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 12, 2006 at 6:30 PM.

SUPERVISORS PRESENT
Dallas O. Jones, Chairman (Drewrvyille)
Walter L. Young, Jr., Vice-Chairman (Franklin)
Carl J. Faison (Boykins-Branchville)
Anita T. Felts (Jerusalem)
Ronald M. West (Berlin-Ivor)

SUPERVISORS ABSENT
Walter D. Brown, III (Newsoms)
Moses Wyche (Capron)

OTHERS PRESENT
Michael W. Johnson, County Administrator (Clerk)
Mr. James A. Randolph, Assistant County Administrator
Julia G. Williams, Finance 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 2007 annual budget. It was a first draft, developed as a point of beginning for their deliberations. He expected them to make adjustments prior to adoption of the final budget. He noted that the cream-colored pages were narratives that included brief summaries of every departmental budget and explained the numbers. They could read the narratives and gain a very good understanding on what was included in this budget. For those who liked detail, they had copied every spreadsheet, every line item, and every piece of backup data and included it in this document. He thanked Mrs. Julia Williams, Finance Director, who had put in countless hours and had worked weekends and nights, and Mrs. Susan Wright, who copied each page and assembled the budget books.

Mr. Johnson referred to the Executive Summary beginning on page 1-2. The box on that page indicated that the current FY 2006 total budget was $42,542,125. The proposed FY 2007 total budget was $74,438,937, which was $31.8 million more than last year. The reason was that this budget included 2 substantial capital projects – construction of a new Hunterdale Elementary School, budgeted at $16 million, and the acquisition and development of the Turner Tract as an industrial park, budgeted at slightly more than $11 million. They did not have that kind of money in the bank. Most of that revenue would come from money they would borrow and pay back over time. The key points with regard to the proposed FY 2007 budget was that the budget:

- Proposed to decrease the real estate tax rate by 12¢ from $0.74 to $0.62;
- Provided for implementation of the land use assessment program – equivalent to 12¢ on the real estate tax rate;
- Provided for year 1 implementation of the recent pay and classification plan;
- Provided for part-time attendants at all solid waste transfer stations;
- Proposed to borrow $16 million to proceed with construction of a new Hunterdale Elementary School;
- Proposed to borrow slightly more than $11 million to acquire and develop the Turner Tract;
- Exclusive of these 2 projects, the overall budgetary increase was 11.46%;
- Proposed a new rate schedule for water & sewer customers that was based upon consumption; and
- Provided for a 9.35% overall increase in school funding – but still $388,000 less than the School Board requested.

He stated that if he had to summarize this draft budget with one word, it would be uncertainty. We were largely dependent upon state revenues for our budget, as they typically equated to about 50% of our annual operating budget. With the General Assembly not having passed a state budget, we had done the best we could to estimate state revenues. We did not have the luxury of waiting for the General Assembly. Hopefully the General Assembly would come to a fairly quick resolution and we would have firm numbers before we adopted the budget. Nevertheless, we were required by law to adopt a balanced budget prior to July 1. Another area of uncertainty was the real estate tax, our largest source of our local revenue. The Board of Equalization had not even begun to do its work, and that clearly would have an impact on the overall assessment of real estate. Also, the Commissioner of the Revenue was still calculating the final cost of implementing the land use program. He advised that much of what they would see in this budget were things that the Board had indicated a preference to move ahead with, particularly at the last mini retreat on March 7. There seemed to be a firm consensus that night to move ahead with the school and Turner Tract, and that was why they were in this budget. As he had noted, they did not have that kind of money in the bank, and obviously, borrowing that kind of money was expensive. They had calculated the amortization of those loans and the fiscal impact of this year as well as years down the road. He pointed out that in moving ahead with those 2 projects, they would not feel it substantially this year. They would feel it next year and the year following because of the way the debt would be structured. It was important to understand that if they chose to move ahead with those 2 projects, they could figure on raising the real estate tax at least 5¢ next year, and most likely an additional 10¢ the year following. You could not build $16 million schools and $11 million industrial parks with borrowed money and not expect the tax rate to go up.

Regarding **REVENUES**, Mr. Johnson advised that as they were aware, the subject of most conversations these days was the reassessment. After adjusting for growth that occurred naturally last year from new construction, the fair market value of our total assessed tax base was up almost 79%, which totaled slightly less than $1.6 billion. The Commissioner of the Revenue was estimating that participation in the land use program would reduce this amount by approximately $260 million. He wanted to make sure everyone understood what he meant about the fiscal impact of the land use program. He passed out a handout and shared the following example:

Hypothetical Farm – 400 acres

310 acres in open land, 90 acres in timber

2005 FAIR MARKET VALUE	2006 USE VALUE
310 ac. x $1,500 = $465,000	310 ac. x $1,000 = $310,000
90 ac. x $ 500 = $ 45,000	90 ac. x $ 500 = $ 45,000
$510,000/100 x $0.74 = $3,774	$355,000/100 x $0.62 = $2,201

Annual savings of $1,573

42% savings

Fiscal Impact on the Real Estate Tax Rate

Overall Reduction in Tax Base - $262,000,000

$$\frac{\$262{,}000{,}000}{100}\ (.62) = \frac{\$1{,}624{,}400}{136{,}212} = 12¢$$

Supervisor West asked if a person had a 400-acre farm, for example, and platted it off for lots, but had not sold them and the farm was still being used agriculturally, could that person enroll in the land use program? Mr. Johnson replied no, not if the lots had been recorded in the Clerk's Office. And if they had not been recorded, they had no right to sell the lots.

Mr. Johnson clarified for Vice-Chairman Young that the figures used in the land use value example above were real figures. The use value of $1,000/acre for open land came straight from John Robert Harrup, the Commissioner of the Revenue.

Supervisor West asked what the use values determined by the Commissioner of the Revenue were based upon? Mr. Johnson advised that he could choose to look at a report put together by SLEAC (State Land Evaluation Advisory Council), which included the Commissioner of Agriculture and the State Forester. They published an annual report, county by county, with recommended use values. He noted that it was an advisory report – it was not the law and he did not have to use it. He knew the local area better than someone from out of the area. He was an elected constitutional officer and that was a statutory responsibility given to him under the *Code of Virginia*.

Mr. West asked if it were an educated guess that the land use program would be equivalent to 12¢ on the real estate tax rate? Mr. Johnson advised that it was not an educated guess – it was sound math assuming the figure of $262 million was correct, which was what the Commissioner of the Revenue was estimating. The deadline to enroll in the program was April 10, 2006, so it was just a matter of the Commissioner of the Revenue having the time to calculate the full fiscal effect.

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

PROPOSED REVENUES

REVENUE SOURCE	FY 2006	PROPOSED FY 2007	INCREASE (DECREASE)	PERCENT CHANGE
General property taxes	$12,851,079	$14,408,808	$1,557,729	12.12%
Other local taxes	825,562	871,562	46,000	5.57%
Permits, fees, licenses	95,250	152,850	57,600	60.47%
Fines & forfeitures	498,021	493,478	(4,543)	(0.91)%
Interest	35,000	80,000	45,000	128.57%
Charges for services	368,825	399,401	30,576	8.29%
Miscellaneous revenue	685,949	692,174	6,225	0.91%
Transfer - General Fund Reserve	768,217	614,330	(153,887)	(20.03)%
Other County Sources	565,870	562,500	(3,370)	(0.60)%
E-911 Fund	216,522	205,555	(10,967)	(5.07)%
Enterprise Fund	1,033,500	1,119,024	85,524	8.28%
Building Fund	1,417,475	2,014,998	597,523	42.15%
Bond Proceeds - Turner Tract	0	11,021,294	11,021,294	100.00%
Bond Proceeds - Hunterdale Elem.	0	16,000,000	16,000,000	100.00%
Revenue from the Commonwealth	21,211,649	23,820,774	2,609,125	12.30%
Revenue from Federal Sources	1,969,206	1,982,189	12,983	0.66%
TOTAL	$42,542,125	$74,438,937	$31,896,812	74.98%

Mr. Johnson advised that, as he had mentioned, this budget proposed to reduce the real estate tax rate 12¢, from $0.74 to $0.62. Later in this process, we may find that we could reduce it more. We may find that the estimate for the land use assessment was high and/or that the adjustments to be made by the Board of Equalization would not be as substantive, but we did not know. The recommendation of reducing the real estate tax rate by 12¢ was based on our best guess given what we knew now. He stated that, also as he had mentioned, state revenues made up about half of our county operations. We were estimating them to increase by about 4.3%, much of which was attributable to increases in the school basic aid formula in 2007. But again, we would not know if the revenue estimates were sound or not until the General Assembly adopted its budget.

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

PROPOSED EXPENDITURES

EXPENDITURE SOURCE	FY 2006	PROPOSED FY 2007	INCREASE (DECREASE)	PERCENT CHANGE
General & Financial Administration	1,497,202	1,584,289	87,087	5.82%
Judicial Administration	947,355	1,388,371	441,016	46.55%
Public Safety	5,021,840	5,537,193	515,353	10.26%
Public Works	1,887,637	2,132,450	244,813	12.97%
Health and Welfare	413,690	440,571	26,881	6.50%
Parks, Recreation, Culture	201,377	212,948	11,571	5.75%
Community Development	412,001	437,680	25,679	6.23%
Non-Departmental	168,620	90,000	(78,620)	(46.63)%
School Fund	26,018,898	28,451,284	2,432,386	9.35%
School Food	1,057,625	1,052,950	(4,675)	(0.44)%
Public Assistance Fund	2,088,845	2,165,149	76,304	3.65%
Building Fund (less transfers)	1,026,909	23,072,523[1]	22,045,614	2146.79%
Enterprise Fund	1,583,604	7,667,974[2]	6,084,370	384.21%
E-911 Fund	216,522	205,555	(10,967)	(5.07)%
TOTAL	$42,542,125	$74,438,937	$31,896,812	74.98%

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

1) *General and Financial Administration* – Showed an overall increase of 5.82%, primarily attributable to implementation of the pay & classification plan for 6 separate office staffs.

[1] Includes $16,000,000 for a new Hunterdale Elementary School and $5,106,000 for non-utility related expenses associated with the Turner Tract Development.

[2] Includes $5,915,294 for utility-related expenses associated with the Turner Tract Development.

2) *Judicial Administration* – Indicated an overall increase of 46.55% – but that was deceptive; it only reflected an accounting change – state funding to the Clerk of the Circuit Court's office now passed through our General Fund as opposed to going directly to the Clerk.

3) *Public Safety* – Increased overall by 10.26% – included the addition of the Sheriff's staff to our pay & classification plan, additional funding for fire & rescue, a substantial increase in the cost of detention for juveniles and one new position – an additional building inspector.

4) *Public Works* – Increased overall by 12.97%, and included funding for part-time attendants at each of the transfer stations which were proposed to be open on a rotating basis.

5) *Health and Welfare* – Increased overall by 6.5%; provided increases for the Health Department, the Western Tidewater Community Services Board and Senior Services of Southeastern Virginia; level-funded the STOP Organization as they requested.

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

7) *Community Development* – Showed an overall increase of 6.23% and included funding to update the CIP and zoning/subdivision ordinances.

8) *Non-Departmental* – An overall reduction of $78,260 – you may recall that funding was set aside last year for an incentive grant to Narricot Industries to facilitate its recent expansion; no such funding was included this year.

Regarding *Public Works* and the plan for attended sites, Supervisor West asked if that would come into effect July 1? Mr. Johnson replied that funding would be available July 1, but as soon as we got confirmation that this was something they wanted to do, we would begin to make preparations.

Supervisor Faison mentioned that Mr. Larry Rose and others had addressed the Board regarding the need for a paved track at Southampton High School. He asked if such a project would fall under *Parks, Recreation, and Culture* or *Schools*? Mr. Johnson replied that it would fall under *Schools*. While he understood and appreciated Mr. Rose making the plea directly to the Board, it was really a school board issue. A function of the school board was to prioritize their own capital projects. We funded them and included a category for capital improvements, but the Board of Supervisors would be crossing the line on their responsibilities if they began deciding what those priorities should be. He shared that with Mr. Turner and thought he was going to speak to Mr. Rose and inform him that he needed to funnel that through the School Board.

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

PUBLIC ASSISTANCE (Social Services) – Funding was proposed to increase by 3.65% overall, as requested.

SCHOOLS – Local funding was increased by 4.18% to a total of $9,150,094. Combined with increases in state revenue, this budget still fell $388,001 short of the School Board's request.

E-911 – The monthly 9-1-1 tax was proposed to remain at $1.75 per month. No substantive changes were planned for the program in FY 2007.

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 and public safety radio system. Funding had been included to proceed with design and construction of a new Hunterdale Elementary School, acquisition and development of the Turner Tract, and increased capital contributions to fire and rescue. A list of all capital projects was illustrated on page 6-1.

ENTERPRISE FUND – Funding was included here for the utility-related expenses associated with development of the Turner Tract. Very little change from the current fiscal year elsewhere – we had analyzed 12 months of consumption data and had recommended a metered rate schedule for their consideration this year.

RESERVE FUND – This draft budget included the transfer of $614,330 of the unappropriated general fund reserve to pay operating expenses. Otherwise, real estate taxes would have to increase another 4.5¢ above what was presently recommended.

PERSONNEL – This draft budget provided for year 1 implementation of the pay & classification plan for 142 employees, including those of constitutional officers, as directed at their March 27 regular session. The County's share of medical insurance premiums was proposed to increase 6.55%, equating to more than $40,000 annually. Comparable premium increases had been passed on to the employees – on an annual basis, a single subscriber would pay $60 more, a dual subscriber - $276 more, and a family subscriber - $468 more. Also, our contribution to the Virginia Retirement System increased substantially, with an overall fiscal impact of over $165,000 – premiums for group life insurance also increased, accounting for another $60,000.

Regarding the Reserve Fund, Mr. Johnson stated that we needed to keep a certain balance unappropriated to cover shortfalls in cash and unanticipated expenses. As they knew, we collected our money once a year in December. It was important that we keep a healthy fund balance so we could pay the bills in September and October. It was typically recommended that the reserve fund contain 10% - 20% of the total operating budget. Given our total operating budget of about $40 million, $4 million - $8 million would be an appropriate reserve fund balance. Although we had again suggested transferring funds from the reserve, this year in the amount of $614,330, to pay operating expenses, we had become less and less dependent upon it over the last 3 years.

Supervisor West asked should we not look at semi-annual billing? Mr. Johnson advised that many localities had done that and we had had a public hearing and considered it before. At that time, the citizens preferred once a year billing. Supervisor West noted that the amount of taxes people owed was getting greater and greater. Mr. Johnson stated that semi-annual billing was advantageous for us because of cash flow. It would help to give the treasury a boost in June and December. It was a one-time windfall, because when first implementing it, you would be collecting twice in the same fiscal year. He noted that the windfall was an accounting game. **On paper**, it looked like you got a big boost in one year. He stated that once-a-year tax collection was antiquated and based on an agrarian economy when farmers used to sell their crops and receive their money and were ready to pay their bills in December.

Supervisor Felts asked if the capital improvement funds appropriated for fire/ rescue would fall under *Non-Departmental*? Mr. Johnson replied no, it would fall under the Building Fund. Supervisor Felts asked if the appropriations would continue or was that coming to an end? Mr. Johnson stated that his plan was to continue it and he had suggested increasing the appropriations.

Mr. Johnson referenced a pie graph on page 1-6 which illustrated the projected FY 2007 revenues. State revenue comprised 32%, Federal Revenue – 2.7%, Local Revenue – 29%, and Bond Proceeds – 36.3%. He noted that we had bond proceeds this year due to the 2 large capital projects (Hunterdale Elementary School and the Turner Tract). He noted that the bar graphs at the bottom of the page showed the sources of the 29% Local Revenue.

Mr. Johnson referenced a pie graph on page 1-7 illustrating the projected FY 2007 expenditures. Schools comprised 38.2%, General Fund – 15.9%, Public Assistance – 2.9%, Enterprise Fund – 2.4%, Capital Projects – 2.6%, School Food – 1.4%, E 911 Fund – 0.3%, New Hunterdale Elementary – 21.5%, and Turner Tract Development – 14.8%. He noted that the bar graphs at the bottom of the page showed the sources of the 15.9% General Fund expenditures.

Mr. Johnson pointed out that there was a table of contents and an index in the front of the book.

Supervisor West asked what did the recent reassessment cost? Mr. Johnson replied about $190,000. Supervisor West stated that we needed to decide the cycle in which we wanted to assess. He noted that he did not recommend a 6-year cycle. Mr. Johnson advised that the statute provided 6 years as the maximum. Most counties were on a 4-year cycle. He noted that due to the size of our county, it took us about 18-24 months to do an assessment. If they wanted to be on a 4-year cycle, they would need to include funding in the FY 2009 budget for such.

Supervisor West mentioned that he wondered about the availability of land behind the agri-business park that was owned by Bill Story for economic development purposes. Had that ever been looked at? Mr. Johnson stated that we had never looked at that. Supervisor West stated that perhaps we may want to look at that, as there was water and sewer there, access to Route 58, etc.

Mr. Johnson advised that we were beginning to get a substantial number of contacts from port-related industries. The ports were expanding. And with the chronic problems with the tunnels and traffic delays on Route 64, they had come to recognize Route 58 and Route 460 as good alternatives. They recognized that time was money and they could make short hauls from the ports here and back just as quickly as they could go from the ports through the tunnel and over to the peninsula and back. Land was cheaper here and there was less highway congestion here. That was a real niche and there was a real opportunity here for economic development.

Supervisor West stated that he understood that we needed to go ahead with the Turner Tract.

Vice-Chairman Young stated that he was still getting calls from constituents about the reassessment, and he did know not know what to tell them. He felt helpless. Mr. Johnson stated that his advice to him was, as an elected official, he needed to listen to them. But the truth was that he could not fix that problem for them. In Virginia, even though the Board of Supervisors were elected, they did not have a thing to do with assessed property values. Property values were done in accordance with the *Code of Virginia*. There was a 3-tiered appeals process. The first was to meet with the assessor, the second was to meet with the board of equalization, and the third was to go to the circuit court. And only those 3 could change assessed values – that was it.

Supervisor Felts stated that she too was still getting calls from constituents. She had made copies of the Board of Equalization schedule and was giving copies of that to her constituents.

Mr. Johnson advised that the Board of Supervisors did control setting the tax rate.

Supervisor West advised that the consensus they were hearing was that the reassessment had changed the value of the estate so much that it had changed the need for general liability policies, estate planning, etc. – things that were beyond our control.

Mr. Johnson stated that most people did not have a good working knowledge of Virginia government. Their assumption was that Virginia was a home-ruled state and since the Board of Supervisors were elected officials, they should be able to fix any problem they brought to them. But the truth was Virginia was a Dillon-ruled state, in which the Board of Supervisors did not have the authority to do anything unless the General Assembly had granted them that authority. And they had never granted them any authority to establish property values.

Vice-Chairman Young advised that one of his constituents met with John Robert Harrup yesterday regarding our tax relief plan for the elderly and disabled. He understood her to say that only about 10 residents in the County would be eligible. Mr. Johnson advised that that was a terribly outdated program that we had for tax deferred for elderly and handicapped. It had not been updated since 1976. Supervisor Brown had already called and asked him to do some research. He was going to put some information together and have it on the agenda at the regular Board meeting this month.

Chairman Jones advised that his constituents wanted them to throw the assessment out. Vice-Chairman Young stated that his constituents wanted to know why they could not throw it out. Mr. Johnson advised that they had no authority to throw it out. The law stated that they were required to do one at least every 6 years. It did not say you could throw one out if you did not like the results. If you failed to do one, the state would withhold your ABC proceeds, which was $36,000 a year. He stated that Virginia was a Dillon-ruled stated. If they could show him anywhere in the *Code of Virginia* where the Board of Supervisors had the authority to throw out an assessment, influence an assessment, or have anything to do with an assessment, he would be glad to chase it for them.

Chairman Jones advised that some of his constituents had commented that it was about time the values of property in Southampton were realistic, because we had been way under. Supervisor West stated that there were a lot of people who were ok with it. We were hearing from the vocal people. We had about 115 people here the other night out of about 18,000 residents.

Supervisor Faison stated that everyone he had talked to, whether they owned a lot or a little, were concerned about their taxes.

Supervisor West advised that he was happy with the proposed budget this year and the real estate tax rate. But what bothered him was the need for a 5¢ increase in the real estate tax next year, and other 10¢ the year after. That was why he thought it was worth looking at the Story property at the back of the agri-business park. Mr. Johnson commented that his concern with that property would be wetlands. Also, compared to the Turner Tract, you would be giving up rail access.

Supervisor West mentioned that the Fiscella development (the plan of George Fiscella of Hampton Roads Development to construct the "Villages of Southampton") could have brought a lot to us, as they were going to donate land to build the school on, build a wastewater treatment plant, and run sewer and water mains. Having that development on the old Cutchins Farm might not have been the worst poison we ever dealt with. We may have shot ourselves in the foot. Vice-Chairman Young remarked that he did not think so.

There being no further business, the meeting was adjourned at 7:35 PM.

Dallas O. Jones, Chairman	Michael W. Johnson, Clerk