TOWN OF Herndon VIRGINIA

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HERNDON TOWN COUNCIL
Work Session
Tuesday, May 5, 2020

Pursuant to Virginia Code Section 2.2-3708.2, as amended; the Order of the Governor EO-53, as amended; and in accordance with Ordinance 20-O-23, Continuity of Governmental Operations during Pandemic Disaster (COVID-19) ~ adopted on March 24, 2020, as amended, Mayor Merkel has stated that the May 5, 2020 Herndon Town Council Work Session would be by electronic means. The meeting was broadcast and recorded through Cisco Webex and details for the meeting were made available to the public on Thursday, April 30, 2020. In attendance electronically were:

- Mayor Lisa C. Merkel, presiding;
- Vice Mayor Sheila A. Olem;
- Councilmember Jennifer K. Baker;
- Councilmember Cesar del Aguila;
- Councilmember Pradip Dhakal;
- Councilmember Signe Friedrichs; and
- Councilmember Bill McKenna.

Staff present during the meeting: William H. Ashton II, Town Manager; Lesa Yeatts, Town Attorney; Jennie Tripoli, Director of Finance; Karen Gagliano, Budget Manager; Tammy Chastain, Deputy Director of Public Works; and Amanda M. Kertz, Deputy Town Clerk.

STAFF ANNOUNCEMENTS

The Deputy Town Clerk welcomed those listening to the May 5, 2020 work session. She stated that tonight's regularly scheduled Herndon Town Council meeting was a virtual meeting. Next week's meeting would be a public hearing and the public was encouraged to provide comments for the record at town.clerk@herndon-va.gov. She stated, for the record, that:

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- The Town Council meeting that evening was conducted electronically pursuant to:
    - Virginia Code Section 2.2-3708.2, as amended;
    - the Order of the Governor EO-53, as amended; and
    - in accordance with Ordinance 20-O-23, Continuity of Governmental Operations during Pandemic Disaster (COVID-19) ~ adopted on March 24, 2020, as amended.
- Proper notice of the electronic meeting was provided in accordance with Section 2.2-3708.2 of the Code of Virginia, along with information for viewing the meeting and submitting comments for the record;
- The agenda and meeting materials were available on the town's website;
- Electronic meetings would begin with a roll call and determination of quorum; and
- All votes, including adjournment, would be by roll call vote.

CALL TO ORDER

1. Roll Call & Determination of Quorum

Mayor Merkel called the work session by electronic means to order and asked the Deputy Town Clerk to call the roll for attendance and for each Councilmember to respond by clearly stating their name and indicating they were present. All members were present, electronically, with Mayor Merkel presiding.

Mayor Merkel stated, for the record, that there was a quorum present, electronically, that evening. William H. Ashton II, Town Manager and Lesa Yeatts, Town Attorney, were also present. As the Clerk stated, Mayor Merkel stated that the meeting that evening was being conducted pursuant to the appropriate laws.

Mayor Merkel asked Members of Council to observe meeting decorum by showing their hands to be recognized by the Chair for comments. She asked Council to unmute their microphones and to start their comments, motions, or seconds by stating their name when she recognized them.

2. Comments from the Town Manager

Mayor Merkel recognized the Town Manager for an update on the continuity of operations and matters related to the emergency.

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The Town Manager presented a PowerPoint dated May 5, 2020, which is on file in the Town Clerk's office. He stated that Governor Northam had given a briefing on May 4, 2020, that outlined an initiative and his plan to reopen Virginia "Forward Virginia," and that additional information was forthcoming. He stated staff was pivoting to look at what reopening would look like after focusing on how to preserve functions and keep people safe.

The Town Manager outlined the three phases of Forward Virginia in the PowerPoint and stated that he could share the slides from the Governor's briefing with Council if needed. He stated that a less restrictive "safer at home" phase would be coming first to ease social distancing. Face coverings would still be needed, gatherings couldn't be of more than 10 people, and certain businesses would start to see easements based on business sector. For workplace safety, he stated that physical distancing, and cleaning would still be important. Each of the phases would last two to four weeks, or longer, with the Town Manager estimating that the phases would take approximately four weeks. This was because, according to health officials, it would take two weeks to see if moving to the next phase would set the state back in terms of the infection rate and conditions on the ground. He shared that Phase II would encourage staying at home for the vulnerable populations and this phase would likely also last at least four weeks to see if the reopening was causing a rebounding effect. Phase III would only happen when there was no evidence of a rebound, and the Town Manager stated this phase would likely come no sooner than mid-August. During that phase, he stated the bans on social gatherings would be lifted, and cleaning would still be a main focus.

The Town Manager stated that Governor Northam extended his Order EO-53 through May 14, meaning Phase I could begin as early as May 15, 2020. The Town Manager clarified that he was simply providing information that came from the Governor and that he was listing resources. The Town Manager stated that the regional leaders were looking for further clarification from the Governor's office on the start of Phase I. The Governor's Chief of State was meeting virtually with the chief administrative officers to discuss this in further detail. He encouraged those listening who have a business in town to refer to the Commonwealth for information.

The Town Manager then reviewed his proposed re-opening for the town government, which would follow the state's Forward Virginia plan. Phase I and II would include continued social distancing, teleworking, virtual meetings, and restrictions on staff going into private residences – unless in cases of an emergency. He stated that the use of masks and personal protection equipment would be promoted as restrictions on the public entering the building would be lifted. The Town Manager stated it would be a phased re-opening where the sick leave and symptomatic policies remain in place. He stated that using this policy and putting symptomatic staff in a 14-day quarantine has saved the town staff to this point. More staff would come off of administrative leave as facilities and functions resume.

The Town Manager discussed the accommodations staff would make for facilities, including the use of plexiglass protective guards, directing customer traffic in buildings, increased signage, promoting the use of online services, and increased sanitation stations and cleaning.

The Town Manager reviewed how the town could bring facilities and functions "back online," which would comply with Forward Virginia and utilize its terminology for Phases I, II, and III. In Phase I, this would remain virtual and as the town moved into Phase II, there would be a "hybrid model" to promote virtual services, while resuming some in-person services. This would allow staff to serve the customer in the way that they wish to be served, either virtually or in-person. Phase II would include reopening the first floor of the Herndon Municipal Center (HMC), bringing back DPW tier two services, and adding some Parks and Recreation classes. Phase III would include additional opening of facilities and offering services, including the opening the second floor of the HMC, tier three activities, and Parks and Recreation classes.

The Town Manager stated that while moving through these phases, it would be a good time to conduct management reviews to see how the town could improve its operations. Financial considerations would be discussed throughout the phased re-opening and before services would resume, staff would have to hold a series of review steps.

The Town Manager concluded his PowerPoint by emphasizing that re-opening town facilities would not going to be "flipping on a switch." It would be a measured and thoughtful process, and he stated it would be a good opportunity to learn by going through management reviews.

There was brief discussion amongst Council and staff.

In response to queries from Vice Mayor Olem, the Town Manager discussed how the Department of Public Works (DPW) would resume and increase its services through the proposed phases, which were postponed as the town focused on core services and dealing with the pandemic.

Councilmember Friedrichs stated that the hybrid model the Town Manager mentioned would be good for those with disabilities and the older members of the community, and in response to additional queries from Councilmember Friedrichs, the Town Manager stated that yard waste collection would be considered a tier two service.

In response to questions concerning operational costs from Councilmember del Aguila, the Town Manager stated that the Director of Golf was looking at it from a business model. He stated that, as an enterprise fund, the Golf Course would either need to break even or do better. He stated that the management analysis would include the budgetary impacts of resuming a service as second following if it complied with the Forward Virginia model, followed by risks, legal, and personnel analysis. He would further discuss the budget later that meeting.

PUBLIC HEARINGS

3. **Ordinance, to Levy Taxes on Real Estate and Manufactured Homes, and Other Subjects for the Fiscal Year 2021 budget.**

Mayor Merkel recognized the Deputy Director of Public Works for the staff report.

The Deputy Director of Public Works presented the staff report dated May 5, 2020, which is on file in the Town Clerk's office. The recycling fee was last increased in 2018 when it was changed from $4.00 to $8.00 per quarter. The proposed ordinance would increase the town's recycling fee from $8.00 to $16.00 per quarter. The Deputy Director of Public Works stated that similar to 2018, there were changes to the recycling industry, and the town no longer receives rebates that fully cover the cost to recycle. Staff recommends approval of the proposed ordinance, as presented.

There was brief discussion amongst Council and staff on this item.

In response to queries from Councilmember Friedrichs, the Deputy Director of Public Works stated that the proposed increase would offset approximately 80 percent of the town's recycling costs. She stated that while it would be great, from her perspective, to completely offset the costs that decision would be up to higher management and the Council.

In response to queries from Vice Mayor Olem, the Deputy Director of Public Works confirmed that the proposed increase to recycling fees would help offset the rising cost of the town's recycling.

There was a brief question and answer session between the Deputy Director of Public Works and Councilmember del Aguila.

In response to queries from Councilmember del Aguila, the Deputy Director of Public Works confirmed that the fee would not cover the total cost of the town's recycling. She stated that the town has slowly increased its recycling fees as the commodity price had dropped.

In response to queries from Councilmember del Aguila, the Deputy Director of Public Works stated that she would have to confirm at what point the town's recycling fee would cover its costs, but in 2018, she stated it was approximately $20 per quarter. She could run the numbers again with the rates from the past few months.

The Town Manager stated that DPW had briefed him about the breakeven point for the fee during the budget process. He stated he could send more information to Council about the recycling fees.

Responding to the Town Manager, Councilmember del Aguila stated that it would help him, visually, to see all the scenarios. He stated that Council would have to discuss the rate increase with the public and prepare them for potential rate increases in the future.

In response to queries from Mayor Merkel, the Deputy Director of Public Works agreed that the gap between the cost of commodities and rebates to the town had widened. She stated that it worsened during the pandemic and she was uncertain how it would look after this was all over.

4. **Ordinance, to amend Chapter 63 (SOLID WASTE), Sec. 63-8 (Schedule of fees), for an increase in the recyclables fee to $16.00 per quarter. (The current fee is $8.00 per quarter.);**

5. **Resolution, to adopt a Fiscal Planning Resolution for the Fiscal Year 2021 budget for the Town of Herndon, to consider the proposed total budget as submitted to the town council. [The budget includes the Fiscal Year 2021 portion of the Capital Improvements Program (CIP)]; and**

6. **Ordinance, to Appropriate Funds to Implement the Fiscal Year 2021 budget for the Town of Herndon, establishing the pay plan, and reserving on-going and capital funding for this fiscal year.**

FY 2021 Proposed Budget

Mayor Merkel stated that the next three items on the agenda related to the Town Manager's proposed FY 2021 budget. She stated that the Town Manager developed the proposed budget prior to this health crisis and it was provided to the public and Town Council by April 1, per state law. Over the past month, staff worked to amend the budget to accommodate the new fiscal realities imposed by COVID-19. For this reason, the Town Council and Town Manager delayed the council's budget meetings from April to May, with the first work session that evening.

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Mayor Merkel asked the Deputy Town Clerk if any written comments were received for the record on the budget items.

The Deputy Town Clerk stated that all comments received were provided to the Town Council and had been entered into the record.

Mayor Merkel stated that public hearings on the proposed budget were scheduled for May 12 and May 26, 2020, with work sessions that evening and on May 19, 2020. She stated that the Council would hold a separate public hearing next week on the Tax Levy, followed by a motion to continue the public hearing to May 26, 2020. Concurrent public hearings would be held on the Fiscal Planning Resolution and the Appropriation Ordinance, followed by separate motions to continue the public hearings to May 26, 2020.

Disclosures:

The Deputy Town Clerk entered into the record all signed Transactional Disclosure Declarations that she received pursuant to Sections 2.2-3112(B)(2)(3) and 2.2-3115(G), of the Code of Virginia. She stated, for the record, that:

- **Mayor Merkel and Councilmember Dhakal** each provided signed statements for the record that throughout the year, they may be invited as a guest to attend events hosted by various organizations, some of which may receive funds or services from the town. The statements indicate that they are able to participate in the budget deliberations regarding non-profit organizations fairly, objectively, and in the public interest, and that the appropriate disclosures have been filed with the Town Clerk and Town Attorney; and

- **Vice Mayor Olem; and Councilmembers Baker, del Aguila, Friedrichs, and McKenna** each provided signed statements for the record that they are unpaid volunteers for various organizations in the community, some of which may receive funds or services from the town. Throughout the year, they may be invited to attend events hosted by these organizations as guests. The statements indicate that they are able to participate in the budget deliberations regarding non-profit organizations fairly, objectively, and in the public interest, and that the appropriate disclosures have been filed with the Town Clerk and Town Attorney.

Mayor Merkel recognized the Town Manager for the budget presentation.

The Town Manager asked that the Budget Manager and Director of Finance also be made panelists on the Webex so that they could respond to questions from Council.

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The Town Manager provided an overview of the proposed FY 2021 budget and presented a PowerPoint dated May 5, which is on file in the Town Clerk's office. He discussed the budget process and stated that he submitted the proposed budget on Friday, April 1, 2020, pursuant to state code. He stated that March 11, 2020, was when they had to start regrouping as an organization because of the COVID-19 emergency, which also affected the budget. He stated that the pandemic ushered in economic models with many unknowns, such as revenues and shutdown duration. As he discussed earlier with his presentation on Forward Virginia, Phase I could potentially begin the next week, and the Town Manager stated he hoped that they were able to stay with the Governor's plan without rebounding. He stated what would happen with the economy after COVID was also unknown, and many experts were weighing in with many different models.

Included in the Town Manager's staff report was the "FY 2021 Budget Bridge Document" (Bridge Document), which was submitted in response to the COVID-19 emergency. This document, along with the proposed amendments to the existing budget, was summarized in the PowerPoint and had been provided to the public on Friday, May 1, 2020.

FY 2020 Budget

The Town Manager discussed COVID-19's effects on the FY 2020 revenue projections. This included significant declines in other local taxes, such as (numbers are all approximate): the meals tax, down 29.5 percent; the Transient Occupancy Tax (TOT), down 34.4 percent; and the town's share of the local sales tax, which declined 22 percent. Staff did not know what the sales tax revenue would look like during the pandemic, since these numbers lagged by at least two months. The declines were partially offset by strong Business, Professional, and Occupational License (BPOL) revenues, which were estimate at 34.8 percent above budget. He stated there was also a significant decline in revenue from Parks and Recreation fees, by approximately 50.2 percent. He stated there would still be a marked decline in budgeted numbers for FY 2020.

As discussed last week, the Town Manager proposed to use approximately $420,000 of the town's Revenue Stabilization Fund, which would be 23.3 percent of $1.8 million balance of that fund, to balance the FY 2020 budget. He highlighted the town's FY 2020 revised General Fund revenue projections and how the town adjusted its FY 2020 expenditures due to COVID-19, as provided in the PowerPoint. The numbers showed a decrease of approximately six percent overall in the General Fund.

The Town Manager stated that as soon as the pandemic began, he immediately locked down hiring, overtime, and travel and training, as well as freezing other operations and maintenance (O&M) expenses. Purchasing Cards (P-Cards) were suspended or limited to force purchasing to go through the Purchasing Agent for approval. He stated that the town was not completing capital projects, except for those that were grant funded.

The Town Manager stated that expenditures for the rest of FY 2020 were estimated to be down approximately 6.4 percent. He stated that O&M would take a significant hit of approximately 12 percent moving forward.

Crafting a New Budget

Challenges

There were many unknowns, and he stated that limited data was available for the town's meals, TOT, and sales tax revenue. He stated that length of recovery and a possible rebound in the future and cause further economic setbacks were also unknowns. Staff was also concerned about the secondary revenue effects on businesses and hotels. He stated that other businesses and commercial real estate were negatively impacted and that would likely continue. Mortgages and forbearance, a critical bellwether for residential real estate, was something staff would watch closely going forward. The Town Manager stated all these things were creating a challenging and confusing environment for crafting a new budget.

Considerations

The Town Manager stated that a big challenge with developing a budget would be very limited data. He reviewed the challenges and considerations staff faced in crafting a new budget for FY 2021. This included being flexible and adaptive, fiscally protecting the town, meeting the Council's budget guidance, avoiding an overreaction or taking decisive actions with limited information, limiting spending, and allowing for more time, analysis, and information. Expenditure patterns have been adapted to the information available.

FY 2021 Budget v.2

The Town Manager discussed how staff arrived at the Proposed FY 2021 Budget and presented his budget plan in three steps, which were as follows:

- Step 1: (Baseline) – the Proposed FY 2021 Budget, which was released on April 1, 2020 and included the Council's budget guidance.

- Step 2: (Amendment) Proposed FY 2021 Budget, v.2, which was released on May 1, 2020), and:

    - Reset the base budget;

    - Removed proposed one-cent increase to Real Estate tax rate;

- Removed the projected $100,000 BPOL increase;
- Removed 1.5 percent market rate adjustment;
- Removed 2.0 percent pay-for-performance; and
- Removed $56,000 from the contingency line item, because the town was already operating in a contingency mode.

The Town Manager stated that one issue that he referenced would be that all revenue assumptions would be off because they came from limited data and there would be significant decreases in both taxes and charges for services. He specifically mentioned that Parks and Recreation would take significant hits, and he mentioned that the Herndon Festival funds would also need to be sequestered. The Town Manager stated that another concern was how to maneuver around the fact that things could get very bad, but could also be better than predicted.

- Step 3: Strict Spending Plan, the "Bridge Document," which was also released on May 1, 2020, and:
  - Was focused on Operations and Maintenance (O&M) and Capital, including:
    - COVID-19;
    - Public Safety;
    - Public Health;
    - Refuse;
    - Water and Sewer; and
    - Transportation and Solid Waste Management.
  - Sequestered $5.5 million in O&M and Capital;
  - Set Revenue Benchmarks for the sequestered funds, which would release funds if the revenue supported it; or would allow the town to consider other options if the revenues were worse than expected; and
  - Would take a flexible and cautious approach.

The Town Manager outlined staff's process for drafting the Bridge Document to the FY 2021 Budget and the decision-making process for the sequestered funds. He stated that staff was asking the Council to consider adopting the Proposed FY 2021 Budget, v.2, and following that, consider adopting a document that would sequester the $5.5 million. The items staff was asking the Council to sequester were identified on charts listed on pages 18-19 of the PowerPoint.

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The Town Manager stated that a lot of vehicle and equipment replacement would be delayed, as well as some technology projects. He stated these funds would be sequestered and staff would discuss them with Council to help prioritize projects as revenue benchmarks were hit. He also stated that strong fiscal management would be used to help create flexibility.

The Town Manager emphasized that revenue benchmarks would determine when the sequestered items would be released and that it would be done in a measured, disciplined, and prioritized manner. He stated that if the town was below the revenue benchmarks, cuts to personnel would have to be considered. He would brief Council on how the town was meeting the revenue benchmarks throughout the next fiscal year and that it would be a regular topic of conversation at Council's work sessions.

In conclusion, the Town Manager reiterated that this was an unusual process for unusual and uncertain times. He stated it was important to position the town in a place where it could be flexible, since there were more unknowns than knowns right now. His proposed plan would buy the town time to obtain more data and analysis, and allow the town to tailor its responses to the changing environment in a very measured way.

General Budget Discussion

There was brief discussion amongst Council and staff on the budget.

During the discussion, all Members of Council, Vice Mayor Olem, and Mayor Merkel thanked the Town Manager and staff for their efforts on the town's budget.

There was a brief question and answer session between the Town Manager, Director of Finance, and Councilmember Friedrichs.

Councilmember Friedrichs thanked the Town Manager for making something so complicated more understandable, and the Town Manager gave credit to the Director of Finance who had explained it to him.

In response to Councilmember Friedrichs, the Director of Finance stated that the "miscellaneous" line on page four of the PowerPoint included money that was not classified anywhere else. She stated it was "one-off" revenue that did not belong in another category. She stated that when staff mentioned that they had "half a month" worth of data for the meals tax and TOT, they meant that in looking at the March numbers, only half of it showed the negative impacts of COVID-19 on the restaurant and hotel industries. She stated that the town should receive April's filings in May, which would be the first full month of COVID-related data for those tax revenues.

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The Director of Finance stated that the numbers for sales tax were always behind by two months, so the numbers the town received in April were from February, which was usually the lowest month of the year. The town might not see the numbers for March until June, so staff was uncertain about those revenue impacts.

In response to queries from Councilmember Friedrichs, the Town Manager confirmed that they would not have finalized information before needing to approve the budget, and he stated that because staff did not have a lot of data, they proposed an approach that bought the town time to make harder decisions. When it was time to make tough decisions, the town would hopefully be recovering from the COVID-19 emergency.

In response to queries from Mayor Merkel about the proposed sequestered funds still being Council's priorities, the Town Manager stated that in setting those funds aside, the Council was appropriating the money, but was not giving staff permission to spend it. The revenue conditions had to be right before the money could be spent. He stated it was similar to paying for an item in cash. As the revenue materialized, the items could be released.

There was a brief question and answer session between Councilmember Dhakal and the Town Manager.

In response to Councilmember Dhakal, the Town Manager stated that in making their assumptions, staff observed trends and used available data to inform the projected numbers for all of FY 2021. He stated that staff's projections were based on the data at that time, which was still very fluid.

Councilmember Dhakal provided brief comments and thanked staff for putting together a great budget for an unpredictable time. He stated that he added the declined revenues and it totaled approximately $5.5 million, which balanced out with the sequestered amount. He stated that removing the one-cent increase to the real estate tax and the projected BPOL increase would be balanced by the proposed reduction in personnel. He thought this was the best approach since the town faced a lot of uncertainty in the next fiscal year.

The Town Manager thanked the Budget Manager for all her efforts on the budget, in addition to the Director of Finance and other staff.

There was a brief question and answer session between the Town Manager and Vice Mayor Olem, who asked to review several comments from citizens.

In response to queries from Vice Mayor Olem, the Town Manager stated that the town was moving forward with grant funded projects, like the Herndon Metro Station Bus Bays, Van Buren Street project, and the environmental remediation on the former Stohlman lot, because these projects were using money that was already allocated, either at the state or federal levels. Any tax-payer involved funding was very minor. He stated that that town's capital remained strong and his proposal would have the town operate within the revenue it made next year. He stated that staff felt this was a great time to continue with grant funded projects and possibly get bargains that would not have been possible otherwise. He encouraged staff to continue seeking grant funded projects.

In response to queries from Vice Mayor Olem about water and sewer rates not decreasing because of improvements, the Town Manager answered that this dealt with operational revenues and expenditures. He explained that the town's water and sewer rates were supposed to cover operational expenses, like the town buying the water from Fairfax Water and sewer treatment from Fairfax County. Those prices had continued to increase. Over time, the town has faced difficulty covering its operational expenses with revenues, without using interest and other sources of income that would otherwise go toward paying capital. He stated that rate increases were necessary to meet the costs to the town. He stated that the town still had the lowest rates in the region, even with the recent increases.

In response to queries from Vice Mayor Olem about parking enforcement, the Town Manager stated the Parking Enforcement Officer was not aggressively enforcing parking because of the COVID-19 situation. He stated that the Parking Enforcement Officer has done a remarkable job and has covered his costs.

Vice Mayor Olem stated that she heard a comment that since Fairfax County was decreasing its rates, the town should increase its real estate tax rate. She also heard comments from residents asking why they pay town taxes. She thought that, unfortunately, individuals would find out why they pay town taxes through this budget process.

There was a brief question and answer session between the Director of Finance, the Town Manager, and Councilmember del Aguila.

Councilmember del Aguila referenced revenue assumptions and stated that in talking to most financial experts, they indicated that there was going to be a "boomerang effect." He warned that the town should consider this, and that, in many cases, actual establishments – like restaurants – would go out of business after the crisis was over. He expressed similar concerns about the TOT because not just the revenue, but the actual establishment would go away. He asked how bleak the town had been in its consideration of estimates for the next year.

In response to queries from Councilmember del Aguila, the Director of Finance stated that, with little information, she tried to make the estimates bleak without the revenue being zero. She stated that staff did not know what the recovery would look like and that the they assumed the first several quarters would see a severe decline. She also tried to accommodate for a potential bounce-back in the summer, with another decline during the fall and winter. Staff tried to give themselves maximum flexibility to respond to the economics that were presented.

In response to queries from Councilmember del Aguila, the Director of Finance stated that her assumption on the meals tax revenue was a decline of 50 percent from where the town was, with businesses remaining intact. She realized that not all the businesses would make it through this crisis, but she had not based her predictions on 50 percent of them going out of business.

Councilmember del Aguila stated that he could send staff research predicting a severe boomerang. He expressed concern that the proposed budget adjustments did not go far enough to represent what could be a worst case scenario. He stated that worst case to him, was that 50 percent of the businesses would not make it through the crisis.

The Director of Finance stated that the numbers were not based on a worst case scenario.

The Town Manager agreed with the Director of Finance. He emphasized that if the town does not meet a benchmark and the revenues were worse than expected, staff planned to reevaluate and make tough choices. He agreed with Councilmember del Aguila that the situation could get bad, very quickly, but with the sequestered funds, the town would reset its spending and not be overly committed to areas like increased pay. If necessary, the town could pivot and make personnel reductions to balance the numbers. Instead of making those decisions with very murky numbers now, staff was trying to delay those decisions until they had more information.

Councilmember del Aguila opined that the $5.5 million in sequestered funds would not be enough to give the town flexibility it needed before making personnel cuts.

In response to queries from Councilmember del Aguila about when the water and sewer revenues and expenditures diverged, creating a gap, the Town Manager stated that the earliest numbers came from 2006 and that this was a long-term problem.

Councilmember del Aguila stated that the town had a delta between the recycling costs and fees, and another for water and sewer. He asked at what point would the revenue would line up with the cost, and when it would converge. He stated that if the town was operating in a negative in those categories, the budget projections would look even worse. He asked for more information about the assumptions used to estimate when the town could close those holes in the budget.

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In response to Councilmember del Aguila, the Director of Finance stated that the water and sewer was an enterprise fund and that the $5 million being discussed was from the General Fund. She explained that staff was trying to close the gap between revenue and expenses in the water and sewer fund with a model first used in 2017. That was a rolling five-year model that suggested a measured approach to the rate increases.

Prior to 2017, the last time the rates were adjusted was 2011 and since that time, costs continued to rise and the rate increases were not high enough to catch up. The town's consultants' refreshed the model, but it yielded some unexpected results that the financial advisors still needed to stress test. Staff was in this process when the COVID-19 emergency started. The Director of Finance stated that a proposed rate increase had been removed from the July 1 proposal, with the intention to revisit it later to close the gap sooner.

The Director of Finance stated that regarding Councilmember del Aguila's comment about water and sewer rates going back to 2006, that it was the earliest electronic Comprehensive Annual Financial Report (CAFR) that she had readily available. She stated that she had boxes of CAFRs that went back to the 1970s and she could look into this further. She stated she, too, was curious at what point the water and sewer revenues and expenses diverged. As for the current rates, staff planned to get back with the consultants to figure it out as soon as it was possible.

Councilmember del Aguila stated that if the town was not closing the water and sewer rate gap enough, then it would never catch up. He stated that he was not suggesting anything drastic, but he wanted to make it a priority for the town to close these gaps. He understood that it was an unusual time, but that closing the gaps would be important for the town's budget going forward.

The Town Manager agreed and stated that closing the water and sewer rate gap was one of his priorities when he became Town Manager. He stated that staff wanted to ensure that the water and sewer rate model would work for planning future capital investments, as well as capturing the town's operational expenses and revenues now.

Councilmember del Aguila stated he understood the town was in "survival mode" and asked staff to be dispassionate in some of its assumptions and to plan for the boomerang and worst case scenarios.

The Town Manager stated that this was on his mind, and he was hopeful the town would not get to the worst case scenario.

There was a brief question and answer session between the Director of Finance and Councilmember McKenna.

In response to queries from Councilmember McKenna about the data modeling for the budget, the Director of Finance stated that staff planned to use more sophisticated modeling as they received better data. She did not run any specific Monte Carlo scenarios in this case, with the situation being so unique. She stated there would be more formalized ways to look at this as she received more data from the town's businesses. She stated that she had looked at their information individually, especially the hotels and restaurants, to see what they were reporting and what the trends were.

Councilmember McKenna shared some information about the uncertainty for those listening. He stated that while the numbers from the first quarter of the stock market, S&P 500, and other general indices, were the worst it had been since 1938, this April was the best April recorded for the markets. He stated that these numbers had predicted seven of the last eight recessions, but that they were not pure indicators. He thanked and encouraged staff to continue what they were doing in seeking more data and stated that the Council was there to help when needed.

Councilmember Baker stated that a lot of great questions had been asked and addressed. She was encouraged that the town had a way forward through shared sacrifice. She echoed the thanks to staff that her colleagues offered during the discussion.

Mayor Merkel reminded Council and those listening that next week, there would be concurrent staff reports on most of the budget items, but Council would take separate action to continue the public hearings to May 26, 2020. She stated that Council would have to continue the items to that meeting date because there were two advertised public hearings on the FY 2021 budget.

ROUNDTABLE

Mayor Merkel reminded Council that comments needed to be limited to the continuity of business operations or directly related to the emergency to fall in compliance with state code.

1. **Vice Mayor Olem:** Reminded those listening to wear their masks and gloves, and showed a cloth mask that she received. She hoped everyone would stay safe during this time.

2. **Mayor Merkel:** Concurred with Vice Mayor Olem's comments. She stated this was a tough time and everyone had to do what they could to contribute. She stated it was hard to believe it had been eight weeks since the start of the pandemic emergency.

May 5, 2020
(work session)

ADJOURNMENT

On motion of Vice Mayor Olem, seconded by Councilmember Dhakal, and carried by unanimous roll call vote by electronic means, the meeting of the May 5, 2020 work session was adjourned at 8:28 p.m. The vote was: Councilmembers Baker, del Aguila, Dhakal, Friedrichs, McKenna, Vice Mayor Olem, and Mayor Merkel voting "Aye."

Lisa C. Merkel
Mayor

TOWN OF HERNDON, VIRGINIA
1879

Amanda M. Kertz
Deputy Town Clerk

Minutes approved by Town Council: May 26, 2020.

NOTE:

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