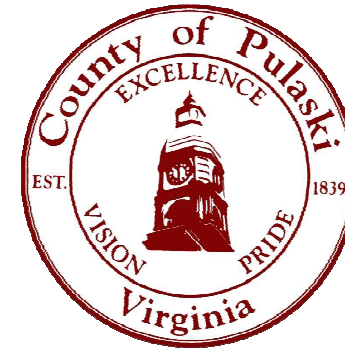


TO: Board of Supervisors

FROM: Peter M. Huber, County Administrator

DATE: April 3, 2009

SUBJECT: **FY 2009-2010 BUDGET RECOMMENDATION**



PURPOSE

The purpose of the Pulaski County General Fund budget is to educate our children, care for the less fortunate, protect the environment, keep the public records, account for public finances, maintain the peace, enhance the quality of life and promote the economy of the County. Thus, this budget must balance a variety of community interests, while anticipating economic conditions and citizen concerns over the next 15 months. Recognizing the need to look beyond the next 15 months, the proposed budget also projects revenue and expenditure needs for the next five years, with emphasis on the 2010-11 and 2011-12 fiscal years.

It is the responsibility of the County Administrator to make recommendations regarding needed programs and services; to present options for funding those services; and finally, to implement the desires of the citizens as understood, and voted on, by the Board of Supervisors. The decision of how to allocate funds requires difficult choices which the community, as represented by its elected officials, must ultimately make.

The recommendations contained in this budget represent what I believe to be the best course of action at this time. I pledge my full support and that of the staff in the evaluation of budget alternatives as may be desired by the Board. A contingency is purposefully included in order to give the Board flexibility in addressing citizen and/or departmental concerns.

The development of this budget has been timed to allow an accurate projection of state transfers for schools, social services, and constitutional officers, while allowing the earliest possible adoption so that the School Board can sign teacher employment contracts and that departments and agencies can plan for the upcoming fiscal year.

BACKGROUND

The challenge in the preparation of the budget for the 2009-2010 fiscal year is to minimize the effect of difficult economic times on the provision of key services to the citizens of Pulaski County. Setting a new real estate tax rate is particularly difficult, as many citizens have either been laid off, face anticipated layoffs, uncertainty in maintaining employment, or reduced income. Recognizing this difficulty, two budgets were initially prepared; one based on a \$0.48 per \$100 real estate tax rate and the other based on the maximum advertised real estate tax rate of \$0.50 per \$100 of assessed value. Increasing energy costs, the need to maintain existing facilities, and the need to address community concerns necessitated a recommendation for the adoption of a \$0.50 tax rate. In addition, it is likely that these factors will require additional revenue adjustments over the next four years. If the entire burden of anticipated increases were placed on the real estate tax, a rate of \$0.54 per \$100 is more reflective of the long-term cost of providing the current level of County services.

Over the past two years, the County has been conservative in projecting revenues and careful to limit expenditures. As a result, the County's undesignated balance has increased substantially. Indeed, the most recent audited budget 2007-08 indicates that ongoing revenues exceeded annual expenditures by approximately \$2.3 million. Thus, the County entered the current financial situation in good financial health.

It is anticipated that this \$2.3 million surplus will be adversely affected by the following:

- 12.3% devaluation in the value of automobiles and other personal property – loss of \$462,667
- Declining machinery and tools tax revenues – loss of \$177,481
- Declining revenue from the one-percent local tax – loss of \$300,829
- Reduction in consumer utility taxes – loss of \$85,612
- Anticipated decline in motor vehicles fees – loss of \$80,893
- Major loss in interest earnings – loss of \$868,702

The total anticipated loss of \$1,976,184 is compounded by the following anticipated expenditure increases:

- Increased need for contingency funding with closer budgeting – increase of \$200,000 to \$380,000
- Recently approved AEP rate increases - \$151,400
- Increased health insurance costs - \$270,000
- Increased regional jail costs - \$513,051

EXECUTIVE SUMMARY

The proposed budgets are structured around the following goals:

1. Assist County residents affected by difficult economic times;
2. Operate within current local revenues by strategically reducing annual operating costs;
3. Give employees the tools they need to serve the public in the most efficient manner possible;
4. Reduce future costs by maintaining roofs, improving energy efficiency, evaluating currently contracted services;
5. Use a pay-as-we go approach to address working conditions, fund Board goals, and meet other community needs;
6. Utilize special rates and taxing districts to fund water, sewer and road improvements in new developments without affecting the general taxpayer; and
7. Continue and increase collaboration and coordination among various organizations including the Pulaski County School Board, the Town of Pulaski, the Town of Dublin, the Health Department, the Virginia Department of Transportation and others, none of which may not be directly accountable to each other, but all of which are funded by local taxpayers.

Over the past five years, the Board of Supervisors has been able to fund various cost increases including debt service from the construction of the Riverlawn Elementary School, through careful budgeting; the conversion of a merchants' capital tax to a business, professional and occupational tax; and through adjusting the personal property tax rate.

This year the proposed budget seeks to address the anticipated shortfall through the following steps:

- Reducing departmental and constitutional officer operating budgets
- Reducing human service agency funding based on the proportion of County residents served
- Interrupting the current emergency vehicle replacement cycle in order to avoid layoffs
- Increasing revenues through a \$0.024 increase in real estate taxes per \$100 of assessed value. This increase would result in a \$33.11 annual increase for the average homeowner and increase of \$6.62 for each of the past 5 years.
- Increasing services likely to be particularly needed during this difficult economic times
- Increased funding for small business development

This recommendation is a balance of selecting the least detrimental of the following options:

- Employee furloughs – Board of Supervisors offices would have to be closed for 10 days to avoid a \$0.01 increase in the real estate rate. Increased health insurance costs are recommended to be paid by the County in lieu of pay increases.
- Employee layoffs – Employees are actively providing services to County citizens on a daily basis and provide a significant experience in their work for the citizens of the County. Citizen needs increase significantly during difficult economic times. Thus, this option was considered as a last resort and would not be recommended unless economic conditions continue to decline dramatically. However, departments may be restructured in seeking to improve the effectiveness of citizen services.
- Use of reserves – Use of reserves is recommended as a temporary alternative in addressing one-time capital costs. Were it not for this use of reserves, it would not have been possible to recommend funding of any vehicle purchase in the \$0.48 budget with a corresponding reduction in recommended vehicle purchase in the \$0.50 budget.
- Service reductions – This option is not recommended as the need for services increases during times of financial difficulty. For instance, citizens reduce household budgets by eliminating internet service and using service available at the Library. Likewise, economic development efforts should be strengthened in order to encourage the expansion of local firms and attract new employers to the area.
- Increasing other tax revenues – State code limits localities ability to raise revenue with the only significant source of revenues being through real estate taxes, personal property taxes (which were increased in the FY 2008-09 fiscal year), BPOL taxes (which were implemented effective January 1, 2008) and machinery and tools taxes on manufacturers currently undergoing significant economic challenges.

Table R summarizes anticipated local, state and federal revenue sources while **Table E** summarizes recommended expenditures by department. Specific line item details for both revenues and expenditures will be posted on the County's web site (www.pulaskicounty.org). County revenues by source and expenditures by department or agency for the next five years will be projected in **Tables R1 and E1** as the budget is reviewed by the Board of Supervisors. **Charts R2 and E2** illustrate general fund revenues and expenditures by category. **Tables R3 and E3** provide ten-year histories of audited revenues and expenditures, while **Charts R4 and E4** graphically describe these historic trends.

BUDGET TABLES, CHARTS and GRAPHS

Revenue Tables and Charts

- ◆ Table R Revenue Summary
- ◆ Table R1 Revenue and Five-Year Projections – to be provided as the budget is reviewed and revised
- ◆ Chart R2 Total Revenues
- ◆ Table R3 Revenue History
- ◆ Chart R4 Revenue History by Category
- ◆ Table R5 Revenue Options
- ◆ Table R6 Summary Comparison of Local Tax Rates
- ◆ Table R7 Comparison of Local Tax Rates
- ◆ Chart R8 Comparison of Nominal Real Estate Rates
- ◆ Chart R9 Comparison of Effective Real Estate Rates

Expenditure Tables and Charts

- ◆ Table E Expenditure Summary
- ◆ Table E1 Expenditures and Five-Year Projections – to be provided as the budget is reviewed and revised
- ◆ Chart E2 Total Expenditure
- ◆ Table E3 Expenditure History
- ◆ Chart E4 Expenditure History by Category
- ◆ Table E5 Regional Human Service Agency Funding Requests

Other Exhibits

- ◆ Chart B1 Cash Balance and Required Reserves
- ◆ Table C1 Capital Improvements Listing
- ◆ Table D1 County Debt Service Schedule
- ◆ Figure O1 Current Organizational Chart

CREDITS

The development of this document was a collaborative effort of various departments and agencies. In addition, I would like to specially thank the following individuals:

- ◆ Melinda Worrell, Treasurer; Trina Rupe, Commissioner of Revenue; Don Stowers, School Superintendent; and Diane Newby, Finance Director, for assisting in reviewing revenue estimates;
- ◆ Diane Newby for calculating personnel costs, compiling budget figures, and confirming the accuracy of these budget figures;
- ◆ Robert Hiss, Assistant County Administrator, who assisted in the development of the compensation plan, the evaluation of various health insurance, and cost of living options;
- ◆ Jim Bell, Programmer who posted budget information on the County's web site; and
- ◆ Gena Hanks, Tammy Safewright and Autumn DeHart, who organized, proofread, and assembled the budget document and graphics, and coordinated various budget work sessions.

Finally, the dedication of all (Board members, funded agencies, regional organizations and citizens) involved in keeping Pulaski County financially sound is sincerely appreciated.