

# NORTH CAROLINA'S SAMPSON COUNTY

To: Sampson County Board of Commissioners  
From: Edwin W. Causey, County Manager  
Date: May 7, 2012  
Re: Proposed FY 2012-2013 Budget Message

## ***Introduction***

This is the most important budget that will be presented during my tenure as County Manager. This year, as in every year, there are two ways we may approach our budgeting process. Our first option is to continue making decisions based solely on current needs, with the assumption that economic conditions will improve on their own. Our second option is to consider a budget which not only addresses our current needs but also produces a fiscal framework within which we can consider and tackle the long-term needs of the County. I have stated numerous times over the last year that I am much more concerned about future budgets (ten years out and beyond) than I am the current budget. If we choose to simply make decisions regarding the current period without taking a longer term view, our budgeting process is simple, and we can move through the process easily. However, electing to build a framework upon which long-term decisions can be made still gives you the flexibility to adjust as we move forward. More importantly, it adds to cost efficiencies to the decisions that are made in the short-term. Either approach can be implemented without a tax increase.

## ***Budget Drivers***

Even with a long-term approach to our budget, there are current challenges and issues which must be addressed and solutions proposed which fit within the long-term vision. For each of this year's budget drivers, we have been mindful if there are budget impacts not only in the current year, but beyond.

**Sales Tax** We are projecting an increase of \$355,389 or 5.4% in sales taxes.

**Property Tax Collections** Property tax collections are projected to increase by \$797,623.

**Fund Balance Appropriated** We have proposed no change in the amount of fund balance appropriated. We do not expect to use any fund balance in the current year.

**State Retirement Contribution** Our mandated state retirement system contribution decreased by .23%, but this is short-term reduction, and we may realize an increase again in future years. The actual rate decreased by .14% and the State granted a three year relief period from the payment of the .09% death benefit payment.

**Schools Current Expense** We are proposing an increase in funding for the school systems to \$859 per student. This is approximately a 3.5% increase and does cover our agreement under the debt model to provide for the increasing operating expenses associated with the opening of Roseboro Elementary School. It is noted that this increase does not cover the school systems' entire request; both school systems are proposing to utilize a significant amount of their fund balance. If non-county funding for the schools continues at reduced levels in the future, the schools will have significant challenges to consider in subsequent years.

**Sampson Community College** In considering the current expense budget request from the Community College, we have tried to be equitable in our allocation based upon anticipated recommended increase for the school systems. We have increased the College's current expense funding by \$64,327 to cover their major increases under salaries and fringe benefits, insurance, utilities and maintenance contracts. With regard to capital outlay, we have budgeted \$50,000 to cover their deferred maintenance items that are of utmost importance as they prepare for their site visit by their accreditation agency. We also budgeted an additional \$35,000 to replace a fire alarm panel in the Kitchin Building, to resurface deteriorated concrete steps and make improvements to campus drainage.

**Debt Service - Schools** Lottery proceeds are scheduled to increase this year as the State returns to their original statutory allocation formula. This shift allows for an \$805,000 reduction in the County's contribution to the debt model. However, we must be cautious as the General Assembly may elect to reduce the allocation to the Public School Building Fund, which will force us to restore these funds to our debt model.

**Debt Service - Vehicles** We are recommending the replacement of twelve Sheriff vehicles and two ambulances. In an effort to save money we are recommending the purchase of three compact pickup trucks for the Inspection Department. The addition of the three vehicles to the Inspections Department is expected to save \$2,672 in the first year. In the first year that the debt payment is retired on the vehicles, the County will realize a savings of approximately \$3,000 per vehicle per year until replacement.

**Emergency Management/Rescue** Everyone is working diligently to ensure that we are maintaining paramedic level services for all of Sampson County. The Board recently approved the addition of six rescue personnel to cover the loss of one non-profit. This budget includes the addition of three rescue personnel to create a second unit in Clinton to respond to our increasing call volume. The need for this unit has been definitively established in planning discussions over the last two years. The unit will also serve as our safety net and begin our long-range plan to meet the challenges created when circumstances force our non-profits to reduce or discontinue their level of service.

**Expo Center Operations** Seeking increased revenues to offset operating costs for the Agri Exposition Center, we asked the Expo Center staff to evaluate what the direct management of the existing sales of alcohol at Expo Center events would yield. We are projecting \$8,000 additional revenue the first year under this program, and significantly more revenue in subsequent years. However, this effort necessitates the investment of \$30,190 to provide secured storage and refrigeration. Such improvements will also benefit other operational activities of the Center.

**Inspections** Inspections Department revenues are expected to realize a small increase due to a recommended fee increase.

**Library** The State Aid to Libraries is projected to decrease again by \$7,000. This reduction in revenues is also reflected in the expenditures for the Library.

**Parks and Recreation** We recognize the challenges that the City is facing in serving non-city participants, and understand their need for increasing participation fees for those residents. Our desire is for our programs to remain financially attractive for our County residents, and we do not wish to create unintended negative consequences for the city, so no fee increases have been proposed for our county participants.

**Sheriff's Department/Courthouse Security** The Sheriff Department's budget includes four additional deputies to cover the Courthouse security needs as recommended by the Courthouse Security Committee. The Sheriff's Office has applied for a grant that would cover 75% of the salaries for a period of three years.

**Sheriff's Department/Detention Center** Total revenues for the Detention Center are expected to fall by approximately \$140,000. These new revenue estimates reflect an expectation that Onslow County's Detention Center will open July 1 and that we will house misdemeanor prisoners through the State's misdemeanor program.

**Social Services** We recognize and appreciate the pressures faced by the Department of Social Services. There is some expectation that federal TANF funds could be reduced by \$278,000; however, we have not projected this in our budget. If this federal reduction occurs, we will attempt to reallocate monies within the existing budget. This may necessitate the use of contingency funds. We also recognize that there is a need for additional manpower given the increased demand for human service programs. We will attempt to cover this need with contracted services. Also, the department has requested contracted security services; however we have elected to defer this action until we consider the comprehensive needs of the entire County Complex per the direction of the commissioners.

**Social Services/Medicaid Transportation** The Department of Social Services is required to rebid the contract for Medicaid Transportation every three years. In addition, the State, because of their audit by the federal government, is putting a great deal of emphasis on the quality and delivery of such services. You as commissioners have shown a great deal of interest and

compassion for the plight of our seniors with regard to transportation. That being said, the County, through Sampson Area Transportation, is going to submit a proposal to provide these services. In the short term, this could require some additional cash outlay for the purchase of some equipment that will be recovered over the course of the contract. This effort, if successful, should enhance our cost effectiveness of all of our transportation services and ultimately the quality of transportation services available to all of our citizens.

**Solid Waste** Our solid waste budget does not include an increase; however, we are bidding these services in the Fall, so this budget may have to be amended depending upon the bids received.

**Capital Maintenance Reserve Accounts** We are proposing to establish four separate capital maintenance reserve accounts for the County, each of the school systems and the community college. The concept for these accounts is discussed in detail in our long-range planning section. For this year, the bulk of the monies are allocated to our education systems (\$150,000 for Sampson County Schools, \$75,000 for Clinton City Schools, and \$75,000 for Sampson Community College). We are also proposing to set aside \$200,000 for the County. Our detailed infrastructure planning reflected that the County should set aside \$503,000 for the current year's contribution, and calculated that the County had already amassed over \$900,000 in deferred maintenance issues. It is also noted that the allocations for this year have been adjusted because of previous capital outlay funding allocations to the City and County Schools this year. Monies in this account are not for any new construction and will only be approved to be used for necessary long-term maintenance issues, such as roofs, HVAC, not general upkeep.

**Implementation of Career Path Adjustments Pursuant to Personnel Resolution** In accordance with the Personnel Resolution that was adopted by the Board in June 2011, we have included the career path adjustments as specified therein. The maintenance of our human infrastructure is an important piece of our long-term planning. It is extremely important that this adjustment be looked at in the total context of our total human infrastructure maintenance program. We are not proposing a cost of living adjustment.

## ***A LONG TERM BUDGETING PERSPECTIVE***

### ***Broadening our Economic Perspective***

The economic conditions which exist at the national, state and local level themselves dictate that we shift our budget perspective away from a myopic view limited only to the immediate challenges of our local government to a broader view which examines the local impact of national and state actions and discerns both our County's short-term and long-term needs.

Sampson County is an agricultural county that generally does not suffer the economic highs and lows of many of the more urban counties, yet we are not unaffected by the economic woes experienced on the national and state level. Sampson County's current unemployment rate is 8.4 %. This is much higher than we would like, but lower than the State average. We are dependent upon revenues from the State, and we are impacted by legislative decisions made

by the State in response to its own fiscal challenges caused by the economic downturn of recent years. The state has lost 334,000 manufacturing jobs over several years and only picked up a net of 33,000 jobs last year. We are learning that our state is part of the global economy and as such is affected by such things as Japan's tsunami, high gas prices, the United States and European debt crises, and our country's growing national debt. However, most would agree that North Carolina began to have a small amount of economic expansion last year and is beginning to move forward, even though the recovery has been jobless. One of the positive indicators is the uptick in sales tax which had increased 7.8 % through March. The uptick for the full year will likely be less than this gain, but it is projected to increase 2-3% for 2012-2013. North Carolina's GDP grew by 1.7% in 2011, as the US economy grew by 1.9%.

While the national economy has not improved as much as everyone desires, the country continues to demonstrate significant resilience. Moving forward, national leaders will seek economic and fiscal policies which encourage job growth, resolve housing issues, and deal with the growing national debt. No government (or family) can sustain itself indefinitely if the total debt continues to grow at a more rapid pace than the income needed to service the debt. Our national leaders are beginning to understand this, even though full agreement on how to achieve debt control or restraint has not reached a consensus. The establishment of effective measures for limiting the continued growth of our national debt will have a very positive effect on the economy in the long-term, but we must recognize that budget tightening at the national level will reduce federal monies at the state and local level. Thus, we do not predict significant growth in county revenues for the next several years. In fact, we must assume flat line budgets and hope that our projections prove to be very conservative.

There was a time when all governmental units could expect a reasonable percentage of growth in their financial base each year due to economic expansion. Thus, governments had available funds to pay for the increased cost of utilities, supplies, and new services that were desired by the public. Unfortunately, economic circumstances have left the growth of our economic base stagnant, and this pattern is expected to continue for some years to come. When the expectation for limited growth and flat-lined budgets persists for only one or two years, adjustments are fairly easy. We reduce or delay our investments in the long term maintenance of physical infrastructure, human capital, equipment, software, and the like. However, if management staff fails to document or acknowledge the pent-up needs created by such funding reductions or delays, the governing body is denied a true awareness of the magnitude of these needs, and more importantly, it runs the risk of not taking these pent-up needs into account as future decisions are made and budgets are prepared and adopted.

Therefore, we have approached FY 2012-2013 budgeting in a manner which provides the governing body with both the current information necessary to make decisions that are relevant for 2012-2013, and also provides the Board greater insights regarding future needs. These insights should enhance long-range decision making and produce a current budget that sets the foundation upon which future budgets may be aligned. This process should result in greater efficiencies. In subsequent paragraphs, the long term needs that have been identified and recommendations are provided for accomplishing same. We recommend that the

governing body adopt the model with the understanding that actual numbers can be tweaked from year to year as well as adjustments to the priorities. We believe the proposed FY 2012-2013 budget is a positive response to our evaluation of current circumstances. There is not a tax increase in the proposed budget.

***Budget Initiative - Capital Reserve Accounts for Long-Term Maintenance of Physical Infrastructure***

We are recommending that four infrastructure capital maintenance accounts be established for the County, both school systems, and the community college. The extensive infrastructure study completed by Sampson County Public Works and reviewed at the Board's annual planning session indicates that the county has approximately 442,000 square feet of space in 26 buildings. The replacement costs for these buildings is \$82 million dollars. The study revealed that we have more than \$900,000 dollars of deferred maintenance for these buildings. In addition, the study estimates that we should be setting aside approximately \$500,000 per year to ensure the long term maintenance and upkeep of these buildings. The County does not have any reserve funds to cover these needs at present.

Over the last 8-10 years, Sampson County has invested more than \$140 million in bricks and mortar infrastructure for local government and the school systems. We were very fortunate to obtain USDA financing for much of this money, which is primarily for a 40-year term. This means that after 20 years of regular utilization and normal wear and tear, these facilities will still be encumbered with 20 years of debt . If we are not setting aside and utilizing funds for long term maintenance, our investments will likely be in need of major rehabilitation after 20 years, and there will be no funds on hand to accomplish same. Because of debt encumbrances, we may have limited access to borrowed capital for any necessary major rehabilitation. This could have catastrophic consequences as our buildings will then deteriorate at a rate that may exceed the normal expected life of these structures. We recommend that we carefully evaluate the costs of retiring all debt over 20 years, and as a minimum establish a reserve that at least equals the difference between this amount and the existing debt.

The establishment of these reserve accounts is important for another reason. Everyone is interested in the financial stability of the County, and thankfully our cash flow position and reserves are reasonable at this time. However, this is not the full story. We can compare our local government to a family. Let's say that the family has enough income to meet all of their living expenses and debt obligations. We can even presume that the family has \$25,000 in the bank. This seems encouraging until we learn that the family's home is in need of \$50,000 of repairs, and they have 10 years remaining on their mortgage. Their circumstances are further exacerbated by the fact they now have children ready to go to college. Their flexibility to deal with the challenge is now limited. Likewise, the County's ability to face the future challenges necessitates that the county understand the needs of infrastructure maintenance to ensure prudent decision making in the current period.

The County completed the initial phase of its infrastructure analysis in late February. There has not been sufficient time to collect the same comprehensive information from our funding

partners. However, they have graciously provided preliminary information to allow us to establish their accounts, and we can begin to extrapolate information to develop an approach to our reserve funding. For example, the County has 462,117 square feet of space. If we add in the square footage of space for the schools and the community college, we now have 2,737,207 square feet of space that the County is obligated to maintain. The infrastructure analysis of County facilities demonstrated that the County should set aside \$503,000 on an annual basis for long-term maintenance needs. Applying this logic simplistically to the total square footage of all buildings (inclusive of the schools and community college), then we need to collectively set aside \$2,958,824 for long-term maintenance. The analysis further determined that the replacement cost of county buildings was \$82 million or \$177.44 per square foot. If we apply this formula to the total square footage of all buildings (again, inclusive of the schools and community college), we have a replacement cost of \$485,690,010. If we now divide our total long-term maintenance costs of \$2,958,824 by the total replacement costs of \$485,690,010, this reflects a percentage of .61%, which can be rounded to 1%. For evaluating the long-term maintenance of all of our infrastructure, a figure that represents .61% of replacement value is well within reasonable parameters.

Based on our proposed budget, a penny on the tax rate generates \$378,984. We would need to increase our tax rate by 7.81 cents to fund the total maintenance needs of \$2,958,824. The proposed budget recommends the establishment of the capital reserve maintenance accounts; it does not, however, recommend an amount that comes close to the projected needs nor a 7.81 cent increase at this time. It is imperative, though, that we understand and acknowledge the immense need and pursue alternative ways to achieve additional funding to meet these long-term needs.

#### ***Budget Initiative - Human Infrastructure***

The same methodology we used to evaluate and plan for the long-term viability of our building infrastructure can be applied to our human infrastructure as well. With our capital infrastructure, we acknowledged the value of the investments the Board wisely made over a number of years; we systematically analyzed how we had maintained these investments, and we have postulated that a strategic plan for their preservation is necessary for our financial stability in the future. Similarly, we must first acknowledge that our human infrastructure, our employees, are a valuable resource, and a great amount of our budget is invested in this resource to ensure that we are a high-performing organization. If subsequent budgets will be as challenging as anticipated, then thoughtful, long-term consideration of our employees' welfare should also be considered. The Board of Commissioners recently demonstrated great compassion to meet the needs of our seniors relative to a transportation issue, noting the need to protect these men and women who have contributed to our communities throughout their lifetimes. The same can be said of our employees, who are also citizens of Sampson County, pay taxes, raise families, and own homes here, and work diligently daily to make positive contributions to the betterment of our communities. Our deliberations regarding issues relative to our employees will demonstrate the same genuine interest and desire to responsibly consider their needs.

Secondly, management of our human infrastructure does not mean simply increasing employee salaries, even though the Consumer Price Index has increased 8.31% since our employee received their last raise. As we did with our capital infrastructure, there is value in assessing our human infrastructure within the context of our existing Personnel Resolution and its provisions for financial compensation and benefits. We have allowed our treatment of employees to become inconsistent. Changes may be implemented, over the long-term, which reflect fiscal responsibility and understanding of both current and future economic conditions:

- Our benefits packages should be better designed and managed to ensure that offered benefits reflect the current economic realities and avoid inappropriate, unfunded liabilities. We are recommending a slight adjustment in health insurance benefits for this year. These reviews will continue.
- Realizing that job responsibilities may change over time, we will need to begin performing some periodic job reclassification reviews to ensure the work performed is consistent with the current job descriptions. This process takes place at the State level, which benefits two of our departments, but should be emulated throughout the County, yielding more consistency among all departments.
- We have recommended that we move forward with career path adjustments as outlined in the budget drivers section. We are recommending that we implement the pay adjustment pursuant to the Personnel Resolution that allows salary adjustment within the pay grade of employees up to the midpoint for those employees with above-average evaluations. Thus, we are adjusting some salaries and trying to establish as much parity within our existing system as possible and provide motivation to all employees to continue striving for excellence. We are proposing to make this adjustment in January, 2013.

Lastly, as we have proposed for our capital infrastructure, it is important that we employ sound strategies to preserve and maintain our human infrastructure. Last year during budget deliberations, the Board of Commissioners removed the request for a pay study in the proposed budget. Your reasoning was justified, as you were reluctant to expend valuable resources for a plan that we may not have had financial resources to implement. If we logically implement the needed and previously deferred changes in our current system, we will be better positioned to implement recommendations resulting from future pay scale and classification studies periodically accomplished to remain consistent with the employment market. We all understand that there are challenges within our existing pay scale system. The Sheriff, during the planning session, provided substantive information to demonstrate that his department's salaries are at least 10% too low. We concur in his findings as this is consistent with our review of selected positions throughout our other departments. Thus, it is appropriate for us to work within our existing personnel system to make all necessary changes to ensure fairness in the implementation of any short or long-term salary adjustments.



It is also imperative that we remain mindful of the long-term budgetary impacts of the addition of new permanent positions. This means utilizing innovative methods to accomplish workloads and deliver services, i.e. contracted services, technological efficiencies, etc. We will depend on the county's elected leadership to determine the services to be provided as well as the level of services. The level of government can be adjusted up or down to meet the priorities that are established.

Also, as we move forward, we should be prepared to work within our existing Personnel Resolution system, as future budgets allow, to offer merit increases and cost of living adjustments. We are not proposing a cost of living increase for all employees in this budget, even though we do note that there have been no salary adjustments since 2003. Instead, we are taking the long-term approach in human infrastructure management in the same manner as our bricks and mortar infrastructure. We want to understand the needs and challenges and implement a process to methodically accomplish needed changes over time. It is important to always note that our primary mission is to provide quality services to the citizens of Sampson County.

#### ***Budget Initiative - Alternative Revenue Sources***

We have depended upon agriculture to carry the weight of our economic stability for decades. Is it time to aggressively promote diversified economic development to begin to relieve the tax burden that our agriculture community bears as well as existing industry, small business and the existing residential population.

We believe the long term economic potential for Sampson County is positive. However, we believe bold action and an understanding of current circumstances is necessary to ensure that the County can plan for, fund and achieve positive growth that benefits everyone. You as commissioners should be commended for your efforts to aggressively seek the additional needed funding for the completion of Highway 24 from Clinton to Interstate 40. This vital transportation link will be one of the new cornerstones for Sampson's County future economic prosperity.

Sampson County is strategically located to be an economic powerhouse in the future. We are located an hour's drive from both the Wilmington seaport and the Raleigh triangle, and opportunely located in the corridor connecting several of the country's largest military bases. We have four exits on Interstate 40 and the potential for more when development occurs. Our challenge is straightforward. Are we going to allow the second potential cornerstone (the 140 interchanges) for our economic prosperity develop naturally or are we going to influence the development to ensure the maximum economic benefits for Sampson County?

At present, our potential success in promoting commercial or industrial development in Sampson County is inhibited because of the lack of infrastructure needed for commercial development. As we drive along the major highways, it is apparent that commercial and industrial development occurs at interchanges where water, sewer, and highway infrastructure are in place. If we are serious about developing our economic base, then are we willing to

invest in our future to ensure this development? Are we willing to invest in economic development that directs, promotes, and achieves our worthy goals? Can we visualize five major industries investing in Sampson County, with an average investment of \$200 million? Would an additional eight million dollars of tax revenue allow us to improve education and other services as well as reducing tax rates? This does not even take into account the number of well paying jobs that would be created or the opportunity for many of our young people to continue living in Sampson County.

In addition to the physical infrastructure needed to entice economic development, we have already noted the need to maintain the bricks and mortar facilities infrastructure of the county and our funding partners, and we have proposed that the establishment of capital reserve accounts will enable us to accomplish this prudently. However, the funding of capital reserves will be difficult to achieve without additional revenue from sources other than our property tax revenues.

It is apparent that to achieve these worthy goals, we will need additional revenues. We do not believe that property tax rates can sustain the full burden of this initiative. Thinking innovatively, what about a half cent sales tax that is equally divided between economic development and the capital reserve maintenance program mentioned above? This approach would allow our entire population to participate in the improved prosperity that we are trying to achieve.

We are not asking the governing body to take an immediate action on this request as a result of this budget message. We are asking you to encourage a public dialogue that will either support this idea or encourage other bold ideas that will achieve improved prosperity for our entire county.

### ***Summary***

Sampson County government is stable and is positioned for increased prosperity in the future. However, we must recognize the changing national economy and understand that we will be successful only if we plan for the current period and make decisions compatible with future needs. We will need to make decisions that reflect this understanding, which is often articulated in the colloquial phrase:

***"If we always do what we always did, we will always get what we already got."***

Our current budget reflects a reasonable projection to continue providing all current services at a reasonable level. If and when the leadership determines that a different level of services needs to be provided, we will be prepared to adjust accordingly. We have also tried to factor in both the beginnings of a long-term strategy to properly consider/maintain our infrastructure and offer the beginning of a vision to enhance our economic prosperity. We encourage a public dialogue and look forward to a vision being developed that reflects a consensus of our population.