



TO: Board of Commissioners

FROM: Ed Causey, County Manager

DATE: June 1, 2011

RE: Proposed FY 2011-12 Budget Message

INTRODUCTION - ECONOMIC PERSPECTIVE

The proposed budget for Fiscal Year 2011-2012 is a responsible projection for Sampson County based on current economic conditions. Most will agree that the current economy has improved from a year ago, and a number of indicators substantiate some improvement. At the same time, the economy is far from robust, and many of our citizens continue to suffer. Improvement in the governmental sector of the economy generally lags behind private sector improvements. This is especially important in Sampson County where 8 of the top 25 employers are governmental.

We expect policy decisions at the federal level to continue to play a role here at the local government level. The \$14.3 trillion debt limit will reach its ceiling sometime in August, prompting considerable debate in Congress regarding the debt ceiling, future spending and the re-shaping of fiscal policy. A commitment to sound fiscal policy would be viewed very positively by the credit markets and Wall Street. Long term investment would be encouraged. At the same time, changes in fiscal policy could result in a drag on the economy in the short term as spending is either reduced or redirected. Also, current monetary policy has kept interest rates near zero since 2008, but low interest rates are beginning to fuel concerns regarding inflation rates. Changes in monetary policy and the ability of Congress to achieve sound fiscal policy will impact everyone in all sectors of business and government.

Sampson County is and will be directly affected by these federal discussions. First, if the markets perceive a more sound national fiscal policy, long term investment will also be encouraged over the long term in Sampson County. Likewise, the short term effects could be erratic as everyone adjusts to fewer

federal dollars. Second, reduced federal spending will affect the County. Reduction of federal dollars available at the State level is one of the reasons the General Assembly is working diligently to adjust the State budget. It is likely Sampson County will be forced to undertake some additional obligations as the State budget is finalized. Third, for the past decade, Sampson County has been an indirect beneficiary of federal monetary policy. Low interest rates have allowed us to borrow those funds necessary for capital construction at very favorable rates. Moving forward, a more realistic federal monetary policy may allow us to recoup more interest on our reserves. We also benefit from the fact that our capital investment in infrastructure will not be as great in the next ten years.

REVENUE NEUTRAL RATE

State law requires that local governments publish a revenue neutral tax rate in the budget following the completion of the general reappraisal of real property. The purpose of the revenue neutral rate is to provide comparative information. The revenue neutral rate, as defined by GS 159-11(e), is the rate that is estimated to produce revenue for the next fiscal year equal to the revenue for the fiscal year prior to revaluation if no reappraisal had occurred. The rate is then adjusted by a growth factor equal to the average percentage increase in the tax base since the last general reappraisal.

The reappraisal produced an estimated tax base of \$3,868,061,112 for Sampson County. The estimated tax levy for fiscal year 2011-2012 is \$30,637,584, and the growth factor since the last general reappraisal is 1.65%. Using the formula mandated by State law, the revenue neutral rate for Sampson County is 77 cents. Based on the revenue neutral tax rate, some Sampson County taxpayers will pay higher taxes than last year due to higher property values, and some taxpayers will pay lower taxes due to lower property values. The purpose of the revaluation is to proportionately redistribute the tax base.

RECOMMENDED TAX RATE

Based on the estimated tax base, a 1-cent levy yields \$367,460.00. We are estimating a 95% collection rate. We are recommending a tax rate of **.795**, which is 5 cents less than the current tax rate, and 2 ½ cents more than the revenue neutral rate. The 2½ cents represents \$918,650. Please note that the State reduced our ADM and lottery funds by \$1,306,527. These funds are used to pay the capital debt on schools.

We received budget requests totaling \$51,229,036. Had all requests been fully funded, an additional 8.5 cents would have been added to the tax rate.

OTHER BUDGET IMPACTS

Sales Tax We are projecting an increase of \$347,715 in sales taxes.

Property Tax Collections Property tax collections are projected to increase by \$1,952,000. This is more than offset by the loss of ADM and lottery funds, plus the reduction in revenues for housing out of county inmates.

State Retirement Contribution Our mandated state retirement system contribution has increased by \$74,595.

Fund Balance Appropriated We are projecting an increase over the appropriated 2010-2011 fund balance of \$170,048.

Debt Service - Schools Debt repayment for the Roseboro Elementary School will begin in the Fall of 2012.

Debt Service - Vehicles The debt service payments for vehicles and equipment are budgeted to increase by \$67,240. The estimated cost for the added debt to purchase 13 sheriff vehicles, one pickup for Emergency Management, and one ambulance is \$147,000 if we begin debt payments in October, 2010.

Inspections Inspections revenues are expected to increase by \$9,050.

Planning and Zoning Planning fees are projected to increase by \$1,200. Operational costs for planning and zoning have decreased by \$11,819.

Library The State Aid to Libraries is projected to decrease by \$9,000.

Finance Operations in the Finance Office will increase by \$101,413 as we add a Deputy Finance Officer, increase funds to write the audit, obtain a benefits and pay study, and complete a OPEB study that is required every two years.

Elections During the next year, elections will cost an additional \$28,549 in expenditures.

Emergency Management Ambulance fees are projected to increase by \$400,000. Expenses for Emergency Management have been increased, primarily because of the purchase of one vehicle. Also, please see the discussion regarding an additional ambulance crew in the Budget Recommendations section.

Register of Deeds The budget for the Register of Deeds Office has been reduced by \$43,567 because of staffing reductions.

Sheriff's Department The Sheriff's budget has increased by \$380,215. The majority, \$250,000, is for 800 MHz radios that are proposed to be paid for from the one-time 911 monies (which must be used for public safety). Gas, oil and tires expenses are increasing by \$84,425. In addition, costs of a gang intervention grant, which is expiring, have been absorbed.

Detention Center Revenues from housing out-of-county inmates are projected to decrease by \$900,750. Operational costs for the detention center have been reduced by \$79,268.

Soil Conservation Expenses for Soil Conservation (Natural Resources Conservation Service) have increased by \$6,252 due to reductions in contributions from the State.

Mental Health Our contribution to mental health has increased by \$11,544.

Parks and Recreation Recreation expenses will increase by \$17,230, which is primarily due to an increase in gas/oil expenses of \$7,500 and the purchase of equipment totaling \$16,000. This increase will be offset by a \$26,920 reduction in recreational programs.

Solid Waste Our solid waste expenses have increased by \$21,050 due to an increase in load pulls.

BUDGET INSIGHTS

As stated, the change in our proposed tax rate is largely due to the expected reductions in State revenues, specifically lottery and ADM proceeds. These funds have been used to pay debt service for our school loans. If the funding picture changes at the State level for the positive, we recommend the excess funding be designated for Roseboro Elementary School. Debt payments are slated to begin for the school in 2012-2013, along with a corresponding tax increase.

The Board of Commissioners, past and present, are to be commended for their commitment to improving building infrastructure for Sampson County and the Sampson County and Clinton City School systems. Initially, it was anticipated that construction costs could add 30 cents to the tax rate. The County persevered and continued planning. With changes in the Medicaid program and the addition of lottery proceeds, the 30 cents projection was dropped to 21 cents. Of the 21 cents projected, we estimate that only 14 cents has actually been implemented. Even with the current projected tax rate, our leadership has

maintained our budgeting for capital improvements repayments within the scope of original planning.

We understand and agree that tax rates need to be maintained at a reasonable and responsible level. We also understand that effective planning necessitates that we keep an eye on the future even as we plan in the current period. In the past decade, the County was forced to address "pent up" infrastructure needs that had developed over a number of years. Facilities for schools, Cooperative Extension, Public Works, Social Services and Health, Tax Office, Register of Deeds, the Animal Shelter and the court system all needed significant improvements. Pent up needs could likewise occur with equipment, software, our human infrastructure, or other unforeseen circumstances, if we are not diligent. We certainly want to be prudent with our spending and save money where we possibly can. It is important, however, that we differentiate between reducing expenditures and delaying or deferring expenditures. Over the long term, maintaining reasonably priced County government may necessitate some expenditures in the short term - not unlike preventive healthcare expenditures that many responsible families undertake to avoid or minimize catastrophic future health issues.

Good government should be ever mindful of how the private sector works and emulate those best practices that can enhance governmental operations. We should also be cognizant, however, of those things which set county government apart from private businesses. First, county governments were created by the State, and to a large extent, serve to carry out mandated services as directed. Unlike the private sector where the demand for product may diminish in a faltering economy, demand for those mandated social services and health programs often peaks during economic down turns and when resources are limited. Second, the demand for life-safety resources will constantly change as our population ages and as the dynamics of our population change. Third, we try to provide as many services as possible to the broadest spectrum of people possible. We are often limited in creating "economies of scale" as we implement and deliver services.

BUDGET CONSIDERATIONS AND RECOMMENDATIONS

1. Staff recommends that we implement a program for business personal property audits, for a number of reasons. We are just completing our octennial revaluation. The purpose of such revaluation is to redistribute the real estate tax base in a fair and equitable manner. Likewise, ensuring that the entire tax base is paying their proportionate share of taxes seems fair. Second, business audits were recommended in the 2005 audit of the Tax Department as an important need. Third, business audits are a

valuable tool to ensure that everyone understands business listings and the requirements thereof.

2. We have included \$198,200 in the recommended budget for improvements to the software in our Tax Office. These improvements have been needed for several years. Moreover, we were recently encouraged by the North Carolina Department of Revenue, during an appeals hearing, to improve our tax office software as needed. We have already begun this process.
3. We are recommending the addition of an additional ambulance crew for Clinton. In 2010, the Clinton based ambulance ran 4,153 calls or 43% of the total call volume. The next busiest truck was the Roseboro squad which ran 1,885 calls, or 17.9% of the total call volume. Our average response time is currently 12.12 minutes. The goal is to reduce the response time to less than 10 minutes. The total cost of implementing the additional squad is \$393,384, with \$82,710 of the cost being a remounted ambulance. We are proposing to have this unit operational by January 2012, thus our projected cost for FY 2011-12 is \$200,000. Please note that ambulance fees are expected to increase by \$400,000.
4. We are proposing that \$96,000 for Courthouse security equipment be funded from the one-time 911 funds. The Sheriff's Office is pursuing a State grant to fund four deputies to be assigned as Courthouse security. If the grant is received, funding will be available for three years. Notification of the grant award will be in the Fall.
5. We are proposing that the remaining one-time 911 funds be utilized as follows:

\$ 104,000	800 MHz radios for 911 Center
\$ 250,000	800 MHz radios for Sheriff's Department
6. We are recommending that funding for the Community College be increased by \$26,149 to cover increased costs for electricity and natural gas. We are also recommending that funding for the schools be increased to \$830 per student, which will create increased expenditures of \$58,085.
7. The expenditure of \$80,000 to develop a grit chamber at the Detention Center is included in the recommended budget.

CONCLUSIONS AND FINAL CONSIDERATIONS

We are beginning to see signs of the national economic recovery, and we continue to view our bottle as "half full." Moreover, we hope and expect to see positive economic movement for several years to come. With optimistic, yet realistic expectations, we have presented a responsible budget. Unfortunately, we could not recommend all requests that were received or nor fully fund a number of others. We were unable to recommend funding for the new roof for the old Midway High School because of budgetary constraints. However, we do want to have a dialogue between the school system and the commissioners regarding this request. It is certainly appropriate to determine the level of need and priorities for subsequent years. Also, moving forward, the commissioners have requested that we review employee benefits. We believe the review of benefits is appropriate and should include the full range of benefits from compensation to insurance. This will be a top priority for the next year.

Our ultimate goal is to achieve consensus on our budget proposal. Consensus does not mean unanimity; consensus means that everyone is comfortable and willing to move ahead with a given course of action, even if it is not everyone's first choice. As taxpayers, we all have our particular interests in county government at our particular points in time. (During our parenting years, education is at the forefront; in later years, our focus may shift to human services, aging and other quality of life services.) As program and budget managers, our obligation is to weigh all of the important needs of our citizens at all of those points in time and proportion our limited resources within a comprehensive budget.