TOWN COUNCIL
Work Session
Cape Charles Civic Center
November 5, 2020
6:30 PM

At approximately 6:30 p.m. Mayor William "Smitty" Dize, having established a quorum, called to order the Work Session of the Town Council. In addition to Mayor Dize, physically in attendance were Councilmen Bannon, Buchholz, Follmer and Grossman, and Councilwoman Holloway. Vice Mayor Bennett was out of town on business travel and attended via teleconference from Sumpter, SC. Also, in attendance were Town Manager John Hozey, Treasurer Deborah Pocock, Capital Projects Manager Bob Panek, and Town Clerk Libby Hume. There was one member of the public in attendance.

A moment of silence was observed followed by the recitation of the Pledge of Allegiance.

WORK SESSION ORDER OF BUSINESS

A. Review of Fiscal Policies:

i. Fund Policy:

Town Manager John Hozey stated the following: i) The Town had no general fund balance requirement and that a minimum balance for cash flow was necessary. He had always heard that a reserve between 8% to 25% of operating expenses was typical. He did some research and learned that smaller communities tended to have a larger percentage (30-40%) in a committed reserve; ii) He and Treasurer Deborah Pocock discussed this issue and were comfortable with recommendation of a 20% committed reserve for cash flow. Any monies in this committed reserve was intended to remain in perpetuity and withdraws would require a super-majority vote of the Town Council; iii) A contingency reserve was also necessary for use in cases of emergency. He felt that a 10% reserve would be appropriate and a worthy goal. Amounts in this reserve would be managed by a prescribed set of procedures; iv) The Town currently did not have a director of emergency management. The Town Council appointed him under the COVID-19 pandemic emergency declaration on March 30, 2020 but that declaration expired on September 30. Council needed to designate who the director of emergency management would be. Council could potentially appoint the Mayor, but the Mayor was not responsible for all the duties associated with that position, therefore, the town manager would be the better choice; v) The Town's procurement had a precedent in which the Mayor certified with the clerk that an emergency existed and appropriate procurement could be made; vi) Other uses for the contingency reserve would be for unbudgeted shortfalls in revenue greater than 1%. Access up to 50% of the available funds in the contingency reserve would require a simple majority vote of the Town Council. Access of more than 50% of the available funds would require a super-majority vote; vii) When the available funding was withdrawn, a plan to replenish the funding was necessary. He reviewed the rainy day fund resolution that was drafted and conceptually approved in January 2020, which contained a plan to establish the reserve funding; viii) His goal was to establish the general reserve at 20% of the operating budget and a contingency reserve (rainy day fund) of 10%. Unfortunately, the Town did not have enough to fund both reserves at this time; and ix) The Unassigned Balance was any fund balance which was not appropriated in the following year's budget for specific expenditures and which was not assigned, committed or restricted for specific purposes. There were no specific rules or restrictions regarding the use of these funds.

There were no questions from Council.

ii. Budget Policy:

John Hozey stated the following: i) Governmental budgets could be divided into spending categories such as general operations, debt service and capital expenditures. It was very common to combine all three of these categories into one General Fund for accounting purposes, however, it could make strategic planning very difficult; ii) When all this spending was grouped together, it could be difficult to see patterns or trends. This lack of transparency made it harder for public officials and the general public to monitor desired fiscal or policy goals. To address this issue, he recommended separating the accounting funds into these three categories. He and Deborah Pocock spoke to the auditor regarding the mechanics of separating the General Fund into three accounting funds. Mayor Dize noted that former Councilwoman Burge mentioned this accounting process a number of times during her tenure; and iii) Transfers from the General Fund operating revenue would be made to these funds.

There was discussion as follows: i) Vice Mayor Bennett noted that the Harbor Fund was not really an enterprise fund in that it was not self-sufficient. Funds transfers from the General Fund were needed each year. He went on to ask whether it shouldn't be a goal to make the Harbor Fund a true enterprise fund. He wanted it shown that the Harbor was not a stand-alone enterprise fund; ii) John Hozey agreed that the Harbor Fund wasn't a true enterprise fund but it might be good to keep a separate account for accounting purposes. In Valdez, AK, the harbor was included in their General Fund as a department. At this point, he preferred to leave the Harbor Fund as is for another year to see how things worked with the management company; and iii) Deborah Pocock noted that the Harbor Fund supported itself for operations, but could not cover debt service or capital projects.

Debt Service Fund/Debt Service History: i) The average was about 8% of the operating budget for the General Fund and Harbor. The only debt limit we had was the limit in the Code of Virginia which was 10% of the assessed real estate value. That would be about $45M for the Town and we should never go there. The Town was having difficulty affording what we currently had. We needed to determine how much debt service we could pay as well as determining our debt capacity; and ii) Councilman Grossman referred to the Davenport Report which broke out the debt service and suggested a limit.

Capital Improvement Fund: i) John Hozey briefly reviewed the Capital Spending History; ii) The benefit of a separate account was that the Town would have the ability to dedicate revenue to the fund and track the expenditures; iii) A lot of small public projects were funded by a small tax. The Town could increase a tax for two to three years to fund a project. The public were typically more willing to entertain those ideas if they knew that the increase supported a specific purpose; and iv) His biggest concern with capital projects are that they were very expensive and difficult to afford. They were typically the first items to be cut from a budget. Deferred maintenance would then increase, and it would become more costly to deliver services.

iii. Revenue Policy:

John Hozey stated the following: i) This was always the most difficult policy and he had seen many communities struggle with this; ii) The process needed to be done strategically and long-term; iii) If the tax rate was increased, we could have a lot of disgruntled citizens. They didn't trust government and could put pressure on the elected officials. The key was to develop a long-term approach and process that the public could have confidence in. They needed to know what went into the decision. John Hozey suggested a planning process to develop long-term expectations for what our spending needs would be, including inflation. He suggested a six-year planning period, similar to the Capital Asset Management Program (CAMP). It would be updated every year and adopted with the budget; iv) The key would be committing to growth. The tax base could grow, and the tax rate could be increased. We had to be ready to underwrite the plan with a rate increase if necessary; and v) John Hozey explained that this year's deficit was about $225K. To absorb the $225K, the tax rate would have to be $.32, which was what the rate was two years ago. Council reduced the tax rate to remove the tax base growth. The Davenport report showed that all was well financially. The financial audit showed $3M in the Fund Balance. Council didn't have the complete information. Davenport's report wasn't wrong, it was just incomplete. Of the $3M in the Fund Balance, $1.2M was for the Harbor. The Town's surplus annually covered the Harbor's debt service. Long-term planning would help smooth this out. If the Town was lucky enough to have growth in the tax base, Council should accept it and move on.

iv. Overview:

John Hozey stated the following: i) The Town didn't have enough to fund everything; ii) After the transfer to the Harbor Fund, the Town had a $1.26M Fund Balance. This year's deficit was about $224K which would be transferred from the Fund Balance, leaving $1,040K; and iii) If we took the operating budget for this year and added the Harbor, we would have an operating budget of about $3.6M. 20% of that for the General Operating Reserve would be $720K which was necessary for cash flow. 10% for the Contingency Reserve would be another $360K. Funding both reserve accounts would put us about $40K over what was available in the Fund Balance.

There was much discussion as follows: i) Councilman Grossman stated that the $40K shortfall was better than expected and made him feel comfortable that the Town could meet the objectives. He stated that he wasn't too concerned with these numbers and added that things looked good; ii) Councilman Buchholz stated that the shortfall equated to about 30 $500K homes; iii) John Hozey added that the issues were caught in time. Another year like this year, and we wouldn't be in a position to say that; iv) There were a number of comments regarding the assessments which were performed by the County; v) The Budget Policy called for pre-determined percentages of Core General Revenue to be transferred to the Debt Service Fund (8%) and the Capital Improvement Fund (6%). Based on the FY 2021 budget, this would represent transfers of $233,271 and $174,147 respectively; vi) Long-term Revenue Planning represented the most difficult step in the process. The budget must be balanced. We currently had two operating deficits – the General Fund and Utility Fund. The General Fund was the larger of the two. To balance the General Fund would require a tax rate increase of $.047 per $100. An increase of $.05 amounted to $50 per $100K. The tax for a $300K home would increase by $150. The Town needed to wait to see the tax base before we could determine the necessary tax rate for next year; vii) For the Utility Fund, the rates had not changed since the new wastewater plant opened in 2012. Until this year, those fees were able to cover operations. Combined with a needed capital expense, the Town had to tap into the Utility Fund Balance using more than half of the available balance. A professional long-term rate analysis needed to be completed to determine a sustainable ongoing rate structure; viii) Fortunately, the Town had at least one unsolicited proposal to purchase the utility facilities. If the Town Council decided to move the conceptual proposal to the detail stage, $50K could be charged to the proposer(s) to conduct a study. He had a meeting with the second potential proposer tomorrow. The deadline for proposals was November 30; ix) A revenue source needed to be identified to fund a meaningful Capital Program. There were several possibilities, but the obvious choice would be to increase the meals tax by .5% which would generate about $50K in revenue which would be allocated specifically to the Capital Improvement Fund; x) John Hozey noted that when he was in Valdez, he was able to set the appropriation for capital projects for multiple years with an indefinite date based on completion of the project. He was still researching to see if the Town could do similar multiple year appropriations for capital projects; xi) Deborah Pocock added that the auditor preferred to appropriate the funds annually due to the difficulty in auditing. If the Town budgeted for a project that wasn't completed in a fiscal year, the funds would stay in the Fund Balance to be re-appropriated to the following year. John Hozey stated that neither he nor Libby Hume could find anything in the State Code prohibiting or allowing multiple year appropriations. Deborah Pocock added that it would be cleaner to appropriate by year; xii) Councilman Follmer asked whether it would be possible to update the Tax Rate History adding the revenue brought in by the specific tax, possibly for the last five years. Deborah Pocock stated that she would try to add the revenue amounts for the past five years; xiii) John Hozey stated that he would pull everything together to formerly adopt the policies. Resolutions would be drafted for Council adoption at the November 19 regular meeting. There would be further review and discussion at the next strategic planning session. The date of January 9, 2021 was tentatively set for strategic planning. He looked at the strategic plans from 2018 and 2019 and they were pretty good. He wanted to do something similar in January 2021; xiv) John Hozey went on to state that after the November 19 meeting, unless there was a need, he would recommend only holding the regular meeting in December. We would get back to work in January; xv) Councilman Follmer requested a copy of the staffing study that was discussed at last week's meeting.

TOWN MANAGER COMMENTS

John Hozey had no additional comments.

MAYOR AND COUNCIL COMMENTS

Vice Mayor Bennett commented as follows: i) Participating in this evening's meeting via teleconference was an interesting experience. The quality of the audio was good for him for the most part, but he noticed a couple of things. Participants in the Civic Center needed to speak loudly. The longer someone spoke, the lower their voices got. Every once in a while, several people would speak at once which became unintelligible; ii) He thanked John Hozey for doing this and for having the expertise of knowing what needed to be done. He appreciated this process. The Town of Cape Charles was extremely fortunate to have John Hozey and he hoped he would be a long-term manager. He was excited for the Town's future. Great decisions weren't always the most popular; and iii) He offered his assistance if he could help John Hozey in any way.

Mayor Dize, Councilmen Bannon, Buchholz, Follmer and Grossman, and Councilwoman Holloway all expressed their agreement in Vice Mayor Bennett's comments.

John Hozey thanked the Mayor and Council for the comments.

Motion made by Councilwoman Holloway, seconded by Councilman Grossman, to adjourn the work session. The motion was approved by unanimous vote.

The meeting was adjourned at 7:49 p.m.

Mayor Dize

Town Clerk