



March 29, 2011

TO: Prince Edward County Board of Supervisors

FROM: W.W. Bartlett, County Administrator

SUBJECT: FY 12 County Budgets

ENCLOSURES: (1) Projected Fund Balance Chart for FY11  
(2) Projected Fund Balance Chart for FY12  
(3) Cost Comparison by Department Chart

I am pleased to present to the Board of Supervisors my recommended budget for Prince Edward County for Fiscal Year 2012 (FY12). I am glad to report I am presenting a balanced budget with no tax increases. I look forward to the Board's feedback and response to the many difficult decisions that will be required during this year's budgetary process. While this year was difficult, it was not as challenging as the past few years. The reason for that was twofold: first, local revenues have stabilized and, in fact, have increased in some areas; and second, while the General Assembly continues the pattern of reducing funding to local governments and pushing the expenses of the state to local governments, the amount has slowed this year. With the current climate in Richmond, I do not foresee any will on the part of the General Assembly to provide additional revenue to local governments, even when the economy turns around. This does not bode well for local governments and will continue to place great pressure on us in the future.

For FY12 health insurance rates increased 3.9 %, which will cost the County approximately \$20,000. Because it is the second year of the biennium, there are no increases in the VRS or Group Life insurance rates. The General Assembly did pass one significant expense to local governments this year – Line of Duty Benefit. This is a benefit the General Assembly created for public safety employees, to include volunteers. The state has funded this benefit for many years. But now that the costs have increased the Commonwealth is forcing local governments to pick-up the tab. For Prince Edward County it will cost approximately \$26,000. This benefit provides a life insurance payment of \$100,000 which is in addition to any VRS insurance payments. But the main expense and the reason the costs have increased so rapidly is that the benefit provides free health insurance coverage for life for any spouse and insurance for any dependents until they reach the age of 25, if a full-time student.

Before discussing the new budget which starts on July 1, 2011, I think it is appropriate to review the current budget and the forecast of the state of the County's finance's at the start of the new fiscal year. Enclosure (1) is a chart of projected fund balances for each of our budgetary funds at the end of the current fiscal year. The General Fund is our primary source of revenue and supports the majority of all County operations. I project the General Fund will end FY11 with an increase in the fund balance of \$632,623. This will be the result of revenues exceeding forecasts by almost \$81,000 and expenses being less than the budgeted amounts by almost \$552,000. Besides the reimbursement of slightly more than \$183,000 from the bonds issued for the new Library, I do not foresee the revenues in any particular category either exceeding or falling short of the budget by a significant amount. Overall, General Property taxes, which is comprised of real estate, personal property, public service corporations, mobile homes, machinery & tools, merchant's capital and the penalty and interest charges associated with those taxes, will see collections of almost \$231,000 greater than their combined budgetary amounts.

Almost every department in the County has under expended its budget. I want to commend all County employees and Constitutional Officers and their employees for the hard work necessary to achieve such a positive outcome. This fund balance increase will play an important role in the FY12 budget as explained below.

Another major revenue source is the Landfill Construction Fund. Revenues from customers of the landfill located outside Prince Edward County are placed in this fund and are accumulated and are then used to pay for the closure and construction of new landfill cells. It is anticipated we will need to close a cell in the spring of 2012 and that cost is reflected in the FY12 budget for this fund.

For FY12, the Board of Supervisors made it clear they did not want to see any tax increases, and at the same time the Board wishes to maintain the current level of services to our citizens. This proposed budget meets those goals. I am proposing a budget that is relatively flat with only a few exceptions. After deducting the transfers between funds, the proposed budget for all funds is \$47,983,493. The budget is balanced but requires the use of some of the fund balances. I recommend using \$386,174 of the \$632,623 increase in the Fund Balance of the General Fund mentioned above and \$524,000 of the fund balance of the Landfill Construction Fund. As mentioned earlier, the use of the Landfill Construction Fund reserves is the County's normal method of operation for capital costs associated with opening and closing cells at the Landfill.

The proposed budget includes the transfer of \$\$7,880,132 to the schools and represents level funding after deducting \$32,912 for the decrease in the debt service payments. Enclosure (2) is a chart that shows the revenues, expenses and projected fund balances of the various funds at the end of FY12. Enclosure (3) provides a comparison of the departmental costs over the last 3 years.

### **Factors shaping the FY12 Proposed Budget**

The FY12 proposed budget incorporates the Board's direction to present a budget that level funds the schools, little if any use of the fund balance, no increase in tax rates, and at the same time maintain core service levels.

The FY12 proposed budget process comes amid a slowly improving economy. One statistic which conveys the economic health of a locality is the unemployment rate. Unemployment in Prince Edward County fell to 9.3% in January 2011, compared with 10.2% last January. This compares favorably to the unemployment rate for the nation which is 9.8% but is higher than the state average of 6.9% for the same period. The Commonwealth's overall rate also decreased almost a full percentage point the past year.

This improving economy, even if it is a slow recovery, bodes well for the future. We are seeing an increase in the number of business prospects displaying an interest in Prince Edward County. The future looks more promising now than it has for three years. Luck Stone is still proceeding on the opening of the quarry, we have two local businesses that are set to expand, and we are in serious negotiations with a firm that would be new to the area. Finally, I am hopeful the Granite Falls project will develop. While I am bullish on the future prospects of Prince Edward County, I did not factor any revenue growth from any of these projects into my revenue calculations.

The NADA values we have seen are showing a decrease of about 10% for used vehicles. The sale of new cars, which seem to be holding steady, will help offset this decline. But to be conservative I lowered the FY12 budgeted amount in this category by \$288,707 or almost 10% as compared to the amount in FY11. I do not foresee any other revenue source changing to such a degree.

Because of the uncertainty of the final decision involving the Sandy River Water Project both the Water and Sewer funds will be in a state of flux until a decision is made. I developed the budget for both funds with the assumption that the water project will not be funded. But the current Line of Credit matures in November and the temporary borrowing must be made permanent. I developed the Water and Sewer

budgets with the assumption that the full line of credit would be draw down and the County would borrow \$4,700,000 payable over 10 years with an interest rate of 3.75% to retire the line of credit. To present the worst case scenario I assumed payments on the permanent financing would begin on July 1, 2011.

There are a number of outside factors that may still impact the FY12 budget. Final decisions and implementing instructions regarding the Commonwealth's budget have not been received. Thus, there is still uncertainty regarding the final disposition of State and Federal funding at the local level, but we must proceed with the information we have at hand. Enclosure (2) contains the projected fund balances at the end of FY 12.

### **FY12 Reduction Strategies**

The Board of Supervisors has expressed its concern for the citizens who are struggling during this period of economic uncertainty. To meet the challenge laid out by the Board of Supervisors requires the help and sacrifice of the Constitutional Officers.

In addition to eliminating most capital purchases, the budget includes no pay increases for county employees. This will be the fourth year with no pay increases. But I am recommending a bonus be paid equal to 3% of employee's salary which will cost \$113,000.

The Prince Edward County School Board has requested \$8,155,132 in local funds for operations, which represents an increase of \$275,000 after accounting for the decrease in debt service. These funds would allow a pay raise of 1.5% for school employees. It is the schools intention to provide another \$275,000 and provide a pay raise of 3% for school employees. I recognize the education of our children is one of the cornerstones in fostering future prosperity for the County, but I am also very aware of the burdens our tax payers are facing. Faced with that choice and the fact the schools can afford to provide either a pay raise of 1.5% or a bonus with level funding I am not recommending increasing the funds provided to the Schools. I have fulfilled your desires and am recommending level funding for the Schools.

With revenues forecast to show no significant growth and expenses such as health insurance and state mandates increasing, it was very difficult to fund needed capital expenditures without a tax increase. To resolve that issue I am recommending the use of \$386,174 of the \$632,623 projected increase in the General Fund at the end of FY11. The expenses associated with this recommendation are one-time expenses that will not continue in the out years. It is appropriate to use one-time savings to pay for one-time expenses.

As stated above, capital expenditures are being kept to a minimum. The General Fund contains only five recommended capital projects totaling \$140,000. The first is an upgrade to the financial software system run on the AS400. This software will allow the County to place tax information on-line and allow citizens to make tax payments on the internet. This will cost \$14,000 for the software, and \$4,000 for the hardware for a total of \$18,000. I am recommending we replace the vehicle used by the Biosolids employee at a cost of \$22,000. It is anticipated that cost will be shared with the other Counties participating in this program. I am recommending a budget line of \$30,000 be approved for physical plant needs. There are no specific projects planned at this time but budgeting funds would allow me to respond to emergencies in a timely manner. The fourth item is \$15,000 for the replacement of various computers, printers and software. Finally, I am recommending the purchase of two cars for the sheriff at a cost of \$55,000.

In addition to capital purchases I recommend the use of \$18,500 to purchase non-capital equipment for the Sheriff, \$18,000 to allow the purchase of additional time from our information technology contractor and the \$113,000 for the bonus mentioned above. All of the items mention total \$289,500. The final item

I am recommending to fund from the increase in the fund balance is the last payment of \$66,667 owed to the Town of Farmville on the Parking Lease. All of the items mentioned to include the capital projects total \$356,167.

### **Tax Rates**

I recommend all tax rates be maintained at their current rates.

### **Water & Sewer**

As stated above these funds are in a state of flux. I developed the budget of both funds with the assumption that the water project will not be funded. But the current Line of Credit matures in November and the temporary borrowing must be made permanent. I developed the Water and Sewer budgets with the assumption that the full line of credit would be draw down and the County would borrow \$4,700,000 payable over 10 years with an interest rate of 3.75% to retire the line of credit. To present the worst case scenario I assumed payments on the permanent financing would begin on July 1, 2011. A later starting date on repayment of the permanent financing could be arranged as explained by Mr. Sanderson in his presentation which would lessen the impact on County finances in FY12.

This requires a total payment of interest and principal of \$564,348 annually. The Water Fund would be charged with 72.2% of the payment and sewer with 27.8%. Making this debt permanent would allow the Water Fund the ability to repay the \$811,000 fronted by the General Fund in FY10. But such action would only be temporary since the Water and Sewer Funds currently do not generate enough revenue to fund such large debt payments. Therefore I am recommending the Water Fund be allowed to keep that money and use it to pay the debt service for FY12.

### **Conclusion**

I look forward to our future work sessions and realize the Board may recommend changes to the proposed budget. That is understandable and expected. Thank you for this opportunity to present a balanced budget for the citizens of Prince Edward County.