

NORTH CAROLINA'S
SAMPSON COUNTY
OFFICE of the COUNTY MANAGER

TO: Board of Commissioners

FROM: Ed Causey, County Manager

DATE: June 1, 2015

RE: Proposed Budget FY 2015-2016

INTRODUCTION

The 2015/2016 fiscal year has been a very interesting year for Sampson County government. First, the fall elections brought us two new commissioners, including the first woman to ever serve on our Board of Commissioners. Indeed, this is a historic time for Sampson County. Second, we are anticipating the development of several industries in 2015-2016 that will have a positive impact on our economy. We are encouraged about the prospects of new jobs and the potential new opportunities that these industries might engender. Third, we are seeing a positive increase in sales tax receipts and property tax collections. These increases along with responsible planning have reduced, but not eliminated, some of our budgetary pressures. Fourth, the Board of Commissioners have approved the four-year implementation of a job classification, compensation and benefits program that will not only increase the market competitiveness of our salary structure and increase internal equity in our payroll system, but will also control our long-term fiscal liabilities. Moreover, this implementation is not expected to necessitate a tax increase. Lastly, Sampson County is in the process of refinancing a significant amount of debt. We are excited about the fact that we have achieved at least an A rating from two major bonding companies. These ratings were achieved without the purchase of insurance, and this is the first time in our history that we have obtained a rating without purchasing insurance to ensure same. These factors, along with the guidance and expectations set by our Board of Commissioners, have enabled us to propose a budget that does not include a recommended tax increase.

The 2014 audit and the results of our refunding effort: The June 30, 2014 fund balance was \$22,736,274, and the unallocated general fund balance was \$4,178,141. The \$22,736,274 amount is generally within the range recommended by the Local Government Commission. The total outstanding debt for governmental activities was \$131,882,173. This debt is certainly significant and affects the tax rate, but is within the range of what can be afforded for Sampson County.

As reported at the May meeting, Sampson County has successfully refunded the 2006 Certificates of Participation and the Water District II general obligation bonds. The total bonds sold was approximately \$50,000,000, at an average interest rate of 3.25 %. The savings on payments over the remaining life of the debt will be more than \$6,000,000. It is very significant to note that Sampson County obtained bond ratings of A and A1 from two of the leading ratings companies, Standard and

Poor and Moody's. It may be insightful to review some of the discussion and facts that were included in the ratings evaluation:

1. It should be noted that Sampson County, for the first time in its history, achieved a bond rating without having to purchase insurance for same. By comparison, Sampson County spent \$473,000 to purchase bond insurance when the bulk of the construction projects were originally undertaken.
2. The underwriters and bond rating companies were complimentary of the demonstrated efforts of the Board of Commissioners to be fiscally responsible.
3. It was noted that the county had conservatively developed its water system by first building the infrastructure's distribution system and purchasing water from available sources; once the County had established stability in its water operations, it then set about to develop wells to further develop potable water for its rural residents and promote economic development. This effort and process was considered to be very responsible, deliberate, and thoughtful.
4. There was much discussion regarding the development of infrastructure during the mid-2000 decade and the subsequent economic downturn. It was noted also that there are no significant plans or needs for major building improvements in the immediate future. There was discussion regarding what the cost of the needed infrastructure would have been had the county waited until now to begin considering same.
5. The reviewers were also complimentary of the experience level of the management team and believed that it added to the county's stability.
6. The reviewers reviewed the implementation plan for the pay classification and benefits plan. They were very complimentary of the BOC's willingness to consider the issue and make decisions on the long term needs of both the employees and the county's long term financial stability.

Implementation of the pay, classification and benefits plan: The implementation plan for the pay, classification, and benefits study that was adopted by the BOC in the spring has been incorporated into this budget proposal. The plan calls for implementation over four years at an estimated total cost of \$3.7 million dollars. The estimated cost for this budget cycle that includes matching fringes is \$1,104, 881. This cost is offset by: \$137,806 in matching grants for DSS and Health Department personnel, \$182,500 from increased jail revenue, \$300,000 from monies set aside in the current year's budget for implementation of this plan, \$259,135 from increased tax office collections, and \$67,492 of the cost from the projected reduction in the employer share of health care cost. Finally, and of note, employees will contribute approximately \$157, 948 toward their increased health insurance premiums. We believe that this is a very responsible approach for implementation that rewards our most valuable assets and protects the long term financial stability of the County.

The implementation requires some fairly austere measures. These included changes in what employees will be paying for health insurance, what employees will be eligible for in post-retirement

health insurance benefits, and the changes in the retirement age at which some employees will be eligible for their post-employment health benefits. We compliment the vast majority of our employees for their professional and responsible manner for evaluating and accepting these changes.

The implementation plan also calls for \$1,193,391 in real permanent savings over the next 4 years. Next year's budget will necessitate a reduction of \$345,497 of these referenced expenditures. Thus, our work to again evaluate our governmental operations will begin in earnest in July after the FY 2015-2016 budget is approved. We will be discussing all areas of services and governmental operations. We welcome and appreciate any substantive ideas that anyone would like to offer. **We also caution the public and our own departments and employees not to over react to discussions about their favorite or particular programs until specific recommendations are brought forward.** We believe that the current Board of Commissioners is committed to evaluating all operations and adjusting our services to provide the best possible government for the dollars expended. The Administration staff and department heads will also try to demonstrate maximum sensitivity in this process as we understand that what one person views as waste or unnecessary may be another person's favorite or most desired service.

Economic conditions and development in Sampson County: By most accounts, the U.S. economy is going through a sluggish economic recovery. In North Carolina, it has been recently publicized that a projected state budget deficit of more than \$200 million has turned into a projected increase of over \$400 million. This seems to indicate an uptick in economic development for the state when compared to some of our surrounding states. In Sampson County, we generally do not regress as much as the more urbanized communities in times of an economic downturn. On the other hand, when the economic growth returns, our rural economy may not recover as rapidly as some others.

We continue to believe that Sampson County is poised for some positive things to develop on the economic front. Our potential economic gains are a result of the leadership and motivation of the Board of Commissioners in addition to a strong coalition of county partners working with the economic developer to promote the interests and potential of Sampson County. At present, we are working with five companies that have the potential of adding \$320 million dollars to the tax base of Sampson County. These additions would represent a 7.6 % increase in the tax base and potentially add \$9 million of tax revenue over a 10 years after the grant back incentives. Our expectations are high for these projects. Moreover, we are confident that significant development, as a minimum, will occur with several of the projects over the next year. We also believe in the old adage, that success in economic development begets other success for economic prosperity.

Fire Inspections (to be finalized with next year's FY 2016-2017 budget)

The timely completion of needed fire inspections for the important and valued businesses, industry, and non-residential entities in Sampson County is an issue that has not been resolved. We do expect to have a specific implementation plan for the Board's consideration at the time we present the FY 2016-2017 budget. In our early discussions, it was suggested that we add two additional staff members to cover the need. In our deliberations, it was determined that fire inspections within the municipalities are the responsibility of the municipalities per GSA 160A-412 and that we should pursue their financial participation for completing needed fire inspections. The administration staff notified all municipalities regarding this matter in correspondence dated April 15, 2015. In that

correspondence, we advised them of the possible changes in how fire inspections will be accomplished in the future. In essence, they could provide their own services or pay the County. Any proposed changes, if finally approved by the board, would not be implemented until July, 2016. The EMS staff is presently doing a survey of the needed inspections per locality. It is planned that we will be able to provide the municipalities with the potential cost and number of inspections required by the end of June, 2015. We will subsequently review this information with the Board. If approved by the Board, we will promptly notify all of the municipalities and request that they advise how they wish to proceed by December, 2015. The December 2015 date is important as it will take several months for either the municipalities or the County to gear up for a July 1, 2016 implementation date. EMS is currently operating with an interim plan.

BUDGET DRIVERS

Sales tax: We are projecting an increase in sales tax revenue of \$931,625.

Property tax revenues: Property tax collections are expected to increase by \$580,728. ¹ We are projecting a collection rate of 96.4%. The projected increase in this percentage is because of the increase in the expected collection rate of motor vehicles and the work of the Tax Office staff.

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 a significant amount of this.

Schools current expense: We are proposing an increase in funding for the school systems to \$930 per student. This is an increase in funding per student of \$50 and represents a percentage increase of almost 6%. It is noted that in recent years the school systems have been under the same financial pressure as the County in planning for the uncertainties (generally decreases) in State and Federal funding.

Social services: The Department of Social Services has presented a budget that requires a County contribution that is approximately \$336,000 less than last year's budget. This budget savings is primarily because of a change in the Medicaid reimbursement for administrative cost. The Medicaid reimbursement for these related costs has increased from a 50% reimbursement rate to a 75% reimbursement rate. This is extremely important to Sampson County as nearly 25% of our population is eligible for Medicaid services.

Debt service- Vehicles: In the recommended budget, we are proposing to replace 18 sheriff vehicles, 2 ambulances and 1 QRV vehicle. We will also be paying through our inter-local contract one half the cost of a replacement vehicle for the Planning Department. All of these vehicles, with the exception of the Planning vehicle, will be purchased with borrowed funds.

Capital reserves: In one of the earlier budget planning meetings, the Board voted to authorize an expenditure of \$450,000 for roof replacement and repair at the Expo Center. These planned expenditures have been included in the proposed budget. In addition, we are proposing to set aside \$123,990 for replacement of the cooling tower in Kitchin Hall at Sampson Community College when it

fails. In addition, we are proposing to replace the membrane roof on the North Building for \$176,018. The sum of the planned improvements for Sampson Community College totals approximately \$300,000.

We have had ongoing discussions with the Board regarding the need for funding capital reserves for building replacement. Last year, we included \$540,000 for increased capital improvements at the Community College. We considered these monies as contributions to the capital reserve. Unfortunately, we had a simultaneous current need and expended the funds in the same year. The above capital expenditures for the Expo and Sampson Community College total \$750,008. Moving forward, it would be our goal to set aside at least \$750,000 for capital reserves until a sufficient amount is accumulated to handle the major repairs for approximately \$500 million in County-maintained buildings. This kind of financial planning will enhance our financial soundness and viability and also help us to be better prepared to meet unexpected future challenges.

Personnel: The Board of Commissioners in its pre-budget workshop had approved several staff additions. The Veterans Office and Elections Board currently share one full time employee. We are proposing to add one full time employee that would then allow each department to have an additional full time employee in lieu of the current half time employee. We are also proposing one additional full time employee to work in the tax office in business listings. We had previously discussed the need for one part time employee.

SUMMARY

We are extremely pleased to present the FY 2015-2016 budget without a proposed tax increase. The past year demonstrates that progress can be made in our governmental processes while maintaining a fiscally responsible approach. We believe that many decisions will have a long term positive impact on the future of Sampson County. At the same time, we are acutely aware of the fact that Sampson County has one of the higher tax rates in southeastern North Carolina. We do caution that many of the positive factors from the current and upcoming fiscal year that have allowed us to develop a no-tax increase budget may not be available in future budget cycles. Therefore, we need to be particularly mindful not to react to short-term gains or losses. We do understand that the county, state, and nation, will undergo changes in economic conditions from time to time, and when economic conditions decline, the demand for the county's services will increase. Moving forward, it is important we continue to evaluate the long term implications of our decisions. This may not prevent the need for future tax increases; but, it may ensure our ability to be continually prepared to respond to the needs of our entire population.

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Please note that in our continuing cost-cutting efforts, the full draft budget will be provided to the Board in electronic format, unless Board members request paper copies. The full budget will also be available to all citizens on the Sampson County website, and a full paper copy will be maintained in the Office of the Clerk to the Board for public review during normal business hours.