The City Of Norfolk's Budget and COVID-19

Presentation to VALTA

July 24, 2020

The Multiple Phases of COVID-19 Impacts

- Immediate (March and April)
  - FY 20
  - Direct costs - PPE Equipment, work from home technology
  - Revenue Loss – restaurants closed, events cancelled, hotels closed

- Medium-term
  - FY 21
  - Direct Costs – office and vehicle redesign
  - Revenue Loss – restaurants reopen, events canceled, hotel occupancy limited, property tax difficulties

- Long-Term
  - FY 22 and on
  - Weakness in Real Estate Assessments, commercial vacancies

Impact of COVID-19 Prevention Efforts

Preventing the Spread

- Implementation of social distancing
- Closure of non-essential businesses
- Governor's Stay-At-Home order

Economic Impact

- Massive layoffs and job loss
- Loss of tax revenues, especially consumption-based taxes
- Major shutdown of various economic sectors

Tax Deferral Program

- Norfolk City Council approved a plan to defer late penalties and interest for 60 days.
- Property tax due date moved to August 1st.
- Very beneficial to businesses
    - Likely to delay our understanding of the full fiscal impact from this event

Short-Run Projected Impact

- We are forecasting a $15M gap for FY 20

- Full impact will not be realized until well into August/September due to tax deferral program, moving of property tax deadline and a more active appeals process.

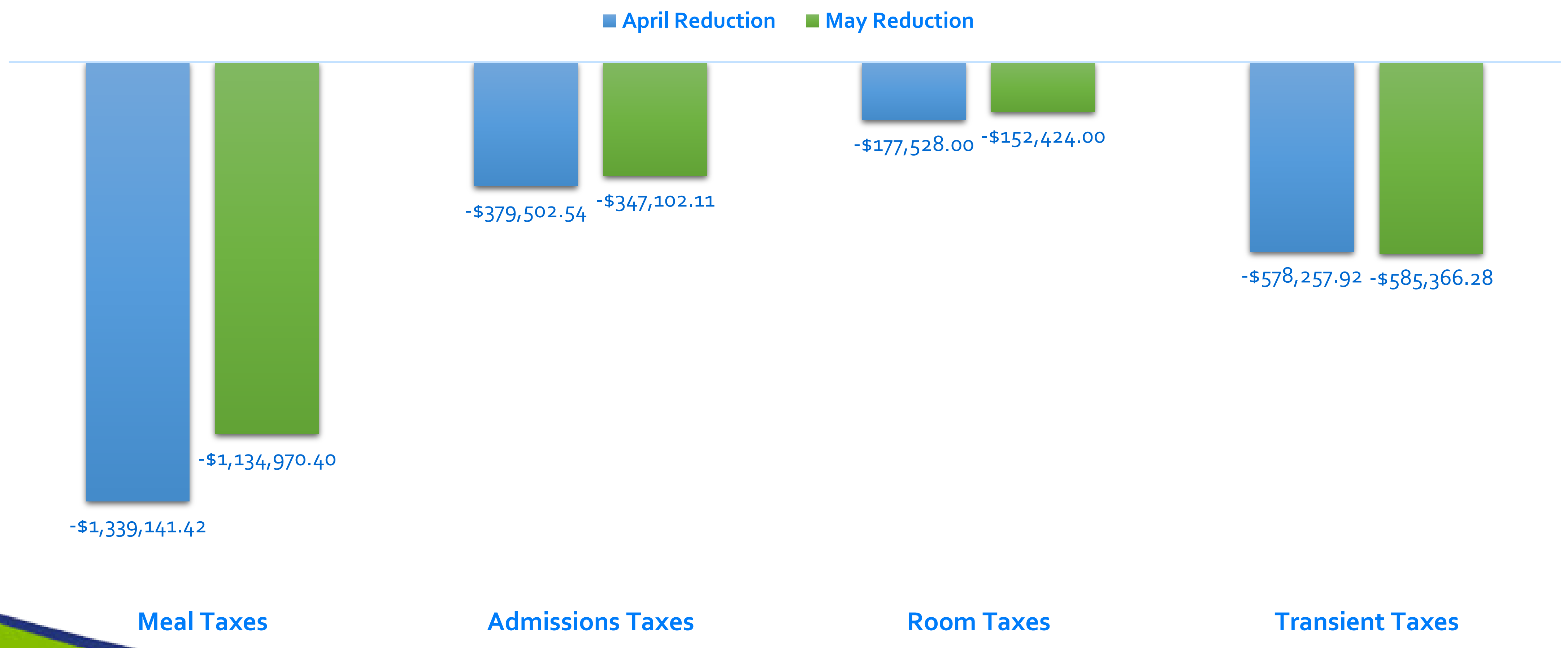
Consumption Based Revenues Growing Pre-COVID

Growth in revenue received year-to-date through March 31 from last year

Sales Tax	Meals Tax*	Lodging Taxes*	Admissions Tax
8.9%	4.6%	8.9%	27.9%

* Citywide (combined General Fund and Public Amenities Fund). Lodging includes hotel and bed taxes.

Fiduciary Tax Comparison
Year over Year (April and May)



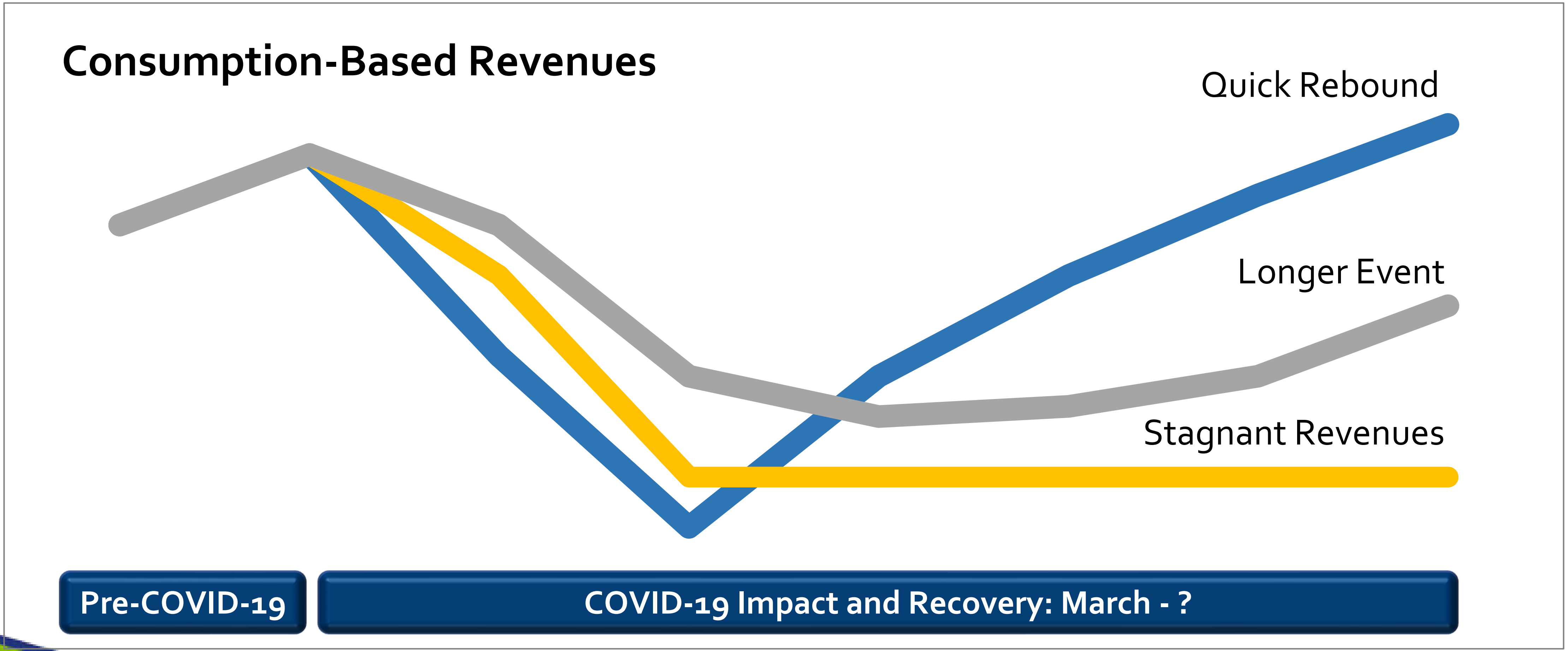
FY 2020 Q4 Strategies

Actions Taken

- Implemented hiring freeze
- Furloughed part-time employees
- Halted discretionary spending
- Communicated to Norfolk Public Schools potential impact under revenue sharing agreement
- Held final FY 2020 payments to arts and culture partners

Medium-Term Impacts
FY 2021

Possible Scenarios: COVID-19 Impact and Recovery



Projecting Revenue Loss and Uncertain Shape of Recovery

STRUCTURAL

CYCLICAL

Total Tax Revenue = Number of Establishments × Tax Rate x Gross Receipts

Initial Forecasts for Consumption-Based Taxes

- Initial forecasts of the potential revenue loss from COVID-19 have been produced by ODU and Fiscal Analytics (James Regimbal)

- Initial forecasts for consumption-based taxes in Norfolk (sales, meals, hotel and admissions):
  - **ODU:** Projected decline per month $2.6-$4.1 million from sales, meals, hotel and admissions taxes
  - **Fiscal Analytics:** Projected decline of $13.8 million in FY 2020 from sales, meals and hotel taxes

Other Revenues At Risk

- Impact on state aid to Norfolk if the Commonwealth's FY 2020-2022 revenue estimates are reduced
  - Commonwealth's General Fund revenues highly dependent on income and sales taxes
    - Net Individual Income Tax: 70.2 percent of FY 2020 budget
    - Corporate Income Tax: 4.7 percent of FY 2020 budget
    - Sales Tax: 17.5 percent of FY 2020 budget

- Charges for services and revenue from use of facilities – arts and culture, recreation, and tourism

- FY 2020 collection rate across all revenue sources may be impacted

Fund	FY 2021 Proposed Budget (Original)
General Fund	$942,600,200
Enterprise Funds	$180,091,424
Special Revenue Funds	$47,108,448
Internal Service Funds	$115,739,232
Total Operating Funds	**$1,285,539,304**
Capital Improvement Plan (FY 2021 Only)	$229,047,200
Total Operating and Capital Funds	**$1,514,586,504**
Annual Plan for HUD Block Grants	$9,437,797
Annual Recurring Grants	$32,414,736
Total Financial Plan	**$1,556,439,037**

Fund	FY 2021 Proposed Budget (Adjusted)
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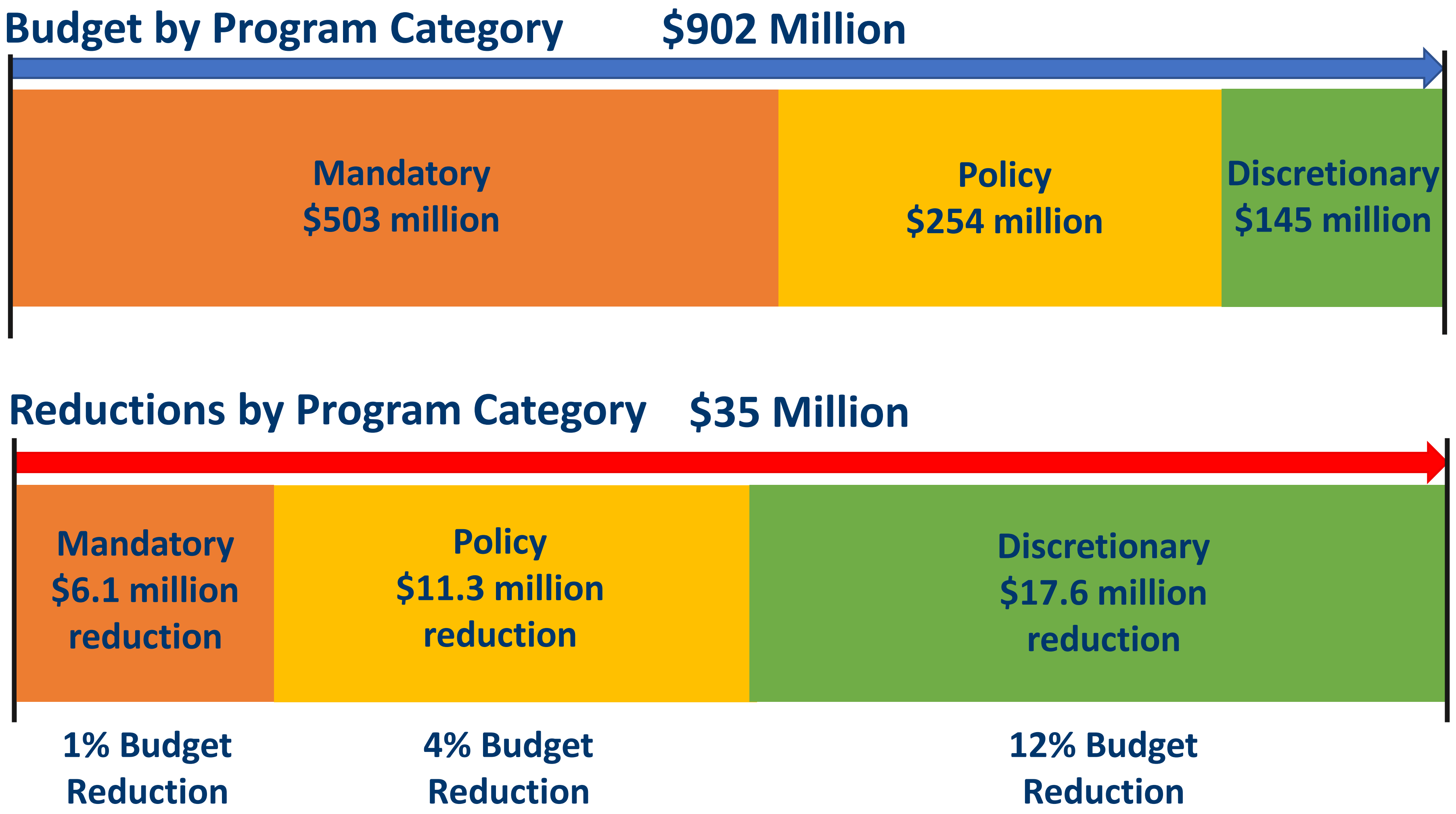
Discretionary Programs See Largest Reductions



Note: Budget amounts reflect Adopted FY 2020, reductions by category exclude estimated reimbursement from federal and state of $5 million

Strategies for FY 2020 and/or FY 2021

Available Actions

Designated Funds and Reserves

- Resilience Penny
- St. Paul's Funding
- Cigarette Tax for Economic Development
- $5M - Economic Downturn
- $2M – Inclusive Economic Development
- $20M – Va. Beach Water Payment Funds

Service Levels

- Temporary service level reductions
- Permanent service level reductions

Personnel

- Continued hiring freeze
- Extend part-time employee furlough
- Implement furlough days for full-time staff

Operating

- Restrict discretionary spending
- Postpone and/or eliminate enhancements in Proposed FY 2021 Budget
- Re-purpose one-time or on-going cash in the CIP

•Coronavirus Relief Fund (CRF)

•Total Award of $21,178,304

•Eligibility (must meet all four criteria):

- Necessary expenditures due to the public health emergency;
- Not accounted for in the budget as of March 27, 2020;
- Incurred between March 1, 2020 and December 30, 2020;
- Are not being reimbursed through another sources (state or federal grant)

•Absolutely cannot be used for revenue replacement**

Spend Plan

Direct City Costs of Responding

$5M

- Reimbursement for City
- COVID-19 Response
- (Budgeted Expenses)

$7.5M

- Building Modifications/ IT
- Expenses/ Mitigation Measures
- (Unbudgeted Expenses)

Assistance for the People Impacted

$4M

- Hazardous Duty Pay Plan

$4.7M

- Financial Assistance to Residents
- Business & Nonprofit Assistance
- Public Wifi Access

Long-Term Impacts
FY 2022 and Beyond

Projecting Revenue Loss and Uncertain Shape of Recovery

$$\text{Total Tax Revenue} = \overbrace{\text{Number of Establishments}}^{\text{STRUCTURAL}} \times \overbrace{\text{Tax Rate x Gross Receipts}}^{\text{CYCLICAL}}$$

Potential Impacts in Out Years

- Permanent Loss of Businesses
  - Permanent loss of tax base
  - Impacts of Commercial Real Estate

- Permanent Job Loss
  - Impacts on rental market → Weakness in Multifamily Residential Assessments
  - Single family residential weakness?

City of Norfolk Approach

- Immediate personnel savings/discretionary spending savings for closing FY20.

- Very aggressive cost cutting for FY21 combined with grant and technical assistance programs to prevent business closures.

- Reductions in 5-year capital investment plan.
  - Currently $23M has been trimmed

- Examination of possible permanent cost saving measures
  - Reduce our physical footprint throughout city (consolidate and let leases expire)
  - Productivity enhancing technology investments