



March 22, 2016

TO: Prince Edward County Board of Supervisors

FROM: W.W. Bartlett, County Administrator

SUBJECT: FY 17 County Budget

ENCLOSURES: (1) Projected Fund Balance Chart for FY16
(2) Projected Fund Balance Chart for FY17
(3) Outside Agencies

INTRODUCTION

I am pleased to present to the Board of Supervisors my recommended budget for Prince Edward County for Fiscal Year 2017 (FY17). I look forward to the feedback and questions the Board will have as you consider my recommendations and make adjustments as you move through the budget process, eventually agreeing on a final budget. The development of the budget is the single most important function the County staff completes during any year. The budget is the County's chief decision-making document detailing both the revenue generation decisions of the Board and the allocation of those resources. I could not have presented the budget today without the help of the Constitutional Officers, Department Directors and my staff in the County Administrator's office. I would like to thank each of them for their assistance.

The budget initially approved by the Board of Supervisors for FY16 served as the starting point for the development of the FY17 budget. In developing the FY17 budget I maintained the spending reductions recommended by the Finance Committee and approved by the Board of Supervisors during FY15's budget development process. Additionally, I used discussion by the BOS during the strategic planning session to drive my recommendations regarding the budget. A number of Board members indicated a desire to create a program that would allow the use of inmate labor. This manpower could be used to improve the physical appearance of the County and provide an economical option to perform maintenance on County facilities. Board members also indicated a desire to reduce tax payer dollars provided to outside organizations. Still others indicated a desire to reign in the growth of local per pupil funding to the Prince Edward County Public Schools. I attempted to address each of these in the budget I am presenting today.

Before developing the FY17 budget I had to understand the current financial position of the County and project how that position may change during the course of the current fiscal year. In other words what will Prince Edward's FY17 financial starting point be on July 1, 2016?

FORECAST OF FY16 BUDGET RESULTS

Enclosure (1) is a chart of projected fund balances at the end of FY16 for our major budgetary funds. When totaling the funds together I predict the fund balance will decrease by \$703,122 to \$10,310,088. Of that amount \$306,302 is contained in the School Cafeteria Fund and can only be used for costs associated with the operations of the cafeteria. An additional \$2,290,192 is found in the landfill construction fund which has historically been used to pay cash for the opening and closing of landfill cells. There is no mandatory requirement to pay such costs in cash, thus those funds are available for use at the discretion of the Board of Supervisors. It is predicted the Forfeited Asset Fund will contain \$70,477 at the end of FY16. These funds can only be used for law enforcement purposes. Assuming the cash in those three funds cannot be used, the unrestricted cash balance for Prince Edward County at the end of FY16 is predicted to be \$7,643,117. Historically, the County's cash balances decrease about 42% from the end of June until it hits its low point which is typically in September or October. Assuming cash needs will follow the same pattern the County's cash balance will drop to about \$4.4 million sometime in September or October. On top of the normal cash flow cycle we are in the midst of advertising for bids to open a new cell at the landfill. It is estimated this project will cost approximately \$1.2 million. Adding that expense means the County's cash balances will drop to about \$3.2 million in the fall. This is a good but not overly large amount and would allow the County to withstand any unforeseen emergency or provide the ability to respond to any opportunity that may appear.

The decrease in the fund balance should come as no surprise as the original FY16 budget approved by the Board called for the use of slightly more than \$1 million from the General Fund reserve and \$733,000 from the fund balance when all funds are included. That budget amount has now grown to almost \$1.4 million from the General Fund and \$1.1 million for all funds due to the approval of various expenditures, most notably the roofing project for the Courthouse. Thus having the total fund balance decrease by only \$703,122 is a positive accomplishment. This was achieved primarily because revenues are projected to exceed the budget by approximately \$390,000.

The General Fund is our primary source of revenue and supports the majority of all County operations. The General Fund will end FY16 with a decrease in the fund balance of \$905,061 and end with a cash reserve of \$6,827,035. The result is almost \$460,000 better than anticipated since the existing budget calls for the use of almost \$1.4 million from the General Fund fund balance. This result was due to the increase in revenues mentioned above.

General Property taxes are estimated to generate \$177,000 more than contained in the budget. Collections exceeding the budget in Real Estate (\$76,000) and Personal Property Tax (\$105,000) account for most of this amount. The local portion of the Recordation Tax is expected to generate \$66,000 more than budgeted. No other local revenue source exceeded the budgeted amount in any significant way.

Expenditures in the General Fund are forecast to be \$258,000 less than budgeted. The largest expenditure savings can be found in the Planning Department (\$61,000), Refuse (\$49,000), Parks and Recreation (\$50,000), Sheriff (\$52,000) and the Building Official Department (\$41,000). Holding positions vacant generated the savings in each of these departments except for Parks & Recreation. The decision not to provide the YMCA a \$50,000 Loan drove that savings.

While the majority of departments will expend less than the amount budgeted, there are two areas where expenditures will significantly exceed the budget. These are costs associated with housing children in Juvenile Detention and expenditures for the Child Services Act (CSA). I estimate Juvenile Detention expenses will exceed the budget by \$45,000. CSA costs will be more than \$260,000 greater than the budget, but because the majority of those costs are paid by the Commonwealth the local costs only increase about \$50,000. The increase in Juvenile Detention costs are the result of just a few cases and

these expenses should return to normal before the end of the Fiscal Year. Thus, I did not increase the FY17 budget in this area. The CSA overage is primarily the result of an increase in children being placed in residential facilities. These are typically long term placements and I no choice but to increase the FY17 budget.

Another major revenue source is the Landfill Construction Fund. Revenues from customers of the landfill who are located outside Prince Edward County are placed in this fund and accumulated and then used to pay for the closure and construction of new landfill cells. The balance in this fund will increase by \$227,600 to \$2,290,902, the reason for the increase as mentioned earlier was not having to open a new landfill cell as originally thought.

Water and Sewer fund balances will remain relatively unchanged as funds are transferred from the General Fund to cover expenses which exceed revenues. That amount is about \$321,000 and represents debt payments.

FY17 BUDGET

For FY17, after deducting the transfers between funds and including the preliminary school budget of \$24,570,003, the budget for all funds is \$42,232,277. The budget is balanced but requires an increase in the real estate tax rate of two cents. This would be a 4% tax increase and is projected to increase revenues by \$292,559 as compared to the FY16 budgeted amount.

There are two significant expenditure items that are not contained in either the FY16 or FY17 budgets. I have already mentioned the largest one in terms of cost, opening of a new landfill cell. The County is in the process of receiving proposals with the bid opening scheduled for March 28th. Once the bids are received the Board will decide to award a contract or not. If an award is made the appropriate Fiscal Year budget will be amended. It is anticipated the cost of opening a new landfill cell will be about \$1.2 million. The second item not contained in the budgets is an enhancement of security for the Courthouse. A proposal has been received by a consultant to provide security assessment and consultation services. Once the Board has given its authorization to award the contract the consultant will proceed and then provide his recommendation. The Board can then decide what security upgrades it desires and then amend the appropriate budget.

After adjusting for the non-cash expense of depreciation, to balance the water and sewer funds required the transfer from the General Fund of \$238,713 to the water fund and \$90,050 to the sewer fund.

Enclosure (2) is a chart that shows the anticipated revenues, expenses and projected fund balances of the various funds at the end of FY17.

FACTORS SHAPING THE FY17 PROPOSED BUDGET

The dominant factor in developing the FY17 budget was how to solve a beginning budget deficit of more than \$1,000,000 in the General Fund. As we all will recall, the current budget was balanced by the use of \$1,031,352 from the General Fund Balance.

Based on guidance from the Board I strove to eliminate the use of reserves while at the same time limiting any increase in tax rates. With very few exceptions all expenses have been held at level funding or decreased. This includes the schools, charitable donations and County departments. As stated in the

introduction I am recommending three items because they were specifically requested during the Board's strategic planning session. These are (1) a program to increase the use of inmate labor, (2) Reduction of funds provided to outside agencies and (3) aligning local funding for the Schools to the ADM.

You will notice in the Planning and Community Development budget there is \$10,000 in a part-time line item. These funds are meant to be used to pay for officers to oversee an inmate work crew. These funds will pay anywhere from 400 to 500 hours of time for an officer to oversee an inmate work crew.

Enclosure (3) is a listing of outside agencies, a five year funding history and my recommendations for the FY17 budget. I am recommending the majority (19) of the agencies be reduced by 20%. I am recommending ten not be reduced. These ten represent either agencies the Board has recently discussed and approved the existing funding, or were directly associated with education or economic development. I recommend the funding for the Longwood Small Business Development Center (LSBDC) be increased by \$7,500, equal to the amount provided in FY14 and is the amount they requested this FY. I am making this recommendation because of LSBDC's direct involvement in economic development, especially the assistance they provide to local entrepreneurs. Additionally, the Board expressed a desire for greater collaboration with both the Town and Longwood in all areas but especially in economic development. I am recommending the Library be reduced to the amount provided in FY13. This represents a decrease of 6.11%. While not providing programs that directly correspond to SOLs or economic development, the Library can be helpful in both of these areas. Thus, I am not recommending a 20% reduction. In total the recommendations produce a savings of \$69,231

I am recommending \$8,000,000 in local tax dollars be provided to the Prince Edward County Schools. This closely aligns to the actual amount used by the Schools in FY15 when the actual amount used was \$8,035,784. The ADM for the Schools for the 2014-2015 school year was 2035, thus the local funds provided per pupil was \$3,949. The School has informed the Board of Supervisors the ADM used to create the 2016-2017 school year budget was 1,990. Thus based on the School's projected ADM, the \$8 million will provide \$4,020 in local funding per pupil, an increase of 1.8%.

The County's health insurance premiums will increase 5.5% which increases the County's expenses by about \$36,000. The County's VRS rate is decreasing from 11.4 % to 8.91%. This reduction will save about \$90,000.

I am recommending a 2% pay increase for all County employees effective December 1, 2016. That date is the same date the General Assembly proposes to implement the 2% increase they approved. This will cost the County \$72,000 for the 7 months in FY17 that it is effective and will be an annual increase of \$123,429.

The regional jail continues to be a driving factor and will remain so for the foreseeable future. While improvement has been made at the jail in regard to revenues these have been largely offset by increased expenditures. New federal and state mandates have increased expenditures, while the age of the buildings and HVAC systems are to the point that maintenance costs are rising. Both of these factors are largely offsetting the increased revenues. On a positive note, the Jail Board Chairman and Jail Superintendent met with the Commonwealth Of Virginia Correctional Service Committee and requested the Committee increase the rated capacity of the Jail from 181 to 274 beds. The Committee approved the capacity increase and is recommending the State Compensation Board approve adding additional state funded positions to the Jail's staffing. This will not provide any additional state funds for FY17 but if approved would be very helpful in ensuring additional positions and funds are provided in FY18. Based on staffing ratios this could equate to an additional 30 – 40 positions and increase state funding by \$1 - \$1.2 million of which Prince Edward's portion would be \$300k - \$400k.

The state and local economies are improving but at a very slow rate. The unemployment rate for Prince Edward County at the end of January 2016 was 6.0% as compared to 7.1% in January 2015. Construction appears to be slowly increasing with 18 building permits issued for single family dwellings from November 2015 – February 2016 as compared to 10 for the same period a year ago. The Commissioner of Revenue informed me she mailed 586 more personal property tax application forms this year than last. This is an indication the County will see an increase in personal property tax collections in FY17.

Because of the improving economy and increasing revenue collection in the current FY I am recommending General property tax collections be increased by \$127,889 and when added to the increase from the tax rate increase I am recommending General Property tax revenues be increased by \$420,448 in FY17.

There are a number of outside factors that may still impact the FY17 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. I have attempted to budget in a conservative manner. Positive news on any of the factors mentioned earlier will either decrease costs or increase revenues to the County.

Conclusion

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