HIGHLAND COUNTY ADMINISTRATOR'S REPORT

Listed below is information intended to provide clarification and/or correction to financial information that was reported in the February 25 issue of *The Recorder*:

The newspaper report states "the county had a general fund balance of nearly $2 million."

Please see Exhibit 1 – [FundBalances-20040630.doc This is a WordPad document and should open with WordPad, MS Word, Word Perfect, and many other word processors.]

The June 30, 2004 fund balance was $1,766,731 exclusive of $106,918 in designated funds. Of this amount, $408,050 was in separate funds for specific expenditures or funds that had conditions as to their usage. In addition, $627,000 was classified for expenditures that were occurring or projected to occur during FY 2005 (McDowell Water System, reassessment, share of grants, comprehensive plan update, oil spill cleanup) or in the case of the sidewalk project, expected to occur within the next 12 - 24 months.

After deducting $408,050 and $627,000 from the fund balance there was $731,681 available for expenditure on July 1, 2004. During the period of July 1 - October 31, 2004, expenditures exceeded revenues by $652,000. Therefore, the available funding of $731,681 was applied toward the $652,000 needed to cover expenditures during the July - October period. A fund balance is needed to cover expenditures during this period because the bulk of revenues are generated from local property taxes that are billed in October and due December 5.

The newspaper report states "for the four months lapsing between tax income (July through October), the county needs about $480,000 in the bank for such things as paying the constitutional officers, funding the sheriff's department, and providing benefits."

As stated above the amount needed to fund all expenditures was $652,000 more than the revenue collected for the period of July through October 2004 and this is the amount that was provided to the newspaper not $480,000.

I am speculating that the amount of $480,000 was obtained by taking the total budget of $5,700,000+ and dividing it by twelve months. This would be the average amount of monthly expenditures <u>not</u> the amount needed to fund expenditures July through October.

Assuming that the $480,000 reported in the article was the monthly expenditure amount, this would equal an expenditure of $1,920,000 for the 4 month period of July through October. However, the total expenditures for that period were $2,503,623. Many of the county's annual payments are made in July including the payment on the school; therefore, the expenditures do not average equally over each monthly period.

The newspaper report quotes "He (Mr. Fullerton) points to last year's 5-cent tax hike, which left Highland more than $400,000 above budget to start the current fiscal year."

Please See Exhibit 2 – [Exhibit-2.xls This is an Excel spreadsheet.]

Based on the current assessed value of all property in Highland, a 1-cent increase in real estate taxes will generate approximately $25,000 - $27,000, therefore; a 5-cent tax hike can only generate the maximum amount of $135,000 if all taxes are paid.

Taking information directly from the FY 2004 audit and comparing budgeted revenues to actual revenues, there was $415,884 more revenue collected than was budgeted. This amount is attributed as follows: 1) the total revenue from local sources was a positive variance of $133,548 due in part to $68,808 in property taxes and $35,251 in other local taxes including sales tax, 2) total revenue from the Commonwealth reflected a positive of $228,486 due in part to increases on the local share of state taxes and $95,702 in grant funds which were not anticipated or budgeted, 3) total revenue from the federal government reflected a positive of $53,850 due to grant funds which were not budgeted.

Also contributing to an increase in fund balances was the county agencies responsible practice of living within budgets and in some instances reducing expenditures where possible. Therefore, actual expenditures for FY 2004 were less than budgeted expenditures.

In summary, increased revenues in a large part from state taxes and grant funds as well as responsible expenditures both contributed to the increase in the fund balance.

The newspaper report states "Highland's personal property rate is 67 cents per $100 value."

The personal property tax rate is $1.50 per $100 value.
The real estate tax rate is $0.67 per $100 value.

The newspaper report quotes Mr. Fullerton as saying "1) and next year's reassessment, which will yield even more county funds and 2) I don't know why they continue to see a need for raising taxes, especially since there will be a reassessment coming."

Please see Code of Virginia Section 58.1-3321 -

A general reassessment of real property does not automatically generate a significant increase in the real property tax levies.

Code of Virginia Section 58.1-3321 states "A. When any general reassessment of real property by a county, city or town would result in an increase of 1 percent or more in the total real property tax levied, such county, city or town, shall **reduce** its rate of levy for the forthcoming tax year so as to cause such rate of levy to produce no more than 101 percent of the previous year's real property tax levies, unless subsection B of this section is complied with, which rate shall be determined by multiplying the previous year's total real property tax levies by 101 percent and dividing the product by the forthcoming tax year's total real property assessed value. B. The governing body of a county, city, or town may, after conducting a public hearing, which shall not be held at the same time as the annual budget hearing, **increase the rate above the reduced rate** required in subsection A above if any such increase is deemed to be necessary by such governing body."

The public hearing notice shall contain the following information: assessment increase, lowered rate necessary to offset increased assessment, effective rate increase, and proposed total budget increase.

For example using current amounts:

Previous year's total real property tax levies	1,900,000
x 101 percent	x 101%
Total allowable tax	1,919,000

Current assessed value of all property	275,000,000
Estimated 40% increase in value	x 140%
New assessed value of all property	385,000,000

Current tax rate = $0.67
New lowered tax rate 1,919,000 / 385,000,000 = $0.50

Using this example the county would be required to lower its tax rate to offset the increased assessment from $.67 to a lowered tax rate of $.50. Due to the county's authority to generate taxes of 101% which is an increase of 1% over its current tax levies, the maximum increase in real property taxes would be $19,000 unless the Board chooses to **increase the tax rate**. The difference between the lowered tax rate and the proposed increased rate would be known as the "effective tax rate increase." Therefore, to generate additional revenues following a general reassessment it is still necessary to raise taxes.

ADDITIONAL INFORMATION:

Please see Exhibit 4 – [Exhibit-4.xls This is an Excel spreadsheet.]

Total Revenues - Budget to Actual (for all budgeted revenues)

For the year ended June 30, 2004, the county projected and advertised that **budgeted revenues** would be $5,496,930. **Actual revenues**, after deducting grant funding that was not budgeted, equaled $5,495,592 for a difference of **$1,338**.

In order to maintain good fiscal management, the county should not resort to short-term fixes that may have long-term consequences such as using reserve funds to balance the budget.

In addition, the county should explore the fiscally responsible practice of establishing a contingency fund for emergencies or unexpected expenditures such as the oil spill at the school or the current emergency repairs to the McDowell Water System.

Roberta A. Lambert
County Administrator
Highland County