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A Regular Work Session of the Danville City Council convened on March 19, 2019 at 7:38 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, Fred O. Shanks, III, Vice Mayor J. Lee Vogler, Jr., Adam J. Tomer and Madison J.R. Whittle (8). Sherman M. Saunders was absent (1).

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

Mayor Jones presided.

MINUTES

Upon **Motion** by Council Member Shanks and **second** by Council Member Buckner, Minutes from the Regular Work Session held on February 5, 2019, were approved as presented. Draft copies were distributed to Council Members prior to the Meeting.

REVIEW OF GENERAL FUND FINANCIAL REPORT AS OF FEBRUARY 28, 2019.

Mayor Jones noted Council has read the General Fund Financial report and asked if they had any questions for the Director of Finance. Council had no questions for Mr. Adkins.

CONSIDERATION OF AMENDING THE FISCAL YEAR 2019 BUDGET APPROPRIATION ORDINANCE FOR VDOT REVENUE SHARING PROGRAM FUNDS

City Engineer Brian Dunevant noted this item was to appropriate project allocations from the Virginia Department of Transportation for three projects, South Union Street, the 600 block of Main Street, and Riverside Drive for a construction project between Audubon and Arnett.

Council Agreed to put this item on an upcoming business agenda.

CONSIDERATION OF AFFIRMING THE CITY'S COMMITMENT TO FUNDING THE LOCALITY SHARES OF APPROVED PROJECTS WITH VDOT

City Engineer Brian Dunevant noted this item was to affirm the City's commitment to fund its portion of the approved transportation projects from VDOT and to give the City Manager the authority to sign project documents if necessary.

MULTI-YEAR BUDGETING UPDATE

City Manager Ken Larking reviewed his power point *Multi Year Planning Update* (a copy of which has been retained on Laserfiche in the Clerk's Folder, Presentations to Council.)

Mr. Larking noted the purpose of the presentation was to update City Council. The committee for the multi year plan has a number of members who have been working for many months on this; Mayor Jones asked two council members, Council Member Shanks and Council Member Tomer to be added to that committee. That group has worked diligently to review the recommendations of the National Resource Network's Multi Year Plan and to make recommendations on what the City should be doing moving forward. The first step was to develop initiatives that would help with those three target areas; not all the initiatives have been included in the budget.

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Mr. Larking explained Public Safety includes Police Headquarters, Comprehensive Crime Reduction, ensure competitive pay and benefits, increase use of technology, create community resource centers and hire an additional animal control officer.

Improve Education was identified in the City's plan and in the school's plan; both the City of Danville and Danville Public Schools have done five year financial planning. The City's per pupil spending lags behind peer communities at about \$4.2M on average; if the City is truly invested in education, it needs to give them the resources they need to be successful. The City would have to increase funding \$4.2M additionally, annually; the group had discussed how to get to that point in a way that makes sense. Other initiatives include expanding Smart Beginnings, and addressing school infrastructure needs. The school board identified \$120M of capital needs to renovate just four of their schools. To be able to raise the revenue necessary to pay for that debt service, there would have to be a bond referendum. The voters would have to approve it, and there would be a corresponding tax increase to pay that. Halifax County was getting permission to hold a referendum to allow a 1% local option sales tax to pay school infrastructure needs. It would be a good way to generate funds to help pay for school construction and renovation needs. In Danville, it would generate \$9M that could go toward debt service, which would equate to \$150,000,000 of renovations. Last year City Council approved the school system retaining more than the normal amount of their carry forward funding to pay for pay increases and a new pay plan for teachers. That \$2M is an annual need and carryforward money is a one time revenue source. Because of the new pay plan and the teacher pay increases, instead of having 80% of positions filled, this year they had 97% filled; there are fewer substitute teachers teaching children in the classrooms.

Mr. Larking noted another initiative would be to create more workforce pipelines; the City currently has precision machining, there is work right now to do something with information technology, in cyber security. A Go Virginia grant was recently awarded; the school system will need a place to house that operation. Having the funding necessary to help continue to create new workforce pipelines for the students so they can be successful, will be key.

Mr. Larking explained another initiative was to Improve the Local Economy, including getting an Economic Development Strategic Plan with a Housing Focus. Mr. Larking noted housing is extremely important to Danville; the City needs to do as much as it can to improve the housing market. There hasn't been an economic development strategic plan update in many years with a housing focus; it would be very helpful to Danville. Real Estate values have gone up in every category except for residential and that was an issue that needs to be addressed. Also, the City wants to be able to sustain economic development without having to use fund balance; having a current revenue stream that pays for economic development efforts would be important. Sports Tourism has been discussed; a presentation will be seen in the next few council meetings related to the work of the City's Sports Tourism Group. The Riverfront Park is also something the City is doing, and major gift fundraising is underway.

Mr. Larking reviewed the Economic Development Outcomes for the past five years, including performance agreements signed, total jobs and investment committed, grants funds and the anticipated return on investment. In the River District, about \$5M of total grant funds have been committed, \$3.8M has been distributed, new revenue generated to date is \$1.7M and the average age of the projects is 3.23 years. The average time it takes to get the performance agreement signed and the start of operations is almost one year in the River District. For industrial projects, the total amount of grant funds committed is \$2.1M, about half of that has been distributed and some of the grant commitments are shared with the County on joint projects. The average age of these projects is 2.67 years and the average time to start is about 1.4 years. Mr. Larking explained, four companies during that time period, and many occurred prior to the current economic

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development team, were non-performing grants totaling about \$300,000. Economic Development was taking legal measures against these companies and was confident they will be able to get half returned. For successes, eight companies have passed the break even point compared to the total amount of grant funds distributed, and five companies have passed the break even point compared to the total amount of funds committed. Break even projections is that by 2024, the City will have broken even on all forty three projects that have been identified.

Mr. Larking reviewed tax revenue trends which include economy driven taxes such as sales, meals, and hotel tax, and machinery and tools; each has grown in this period of time. Over half of the total real estate base is residential; that has been very flat and decreased over time. In the last reevaluation, the residential real estate tax base decreased by 2.65%; there have been increases in the other areas, but overall it has been fairly flat. Multi-family increased 13.14% and commercial industrial increased 6.26%. Because there has been very slow or negative growth in residential, it has held the overall increase to only 1.2%.

Mr. Larking explained subcommittees were formed as part of the group; they broke up into cost savings subcommittee, the personnel benefits subcommittee and the revenue subcommittee. Each of them worked on ways to close the long term gap. By 2023, the City would have \$6M left in fund balance; since the City has made some changes, the current outlook based on the budget he is working on right now, shows it at \$13.8M for FY 2023, but still shows over the long term a dwindling fund balance which needs to be addressed. The City is in better shape then before because of some steps it has been taking.

Mr. Larking reviewed cost savings measures which include the health insurance plan design changes which eliminated \$879,000 of increased cost. Staff did a dependent eligibility verification audit, which is not complete, but they anticipate \$200,000 a year in premium savings. The City is getting ready to open the employee health clinic and will be seeing savings in the premiums over time. There was a reduction in public safety salary costs because several of the police and firefighters retired, and their positions were filled with those who are rising through the ranks. The cost of those salaries resulted in about \$353,000 of decreased cost. Staff is looking at not funding the Kelly Shift replacement positions in the Fire Department, which equates to \$234,570 per year. The Police Chief recommended declassifying three Captains and one Lieutenant to Sergeants so they can be out on the beat; that resulted in \$58,000 of savings. Staff looked at repurposing unspent capital funds, that was a one time fix that resulted in a \$466,000 reduction. Mr. Larking stated he was proposing in the upcoming budget, starting July 1, that newly hired employees share in the cost of the retirement; by FY 2024, the savings would be as much \$670,000 per year and would continue to increase by as much \$120,000 each year in the future. At some point, the replacements would be paying toward their retirement and there would be significant cost savings to the City.

Mr. Larking reviewed the draft budget highlights which include a \$600,000 increase to Danville Public Schools from \$20,385,570 to \$20,985,570; this is toward the \$2M they are using to pay for teacher salaries, it is not enough to do that; \$2M in bond proceeds will be provided to Danville Public Schools for their capital needs. Also, an additional \$280,000 for the Danville Life Saving Crew which will be paid for with a thirty cent per pack cigarette tax; an average 2% pay for performance included for City employees; funding to conduct an updated pay study, and a decreased use of fund balance for economic development by \$666,907 which is part of the goal to use less fund balance toward economic development. Mr. Shanks requested when the City does the pay study, to get an idea of who will be used as peer cities; in the past he has not agreed with the peer cities. Mr. Larking stated he will make sure Council is aware of the cities they choose.

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Mr. Larking noted the challenges are that Danville Public Schools' initial draft budget calls for \$25.6M which is a \$5.2M increase over the current year. They always revise it, and it won't be the same at the time of adoption. The DLSC has asked for an additional \$280,000; there is no revenue to pay for that so a cigarette tax is proposed to fund that with any additional revenue going toward DPS. All the criteria has been met for the retirees to get a bonus; if it is done in this fiscal year it would be \$500,000, the next fiscal year it will be \$750,000. One of the criteria that has to be met in order for this to happen is the money must be available. The City does not have the money available unless it raises revenue to do so; Council will have to consider to funding a retiree bonus when there are other needs that aren't being met with the current revenue stream. Mr. Larking then demonstrated using the budget model and turning on or off various initiatives.

Mayor Jones thanked Mr. Tomer and Mr. Shanks for serving on the subcommittee. Mr. Shanks noted he served on the committee for cost savings and questioned Mr. Larking if he was sure there was nothing in the City, as far as staffing levels or services, that aren't actually necessary or not functioning. It was hard for him to comprehend that everything is 100% necessary and functioning and can't be altered in terms of cost savings; Mr. Shanks stated he does not understand why he cannot find 2% or 1.5%. Mr. Larking explained the challenge is there is always pressure by local governments to hold the tax rate where it is. Staff tries to be absolutely efficient as possible because they know they don't have the ability to raise the resources necessary to continue to do things they have always been doing. As the cost of doing business goes up, and the revenue stream stays flat, the City has had to for many years, found ways to reduce the cost of performing services. The City should be deciding what services they want to provide and should do them the right way. There are many things the City does that are not required, the state does not say the City has to do them; there are some things the state says the City has to do and the City does provide those services. There are many different opinions about what the City government should be doing and providing to citizens, and not everyone is going to like the same menu of services that end of up being provided. If Council wants to stop doing certain things, then the City should stop doing them. There hasn't been a point where the Council as a whole by consensus, has chosen to stop doing any particular service. Mr. Shanks noted he felt the City Manager was in the best position to bring the Council opportunities for savings or services; he does not feel like they start the conversation with that in mind. Mr. Larking noted he did present tonight the areas they have worked on to reduce costs.

Mr. Tomer noted it would be helpful at one of the next budget meetings, to do a pie chart and show what is a fixed cost; Council talks about the budget, when it is broken down, there is a really small portion that is discretionary that Council can influence. There is about \$20M-\$25M that can be moved around because the rest is dedicated to schools, funded mandates, public safety, things Council does not want to touch. There is not a lot of room to cut costs. Mr. Tomer noted he was in the group that looked at the revenue portion; part of the ways they looked at it was they wanted a way to make a revenue stream in which economic development is self-sustaining. Looking at where the City is drawing from the fund balance, the majority of that is economic development related. The ten cent tax on personal property over three years was to get it to a point that would produce about \$1.2M in revenue, in which that could help Economic Development be self-sustaining instead of going to the fund balance. If the City doesn't have \$20M in reserves, it will ruin its bond rating and that is not responsible. Mr. Tomer stated he feels Council needs to fund the school system so they can keep 97% or more of their teachers; they accomplished that by getting their teacher pay up to where it needs to be.

Dr. Miller questioned when they would hear about closing a fire station and the response time, and Mr. Larking explained he has been working with the fire department to make sure they had the right scope of services to get Council the information and make a decision. That project is

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underway but will not be ready for this coming year to implement. Mr. Tomer stated there would not be immediate cost savings; they close one, they have to build a new one and there will be capital outlay out front. It will be a long payback to make that work, it will probably be a five or six years.

Council Members thanked Mr. Shanks and Mr. Tomer for serving on the subcommittee.

COMMUNICATIONS

Dr. Miller questioned the status of the bridge near the hospital; Mr. Larking explained they are striping the areas where people can park. They worked with the hospital, funeral home and church to make sure they are aware of what the City was doing. There are now three spaces on the bridge but it leaves a wide area so people can see; it eliminated several spaces. Dr. Miller questioned when the Sports Tourism consultants will be returning and Mr. Larking noted he will get back to Dr. Miller with that. Dr. Miller questioned the status of the fence signs and Mr. Larking noted he would check with Parks & Rec.

Vice Mayor Vogler asked if Council could agree to have the City Manager come back to Council on the idea that was presented about the possibility of City employees having the option to take an hour of their workweek to partner with Danville Public Schools. There were no objections from Council.

MEETING ADJOURNED AT 9:50 P.M.

APPROVED:

MAYOR

ATTEST:

CITY CLERK