

NORTH CAROLINA'S SAMPSON COUNTY

TO: Board of Commissioners

FROM: Ed Causey, County Manager

DATE: June 2, 2014

RE: Proposed Budget FY 2014-2015

"... 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."

FY 2013-2014 Budget Message

INTRODUCTION

The Board of Commissioners took to heart the Chairman's mandate last June, and has worked diligently over the last year to review the many budgets of our departments and seek opportunities to substantially reduce the cost of operating Sampson County government. Indeed, the commissioners should be applauded for their efforts. Because of this year's extensive effort, there is little in this budget that should come as any surprise. More importantly, because of the extensive participation of the board in budget meetings over the last year there is a significantly greater understanding of County operations and the cost consciousness that currently exists in Sampson County government. It is unfortunate, however, that this extensive process did not yield significant budget reductions which could be made without significantly reducing the level and quality of our services.

The year 2014 is shaping up as Sampson County's version of the perfect storm. The general reasons for our current challenges are numerous. First, the County as well as our funding partners are experiencing reductions in federal spending that we are having to absorb. Second, there are some increased expenditures as a result of budget impacts coming from the state. Third, the County is beginning to experience the consequences of inadequate cash reserves to cover the maintenance and repairs of its physical infrastructure (which includes two school systems and the community college). Fourth, the County never put into place a sufficient tax structure to cover all of its acquired debt (which increased from \$24,000,000 dollars in 1999 to \$139,000,000 by 2005). These issues have wreaked havoc on our budgets in the past years and left both our physical infrastructure and the human infrastructure in great need.

When I entered the workforce more than 35 years ago my first supervisor shared with me his primary management rule: "When you find yourself in a hole, the first step to begin solving the problem is to quit digging." Metaphorically, the shovel is often not in our hands. We find ourselves in a fiscal pit dug for us by federal and state government as they reduce our funding and pass down mandated programs or services. And, unfortunately, we do not have the same luxury to transfer the responsibility for those mandated services to other entities. Nevertheless, we must put our shovels down, stop digging, and find a way out of our fiscal chasm. Therefore, this budget does include a proposed tax increase of .09 cents.

THE TAX INCREASE EQUIVALENCY

The hard working Sampson County citizens may have some initial difficulty in understanding why a tax increase is being proposed. Likewise, it may be helpful to explain why the proposed increase is not a result of substantive increases in discretionary spending at the County level. The following should be noted:

1. We have approximately \$140 million dollars of debt that has basically been acquired over a ten year period of time. Unfortunately, the County never put into place the complete model for repaying this debt. This amounts to approximately \$.06 cents of the tax increase. In addition, the state lottery proceeds that the county can expect to receive has been reduced by the equivalent of \$.02 cents on the tax rate. Had the County timely put into place the revenue stream initially approved for the debt model, and if the funds promised by the state per legislation for the lottery had remained unchanged, the financial challenges facing the county would be less austere.
2. The approved budgeted deficit for 2013 was approximately \$600,000. This figure would have been \$700,000 more if we had not had the opportunity to budget 16 months of motor vehicle fees.
3. If we add the \$425,000 annual cost for additional security to the Courthouse plus the approximately \$671,000 for additional work at the community college, to the \$1,300,000 referenced herein, we have just accounted for \$.06 cents of the needed tax increase when compared to last year's budget, assuming all else is equal.

County administration sincerely regrets the need to recommend a significant tax increase. However, we hope that everyone will take time to review what has occurred in recent years as well as what is currently recommended and note that we spend the vast majority of our time in the fix and repair mode as opposed to the old adage of "tax and spend." It should also be noted that prudent investments, such as software purchases, or initiatives, such as our proposed pay study, are part of the process of maintaining as well as improving the delivery of existing services.

THE 2013 AUDIT/PRUDENT FUND BALANCE PLANNING

The 2013 audit was presented to the Board of Commissioners at the December meeting. Per the requirements of the Local Government Commission, the audit was found to be satisfactory. Our fund balance was approximately 15 % of expenditures which exceeds the LGC requirement of 8%. However, while the LGC recommends that governmental units of our size maintain an amount that is equivalent to 23-24%, County staff believes our goal should be 30%. Two primary reasons for this goal are the uncertainty of our non-ad valorem tax revenue sources and the long term maintenance needs for the infrastructure owned and maintained by the County.

THE UNCERTAINTY OF CERTAIN REVENUE SOURCES

Over the years, the Board and our departments have been prudent in their pursuit of creative service delivery methods, efficiencies of operations and alternative revenue sources to reduce our dependency on the ad valorem tax as our primary source revenue. However, as will be noted often

in this message, diminishing revenue sources has become a trend. Currently, the County benefits from a number of revenues which could evaporate given the right economic or legislative climate, causing a significant impact to our budget. This uncertainty must be mitigated by an appropriate Fund Balance.

In 1993, the Board of Commissioners boldly entered into a contract to host a regional landfill, which over the years has provided guaranteed revenues for debt service payments for the construction of facilities at the Community College and the construction and renovations of the Agri Exposition Center. More than \$1.65 million in landfill host fees are budgeted each fiscal year, and are currently used to pay USDA debt service on the County Complex facilities and the cost of the convenience site contracts. Unfortunately, the stability of this revenue may be threatened by economic conditions and legislative changes. Households are buying less, and disposing of less waste commercially. Legislative changes have mandated that households landfill less and recycle more. Landfill companies are slashing their gate fees to compete for reduced waste. As the gate receipts decline, so do our revenues. Losing our landfill host fee revenue would currently equate to 4 cents on our tax rate.

Similarly, the efforts of the Sheriff and his staff to negotiate contracts for the housing of out-of-county prisoners in the Sampson County Detention Center has garnered significant alternative revenues for the County's coffers. Through Fiscal Year 2012-2013, the County has collected approximately \$7.0 million in housing out-of-county prisoner fees. However, as counties complete detention facilities under construction or as anticipated legislative changes expand counties' capacity to house their own prisoners or compete to house those prisoners coming to Sampson County, we stand to lose our revenue source, which currently equates to approximately 2 cents on our tax rate.

THE NEED FOR FUNDING A CAPITAL RESERVE ACCOUNT

We are responsible for the long term maintenance of all buildings owned by the two school systems and the community college in addition to our own. We estimate that the replacement value of all buildings is approximately \$500 million dollars. At present, our capital reserve account for the long term maintenance of these buildings has a minimum of cash. Thus when we have to deal with circumstances such as those found at the community college facilities, we have no choice other than recommending a tax increase or again draw down the General Fund. We must ensure that we are realistically making deposits to a Capital Reserve account to ensure that we have needed monies for essential repairs and to minimize adverse future budgetary impacts for the citizens of our county

According to the State Construction Office, the State of North Carolina owns buildings with a total value of \$25 billion dollars. Currently, deferred maintenance on those buildings totals \$3.9 billion dollars. The State puts aside approximately \$74 million dollars per year. It is recommended that 2% of the value be put in reserve or \$500 million dollars per year. According to Tom Campbell, on a recent edition of NC Spin, some state agencies are considering renting space in lieu of repairing existing buildings. This information is very disturbing. Moreover, it would behoove us to ensure that this type of self-inflicted catastrophe does not occur in Sampson County.

Let's consider what has occurred in Sampson County this fiscal year. In August, we determined that several building roofs at the Community College were leaking and in dire need of repair. Use of one

building had to be discontinued until needed roof repairs could be fixed. The County wisely decided to repair the roofs. Because we did not have adequate funds in reserve, nearly \$300,000 had to be appropriated from the General Fund to make the repairs. Now, we will need to expend an additional \$541,000 replacing the HVAC system and other needed repairs before the building can be used. The \$541,000 factors into our need for a tax increase.

These kind of situations are now occurring on a regular basis in Sampson County. It is imperative that we establish funding for our Capital Reserve accounts in an amount that reasonably covers our capital improvements/repairs. Our recommendations are reflected in the chart and comments below:

Capital Reserve Account - Proposed Annual Allocations					
Entity	Total Sq. Footage	% of Sq. Footage	Share of Available Capital Funding ⁴	Funding from Article 40 Sales Tax ^{1,2}	Balance from County's \$900,000 ³
County Schools	1,515,090	55%	\$990,000	\$607,500	\$382,500
City Schools	612,100	22.5%	\$405,000	\$292,500	\$112,500
Community College	147,900	5.5%	\$99,000		\$99,000
County Government	462,117	17%	\$306,000		\$306,000
Totals	2,737,207	100%	\$1,800,000	\$900,000	\$900,000

Note 1: Article 40 Sales Tax = \$900,000

Note 2: Article 40 Sales Tax is divided 75% County and 25 % City Schools (approx.)

Note 3: County to set aside \$900,000/year

Note 4: Total capital set aside \$900,000 County + \$900,000 Article 40 sales tax = \$1,800,000

1. As has been previously discussed, there is 2,737,000 square feet of building space for the County, two school systems, and the Community College. The chart reflects the percentage of the total space for each entity.
2. The Article 40 sales tax revenue generates approximately \$900,000 in monies for school capital reserve projects. This is disbursed at an approximate ratio of 75%/25% between the two school systems. We are not affecting this money in anyway. However, we are considering this money as credit for the two school systems in our overall calculation.
3. We are proposing that the County provide an additional \$900,000 of contribution for the Capital Reserve accounts to be divided as per the chart. The Capital Reserve accounts were established in 2012. The \$900,000 reflects our recommended deposit on an annual basis.
4. The chart on the next page depicts our recommendation for future, ongoing years. However, the 2014 deposit will be altered to account for several immediate needs. We are proposing that the \$670,000 of projected needs for the Community College come directly from the \$900,000. Second, we will reduce the actual deposit of \$900,000 by \$150,000 for voter machines for three years. The remaining \$80,000 will be used to replace the roof of Building B, which houses Aging,

Recreation, Environmental Health, Inspections, and will soon house a Planner (to improve customer service) and Probation (as we are mandated by the State to provide space for probation officers and with judge-mandated security changes, we no longer have space in our Courthouse facilities). If the BOC chooses to adjust any of these numbers, we highly recommend that the minimum deposit to reserve be maintained at \$900,000. This is reflected in the following amended chart for fiscal year 2014-2015:

Capital Reserve Account - Proposed Allocations for FY 2014-2015					
Entity	Total Sq. Footage	% of Sq. Footage	Share of Available Capital Funding	Funding from Article 40 Sales Tax	Balance from County's \$900,000
County Schools	1,515,090	55%	\$607,500	\$607,500	0
City Schools	612,100	22.5%	\$292,500	\$292,500	0
Community College	147,900	5.5%	\$670,000		\$670,000
County Government	462,117	17%	\$230,000		\$230,000
Totals	2,737,207	100%	\$1,800,000	\$900,000	\$900,000

INFORMATION LEARNED FROM A YEAR OF BUDGET MEETINGS

Again, the BOC is to be commended for spending time each month beginning in September 2013 holding monthly budget workshops. The purpose of the workshops was to review the expenditures to date by each department and determine specific costs savings for each department. The departments were asked to provide any comparison information they could assimilate regarding other similar departments not associated with Sampson County. They were also asked to provide an overview of key issues regarding their department and to be prepared to answer budget questions from each commissioner. These insightful meetings provided the BOC with firsthand information regarding the cost consciousness of the departments and their commitment to providing quality services to the citizens of Sampson County. Examples of some of the information provided includes:

1. The Recreation department provided data indicating that on a per capita basis, recreation is provided for only \$9.46 per person in Sampson County. Bladen County provides recreation for \$19.52 per capita; Lee County expends \$28.84 per capita. On a per capita basis, the Town of Mount Olive spends \$32.89; Dunn expends \$67.83, the Town of Erwin spends \$56.10, and locally the City of Clinton spends \$100.63. This information and the discussion that was held suggest that Sampson County, when compared to others, is getting good value for the dollars spent on recreation.
2. The Sampson Soil and Water District provided a comparison of operations to an adjoining county. The adjoining county had 723 farms with a total acreage of 353,780. Sampson County has 1,203 farms with a total acreage of 604,599. Our budget is \$223,095 and the adjoining budget is \$273,535. It appears that we are getting good value for the dollars invested.

3. Ten years ago our public works staff was maintaining 342,429 square feet of space with three employees. Today, they are maintaining 462,000 square feet of space with the same number of employees assigned to this task.
4. Because we represent one of the largest counties in North Carolina, the BOC understood it would be financially challenging to provide paramedic level services to all citizens in Sampson County. That being said, our EMS Department is still committed to providing the best services possible for the dollars spent. For example, in 1996 the call center had a call volume of 47,880 and had three people per shift providing telecommunications. In 2013, they experienced 78,226 calls, an increase in call volume of 64%. Yet, during this time period, we had only increased the number of telecommunications personnel by one.
5. In reviewing the Tax Office, we found that total salaries for the staff was about \$9,000 less than a neighboring county that had two fewer employees. When a similar comparison was done based on parcels per employee, the evaluation suggested a need for two additional employees.
6. Sampson County has a collaborative arrangement with the City of Clinton to provide planning services. The city has a staff of 5 people. Our discussion seemed to suggest that if the county were to provide our planning services that it would likely take a staff of three people. When the supporting services are factored in, it is likely that we would have to provide as much or more than we will pay for current contracted planning services.
7. The Information Technology staff has a permanent staff allocation of 5 people. They have lost three key staff positions in recent years because of low salaries. The BOC recognized the struggle the department was experiencing trying to maintain the same level of services with this reduced staffing level.
8. The animal shelter has worked diligently in the last year to improve its operations as well as its public perception. From an operational standpoint, they took in 1,000 more animals, increased adoptions by 46%, and decreased the euthanasia rate by 20%.
9. The total budget for the Health Department in FY 2013-2014 was \$3,562,108. Sampson County paid 15% of this budget in the form of a cash contribution. By comparison, Bladen paid 20%, Columbus paid 28%, Duplin paid 39%, and Pender paid 49%. On the staffing side Sampson County has 42 employees, Columbus has 45, Bladen has 51, Pender has 57, and Duplin has 58. These comparisons do offer perspective on the cost efficiency of the services provided by our Health Department.

BUDGET DRIVERS (see also chart next page)

Revenues

Sales Tax: We are projecting an increase in sales tax revenue of \$70,070.

Property Tax: Property tax collections are expected to increase by \$3,450,000. The tax base is projected to be \$4,180,000,000. This amount is reduction of \$25,000,000 from last year. The decrease in the valuation is the result of a reduction from 16 to 12 months of valuation in motor vehicles.

Fund Balance Appropriated: We are appropriating approximately \$1.8 million to balance the budget, but anticipate that lapsed salaries and benefits will negate the need to spend all of this.

Lottery Proceeds: As expected, the County's share of lottery proceeds has been permanently reduced to 20% from 40% of expected proceeds. The expected loss revenue is projected at approximately \$800,000 and represents nearly .02 cents of our tax rate.

Capital Expenditures

Debt Service-Vehicles: In the recommended budget we are proposing to replace 18 sheriff vehicles, 1 ambulance, 1 recreation vehicle, and 1 vehicle for the Water Department. All of these vehicles, with the exception of the vehicle for the water department will be purchased with borrowed funds.

Elections/Voting Machines: See attached chart.

Schools/Community College: See attached chart.

Personnel

Employee Health Benefits: There will be no projected change in the amount of the county's contribution for employee health insurance.

Health Department: A reduction in federal and state reimbursements for Medicaid programs will reduce Health Department revenues and necessitate a proposed increase of \$43,902 in County contributions to the Health Department in order to maintain services at the current level. There is one additional Social Worker II position recommended in this department, replacing a contracted service position. There is no cost to the County, however, as this is funded with federal dollars.

Social Services: We are projecting an increase in the operations for the Department of Social Services that totals approximately \$661,000 as a result of decreased federal funding and increasing operational costs for the NC Fast program. The projected increase includes four additional social workers for Child Protective Services due to their increased caseload. We would have hoped that these increases could have been offset by reductions in staff in other areas due to the efficiencies of NC Fast. When NC Fast was originally discussed several years ago, we projected in our discussions that we would begin to see a reduction in total employees in the Department this year. This has not come to fruition. Ironically, the challenges with the implementation of NC Fast has actually caused significant increases in the use of overtime for the last several years.

Employee Pay Plan: See attached chart.

Other Departments

Courthouse Security: See attached chart.

RECOMMENDATIONS

As previously noted, we recommend that as a minimum, \$900,000 per year be appropriated to fund the capital reserve accounts. It is unfortunate and disconcerting that we cannot deposit the full amount for future needs this year. Also, the Community College has provided a list of pent up needs that may need attention in the next several years. Per the report of the Public Works Director at the budget meeting, the county now has pent up needs for building maintenance and improvements totaling \$1,571,897. The closing of the auditorium building at the community college should be a wakeup call for all of us to ensure that we have a maintenance program in place that ensures that buildings do not have to be closed to public use before needed repairs can be made.

We have budgeted \$500,000 for the initial implementation of the classification, pay, and benefits study. The challenges with our human infrastructure system have been widely discussed and documented. We need to move forward with its implementation after the study is complete. We are confident the full evaluation of recommendations in all areas (pay as well as benefits) will contribute to the long term financial stability of the County.

We will continue to strive to improve internal operations and create improved services and efficiencies for our citizens. First, we need to move forward with the development of our training center and implementation of the first development areas. Second, we will have the updated webpage operational by the end of the summer. Third, we will have one person designated to be a contracting officer and obtain the necessary training to assist/benefit all departments. Fourth, we will place added emphasis on internal controls. Finally, we are in the process of centralizing the purchase and lease of equipment for our departments.

It may be time to have a much larger discussion of the importance of economic development for our county. Several of the key questions to ask and answer include: What resources are immediately available in our arsenal to attract businesses? What is the real potential of the I-40 interchanges? Do we need to invest more in infrastructure to better attract investment? Do we need to better define the types of industrial projects that we would like to see in our industrial Park? What is the real potential of diversifying our economic base and attracting new and different kinds of industries? What do we all need to do differently to attract more economic development to our county? We applaud the Transportation Advocacy Group (TAG) for their efforts to procure funding for the full completion of Highway 24 from Clinton to Interstate 40. We believe this effort is progressive and we encourage the continued commitment to this effort.

SUMMARY

We recognize that this proposed budget will likely receive substantive and possibly intense discussion. Thoughtful dialogue will yield a final budget that is better understood and accepted by everyone. As we move forward we would like to reiterate several/suggest important points as the budget is discussed. First, the proposed tax increase as discussed above is more a result of circumstances than increased discretionary spending on the part of the county. Second, the BOC has spent a year in budget reviews. We can conclude from these reviews that we are limited in how to significantly reduce expenditures without altering and reducing services. Third, our opportunity to ensure the continued financial integrity of county government necessitates that we either increase revenues or decrease expenditures. In the case of reducing expenditures, we further recommend

that we concentrate on permanent expenditure reductions as opposed to deferred or delayed decreases in expenditures. Chairman Strickland, at one of the budget meetings, challenged everyone in Sampson County to be above average in everything we do. Likewise, the administrative staff is poised to positively respond to the decisions of the BOC regarding the budget and continually strive to deliver the highest quality of services within the means available to the citizens of Sampson County.

