At a **budget workshop meeting** of the Southampton County Board of Supervisors held in the Board Room of the Southampton County Office Center at 26022 Administration Center Drive, Courtland, Virginia on April 6, 2005 at 6:30 PM.

SUPERVISORS PRESENT
Dallas O. Jones, Chairman (Drewrvyille)
Walter L. Young, Jr., Vice-Chairman (Franklin)
Walter D. "Walt" Brown, III (Newsoms)
Carl J. Faison (Boykins-Branchville)
Anita T. Felts (Jerusalem)
Moses Wyche (Capron)

SUPERVISORS ABSENT
Ronald M. West (Berlin-Ivor)

OTHERS PRESENT
Michael W. Johnson, County Administrator (Clerk)
Julia G. Williams, Finance Director
Robert L. Barnett, Building Official/Zoning Administrator
Cynthia L. Cave, Community/Economic Development Director
Susan H. Wright, Administrative Secretary

Chairman Jones called the meeting to order.

Michael Johnson, County Administrator, advised that at their places was the first draft of the FY 2006 annual budget. He expected them, over the next several weeks, to critically look at and revise it as they saw fit. He personally thanked Mrs. Julia Williams, Finance Director, who had worked nights and weekends over the past 3 weeks and had probably averaged 100 hours a week helping to put this together. He also personally thanked Mrs. Susan Wright, who copied each page and assembled the budget books.

Mr. Johnson referred to the Executive Summary beginning on page 1-2. He stated that this was not the budget he had wanted to present. He had hoped to keep the tax rate level at $0.67, as we had a reassessment underway and big projects on the table. But, that was wishful thinking. We had no growth in revenue, which was the effect of waiting 6 years for a reassessment. Our fund balance, which we had relied on for the past decade to balance the budget, had declined to the point that we could not depend on it like we had in some years. And there were some programmatic increases beyond our control. For example, our share of hospitalization increased over 13%, equating to over $72,000. Also, SPSA solid waste disposal costs were going up 28%. We would have to make some changes and would start by having attended dumpsites, details of which would be presented at the Board's regular meeting in April. We could certainly cut back on the amount of trash we were paying to get rid of and hopefully, that would at least pay the expenses of having attended sites. He advised that he thought what had probably gotten us in the most trouble was "playing with house money", which was using the unappropriated general fund reserve to bail ourselves out for the past decade. It was easy, a quick fix, and painless, at least in the short run, but it created a structural imbalance. And we had a structural imbalance. On an annual basis, our expenses were more than our revenues. That created a problem that had caught up with us. Nobody liked to raise taxes, but the money had to come from somewhere. So just to make this budget balance, we were looking at a 5¢ increase on the real estate tax rate. What was so disconcerting was that with that 5¢ increase, we were not building new schools, investing in future economic development, nor implementing land use-value taxation – we were simply paying the bills. It was time to get our fiscal house in order and stop relying on the unappropriated general fund reserve.

Regarding **REVENUES**, Mr. Johnson advised that revenues were flat. Total property assessments, which included real estate, personal property, and machinery and tools, had grown less than seven tenths of one percent (0.63%). We kept hearing about real estate growth, but so far this year, the assessed value had only grown $6.4 million, equating to only $43,000 in new revenue. He stated that although they should never take tax increases lightly, he would like to share some statistics. In FY 2003, the average Virginia county derived 51% of all its local revenue from the real property tax. In that same year and in this year, Southampton County was only deriving 37% of all its local taxes from real estate. He understood that they would hear from their constituents that we were taxing real estate to death, but we were not taxing it like a lot of localities. In FY 2003, the average Virginia county collected $655.72 per capita in real estate taxes. In that same year, Southampton County only collected $298.80 per capita. So relatively speaking, we were not overtaxing real estate. If they adopted a 5¢ increase, which would make our rate $0.72, that would equal the state average for 95 counties in FY 2003. He advised that State revenues comprised about 50% of our budget, and were up 6%, most of which was going to basic aid in education. The Board had little, if any, control over how state funds were spent.

Mr. Johnson referred to the following proposed revenue table on page 1-5:

PROPOSED REVENUES REVENUE SOURCE	FY 2005	PROPOSED FY 2006	INCREASE (DECREASE)	PERCENT CHANGE
General property taxes	$11,918,110	$12,656,981	$738,871	6.20%
Other local taxes	770,583	825,562	54,979	7.13%
Permits, fees, licenses	91,250	95,250	4,000	4.38%
Fines & forfeitures	462,507	498,021	35,514	7.68%
Interest	25,000	35,000	10,000	40.00%
Charges for services	131,378	368,825	237,447	180.74%
Miscellaneous revenue	663,284	685,949	22,665	3.42%
Transfer - General Fund Reserve	824,488	754,144	(70,344)	(8.53)%
Transfer - Building Fund	153,348	0	(153,348)	(100.00)%
Other County Sources	565,870	565,870	0	0.00%
E-911 Fund	201,510	216,522	15,012	7.45%
Enterprise Fund	998,222	1,033,500	35,278	3.53%
Building Fund	1,478,629	1,417,475	(61,154)	(4.14)%
Public Safety Radio Capital Lease	2,320,000	0	(2,320,000)	100.00%
Water & Sewer Revenue Note	2,250,000	0	(2,250,000)	-
Revenue from the Commonwealth	19,998,858	21,212,226	1,213,368	6.07%
Revenue from Federal Sources	1,969,206	1,969,206	0	0.00%
TOTAL	$44,822,243	$42,334,531	($2,487,712)	(5.55)%

In reference to that table, Mr. Johnson advised that the proposed $738,871 increase in General Property Taxes was largely attributed to the proposed 5¢ real estate tax increase. Every penny in the real estate tax rate now equaled about $98,000. He informed that Fines and Forfeitures were tickets that the Sheriff's Department wrote. They did an outstanding job in making sure that we had a safe County and in bringing in a good source of revenue. He stated that Charges for Services included the ambulance fees that the Board imposed effective July 1, 2005. Those ambulance fees were budgeted at $233,000. He advised that Miscellaneous Revenue was proposed to grow 3.42% and was the money the County received from the City of Franklin for the shared revenue in the industrial corridor. He stated that this budget still relied on a transfer from the General Fund Reserve. The amount of $754,144 would still have to come out of the Reserve even with the 5¢ real estate tax increase. If we did not transfer that amount from the Reserve, we would have to tack on another 8¢ for a total of a 13¢ increase in the real estate tax rate, just to pay the bills.

Supervisor Faison asked how the general fund balance was looking? Mr. Johnson replied, not good. He advised that it was hard to predict but the general fund balance would probably drop to around $2 million at the end of FY 2006. The standard rule of thumb was for the balance to be between 10% and 20% of your total budget. So we should aim for a fund balance of $4 million – $8 million in a perfect world. When you got down close to $2 million, it could create cash flow problems. At certain times of the year, you may not have enough cash on hand to pay the bills and may have to borrow money. That happened to us 3 or 4 years ago. We would be getting dangerously close to that again.

Supervisor Brown asked how soon before we could have a tentative impact statement as it applied to the new assessment? Mr. Johnson replied that it would not be until FY 2007. The new rates would become effective January 1, 2006, but the revenues would not be collected until December 2006, which was next fiscal year. Supervisor Brown stated that he understood that but wondered, from a speculative point of view, if the assessment were here now, what rate increase would that equate to? Mr. Johnson replied that nobody could answer that until it was done. He explained that notices would go out to all property owners. There would be an appeals process where they would first get to sit down with the assessors, and their assessments could be changed at that point. If they were not satisfied there, they could appeal to a board of equalization, which this Board of Supervisors would appoint, who would have the authority to change them. Not until that entire process was done was everything tabulated and the book printed, which would be around February of next year. We would incorporate that reassessment into the budget process next fiscal year.

Supervisor Brown asked what would a 15% assessment increase equate to in today's dollars for a rate increase? Was it 10¢-15¢? Mr. Johnson advised that he could figure it in a few minutes and would show him how to calculate it.

Referring back to the proposed revenue table on page 1-5, Mr. Johnson advised that as they could see, last year we depended on $153,348 to come out of our Building Fund. This year, there was no money there to transfer. He stated that Other County Sources was the money that school kids paid for school lunches and the majority went straight into school food. The 9-1-1 Fund was a proprietary fund and the money collected there was only spent to provide 9-1-1 services. The Enterprise Fund was water and sewer. It was a proprietary fund so all the funds had to go towards water and sewer. He informed that the primary source of revenue for the Building Fund were utility taxes. That Fund was almost entirely encumbered now. We earmarked 50% of all of the utility taxes to pay debt service on the two new elementary schools that we opened. Also out of this fund, we were funding all the fire/rescue capital projects, the public safety radio system, which was $320,000 a year, and fleet replacement for the Sheriff's vehicles, which was $125,000 a year. And this year we had the $200,000 for the Courtland overpass to match with VDOT's money. He noted that incidentally, the Courtland overpass was back in VDOT's Six-Year Plan. He advised that a couple of significant changes from last year that affected the total dollar amounts, but did not have an impact on tax rates, were that last year we included the note proceeds from the public safety radio capital lease which was $2.3 million. That was an in and an out. We borrowed it and then we spent it. And then we had to pay the debt on it in the following years. We did the same thing on the water and sewer revenue note. We did not budget it this year as it just inflated the bottom line. If they decided to proceed with developing the Turner Tract, they would borrow whatever it would take to do so, and it would just be an in and an out. It was not critical that it be budgeted. He stated that overall, State Revenue was up 6% and they did not anticipate any significant changes in Federal Revenue.

Mr. Johnson referred to the following proposed expenditure table on page 1-5:

PROPOSED EXPENDITURES

EXPENDITURE SOURCE	FY 2005	PROPOSED FY 2006	INCREASE (DECREASE)	PERCENT CHANGE
General & Financial Administration	1,582,787	1,483,129	(99,658)	(6.30)%
Judicial Administration	953,091	947,355	(5,736)	(0.60)%
Public Safety	4,366,752	5,021,840	655,088	15.00%
Public Works	1,701,845	1,887,637	185,792	10.92%
Health and Welfare	409,678	409,814	136	0.03%
Parks, Recreation, Culture	189,188	201,377	12,189	6.44%
Community Development	348,860	412,001	63,141	18.10%
Non-Departmental	94,000	168,620	74,620	79.38%
School Fund	24,882,482	25,926,302	1,043,820	4.20%
School Food	1,057,625	1,057,625	0	0.00%
Public Assistance Fund	2,018,914	2,088,845	69,931	3.46%
Building Fund (less transfers)	3,314,234	1,026,909	(2,287,325)	(69.02)%
Enterprise Fund	3,701,277	1,486,555	(2,214,722)	(59.84)%
E-911 Fund	201,510	216,522	15,012	7.45%
TOTAL	$44,822,243	$42,334,531	($2,487,712)	(5.55)%

Mr. Johnson broke down **GENERAL FUND EXPENDITURES** into the following 8 categories and briefly discussed each:

1) *General and Financial Administration* – Showed an overall decrease of 6.3%, primarily because the majority of the cost associated with doing the reassessment was budgeted in FY 2005 and did not need to be rebudgeted.

2) *Judicial Administration* – Showed a slight decrease of .60%, based on partial restoration of state funding in the Clerk of the Circuit Court's office.

3) *Public Safety* – Increased overall by 15%, and included the two new EMS contracts approved earlier this year by the Board – one with the City of Franklin and one with Medical Transport for 24/7 ALS coverage out of Courtland.

4) *Public Works* – Increased overall by 10.92%, primarily based upon the 28% rate increase by SPSA for refuse disposal.

5) *Health and Welfare* – Showed very little change. Modest increases were provided for the Health Department and the Western Tidewater Community Services Board. Senior Services of Southeastern Virginia and the STOP Organization were level-funded.

6) *Parks, Recreation, and Culture* – Included relatively modest increases for the Walter Cecil Rawls Library and Community Concert Association. The Rawls Museum Arts and Historical Society were level-funded.

7) *Community Development* – Showed an overall increase of 18.1%, much of which was attributed to funding for the state-mandated Comprehensive Plan update.

8) *Non-Departmental* – Included an additional $74,620 above last year's total to service the debt associated with award of a $350,000 incentive grant from the Southampton County Industrial Development Authority to Narricot Industries for a proposed plant expansion in Boykins – it assumed terms of 4% for 5 years.

Mr. Johnson then reported the following other **EXPENDITURES**:

PUBLIC ASSISTANCE (Social Services) – The local share increased by $15,789 to $355,319 representing a 4.65 % local increase.

SCHOOLS – Local funding was increased by 2.06% to a total of $8,690,027. Combined with increases in state revenue, the budget still fell $289,677 short of what the School Board had requested.

E-911 – The monthly 9-1-1 tax was proposed to remain at $1.75 per month. One new dispatcher position would be funded from this source.

BUILDING FUND – This reliable revenue stream was the source of funding for fire and rescue capital improvements/equipment replacement, fleet replacement for the Sheriff's Office, and serviced a portion of the debt associated with elementary school projects. A number of new projects were also included in FY 2005. It proposed a $2.32 million capital lease for the public safety radio system. It also included funding for 1 new refuse collection truck, 5 new containers, and new voting machines to meet the requirements of the *Help America Vote Act*. A complete list of projects was on page 6-1.

ENTERPRISE FUND – Very little change from the current fiscal year. Metered rates would be presented for their consideration in the next 3-4 months, once data was collected to develop usage trends.

RESERVE FUND – Against his better judgment, this draft budget included the transfer of $754,144 of the unappropriated general fund reserve to pay operating expenses. Otherwise, real estate taxes would have to increase another 8¢ above what was presently recommended. Please never wait 6 years again for a general property reassessment.

PERSONNEL – Salary increases of 4.4% were provided for full-time county employees beginning July 1, 2005, and for employees of Constitutional Officers on December 1, 2005. The County's share of medical insurance premiums was proposed to increase 13.1%, equating to almost $72,000. Comparable premium increases had also been passed on the employees. A single subscriber would pay $60 more, a dual subscriber would pay $348 more, and family subscriber would pay $576 more.

Mr. Johnson advised that in addition to the projects he had already mentioned, we did include modest funding of $128,000 to be used for continued development of the Turner Tract, but it did not get us anywhere near where we needed to be.

Supervisor Brown asked, regarding Public Works, were there any proposed savings associated with any alternative method for handling solid waste? Mr. Johnson replied that he did not think there would be a lot of savings. He thought the savings achieved by reducing the volumes of solid waste would be consumed by the cost of implementing the alternative method. There would be some, but he did not expect it to be substantial, so he would not budget savings for that reason. As he had mentioned, he would present an idea of moving to attended sites at the Board's regular meeting in April.

Supervisor Brown asked what would the 4.4% salary increases do in terms of bringing the employees' salaries up to being comparable to surrounding counties? Mr. Johnson advised that it would not put a dent in it. A 4.4% increase was just a little better than the cost of living, as 3% was inflation. We were not making any headway. Supervisor Brown stated that in his opinion, 4.4% was not enough. Mr. Johnson informed that they had included funds in the FY 2005 budget to do a pay and classification study. They would move on that probably in the next 30 days or so. They would have the results available for the Board to consider next year when they put together the FY 2007 budget. He pointed out that the only time they would have an opportunity to fund that would be in a reassessment year.

Mr. Johnson referenced a pie graph on page 1-6 which illustrated the projected FY 2006 revenues. State revenue comprised 50.1%, Local Revenue – 45.2%, and Federal Revenue – 4.7%. He advised that the bar graphs at the bottom of the page were the sources of the 45.2% Local Revenue.

He referenced a pie graph on page 1-7 illustrating the projected FY 2006 expenditures. Schools comprised 61%, General Fund – 25%, Public Assistance – 5%, Enterprise Fund – 4%, Capital Projects – 2%, School Food – 2%, and E 911 Fund – 1%. He noted that they could see that for every total dollar we spent, $0.61 went to schools. He advised that the bar graphs at the bottom of the page were the sources of the 25% General Fund expenditures.

Supervisor Brown asked how the 61% that we allocated towards Schools compared to surrounding counties? Mr. Johnson replied that it was comparable. Most localities would spend between 60% and 65%.

Mr. Johnson directed Supervisor Brown and the other Board members to page 1-17, which was known as the "penny" sheet. (Mr. Brown had asked earlier what would a 15% assessment increase equate to in today's dollars for a rate increase? Was it 10¢-15¢?) Mr. Johnson explained how to calculate that and advised that it would equate to almost 10¢.

Mr. Johnson pointed out that there was a table of contents and an index in the front of the book to help them quickly locate specific items.

He reminded them of their dinner meeting with the Franklin-Southampton Alliance on April 14 at the Workforce Development Center in Franklin.

Mr. Johnson mentioned that he included modest increases for the Board of Supervisors in this budget. It had been 5-6 years since they had had a raise.

There being no further business, the meeting was adjourned at 7:18 PM.

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Dallas O. Jones, Chairman

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Michael W. Johnson, Clerk