

Patrick County, Virginia

Fiscal Year 2020 Budget Strategies



March 11, 2019

Patrick County, Virginia

Background / Davenport Approach



- Davenport & Company LLC (“Davenport”) serves as Financial Advisor to towns, cities, counties, authorities, and other local governmental entities across the Commonwealth on Debt and Capital Funding, Investments, and strategic Multi-Year Financial Planning.
- Davenport has historically served as Financial Advisor to Patrick County on selected new money and refunding transactions involving County and School debt as requested by the County.
- Davenport presented a Financial Review in December, 2018. As a follow-up Patrick County requested that Davenport review its proposed Fiscal Year 2020 Budget taking into account the trend of increasing cash-flow pressure the County is experiencing.
- In December of 2018 Davenport assisted the County in obtaining an up to \$3.5 million Revenue Anticipation Note that can be drawn upon – as needed – for working capital/operating cash-flow purposes.

Background / Davenport Approach (cont.)



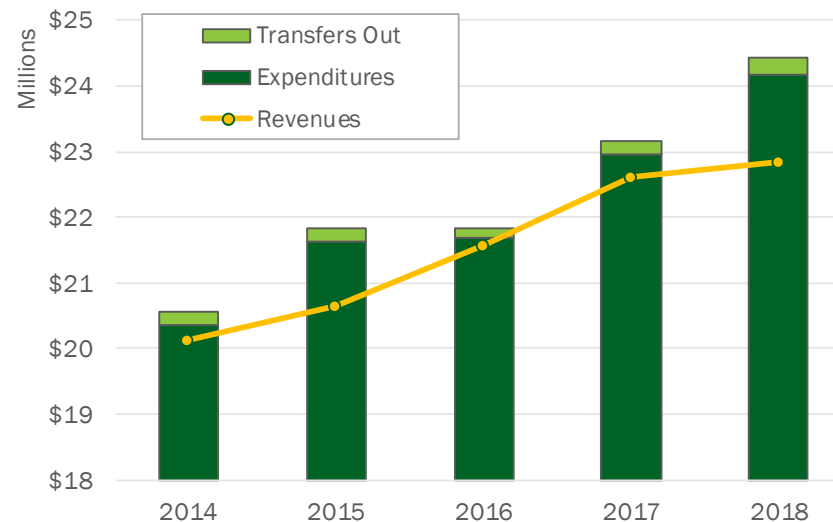
- Using the County's annual Audited Financial reports and proposed Budget Documentation provided by the County, as well as meetings and direct discussion with County Staff, Davenport has completed a review of the County's draft Fiscal Year 2020 Budget including strategies for closing the gap in the budget over a multi-year period.
- Davenport also identified an opportunity to restructure and re-align selected outstanding debt in order to ease the immediate impact on the General Fund and the County's Tax Payers.

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Annual General Fund Operating Results



- The County's General Fund has produced an operating deficit each of the past 5 fiscal years (i.e., FY 2014 – 2018).
- The operating deficit in Fiscal Year 2018 was approximately \$1.5 million.



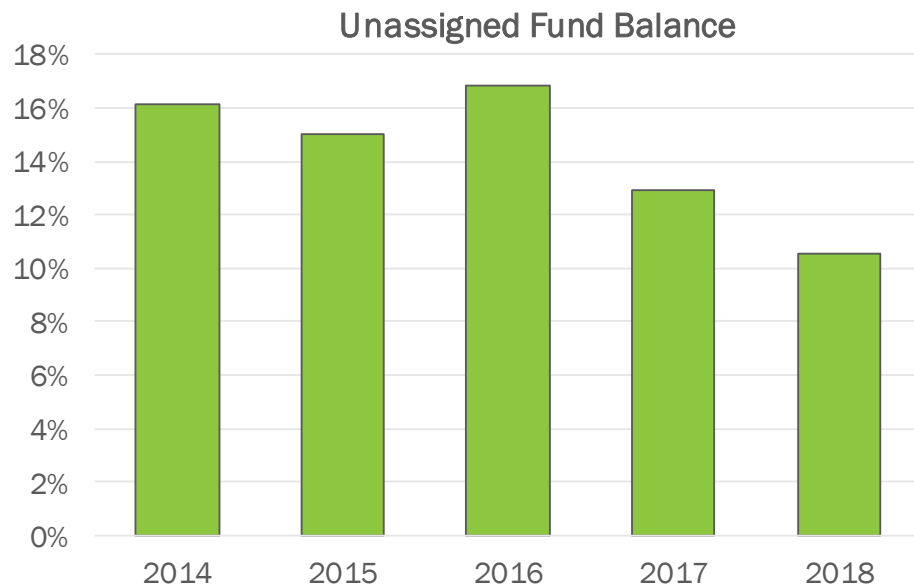
	2014	2015	2016	2017	2018	5 Year CAGR
General Fund Revenues	\$20,139,195	\$20,661,656	\$21,561,962	\$22,609,231	\$22,856,745	3.22%
General Fund Expenditures	(20,345,834)	(21,632,881)	(21,675,547)	(22,960,324)	(24,167,846)	4.40%
Transfers out of the General Fund	(224,313)	(206,898)	(169,049)	(194,349)	(250,402)	2.79%
Operating Result	(\$430,952)	(\$1,178,123)	(\$282,634)	(\$545,442)	(\$1,561,503)	

Note: Data above purposefully excludes non-recurring debt and insurance related activity.



Unassigned Fund Balance

- Unassigned Fund Balance is arguably the most important financial metric when assessing a local government's financial strength and resiliency.
- The County's Unassigned Fund Balance as a percent of Operating Revenues (which includes the General Fund and School Fund) has declined from approximately 16.2% in FY 2014 to 10.6% in FY 2018.



Fiscal Year	Unassigned Fund Balance	Operating Revenues	Available Fund Balance as a % of Revenues
2014	\$6,971,591	\$43,148,774	16.2%
2015	6,468,359	43,100,659	15.0%
2016	7,357,511	43,681,826	16.8%
2017	5,849,512	45,286,307	12.9%
2018	4,773,146	45,106,892	10.6%

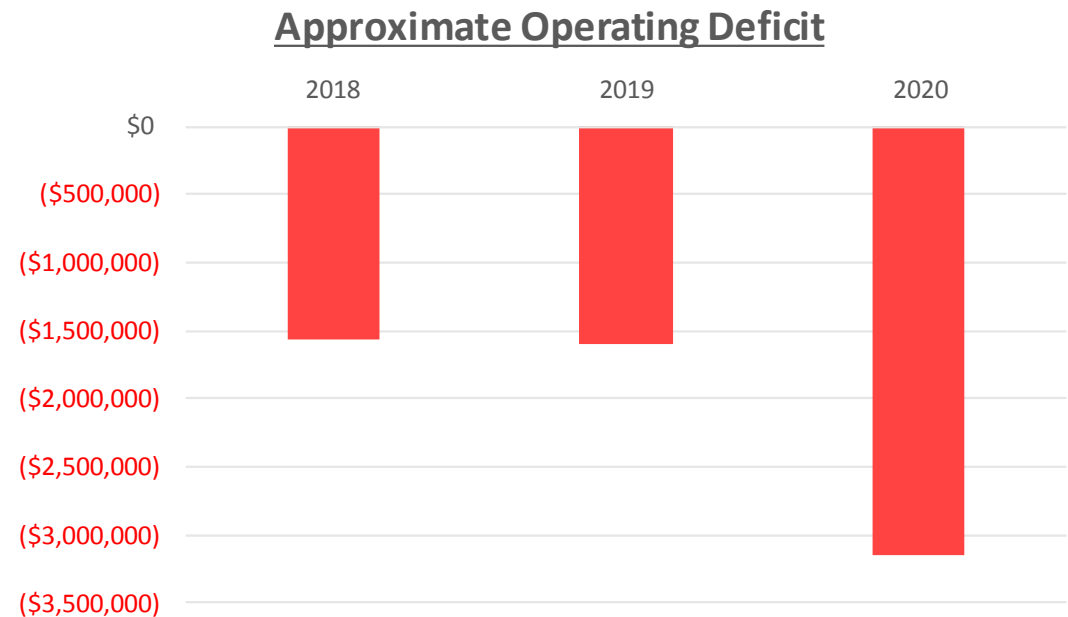
Note: Operating Revenues include General Fund and the School Fund.

Budget Trends



- The County reports that approximately \$1.6 million of Fund Balance was used for the fiscal year 2019 budget (i.e. the current fiscal year).
- The proposed FY2020 Operating Budget estimates an approximately \$3.15 million deficit that would further exacerbate the substantial decline in the County's fund balance in recent years.

Fiscal Year		Approximate Deficit Level
Actual	2018	(\$1,561,503)
Budget	2019	(\$1,600,000)
Proposed	2020	(\$3,150,000)



Unassigned Fund Balance with Projected Budget Impact



- The County's currently proposed Fiscal Year 2020 Budget contemplates the use of approximately \$3.15 million in Fund Balance.
- This trend of Fund Balance use is unsustainable for Patrick County and could lead to further financial difficulty as soon as Fiscal Year 2020 if corrective action is not taken immediately with the development of the Fiscal Year 2020 Budget.

	Fiscal Year	Unassigned Fund Balance
	2014	\$6,971,591
	2015	6,468,359
	2016	7,357,511
	2017	5,849,512
	2018	4,773,146
Projected	2019	3,102,544
Projected	2020	(42,628)

Note: For purposes of presentation, assumes \$1,670,602 of Unassigned Fund Balance is used in fiscal year 2019 and \$3,145,172 is used in the fiscal year 2020 budget.

FY2020 Proposed Budget Deficit – Major Drivers



- The County reports the following items as selected major increases in the proposed Fiscal Year 2020 Budget.

	Stated Increase	Department/Expense	Notes:
1	\$460,000	Cost of Reassessment	Related to six year property reassessment.
2	413,000	Increase School Funding	County reports increase in funding is required to meet minimum state mandate.
3	379,752	VPA / CSA	Increase in DSS salaries and benefits and increased CSA expenditures.
4	<u>158,648</u>	<u>Transfer to PSA</u>	County reports this is contractually required.
	\$1,411,400	Total - Major Drivers	

FY2020 Proposed Budget Deficit – Potential Solutions



- The County may want to consider a multi-year, multi-phase approach to addressing the budget deficit:

	Amount	Description
A	(\$3,145,172)	Proposed FY2020 Operating Deficit
B	\$157,300	Value of 1 cent on Real Estate Tax Rate
C = A / B	20.00	Equivalent Real Estate Impact
<u>Budget Deficit Relief Measures</u>		
D	\$400,000	Restructure Existing Debt for Cash-Flow Relief
<u>E</u>	<u>\$1,730,300</u>	Generate Revenue Equivalent to 11 cents on Real Estate Tax Rate
<u>F = D + E</u>	<u>\$2,130,300</u>	Total FY2020 Budget Deficit Relief Measures
G = A + F	(\$1,014,872)	Remaining Unaddressed Budget Deficit

- The Remaining Unaddressed Budget Deficit is equivalent to approximately 6.5 cents on the Real Estate Tax Rate.

FY2020 Proposed Budget Deficit – Potential Solutions

Impact to Fund Balance Trajectory



- While using the proposed budget solutions would still not result in a budget in compliance with typical “best practices” it would serve to conserve incredibly valuable fund balance versus the currently proposed draw down in fund balance:

Unassigned Fund Balance Trajectory "Before" and "After" Potential Budget Solutions

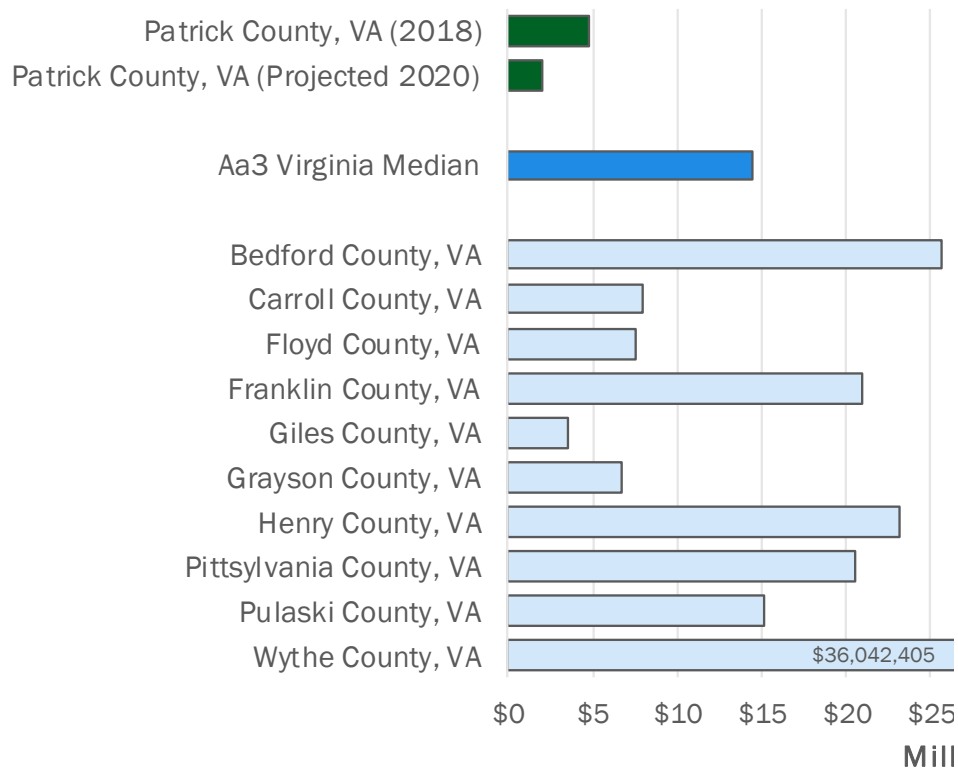
Fiscal Year	Before	After
2018	4,773,146	4,773,146
2019	3,102,544	3,102,544
2020	(42,628)	2,087,672

Unassigned Fund Balance | Comparative

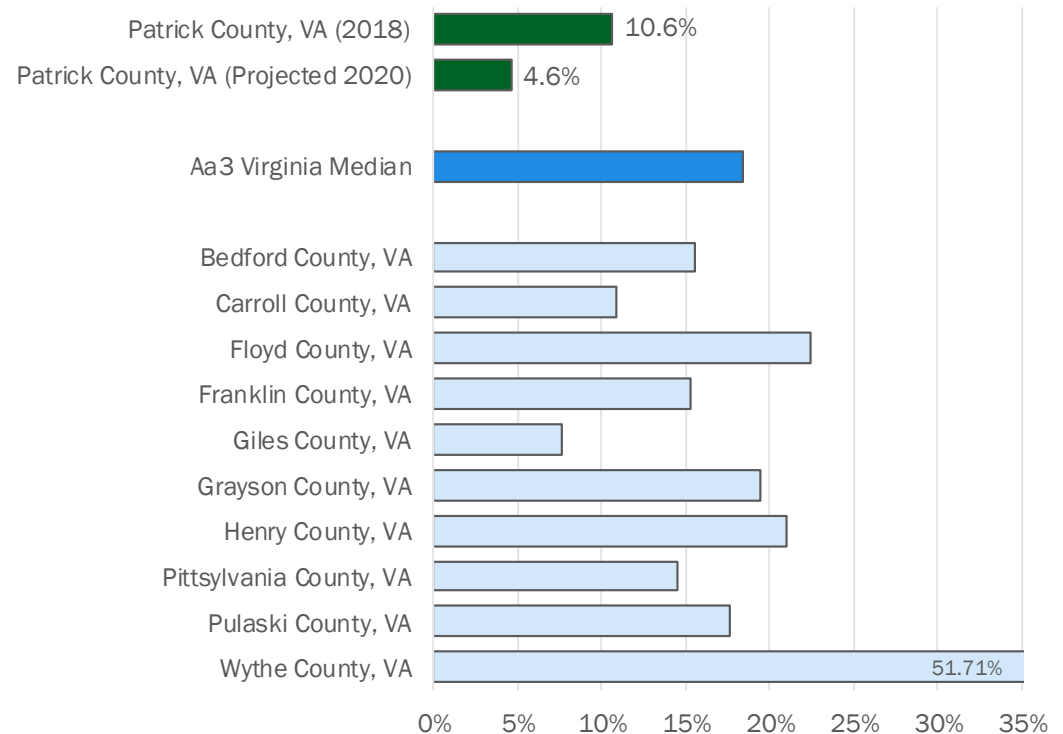


- The County's Unassigned Fund Balance and Unassigned Fund Balance as a % of Revenue is below the peer group.

Unassigned Fund Balance



Unassigned Fund Balance as a % of Operating Revenues

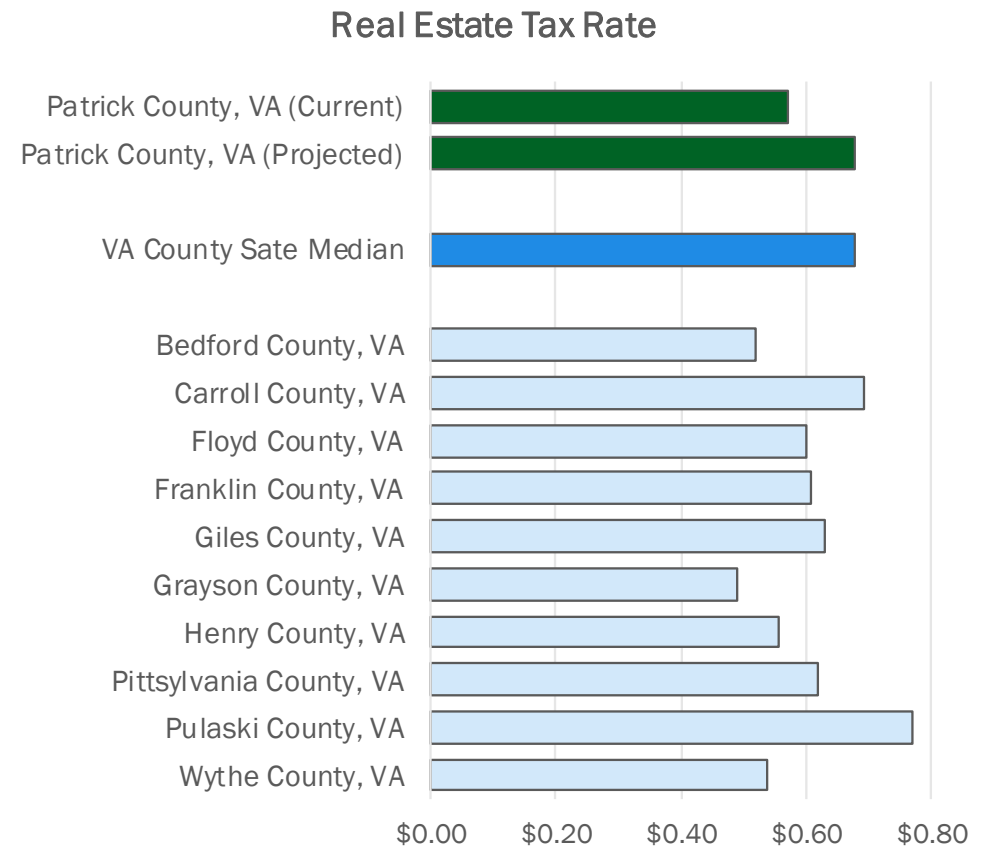


Real Estate Tax | Comparative



- The County's Real Estate Tax Rate is below the peer group median.

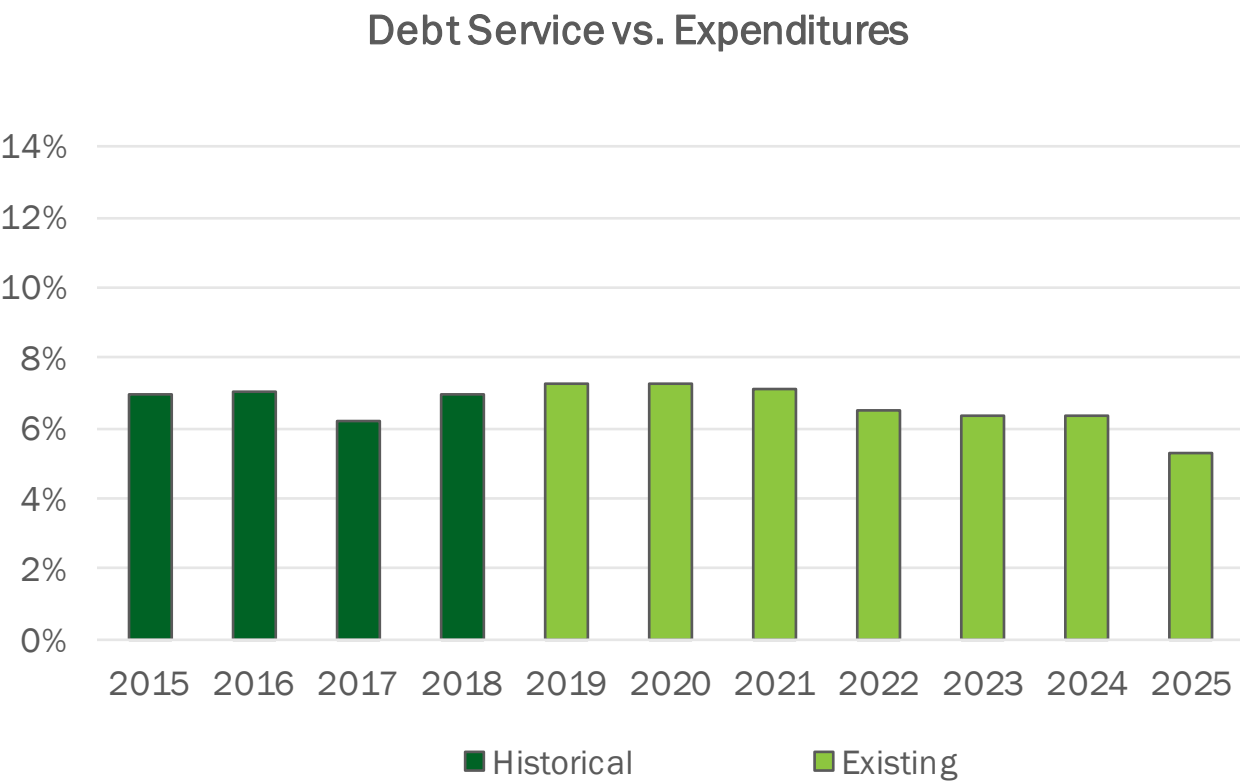
County	Real Estate Tax Rate
Patrick County, VA (Current)	\$0.57
Patrick County, VA (Projected)	0.68
VA County Sate Median	0.68
Bedford County, VA	0.52
Carroll County, VA	0.695
Floyd County, VA	0.60
Franklin County, VA	0.61
Giles County, VA	0.63
Grayson County, VA	0.49
Henry County, VA	0.555
Pittsylvania County, VA	0.62
Pulaski County, VA	0.77
Wythe County, VA	0.54



Debt Service vs. Expenditures



- The County’s current Debt Service vs. Expenditures is better than the level that is considered “very strong” by S&P (i.e., 10% - 15%).



Standard & Poor’s Criteria for General Obligation Credits Defines categories of Debt Service as a % of Governmental Expenditures as⁽¹⁾:

Very Strong: <8%	Strong: 8 - 15%	Adequate: 15% - 25%	Weak: 25% - 35%	Very Weak: >35%.
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Debt Restructuring & Re-alignment Opportunity

- Davenport identified an opportunity to strategically restructure and re-align selected portions of the County's existing outstanding debt with the goal of easing cash-flow pressure on the General Fund and the County's tax payers.
- A summary of the debt to be considered for restructuring/re-alignment is as follows:
 - 2014 Capital Lease
 - 2009 VRA Loan
 - 2010 USDA PSA Loans
 - Average Interest Rate on the Debt to be Refunded = 3.96%
 - Approximate Amount to be Refunded = \$5.9 million
 - Existing Final Maturity:
 - 2014 Capital Lease = FY 2024
 - 2009 VRA Loan = FY 2040
 - 2010 USDA Loans = FY 2051
- The Patrick County PSA appears to receive a substantial annual subsidy from the General Fund. Thus, freeing cash flow related to the PSA debt will help the General Fund's cash flow.

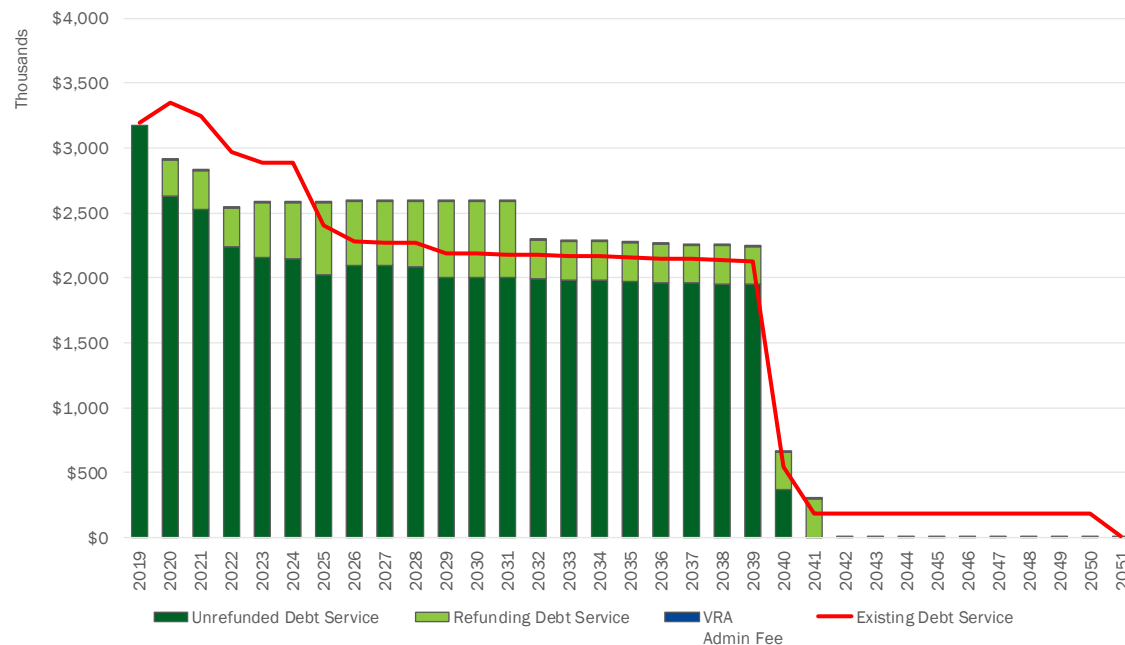
Preliminary Results Assuming VRA – Scenario 1

Estimated December Market



■ Based on estimated current market interest rates for a VRA sale, the restructuring/re-alignment could:

1. Free approximately \$1.9 million in cash flow per the FY 2019-2024 time period.
2. Shorten the final maturity of the existing USDA Loans.
3. Flatten the County's overall debt service, thus avoiding any future "spikes" in debt service.



Scenario One

Estimated True Interest Cost: 3.22%
Final Maturity: FY 2041

Cash-Flow Freed:	
2019	30,256
2020	434,456
2021	419,023
2022	422,043
2023	303,301
2024	302,162
Total	<u>\$1,911,242</u>

Estimated Present Value Benefit (Cost): **\$10,275**

Note: Results are preliminary and subject to change. Actual results could vary substantially from these estimates. Assumes estimated current market interest rates as of the week of December 3, 2018.

Next Steps



1. County Board of Supervisors and County Staff to deliberate on Fiscal Year 2020 Budget.
2. Board of Supervisors to adopt Fiscal Year 2020 Budget in the Spring of 2019.
3. Consider moving forward with a Debt Restructuring and Debt Realignment in the Spring/Summer of calendar year 2019.
4. 2018 Revenue Anticipation Note comes due and must be paid off by June 30, 2019. Consider an extension of the existing RAN, if possible, to provide cash-flow assistance if needed.
5. Begin immediately in the Summer of 2020 to develop pro-active and sustainable budget strategies (including updated financial policies) for the fiscal year 2021 budget and beyond.



Appendix

Patrick County, Virginia

Recommended Changes to FY 2020 Budget (From County Budget Committee)



Line Item	Amount	Description
Revenue recommended changes:		
Commissioner of Revenue	3,505	Increase in Comp Board funding from 3% salary increase
Treasurer	3,676	Increase in Comp Board funding from 3% salary increase
Clerk of Circuit Court	6,939	Increase in Comp Board funding from 3% salary increase
Commonwealth Attorney	8,155	Increase in Comp Board funding from 3% salary increase
Law Enforcement	71,337	Increase in Comp Board funding from 3% salary increase
Public Assistance (DSS)	33,969	Increase in funding match of additional spending
Public Assistance (DSS)	(12,843)	Reduced funding match for reduced spending
CSA Pool Funds	202,340	Increase in funding match for additional spending
Grand Total Revenue changes	317,078	
Ending Revenue	22,740,978	
Expenditure recommended changes:		
Board of Supervisors	(8,770)	Set new policy that Board members may enroll in county health insurance if pay full premium
Commissioner of Revenue	4,798	Increase in salary & benefits for 3% Comp Board increase
Reassessment	(360,900)	Finance reassessment cost over six years
Treasurer	3,676	Increase in salary & benefits for 3% Comp Board increase
Clerk of Circuit Court	6,577	Increase in salary & benefits for 3% Comp Board increase
Court Services	18,200	Increase electronic monitoring fees based on past and current expenditures
Commonwealth Attorney	7,840	Increase in salary & benefits for 3% Comp Board increase
Law Enforcement	108,468	Increase in salary & benefits for 3% Comp Board increase
Law Enforcement	(29,300)	Reductions by Sheriff Smith
County-Paid Deputies	(26,206)	Employee moved to Comp Board position
Volunteer Fire Departments	(17,000)	Reduce annual capital equipment contribution by 10%
Ambulance & Rescue Services	(8,500)	Reduce annual capital equipment contribution by 10%
Emergency Management	(65,000)	Reductions by Steve Allen
QRV/Ambulance	(3,300)	Reductions by Steve Allen
Jail	3,090	Increase in salary & benefits for 3% Comp Board increase
Jail	(35,900)	Reductions by Sheriff Smith
Maintenance-Voting Precincts	(1,000)	Reduce overall spending at voting precincts
Contributions	(84,373)	Decrease all non-mandated contributions by 10% of current fiscal year funding amount
Economic Development	7,527	Increase salary and benefits for director
VPA/CSA	379,752	Increase in DSS salaries & benefits for 3% state-funded increase and increased CSA expenditures
VPA	(35,052)	Reductions per Joan Rogers
Non-Departmental	60,000	Add accrued leave pay at termination/retirement for transfer to respective departments as needed
Capital Improvements	(3,500)	Reduce request for County Administration building improvements
School Funding	1,455	Increase per Dr. Sroufe
Grand total expenditure changes	(77,418)	
Ending Expenditures	25,886,150	
Deficit BEFORE Committee recommendations	(3,539,668)	
Deficit AFTER Committee recommendations	(3,145,172)	

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