

AT A WORK SESSION OF THE BOARD OF SUPERVISORS OF THE COUNTY OF JAMES CITY, VIRGINIA, HELD ON THE 22ND DAY OF SEPTEMBER 2009, AT 4:00 P.M. IN THE COUNTY GOVERNMENT CENTER BOARD ROOM, 101 MOUNTS BAY ROAD, JAMES CITY COUNTY, VIRGINIA.

A. CALL TO ORDER

B. ROLL CALL

James G. Kennedy, Chairman, Stonehouse District
Mary Jones, Vice Chair, Berkeley District
Bruce C. Goodson, Roberts District
James O. Icenhour, Jr., Powhatan District
John J. McGlennon, Jamestown District

Sanford B. Wanner, County Administrator
Leo P. Rogers, County Attorney

C. BOARD DISCUSSION

1. Financial Update

Mr. Sanford Wanner, County Administrator, explained that the purpose of the work session was to update the Board on financial trends in preparation for the Board's January 2010 Budget Retreat. He noted that during the last budget retreat, a presentation was made by the Williamsburg Area Association of Realtors President, Frank Hughes. Mr. Wanner stated that Mr. Hughes would update the Board on real estate trends since the Budget Retreat to provide background information for the presentation from Financial and Management Services staff looking forward into Fiscal Year 2011. He stated that staff would appreciate any early guidance in preparation for the next budget process.

a. Williamsburg Area Association of Realtors (WAAR) Real Estate Update

Mr. Frank Hughes, President, Williamsburg Area Association of Realtors (WAAR), presented statistics on decreased real estate sales and sale amounts in the past three years in the Williamsburg area and noted that home sales had decreased 17 percent from January to August 2009, which he commented was an improvement. He presented information about the amount of time homes stay on the market, which was flat for single-family homes, but increased dramatically for condominiums. He noted that though there was a downturn, James City County single-family home sales were better than the City of Williamsburg and York County overall. He also showed that the number of new listings and the decreased sales have begun to stabilize. He reviewed sales data by price range and noted that the majority of the sales are at or below the \$300,000 range, which he determined was a result of the first-time homebuyer tax credit. He stated the sellers were downsizing, renting, or moving out of the area in many cases. He stated the WAAR and its larger association have requested that the First-Time Homebuyer Tax Credit be extended beyond the current deadline, expanded to all buyers, and increased to \$10,000 to help revitalize the market. He stated that according to his data, 67 percent of home sales are priced below \$400,000, but only 54 percent of the inventory is in that price range, meaning higher-priced homes are being sold at price reductions. He stated this would result in

compressed values in the neighborhoods and sales below assessments.

Mr. Hughes responded to questions about reduced new construction and reduced new home sales, and the upsurge in sales of affordable housing. He noted price compression among higher-valued homes and a reduction in contact with potential buyers. He noted that James City County has been fortunate that it has not had the number of short sales of other localities, such as Prince William County. He stated that he felt very positive about the statistics of the last three months.

Mr. Goodson stated he felt it would be useful to track the home sale price in comparison to its appraisal.

Mr. Hughes stated that realtors work with sellers, and advertising the assessed value of a home could negatively impact the seller's bargaining position during a sale. He stated that they did not publicize that data in order to protect the seller.

Mr. John McDonald, Manager of Financial and Management Services, stated that staff tracks sale prices versus assessed values. He stated the difficulty was that one sale would not help determine a trend in the price compression of homes of a certain value, such as those valued at over \$1 million. He stated there was excellent data for homes in the \$300,000 range.

Mr. Goodson stated he would like to see data about the percentage above or below the assessed values that homes were selling. He stated the factors included homes selling below assessment, as a result of price compression, and the decrease in new construction, which results in a lower-valued land book.

Mr. McDonald stated that the January 2010 assessment date will provide valuable information in attempting to address some of these issues. Expectations are that commercial real property assessments will drop due to declines in business income and residential assessed values will drop because the sales trends show sales lower than assessments in certain price ranges. This continues a trend that was apparent in the January 2009 general reassessment where 5,000 properties saw assessment changes, most of them reductions. For a period of time the sales values were much higher than the assessments and drops in sales prices simply reduced the difference between sales and assessment, which was no longer true.

Mr. Goodson stated that there was difficulty in determining the effect of the assessments on revenues and potential changes in the tax rate because affordable housing was selling at or above the assessed value and higher-end homes were selling below assessment. He said that a tax rate increase would negatively impact affordable housing assessments.

Mr. McDonald stated that depending on the values, the relative impact was not significant.

Mr. Kennedy stated his concern for the Business, Professional, and Occupational License (BPOL) and licensing taxes were going to be affected. He stated that housing was the main driver of the economy, so any effect on housing would result in a significant change in revenues.

Ms. Sue Mellen, Assistant Manager of Financial and Management Services, noted that at the January 2009 Budget Retreat, she had presented the Board with a slide indicating the median ratio of 95 percent and stated that the figures through June 2009 indicated that the County was in the 95 percent and above range. She stated that was very similar to last year, but it was not above 100 percent. She stated that value was being tracked.

Mr. McDonald stated that the median was not above 100 percent, but there were components where the County would need to take action to reduce assessments in certain neighborhoods.

b. Financial Update

Ms. Mellen stated her presentation would update the Board on the budget at the close of FY 2009. She stated that slightly more revenues were received than were spent or committed to spend. She stated the difference was roughly \$28,000 and was a direct result of a decrease in spending at the end of the year. She stated that when revenue categories began coming in lower than anticipated, staff was instructed to eliminate any unnecessary spending. She stated the revenues were \$3 million less than budgeted and \$2.9 million less than FY 2008.

Ms. Mellen reviewed revenue categories, including property taxes and real estate revenues. She stated that they increased in FY 2009 from FY 2008, but she stated that a decrease was expected in FY 2010. She said the FY 2009 values came in roughly \$200,000 less than projected due to collection issues, but she was confident in the numbers for FY 2010. She said that personal property taxes came in roughly \$1 million less than FY 2008 and were lower than expected by about \$700,000, due to estimates for abatements and supplemental assessments being delayed. She stated those collections would not occur until FY 2010. She stated that the revenue category would be watched closely due to the delayed assessments and additional supplemental bills, particularly due to the Cash for Clunkers program, which may result in higher revenue for personal property taxes.

Ms. Mellen reviewed the building-related revenues, which declined for FY 2008, FY 2009, and the FY 2010 projected budget. She stated the revenue stream came in about \$200,000 higher than expected. She stated that some of the increase could be attributed to refinancing, timeshares, and more sales than expected. She stated the building permit revenues for FY 2009 came in roughly \$50,000 higher than expected, but a decline was still projected for FY 2010.

Ms. Mellen reviewed the consumer-driven revenues, and stated that business licenses were lower than expected; she stated this would need to be adjusted for FY 2010. She stated this was difficult since the revenues were not collected until May of each year. She stated she would bring revised BPOL numbers in January. She stated that sales, meals, and lodging each came in roughly \$50,000 short of the expected values, but there was only one month of data for FY 2010. She stated these revenues would be monitored closely. She noted that lodging taxes were suffering. She stated staff did not believe there would be an increase in FY 2010.

Ms. Mellen reviewed State budget reductions for FY 2010. She stated that as a result of the reduction in the State Sales Tax for Education, a budget amendment would need to come before the Board. She reviewed the reductions for HB599 funds and contributions for Constitutional Officers. She stated the Constitutional Officers received substantial cuts.

Mr. Goodson asked if the Compensation Board had given guidance on salary adjustments.

Mr. Wanner stated that the State cuts are being passed onto the locality to be absorbed or reduced through the local budget. He stated this trend has continued for several years and would continue.

Mr. Icenhour asked about how this would reduce school-related allocations in the County budget.

Mr. Wanner stated the reduction in State Sales Tax for Education would result in a reduction in funds for the schools.

Ms. Mellen reviewed reduced State contributions to regional entities, including the Colonial Services Board, Merrimac Center, and other organizations. She noted that these reductions were in addition to the Local Aid to State Government for FY 2010, resulting in reductions of roughly \$1.5 million.

Ms. Mellen noted revenues to watch in FY 2010, including personal property, BPOL, Sales, Meals, and Lodging, Building Permits, and State Revenues.

Discussion was held about potential increases in income taxes and sales tax revenue during the summer and the back-to-school season. Ms. Mellen stated the most recent numbers from July were at a deficit of about \$15,000 from 2008. Mr. McDonald stated that the figures from September would be available in mid-October because sales tax figures are roughly two months behind.

c. Revenue Alternatives for FY 2011 Budget

Mr. McDonald presented five revenue alternatives for guidance from the Board to determine which, if any, should be discussed during the January Budget Retreat. The first item he reviewed was an increase in the real estate tax rate by \$0.01 for an estimated taxpayer impact of \$30 annually and estimated County revenue of \$1,090,000. He stated that due to reduced assessments, some people may still see a decrease in real estate property tax bills.

The second alternative was an increase in the personal property tax rate of \$0.25. He estimated this would result in a \$50 increased impact on the taxpayer annually and would generate \$1,100,000 of revenue. He noted that this increase would not apply to machinery and tools, construction equipment, or business personal property taxes.

The third item Mr. McDonald reviewed was the Motor Vehicle Local License Tax, or decal fee, which the County recently discontinued. He stated that reinstating this fee at a rate of \$23 per motor vehicle and \$15 per motorcycle would impact the taxpayer by about \$46 annually and generate \$1,300,000 in revenue. He noted that the County is one of eight counties in the State which does not assess this tax.

The fourth alternative was a Stormwater Utility Fee. Mr. McDonald stated that this was recommended by the County's efficiency study to address Stormwater Management. He stated the fee would be assessed at \$4.90 per month which would result in an annual impact on the taxpayer of \$58.80 and result in \$2 million in County revenue. He stated that the estimations assume previously assessed rates.

The last revenue alternative discussed was a Consumer Utility Tax on Electricity and Natural Gas at a rate of up to \$3 per month per utility with a maximum impact of \$72 per year. He stated the revenue potential for this item was unknown at this time because the revenue estimate data would need to be collected from the

utilities. He stated that based on what other localities including the City of Williamsburg and New Kent County collect; the revenue would be approximately \$3 million per year. Mr. McDonald noted that James City County is one of nine counties in the State that does not assess this tax on electricity. He also noted that the tax could be varied to be assessed based on consumption. He asked for guidance on these potential revenue alternatives.

Discussion was held on core service requirements for the County. Mr. Wanner noted that based on existing revenues, the school system has been told not to expect an increased allocation. He said that County jobs are being held open for longer and many positions have been eliminated in anticipation of the FY 2011 budget. He stated that in addition to these measures, the County will need to absorb State cuts and increased Virginia Retirement System (VRS) contributions. He stated that staff has been involved in a dialogue to shift priorities and eliminate positions as a result of decreased projected revenues for the upcoming year. He stated the priorities for funding were public education, public safety, and those in the safety net. He said everything else is open for reductions. He noted that services and facilities will be reduced in order to maintain the budget with projected revenues.

Discussion was held about the challenges of FY 2011 and FY 2012 due to State budget shortfalls of roughly \$4.5 billion. The decreased State contributions affect the local government and the agencies that cooperate with the local governments, including the libraries and jails. Mr. Wanner commented that the land book was market-based, and the slow real estate market would drastically affect revenues. He noted that staff and services were being reduced this year to prepare for reductions in FY 2011. He stated that services should be evaluated to determine what is worth paying for. He reviewed current tradeoffs, including the elimination of leaf collection. He stated these types of choices needed to be considered by the Board and guidance needed to be provided for staff.

Discussion was held about town hall meetings in each district to get input from citizens about reductions in services and about revenue enhancements.

Discussion was held about ways to fund curbside leaf collection and the potential for a voluntary curbside trash collection service as a cost-reduction for citizens and a way to subsidize the recycling program. Mr. McGlennon and Mr. Icenhour stated their support for the voluntary curbside trash collection program. Mr. Kennedy commented that he could not support this program if it negatively impacted citizens in rural areas. Ms. Jones commented that it was possible to get better rates than the County contract, and she proposed a reduction in recycling service to a two-week schedule. She stated her opposition to initiating a new County program at this time. Mr. Goodson proposed a fee-based recycling program or eliminating curbside service. Mr. Wanner stated more research would be evaluated and this item could come forward again at the Budget Retreat.

In relation to revenue alternatives, Mr. McGlennon indicated he did not agree with the motor vehicle license tax since it was a regressive tax and was a nuisance to manage when the County previously collected it. The Board agreed that Mr. Wanner should contact the utilities to determine the revenue estimates. Mr. Goodson stated he could not support a real estate property tax increase. Mr. McGlennon asked to keep open consideration for an increase in the real estate property tax rate since this would result in the largest revenue with the least impact on the taxpayer. He also noted that this amount and the amount of personal property taxes were taken into account on Federal income tax returns. Mr. Icenhour asked to reconsider the real estate tax-rate increase option. He noted he was not a proponent of the personal property tax rate increase, but he would be willing to consider the option. He stated his hesitation about the utility tax, but stated he was interested to see what figures were projected. Mr. Goodson stated his interest in the motor vehicle license fee as a result of costs to maintain the vehicle registration information.

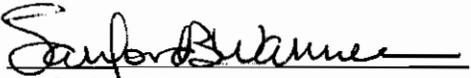
Mr. Wanner discussed current measures being taken to reduce County positions and evaluate how to reduce services to save money for FY 2011. Mr. Kennedy asked about potential reduced work hours or furloughs.

Discussion was held about County spending in relation to inflation, imposed mandates, and population increases. Mr. Wanner noted that in the past, the Board has added employees and services as a result of increased population and increased expectations for the level of service provided. He stated that those instances were part of the decisions to be evaluated for the next budget. Discussion was held about determining what service fees should be implemented or increased in order to provide the services that citizens would like to maintain. Mr. Wanner stated he would like to evaluate these alternatives since several more factors would be apparent at the time of the January Budget Retreat. The Board agreed that staff should continue to evaluate all five of the alternative revenue sources.

Discussion was held about town hall meetings in each district and Mr. Wanner recommended getting input from mid-November to mid-January to prepare the next budget.

D. BREAK

At 5:56 p.m., the Board broke for dinner.


Sanford B. Wanner
Clerk to the Board