



Discussion of the Challenges Forthcoming in FY15 and the Need for Additional Resources

March 21, 2013



FY14 Budget Summary

- This week, you have heard about how departments cut or absorbed \$115 million in the past four years.
- At this point, to further cut expenditures means further service reductions and, possibly, layoffs.

Police Expenditure Cuts



Cost Saving Measures & Improvements
Personnel and Operating Costs

FY11-FY14 over \$1.1 million in hard dollar cost savings:

Personnel Savings	\$566,870
Operating and Capital Savings	\$541,520

Henrico County Division of Police

Fire Expenditure Cuts



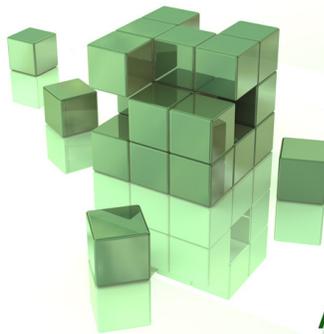
Initiative	FY12 Reductions (Compared to FY09)	Cumulative Reductions Since FY09
Limits on overtime	\$ 97,557	\$ 235,187
Changes to uniforms and protective equipment	\$ 173,256	\$ 497,072
Control cost of replacement equipment and shop inventory	\$ 464,620	\$ 674,106
Reduce expenditures on Pumpers (revised specifications)	\$ 108,000 (\$54,000 reduction per unit)	\$ 324,000
Re-chassis 4 existing ambulances rather than replace with new	\$ 240,000 (\$170,000 reduction each x2)	\$ 680,000

Public Safety & Education



- Public Safety and Education account for more than 76 percent of the total FY14 Proposed General Fund Budget.
- Personnel costs account for at least 90 percent of the following FY14 Proposed departmental budgets:
 - Education – 90.0 percent
 - Police – 90.7 percent
 - Fire – 90.5 percent
- Operating costs in these areas are mostly fixed costs.

**CHANGING THE WAY
HENRICO COUNTY
DOES BUSINESS**



April, 2011



Copies Available at:

www.co.henrico.va.us/finance

Targeted Look at Impact of Cuts



Department of Finance

Fiscal Year	Employees	Personnel	Operating & Capital	Total Budget
FY09	166	\$10,879,606	\$1,867,088	\$12,746,694
FY13*	146	\$10,474,683	\$1,279,332	\$11,754,015
Change	(20)	(\$404,923)	(\$587,756)	(\$992,679)
% Change	(12.0%)	(3.7%)	(31.5%)	(7.8%)

* Recognizes eliminated, unfunded, and "frozen" positions as of March 5, 2013.

Targeted Look at Impact of Cuts



Department of Planning

Fiscal Year	Employees	Personnel	Operating & Capital	Total Budget
FY09	50	\$3,751,865	\$583,558	\$4,335,423
FY13*	41	\$3,457,661	\$314,652	\$3,772,313
Change	(9)	(\$294,204)	(\$268,906)	(\$515,034)
% Change	(18.0%)	(7.8%)	(46.1%)	(11.9%)

* Recognizes eliminated, unfunded, and "frozen" positions as of March 5, 2013.



\$33 Million in Fixed Cost Increases in FY15

\$21 million - Education
\$12 million - General Government

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FY15 Outlook – VRS Impact

- Total anticipated cost increase of \$14.1 million
 - 2012 legislation now requires the State to fund a fixed percentage of the VRS actuarial rate for teachers
 - The estimated VRS rate for teachers will total 15.5%, an increase of 32.5%
 - In the last 15 years, the State has fully funded the actuarial rate only **three** times...the last time being **ten years ago**

VRS Impact - GASB #68



Statement of Net Assets, School Board	As of June 30, 2011	Example with GASB #68
Cash and cash equivalents	\$19,944,416	\$19,944,416
Due from Primary Government	10,596,577	10,596,577
Due from Other Governmental Units	17,065,884	17,065,884
Other Assets	251,997	251,997
Capital Assets	240,689,625	240,689,625
Total Assets	\$288,548,499	\$288,548,499
Accounts payable	\$2,327,422	\$2,327,422
Accrued Liabilities	2,749,007	2,749,007
Teacher VRS Net Pension Liability	n/a	507,868,680
Other Liabilities	6,439,823	6,439,823
Long-term Liabilities	32,306,473	32,306,473
Total Liabilities	\$43,822,725	\$551,691,405
Total Net Assets	\$244,725,774	(\$263,142,906)

FY15 Outlook – Communications System



- The system is the backbone of the County's communication network, notably in the area of Public Safety
- The system must be replaced
 - Current system is 14 years old
 - Technology will soon be obsolete
- Total cost projected to be **\$50 - \$60 million**
- Debt Service costs to begin in FY2014-15

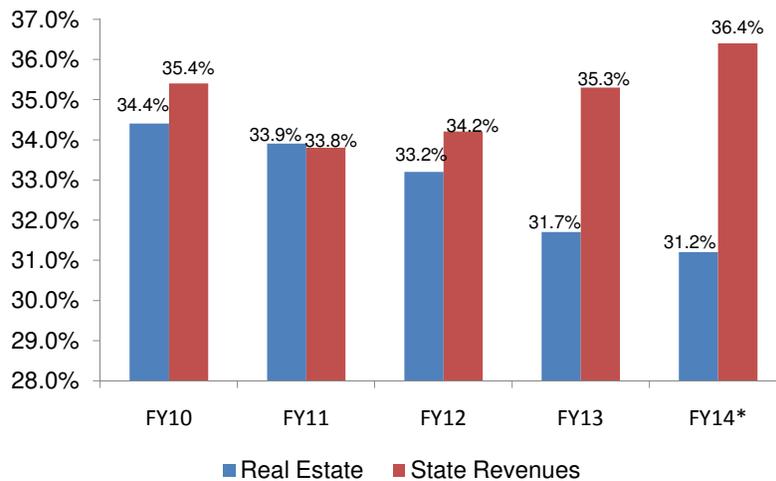
State/Federal Cost Shifts and Mandates



- From the State
 - VRS
 - SB497 - The VRS “5 and 5” bill
 - \$508 million in pension liabilities
 - Line of Duty Act
 - State funding for Education remains at FY09 levels
 - House Bill #599 funding for Police
 - Constitutional Officers – benefits and operating costs
 - Per diem reductions for State responsible prisoners
- From the State (cont’d)
 - Costs for primary elections
 - Health benefits for retired teachers
 - Comprehensive Services Act
 - Inadequate funding for VJCCCA, JRJDC, and local *detention home*
- From the Federal Government
 - Affordable Healthcare Act
 - Chesapeake Bay Regulations – Stormwater Utility Fee

Equates to 11 Cents on the Real Estate Tax Rate

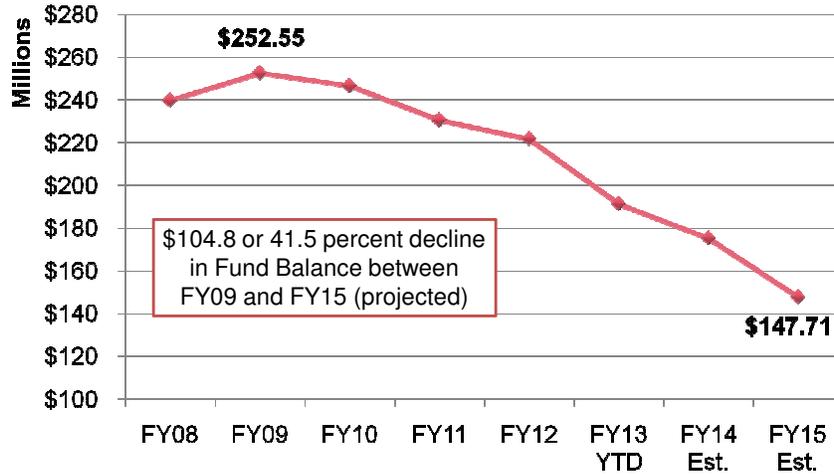
Real Estate and State Revenues as a Percent of Total



Impact on County's Financials



Henrico County's Fund Balance



Capital Budget - Funding Decreases



Funding Source	FY13	FY14
General Fund	\$10,000,000	\$2,920,000
Motor Vehicle License Fee	\$850,000	\$850,000
G.O. Bonds	\$40,218,792	-
Interest Earnings	-	\$2,500,000
Other Local Revenues	-	\$580,000
Total	\$51,068,792	\$6,850,000
Savings from Completed Projects*	-	\$2,500,000

*Transfer of current appropriations to be completed within current fiscal year to fund building maintenance requirements.

The FY14 Capital Budget represents a smaller capital budget than **52 YEARS AGO**.

FY14 through FY18 Capital Improvement Program Requests



Funding Source	Total Five Years
General Fund/Other	\$67,424,508
Motor Vehicle License Fee	\$4,250,000
No Funding Source	\$1,201,015,582
Total	\$1,272,690,090



ADDITIONAL RESOURCES

Why a Meals Tax is more advantageous to the County – both now and in the future - than consideration of a Real Estate Tax increase

Additional Resources



- Structural issues identified in estimated fund balance levels and other trends have impacted the County's ability to cut expenditures without significant service impacts.
- The FY14 Proposed Budget assumes an \$18.0 million funding source to begin in January 2014.
 - \$9.0 million funding source in FY14 associated with an Education Reserve.
- Two options available: meals tax via referendum or comparable real estate tax rate increase.

Additional Resources



- Many localities in Virginia have increased or plan to increase their real estate tax rate in an effort to raise adequate revenue to cover necessary costs
- **Henrico County has not raised the real estate tax in 35 years – but has decreased it six times since.**
- At 87 cents, Henrico remains the lowest among the 13 largest localities in the State.
- It is critical for economic development to maintain a low tax burden.

4% Meals Tax Consideration



- More than 200 localities (including towns) statewide with a meals tax.
 - Cities and Towns have the authority to impose a meals tax without a referendum.
 - Five Counties authorized to implement meals tax without referendum
- **It is estimated 40% will come from non-Henrico County residents.**
 - Half of the region's hotel rooms are in Henrico County.
 - Only 1/3 of the region's population, but nearly 40.0% of the region's taxable sales in meals.

4% Meals Tax Consideration



- Demand for restaurant meals is relatively inelastic and therefore a meals tax will likely have minimal impact on the price or quantity of sales.
- Restaurant sales are more heavily impacted by other economic trends other than the implementation of a meals tax.
 - From 2006 to 2011, growth in Restaurant Sales:
 - City of Richmond = 28.5%
 - Henrico County = 23.7%
- Having a meals tax provides a stable income to the locality.

Meals Tax vs. Real Estate



- Assuming a 4% meals tax (maximum allowed for counties), Henrico County would generate approximately \$18 million annually.
 - **Equivalent to 6 cents on the real estate tax rate.**
- With estimates that 40 percent of meal expenditures in Henrico are generated from non-Henrico County residents.
 - 60 percent of \$18 million is \$10.8 million
 - **Equivalent to 3.5 cents on the real estate tax rate but generates the equivalent revenue of 6 cents on the tax rate**
 - \$7.2 million less needed amongst our households

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Additional Resources



- **All \$18 million generated from the meals tax would be allocated to Education.**
 - Remember, \$21 million in fixed cost increases in FY15 Education has greatest need
- Will provide funding for both Operating and Capital Budgets

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Recommendation



- Suggest Meals Tax versus Real Estate Tax Rate increase in 2014.
- Dedicate Meals Tax revenue where our greatest needs are – **Schools**
- Proceed with a Meals Tax Referendum as question on general election.

Meals Tax Referendum Question



For the purposes of funding the operational needs and capital projects of the Henrico County Public Schools, shall the County of Henrico, Virginia, be authorized, pursuant to Section 58.1-3833 of the Code of Virginia of 1950, as amended, to levy a tax on prepared food and beverages, otherwise known as a meals tax, in the County of Henrico, Virginia, equal to four percent (4%) of the amount charged for the prepared food and beverages?

Proposed Meals Tax Referendum Timetable



- July 9 – Approval of Board resolution requesting Circuit Court to order referendum
- July 10 – File certified copy of Board resolution with Circuit Court
- July 12 – Entry of Court order calling for referendum election and submission to Justice Department
- September 13 – Preclearance response from Justice Department
- September 20 – Absentee balloting begins (46 days before November 5)
- October 15, 22, and 29 – Notice of election published in newspaper
- **November 5 – Referendum election**

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