

NORTH CAROLINA'S
SAMPSON COUNTY

TO: Board of Commissioners
FROM: Ed Causey, County Manager
DATE: June 3, 2013
RE: Budget Message - Proposed Budget FY 2013-2014

The NC Local Government Budget and Fiscal Control Act (NCGS Chapter 159) prescribes that the County Manager (acting as budget officer) shall prepare and submit for consideration by the Board of Commissioners an annual budget and capital program. Such budget is submitted in whatever form or detail the Board may specify, and should contain a concise explanation of the governmental goals fixed by the budget for the budget year, should explain important features of the activities anticipated in the budget, should set forth the reasons for stated changes from the previous year in program goals, programs, and appropriation levels, and should explain any major changes in fiscal policy. In accordance with law, I respectfully submit this budget message and recommended budget for Board consideration.

Over the last several years, the administrative staff has worked diligently to adapt the budget process to facilitate input from the BOC. Acting upon the Board's request for earlier involvement in 2013 and for more input regarding the budget preparation process, staff provided commissioners with initial departmental budget submissions in early April. In addition, the Board and staff held the County's first ever pre-budget workshop on April 15, 2013. In addition to initial departmental budget information, commissioners were provided with a synopsis of nine major budget impacts and an estimated projected budget shortfall for FY 2013/2014 of \$471,000. After considerable discussion of the information provided, administrative staff walked away with two specific directives. First, the BOC does not want to consider a tax increase. Second, the Board wants to maintain services. We have taken this guidance seriously, and prepared pursuant to the Board's guidance and our statutory obligations. Unfortunately, such proposed budget will require a significant use of fund balance that will likely not be available in future years. **Moreover, this renders a proposed budget significant for what is not included rather than what is included.** The county has worked conscientiously in recent years to do "more with less." We may be entering a phase when it is time to begin realistically thinking of doing "less with less."

Those critical items not included in the FY 2013-2014 recommended budget:

1. We have not included any increases in salaries for employees or studies to evaluate benefits. There will be a subsequent discussion on the importance of accomplishing this evaluation during the upcoming fiscal year.
2. We have not included increases in our annual set aside for the capital reserve accounts for the county, school systems, or community college.
3. We have not included any increased funding in current expenses for the city and county schools as well as the community college. We are not including any additional county funding for capital expenditures for any of our partners. We will project current expense monies for the schools based on the number of students. It is noted that both the schools systems are projecting to use part of their general fund balance. It is also noted that the community college is not allowed to carry forward any funding.
4. We have not included any increases in special appropriations or added any new requests.
5. We are not including any cost associated with Courthouse security.

County Tax Rate Background

Many have expressed concern that the current tax rate for Sampson County at .785 is higher than the rates for contiguous counties. As with all counties, our tax rate is elevated by a number of legislatively granted real property exclusions, exemptions and deferments which dilute our tax base: disabled veteran/surviving spouse exclusion, elderly/disabled homestead exemptions, and agricultural present land use value assessment. According to the most recent TR-1 report submitted to the State by the Tax Office, the total assessed value of taxable real property deferred was \$527,172,014. This equates to deferred tax revenues of approximately \$4.1 million. Because we are one of the largest farming counties in the State, present land use value is more impactful, accounting for approximately \$3.7 million of the total deferred revenues.

But, the disparity in our tax rate is most driven by our debt, as illustrated in the table below:

| Fiscal Year | Tax Rate Tax Base | Total Outstanding Debt (excluding water) | Debt as % of Tax Base | Debt Service Budget | Debt Service Budget % of General Fund Balance |
|-------------|-------------------------|---|-----------------------------|---------------------------|--|
| 2004 | .675 \$3,086,090,117 | \$27,080,094 | .88% | \$4,003,460 | 8% |
| 2012 | .785 \$4,014,777,238 | \$139,452,782 | 3.47% | \$10,333,234 | 15.3% |

Of the debt service amount, \$2,639,978 is received from lottery proceeds and Article 42 half cent sales tax. This leaves a balance of \$7,693,256.00 that must be paid from property taxes. This is the equivalent of approximately twenty cents (\$.20) on the tax rate. Likewise, if the county had not incurred the debt, the current tax rate would be much lower.

The addition of over \$100 million of debt has exacerbated the needs/challenges in several ways. First, the added debt has increased the tax burden that all citizens are called upon to support. Second, it was understood and agreed that the County would increase the tax rate by as much as twenty-one cents to adequately retire the debt. Of the twenty one cents, the county has actually increased tax rates only by approximately fourteen and one half cents. Thus, revenues for recurring operating expenses to the County have been reduced by nearly two million dollars over the past several years. As will be subsequently explained, this deficit has intensified pent up needs that will require significant decisions over the course of the next year and thereafter.

Economic Outlook

We offered substantive comments in last year's budget message regarding economic conditions at the State, national, and local level. We do not see a great deal of change, and continue to believe that economic conditions are stable. Unfortunately, we are still not projecting significant growth in the tax base. At the State level, there is much discussion regarding potential changes in the State's tax structure. The concept generally promoted indicates that the State's economic development competitiveness and sustained positive growth is limited when compared to other southeastern states because of the State's high state income tax structure. Thus, the concept is to shift and have more revenue come in from a variety of consumption type taxes. This concept should facilitate economic development across the state. We do acknowledge that the discussion of changes to promote a more competitive economic environment is worthwhile. At the same time, as managers for county government, we do have concerns regarding how our future revenue sources may be impacted. Moreover, if the

trend in revenue distribution favors the source of revenue, rural counties such as Sampson could be impacted. We also mentioned in last year's budget message the need to pursue alternate revenue sources and the development of our infrastructure such as the completion of Highway 24 and the I-40 interchanges. This recommendation may be even more important now than at the time the initial recommendation was made.

Budget Drivers

Sales Tax We are projecting an increase in sales tax revenue of \$89,173.

Property Tax and Motor Vehicle Collections We are projecting an increase in property tax collections of \$1,247,216. We are projecting a significant increase in the collection of motor vehicles taxes because of the new state system. This system will give us the collections for the equivalent of 16 months of collections the first year. Without the additional motor vehicle taxes, the projected increase in property taxes would be \$533,216.

Fund Balance Appropriated We are projecting an increase in fund balance appropriated of \$858,460. This amount would be \$1,572,460 if we were not including the \$714,000 of one time additional revenue from motor vehicles tax collections. We are also concerned about additional potential revenue losses from State and Federal sources that exceed our current expectations for reduced revenues.

Lottery Proceeds We are expecting the counties' share of lottery proceeds to be permanently reduced to 22% from 40%. In addition, the corporate tax set-aside for school construction is expected to be permanently discontinued.

Debt Service -Vehicles We are recommending the replacement of fifteen Sheriff Vehicles, one ambulance, one truck for the Department of Aging, two small trucks for Environmental Health, and two vehicles for Social Services.

Employee Health Benefits Sampson County Government utilizes a self-insured health benefits plan through Blue Cross and Blue Shield. Essentially, the County pays for the first \$50,000 of an individual's coverage before the insurance company benefits kicks in. At present, the County pays \$634 a month for each permanent employee. This program has operated in this manner for a number of years. In February, we advised the BOC that the \$634 amount would need to increase by approximately \$102. We have recently determined that this early number was significantly underestimated. The needed increase will be \$301 per month per employee. The total projected increase in the cost of our health

benefits is \$1,532,210. We have adjusted the current plan's benefits over the past several years to keep the increases to a level that the County could absorb. The end result was that the employees' co-pays and deductibles increased. When considered over the eight year period from 2005 to 2013, the \$1,532,210 represents a 47.5% increase in the County's contribution, or a 6% increase per year. We recommend that the County absorb the full amount of the increase until we can do a comprehensive evaluation of total benefits for our employees.

Expo Center Operations The Expo Center has been in operation for sixteen years. We believe that management has done a remarkable job of maintaining the facility for current operations. However, the building is in need of some long term capital improvements as was explained in Mr. Jordan's correspondence of March 30, 2013, which was provided to the BOC in your April pre-budget meeting materials. These needs total \$430,710. We had not planned to recommend any of these identified needs because of budgeting limitations. However, we are requesting \$70,000 of additional funding for lighting per Mr. Jordan's correspondence of May 19, 2013. Without improved lighting, it is likely we will need to close Prestage Hall at some time in the not- so- distant future. We are also requesting funding for a new facility sign and some minor modifications to establish a permanent location for beverage preparation.

Animal Shelter There are several increased costs associated with the Animal Shelter. First, we are addressing challenges with the septic system and drainage through the Public Works budget. In addition, we have now dismantled the gas chamber and are utilizing injections as the method of euthanasia when needed. This method is more labor intensive. The emphasis now placed on adoptions along with adjustments in our cleaning protocols are increasing our operating costs. The proposed budget trades two part time positions for one full time position.

Social Services We continue to recognize and appreciate the pressures faced by the Department of Social Services. When the general population is facing economic pressures, the demand for Social Services programs increase. At both the State and local level, the Department recognizes that costs will need to be contained and that the programs must be more efficiently organized and maintained. The State and Sampson County have worked hard to implement NC FAST. This system will allow universal processors to meet the total needs of applicants without the applicant having to work directly with a multitude of processors. The system is striving to be paperless. Likewise, considerable County expense was incurred this year for scanning and system development processes. Significant expenses will also be incurred during the upcoming fiscal year. The County portion of the Social Services budget has increased from \$3,750,824 to

\$4,506,632. This increase of \$755,808 is primarily due to increased insurance costs for employees, increased contracted services needed to fully implement the NC FAST program, and reductions in the non-County portion of mandated services. No new permanent positions are included. We have, however, included additional funds for contracted security services.

Health Department We are projecting revenues for the Health department to be reduced by \$110,899. The primary reason for reduced fees is staff turnover and the resulting time needed for training replacement, inexperienced employees.

Information Technology We are projecting an increased expenditure of \$54,600 for new e-mail service. Our current system is not meeting all of our current needs; we need a system that is maintained in house to ensure that we can meet all legal requirements for maintaining electronic communications.

Solid Waste We are projecting the solid waste budget to be the same as projected for the current year.

Financial Challenges

The cash position of the County is sound as has been discussed numerous times. Unfortunately, the cash position does not take into account the pent up deficiencies of our human and physical infrastructure as will be subsequently outlined.

Even though we do not have a cash problem, we do have a cash flow challenge if we realistically consider pent up needs. First, the County never put into place the full revenue stream necessary to retire the debt of all construction projects. The five to six cents lacking is the equivalent of \$1.5 to \$2.0 million a year for the last six or seven years. Had these monies been available, the County would have been in a better position to maintain both the human and physical infrastructure.

We are also currently receiving and projecting to receive about \$600,000 less in lottery proceeds. This is approximately the equivalent of \$.02 cents on the tax rate. In addition, we are also expecting to lose the corporate tax set-aside for schools which is just slightly less than the lottery proceeds that will no longer be available.

Until the middle of the last decade, many counties enjoyed an annual increase in their economic base of 3-4% per year. The lack of economic growth in recent years has magnified current challenges. Moreover, previous boards had no reason to predict/project that economic stagnation would last for multiple years.

At the same time, if economic growth returns that is similar to the past, the financial pressure encompassing our current challenges will lessen.

Finally, County government consists of many services that are required by State and federal mandate. Thus, our flexibility to easily reduce expenditures is both limited and challenging and will be further limited if increased costs for mandated services are transferred to county governments. In addition, the demand for many of our services increase when there are economic challenges. With all of this said, the BOC should be commended for their efforts to be considerate of the needs of the entire citizenry.

Employee Pay and Benefits The challenges with the human infrastructure are and will be further exacerbated by the adjustments needed to health care and other benefits over time.

We first requested that we do a performance and pay study for our employees in 2011. We had noted, at the time, that the pay study that was done in 2003 was never fully implemented, and observed that salaries for many specialized jobs were just not keeping pace. We never imagined that the challenges and concerns would grow at such a dramatic rate over the next two years. These concerns have been well documented over the last two years, specifically in Information Technology, the Health Department, the Sheriff's Office, as well as a number of other departments. There is evidence to suggest that the low pay scale is contributing to reduced revenue for the Health Department. The Sheriff has to consider his long term prospects for accepting out- of- county prisoners because of the inability to recruit and retain officers for the Detention Center. It is our conclusion that concerns over our pay system have reached catastrophic proportions and will continue to undermine our effectiveness in providing services until the system is completely overhauled and updated.

A responsible pay system is important for a number of reasons. First, we do not expect farmers, attorneys, doctors, other professionals, and businesses to come to Sampson County and give up income for the privilege of living in Sampson County. Likewise, why should we expect quality people to serve our citizenry by working for Sampson County Government and be paid less than they could earn for comparable work in nearby counties? Second, the essence of good government is service to the citizens. The best way to give good service is to have experienced people deliver the service. We have a better opportunity to maintain our experienced employees - and thus our productivity and efficiency - if our trained, competent employees are receiving adequate compensation that is adjusted periodically to cover the increased cost of living.

I recently visited one of our departments to talk with employees. One group actually prepared a typical family living budget. They explained the only reason for wanting a raise was to give fellow employees a better opportunity to pay their bills. They emphasized that most employees are also Sampson County residents who enjoy the quality of life here while also paying property taxes.

Physical Infrastructure Sampson County Government owns and maintains approximately 462,000 square feet of building space from which to provide the myriad of services needed and or required by our citizens. We are also required to provide for the long term maintenance of buildings owned by two school systems and the community college. Thus, we have a total square footage of space totaling 2,737,207. We have estimated that the replacement cost of these assets is nearly one half billion dollars. The BOC did recognize the need to establish long term capital maintenance accounts and did establish designated amounts for each entity. Over time, Sampson County government will need to strive to fund these accounts at levels sufficient to meet the needs of long term maintenance.

Our Public Works Department maintains a computer program for monitoring our capital improvements and future needs. The deferred maintenance reported last year for just the County-owned buildings totals \$929,402, with an annual recommended set aside of \$503,833. An update was provided at this year's BOC February planning conference. The update projected that deferred maintenance had increased to \$1,571,897, and the projected annual needed set aside had increased to \$694,178. It should be noted that these figures are projected for only the County-owned buildings. It is also interesting to note that both the Governor's and the Senate's proposed budgets are increasing funding for repairs and renovations of state owned buildings.

Critical Future Considerations and Summary

Based on the current economy and circumstances that have occurred in Sampson County, the BOC will have the opportunity to consider the following ideas over the next year in a substantive manner. Of note, none of these items are included in the recommended budget.

1. We have carefully documented that the tax rate was not fully increased to cover the retirement of all indebtedness associated with the construction of schools and County buildings. This equates to about .05 cents. In addition, the loss of lottery proceeds that had been designated for the retirement of capital debt is .02 cents. The Board will need to determine at what level Sampson County Government can continue operations without replacing this revenue.

2. If we determine that we have insufficient revenues to effectively cover the retirement of all debt and operating expenses, there are choices that will need to be made. We can either increase revenue or decrease expenses in a substantive manner. Reducing expenses will likely result in reducing services, which will ultimately mean the loss of personnel. At the same time, we will need to continue looking for those cost savings that will not impact services. For example, we will need to evaluate the planning services that are currently under contract and determine if these services could be provided in a more cost effective manner if they were done in house. Also, we will need to evaluate services such as the bookmobile and determine if the benefits of this service continue to justify the costs of same.
3. We recommend that we undertake a complete study of salaries, current classifications, and the full range of employee benefits. Our current system is in such a condition that we just cannot expect our employees to pay for a greater share of benefits without evaluating the structure for salaries. Our current system is in the first stages of collapse. The ultimate solution will be complex and time consuming to effectively achieve. Upfront, we must understand that the proposed solution may take three to four years to implement. We will need to include a mechanism/consideration for limiting the growth of permanent County employees over time. In addition, we will likely need to adjust timeframes for receiving benefits initially, as well as the benefits offered at the end of careers. Our discussion and evaluation will need to be far reaching and thorough. An important part of this process will be a discussion on the merits of establishing a fully functioning Human Resources Department.
4. It may be a good idea to begin a series of meeting with the governing boards of the school systems and community college to discuss the challenges facing each group, including the commissioners. We believe the administrative staff has a good working relationship with each of our respective counterparts; however it may be good for the boards to spend time together to gain some perspective of the challenges facing each group. The most desired goal would be to develop agreement on what will likely occur in the future. If this cannot be achieved, the next best objective is to gain understanding regarding the challenges of each of our valued partners.

In summary, as a manager who has always tried to maintain a long term thought and planning process, it would not be my typical recommendation to present a budget that utilizes a significant amount of cash reserves to pay operating

expenses. Typically, I would recommend that we strive to achieve a General Fund balance that equates to 30% of expenditures. The reasons are threefold. First, we never know when the next significant natural disaster is going to strike Sampson County and to what extent the state and federal government will be able to assist. Second, as the state and federal government begin to improve their budgetary processes, we may need to be prepared to absorb additional expenses and the unintended consequences that cannot be known at this point. Third, we need to always expect the unexpected. For example, we are preliminarily projecting to lose approximately \$5,000,000 of tax base next year due to the closing of one poultry integrator. That being said, we believe there is light at the end of the tunnel and that our bottle is half full rather than half empty.

We still have the opportunity to be prudent and wise for the long term. It is very thoughtful for the BOC to not want to adversely affect current operations until they can thoroughly evaluate their long term objectives and cautiously implement their plans. In July 2010, then Chairman Strickland admonished the administrative staff to make budgeting for the next year a 365-day task. Fiscal Year 2013/2014 will be the year that the BOC will need to adopt this same mandate and spend extensive time examining the relevant issues and making substantive decisions. Without this process, a significant increase in the property tax rate can be expected in subsequent years. If this is done, the next year could be the legacy year for each of our commissioners and Sampson County. I can envision that 20 years from now, everyone will look back at 2014 as the year Sampson County Government set the course for the next 25 years. We certainly do not want 2014 to be remembered for what was not done.