BOTETOURT
COUNTY OF VIRGINIA

Budget FAQ

revised: April 11, 2012

1. What is fund balance and what are the limits to its use?
2. Why do governments need fund balance funds?
3. Raising local taxes besides real estate and personal property
4. Reassessment
5. Tax rate changes
6. Tax increase - effect
7. VRS issues

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1. What is Fund Balance?

   Fund balance is an amount which represents a governments' assets in excess of liabilities (net assets). From a revenue and expenditures standpoint, fund balance is the cumulative savings of revenues less what has been paid for expenditures that is available in a governmental fund. While it serves as a general operating reserve for governments, fund balance is not a savings account. Fund balance represents current assets available to finance operations and its current liabilities. A positive fund balance provides a measure of resources immediately available to finance ongoing operations.

   The County has a policy regarding use of its Fund Balance, which is the cumulative effect whereby assets exceed liabilities.

   > "Repeated draws on fund balance to meet operating needs in violation of a fund balance policy is a red flag to the rating agencies and may very well lead to an outlook change or even a downgrade. The agencies will expect you to take the path that restores structural balance, either through service cuts, or new revenues, or both. The other path, spending fund balance, generally does not end well since fund balance is a finite resource. Once spent, on whatever purpose, it is gone and the structural problem only grows deeper until the money runs out, which is when the real problems begin." [1]

2. Why do governments need fund balance funds?

   Fund balance is needed in order to provide working capital during a fiscal year to pay ongoing expenses and spikes in necessary spending from month to month. A government must have resources available to avoid the need to borrow funds, which incurs additional expense (interest costs). Fund balance can be used to provide for meeting unanticipated needs and for extraordinary or emergency requirements.

   Maintaining an appropriate level of fund balance is considered a sound and responsible management practice in the views of those having an vested interest in the financial

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[1] Botetourt County's financial advisory firm, Davenport & Co, LLC

health of a government, including financial advisors, audit firms, and bond rating agencies.

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3. Why can't Botetourt increase Other Local Taxes (besides Real Estate and Personal Property) like some localities do?

    With respect to the **Meals Tax**, Counties can impose a tax up to 4%, which is the rate for Botetourt County. Cities can impose more; Roanoke City applies a 7% tax, which will revert to 5% on June 30, 2012, unless there is approval for it to remain at 7%.

    The **Transient Occupancy Tax** (Lodging tax) for Counties is set at 2%, with any additional tax percent having to be applied to Tourism and tourism-related expenses. Botetourt County charges a 5% tax, with 3% of the 5% directed towards Tourism and related tourism expenses.

    With respect to **Cigarette and Tobacco taxes**, cities and towns are granted the authority to levy the tax under the general taxing powers found in their charters. This is not the case for Counties. The right to levy this tax has only been granted to two (2) Counties: Fairfax and Arlington.

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4. How would modifying the reassessment cycle save money?

    State law requires that reassessments be conducted no longer than 6 years for a county our size. Historically we have reassessed every 4 years; our last reassessment was in 2010. By deferring the reassessment by a year, we could realize a temporary savings of $180,000.

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5. What's the history of tax rate changes in Botetourt? *all rates are per $100 assessed value*

REAL ESTATE

raised in 1982	from $0.65	to	$0.75
reduced 1998	from $0.75	to	$0.70
reduced 2006	from $0.70	to	$0.65

PERSONAL PROPERTY tax on 1st $20,000 is reduced 65%

raised in 1982	to	$6.00
reduced 1997	to	$2.55

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6. What would be the effect of a tax rate increase?

An increase in the **real estate tax rate** of $0.01 = $345,000 of revenue.

On a house valued at $250,000, a $0.05 increase would translate to $125 more per yr.

An increase in the **personal property rate** of $0.01 = $16,600 of revenue.

On a car valued at $30,000, a $0.10 increase would translate to $17.40 more per yr.
(applying the 2011 PPTRA reduction)

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7. Virginia Retirement System – VRS issues[2]

Faced with $24 billion in unfunded liabilities to employee and teacher pension plans, the General Assembly passed bills that would shift costs to localities and do little to shore up the VRS funded status.

- Next year (FY13) there will be an increase in the retirement percentage applied to wages for county and school employees.
- The VRS reform proposal adopted on March 10, mandates a 5% raise to offset the 5% retirement cost shift to employees. This creates additional expenses to localities resulting from the fringe benefits associated with the wage increase.

[2] "Groups resist state retirement system changes", Roanoke Times 3/30/12