

CPA sees growth; supervisor not so sure

MONTEREY — Supervisor Jerry Rexrode agrees it looks as if Highland County will have a surplus in revenue this year, as it did last year, and assures citizens if it exists, it will be used to avoid a tax increase if possible.

That does not mean, however, he is prepared to predict the county is on the road to economic prosperity.

During fiscal year 2003-04, Highland came out ahead to the tune of \$418,000. That was added to the beginning balance in the general fund when county officials began the budget process for this year. And more than halfway through this fiscal year, the county appears to be again headed for a net increase of at least \$130,000. While that may seem like small potatoes to most governments, in Highland's case, \$130,000 is the equivalent of a 5.2-cent increase in property taxes.

Recent questions from Highlander Steve Fullerton, a CPA who has made his career in finance, previously specializing in government accounting, have brought attention to the county's financial health at the same time the county is considering allowing an industrial scale wind project for revenue it might generate that the majority of citizens oppose.

Fullerton first had questions about the county's financial health back when a developer had asked to rezone the McNulty tract near his home, and local officials were weighing the potential tax revenue a subdivision there could generate. Then this year, he returned to his questions as the county began considering an industrial wind utility and its potential to boost county coffers. What he found, a surplus in the county's financial picture, surprised him.

Rexrode says, "The county needs no more revenue than it needs to operate." If he had known the county would be ahead by that much, he never would have pushed for a 5-cent tax increase last year, he says, but he cautions against trying to predict where things will go.

Budgeting for local tax revenue is tricky, Rexrode says. Each year, there is always some amount billed in taxes that does not get collected on time, or at all. For example, in fiscal year 2002-03, the county collected about 97 percent of the taxes it billed its landowners. But last year, that dropped to 91 percent. At some point, the county may collect much of those delinquent taxes, but Rexrode says it's hard to predict when that might happen.

"If anyone thinks we'd raise taxes for the hell of it, they're crazy," he says. "It's not easy. There's no way this board of supervisors

wanted to raise taxes, but what if there's not enough to pay ourselves out of debt? Expenses are greater than revenues, and we can't take it (surplus) down any further."

Rexrode says he would like to have known there would be more money at the end of the year, "but we don't know what the treasurer (Lois White) will predict. We couldn't predict if it was going to be \$200,000 more."

Fullerton says a number of things can affect what a locality's revenue will be. "Revenue estimates are exactly what they sound like — estimates," he says.

Rexrode said getting hold of those estimates during the budget process requires an in-depth look at figures and historical trends in growth. Highland's fiscal year, like most localities, runs from July 1 to June 30. The audit is not usually complete until 4-6 months after the close-out of a year — about halfway through a current fiscal year.

Supervisors begin the budget process in late winter/early spring, using the audit figures from the year before, which puts the trend analysis sometimes 18 months behind, Rexrode says.

But Fullerton says, however, the county should pretty well know what its year-end looks like about 30 to 45 days after the close-out. Because a county collects the bulk of its tax revenue at the end of the year, it should know at that point if it's going to beat its estimate. "I'm speculating they probably didn't look at it too closely," he says. "But that's not unusual."

Supervisors do use the most current figures, Rexrode says, and adjust them by what they know is happening at the time, in order to predict the next fiscal year. If there is money left in reserves, that gets pulled in first to balance the budget before the board considers a tax increase. Rexrode says if the county does have excess in surplus, it would be money to do something with. "We could actually lower taxes," he said. "Does the county need to collect more in a coming year? We don't know."

Overall, though, Rexrode says the county must look at whether there is any growth — his biggest concern. "If there is no growth, we have no choice but to raise taxes," he says. "Without growth, there is also an inflation factor." Essentially, he says, as expenses increase, more of a burden is placed on the same population shouldering the tax liability.

Fullerton says it's likely the excess in revenue stems from some kind of growth and perhaps county officials need to look more closely. If the county estimates, for example,

how many homes and buildings will be constructed in a year, and there are 18 more than they anticipate, the county benefits with more revenue. "In Highland County today," Fullerton says, "the homes are more expensive. Your building pace is picking up constantly as properties turn over."

Fullerton agrees the budget process should be based on history, saying officials are probably considering past trends. However, he said, by the end of December, Highland has collected most of its tax revenue, and the county board should know how those collections are going.

Rexrode, along with county administrator Roberta Lambert, examine the county's beginning cash position, subtract amounts that are estimated for purposes they've already identified, and then look at what else the county should be setting aside.

For example, Rexrode points out, the regional jail currently under construction is scheduled for completion this spring. So far, the county has put aside about \$12,000 to contribute toward it, but Lambert predicts the county's share will be closer to \$166,000 when the time comes.

"It's like running a business," Rexrode says. "You have to look 40 years to the future. What should the county have for upkeep? Two, three million dollars? Maybe more?"

"What (Fullerton) has overlooked is that revenues are less than our expenses. That's what you have to look at," Rexrode says. "When we're doing the budget, we just don't know. It's not as black and white. We'll be scrutinizing this more this year with Lois (White, treasurer) ... If your projected revenues and your expenses don't balance out, you've got to find a way to come up with the money ... A lot of this stuff's a learning process," he says.

Fullerton says waiting on final audit figures is not necessary for the upcoming budget process, but says the county should keep an eye on that period of time between July 1 and the end of October. "They do have to watch that period," he says, "but (Highland) has sufficient cushion."

Furthermore, Fullerton says, while it is prudent to budget for future expenses, Highland needs to look closely at immediate needs in say, the next 10 years, not 40 years into the future. "You know you're going to have to eventually replace your car," he says, "but do you set aside money now for that?" What would make more sense, Fullerton says, is for Highland to have good preventative maintenance.

nance programs in place to extend the life of its assets and let the upkeep blend in over the course of many years. Either way, he says, if land values continue to increase, the county won't have to worry about it.

Rexrode does not want the county to get into a situation where it must come up with huge sums for capital improvements in a single year; he'd rather see the county start putting money away for the future. "This county never had any money (for those things) until we started setting aside from surplus," he said.

As an example, he says, if county supervisors had started putting away money for the school consolidation long before it happened, there would not have been a need to fund it with a loan, one the county is still paying off. "You need to do things now," he says. "Start setting money aside. It's good budget planning."

Fullerton used the same example, noting the county did not accumulate over the course of many years the money it would need for the new school. "It issued bonds," he said. "When (a locality) issues bonds to finance things the greatest indicator investors look at is whether your real estate base is increasing or decreasing. The only thing that secures (the bonds) is your ability to pay, and no one will buy bonds if the tax base is decreasing."

And Fullerton, for one, believes that's happening in Highland as more people invest here.

Fullerton agrees the county needs to plan for the future, but he says a better way to do that would be to put together a detailed capital improvement plan. Most localities do this, he says, laying everything out with a budget, through a proper approval process, which can also include a public hearing.

"He (Rexrode) talks about debt like it's a bad thing," Fullerton says. "Financing and debt have a place in every financial plan. For example, you rarely wait 30 years to buy a home. There's no locality I'm aware of that accumulates moneys for every possible project that could occur."

Fullerton says one of the most important things is balancing debt with current taxpayers. "You do not want to burden today's taxpayers too heavily for future expenditures, and vice versa. You have to look at what today's taxpayer can support. It's a matter of balance. All taxpayers, as time evolves, have to share. You can't just set money aside for everything that could possibly happen. You need a component of financing."

Rexrode says any kind of tax potential should be considered, including that from wind utilities. He said he recently saw a story about how a Middle East country was using its enormous profits from oil to better educate its children. "Let's say, hypothetically, you could site

three wind farms here. Think how we could educate a child, to be a doctor or something. We could have an endless stream of physicians in this county."

Lambert adds, "Wouldn't the county be remiss if it didn't explore other avenues for revenue?"

"You've got to look beyond what (will happen) right now," Rexrode says.

One thing Lambert will ask the board to consider is reassessing property every four years instead of every six. It's an idea Fullerton supports, saying the cost of more reassessments will be more than offset by the increase in tax revenue.

Many citizens over the last several months have responded to the board's concern for more tax revenue by saying the county should explore other kinds of options for development, not commercial power utilities.

"I realize there are other sources," Rexrode says. "I had a lady just the other day suggest we put in an outdoor opera or something. All this stuff, they are good ideas. Whenever a person buys a home here, they're invested. And all these other things are good, but somebody has to step forward and do it."

Rexrode pointed out the difficulties of finding decent-paying jobs in Highland, saying while the current tax rate is not an issue for some people in Highland, it is a big issue for others. "If we raise taxes, to something that's \$100 extra, for some that's one week of groceries. That's the people I worry about," he says.

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