

AT A SCHEDULED BUDGET MEETING OF THE ROCKBRIDGE COUNTY BOARD OF
SUPERVISORS HELD IN THE ROCKBRIDGE COUNTY ADMINISTRATIVE OFFICE BUILDING
AT 150 SOUTH MAIN STREET, LEXINGTON, VIRGINIA
ON MONDAY, APRIL 4, 2022 AT 5:30 P.M.

BOARD MEMBERS PRESENT: R. W. DAY
L.E. AYERS
D.B. MCDANIEL
A.J. "JAY" LEWIS, II.
BOARD MEMBERS ABSENT: D. E. LYONS
COUNTY ADMINISTRATOR: SPENCER SUTER
FINANCE DIRECTOR: ASHTON HARRISON

CALLED TO ORDER:

Chairman McDaniel called the meeting to order.

County Administrator Spencer Suter conducted a roll call of the Board members present. Supervisors Lewis, Day, McDaniel, and Ayers attended in-person while Supervisor Lyons was absent.

Chairman McDaniel advised that the consideration to schedule public hearing on the draft FY2023 budget was moved out until April 11, 2022.

Review of the FY2023 Draft Budget:

Mr. Suter reviewed the following information:

"This is our 5th budget meeting with the full Board. To recap, we saw some challenges through this budget process, but with a lot of effort, are now getting to the point where we are more confident in our numbers. I'll briefly list the challenges and then review how they have been addressed,

and conclude with where we are now and potential decisions the Board may want to make this evening or over the course of the next week.

Challenges:

The first challenge was the fact that we found ourselves without a Finance Director just as the budget heated up in early February. That caused some of us a good deal of stress as we needed to keep the standard processes moving ahead while we worked on the budget.

The next main challenge was the fact that we had more requested expenditures than projected revenues. This is fairly standard for us. The initial gap was approximately \$2M. This included an estimated cost to bring our staff to within 90% of the market salary average and provide a Cost-of-Living increase to keep up with the market.

Following that, the general assembly ended their session without a budget, which is always difficult, since anticipated revenues from the Commonwealth certainly factor into budget decisions.

Finally, we were faced with the challenge of increasing vehicle valuations and the impact on the Personal Property tax assessments.

Now I'll do a quick review of work to address these challenges:

- 1) First - we needed some help - Fortunately, we retained the services of John Montoro via VML/VACO, who has helped shepherd the process and we now have Ashton Harrison on Board. This is just Ashton's second day with us, so I can't expect him to get his arms around this just yet, but he has hit the ground running.

- 2) Second, over the course of the past six weeks, the Finance Committee has worked to close the budget gap. We are now within reasonable reach of a balanced budget. We'll show those figures in a minute.
- 3) With regard to the budget schedule and the failure of the General Assembly to get to a budget at the state level, At the last regular budget meeting, the Board approved a Finance Committee recommendation to delay the previously adopted budget schedule by one week. By the old schedule, the Board would have been considering a budget to advertise tonight, April 4th. Later in the agenda, we will be asking the Board to consider adoption of a revised schedule. Assisting with one of our challenges, today, the General Assembly is back in session.
- 4) Finally, with a tremendous deal of work in the Commissioner of Revenue's office Finance committee and staff, and a law just signed into effect at the state level, we can now predict the impact of increased vehicle valuations. This may result in a recommendation to set different rates for vehicles, campers and motorcycles and for business PPT.

This evening, we will show you where we are currently, and ask for your consideration of any additional options. As noted, our plan is to present a balanced budget for you next Monday evening, with request to advertise a budget public hearing on April 26th and budget adoption on May 3rd.

The Finance Committee has not yet made a recommendation and does not wish to do so before getting the full boards feedback. The idea would be to discuss options relative to both Revenues and Expenditures. We are confident in our current non-discretionary revenue numbers. However, we are still wrestling with the PPT rate. Essentially, increased valuations would result in an approximately \$1.6 M increase in revenues if no change was made the tax rate. The legislature has passed a law which would allow localities to set diffident rates for automobiles and all other personal property. We have run scenarios at varying tax rates for vehicles, each of which results in a net which is either positive or negative.

Similarly, the finance committee has discussed some discretionary expenditures requests that are still in the budget.

Starting there, there are several assumptions the Finance Committee has made:

With regard to revenues:

- That localities will be held harmless on the grocery tax
- We've budgeted conservatively on sales and meals tax
- We've assumed a 5% increase in comp board funding and budgeted the local cost

Under expenditures, it assumes that

- With regard to compensation, our goal is to get nearly everyone to 90% of market and to give a 5% cola to keep up with our competition.

- The schools original request for \$244K above level is still in the budget. At the last joint meeting, they asked for an additional amount totaling \$567,379 above level.
- Also, there are requests for supplements in the General and Juvenile/ domestic relations courts for \$3,000 per full time and \$1,500 for part time staff. The total request is for 8 FT and 1 PT for a total request of \$25,500.
- Finally, most 501-C3s have asked for an increase over current year - Typically 10%. The total increase is approximately \$20,000."

Chairman McDaniel noted that the Senate budget version redirected the grocery tax back to the school system, and should that model be adopted, the Board would need to reduce the funding it provides to the schools by that amount. He advised that the Finance Committee has budgeted some increase in the sales and meals tax, but have been conservative. He stated that expenditures need to be discussed at this meeting, and one of the items needing to be discussed is the schools request for a 1% bonus for its employees. He stated that the Finance Committee looked at the potential to use end-of-year savings to fulfill the request, but would continue looking at options. He shared his appreciation to Mr. Montoro for filling in during this budget season. He also commended the Commissioner of the Revenue's office for its assistance as well. He noted that the Commissioner's office was able to go ahead and receive the NADA book for personal property values which was a great benefit. He advised that it

appears there is an overall 13% increase to personal property values, at this time.

Supervisor Lewis shared that the general theme, as usual, is that there are so many unknowns. One, he noted, was the grocery tax and how the process will ultimately work.

In regard to the 13% increase to personal property values this year, Supervisor Ayers asked the Finance Committee if that percentage could change.

Chairman McDaniel replied that it could fluctuate somewhat.

Supervisor Lewis noted that the draft does not include the school's most recent request. He added that any raise, even if at 5%, will be lower than what other localities are giving.

Chairman McDaniel asked Commissioner of the Revenue David Whitesell if he had any feedback regarding the 13% increase in personal property values.

Mr. Whitesell advised that he has never known the value to decrease in our fleet and values will continue to change as the fleet changes. He stated that the values should continue to increase as they always have by the time personal property bills are sent out in August. He added that he would not expect the percentage increase to go below 13%.

Mr. Suter asked Mr. Montoro to review the proposed budget summary.

Mr. Montoro reviewed the revenues and expenditures summary pages. Revenue was below expenditures by roughly \$369,475.

Mr. Suter noted that a lot of the increase was related to public safety and the lodging tax, explaining that an increase in lodging revenues resulted in the same increase on the expenditure side, based on formula.

Mr. Montoro then reviewed revenue changes under consideration for reduced vehicle tax rates at \$3.875, \$3.80, \$3.75, and \$3.65. He noted that the current draft includes the school divisions original request.

Chairman McDaniel shared the following statement: "As we look at the vehicle tax rate, we are also going to have to be backing into the personal property tax relief and what percentage that is. There may be opportunity to lower that relief a little bit."

Mr. Suter noted that when splitting the tax rate, all other taxes other than those vehicle taxes would remain at the current \$4.50 rate because those are somewhat depreciating numbers. The new law is only in effect for three (3) years and will expire on January 1, 2025. What we are asking for now is for the Board to think about and discuss preferences for closing the budget gap, whether it is through expenditure reduction, revenue adjustment such as would occur with a change to the PPT rate, or a combination. The Finance Committee will need to meet by Wednesday to, using feedback from the full Board, make a final recommendation to post on the Board's agenda for consideration of advertisement next Monday. One thing that we hope to leave with tonight is if the Board is comfortable with salary increases. The cost is currently calculated as a single number. We would need to drill down and plug that into individual budgets prior to advertising."

Chairman McDaniel asked members of the Board to speak with the Finance Committee or Mr. Suter by end-of-day, tomorrow, for any recommended changes.

Supervisor Ayers shared that she would find it to be wrong to support County staff but not the schools in regard to raises.

Mr. Suter noted that the draft numbers included Comp-Board employees that are locally supported.

Chairman McDaniel asked for discussion on non-profit 501-3c organizations and their requests. He noted that in 2020, their budgets were cut by 10% and the request would be to give that 10% back to them.

Supervisor Ayers shared support of providing the 10% back to those agencies. She asked for discussion on the judicial increases.

Chairman McDaniel explained that the judges asked for some supplemental pay for some of their employees, \$3,000 for full-time employees and \$1,500 for part-time. The total increase came to \$25,500. He then asked Mr. Suter what the city was planning to do and if they received the same request.

Mr. Suter explained that Lexington would need to share on whatever cost at a rate of 25% because there is a shared-cost and the County pays 75% and City 25%. He added that this was the 4th year this request has been submitted along with a justification sheet. He noted that any increase would be provided via a 1099 form and not included in salaries so it would not be part of their VRS calculation. He further noted this is not considered to be a bonus, but an annual supplement to keep employees closer to market.

Chairman McDaniel added that the request had been declined in the past few years and the Board could, again this year, decline the request or reduce the amount if it wanted to. For example, he noted, reducing the amounts to \$1,000 for full-time and \$500 part-time.

Mr. Suter provided additional details, sharing that there are 8 full-time employees and 1 part-time between the two courts. He then compared what other localities have been supplementing.

Supervisor Lewis shared his support of helping the judge with the request, but shared his frustration with unfunded mandates when it comes to the General Assembly not paying what they say they should pay. He shared his support of looking once more at the request in hopes to help.

Chairman McDaniel asked for discussion on the contribution to the schools. He shared that their original request of \$244,000 remains in the draft budget; however, during the most recent joint meeting, their request increased to \$567,379. He advised that the request had not changed in the draft budget as the Finance Committee was waiting to see what happened with their insurance. He further advised that the schools had gone out to market for better insurance as their current provider is projecting a 20% increase. He noted that the average increase is usually between 8-12%. In addition, he shared, the schools are requesting a 1% bonus for their employees.

Supervisor Lewis stated that end-of-year savings for the schools is transferred to their capital improvements line per agreement between the Board of Supervisors and School Board.

Supervisor Ayers asked if the school's budget 20% for insurance and in actuality it comes back as only 11%, then would the difference be placed in the school's capital improvements line?

Supervisor Lewis responded, by default, that is where the difference will go.

Supervisor Ayers stated that the Board usually waits for actual numbers before it is budgeted.

Supervisor Lewis shared that the Board will not have the opportunity this time. He asked that the Finance Committee go back to the schools once more and see if there is any other information can be offered to help guide the Board.

Mr. Suter advised that the County has yet to receive an actual percentage for its insurance and probably would not know until adoption.

Supervisor Lewis again stated that the Board needed to go back to the schools to see if there are any potential updates.

Supervisor Ayers advised that last year, the Board kept a higher estimated number in the budget and told the schools they could give employees a raise if the actual insurance numbers were reduced. She added that when the numbers did in fact decrease, Board members still received calls and emails indicating that they were not supporting teacher raises. Ultimately, the schools ended up giving those raises but it was not until after the Board received those calls and emails.

Supervisor Lewis shared that he did not support that scenario last year.

Supervisor Ayers advised that she did not want to see that happen again this year.

Supervisor Lewis reiterated that staff or the Finance Committee could go back to the schools to see if they have changed their amount being requested.

Supervisor Ayers shared that the Board could fund their insurance at 11% and should it actually be 20%, perhaps use reserves to cover the difference.

Chairman McDaniel stated that the Board needed to find out if the State would be providing schools with a 4% or 5% increase.

Supervisor Day noted that he believed the biennium budget showed an 8% increase over two (2) years.

Chairman McDaniel shared that everyone was impacted by Covid-19 including teachers, students, and parents and a bonus is probably warranted. However, he was unsure if the Board should be budgeting that bonus versus using end-of-year savings to fund it.

Mr. Suter advised that he would ask what the mechanism is for the raises over the biennium and see if the schools are proposing an additional amount above and beyond what the State is going to give. If so, if given this year, would that additional amount of local funding be credited next year by the State?

Supervisor Lewis suggested it be asked if any other savings were found after examining their budget. He noted that the Board received a salary comparison chart again this year for the schools and it is not just

what the State is doing with their budget but what salaries need to be to keep employees from leaving and going to Augusta, Botetourt, Bath, or Amherst Counties to work.

Supervisor Ayers added, or those employees retire early as there is that incentive in Rockbridge County Schools.

Chairman McDaniel stated it was a shame to be having this conversation and the Board of Supervisors have always asked the schools for a budget number early in the process. He advised that the State is only funding SOQ positions which amounts to about 50% of school staff and of that 50%, it only funds 45% of the increase. He added that, when dispersed, the State actually funds only 30% and the County funds 70%. However, State elected officials say they gave the teachers 4% raises which is not true.

Supervisor Ayers commented that she felt that was inaccurate information. She added that they should not expect the State to fund our schools 100% as there is a formula and percentage.

Chairman McDaniel added he believed those positions should be funded more from the State, at minimum, 50/50 would be better than what they are doing now.

Supervisor Lewis shared that the positions the State says we should have are not even fully-funded. He stated they should at least contribute to what the law says they should be contributing, and likewise, with Comp Board positions.

Chairman McDaniel provide an example of the how the Comp Board tells the County the Treasurers Department needs 3.78 people and only funds 1

position at 90% and 2 positions at 50%. The County then pays the remaining percentage of those employees as well as full pay for a part-time person and a full-time person. He suggested the Board members have those kinds of conversations with their elected officials at the State level. He asked the Board if they wanted to increase the budget to a new amount or keep it where it is and make up the difference however they need to.

Supervisor Lewis asked for one more look at the school's budget.

Supervisor Ayers shared support to keep the current numbers and fund more if the insurance numbers come in higher.

Chairman McDaniel provided confirmation for Mr. Suter to request more information from the schools which can then be reviewed by the Finance Committee. He then stated that the Finance Committee would need to take a hard look at the PPT and PPTR.

Supervisor Lewis noted that there was no final number for fulfilling the Judge's request.

Supervisor Day asked if the Board was adding \$20,000 for non-profit 401-c3s.

Chairman McDaniel advised that the \$20,000 was already in the draft budget as well as the \$25,500 for the judicial request.

Supervisor Ayers shared it was prudent to her that the Board go with the 3.875 ppt rate and address the transfer from reserves.

Chairman McDaniel replied, the deficit would be transferred from reserves.

Supervisor Ayers inquired about the percentage of current reserves.

Mr. Suter noted that reserves increased due to ARPA and Cares Act funds.

Chairman McDaniel noted that those funds would need to be spent in a certain timeframe and the reserves account would come back down. He added that there is room there in that account to transfer some funds.

Supervisor Lewis stated that it would go against the rule-of-thumb of using those funds for one-time expenses. He stated that what was included in the proposed budget was not one-time expenses.

Supervisor Ayers concurred and asked if all first-time expenditures were exhausted.

Supervisor Lewis replied, yes. He added that funding the school's bonuses using year-end expenditures is preemptively depleting the capital improvements fund that will be needed.

Supervisor Ayers asked Supervisor Lewis if he was wanting to go with a 3.875 rate.

Supervisor Lewis replied he was unsure. He stated that he wanted to provide help but was unsure the rate of increase on personal property. In regard to the grocery tax, he noted there is potential for it to go away in 3 years.

Chairman McDaniel replied there is no way to know what is 3 years ahead and we cannot account for that in this budget.

Supervisor Lewis suggested that, while looking at adjusting the personal property tax rate, we should avoid scenarios where we have to

adjust that rate all the time. He shared how hard it would be for citizens to know what to expect to budget for.

Supervisor Ayers shared her view to budget conservatively at 3.875 and drop the amount if needed. She noted that the Board could reduce the advertised amount but could not increase.

Supervisor Lewis stated that the Finance Committee will be bring back better numbers and he was not ready to make a recommendation.

Supervisor Day stated that he would support a rate of 3.875 unless there were dramatic changes from the school's request.

Chairman McDaniel stated he would like to get the rate as low as possible for this year to give citizens a break. He supported using reserves to support a deficit of \$100,000 - \$150,000 to balance the budget this year. He stated it would be money well spent to help the citizens.

Supervisor Lewis agreed, stating that if ever there were a time to do something like that, now is the time.

Finance Director Ashton Harrison noted that the unassigned fund balance from last year's audit was 37.51 percent of the annual budget.

Supervisor Ayers asked if the County was on track in the current (FY2022) budget.

Mr. Suter replied, there are some areas that are on track and some that are not. he added that increased fuel price was not anticipated in the previous budget session.

Chairman McDaniel stated that, while increased fuel prices have caused some pain, it was not anticipated to have a 13% increase in personal property, either.

At this point, Supervisor Lewis noted that he had another commitment and had to leave the meeting.

Mr. Harrison noted that he would be able to see where the budget is currently tracking the following week.

Mr. Suter shared that one thing the County does not currently do that he recommends, is adding a budget line to fund future capital projects. He added that we have been relying on end-of-year savings and sliding that into a capital fund. He suggested going ahead and assigning some of the tax base every year to set money back because "cash-is-king" especially with interest rates increasing over the next couple of years. With regard to personal property, Mr. Suter then noted that a public hearing would be required to adopt an ordinance and that this process would need to be done concurrently with the budget public hearing.

Consideration to Amend the FY2023 Budget Meeting Schedule:

Mr. Suter reviewed the new dates for the remainder of budget meetings as follows:

April 11, 2022- Schedule Public Hearing

April 26, 2022- Public Hearing

May 3, 2022- Budget Adoption

Supervisor Ayers moved to amend the Budget Schedule, as presented.

Supervisor Day provide the second, and the motion carried by the following roll call vote by the Board:

Ayes: Ayers, Day, McDaniel
Nays: None
Absent: Lewis, Lyons
Abstain: None

Adjournment:

Supervisor Day moved to adjourn. Supervisor Ayers provide the second, and the motion carried by the following roll call vote by the Board:

Ayes: Day, Ayers, McDaniel
Nays: None
Absent: Lewis, Lyons
Abstain: None