

COUNTY OF YORK

MEMORANDUM

DATE: February 9, 2023
TO: York County Board of Supervisors
FROM: Neil A. Morgan, County Administrator 
SUBJECT: Follow-up from January 27, 2023 Board Retreat

During the Board retreat on January 27, 2023, there were additional follow-up details and answers to questions various board members requested.

The attachments include a discussion and summary of the FY2022 surplus, a discussion of the personal property tax rebate and analysis of the last ten years revenue and expenditures of the general fund budget.

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Attachments:

- York County's FY2022 Operating Budget Surplus in Context
- Personal Property Revenue Discussion
- General Fund Ten Year Trend

YORK COUNTY'S FY2022 OPERATING BUDGET SURPLUS IN CONTEXT

SURPLUSES IN GENERAL

At any point in time, the County must look at three different operating budget cycles. Those are the fiscal year that ends on June 30, the current fiscal year, and the fiscal year we are planning that ends eighteen months after plans are made.

Each year we hope to have an operating budget surplus consisting of revenues exceeding estimates and expenditures being less than planned. Although the size of the surplus varies substantially, York County's conservative financial management almost always results in a year-end surplus and this fact has served the County well. Some localities are not so fortunate. Operating deficits have severe long-term negative consequences, including higher borrowing costs, an inability to deal with unanticipated financial emergencies, and an inability to sustain operating and capital budget priorities. York County's approach is consistent with the Commonwealth of Virginia's long-established bi-partisan strategy to consciously allocate operating surpluses for one-time expenditure and to grow its "Rainy Day" Fund. That is a major reason the Commonwealth has maintained its AAA bond rating since the Great Depression.

As part of the County's expanded Capital Improvements Program for County and School priorities, we increasingly rely on surpluses to invest in needed infrastructure without excessive borrowing.

THE FY2022 OPERATING SURPLUS

Last year's operating surplus was larger than expected. The typical surplus is approximately one-third of the FY2022 surplus. The main cause of the revenue surplus was an underestimate of consumer taxes prepared in January 2021 and inflation, especially associated with used car values. Despite inflationary pressure on the expenditure side, the FY2022 budget also ended with a substantial dollar savings. The County used this surplus to invest in capital, rebate the unexpected surge in the calendar year 2022 car values, and increased reserves to strengthen the financial position of the County. The attached is a summary of the sources and uses of the surplus.

FY2023 OPERATING BUDGET AND PROJECTIONS

The ongoing FY2023 budget has largely already accounted for the positive revenue surplus associated with FY2022. This fact is why the Board of Supervisors was able to approve additional public safety positions, increase cash capital investments, provide competitive pay increases, increase debt service payments for the law enforcement building, and increase school funding during the current FY2023 budget year while also reducing the real estate tax rate.

Projections for the FY2023 surplus are that it will be about one-third of the FY2022 total, or just enough to meet planned cash capital needs, and much more typical by historic standards.

FY2024 OPERATING BUDGET

In planning for the FY2024 budget, the ongoing FY2023 budget is much more important than the results for FY2022. It is tempting to see a surplus from a prior year and call for rebates and tax cuts. Surpluses can be excessive if they reoccur at the level of 10% of the operating budget. If that happened, then a tax cut might very well be good public policy. However, care should be taken not to “demonize” an operating surplus. Agencies and departments should be encouraged and rewarded for surpluses that create an incentive for staff to treat the public’s money as if it is their own.

Using the surplus prudently to strengthen the County’s long-term financial position is good public policy.

FY 2022 Surplus Sources and Uses Summary

Sources of Surplus

Personal Property Taxes	\$ 5,130,000
Real Estate Taxes	400,000
Consumer Taxes	7,470,000
Other Revenue Sources	1,300,000
Expenditure Surplus	1,749,000
	<u>\$ 16,049,000</u>

Uses of Surplus

Capital	\$ 7,585,600	\$3.2M Law Enforcment Building, \$3.9M FY2023 CIP Plan,\$.35M CCTV infrastructure
Mandated Funding	543,000	Restricted Federal Grant, clerk funding and Fund Balance Policy
Internal Services	2,350,000	Transfers to Health Insurance, Information Tech, Vehicle Maintence and Worker's Comp Fund for primarily small capital expenditures and claims
Personal Property Tax Rebate	3,500,000	Rebate on December 2022 Personal Property Tax bills
Compensation	1,300,000	School and County additional compensation
Ongoing Operational	770,400	Potential litigation costs, scanning project and training
	<u>\$ 16,049,000</u>	

FY2022 PERSONAL PROPERTY TAX

It is important to understand where calendar year personal property tax revenues fall in a fiscal year and when those revenues are estimated. The personal property tax bills are due June 25 and December 5 of each calendar year. The fiscal year is July of one year to June of the next calendar year. Therefore when personal property is valued on January 1 of the calendar year, the first half due on June 25th is in the current fiscal year and the amount due on December 5 is in the following fiscal year. The revenue generated on June 25 is estimated based on the previous calendar year and is done 18 months before it is due.

Therefore in FY2022, the revenues generated for personal property were ½ of the tax assessment for the January 1, 2021 values due on December 5, 2021 and ½ of the tax assessment for January 2022 values due on June 25, 2022. In addition, revenue is also recorded for any personal property that was not collected for any previous year's assessments (delinquent) and any supplemental tax assessments for vehicles purchased during the fiscal year and additional vehicles for new citizens that move into the County and decreased by vehicles that were sold, traded or disposed of during the fiscal year and for citizens who have moved out of the County. The values for those would be dependent on the calendar year in which they were bought or sold. That is a used vehicle purchased in September of 2021 would be valued at the January 1, 2021 value as opposed to a used vehicle purchased between January 2022 and June 30, 2022, which would use the January 1, 2022 value. Any refunds are also subtracted from the revenue to arrive at the total for the year.

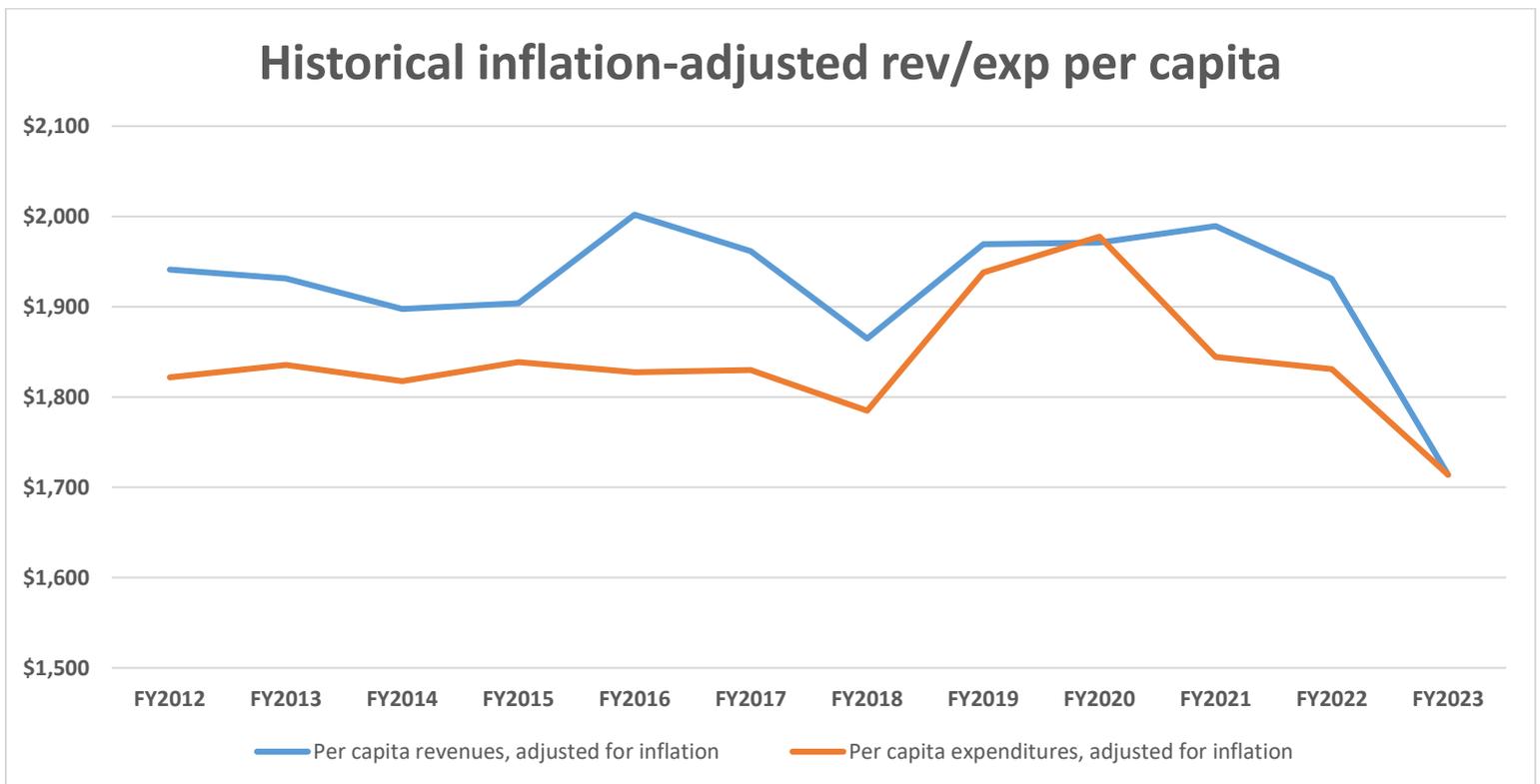
The County received, net of refunds, \$22,087,187 in personal property tax revenues which was \$5.1 million over what was estimated in January 2021 for the fiscal year ended June 30, 2022. This includes all types of personal property including business personal property, mobile homes, motor cycles as well as cars and trucks. Of the \$5.1 million, \$1.6 was attributable to the taxes collected for delinquent taxes and the December 5, 2021 billing and \$3.5 million was attributable to the taxes collected for the June 25, 2022 billing.

General Fund Ten Year Trend

At the Board Retreat on January 27th, we were asked to provide a history of revenues and expenditures to show the trend over the last ten years.

The information on the next page shows actual General Fund revenues and expenditures for FY2012-FY2022 as well as the budgeted General Fund revenues and expenditures for FY2023. In addition, included is the total revenues and expenditures adjusted for inflation over the same time frame, as well as per-capita revenues and expenditures and, finally, inflation-adjusted per-capita revenues and expenditures. Viewing these numbers on both an inflation-adjusted and per-capita basis removes the effects of general price increases and population growth from the trend. The graph below depicts inflation-adjusted per-capita revenues and expenses for this same time period.

It is easy to see the impact of inflation on the non-adjusted totals. There is a marked increase in both revenue and expenditures beginning in FY2021. However, when the effects of population growth and inflation are removed, both actual revenues and expenditures are relatively flat, with revenues running between \$1,900 and \$2,000 per person and expenses between \$1,800 and \$2,000 per person and budgeted FY2023 revenue and expenses being approximately \$1,700 per person.



General Fund Ten Year Trend

	FY2012 Actual <u>Amount</u>	FY2013 Actual <u>Amount</u>	FY2014 Actual <u>Amount</u>	FY2015 Actual <u>Amount</u>	FY2016 Actual <u>Amount</u>	FY2017 Actual <u>Amount</u>	FY2018 Actual <u>Amount</u>	FY2019 Actual <u>Amount</u>	FY2020 Actual <u>Amount</u>	FY2021 Actual <u>Amount</u>	FY2022 Actual <u>Amount</u> *	FY2023 Adopted
<u>Funding Sources</u>												
Total Funding Sources	\$ 128,068,280	\$ 130,672,400	\$ 132,322,456	\$ 133,490,128	\$ 142,790,907	\$ 143,174,579	\$ 140,425,124	\$ 149,604,285	\$ 151,662,974	\$ 162,532,970	\$ 172,388,938	\$ 165,821,600
<u>Expenditures</u>												
Total Expenditures	\$ 120,183,166	\$ 124,185,519	\$ 126,741,160	\$ 128,943,022	\$ 130,346,466	\$ 133,581,572	\$ 134,412,237	\$ 147,223,074	\$ 152,170,677	\$ 151,756,754	\$ 165,935,590	\$ 165,821,600
Revenues, adjusted for inflation	128,068,280	128,288,463	127,044,233	128,299,555	136,175,230	134,523,033	128,462,749	135,336,000	136,805,434	138,517,138	133,750,214	122,528,437
Per capita revenues	1,941	1,967	1,976	1,981	2,099	2,088	2,038	2,177	2,185	2,318	2,452	2,319
Per capita revenues, adjusted for inflation	1,941	1,931	1,897	1,904	2,002	1,961	1,865	1,969	1,971	1,975	1,902	1,714
Expenditures, adjusted for inflation	120,183,166	121,919,927	121,685,570	123,929,257	124,307,355	125,509,698	122,962,081	133,181,893	137,263,400	129,333,213	128,743,299	122,528,437
Per capita expenditures	1,822	1,869	1,893	1,913	1,916	1,948	1,951	2,142	2,192	2,164	2,360	2,319
Per capita expenditures, adjusted for inflation	1,822	1,835	1,817	1,839	1,828	1,830	1,785	1,938	1,978	1,844	1,831	1,714

* FY22 revenues include School Division reversion of \$5.5M.