employees
- ✓ Re-open only Main/Anchor Branch Libraries
- ✓ Re-open only 4 - 5 recreation centers

- ✓ Freeze all current non-essential vacancies
- ✓ Freeze 20 Sworn Police vacancies (currently 80)
- ✓ Continue furlough of part-time staff
- ✓ Department specific service reductions:
 - ✓ Six to 10 percent reductions for City Manager Departments
 - ✓ Four to six percent reduction for City Council Appointees
 - ✓ Four to six percent reduction of city supplement for Constitutional Officers
- ✓ Use on-going cash to CIP for operating
- ✓ Postpone and/or eliminate enhancements in FY 2021 Budget
- Divert portion of St. Paul's funding to general operating for one year
- Divert resilience penny funding to general operating for one year
- Eliminate Human Services Grants
- Eliminate Arts and Humanities Grants
- ✓ Reduce funding for outside agency partners
- ✓ Eliminate NEL program in 2020
- Implement furlough days for non-essential full-time employees

Services can be restored during the year as revenue, economic, and health conditions allow.

Councilman Riddick expressed concerns about closing recreation centers. Councilman Smigiel stated it's important to separate buildings from programming. For example, if youth sports are allowed this summer, we should not eliminate those programs. Councilwoman Johnson stated there are approximately 25 buildings that are considered recreation sites and we need to consider which ones are true recreational centers. She asked where are the four to five recreation centers located and how would they service the entire city?

Dr. Filer stated the strategy is to activate the large centers because of social distancing measures and centers that overlap programs and amenities. Mr. Patrick stated in determining which centers to open or close, they are doing data analysis on bus stop locations, wealth levels, drive times, comprehensive programming, etc.

Councilman Smigiel asked to consider hour and day reductions rather than closing buildings. Councilwoman Graves referenced a study done on the centers and it suggested there were too many and that we did not have the attendance in the centers that we thought we had. We also need to consider potential adverse outcomes from not having structured summer programs. She added there may be opportunities for corporate partnerships to help sponsor programming. Dr. Filer stated, in conclusion, we need all these strategies or some combination to close what is approximately a \$40 million gap.

Dr. Filer presented a summary showing the city's cash position and reserves. He emphasized the city's asset position is strong. What we face in terms of FY 2021 and perhaps into 2022 and 2023 is an issue of illiquidity. The way in which we mitigate illiquidity is through cash.

Summary of Current Cash Position

Total Cash Available by Investment as of 3/31	
Corporate Account (Operations)	\$178,293,984
Local Govt Investment Pool	\$12,482,085
Managed Funds	\$58,108,080
Total Cash Available	\$248,884,149

Current Cash Position by Fund	
Total Available Cash by Fund as of 3/31	
Enterprise Funds	\$127,263,298
General Fund	\$96,826,216
Special Revenue Funds	\$21,666,191
Other Agencies	\$3,128,444
Total Cash Available	\$248,884,149

Current General Fund Cash & Reserves as of 3/31	
General Fund Cash	\$96,826,216
Reserves and Designations:	
10 percent reserve	\$65,788,061
VB Water Payment*	\$20,000,000
SWIFT Funds**	\$15,611,830
Risk Management Reserve	\$7,171,121
Economic Downturn Reserve*	\$5,000,000
Land Acquisition	\$4,090,511
Inclusive Economic Development Reserve	\$2,000,000
Subtotal Reserves and Designations	\$119,661,523
Total Cash Net of Reserves and Designations	(\$22,835,308)

*Available for use to offset FY 2020 revenue shortfall

**Set-aside for school construction or for use to offset school revenue shortfall

Key Dates/Events in the Revenue Cycle:

June

Real estate tax - Fourth quarter real estate taxes due June 5

Personal property tax - Personal property taxes due June 5

July/August

Real estate tax - Real Estate July 1 Land Book is completed. This provides the value of real estate assessments in the current fiscal year*.

September

Real estate tax - First quarter real estate taxes due September 30

October 30

Consumption Taxes - July-September realizations of Meals, Hotel, Bed, Admissions and Sales Tax

December

Real estate tax - Second quarter real estate taxes due December 5

State aid - Governor presents state budget

February/March
State aid - Virginia General Assembly session adjournment

March
Real estate tax - Real estate assessment notices for upcoming year mailed early

Third quarter real estate taxes due March 31
Business license tax - Business license tax due March 1

April/May
Personal property tax - Personal property tax bills generated and mailed

*Quarterly supplemental assessments occur when the value of a property changes during the year as a result of for example, demolition, catastrophic damage, and new construction/improvements.

Dr. Filer noted that collections are uncertain. City Council approved a deferral for the June 30th collection to August 1st with no penalty and no interest. Those funds can be reverted onto the previous fiscal year. The issue that we face for fiscal 2021 is the rate of collections into fiscal 2021. Of the \$248 million, we have approximately \$96 million that is potentially usable to close any type of a gap. We need to use smart, strategic expenditure cuts, as well as some reserves, to help resolve Q4 of fiscal 2020.

Capital Improvement Projects (CIP).

Dr. Filer had initially proposed a Capital Improvement Projects list of approximately \$122 million, but we will not be able to fund at that level. They are in the process of evaluating and paring down that list and it will be provided to City Council by Friday May 8th.

Guiding Principles

Two types of project priority:

- Projects where funding matches are met to unlock additional money. For example, any type of a project where our 20 percent match unlocks 80 percent federal or state money.
- Projects related to Arts, Tourism, and Culture with reasonable funding and that will lead to 100 percent completion.

Mayor Alexander asked to add to the list how each project energizes our economy and what tax receipts will potentially be realized from each project.

Councilwoman McClellan commented that Norfolk is known as the cultural center of Hampton Roads and postponing renovations to Chrysler Hall and others for a year is fine, but in terms of the taxes those cultural facilities provide they are just as important.

FY 2021 Budget Calendar Change:

Wednesday, May 6, 2020 - Public Hearing on Operating, CIP, HUD Annual

Tuesday, May 12, 2020 - Budget Work Session
Public Hearing on Real Estate Reassessment

Tuesday, May 19, 2020 - City Council Budget Adoption
City Council Elections