 TOWN OF CAPE CHARLES	AGENDA TITLE: Strategic Revenue Program		AGENDA DATE November 19, 2020
	SUBJECT/PROPOSAL/REQUEST: Establishing a Strategic Revenue Program		ITEM NUMBER: 7B.iv
	ATTACHMENTS: Strategic Revenue Program		FOR COUNCIL: Action (X) Information ()
	STAFF CONTACT (s): John Hozey, Town Manager	REVIEWED BY: John Hozey, Town Manager	

BACKGROUND:

Upon a detailed review of the Town’s budget history, it was discovered that over the past twelve years, general operating expenses have increased on average 2% greater than general revenues. This was largely obscured by other functions such as grants, pass through funds, loans, and draws on our reserves, making it difficult to see the real picture. The cumulative affect over this time has resulted in the FY21 operating budget for the Town experiencing a structural deficit.

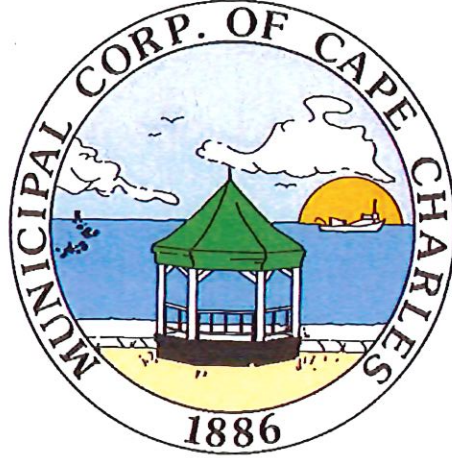
ITEM SPECIFICS:

Accounting changes are needed to provide better transparency to the Town’s fiscal position (see previous items). This will enable public officials to better monitor the financial health of the Town. But also needed is a longer-term view of revenue needs so that policy makers can plan strategic goals realistically and the public can understand these long-term costs. This will keep us from falling back into a deficit while still moving the Town forward.

Once our operations and programs become solvent, we need to keep them that way. This will involve a detailed discussion about expected growth patterns and community goals. A policy needs to be established to require revenue increases over a six-year planning horizon that will cover expected expenses, to include inflation. The specifics of what that might entail will be revised each year. But an overall program should be adopted that details the process to be followed and the goal of staying in balance. The attached Strategic Revenue Program (SRP) sets out such a policy/program.

RECOMMENDATION:

Staff recommends approval of the Strategic Revenue Program as presented.



TOWN OF Cape Charles

Strategic Revenue PROGRAM (SRP)

November 19, 2020

Background

Long-term revenue planning is essential for any community, yet it is rarely done. Theoretically, a town budget is developed based on the needs or desires of the community (as determined by elected officials), and then a tax rate is set to cover those costs. The theory is that since expenditures are ultimately charged directly to the public, the public remains engaged in the process, ensuring budgets are reasonable and cost effective.

But as a practical matter, the general public does not typically have the time or the information necessary to take on this supervisory role. Public input during the budget process usually involves special interest groups advocating for their needs; and wanting cuts made elsewhere. This puts elected officials in a difficult position, where they seldom feel there is broad public support to increase revenue. This can lead to either underfunding requirements, or unsustainable practices like taking on debt or drawing from finite reserves; the proverbial, "kicking the can down the road." If not dealt with in a strategic way, the long-term result can be truly unfortunate.

There is no comfortable way to address increased revenue (tax increases). Nobody likes to pay taxes. But if presented strategically, as part of a well thought out plan; most citizens are willing to shoulder their share of governmental obligations. It is therefore necessary for the public to develop a feeling of trust and confidence in the process. When tax increases are proposed based on one-year spending plans, this confidence is undermined as there is no guarantee that government won't be back the following year and want even more.

Strategic Revenue Planning Defined

Strategic Revenue Planning involves the development of reasonable long-term projections for future revenue needs. Projections that will account for the relentless effects of inflation, as well as what might be needed to achieve strategic long-term goals. This can be translated into a series of pre-planned revenue adjustments, associated with certain assumptions. Should assumptions develop as planned, tax increases would occur according to the prescribed schedule. By providing a reasoned long-term approach, credibility can be achieved, and public support becomes more likely.

Tax revenues generally increase through growth of the tax base, an increase in the tax rates, or a combination of the two. Brand new taxes are also an option. Accurate assumptions regarding tax base growth is then key to planning but are still just estimates. It is hoped that growth alone might generate the needed cash, but the reality is long-term planning is only possible if there is a willingness to underwrite that growth with rate increases when needed. Note, this same concept applies to setting fees for enterprise funds like those used for utilities.

Program Components

First is to ascertain whether current revenues are meeting current requirements. If there is an existing structural deficit, that deficit must be addressed. Revenue increases needed to balance the budget will be specific to the situation, and likely somewhat painful upfront. But once balanced, maintenance is less painful as it would be part of a longer-term strategy.

Next, strategic revenue planning must always include planned increases at least equal to inflation. While inflation is never constant, it is reasonable to use historic long-term averages. A planning goal of 2.5% of core revenue is a valid assumption. *Core Revenue* is defined as all general revenues, less all pass-through funds, all grant revenue, any transfers from reserves, and all proceeds associated with debt.

Beyond inflation and balancing the budget, are the resources needed to accomplish specific community-wide strategic goals. This would be layered on in addition to what was discussed above and following formal strategic planning sessions where budgetary (revenue) constraints were known. Having a long-term revenue plan enables a more practical approach to this type of broader strategic community planning, as decision makers understand just what resources they have to work with. The planning horizon for this effort should be consistent with other planning efforts. As the Town's newly adopted Capital Asset Management Program plans for a six-year horizon, so will revenue planning.

Program Goals

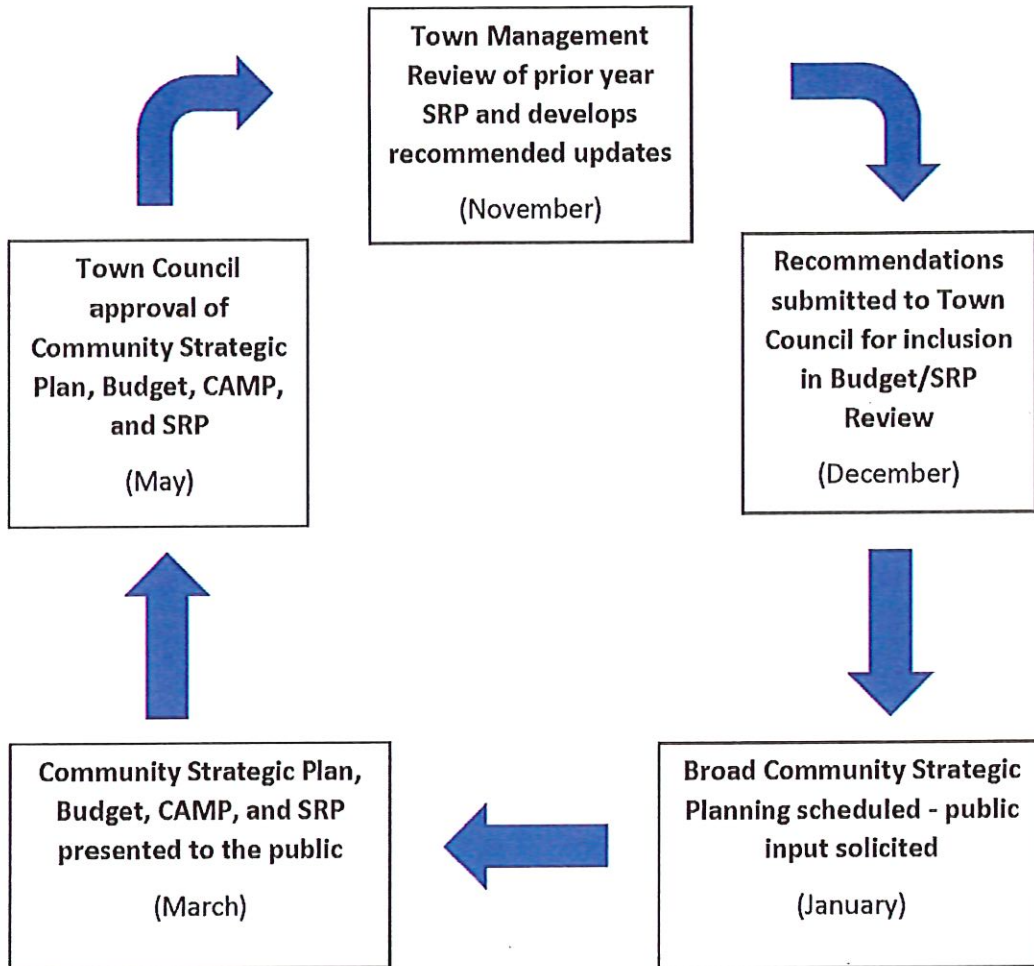
The Town Council hereby commits to the following principles/goals:

- To fully integrate revenue planning into all broader community strategic planning
- To ensure sufficient revenues are available to maintain balanced budgets in perpetuity
- To formally commit to planned revenue increases over a six-year planning horizon
- To facilitate public understanding of program rationale and to provide a long-term expectation of the public's future tax/fee burdens

Town Council Approval

The specific actions necessary to achieve the goals above will be determined annually as part of an update to the broader long-term plan. Once Town Management has delivered the proposed SRP following consideration of all broader strategic planning efforts and public review, the Town Council will ultimately adopt a final SRP for that year. A resolution will be used for adoption, as depicted in Attachment A (sample resolution).

Program Process



**The Town of Cape Charles
Resolution of the Town Council to Amend and Adopt the
Strategic Revenue Program as presented.**

WHEREAS, a Strategic Revenue Program (SRP) involves the forecasting of needed revenues over a multi-year planning horizon; and

WHEREAS, a well thought out and comprehensive SRP is an integral part of all broader community strategic planning; and

WHEREAS, on November 19, 2020, the Cape Charles Strategic Revenue Program was adopted by the Town Council; and

WHEREAS, on xx, xx, xxxx, the Cape Charles Town Council provided opportunity for the public to provide input to the current SRP; and

WHEREAS, the Town Council has considered the input of the public and the recommendations of its staff and has determined it to be in the public interest to adopt the 20xx SRP;

THEREFORE, BE IT RESOLVED that the Town Council of the Town of Cape Charles hereby adopts the 20xx Town of Cape Charles' SRP as presented.

Submitted by: XXX –Town Manager

Submitted: xx, xx, 20xx

[This is only a sample resolution]