
Also present: City Manager Thomas J. Bonfield, City Attorney Kim Rehberg, City Clerk Diana Schreiber; Budget and Management Director Bertha Johnson and Department Heads were in attendance.

Mayor Schewel welcomed all in attendance.

City Manager Bonfield introduced the meeting agenda, welcomed Council, compared the March budget presentation with the current reality and its revised budgetary considerations related to COVID-19, going from a balanced budget in March to nearly a $12 million deficit in April; and deferred to Budget and Management Director Bertha Johnson for presentation.

Council Member Caballero had connection issues from 1:05 p.m. until approximately 1:15 p.m.


The following PowerPoint presentation with a series of slides was shared:

General Fund Revenue Assumptions for FY21 with Revenue source, Reduction from Original Budget and % change from Original Budget

- Property Tax -1%
- Sales Tax -10%
- Occupancy Tax -9%
- Powell Bill 0%

Property Taxes – Adopted FY19-20, Original FY20-21, Revised FY20-21

- General Fund
- Dedicated Housing Fund
- Transit Fund
- Solid Waste Fund
- Debt Reserve Fund

Mayor Pro Tempore Johnson asked about the guide being used for the projections.

Director Johnson responded that data was sourced from peer cities, NCLM, State Agencies, economists and other resources, utilized at various projection levels- most
conservative, severe and moderate scenarios with dollar differences and percent difference from budgeted.

Sales Tax Scenarios (slide)
- Most Conservative: -21%
- Severe: -10%
- Moderate: -3%

Other Revenues – FY20, FY21 Original, FY21 Revised (slide)
- Hotel/Motel Occupancy: -3%
- Franchise Tax Telecomm: -9%
- Gas (Powell Bill): no update yet
- Beer & Wine: no update yet
- DPR Charges for services: -20%

Multi-Year Financial Plan for General Fund 2020-2025
In Feb. 2020 deficit of $750,000; current estimated $11.8 million shortfall

Director Johnson shared the following information regarding Budget Guidelines:

SUBJECT: FISCAL YEAR 2020-21 BUDGET DEVELOPMENT GUIDELINES REVISED APRIL 24 2020

Budget and Management Director Bertha Johnson presented the guidelines that follow:

The development of budget guidelines is a best practice and supports the Citywide Strategic Plan Goal, Innovative and High-Performing Organization.

One of the objectives of this goal is to promote organizational sustainability:

- Strategic Sustainability -- realistic vision and goals
- Program and Service Sustainability -- high-quality services and programs
- Personnel Sustainability -- effective and reliable personnel
- Financial Sustainability -- recurring revenues equal to recurring expenditures, adequate financial reserve and contingency planning.

The General Fund is the primary fund for the city and supports 22 of the 25 city departments including 1,905 employees.

The City Manager shall use the following Budget Development Guidelines to prepare the FY 2020-21 Proposed Budget.

OVERALL

Font in red represented the revised portion of the guidelines.

The budget should prioritize funding based on the City’s Strategic Plan, needs related to accommodate population growth, State and/or Federal mandates and initiatives
consistent with the City Council’s priorities; however, funding needs related to Covid-19 may take precedence.

REVENUES

For FY 2019-20, the two largest sources of revenue to support General Fund operations are local property taxes (50.3%) and local sales taxes (31.8%) representing 82.1% ($177.2M) of the fund’s $215.8M budget. Local property taxes also fully support the Debt Service Fund which accounts for the City’s General Fund debt service obligations. The property tax appropriation for the Debt Service Fund is $38.2 million for FY2019-20.

The City must use a strategic approach to balance the budget by assessing revenue enhancement opportunities and cost control. The FY 2020-21 Budget must support the City’s Strategic Plan and identify funding to enhance priority programs and services while considering potential revenue losses.

☐ The tax rate for the General Fund will remain at the current rate of 30.80 cents (per $100 assessed value) unless the Council determines that a tax rate increase above this amount is necessary to fund budget requests for important needs that can not be otherwise funded.

☐ Fund balance in the General Fund will not be projected to fall below 12.0% 16.7% at the end of FY 2020-21. The State Requirement is 8%.

☐ [New Item] Fund balance may be considered to cover projected revenue losses.

☐ The tax rate for the Debt Service Fund will remain at the current rate of 11.00 cents (per $100 assessed value). No change.

☐ The tax rate for the Solid Waste Fund will remain at the current rate of 5.59 cents (per $100 assessed value). No change.

☐ The tax rate for the Dedicated Housing Fund will remain at 2.0 cents increase to 3.51 cents (per $100 assessed value). An increase of $1.51 cents to cover debt for the Affordable Housing Bond.

☐ The tax rate for the Transit Operating Fund will remain at 3.75 cents (per $100 assessed value).

☐ A reduction in the tax rate for the downtown Business Improvement District (BID) will be considered from the current rate of 7.00 cents (per $100 assessed value).

☐ The allocation for the Half Penny for Parks Program will remain at 1/2 cent of the proposed tax rate.

☐ Non-recurring funds will not be directed toward recurring uses.
Proposed water and sewer rate increases will not exceed an average of 3.0%. Fee adjustments will be considered, as appropriate, to align fee revenues with cost of services for better cost recovery rates.

Proposed increase in Stormwater rates for typical residential customer (tier 2) shall not exceed $0.50 per month.

Council discussed the revenue items.

Director Johnson explained that due to the change in the economic forecast, that the Guidelines had to be revised.

Council Member Freeman inquired about the projection of revenues for hotels and occupancy taxes and asked if the figure should be revised further downward from the -3%. Mayor Schewel concurred.

Director Johnson stated that staff would review communications from DCVB (Durham Convention and Visitors' Bureau) and would update Council.

Mayor Schewel asked about a potential decrease in Powell Bill projections.

Director Johnson responded that the Powell Bill projection figure was based on population and street miles, had not changed; however, the new figure, based on the entire availability of funds, may change. The current fiscal cycle collection had already been received by the City.

Council Member Freeman requested good, better, best projection levels on all guideline items.

Mayor Schewel responded that as figures were received, updates would be provided.

Mayor Schewel inquired about the sales tax figure on the Multi-Year Chart going from current year $72 million to a revised $69 million in next fiscal cycle; a $12 million gap seen for FY21.

Director Johnson responded that there had not yet been a change in revenue assumptions for FY22 going forward on the multi-year.

Assistant Budget Director John Allore addressed the volatility in the next 18 months and that decisions occurring in the interim had an impact on the multi-year roll; and updated Council on Occupancy Taxes revising the figure from -3 to -30%, reflecting an increased gap of $800,000.

Council Member Caballero supported staff’s recommendation to hold steady the Dedicated Housing Fund- no increases.
City Manager Bonfield stated that if there was a reduction in property tax collections, that there may be tax increases to follow in order to support debt service.

**EXPENDITURES**

To balance expenditures against forecasted revenues, the City Manager will continue to monitor performance data to guide focused discussions with City departments regarding program and service priorities. This includes possible areas for elimination, reduction, reorganization, new partnerships, and/or alternative service delivery models that address the performance and efficiency of City programs.

City employees are at the core of City services. One objective under the City’s Innovative & High Performing Organization Goal is to “cultivate a diverse, engaged, and healthy workforce dedicated to public service.” Attracting, training and retaining a competent, high quality workforce is essential to being a high performing organization. Therefore, we will continue to consider employee compensation adjustments as a priority. The following pay and benefit components will be proposed:

- **[New Item]** As we move through the budget development process and fiscal year, pay adjustments for full-time and part-time employees will be considered.
  - **Pay for Performance (P4P) pay plan for General employees** – 4.8% average (increase of .8% above FY 2019-20) — Pay for Performance (P4P) increases may be considered for General employees.
  - **Pay Plan for sworn Police employees** — 5.0% average.
  - **Pay Plan for sworn Fire employees** — 5.0% average.
  - **Additional funding may be considered to support the recommendations for sworn Police and Fire Plan adjustments.**
  - **Pay Plan for part-time employees** — 3.5% average. Pay Plan increases for part-time employees will be considered after the end of the 2nd quarter of the fiscal year.
  - **Supplemental Retirement -401(k)** — a reduction of the 5.0% city contribution may be considered.
  - **Medical Insurance for all employees** - 9.0% average increase for the City
  - **Dental insurance** – 7% average increase for the City
  - 10.15% budgeted for employer contribution to the Local Government Employees’ Retirement System (LGERS), a 1.20% increase over the FY2019-20 budget of 8.95%.

The dedicated street resurfacing funding will remain at $6,000,000 for FY 2020-21, and up to an additional $4,000,000 from fund balance will be considered for FY 2020-21.

Funding for the Maintenance Replacement Project Plan will remain at $1,000,000 be considered to increase by $100,000 from FY 2019-20 to $1,100,000 for FY 2020-21.

Fleet replacement funding for the General Fund will be provided in accordance with the Fleet department’s 10-year recommendation plan within the debt model.
New funding priority will be given to those requests that support the strategic plan.

[New Item] Funds will be held in reserve up to $5,000,000 for future COVID-19 response.

[New Item] Programs may be considered for down-sizing or discontinuation.

City Manager Bonfield addressed the question about holding a reserve of $5 million for COVID-19 response needs; due to uncertainty, this portion of funding was being set-aside.

There was consensus on the following language: Under Revenues, the guidelines read, “The City must use a strategic approach to balance the budget by assessing revenue enhancement opportunities and cost control. The FY20-21 Budget must support the City Strategic Plan and identify funding to enhance priority programs and services ‘while considering potential revenue losses.”

There was consensus on the phrasing.

In regard to the Tax Rate for the General Fund would remain at the current rate of 30.80 cents (per $100 in assessed value) the administration recommended against the tax increase.

It was the consensus of Council to not raise the tax rate from 30.80 cents.

Mayor Schewel asked each Council Member for feedback on this portion of the revised guidelines.

Council Member Middleton supported the phrase about funding needs related to COVID-19 may taking precedence; and stated the phrase established the tone of the revised budget guidelines.

Council Member Reece appreciated the cautionary approach of the guidelines and admitted that the second set of guidelines represented two rounds of budget development.

Council Member Freeman appreciated the staff recommendations to maintain current tax rate.

Mayor Schewel stated there was consensus on the individual item to allocate $5 million to a COVID related contingency fund.

Mayor Schewel referenced the next portion of the guidelines related to the General Fund balance, not falling below 12%.

Council Member Freeman concurred with the recommendation that GF balance should not fall below 12% along with the contingency fund of $5 million being set aside.
Council Member Reece agreed that 12% was the correct figure to maintain in the upcoming cycle; and noted to revise the General Fund Balance from 16.7% to 12% was acceptable during this time.

Mayor Pro Tempore Johnson asked about other consequences of dropping from 12% to the state minimum requirement to 8%.

City Manager Bonfield spoke to the consequences of dropping the General Fund balance from 16.7 to lower percentages. He stated that 12% was a standard place to be with bond rating agencies; and spoke to how the Fund Balance percentage was used since this was a single time usage and indicated a plan be devised to reinfuse future increases back to stable points. He asked the Budget Director for actual dollar amounts.

Budget Director Johnson stated the difference between 16.7% and 12% was $10 million or less depending on the decline in program revenues and/or extra expenses. She continued that more information would be available as time progressed toward the end of the 4Q.

Council Member Freeman asked about the property and sales tax revenues impacting the future budget.

City Manager Bonfield referenced the recession of 2008 and delays in receipt of sales tax collections and noted that projections can be impacted by the lag in collections.

Council Member Caballero stated it seemed like the revenues in the city’s rainy day fund may be used in the current fiscal cycle and could draw down the $10 million. She referenced the 16.7 to 12% and asked if there could be other percentage choices.

City Manager responded affirmatively and favored not going below 12% without a plan of reinfusing revenues.

It was the consensus of Council to revise the Fund balance in the General Fund to not fall below 12%.

Mayor Schewel addressed the new item that Fund Balance may be considered to cover projected revenue losses.

Budget Director Johnson recognized the fact that previously the city had always covered its expenses without dipping into Fund Balance; the new item indicated that it may be necessary to cover revenues or else cut expenditures.

City Manager Bonfield spoke to using one time revenues for recurring expenditures.

Council Member Reece spoke to the assumption of using Fund Balance for revenues, and looking at the implications of the COVID world, the prevalence of the virus could change the way the city conducted business- restaurants, movie theaters, etc.
It was the consensus of Council to support the new item that Fund Balance may be considered to cover projected revenue losses.

Mayor Schewel referenced the next item related to the tax rate for the Dedicated Housing Fund remaining at 2 cents (not increasing to 3.51 cents) per $100 of assessed value.

City Manager Bonfield stated the revenues created by the sale of the former police headquarters would be incorporated into the General Fund in the current fiscal year.

Council Member Middleton had formerly advocated for the increase in the tax rate for the Dedicated Housing Fund, he supported not increasing the rate currently.

Council Member Reece supported the rate remaining at 2 cents.

Mayor Pro Tempore Johnson added that the capacity for the community to pay taxes was declining while the need in the community was increasing related to housing, food, basic needs; the program would help the most vulnerable residents; and that the increase was not needed to put the first year in place for the city’s housing plan. She stated that Council would need to address the increased needs in the community related to COVID and that the limited city resources.

Council Member Freeman spoke to persons experiencing financial situations with COVID related financial pressures in combination with previous, pre-COVID financial difficulties and noted these persons were disproportionately people of color. She encouraged a safety net for persons to be able to stay in their homes and support for the $5 million for COVID related expenses.

Mayor Schewel supported not increasing the tax from 2 cents to 3.51 cents; noted there were still Dedicated Housing Funds along with CDBG Funds for local housing usage.

There was consensus of Council to support to maintain the Dedicated Housing tax rate at 2 cents per $100 of assessed value.

1:13:00
Mayor Schewel addressed the water and sewer rate increases to not exceed an average of 3.0%, down from the proposed 4.0%.

City Manager Bonfield addressed the 3% increase and indicated that updates to infrastructure could still be afforded and capital improvements would be made a slower pace. He expressed concerns about bad debt expenses related to non-payment of water bills and would be a factor moving in the future. Council Member Caballero asked about creating a fund of contributions to a communal fund on water bills. City Manager Bonfield would follow up with Council.

It was the consensus of Council to move forward with water and sewer rate increases to not exceed an average of 3.0%.
Mayor Schewel addressed the pay for performance adjustments for the next cycle.

City Manager Bonfield would be coming forth with recommendations and the budget is sought to be balanced: reduction of raises, reduction of the city contributions to the supplemental retirement 401(k) were being considered.

**It was the consensus of Council to move forward with the guideline regarding pay for performance and would consider more information as projections are confirmed.**

Mayor Schewel spoke to street resurfacing would remain steady at $6 million but would not include an additional infusion of funding of $4 million.

City Manager Bonfield spoke to the community satisfaction survey, current road conditions, the inability to afford repairs and potential for exponential costs in the future.

Council Member Reece expressed concern about road repair needs, referring deficiencies to staff and the need to focus on essential services. He stated he was supportive of this measure.

Council Member Freeman spoke to deficiencies reported through Durham One Call.

**It was the consensus of Council to support street resurfacing funding to remain at $6 million without the consideration of additional funding.**

Mayor Schewel spoke to the funding for the Maintenance Replacement Project Plan remaining at $1 million without any additional increases.

**It was the consensus of Council to support maintaining the Maintenance Replacement Project Plan at its current funding of $1 million.**

Mayor Schewel spoke to the next item: new funding priorities given to those requests that support the strategic plan; and confirmed there would not be new funding for new initiatives in the upcoming cycle.

**It was the consensus of Council to support the removal of the guideline for new funding priorities and requests reflecting the strategic plan.**

Mayor Schewel introduced the new item, Funds will be held in reserve up to $5 million for future COVID-19 response. He asked the City Manager that could there possibly be less than $5 million considered in the proposed budget, and asked what did the ‘up to’ mean.

City Manager Bonfield explained that $5 million was a target but considering the budget's balancing mechanism, was a goal. He noted there continued to be a lot of economic uncertainty.
Mayor Schewel asked if this funding allocation consisted of city operations and also community needs such as potential support for small businesses. City Manager Bonfield acknowledged that this was correct.

Mayor Pro Tempore Johnson encouraged staff to get as close to $5 million as possible.

**It was the consensus of Council to allocate up to $5 million for COVID-19 response.**

Mayor Schewel introduced a new item: Programs may be considered for downsizing or discontinuation.

City Manager Bonfield responded to the request by Council for a list of programs based on financial and health-related circumstances.

Council addressed the upcoming period that contained difficult decisions going forward.

**It was the consensus of Council to retain the new item that programs may be considered for downsizing or discontinuation.**

In summation, all of the revised guidelines were accepted by Council.

**SUBJECT: ENTERPRISE FUNDS**

Budget Director Johnson estimated the Transit Fund being able to operate within the FY21 tax allocation of 3.75 cents.

Mayor Schewel looked forward in receiving an update on the additional revenues available from the federal CARES Act.

Council Member Reece noted there was significant need for transit services in Durham and transit represented an essential city service; however, the need for social distancing was taking a toll on the fare box, with a limit of 16 riders per bus.

Budget Director Johnson spoke to the Solid Waste funding stating that the fund was projected to operate within the FY21 property tax allocation of 5.59 cents.

No revenue projections were yet available on the Parking Fund - a fund that had no property tax impact.

Discussions took place related to the BID (Business Improvement District) in Downtown; various taxing scenarios were detailed at 5 / 5.73 / 6 / 7 cents and provided dis/advantages to the funding scenarios; and staff asked for Council’s feedback on a potential reduction of the BID tax.

Currently, the tax on the BID was at six cents, this amount could be held or modified as per Council’s decision. Staff noted that if the BID tax rate dropped to five cents, then the contract with DDI would be adjusted downward and there would be a deficit.
City Manager Bonfield spoke to communications with Downtown business owners and restaurant owners and noted that some were struggling and reducing the tax and the trade-offs between Downtown and other businesses in Durham, outside of the Downtown area.

Council Member Middleton, Council’s representative on DDI Board, spoke to DDI and its programming that supported Downtown businesses, along with minority business representation. He stated supporting the current rate at 7 cents.

Council Member Reece asked if DDI had reached out with a budget request.

City Manager Bonfield had not seen any proposals from DDI. However, Budget Director Johnson had had conversations with Nicole Thompson who was working on various scenarios and possible adjustments.

Mayor Pro Tempore Johnson addressed the $250,000 transfer from the General Fund and leaving the BID rate at 7 cents, this tax level could avoid a deficit.

Council Member Middleton, as a member of the DDI Board, explained that the Executive Director Nicole Thompson was supportive of maintaining the rate at 7 cents and was willing to work to find savings and to redirect funding to COVID-19 related matters.

Council Member Caballero spoke in support of the small business owners who may or may not receive a break in expenses from landlords who potentially were getting a tax rate reduction. At 7 cents, there were potentially more ways to provide support for small business owners.

Council Member Freeman expressed concerns about a BID tax cut for Downtown property owners and not one across Durham.

Mayor Schewel summarized that some Council members supported maintaining the rate at seven cents, suggestion of a transfer from the General Fund, there was a lot of interest in hearing from DDI about COVID related relief for small disadvantaged businesses.

Mayor Pro Tempore added that the majority of the DDI budget was for staff, the Downtown Ambassadors. With organizations funded by the City, she urged caution that avoiding layoffs was a priority and supported maintaining the BID tax at seven cents.

Council Member Middleton added that DDI was moving funding around to assist small businesses and now was shifting funding toward COVID-19 related matters.

**SUBJECT: OTHER RELATED BUDGET MATTERS**
Budget Director Johnson spoke to upcoming meetings to address water and sewer rates, stormwater rates and the Dedicated Housing Fund.

City Manager Bonfield asked for feedback on the Dedicated Housing Fund to move forward with the strategies presented or were there additional interests. He addressed concerns raised about MacDougald Terrace and tax assistance programs. He reiterated that the Dedicated Housing Fund consisted of a two cents revenue stream, federal funding and other resources and noted project funding could be shifted around for other priorities. City Manager Bonfield asked Council if they were interested in meeting to discuss housing programs, including eviction diversion.

Mayor Schewel responded that once staff was further down the road, that there be a discussion about the Dedicated Housing Fund, CDBG Funds and possibly address this at a work session or special session. He stated that the city had been counting on the money from Fallon, and that the funds would be going into the General Fund. This would disappoint those who wanted the funding put into affordable housing. He cautioned that there were many folks who would be disappointed due to austerity measures.

Council Member Middleton referenced the $5 million for COVID related needs; noted that Raleigh had allocated $1 million fund to assist small businesses and asked if we had researched peer cities and outreach.

City Manager Bonfield stated that it was his understanding that the Raleigh funding was a transfer of funds with an undefined program. Deputy Manager Chadwell was working with partners related to federal funding, state programs and local financing. There would be more work in this area during the budget cycle and was responding cautiously.

It was the consensus of Council to receive a presentation about the housing programs.

Mayor Schewel recognized Duke University’s $1 million fund established to assist small businesses and appreciated the community support.

Budget Director Johnson appreciated her staff, specifically Deputy Budget Director John Allore and his staff for their support. Council echoed her accolades.

City Manager Bonfield spoke to the upcoming intensity over the next few weeks to balance the budget and appreciated staff and Council’s support.

Mayor Schewel asked for clarification from the City Manager.

- A budget presentation on housing programs at Special Meeting or Work Session
- City Manager would come to Council with a fully developed budget proposal at the second Council meeting in May.
City Manager Bonfield wanted to ensure there were not misunderstandings related to new initiatives and acknowledged that the new initiatives would be held in abeyance for the time being combined with staff initiated requests. Mayor Schewel confirmed this fact.

Mayor Schewel referenced the Durham County amended Stay at Home Order, noted it extended the local SAH Order until May 15th, noted there would be gradual relaxation of real estate processes and allowed curb side delivery/pickup from any retailer and re-established the ability for farmers’ markets to operate under safe circumstances. The amended Order would be effective as of 5 p.m. this day.

Council Member Caballero asked about the budget meeting schedule.

Director Johnson stated the required budget hearing was scheduled for June 1.

Being no further business to come before Council, the meeting adjourned at 3:22 pm.

Diana Schreiber, CMC, NCCMC
City Clerk