February 21, 2018s

A Special Joint Work Session of the Danville City Council and the Danville School Board convened on February 21, 2018 at 5:45 p.m. in the Danville Fire Department, 600 Lynn Street, Danville, Virginia. Council Members present were: James B. Buckner, L. G. “Larry” Campbell Jr., Mayor John B. Gilstrap, Vice Mayor Alonzo L. Jones, Dr. Gary P. Miller, Sherman M. Saunders, Fred O. Shanks, III, J. Lee Vogler and Madison J.R. Whittle (9). *Dr. Miller arrived at 5:47 p.m.* School Board Members present were Sharon Dones, Steven Gould, Terry Hall, Renee Hughes, Dr. Ed Polhamus and Dr. Philip Campbell. Jeffrey Hubbard was absent.

Staff Members present were: City Manager Ken Larking, Deputy City Manager Earl Reynolds, City Attorney W. Clarke Whitfield Jr., Assistant City Attorney Alan Spencer, Budget Director Cynthia Thomasson, Assistant to the City Manager Amanda Paez, Public Information Officer Arnold Hendrix and City Clerk Susan DeMasi.

Also present were: David Eichenthal, Debra Vaughan and Ryan McNeely of the National Resource Network (NRN).

City Manager Ken Larking noted the purpose of the meeting was to make both the City Council and the School Board aware that the City is embarking on a Multi-Year Financial Forecasting and Modeling Program. The goal is to help the City make strategic decisions about their limited resources, so it can make the right choices and get on the path they want to be, based on what is available to them. NRN is creating a model based on what the City expects their expenditures and revenues to be; they will likely show a gap and will have some ideas on how Danville can close that gap. Because the schools are a big part of the City’s General Fund Budget, making up over 20%, the City felt it was important that both elected bodies understand what the City is doing and have buy in into the process. Mr. Larking introduced David Eichenthal from NRN who reviewed his power point presentation *City of Danville Multi-Year Financial Planning (a copy of which has been retained in Laser Fiche, in the City Clerk’s folder, Presentations to Council.)*

Mr. Eichenthal explained this plan tries to focus on a fiscal financial blueprint for the City, looking forward over a five year period of time, which is a best practice endorsed by the Government Finance Officers Association. When developing a multi-year financial plan, they talk about three components, the first is the baseline; a baseline projection reflects the City’s current condition, absent any significant changes. For revenues, it assumes no changes in tax rates, new taxing powers, new grants, large fee increases or reassessments. For expenditures, it means no assumed new hiring, layoffs, or wage increases that deviate from recent trends. Mr. Eichenthal noted part of the planning is going through what the City does spend its money on, see if there are opportunities for savings, and opportunities on the revenue side as well; these are called initiatives or a set of options. Another piece that goes into multiyear planning is not only how to close that gap, but how to close the gap in a way that also begins to free up resources so the City can make investments that are essential going forward. Mr. Eichenthal explained the other component of planning is that it is not static, things change. If there is a gap, how big a gap and offering some options on how to close that gap is a process where the City could continuously update the projections and plan going forward around its finances.

Mr. Eichenthal noted some of the reasons to do a plan is it allows the City to think through what the problem is, what the opportunities are and where there are ideas for future investment. The plan sidesteps the trap of budgeting one year at a time, such as the wait until next year approach to investment. Things that look like a bad idea when budgeting one year at a time are actually good ideas when looking at a five year period of time. They are taking the approach that there are no sacred cows; they want to look at everything. NRN wants to try and help Council understand what are some of the costs or revenues, what the dollar numbers are that are attached to specific ideas, and as elected leadership, they can weigh that in their decision making.

Mr. Eichenthal stated they have done this sort of work before, as part of the NRN, in Providence, Rhode Island. The Providence ten year plan is a good example because they were able to do what they said they would in a multiyear financial plan in terms of explaining what the gaps were. Providence is a bigger city, has different sets of issues around pension costs and labor costs, but was facing a real gap looking over a ten year period. They figured out ways to reduce expenditures, increase revenue and were able to close the structural deficit. Providence is also the funding mechanism for their school system; the Mayor had explained he wanted to do more for the kids in his community, either in the school system or youth programs, and also wanted to make sure he was funding infrastructure in the right way. It wasn't just a plan to balance the budget, it was also a plan for how the City begins to make choices and the sorts of investments in things the City leadership decided were priorities. Mr. Eichenthal stated Providence is getting results with upgraded bond rating, a balanced budget where they eliminated their $13M deficit, a year end operating surplus for FY 2017 of $10M, reduced excise tax, strong partnerships between the City and local organizations. Also, more financial stability and long-term budgeting to make new, critical investments in public education, neighborhoods, children, economic development and repairs to infrastructure.

The City of Danville was invited to apply for assistance based on poverty rates; Danville reported a 2016 poverty rate of 23.5 percent and 2017 rate of 26.1 percent compared to 15.6 percent nationally. Danville's population peaked in 1990 at approximately 53,000 and has declined by nearly 20 percent since, with an estimated population of 42,000 in 2016. The population decline coincided with significant declines in employment in both textile and tobacco industries, and as of July 2017, the unemployment rate was 6.6 percent, compared to 4.3 percent nationally. In addition, the City's operating costs are increasing at a faster rate than available revenues, leading to persistent annual budget shortfalls.

Danville applied in September of last year and specifically asked for assistance around developing a multiyear financial plan. They had their kick off meeting in December last year and spent time with the Mayor and most members of City Council, other elected officials, Department heads and the School Superintendent. Funding of schools is a significant portion of the City's budget and City funding is a significant portion of the school system's budget. They did data collection and analysis including benchmark analysis; how Danville compares with what it does, how it does it and what the costs are compared to other communities in Virginia. They are working toward developing the preliminary baseline, making assumptions about growth rate calculations, and have ideas about costs and revenues based on the City's experience over time. Mr. Eichenthal also reviewed the role of Danville Public Schools in the plan.

Mr. Eichenthal reviewed the Next Steps and potential options for Danville as they proceed to figure out what the gap is, and how to begin to close that gap. They are also looking at where there are opportunities or needs identified by the City to invest going forward, working with City leadership and the City Manager to help pull together a group of community stakeholders as an advisory committee and talking with them about the five year financial analysis baseline. When it is all pulled together in the context of a model, there are options for City leadership going forward that both achieve fiscal sustainability and achieve the opportunity to invest in priorities that the City has already set. Mr. Eichenthal noted the Final Report is targeted toward June when they will review all the research and an updated version of the model that will incorporate the fiscal impact of the proposed initiatives.

Council Member Shanks questioned how the City was going to use the study in this year's budget when it is not going to be available until June. Mr. Larking noted he is keeping in constant communication with NRN about where they are and where the City is, and if there are opportunities that could be implemented for next year, staff will look at that. Mr. Shanks noted he was expecting to have those ideas presented tonight or sometime prior to budget, how will this help the City this year. Mr. Larking noted they have gone through a list of about three pages of potential items and how the City uses them. Part of the process is that the model has to be put into place first, understand what the gap is that the City is trying to close, and then look at the options to help close that gap and maybe do better than that.

Mr. Saunders asked for examples of how they saved the other community money and Mr. Eichenthal explained in Providence it was a combination of looking at some labor costs, benefits, shared service opportunities, issues related to the procurement process, and opportunities around revenues. They also looked at the City's assets as Providence owns a golf course and zoo; the golf course was underutilized and they came up with a strategy for community and monetary benefit. Mr. Saunders questioned if they look at issues like Public Safety, how to pay for it and how do they address them. Mr. Eichenthal noted they did and it depends on the different communities. Danville has both city functions and county functions because of the nature of the Commonwealth, functions that cities in other states don't have; lots of other cities don't have jails. Mr. Vogler noted with regard to Providence, Danville does not own a zoo, but if they owned a museum, is that something they would look at and Mr. Eichenthal noted they have in other cases.

Mayor Gilstrap questioned the correlation between City Council and the School Board and how this is going to benefit both groups since they both have elected bodies and have different budgeting personnel and processes. Mr. Eichenthal noted there are ways, whether it is the school system, utilities, neighboring government, that the City could achieve efficiencies without diminishing any type of effectiveness, to work together with other governmental entities on similar activities; they are going to look at that. That could potentially be something that doesn't work for the school system or the City or it could be a win-win and could achieve savings for both. The other thing they have heard a little bit about is some of the school system's capital needs and what that looks like.

Mr. Eichenthal noted they are going to leave behind a series of initiatives. Some of them are going to be related to expenditures where the City could achieve savings, some are going to be related to areas where there may be opportunities to increase revenue, and some are going to be related to investments. What the multiyear plan does for the City is creates a tool to adjust to changes and assumptions, anything that has an unexpected area where there is a request for new or additional spending. The City will have a menu of items to decide from of how to either meet that demand for additional funding or decide they don't want to pursue any of those options in order to meet that need. And, as important, the City will have a tool with the model so that the City Manager and his staff will be able to show, proceeding with these assumptions, this is what the impact looks like in years 2, 3, 4 and 5. The ultimate choice on what to do lies with the elected leadership of the City.

Ms. Hall of the School Board stated she would like to know on the multiyear planning process, is that a feasible option for the School Board to consider so they are in tandem with Council's plan, to have strategic planning by both bodies for an ultimate goal to improve education. Mr.

Eichenthal noted the multiyear financial planning is a best practice for independent school districts as it is for local governments.

Mr. Vogler stated when the City Manager said that the City would go through this process, Council felt very strongly about having the school system be a part of it; is the school system going through this process the way the City is. Mr. Larking explained the school board is not included in this engagement at the level the City government is, but the key information the City needs to help them is going to be sought; the group has had conversations with Dr. Jones. Dr. Miller stated he did not think it was going to work unless the schools are right there with the City. Ms. Hall stated she thinks the two bodies need to be on the same page as the City in planning the multiyear process, where the school system wants to be in five years. Mr. Larking noted Dr. Jones is on the advisory committee and there will be input by the staff.

Mayor Gilstrap questioned, the group is going to identify where the City might be overstaffed or overfunded, or understaffed or underfunded, is the group going to do the same for the schools. Mr. Eichenthal stated that was not part of the study; the approach currently envisioned in the scope, is focused on the City's funding to the school system as part of the City's budget. It is not necessarily going in the same detail the way the group is doing in terms of City government. Dr. Miller noted in terms of the schools' capital needs, the City is not going to be able to upgrade every school in five years. There are certain portions that may take ten years, either renovations or new schools, can that be part of the plan. Mr. Eichenthal noted part what they are looking at as part of the area of investment does go to the issues of debt and capital for the school system. It may be just looking at the first five years' window of that, but that is part of it; it is part of the cost of the City for the school system. Mr. Saunders questioned if there were organizations that give money to school districts with certain needs and Mr. Eichenthal noted the work he has seen done around multiyear financial planning for schools has been funded by the school districts themselves or the Commonwealth.

Mr. Gould asked if the NRN has put school systems under the microscope in conjunction with a review as they are doing for the City and Mr. Eichenthal stated he does not know if they have done it simultaneously. The consortium behind the NRN includes five different organizations, one of which is the firm he is the managing director of which is PFM; PFM has done multiyear financial planning for school districts. Mr. Gould questioned if they would be able to provide them with an estimate of what it would cost to extend the process to include the school system. Mr. Eichenthal noted they could come up with a cost if that was the City and school system's request; Mr. Larking stated the school system is a separate legal entity and taking a deep dive into their finances is a decision they would have to make. Dr. Jones stated the State of Virginia does have an efficiency review process for school divisions if they are interested; not only for operating efficiency, but financial planning and efficiency. It does cost something to do, and it can be done through the whole system or by department.

Mr. Larking noted they have considered the schools' needs, trying to make sure the group understands the capital needs going forward, and some of the trends they have seen that will affect Danville. That is being factored into the study, but they are not going into the same level of detail of operations of the school system as the city departments, that was not part of the engagement. Mr. Larking noted the full implementation of the plan will not be done until June; as the City goes through the process, opportunities will arise and staff will be in contact about those opportunities that might be able to be implemented in this year. The point of the project is that it is multiyear and Mr. Larking noted he believes it will be beneficial to the current year's budget and certainly very confident it will have a lot of benefit to the City in the long term. It is a five year plan and will take time to fully implement, it will be revised year after year, and will continually be a five year plan. Mr. Larking explained in this process, there are no sacred cows. With regard to the school system, the City is getting as much information as they can about what the school system's needs are going to be and factor that into the model.

Mr. Eichenthal stated the idea is to give Council enough information to make informed choices; if the City does something, what is the impact over the next five years as to whether the City closes the deficit, has a surplus and the ability to put more money in schools or debt service to build projects.

Dr. Polhamus noted from the school board point of view, if they were take some action very quickly to authorize a deep dive into the school's operations and finances, how can their organization work efficiently with whatever organization for their deep dive. Mr. Eichenthal noted he would have to think about it, they would have to try to align the timing, the scope; they could probably figure it out. Ms. Hall noted she would like to see that information as well and it is an ideal time because of the strategic planning; they have their own set of identified goals that they would like to achieve. Dr. Jones stated they would have to do a request for proposal. After further discussion, Mayor Gilstrap thanked Mr. Eichenthal for the presentation.

MEETING ADJOURNED AT 7:04 P.M.

APPROVED:

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MAYOR

ATTEST:

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CITY CLERK