



FY 2016 Recommended Budget Budget Question

Board Question #: 26

BUDGET QUESTIONS:

Provide a copy of comments/notes from the CBRC presentation to the Board on 2/24/15.

RESPONSE: The following are notes from the CBRC PowerPoint presentation:

Slide 1

Good afternoon! Thank you Mr. Chairman and members of the Board, for this opportunity to present the Citizen Budget Review Committee's perspective on the FY 2016 County Budget.

Slide 2 Agenda

Today, I would like to talk about some of the challenges that the CBRC faces as it reviews the budget. In addition, I will discuss some general observations and principles that guided our review.

Next, some specific areas of the budget will be highlighted, and I will close with some final thoughts and respond to any questions you may have.

Slide 3 Challenges

The members of the CBRC are all volunteers, and like the Board, most of the members have full-time jobs, families and other commitments that create limits on their time. The CBRC has no authority to negotiate any issue on behalf of the Board or the School System. Presenting our analysis and/or findings on any subject, including the budget, is as far as we can go. Further action rests with the Boards and the Administrations.

We are at a disadvantage in analyzing the budget in several ways. Foremost of these is the compressed review period between presentation and this fixed date for our comments (two weeks). This causes us to rely on the most recent budget information on prior year actuals and current year adjustments to the adopted budget.

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This information is not available until after the closing of the prior fiscal year and the submission of the CAFR – mid-November this past year. The proposed budget is not at the same level of detail as the executed budget and some interpretation must be applied using the rationale provided in the proposed budget.

Therefore, we have reviewed FY13 and FY 14 actual budget execution, FY 15 Adopted and Adjusted budget, and the FY16 proposed budget and developed our comments based on that data.

We represent and have focused on providing the perspective of the typical citizen. We have used our own experiences and situations as well as comments made in Board meetings and newspapers, and discussions with our neighbor citizens to frame our review.

Slide 4 General Observations

Several observations surfaced during our review. I will discuss each of these items in more detail as we continue:

[As expected, citizens resist tax increases and yet ask for more services/support

This situation creates a dilemma for both the citizen and the Board

Studies across the country show, just as here, that the gap between revenue and expenditures is increasing

Finally, there are some actions that can be considered]

Slide 5 Resistance

Citizens face increasing costs with limited income increases.

We know that the Equalized Real Estate Tax Rate (last year's revenue amount plus 1%) means a Real Estate tax increase.

An increased car tax rate, means tax increases when car values go up, new cars are bought, and/or the Commonwealth car tax relief is reduced (as is being discussed by the current leadership).

Food costs are rising. The protein group (meat, poultry, fish and eggs) has risen almost 9.5% in the last year.

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We all know that Insurance costs are rising. That includes Health Care, auto, and various types of home insurance.

Finally, housing costs are on the increase whether you live in a single or multi-family residence, as owner or renter. And utilities are increasing in cost, as our own water/sewer director can attest with the recent increase.

With this and more as a backdrop, the citizen has reached a painful dilemma.

Slide 6 Dilemma

This critical juncture means that citizens and the Board must make a Choice! We talk about levels of service, but what do we mean? When we call for medical help, do we want rapid response with full treatment capability and fully trained EMTs, or do we want a basic diagnostic and first aid team? When we turn on water, do we want as much as we need immediately, or do we want to do laundry only at certain times? Each of these choices has a greatly different cost. The reality is that levels of service often get defined by the amount of money available versus what we would like.

If citizens want the same level of services that they get today, then they must understand and agree that they will have to pay more taxes, even if they demand only equalized tax rates.

If they want tax levels to remain the same, then they must agree that the level of services will be reduced, because the same level of tax revenue will not buy the same capability.

If they want more or higher levels of services, then they will have to accept even more taxes than just the equalized rates.

We recognize that the results of the last Bond Referendum have produced a mixed signal on this issue. But in approving the bond questions citizens did, they were agreeing to some level of higher tax.

Slide 7 Gap

Because our budgets must be balanced, our choice is seen as either to keep spending in check or to grow revenue – or, to juggle between the two. It is generally accepted that spending needs are out-pacing revenue growth at all levels of government.

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Revenue transferred from the state level is always being constrained with the resulting call for citizens to pay more in taxes – both to the state and to the county.

The federal and state governments are continually adjusting the requirements levied on the local governments.

Debt service costs are rising and will continue to do so even as debt is retired and new debt issued.

In many places in the country, real estate property tax is referred to as “School Tax”. The real estate tax collected this year does not even cover the money transferred to the School System – in fact, the transfer amount equals over 110% of the real estate property tax. To bring the real estate tax rate into line with the school transfer amount would require adding 9 to 10 cents to the current tax rate.

Finally, some nationwide studies have predicted that given the current economy and current taxing structures, local governments would experience an 18% gap between revenue and spending within the next decade.

Slide 8 Chart

But, let’s look at our own experience.

This chart presents twenty years of county growth data. This period could represent a generation. It begins with 2001, and uses budget data to show growth to the present day. Finally, the future growth is based on the 5-year financial forecast from the proposed budget. The columns represent the percentage of growth from 2001 through 2020.

Most striking is the growth of the financial elements versus the population elements. The first three population elements increase by less than 70% each while the School transfer amount increases 100% and the County operations increases more than 190%. The other revenue items (real estate tax collections, total property tax collections, and total General Fund collections) all will grow more than 100%.

The five-year financial forecast used for the future years is calculated based on a set of assumptions made by the County staff. As the CBRC may not agree with budget actions

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required by these assumptions, we encourage the Board to carefully review the assumptions and guide the County staff accordingly.

However, the forecast demonstrates that a gap will exist between revenue and expenditures, and that gap could be as high as \$28.9M, in 2020. In fact, for FY2016, the gap started at \$3.8M.

Slide 9 Actions

Given that most citizens want to hold back on raising their tax burden, spending must be restrained. So what do we do? Here are some general ideas.

First, we have noted that there are functions and actions being performed by county departments that are not essential or not their responsibility. Therefore, eliminate non-essential and non-revenue positive activities, such as certain activities in the Sheriff's department.

We recognize that personnel benefit costs are difficult to control. However, we should set FY 2016 budgets for operating costs to match FY2014 actual amounts. This would free up \$3.6M from the proposed budget. We agree that the School transfer amount should remain at \$116.4M. Any increase in the School Transfer amount over this number should be added directly to the Real Estate Property Tax Rate.

More revenue than expected has been identified in several budget areas. This extra revenue should be retained and not distributed for routine or non-essential expenses. The fact that urgent needs and mandated actions seem to arrive with ever greater frequency suggests that a larger accumulated general fund/rainy day fund balance (fiscal stability reserve) is needed. Staff projects \$4.8M excess fiscal stability reserve at the end of FY2015.

Because we cannot issue bonds for some expenses, we must have a source for the dollars required. Pay-as-you-go expenses will require tax increases if we do not put aside extra dollars that become available.

Finally, no tax revenue (meaning cash) should be used to fund any item that was included in the approved bond referendum questions. No department should receive cash for capital projects if those projects could be considered part of an approved bond question. One example is fire trucks.

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The budget proposes to use \$5.21M in cash/revenue to fund items that could be funded through approved bond questions. Using bonds for these expenses frees up cash for other one time purposes.

In this vein, we support the County's use of remaining FY 2005 bond authority to pay for the Judicial Center and Sheriff's Office renovations.

Slide 10 Specific

I previously discussed the limitations from the compressed schedule. However, we developed the following.

Although not a detailed analysis, these actions could help to constrain costs in the Sheriff's Department.

The CBRC recommends that the Sheriff's Department research hosting our own academy.

Because Spotsylvania currently gets no revenue from issued traffic tickets, we support the Sheriff's plan to incorporate State traffic laws into local ordinances to allow us to retain traffic ticket revenue directly.

The CBRC continues to believe that consolidation of like functions from both the School system and the County offers a real opportunity to reduce costs in the long run and to improve the effectiveness of service.

Therefore, we recommend that the BOS expand our charter. This would allow the members to gain more detailed access to the data and processes used in current functions. It would call for more detail regarding the challenges, decisions and necessary actions to implement a recommended consolidation. A clear statement by the BOS, County Administration, School Board and School Administration is required for any effort to be successful.

Slide 11 Specifics Pay-for-Performance

Based on Lessons Learned in other Virginia Counties, Pay-for-Performance can be an option to recognize high achievement while reducing costs from non-merit across-the-board pay raises.

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It requires in depth research to assure that these benefits are realistic.

In no instance should this system be implemented all at once.

Success depends a great deal on the performance measures defined and the metrics collected about them.

The most successful approach has been to figure out performance and then work pay into the equation.

Slide 12 Final Thoughts

Much of what I have presented here today is, at best, preaching to the choir - at worst, just preachy. However, it is our intent to provide the perspective of the typical citizen of Spotsylvania.

We have proposed actions that would free up \$8.8M. Combined with the anticipated excess of \$4.8M, the county has \$13.6M of flexibility for one-time expenses.

The people of this county are facing the same challenge as the county itself. Costs are forever rising and paying those costs means taking more money from every citizen, who is already challenged to balance today's financial needs. There are those who want more services, those who want better pay and benefits, those who want growth as a solution, and those that see costs increasing faster than growth can satisfy. And no one really wants to pay more taxes. Bottom line: if the studies and our own experience are right, there will always be a spending problem.

The Five-Year Financial Forecast is not directing, but it is a useful gauge of what will likely occur.

It is based on a set of assumptions from the staff's sensing of what the BOS would like to do.

The CBRC does not support all of those assumptions – such as automatic cost-of-living adjustments. However, what is more important is that the BOS review those assumptions in detail with the understanding that the use of these factors establishes expectations among the readers – whether they be county or school staffs, citizens or, bond advisors and managers. It is those factors that project costs increasing faster than revenue, and leading to a gap between the two of \$28.9M, in FY2020.

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Lastly, we believe that the role of the CBRC as a reviewer and commentator on the impending budget is minimally productive. It is in special projects such as consolidation that the committee can better serve the Board and the county. We have seen this role as successful in other locales outside Virginia. The results can inform the Board and educate the public. We can review and synthesize information on new topics and proposals with rapid turnaround when needed. At the same time, we can relieve workload on the Supervisors and staffs in researching and collecting information into a cohesive, understandable package.

The decisions remain yours and the administrations, but we can provide a citizen perspective to the discussion. We ask for your guidance going into the future.

THANK YOU FOR YOUR TIME AND ATTENTION! Are there any questions?

Back up County Operating Budget Breakdown

This slide shows a breakdown by major department. The red diamonds represent the percentage increase in the budget since 2001, using the left side scale. The blue columns show the FY16 proposed budget, using the right side scale.