WORK SESSION

M E M O R A N D U M

DATE: October 26, 2004

TO: The Board of Supervisors

FROM: John E. McDonald, Manager of Financial and Management Services

SUBJECT: Status Report - Budgets for FY 2004-FY 2006

The County will soon begin the budget process for the second year of the biennial FY 2005-2006 Budget. The following assessment of past, present, and future trends and the attachments are designed to provide information for planning budget guidance.

FY 2004 Revenues and Spending

General fund revenue was about $700,000 (0.7%) more than the final budget for FY 2004. This is primarily due to permits and fees, taxes on recordation and wills, and deeds of conveyance—reflections of a very busy real estate market. Room taxes and investment income were below estimates while State sales taxes exceeded the budget.

General fund spending and transfers were $2.5 million less than the final budget for FY 2004—a figure that primarily results from the difference between the County's cash budgets and the accrual-based audit report. Of that total, $2.1 million was budgeted to increase the debt service reserve fund.

Higher than expected Capital costs are primarily attributed to timing differences between appropriations and spending and to Hurricane Isabel. Cleanup costs from the September 2003 storm totaled $8.2 million. Federal and State funding provided assistance totaling $7.6 million or 93% of the total costs. The County's general fund matched the remainder, approximately $600,000.

The total residual funds available, primarily composed of revenues exceeding the budget, were $737, 847. After consultation with the audit staff, these funds were added to the Fiscal Liquidity reserve, an increase of 5.6%, to keep within the fiscal guidelines adopted by the Board. As a result, there are no undesignated reserve funds for FY 2004.

FY 2005 Revenues and Spending

First-quarter general fund revenue collections show an overall increase from the first quarter of FY 2004. Personal property tax receipts, sales tax receipts, and license/permit fees all increased. Wet summer weather, the closure of several lodging facilities located in the County, the opening of new hotels in surrounding jurisdictions, and a flat tourism industry all contributed to a decline in lodging and meal tax collection. Personal property tax relief collections from the Commonwealth also declined primarily because of a decrease in the NADA book valuations used to estimate the value of used vehicles.

Current spending projections for FY 2005 estimate slight underspending due to a number of unfilled positions and an average pay for performance increase of 3.33%, a decrease from the Board's original target of 3.5%.

FY 2006 Revenues and Spending

The Board of Supervisors has already adopted a financial plan for FY 2006. It will be updated and revised with new information and assumptions. Staff foresees seven "decision packages" in FY 2006 that may have a major impact and which will require additional Board scrutiny. Three focus on revenue issues, three on spending, and one, the ALS/BLS fee, has implications for both.

The first revenue issue focuses on the real estate tax rate—at the current 82.5 cent rate, assuming a 7.8% average increase in assessments; real property taxes will exceed the planned FY 2006 levels by $2.5 million. The second revenue issue focuses on the General Assembly's initiatives to totally redesign the reimbursement process for the car tax and to create a separate tax category, with a separate tax rate, for vehicles subject to reimbursement. The third revenue issue is another General Assembly initiative to standardize and centralize all telecommunication tax collections (including cable franchise fees) under State control—with collections partially passed through to localities based on FY 2004 actual collections. The final revenue issue is the ALS/BLS fee and the related spending planned in FY 2006, both operating and capital.

Expenditure questions in FY 2006 focus on the school operating contribution—the 10% increase in enrollment in the last two years, and the fact that all of the new students are County residents, is shifting the City/County funding percentages more dramatically than planned. The impact in FY 2006 may be an additional $1.6 million in operating costs. The second issue is the attempt to establish a funding stream for stormwater/water quality projects—the FY 2006 Budget did not include funding. Finally, the School capital facility study is expected to generate additional projects, focusing on increasing school enrollment, to include at least two new schools.

John E. McDonald

JEM/gb
budguide06.mem

Attachments