ORMOND BEACH
BUDGET ADVISORY BOARD
REGULAR MEETING

May 27, 2020 **5:00 P.M.**
City Hall Commission Conference Room
22 South Beach Street
Ormond Beach, FL

Call to Order – Roll Call

Members present were: Joe Hannoush, Bill Harper, and Rafael Ramirez. Absent were: Scott Cichon and Ken Kimble.

Staff present were: Finance Director Kelly McGuire, Assistant Finance Director Chris Byle and Recording Secretary Shā Moss.

Approval of Minutes – January 29, 2020

Mr. Hannoush moved, seconded by Mr. Ramirez to approve the minutes of the January 29, 2020, meeting. The motion passed unanimously.

Public Comments

None

Discussion of City Budget

Ms. McGuire reviewed the City of Ormond Beach Budget Update presentation. She stated it was presented to the City Commission and noted there is little information available regarding the revenues because of the Virus and that information comes from the State and it is usually a few months behind. The current information is from March. Sales tax and revenue sharing are big concerns. Sales tax is what is collected, but the revenue sharing are taxes that the State collects and that is distributed to the cities.

Mr. Ramirez asked whether that information is hard to receive because of the coronavirus; wherein Ms. McGuire answered yes.

Ms. McGuire stated sales tax is paid to the City based on what was collected and that is usually two months in arrears. Revenue sharing is paid to the City based upon estimated amounts for the year and they send 1/12 of that amount. The State realized that April's revenue declined, so they cut the amount in half.

Scenario Planning Process
Stable Times – Forecasting/Projections
Uncertain Times – Scenario Planning
Scenario Planning
Use trend analysis from past events such as 2001 recession, 2008 recession
Determine Range of Potential Shortfall (Trend X2)
Develop Scenarios & Solutions

Ms. McGuire noted since we are in unstable times, we have to look as a different process and that centers around scenario planning. We have to look at the range of the shortfall and plan for those shortfalls. If the range is between 10% to 30% of the general fund, there needs to be different scenarios for each. We are hoping to get the information from March and April so that we can determine what steps need to be taken. In the meantime, we used the recession of 2001 and 2008 ranges and doubled it to be conservative.

Scenario Planning Process
Focus on Revenue Shortfalls
Sales tax, Revenue Sharing, Gas Tax (Consumer driven)
Property Tax (Mandated Rollback, Property Value declines)
Monitor Expenditure Changes
FEMA Reimbursement likely
Will Social Distancing impact consumer spending habits (more online purchases)?
Will Social distancing impact our service delivery method?

Ms. McGuire noted because of the Virus, many people were staying home, not traveling or buying gas, therefore the gas tax may go down. The gas tax for March was down 11%, which is around $15,000 and it was only for half of the month. Gas tax is important because a portion of that money goes to support the general fund to fund the road maintenance and a portion goes into the transportation fund. The transportation fund will fund the reconstruction of the roads. Annual the City spends between $4-$600,000. In the short term it's not concerning, but if it goes over long periods, it is significant. Over the years the City has put into place a portion of the millage rate that would go into the transportation fund. The upside is that the property appraiser appraises in January 1 and it doesn't matter that the Virus is having an effect on the economy. It will not change the taxable value for the coming budget year. If something does happen, it would be in 2021. The property appraiser in another county mentioned there was a decline of about 6% in the property values.

Ms. McGuire stated expenditures are not a big concern because they are monitored and FEMA is most likely to reimburse the City. Volusia County received around $95 million for the CARES Act and they indicated that they would share it with the cities. If the City has reimbursable expenses, we could get a little over $1 million. As of now, we do not have that many expenses.

2001 & 2008 Recession
Local unemployment

Ms. McGuire stated in 2001, there was not much useful information to gauge, so we are going to use 2008 as a guide. The official dates were from December 2007 to June 2009, but the financial impact lasted longer. The property values were also affected as it declined until around 2012 when they started to slowly go up.

Mr. Ramirez noted it was a protective fluctuation because it was too easy to cover the property margins.

Mr. Hannoush stated it factored in the 3% rate inflation and we are still trying to go back up. And asked if it could potentially go back up.

Ms. McGuire stated the taxable value or the rate of inflation would go up 3%, whichever is less. If inflation is negative, value would go down.

2001 & 2008 Recession
Total Property Tax

Ms. McGuire noted property taxes declined until about 2012, then increased.

2001 & 2008 Recessions
Licenses and Permits

Ms. McGuire noted licenses and permits followed the same pattern but don't believe it was from the issue of the Virus but there should be reductions in that area. Because City Hall has been closed we have not collected that much in revenue but as soon as we open, the backlog will increase. If the economy is uncertain, there may not be many permits issued.

2001 & 2008 Recessions
Sales Tax & Sales Revenue Sharing

Ms. McGuire again stated sales tax is paid to the City based on what was collected and that is usually two months in arrears. Revenue sharing is paid to the City based upon estimated amounts for the year and they send 1/12 of that amount.

2001 Recession
    Unemployment rose from 3.2% to 5.85
    Local property values continued to increase
    OB Governmental Revenues continued to increase

Not a good model for Scenario Planning

2008 Recession

Unemployment rose from 3.6% to 11.9%
Local property value declined of $610 million 7.2%
OB Governmental Revenues declined in all areas
Good model for Scenario Planning

Ms. McGuire note the 2001 model was not for scenario planning so will base things off the 2008 scenario planning.

2008 Recession – Scenario Planning

Every governmental revenue category declined
Annual decline peaked at 5% in 2010 (Cumulative revenue loss of 9.39% or $5.9 million)
Recover didn't start until 2 years after end of recession (Cumulative revenue loss of 14.18% or $15.2 million)
10 year cycle until recovery (2007-2016)

Scenario planning

Plan for up to 20% decline through expenditure/service reductions
Provide options for use of fund balance

Ms. McGuire noted it was around 2012 before the City saw any recovery. The reason we want to use fund balance is because of the revenue stabilization fund. The rest of the fund balance is directed elsewhere. Adjustments were made because we are awaiting reimbursement from FEMA but the majority of it has already been received. The General Fund advanced the Solid Waste Fund to get them through while they were waiting for the reimbursement. It is now time to pay those monies back to the General Fund. The monies in the revenue stabilization fund is above the 15% benchmark the City wants to keep. The Commission agreed to take $3 million and set it aside to deal with revenue shortfalls relating to the Virus.

Ms. McGuire suggested to use $1 million to get through the rest of the year and leave the $2 million for next year. This way we won't have to furlough or lay off employees. She stated if this was a long term financial issue then we will take long term measures.

Mr. Hannoush asked if the $3 million was above the 15%.

Ms. McGuire stated after taking the $3 million, it still left $6.13 million, which is 19% of the overall general fund. The target is to keep and not touch at least 15% of the overall general fund.

Mr. Ramirez stated you have to allow development and to follow the rules and there will be a balance.

Budget Process

Budget Workshop/CIP Planning Session (June 23)
Discussion on revenue declines and potential shortfalls for FY 2020-21
Commission directive on tax rate
Commission directive on scenario planning options to be used in proposed budget
Discussion of capital project funding levels & inclusion of projects within FY 2020-2021 proposed budget

Ms. McGuire stated normally the Commission would get information in June and then again in July. It might be a challenge for them to give staff direction on capital projects they want to fund or not fund when they have no idea what is going on with the operating budget. So we developed a draft budget focusing on the general fund, the water and sewer fund and then get direction not only on tax rate, but which of the reductions they want to implement. If they want a high tax rate, then there are not a lot of reductions; likewise if they want a low tax rate, then the reductions would be significant.

Mr. Ramirez asked if there was information on the tax rate.

Ms. McGuire noted they only received information from the property appraiser's office recently.

Ms. McGuire stated the CIP Workshop is scheduled for June 23 and asked that the Board attend. One of the strategy is the tax rate is divided between operations and capital projects. We make sure funds go into capital projects so the roads continue to get repaired. The Commission is aware that the dollars that is usually set aside for capital projects next year need to go to operations. This way services are not cut and employees are not laid off. That does not mean that capital projects won't be funded. The transportation fund has separate monies, so next year funds will be directed to operations. Transportation funds have to be used for those purposes.

Mr. Ramirez asked what about next year for those projects that would be put off.

Ms. McGuire stated the most significant revenue they are concerned about is sales tax and revenue sharing, which was about $3.5 million. Suppose half is loss and there is about a $1.8 million deficit, there are still raises that have to be paid, which would be added as well. With the raises and the shortfall this is where we will be next year.???
She noted to plan for a $3 million shortfall, is realistic. It may be higher, but that is the necessity of planning. The difficulty is we have fund balance, we can take some of the property tax revenues for a year and move it to operations, but those are temporary fixes. The revenue shortfall we are trying to cover is hopefully temporary. The raises we need to cover are not temporary and that amount could be from $750 to $1 million. If the Commission want to go to rollback, then there is no new ongoing revenue to fund those raises and that's a struggle annually.

Ms. McGuire stated currently this year is covered and there is a hiring freeze. The gymnastic program has been cut because the person running it retired and that will be a savings of about $140,000. She noted it will be a challenge finding an instructor and in this environment and the City doesn't want to compete with private businesses.

Mr. Hannoush agreed that we need to be realistic. He noted the July 4th fireworks were delayed to Labor Day, but there was an additional $7,000 in cost and asked what that included.

Ms. McGuire stated the contract was about $45,000 and but there other things the City does to make it a great event, such as food, entertainment and overtime.

Mr. Ramirez asked about the MacDonald House and whether it will be funded and if those funds would be matched.

Ms. McGuire stated there is an ECHO grant and the match is monies that is already spent and there is actually some new money. We also have donations.

Mr. Hannoush suggested cost savings on the dog park by the YMCA that was about $250,000 annually; wherein Ms. McGuire answered there was a $500,000 one time payment.

Mr. Ramirez asked if the incentive was to go with a lower rollback rate; wherein Ms. McGuire answered the Commission would discuss this at the CIP workshop and how to cover the raises with ongoing revenue.

Mr. Ramirez asked the status of the annexations.

Ms. McGuire answered they were about $50 million and the revenue generated on the new ones would be about $200,000. Fortunately, in the beginning that does not count in the rollback calculation, so that will be extra property tax revenue. She noted the general fund and the raises are a concern. She didn't think the utility fund would be impacted much going forward. Currently late fees and shutoffs are not being implemented.

Mr. Hannoush asked what the cost was for the Granada medians maintenance. He wasn't too impressed with the views. The east side was better than the west side and there could be a savings there.

Ms. McGuire stated Yellowstone has a contract with the City. She noted the ballfields were about $500,000 and the rest of the city was about $1.2 million, but didn't know how much was directly for the medians. She noted she would look into it.

Mr. Byle stated there may be a current bid, but Yellowstone only maintained the trees and plants.

OTHER BUSINESS

Mr. Ramirez asked whether FEMA has reimbursed the City for storm damage.

Mr. Byle stated for Hurricane Matthew, we have one project left for about $650,000 for the downtown and ballfield lighting. Hurricane Irma was the pier damage and it's in a holding pattern for the EAP review for the past over 7 months and should receive over $800,000. Hurricane Dorian's damage was minimal. During Hurricane Michael the Fire Department assisted in the Panhandle for about $100,000.

NEXT MEETING DATE – June 23, 2020 – 5:30 p.m. CIP Workshop

ADJOURNMENT

Respectfully Submitted,

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Shā Moss, Recording Secretary

ATTEST:

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Bill Harper, Chairman