

Last year's tax increase creates county surplus

BY ANNE ADAMS • STAFF WRITER

MONTEREY — Though local officials have continued to beat the drum about Highland's need for more money, the county's general fund account sat with nearly \$2 million at the end of last fiscal year, only about \$100,000 of which was officially restricted for certain expenses, and supervisors' chairman Jerry Rexrode says if he had known the county was going to collect more in revenue than budgeted, he never would have pushed for last year's 5-cent tax hike on property.

And, the county could be left in the black by about \$130,000 at the end of the current fiscal year.

The state of the budget has come to light lately because part-time Highland resident Steve Fullerton, a certified public accountant, has raised questions about the county's budget process.

Supervisors have for years preached about a serious need for increased revenue. At public meetings, the board often reminds local groups not to ask for money because the county doesn't have it to spare. Every time a major development decision is at hand — whether a proposal for a state prison or a “wind farm,” officials are prone to support it on the basis of financial need.

Rexrode has repeatedly warned Highland will have to raise taxes because the county keeps dipping in to its reserves to balance the budget. Most recently, Industrial Development Authority's Dave Smith said Highland should seriously consider allowing a 39-megawatt wind utility to be constructed here despite strong public opposition because it could result in sorely needed tax income, and a potentially lessened tax burden on property owners.

Last week Rexrode told The Recorder, with a better than \$400,000 increase from last year in the county's general fund to start this fiscal year, he hopes no tax increase will be necessary. As the board moves into its budget process for 2005-06, Rexrode says he will take a hard look at the cash on hand, and how much the county needs to pay for, and he won't raise taxes again unless there's a serious need for it.

Highland's personal property rate is 67 cents per \$100 value, one of the lowest in

Virginia.

Fullerton believes it's time taxpayers understand Highland appears to have an improving financial outlook and is certainly not on the brink of financial trouble.

Fullerton used to audit local governments for a living. During his more than 20-year career in finance, Fullerton spent half that time specializing in state and local government accounting, auditing and consulting as a partner and local government practice leader with Brown, Edwards & Co. Prior to that, he was a senior manager and director for Coopers and Lybrand (now PriceWaterhouse Coopers). He now splits his time between his Highland home and one in Forest, working as executive vice president and chief financial officer of Tri Tech Laboratories Inc. in Lynchburg.

Fullerton recently reviewed the audit of Highland County's 2003-04 fiscal year, which ended last June. About a month ago, Fullerton spoke at length with county administrator Roberta Lambert to learn more about how finances work here. He said Lambert was knowledgeable and helpful in providing him with details about the process.

Armed with Lambert's information, Fullerton then spoke to two of Highland's three supervisors, Lee Blagg and Robin Sullenberger. Neither, he said, entirely understood how to interpret the information. And as they have said on several occasions during public discussions, Blagg and Sullenberger told Fullerton they leave the financials in the hands of Rexrode. Fullerton, surprised at how much money was in Highland's general fund, tried to set up a meeting with Rexrode as well, though it has not yet come about.

What's in the general fund?

One of the difficulties in looking at Highland's audit, Fullerton believes, is that Rexrode sets aside money for potential future expenses, but the board of supervisors does not actually take a vote and designate all these funds specifically. Consequently, from an audit read, much of the \$2 million general fund is technically unrestricted or undesignated, free to spend for anything the county needs, even if it's theoretically tagged for possible expenses down the road.

Lambert agrees that's the way the county has operated, but to avoid confusion in the future, she plans now to recommend the board properly designate more of those funds by vote, and ask auditors to refer to those funds in the way the county defines their purpose.

Either way, Fullerton says, citizens should understand the difference, and should know much more specifically what the county intends to do with their tax money.

As Lambert explains, local governments treat money in the general fund as either “reserved,” “restricted,” or “designated.” The definitions are easy to confuse.

Restricted money is only allowed to be spent on one particular thing, Lambert says, and it's usually restricted by whatever outside agency provided the money or by the county itself. For example, if the county received money from a state agency for a new furnace, that's all it could be used for. Often, localities do not put this kind of income into the general fund, so it doesn't co-mingle with other cash.

Fullerton says that technically, from an auditing point of view, some restricted money can be used for more than a single item, depending on what kind of strings are attached by the funding source.

In Highland's case, there are a couple of restricted funds like \$86,000 in grant money for microfilming courthouse records. There is also \$108,000 in federal dollars from Homeland Security, which can only be spent certain ways on improving public safety. The money must be spent by March 31. Rexrode says some was used recently by the fire department for equipment, and he expects the rest to be spent on a compressor system.

Reserved money is that which Lambert tags for covering operating expenses to pay its bills during the months between the beginning of its fiscal year (July 1) to the time taxes are collected. Usually, she says, some property owners pay their taxes in October when the notices are sent, but the majority of the taxes are collected toward the end of November (they are due Dec. 5). If everyone waited until Dec. 4 to pay, she noted, the county would have to put more in reserve.

Lambert calculates the reserve by using 15 percent of the county's total budget (\$5.7

million), which amounts to about \$850,000, a formula she says is recommended by auditors. Even though this money sits in the general fund, it is used for expenses, general and otherwise, during the time lapse between the beginning of the fiscal year and when taxes are paid. Lambert and Rexrode look in more detail at what kinds of expenses might be coming up, and adjust the reserve accordingly.

Fullerton believes the county may not need that much on hand. Furthermore, he says, the reserve should be calculated based on its general fund, not the entire budget, which would mean a reserve of roughly \$425,000 for 2004-05, based on a general fund expenses in 2003-04 of about \$2.8 million. The money designated for things outside normal operations should already be set aside.

Most localities have reserve money, and they should, Fullerton says. But how much should be in reserves can vary by locality, depending on needs. Unless Highland encountered a serious disaster, Fullerton says, he doesn't believe the county needs that much, and he questions the need for another tax increase this year with that much cash available.

In addition, the 15 percent recommendation, Fullerton says, is a rule of thumb, not a requirement. That formula stems from the Government Finance Officers Association, he explains.

Were the county to reserve only \$425,000, Rexrode says, it wouldn't be enough. Based on Lambert's figures, 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.

Based on estimates for the current fiscal year, Lambert explains, the county had \$1,766,731 in cash. Of that, about \$406,000 of it was already set aside in separate funds, and \$627,000 was earmarked for future expenses. That leaves \$733,976 in reserves to operate, as Lambert sees it.

Fullerton argues the \$627,000 is still free to use. Just because Rexrode might deem that money necessary to hold onto does not mean the county can't use it during the current year, and it's highly unlikely it would all be spent during the one four-month period anyway.

Designated money is set aside for specific projects or programs the county knows it will need to pay for, and it's designated by a board vote. Money from the general fund, designated or not, remains there, which contributes to the appearance of "extra" cash. This is a problem Lambert intends to fix by recommending the board set up separate funds. For example, Highland officials have \$50,000 tagged to pay

for next year's property tax reassessment. While that money is still in the general fund, Lambert and Rexrode deduct that amount from their beginning cash position during the budget process as they try to determine what overall expenses will be. If the board officially designates all such funds, then it will be easier for everyone to see what they intend to use the money for. At the moment, Rexrode simply calls this kind of money "earmarked."

How much is "earmarked"?

Of the \$2 million in the general fund, about \$627,000 is currently "earmarked" for certain things. Fullerton says citizens should question why this money is considered earmarked when the board has not officially voted to designate it for these things; Lambert says she intends to ask the board to do this. Aside from the \$856,000 set aside as reserve, the earmarked money includes:

- \$100,000 for cleaning up last year's oil spill leak at the schools. Fullerton finds it hard to believe that much will be needed. Rexrode says no one has billed the county for cleaning up yet, and the contaminated sludge is still sitting at Jack Mountain Village. He says he's not sure how much it will cost to take care of, but he hopes the state will contribute something toward the expense; those negotiations are ongoing.

- \$150,000 for a new swimming pool. Fullerton wonders why that money is off-limits when Highland has been turned down for grants to build it. Rexrode said the money was set aside a couple of years ago when the county began applying for grants for a pool, which it will do again soon. The sum is what the county says it would likely have to pony up as a match to qualify for a grant.

- \$50,000 for next year's reassessment costs. Lambert says the assessment will cost more than that, and the county should have started putting money away for it sooner. With a full-time secretary for a year, plus postage, printing, and \$90,000 just for the assessor, the cost could amount to as much as \$150,000 over two years, she estimates.

- \$15,000 is for the county's new comprehensive plan, an amount Lambert estimated the county might spend, particularly since the review committee is considering a higher quality version of the plan, with more color maps that may be more expensive than in previous years.

- \$165,000 is for the town sidewalk project. Highland has been for several years going through grant and funding phases with federal transportation money to build sidewalks up to and around the school complex. As the next phase comes about, this money will be needed to match the grant. Fullerton suggests the grant

match could be paid with private donations, or at least offset with creative fund-raising and participation from county residents in order to save some money.

- \$147,000 is for paying off the McDowell water system, and painting the tank, as recommended by the agency financing the system. Fullerton believes it's not right for the rest of the county residents to pay for a system that should have been paid for by users connected to it if the county had set up the fees that way at the onset. He also wonders whether some of Highland's debt to Rural Development for this loan could be forgiven if county leaders lobbied hard for relief. The money includes \$125,000 for the county's annual payment on its debt and \$22,000 to paint the water tank.

If the board were to officially designate the \$627,000 listed above for these purposes, Fullerton says there's still plenty left in reserve. "Even if you give the county the benefit of the doubt, and let's say they actually intend to spend this 'earmarked' money, you still have over \$1 million sitting there," he says more than enough to pay for normal operating expenses.

After looking at the audited figures, Fullerton says, the county has enough reserved, and the level of cash in the general fund is growing. He points to last year's 5-cent tax hike, which left Highland more than \$400,000 above budget to start the current fiscal year, and next year's reassessment, which will yield even more county funds.

Where does the rest go?

More than half of the county's current \$5.7 million budget goes to fund the school system.

One of its other big expenses is for social programs required by the state. The state provides some money for them, and Highland is required to pony up its share. In general, costs have increased over the years.

The county has a separate fund for solid waste disposal, which is paying for itself in user fees (the enterprise tax.)

In addition, there are two capital funds set aside — one for the county and one for the school, both of which are used for future improvements to public facilities. There is roughly \$77,000 for the schools for things like roof and floor repairs. There is \$188,000 for the county, to pay for things like courthouse renovations or upgrading the sheriff's office.

Fullerton hopes there is a clear plan in place for using the money, one citizens understand and agree with. Rexrode points to courthouse and school improvements that have been covered with this money. Also, he says, if the schools do not spend all that's budgeted, the county puts the remainder into the schools

capital improvement fund.

Aside from the McDowell water fund, which does not pay for itself, Fullerton believes the county is in good shape, and county leaders have been conscientious stewards of taxpayers' money. "The county paid for everything it needed to last (fiscal) year, and still had more than \$400,000 left over," Fullerton said. "I don't know why they continue to see a need for raising taxes, especially since there will be a reassessment coming."

Rexrode says Fullerton may be right, in that Highland could have more cash on hand than expected at the end of this fiscal year, June 30, 2005. But he worries about long-term expenses he says most people don't realize will come up. He points to the jail renovations that will be needed for the new E-911 system; paving the school parking lot sometime in the next 10 years; the leaking gym walls; and other things the county must plan for.

Fullerton and Rexrode agree the county has managed to take care of its expenses so far. But how to interpret trends and predict what the future might bring and how to budget for it is where their lines of thinking go separate ways (see related story).

Bath County administrator Claire Collins agrees the budget process is challenging for local governments. While Bath looks at 15 percent of its general fund, and not the entire budget like Highland does, she says the county does not just go by that amount. "We look at everything in depth. We do a very thorough analysis, and the treasurer is very involved," she says.

By Collins' estimates, 15 percent of Bath's general fund expenses would cover its normal operating costs before tax payments came in. But if the county were undergoing particular capital improvements at the time, more would be needed. She says the county takes that into consideration during each budget process. Like Highland, Bath first figures out what it will need to pay for its school division, and goes from there.

"We've had no trouble predicting what we'll collect in revenue," she says, "but we haven't had what I'd call an emergency situation that would cause us to dip into our reserves significantly." Collins points out that any locality hit with some kind of disaster would face trouble, but there's really no way to predict those.

Bath has experienced an improved revenue picture over the last 12 months, Collins said. "We've seen an upward trend ... in general, people are investing more in this county." That increase is not yet attributable to the multi-million-dollar development project planned by The Homestead Preserve, which is only in its

beginning stages.

Collins says county officials review building permits thoroughly through the commissioner of the revenue and treasurer. Highland does that as well, Rexrode notes. The county brings an assessor in every year to put a value on new homes or businesses, which is taken into account during the budget process.

So is it possible Highland is also experiencing upward trends of its own? Yes, Rexrode and Fullerton agree. But only history will tell us where that takes the county next, or whether such trends will continue. In the meantime, says Fullerton, for every decision the county makes, it needs to have a much better understanding on where things stand financially. "They need to get a handle on where they are, and how they're going to finance things," he says.

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