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A Special Work Session of the Danville City Council convened on June 17, 2018 at 5:30 p.m. in the Conference Room located on the Fourth Floor of the Municipal Building. Council Members present were: James B. Buckner, L. G. "Larry" Campbell Jr., Mayor Alonzo L. Jones, Dr. Gary P. Miller, Sherman M. Saunders, Fred O. Shanks, III, Adam J. Tomer, Vice Mayor J. Lee Vogler, Jr., and Madison J.R. Whittle (9).

Staff Members present were: City Manager Ken Larking, Deputy City Manager Earl B. Reynolds, City Attorney W. Clarke Whitfield Jr., and City Clerk Susan M. DeMasi.

Mayor Jones presided.

PRESENTATION BY THE NATIONAL RESOURCE NETWORK

City Manager Ken Larking thanked the team from NRN for the work they have done on this project. What Council will hear is that based on the budget that was adopted recently, the City has a five year structural budget gap that equals about \$22.3M over a five year period, if the City does nothing differently. In order to close the gap and continue to make investments in Danville's future, there are a number of recommendations that are going to be discussed in broad categories, which include service reductions, discussion on employee benefits, and revenue enhancements. There are no sacred cows; even things that have been discussed before by City Council in the past, and decided not to pursue, some of those things might be brought up again. They felt it was important that all options were on the table so they can be as transparent as possible about things that are available for the City to do. Council can decide, based on that information, what is best for Danville to move forward.

There are three points Mr. Larking wanted to make sure everyone understands, first, they need to agree that there is a significant, long term, structural budget gap that needs to be addressed. They have to make investments in Danville's future and make Danville a more desirable place to live, and third, it is good that Council decided to do this at this time. A lot of communities wait until they are in crisis mode, they have already spent all their fund balance, running out of money and they have to do something. Danville is not in that position, they are in a strong financial position and are attacking this issue by looking into the future knowing something has to be done.

David Eichenhal, Executive Director of the National Resource Network, began review of his power point *City of Danville, Five Year Financial Plan, Final Presentation to City Council (A copy of which has been retained in Laser Fiche in the City Clerk's folder.)* After three years in a row, 2014-2016, the City was running significant or moderate surpluses on a year to year basis. In both 2017, and based on what they saw in the 2018 adopted budget, the City has run recurring deficits in terms of spending. The FY 2019 Adopted Budget builds upon that by dipping into fund balance for an additional \$3.1M; over this three year period of time, the City has spent \$15M more than it was projected to have taken in in terms of revenue. Mr. Eichenhal stated Council was looking at a slightly greater deficit going into FY19 but took a number of steps in adopting the FY 2019 budget, both to reduce certain areas of spending and to increase certain revenues. The Revenues were a meals tax increase, reduction in spending was a reduction in the amount of money transferred to capital funds for investment. Council also took steps that resulted in new and additional spending in terms of the public safety retirement benefit, and is now taking steps forward with an initial investment in the River Front Park which does not have an immediate impact on the General Fund. But, there is an open question in terms of the amount of spending the City will need to do going forward for the completion of that park.

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Mr. Eichenthal discussed the gap, starting with the projected deficit of \$3.1M in FY19; that growing out could project a deficit of \$5.3M in FY2022. In FY 2023, a gradual depletion of the City's fund balance is seen from that \$25.1M down to \$6M by the end of the five year plan in FY23; there is a cumulative deficit of about \$23M. Obviously, if the City continues this trend, at a certain point, it runs out of fund balance and is literally running out of money. The City has taken some steps on the revenue side to address this deficit and gap, both in terms of an increase in the property tax rate, personal property tax rate, the hotel occupancy tax rate and meals tax rate. Despite the use of these actions and some prior actions, the City is in the classic case of structural deficit, where the City's expenditures are expected to grow at a greater rate than its revenue. They see projected annual contributions to the retirement system increasing, projected increases around healthcare costs, much greater reliance now, as pay-go funding for capital funding has gone down, on debt which results in debt service and the use of fund balance to meet certain spending commitments and economic development.

Mr. Eichenthal noted they categorize Danville as a somewhat, Urgent Challenge. It is a situation where in the absence of reasonable action over the next five years, the City is facing very significant and very real fiscal challenges. The goals of a City government can't just be a balanced budget; they have to have a balanced budget and act in a fiscally sustainable way over time. In order to promote quality of life in Danville, and to meet some of the goals that Council set forth for the City, crime reduction, improving education and growing the local economy, there is a need not to just to address the \$22M gap over the next five years, but also ensure there are resources available to make investments that begin to allow Danville to grow and prosper. There are recommendations of programs cuts, new taxes and new revenue sources. They have tried to highlight where Danville stands in comparison to other cities, particularly other cities in Virginia. When they go through a benchmarking exercise, looking at other cities is always helpful to create a context for what your city does. They went through the assumptions, outcomes and results on multiple occasions with the City Manager and Finance Director to make sure they had achieved a consensus looking forward on the forecast, and they are presenting opportunities for reform, a set of about forty-five recommended options for the City going forward.

Mr. Eichenthal began his presentation of the initiatives with Public Safety, starting with the City Farm. Looking at the incarceration rates, the number of people on an average day, either in the City Farm, Jail or Juvenile Detention facility in Danville, compared to other local jurisdictions in Virginia and nationally, the Danville incarceration rate is about five times the national rate and about three times the rate for Virginia. Danville is also the only local government in Virginia that continues to run its own local detention center as opposed to housing all adult inmates in a jail facility. Looking at the prior five year period, 2013-17 and what was happening to spending in this area compared to the rest of the General Fund, the growth rate was three times the growth rate for non-Public Safety General Fund spending. Compared to other spending by the City, the cost of incarceration overall in Danville is pretty significant.

They focused on the Adult Detention Center because the City Farm is the only one of its type in local jurisdictions in Virginia. Also, the nature of the funding stream for the City Jail in Danville is very much supported by funding from the Commonwealth as a result of the structure that is true for the rest of the state; that is not true for the Adult Detention Center. They looked at who was in Adult Detention; most of the charges were probation revoked for a non-violent offense. Mr. Eichenthal noted they had a major recommendation related to the City Farm and after discussing it with the City Manager, Sheriff, Police Chief, Adult Detention operations, and the Compensation Board, is that the City should seriously explore transitioning control and operation of the Adult Detention Center from the Police Department to the Sheriff. They believe there is a real possibility that the Commonwealth, through the Compensation Board and legislative action, would pick up

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a significant amount of the cost of operating the Adult Detention Center. Mr. Eichenthal noted this was not a guarantee and it is something that will require a real amount of transition planning. Their recommendation is the City start this process, beginning conversations with the legislative delegation, and begin the transition planning that would be necessary for this to work.

Mr. Eichenthal stated they looked at the Danville Police Department, focusing on the parts of Danville PD other than Juvenile Detention and Adult Detention. Comparing the growth and spending in the Police Department over the last five year period to non-Public Safety General Fund Spending, Danville PD was about 3-3 ½ times the rate of growth than the other areas. The Police Department budget, in FY 2018 when the total cost was figured in, was about \$10.8M. Looking at the number of FTEs per 100,000 residents, the number of sworn officers per 100,000 residents in Danville, through benchmarking, Danville far exceeds the average for the other benchmark cities. But, while it exceeds it on that measure of benchmarking, the picture is basically flipped comparing the number of police FTEs or sworn officers based on violent crime. They spent some time and focus on the issue of Span of Control which is very consistent with an area of focus for the new police chief. The new Chief has already recognized the need to flatten the police organization by reassigning captains from responsibility over shifts to responsibility over geographic areas. They spent a lot of time with the Chief discussing whether there were other opportunities to flatten the organization in a way that would not have a negative impact on the Police Department's ability to respond to crime. They identified nine positions, none of them at the patrol level, where there were opportunities for eventual elimination of these positions. Some of these positions can be eliminated in the short term through attrition; it would be a gradual process over the next five years, but the savings would be significant.

Mr. Eichenthal explained they went through a similar process of evaluation of staff within the Danville Fire Department, which had a little under \$10M in spending. It was much closer in terms of growth rate to the rest of the non-Public Safety General Fund spending at about 5.6%. A useful tool for benchmarking around fire departments is NFPA, National Fire Protection Association, who are regularly cited by fire departments around the nation. Looking nationally at career fire departments in cities roughly the size of Danville, there is about one career firefighter for every thousand residents; in the south, that goes up to about 1.6 firefighters per every thousand residents. If that median for the south is applied to Danville, there would be seventy sworn firefighters; Danville currently has 120 sworn firefighter positions. Similarly, the NFPA data states about a quarter of those departments are in jurisdictions from 25,000 to 50,000 residents, are mostly or all volunteers and those communities have an average of .095 stations per thousand residents; applied to Danville, Danville would have four fire stations. Mr. Eichenthal stated they did a similar analysis focused on some of those same benchmark Virginia cities around the size of the Fire Department; Danville had about 290 FTEs per 100,000 residents, compared to 213 for benchmark cities. But, factoring in the number of calls that the departments were handling, it flips around in terms of benchmarking process. Danville is working to address some of these efficiency issues within the Fire Department, and that goes to driving down some of the demand for service. They heard from the Chief where an initiative has been started around community paramedicine that the department is participating in, and DLSC is taking the lead. The idea is simple, a relatively small number of people are dependent upon some of the 911 services; utilization could be driven down by those frequent users and divert them to other, less costly ways of addressing some of their issues. It would improve their health and improve the fiscal health of the City. Nevertheless, when looking at the number of fire stations and fire fighters that Danville has, they think it is prudent to put on the table what would happen if the City looked at potentially eliminating one of the stations. The City would have to spend some money focused on that approach to make sure whatever the City did in consolidating or eliminating a station, it took into full account what the safety implications were. They always hear about concern with ISO ratings; Danville is in the top

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2% among cities with an ISO rating of 1. There are cases where locations have gone from an ISO of 5 to an ISO of 7 or 9, and have had an impact on some insurance costs. There is no research that says if the City goes from a 1 to 2 or 1 to 3, that there is any impact on insurance costs whatsoever. Some insurers don't factor in ISO ratings.

Mr. Eichenthal noted there are other areas in Public Safety where there are opportunities for savings. They think the City could get a lot of what it currently gets out of the City Farm by moving in a direction other cities in Virginia, and around the country have moved to, which is reducing the actual number of people who are incarcerated, in custody, being fed and receiving medical care and instead move to a greater utilization of community service sentencing. They also think there are some additional savings available within the Police Department. There has been a relatively recent surge in police overtime spending, that surge should be more controllable over the next few years and believes there are savings opportunities there as well. Short of closing a fire station or potentially in addition to it, they think there is the ability to eliminate current FTEs in the Fire Department who are assigned to fill in for Kelly shifts. Eliminating nine fire fighter positions, by attrition, would yield more than \$1M in terms of cumulative savings but there would probably be a need for overtime. Overtime doesn't always make sense, but in this sort of situation, could actually be less costly than having full time employees. The last recommendation in the public safety area goes to the matching payment the City makes for foster care services, which are largely funded through state funding. Some changes in the way decisions are made to have children go into foster care, particularly when they are related to truancy, may yield a better outcome for the children and cost less for the City. They also discuss in the full report a model initiative from Norfolk over the last couple of years where they have seen real success.

Mr. Eichenthal noted just as Public Safety is key to looking at opportunities for savings reductions, when overall spending is looked at, compensation, salary and benefits are important because that is where the City spends a lot of money. Mr. Eichenthal stated they will talk about curbing the growth in wages, benefits, and how to get employees to pay more for their own healthcare and benefits. If the City did all of these things, they would save a significant amount of money but would also have a direct hit impact on the employees that would have negative consequences. The right way to think about these recommendations is to figure out what combination of them can begin to significantly help the City in the short term in curbing costs, but to do it in a way that is manageable.

Mr. Eichenthal stated it isn't common to have a wage freeze across a five year period of time in a City government, but it is something that cities have had to resort to if they are in extremely difficult fiscal distress. If all the City did was to implement a city-wide wage freeze for a five year period of time, that would produce \$9.9M in savings which helps get the City halfway to closing the structural gap. It doesn't do anything to free up funding for investment. Because of the way growth compounds, and the way there is some reimbursement from the Commonwealth on certain salaries, capping wage growth at 1% annually would generate about \$5.9M in savings over the course of the plan.

Mr. Eichenthal explained the total contributions to the pension plan for the year ending in June of 2017 amounted to about \$2.9M, of which about a half million were payments the City made on behalf of employees. Mr. Eichenthal stated this is where benchmarking comes in handy noting no one else does this; most benchmarks are in the VRS system which requires a 5% employee contribution. That is not true in Roanoke, but they still require employees to contribute 5% of salary. If the City moved to phase this in, requiring a 5% employee contribution to ERS, that would generate about \$5.8M in savings for the City over the period of the plan. There are also recommendations regarding healthcare; some look at how the City spreads the share of costs,

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particularly where there are employees that may have access to other health benefit plans. The longer version of the plan shows other places that have basically incentivized the way of City coverage. Some of it could be through a spousal carve out or buy out program which has significant savings. Some of this is focused on conducting an independent eligibility verification audit to see whether family members or others that are still on the plan should be on the plan. The final recommendation goes to the same idea around retirement benefits which is the split between the two bearers of the cost of the benefit. A number of cities have moved toward a model where roughly 30% of the cost of the health insurance is covered by the employee.

Mr. Eichenthal noted they also looked across the other departments within the City government. Even where there are opportunities in the non-Public Safety areas, because the base amount that is being spent in those areas is relatively lower than in Police, Fire, JD, ADC, or the City Jail, the opportunities for savings are lower. They did do benchmarking around non-public safety areas and they found, generally speaking, the sort of FTE per capita gap that they saw in some cases around public safety, did not exist in the non-Public Safety functions. There were two areas where it did exist; one is around Parks & Recreation and the other is Public Works.

In Parks & Recreation, most of the other benchmarks they looked at didn't have their own library system; they are part of a regional library. There are some things that Danville should consider in reviewing the library system; the main branch is more utilized than the Westover branch, and certainly more utilized by City residents than the Westover branch. It may be time to reevaluate whether there is an opportunity to consolidate to a single branch. What might make even more sense is whether or not libraries are the first of many areas where there may be opportunities for shared services. There is a similar story regarding the Airport; they understand the economic value of having an airport. It is not very well utilized and it does have direct impact on the General Fund. There are issues in terms of the ability to just end operation of the Airport because of the level of grants from the FAA, but they think this is really an area where there is an opportunity for savings, either by seeking regional sources of funding, by looking at operation by a third party or by ultimately doing the math about what a phase out of the Airport would look like without putting at risk some of the Federal dollars that have been put into it already.

In Public Works, they did not look at the level of service that is provided in return for the amount of staff, in the amount of funding that goes into the individual areas. They looked at an FTE per capita, similar to what they did with Public Safety. Part of the explanation for the difference in the Public Works may be attributable to the fact that some of the other cities rely more on outside contractors to do certain functions that are currently carried out in Danville by City employees; they believe that is an option. Mr. Eichenthal noted the best course is to look at whether there is a managed competition process where the City could have the public and private sectors compete against one another for price and quality of service, and see what would happen. If the City applied managed competition in Danville, the areas of greatest opportunity in terms of savings would be around some of the facility maintenance and custodial services. Part of what they are doing in the School's plan that is being developed, is to identify whether those services, or other services where a shared service model between the School district and the City, provide some savings for both. They also identify in the full report some areas where there may be departmental reorganization opportunities around Parks & Recreation based on looking at span of control.

Mr. Eichenthal noted they looked at Danville Utilities from a number of different perspectives and for a number of different reasons. Danville is the only municipality in the Commonwealth to basically have all the different utilities as public utilities. They spent a fair amount of time not just with the members of Council and Department heads but actually brought in other expertise around utility operation to revisit issues the City looked at in the past, in terms of whether or not there was

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an ability to sell some of the utilities. However, given where the City and Danville Utilities are right now, in particular because of the existing contract related to power from Prairie State, options are more limited in Danville. The deficit they articulated in the beginning is around the General Fund and they thought there was a need to look at the Utilities because they were a significant contributor of revenue. They looked at the formula; the way and structure of the formula is such that going back, looking at what the possible levels of contribution were from 2014 to 2018 and what the actual contributions were, there is about a \$2.8M gap. They looked at their financial policies and recommendations in terms of unrestricted cash balance and where the Utilities are right now; there is room to go back and recoup some of that \$2.8M. They will talk later about some ideas they have as to how that might be used in the investment section.

Mr. Eichenthal stated they heard there was a perception that Danville is taxed higher than others around the Commonwealth so they went through a tax burden analysis, and looked at the same benchmark communities that they looked at earlier in terms of levels of staffing and service, and see what the typical family pays in terms of overall taxes in that particular community. If you take a household, earning the median household income in each of the different peer jurisdictions, a Danville household earning the median income pays about \$900 less annually than in other peer communities. To the extent that people are rightfully concerned about being competitive in terms of tax rate, it should inform decision makers the context for making decisions about revenue. This does not address the question of what, in terms of services, individual taxpayers are receiving for this; this benchmarking analysis shows when Danville is compared to some of the other local jurisdictions, the real estate tax rate is significantly lower. This is a path or part of a path to closing the structural deficit and providing enough resources to begin to make some of the investments that were discussed.

There is a similar opportunity around further increases in terms of personal property tax, though the City is already more in the midpoint there; there is less room to grow. Mr. Eichenthal noted to be careful, what is taxed in terms of personal property tax and how it gets taxed from jurisdiction to jurisdiction, could lead to some misinterpretation of the data. One of the things they talk about goes to the issue of whether there are things that are currently not taxed in Danville that are taxed in other jurisdictions as another potential way of generating additional revenue. Mr. Eichenthal noted the last piece they talked about is the imposition of a local tax on cigarettes. They think that would generate somewhere over half million dollars; every one of the comparative jurisdictions has a tax with the exception of Pittsylvania County. It is their understanding that the County, without specific legislation cannot have a tax.

Mr. Eichenthal noted they have tried to lay out for the City options not to just close that \$22M gap. What they have seen in City after City, particularly cities like Danville that are trying to come back from some real economic challenges is that they look at this as not just an opportunity to balance the budget in a sustainable way over a period of time, but also to have funding available to invest in the future. The question is where would those resources go; that goes back to what they heard from Council which is they care a lot about the schools and know they need to do more there. They care about reducing violent crime and about doing things that build upon their economy in a way to create opportunities for people who live here and businesses that operate here. To put this in context of where they are right now in Danville, even after the City, in FY 2018, made a really significant increase in funding for the school system, looking at levels of local school funding per pupil across some of the comparators, Danville is at the low end to the middle, and below the average. To get to the average, the City would need spend another \$4.2M each fiscal year.

With respect to crime, there are four components with regard to crime reduction: policing, prosecution, punishment and prevention. They have already talked about what Danville spends

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on policing and punishment, and have noticed there is limited investment in prevention. The implementation of a Comprehensive Gang Model is a step in that direction; their recommendation is that if the City decides to pursue some of the recommendations related to the City Farm, that it be done in the context of a Comprehensive Crime Reduction Plan that focuses across all four of those components. It is not a suggestion that the City spend less on reducing crime, but rethink how some of that spending occurs in a way that hopefully produces a better result.

In terms of Economic Development, there is an opportunity to better align some of what the City is doing with some regional strategies that are part of the GO Virginia initiative. Also, any investment in Economic Development requires an adequate level of investment in the City's capital plan. Part of the way the City has been able to reduce its reliance on the fund balance in the past year was reducing the amount of money going into capital; that problem needs to be addressed going forward. Mr. Eichenthal stated capital investments were in the purchase and acquisition of sites for future development, or doing something about the fact that the Police Department is in the basement of this building, and a number of other initiatives.

Mr. Eichenthal noted he wanted to go back to when he discussed utilities; there is an opportunity with that \$2.8M that has built up over the last five years, to make an investment in an initiative that could potentially reduce costs to some residents and businesses within Danville, create jobs and potentially increase the value of property. That is focusing around investments in energy efficiency. Virginia recently became one of the thirty four states nationally to have the ability to go forward with the PACE program; Arlington County and Loudon County have moved forward with variations of that. They believe there is an opportunity to do that in Danville as well, again, with the focus not just on immediate job creation through jobs identified to increase efficiency, but long term economic competitiveness.

City Manager Ken Larking noted everyone wants to know, what do they do next, how does the City proceed. They will need to prioritize what the City Council looks at as far as the options, what does Council want him to focus on so he can bring those recommendations back and how it will affect the overall structural gap. They need to be able to invest in Danville's future if they expect to have a sustainable revenue going forward and continue to provide services without having to worry about whether they are going to cut or raise year after year.

MEETING ADJOURNED AT 6:50 P.M.

MAYOR

CITY CLERK