**Attachment B – Allocation of Shared Revenues**

**Summary**

The current policy and related calculation for sharing revenues among County Government and Public Schools operations, debt service, and capital costs is complex and challenging to prepare, communicate, and understand. Staff recommends an alternative, which has been reviewed with Public Schools staff, which seeks to simplify the policy and formula. This alternative does not decrease planned Public School operating funding and County Government operating funding. The minimal impact on the Capital Improvements Program can be mitigated.

**Background**

The Financial Management Policies include the statement:

> *The County shares 60% of the increase or decrease in available shared local tax revenues with the School Board. Available shared local tax revenues are additional or reduced tax revenues that can be used for County and School operations after subtracting any increases and adding any decreases in debt service, capital improvement program funding, City of Charlottesville revenue sharing, tax revenues that are dedicated to specific expenditures, tax relief for the elderly and disabled, tax refunds, Economic Development-related performance agreements, and any shared reserves for contingencies. This guideline may be reviewed annually.*

This policy exists to provide a planning framework for developing the annual budget and long-range financial plans. The Board of Supervisors has in the past and may in the future adjust the formula due to the specific circumstances in a given budget year, such as dedications or adjustments to one particular category (e.g., Public Schools operations, County Government operations, capital and debt service).

**Challenges of the Current Calculation**

The current calculation is complex, difficult to prepare, communicate, and understand. For example:

- While this calculation is often colloquially referred to as "the 60/40 split," in reality, the spilt of the change in shared revenues occurs at the end of a complex calculation. Prior to that split, there is a calculation of shared revenues, a list of adjustments to that shared revenue, a calculation for the transfers to the capital and debt service budgets, and further adjustments that then determine a remainder that is shared 60% to Public Schools and 40% to County Government.
- The calculation for the transfers to the capital and debt service budgets are not specified in the policy language.
- Not all figures used in the calculation are clearly available or identifiable in the published budget document or other standard financial reports.

- The calculation is challenging to communicate to the public and to train new staff on due to its complexity. The current calculation takes up more than one page published in the annual budget document (shown in the next two tables for reference).

**County of Albemarle**
**Allocation of Local Tax Revenue**
**Between General Government, Capital/Debt Service & Schools**

| | Adopted FY 22 | Adopted FY 23 | $ Change FY 23 - FY 22 |
|---|---|---|---|
| **Shared Revenue** | | | |
| General Property Taxes | 213,144,617 | 243,939,084 | 30,794,467 |
| Other Local Taxes | 54,744,221 | 74,057,623 | 19,313,402 |
| Personal Property Tax Relief (PPTR) | 14,960,670 | 14,960,670 | - |
| Cigarette Tax | 516,000 | - | (516,000) |
| Plastic Bag Tax | - | 20,000 | 20,000 |
| **Increase in Shared Revenue** | **283,365,508** | **332,977,377** | **49,611,869** |
| **Adjustments** | | | |
| Less: Revenue Sharing | (15,411,834) | (15,545,227) | (133,393) |
| Less: E911 Surcharge | (1,840,135) | (1,840,135) | - |
| Less: Dedicated Water Resource Revenue | (1,456,448) | (1,668,176) | (211,727) |
| Less: Cigarette Tax | (516,000) | - | 516,000 |
| Less: Plastic Bag Tax | - | (20,000) | (20,000) |
| **Net Projected Local Taxes** | **264,141,091** | **313,903,840** | **49,762,749** |
| **Less: Capital/Debt Service Allocation** | | | |
| Prior Year Base | 30,142,066 | 30,142,066 | - |
| Change based on formula | - | 5,678,602 | 5,678,602 |
| Total Capital Outlay & Debt Service* | **30,142,066** | **35,820,668** | **5,678,602** |
| **Committed New Non-Departmental Expenditures** | | | |
| Tax Relief for the Elderly & Handicapped | 1,274,000 | 1,480,000 | 206,000 |
| Refunds | 40,000 | - | (40,000) |
| Economic Development Authority Performance Agreements | 305,000 | 315,000 | 10,000 |
| **Total Committed New Non-Departmental Exp.** | **1,619,000** | **1,795,000** | **176,000** |
| NET REVENUE | 232,380,025 | 276,288,172 | 43,908,146 |
| **Recurring Transfer to School Division** | | | |
| Prior Year Base | | | 141,108,965 |
| Increase (60% of Increase in Net Revenue) | | | 26,344,888 |
| **FY 23 Total Transfer to School Division** | | | **167,453,853** |

| County of Albemarle<br>Allocation of New Local Tax Revenue<br>From General Fund to CIP/Debt Service | Adopted<br>FY 22 | Adopted<br>FY 23 | % Change<br>FY 23 / FY22 |
|---|---|---|---|
| **Net Shared Revenue** | $264,141,091 | $313,903,840 | 18.8% |
| | | | |
| **Capital/Debt Service Allocation** | | | |
| Prior Year Base | | $30,142,066 | |
| Change based on formula (Prior Year Base x 18.8%) | | 5,678,602 | |
| **Base Transfer by Formula** | **$30,142,066** | **$35,820,667** | **18.8%** |
| | | | |
| **Formula Adjustments** | | | |
| None | | 0 | |
| | | | |
| **TOTAL Transfer** | | **$35,820,667** | |

### Desired Outcomes of an Updated Calculation

The intent of this recommendation is to change the math, not the policy. This would be done through the following guiding principles:

1. Simplify the calculation so that it is easier to prepare, communicate, and understand. This should increase transparency on how the County develops its budget.
2. Do not decrease the projected increase in FY 24 - 27 from the previous Five-Year Plan for operations of Public Schools and County Government.
3. Keep the amounts allocated to Public Schools, Capital Projects, and County Government as close to current projections as possible, recognizing that it won't be exact to the dollar due to rounding and criteria #2. If there is a notable decrease to any area, determine how it can be mitigated.

## Recommended Policy Statement, Calculation, and Explanation

### Recommended Policy Statement

The County shares ~~60% of~~ the increase or decrease in available shared ~~local tax~~ revenues among the County Government and Public Schools operating, debt service, and capital budgets.~~with the School Board.~~

- When developing the budget, the County calculates the increase or decrease in General Fund local tax and State non-categorical aid revenues.
- This amount is adjusted for changes in expenses that reduce available shared revenue: City of Charlottesville revenue sharing, Tax Relief programs, Economic Development Authority tax-related performance agreements, and the designated transfer to the Water Resources Fund.
- The remaining amount is allocated 54% to the Public Schools operating budget; 36% to the County Government operating budget, and 10% for the joint County Government and Public Schools debt service and capital budgets.

~~Available shared local tax revenues are additional or reduced tax revenues that can be used for County and School operations after subtracting any increases and adding any decreases in debt service, capital improvement program funding, City of Charlottesville revenue sharing, tax revenues that are dedicated to specific expenditures, tax relief for the elderly and disabled, tax refunds, Economic Development-related performance agreements, and any shared reserves for contingencies.~~ This guideline may be reviewed annually with Board of Supervisors approval.

**What does the Recommended calculation look like?**

The following is an example if the updated calculation methodology was used in the FY 23 budget process. The calculation is much shorter than the current version and all figures are identifiable in the budget document.

| | FY 22 Adopted | FY 23 Recommended Calculation | Change | |
|---|---|---|---|---|
| **Shared Revenue** | | | | |
| General Property Taxes | 213,660,617 | 243,939,084 | 30,278,467 | |
| Other Local Taxes | 54,744,221 | 70,926,224 | 16,182,003 | |
| Non-Categorical State Aid | 15,630,424 | 19,034,050 | 3,403,626 | |
| | **284,035,262** | **333,899,358** | **49,864,096** | |
| **Less Committed Expenditures** | | | | |
| Revenue Sharing | 15,411,834 | 15,545,227 | 133,393 | |
| Tax Relief | 1,274,000 | 1,480,000 | 206,000 | |
| EDA Performance Agreements (Tax-related) | 305,000 | 315,000 | 10,000 | |
| Transfer to Water Resources Fund | 1,456,448 | 1,668,176 | 211,728 | |
| | **18,447,282** | **19,008,403** | **561,121** | |
| **Net Revenue** | **265,587,980** | **314,890,955** | **49,302,975** | |
| Capital/Debt | 30,142,066 | 35,072,364 | 4,930,298 | 10% |
| Public Schools | 141,108,965 | 167,732,572 | 26,623,607 | 54% |
| County Government | 94,336,949 | 112,086,020 | 17,749,071 | 36% |

**Understanding that the FY 23 budget will not be revised, as a 'what if' scenario, how would the FY 23 Calculation compare to what was adopted in FY 23, if it was used then?**

These amounts are as close as possible adhering to the criteria to a) not decrease the projected increase for operations of Public Schools and County Government and b) recognizing that it won't be exact to the dollar due to rounding. A projection for FY 24-27 is discussed later in this document.

| Category | FY 23 Adopted | FY 23 'What If' Calculation | $ Change (Adopted to 'What If') | % Change (Adopted to 'What If') |
|---|---|---|---|---|
| Transfer to Capital and Debt Funds | $35,820,668 | $35,072,364 | $(748,305) | -2.1% |
| Transfer to Public Schools | $167,453,853 | $167,732,572 | $278,719 | 0.2% |
| County Government | $111,616,434 | $112,086,020 | $469,586 | 0.4% |

**Explanation of Recommended Policy and Calculation**

The first two stages of this calculation generate a total of the revenue change to be shared.

- Shared Revenue
  - The first 2 rows, General Property Taxes and Other Local Taxes, are not a change from the current approach.
  - The third row, Non-Categorical State Revenue, shares more revenue than the previous formula. This is because a) these revenues are not designated for or directly related to specific County Government or Public School services, b) it provides flexibility if there are changes directed from the State between categories (for example, telecommunication tax revenue was once classified as local and later moved to state), c) it is a number readily available in the budget document.
- Less Committed Expenditures
  - There is no change in these 4 items from the current approach.
- Allocation of Net Shared Revenue
  - Split using whole number percentages to generate transfer amounts as close the current dollars as possible:
    - 10% Debt Service and Capital
    - 54% Public Schools (which is 60% of the remaining 90% after Debt and Capital's 10%)
    - 36% County Government (which is 40% of the remaining 90% after Debt and Capital's 10%)

**Does this calculation meet the previously stated "Desired Outcomes of an Updated Calculation?"**

1. *Simplify the calculation so that it is easier to prepare, communicate, and understand. This should increase transparency on how the County develops its budget.*

   - The number of items in the calculation have been reduced and all numbers in the calculation are clearly identifiable elsewhere in the budget document.
   - There is a single calculation for Public Schools, County Government, Debt Service and Capital Projects and the calculation for the transfers to the Capital and Debt Service budgets are specified.
   - Staff who prepare this calculation confirm it is easier to train on, calculate, communicate, and understand and appreciate Board of Supervisors feedback if it feels otherwise.
2. *Do not decrease the projected increase in FY 24 - 27 from the previous Five-Year Plan for operations of Public Schools and County Government.*
   - Addressed in response to #3.
3. *Keep the amounts allocated to Public Schools, Capital Projects, and County Government as close to current projections as possible, recognizing that it won't be exact to the dollar due to rounding and criteria #2. If there is a notable decrease to any area, determine how it can be mitigated.*

Impact to Capital Improvement Program and Debt Service:

Because criteria #2 prioritizes operating costs, under the recommended calculation, the transfer to Capital and debt service would decrease approximately $1.2 million annually in FY 24 – 27 compared to the Adopted CIP, a total of approximately $4.9 million.

This decrease can be substantially mitigated based on a review of technology accounting and reporting standards. Staff has determined there are approximately $4.7 million in public safety technology costs included in the FY 24 – 27 Adopted CIP that should accounted for as operating, not capital expenses. These cash funded projects are proposed to be paid for via the General Fund in FY 24 - 27.

After that change, there is approximately a $160,000 deficit remaining in the Adopted CIP, which is 0.06% of the adopted FY 23 – 27 CIP that totaled $297 million. This amount will be considered as part of preparing the FY 24 – 28 CIP process, where all assumptions will be revisited including revenue updates, project costs, and timing.

Impact to Public Schools Operations

Because criteria #2 prioritizes operating costs, under the recommended calculation, the transfer to Public Schools could increase approximately $0.6 million annually compared to the assumed increases in the FY 24 – 28 Five-Year Financial Plan. The actual impact will depend on changes in economy, tax rates, and any other considerations.

The use of this additional funding in future years, if appropriated by the Board of Supervisors, would be determined by School Board. If the School Board opted, this increase could provide for flexibility as the Public Schools plans for the operating costs of capital projects, such as expanded and new facilities.

Impact to County Government Operations

Because criteria #2 prioritizes operating costs, under the recommended calculation, the County Government share could increase approximately $0.6 million annually compared to the assumed increases in the FY 24 – 28 Five-Year Financial Plan. The actual impact will depend on changes in economy, tax rates, and any other considerations.

The use of this additional funding in future years would be determined by the Board of Supervisors in the context of the County's Five-Year Financial Plan and annual budget processes.