



City of Hampton

22 Lincoln Street
Hampton, VA 23669
www.hampton.gov

Council Approved Minutes - Final City Council Work Session

Mayor Donnie R. Tuck
Vice Mayor Jimmy Gray
Councilmember Chris L. Bowman
Councilmember Steven L. Brown
Councilmember Hope L. Harper
Councilmember Billy Hobbs
Councilmember Martha Mugler

STAFF: Mary Bunting, City Manager
Cheran Cordell Ivery, City Attorney
Katherine K. Glass, CMC, Clerk of Council

Wednesday, March 22, 2023

1:00 PM

Council Chambers

CALL TO ORDER

Mayor Tuck called the meeting to order at 1 p.m. All members of the City Council were present.

Present 7 - Councilmember Chris L. Bowman, Councilmember Steven L. Brown, Vice Mayor Jimmy Gray, Councilmember Hope L. Harper, Councilmember Billy Hobbs, Councilmember Martha Mugler, and Mayor Donnie R. Tuck

DONNIE R. TUCK PRESIDED

AGENDA

1. [23-0065](#) Budget Briefing - Preliminary Revenue Estimates

Attachments: [Presentation](#)

Mayor Tuck asked City Manager Mary Bunting to introduce the afternoon agenda. Ms. Bunting made the following remarks:

Thank you, Mayor. Today is all about the budget. As we are officially well into budget season, we're going to kick off the afternoon work session with our Finance Director, Karl Daughtrey, who's going to share preliminary revenue projections, I will say that these revenue projections are preliminary in that they are based upon some assumptions about where we may end up on the real estate tax rate. And also, you haven't yet acted on it. But you certainly indicated an interest in adjusting

the personal property tax assessment ratio, and that's on your agenda tonight. So he's based his estimates on those assumptions. If you were to change your mind, not approve that tonight, or give us different direction. These revenue estimates would change. But with that, as an introduction, Mr. Daughtrey is going to walk you through what our revenue projections for fiscal 2024 would be. Following that we will have our results from our public budget polling, but first let us hear from Mr. Daughtrey.

Mr. Daughtrey greeted members of Council, the City Manager Bunting, City Attorney Ivery, and City Clerk Glass. He then presented revenue projections for fiscal year 2024.

Vice Mayor Gray asked how the 39% compare to other cities in the region in terms of their percentage of real estate taxes, and how much of that percentage comprises their total budget?

Mr. Daughtrey replied that he had not looked into that, and would get back with Vice Mayor Gray.

Mayor Tuck referenced a regional meeting, with a briefing on our outlook, economically, financially. There are three drivers of our economy in the region: the military, Port of Virginia, and tourism. The Southside has Virginia Beach, which not only has tourism, but also has a number of major corporations and headquarters. Norfolk tries to be the economic engine of the region. They have a naval base, but they also have a number of different businesses, corporations and large employers. Newport News, has Waterworks, Canon, Newport News Shipyard, and probably a number of automobile dealerships and banking. Hampton has Hampton University, the VA Medical Center, NASA Langley Research Center, and Langley Air Force Base all of which are not taxed. We have a few machine shops, generating machinery and tools tax, Sentara and some banks and auto dealerships. We don't have big contributors that we can look to. So, our reliance is really on real estate and personal property taxes. We've tried to push tourism with Boo Williams Sportsplex and the AquaPlex. Now we're trying to expand our economic base with

NorthPoint and Huntington Ingalls Unmanned System Center of Excellence. If we can attract more of those types of industries that would be great. But right now, probably, if you're in comparison to other localities, the real estate tax rate represents a larger percentage of our budget.

Mr. Daughtrey thanked Mayor Tuck and continued his presentation.

Mayor Tuck stated it had been talked about the anticipated reduction based on Portsmouth's Casino, and then asked if we expect an additional hit from Norfolk's Casino?

Mr. Daughtrey replied that was a good question. We had not really talked about that. But I would think that would probably be some impact on us. And we would probably by the end of the fiscal year, we could probably more be able to tell you what the true impact is. Based on the current revenues, we have not seen an impact yet.

Mr. Daughtrey continued with his presentation.

Mayor Tuck stated that people believe we benefit from Fort Monroe and asked City Manager Mary Bunting to clarify the relationship.

City Manager Bunting replied that Fort Monroe is managed by a state appointed authority known as the Fort Monroe Authority (FMA). The City Council does have two seats that they can appoint to that authority but the majority of the seats are appointed by the Governor. Our delegate who has the district of Fort Monroe is automatically on it as is our Senator. Even with the two of them, Hampton's four seats, does not make up the majority of the Fort Monroe Authority. We do have a good relationship with them. I am not trying to suggest anything negative, but a lot people think we control what happens at Fort Monroe, and we do not.

Our Payment In Lieu of Taxes (PILOT), was designed, initially, to

give the City of Hampton the effective real estate taxes that would come off the property if were not continued to be owned by the State. Because the State made the decision to maintain the ownership of the land and only do long-term leases with the property. Initially, the way the PILOT language was written, Hampton would get, just as we would with regular real estate taxes, a growing amount of money over time to off-set the cost of services that the City provides to residents at Fort Monroe. Although it is separately managed by the Fort Monroe Authority, it is in our jurisdictional boundaries. Kids who live on Fort Monroe would go to Hampton City Schools, we provide police and fire services and do some of the recreational programs, and as such we would do in our larger communities like lifeguards on the beach, etc.

However, a budget amendment was written into the adopted budget freezing the PILOT payment at a set amount which is just under a million dollars. Basically, that is the most they said we would ever get for the PILOT no matter how Fort Monroe grew in terms of additional activity. The one saving grace about that is, about two or three years ago, there was a modification made that as long-term leases are entered into by the Authority, those being 50 years or more, the City would get 100 percent of the real estate taxes that will be effectively charged to the long-term lease hold interest. They would be paying real estate taxes like other residents, but there are not a lot of those that have been entered into at this point. Predominantly what we get from Fort Monroe is the PILOT and it does cover the services that we provide at this time.

Vice Mayor Gray stated while we are on the subject of the PILOT, because I know there are plans for additional housing units in the form of apartments at Fort Monroe. I believe they have already have signed agreements or close to doing that, so that is going to bring additional occupants and who may have children who may go to the schools. It seems that having our PILOT frozen at a certain level, puts us at a deficit as you mentioned. I do not know what we can do going forward to

perhaps revisit that in our legislative package in the future, but it does not seem like it serves our interest very well to have it frozen when their plans are to continue to grow the population at Fort Monroe.

City Manager Bunting replied stated that the redevelopment plans are structured as long-term leaseholds, so they would qualify for the second provision I mentioned where a couple of years back the General Assembly approved that Hampton would get the long-term leasehold real estate equivalent. In Virginia, if you have a long-term leasehold it is treated as privately held even if the underlying lease is with the State so we made some language in the bill abundantly clear. If a developer goes in and redevelops property and makes it an apartment complex, that developer that has the fifty plus year leasehold interest would have to pay 100 percent equivalent real estate tax revenue to the City. So when we get to those long-term leases, yes we will benefit. But a lot of the leases are for short-term leases with a company that may be leasing out a space for five years at a time and those have not been subject to the real estate tax revenue equivalency. You need to get into that long-term leasehold for that to be triggered. But based upon what I understand about the various leases, another good example is the marina redevelopment that the Pack Brothers have signed and that is a long-term leasehold. When those come to fruition we will get the equivalent of real estate taxes on those properties.

Vice Mayor Gray thanked City Manager Bunting and Mr. Daughtrey continued with the presentation.

Councilman Steve Brown thanked Mr. Daughtrey and asked about the payment in arrears and how does the City recover any monies paid out in advanced? Is that a collection process?

Mr. Daughtrey replied, yes. We get the City Treasurer and City Attorney offices involved in those collections, and in a lot of cases we have to do some type of agreements because they may not be able to pay it back at one time. A lot of times they

might not meet the terms of that collection agreement, and then you have to decide if it is even beneficial to pursue it.

Vice Mayor Gray asked about the lodging taxes proposed for the FY24 that 22.9 percent increase over the previous year is pretty significant. Is that a function of we are catching up from pre-COVID days or is this a reflection of sports tourism, Aquatics Center. What is driving the substantial increase?

Mr. Daughtrey replied that as he understands it, it is a catch up from pre-COVID days; however I cannot quantify but I know that our tourism is having an impact on these revenues and the other factor that is influencing that is there are crews working on the Hampton Roads Bridge Tunnel staying in lodging, which has had a positive impact on revenues.

Councilwoman Hope Harper thanked Mr. Daughtrey and asked if the streaming serves had an impact on the reduction of the communications tax?

Mr. Daughtrey replied that he knows there are certain services that are not taxable and will report that back to her.

Councilwoman Harper stated that with the increase in cable or Direct TV that people have moved to those services.

She then stated that when she toured Fort Monroe with Executive Director of the Fort Monroe Authority, Glenn Oder, and they talked about the funding of Fort Monroe and that they pay the City one million dollars and asked City Manager Bunting if that is what she spoke about earlier?

City Manager Bunting replied yes that is the payment in lieu of taxes or the PILOT for short and went on to clarify that is a direct payment from Fort Monroe to the City of Hampton. If there are activities at some of the restaurants on Fort Monroe the City receives the meals tax not the Fort Monroe Authority.

Councilwoman Harper asked, even though the State has not finalized their budget, is there an incorporation of any increase or do we project any unfunded mandates from the State.

Mr. Daughtrey replied that the City Code allows the City to make adjustments to the budget once it has been adopted for anticipated state and federal funds. When the City receives the State budget and there is an increase in 599 funds, an action can be brought back to Council to increase the budget. The same goes for VDOT Urban Maintenance Fund. These are the two areas you normally experience an increase.

City Manager Bunting stated that she understood from the projections that we looked at what was called the “skinny budget” for our constitutional officers? She believed there was a five percent increase for compensation and were suggestions that maybe the House and Senate having agreed on seven percent for teachers and other State employees that they may be able to come back with that and we would never want to project something that is too high, but wasn’t the 5 percent included?

Mr. Daughtrey replied yes, for the Constitutional Officers the State Compensation Board comes up with an preliminary estimate for localities. In their estimate they assume the 5 percent increase and is reflected in the revenue numbers. However, there are some revenues that I did not change because I did not have information like HB599. If we get additional information from the State that they have increase that we can come back and make an adjustment to our City budget. That is permitted by our City Code and we would do that.

Councilman Brown asked if the City receives revenue from online shopping.

Mr. Daughtrey replied yes, and referenced a court case Wayfair vs South Dakota. That case decided that you needed to set an economic nexus as opposed to a physical nexus because most states you need to have a physical presence in the State in

order to collect sales tax. The economic nexus says you do not have to be located in the State you just have to generate a certain number of taxable sales. In Virginia, I believe it is \$100,000. or a certain number of transactions, so we have benefited from that Wayfair decision because we are collecting more internet sales from out-of-state providers.

Councilwoman Martha Mugler asked that back to slide number 5 regarding personal property taxes and the 93 percent. Based upon the increase that is projected. Is there a way to potentially calculate and to incorporate that change?

Mr. Daughtrey replied that the 93 percent change is already reflected in the numbers that were shared.

Councilwoman Mugler reiterated that is the increase.

Mr. Daughtrey replied yes, that it is in the numbers and based on the first slide the assumptions that have been incorporated into the revenue estimates. The Commissioner of the Revenue provided the information and even though Council has not approved it yet, I have incorporated it into the revenue projections.

Councilwoman Mugler asked how the transition would work regarding payment in arrears.

Mr. Daughtrey replied that most localities have gone to a nine day pay in arrears. We are not necessarily suggesting that, we are looking at anywhere between five and eight days that the city would pay in arrears. You would have to pick a starting date for that to occur so you would process the payroll for one week and then the next week would be the bonus week and that week would be the transition and that would be funded through our fund balance. That means that employees would not be paying but the city would pay for the transition. There would be five or seven days that would be held back, so when an employee terminates, they would get paid those five or seven days that have been held back. Our goal is not to have the employee

anything and hold them harmless for any impact. New employees coming on board, we would require them to withhold between five and eight days in the rears before they receive their first paycheck.

Councilwoman Mugler asked if there was a projected timeframe.

Mr. Daughtrey replied that the payroll manager has started her analysis, some options need to be presented to the City Manager. The important thing about the number of days is amount of processing time needed. For example, if we choose the five-day option which typically ends on a Friday that would only give us generally two days to process payroll. So, five days may not be feasible and we don't want to go with ten days as that would be too much. We are looking anywhere between five and eight days to be presented as options. We also want to look at how this impacts the overtime calculation schedule for Fire, Police and Sheriff. We do not want to impact their pay at all. The goal is to try and do it before we go live on our new payroll system in January 2024.

2. [23-0064](#) I-Value Citizen Outreach Results

Attachments: [Presentation](#)

City Manager Bunting introduced Marketing Development Manager, Dacia Scott who made a presentation to share the results of the I-Value Citizen Outreach. Ms. Bunting noted that the polling ran until a short while ago, so you do not have all of the printout today with the comments but will have them to you as quickly as possible.

Councilman Bowman stated the bar chart was excellent and helps in the decision making.

Councilwoman Harper stated it was a great presentation and remembered getting a postcard in the mail when the AquaPlex was coming and asked if sending out a postcard would maybe increase the participation in the surveys.

Ms. Bunting replied that part of the challenge is the condensed

time frame but could certainly look into that next year.

REGIONAL ISSUES

There were no regional issues to be reported on.

NEW BUSINESS

There were no items of new business.

ADJOURNMENT

The meeting adjourned at 2:19 p.m.

Donnie R. Tuck
Mayor

Katherine K. Glass, CMC
Clerk of Council

Date approved by Council _____