

NORTH CAROLINA'S SAMPSON COUNTY

TO: Board of Commissioners
FROM: Ed Causey, County Manager
DATE: May 23, 2016
RE: Proposed Budget FY 2016-2017

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.

INTRODUCTION

Your administrative staff is pleased to report that County government is operating in a satisfactory manner, and our departments continue to make diligent efforts to deliver their important services in a customer-oriented manner that reflects the direction of the Board of Commissioners. **I am also pleased that we are able to recommend the Fiscal Year 2016-2017 budget with no proposed tax increase.** Such recommendation is built upon what has been accomplished this year and the efforts of our county departments and funding partners to help achieve our goals, but is also predicated on the successful application of long-term strategies for the allocation of current and future resources.

Looking Back at Fiscal Year 2015-2016

1. ***Audit/Fund Balance*** The audit for the year ending June 30, 2015 indicated that the County finances are sound. The undesignated fund balance is slightly above 22%, which is significantly above the 8% threshold required by the North Carolina General Statutes, but less than the 25% recommended by the Local Government Commission for counties of our size.
2. ***Pay Plan Implementation*** The pay plan implementation program that was approved by the Board of Commissioners with the 2015 budget required the County to reduce expenditures by \$1,191,391 within four years. Of this amount, \$395,497 was to be achieved for the July 1, 2016 budget. We are pleased to report that \$1,052,067.55 of this total has already been

approved. It is important to note, however, that this total represents some savings that will not occur until 2017 and 2018.

3. **Fire Inspections** One of our operational weaknesses in recent years has been the lack of personnel to complete all needed fire inspections in a timely manner. From a public safety standpoint, this is a critical need and something that the Board has taken very seriously. You have directed the administrative staff, along with Emergency Management, to come up with a proposal that would not only accomplish the goal of completing all needed fire inspections but would also be self-supporting. Everyone has worked diligently in this regard, and we will have the program in place on July 1, 2016 to accomplish this very important goal.
4. **Business Personal Property Listing Compliance Reviews** The North Carolina Department of Revenue has met with the Board twice in the last five years to talk about the importance of having an ongoing business personal property compliance review program. The reason is simple: tax fairness. We re-evaluate the value of all real estate once every eight years. The Department of Motor Vehicles evaluates vehicle values every year. If we do not have a system in place to similarly evaluate business personal property, we create inequities in our tax collections. As of July, 2014, we have instituted a program for conducting responsible business compliance reviews. The program that has been implemented fulfills the Board's primary directive: to ensure that our taxpayers understand what is to be reported. Thus, we have offered three training sessions in the last two years to assist the public. Our emphasis on training/understanding the process has been matched by an emphasis on customer service. It appears that progress is being made as we see evidence that our taxpayers are becoming much better informed regarding their statutory obligations.
5. **Public Water System** We have started producing the majority of the water that we utilize. We do acknowledge that we have endured, regrettably, some growing pains as we converted from primarily surface water to well water. We were fortunate to have received a \$554,000 grant from the Golden Leaf Foundation for the development of the third well. The addition of this well will enhance our ability to promote economic development and better service to the citizens of Sampson County.

Looking Forward to Fiscal Year 2016-2017

We believe that these conscientious budgetary efforts will continue to garner positive results. At the same time, we all have the potential to be constrained by available financial resources at the state and national level in any given future year. To insulate us from these uncertainties, this budget and those in future years should be crafted within the concepts of consistency and standardization. Our recent budget reduction initiative reflects our shift toward this perspective. As we have recommended (and will continue to recommend) changes in operations and cuts in our County departmental budgets, we have tried to use a consistent, standard measure: *Are the programs/services operated at their optimum efficiencies? Are they provided with good customer service? Are they being accomplished in a cost effective manner, recouping our costs to the greatest extent possible? What are the long-term impacts of the budget recommendations?* This measure has been (and must continue to be) applied not only to our internal budgets, but to those services which impact other external parties as well. For

example, we are working to improve the timeliness of our fire inspections. This is being accomplished on a fee basis that allows the recipient of the service received to pay the administrative costs for same, and we acknowledge the impact this has on our municipal governments. Likewise, we are reviewing our contracts for law enforcement services provided to our municipal partners to ensure the contracts reflect our actual costs, and we acknowledge the financial consequences to the towns which receive these services. Moreover, given the demands we have placed on our County departments, this recommended budget takes a very conservative approach with regard to recommendations on special appropriation requests as we just do not have sufficient resources to consider all of the potential worthy projects that could be considered.

Moving forward, our goal is to maintain equitability and consistency relative to assessing and funding the needs of our departments and our many funding partners. Equally important is the need to pursue standardization in our approach to how our major funding partners can expect to receive recommended resources in the future. (More fully explained in the school funding information below.) We believe that this even handed approach will assist everyone, especially the school systems and the community college, in anticipating the future revenue sources. It should help us all to more efficiently plan for the future.

BUDGET HIGHLIGHTS

Allocation of Expanded Sales Tax

We are projecting that Sampson County will receive approximately \$1,432,538 from the expanded sales tax. The State legislature mandated that these additional monies should be expended for economic development, schools, and the community college. Accordingly, we propose to utilize this funding as follows:

1. We will utilize **\$800,000** to pay on the debt for school construction. The \$800,000 also represents the funding that was previously paid toward the school debt from lottery proceeds that were eliminated in 2014.
2. We propose to utilize **\$301,605** of these proceeds for school operating expenses. This will **increase the per pupil funding to \$975 per student.**
3. We will utilize **\$5,224** to cover the additional operating expenses requested by Sampson Community College.
4. We will also utilize **\$250,000** for capital improvements at Sampson Community College.
5. We will dedicate **\$75,709** toward economic development. Of this amount, we will designate \$25,709 to pay the costs associated with being a member of the Southeastern Economic Development Association. We will allocate \$50,000 to the Industrial Utility budget to be used for specific economic development. These monies will not be used to pay for additional employees or programs. These monies will be strictly utilized for project-related development costs such as floodplain and wetland delineation, archeological surveys, and

engineering reports related to a specific site, etc., after the Economic Development budget has been exhausted.

School Funding – Establishing an Allocation Formula

We recognize that both the school systems and the community college have their challenges regarding the funding of their operations each year. They have shared with the Board the commendable efforts they have made in recent years to adjust operations in response to declining revenue streams, and we understand the pressures of having multiple funding sources on which they are dependent. Similarly, our County departments are also under pressure to maintain or reduce their annual budgets while in some cases experiencing declines in state or federal revenues or increasing mandates for service delivery. Thus, our challenge becomes the creation of a level playing field for the delivery of all services and being consistent as possible in the allocation of our financial resources so that meeting the needs of one does not unduly or unfairly impinge upon the other. The resolution to our challenge may be to administratively articulate how we may wish to budget or recommend future financial resources. Although our proposal may not yield the exact desired results for anyone, it should serve as a reasonable planning tool for the purpose of budgeting. This would allow the entities to better project financial resources that would be available to them and possibly enhance their ability to more effectively make future budgetary decisions. Our recommendations are as follows:

1. Regarding community college allocations, as long as the expanded sales tax remains at projected levels, we would like to plan to allocate \$250,000 per year for capital improvements for the next ten years. At present, there is no specific annual funding assumed for the community colleges for these types of needs. Thus, it should make their planning for annual capital needs much more efficient. Second, this type of projected funding may enhance their ability to more effectively plan the use of the State bond money that was recently approved.
2. From the County's perspective, we have done well to increase the school's funding for operations to \$975 per student. We recognize that from the school's perspective the \$975 is below the State average. We want to develop a system that may offer the County and the school system a method to project future allocations and recommend that a base for future allocations for the school system's current expense funding be calculated as a percentage of the County's General Fund budget. Based on this year's budget, the operational monies for the schools represent approximately 19.5% of the County's General Fund revenues. Moving forward, we would project the base amount of current expense funding for the schools to be 19.5% of our General Fund revenues. (It should be noted that the property tax base in the General Fund revenues would be adjusted to reduce same to reflect the dollars paid back to industries for incentives and potential non-recurring gains from business audits.) Such funding formula would apply unless the county is facing or has recently incurred an exigency.

For informational purposes, it may be helpful to reflect the total monies that are projected to be received for the schools:

Current Expense (as projected above)	\$ 11,149,125
Capital Improvements for 2016	\$ 1,024,500
School Debt Service	\$ 8,280,896
Fines and Forfeitures	\$ 340,497
Total, local dollars	<u>\$ 20,795,018</u>

Clinton City Schools also receives approximately \$1,660,000 through a voter-approved supplemental tax in addition to the County's per student allocation for operations. This supplemental tax increases the amount of per pupil funding available for the 3,041 students in the Clinton City School system, which the Board has noted in previous discussions.

It is noted that from the County's perspective there is a significant investment in schools and school related functions. From the school's perspective, some of the dollars utilized for the repayment of debt would be available for other needed capital improvements if the school debt did not exist.

Elections Equipment

The Board of Elections has requested \$362,875 for the replacement of equipment. We have had discussions in prior years regarding equipment replacement; however no specific request was made in 2015. We had previously understood that the replacement of equipment was going to be mandated by the State Board of Elections by the 2018 elections; however, no mandate for the replacement of equipment has been made as of yet. We do understand that this issue is currently being reviewed by the legislature. If such replacement is mandated, we do want to confirm, before taking any specific action, if the State will participate in the purchase of any of this equipment. At present, we understand that there is only one State-certified vendor for needed equipment.

The amount of \$50,000 was set aside several years ago for the purchase of equipment. The amount of \$25,626 was used for the purchase of the electronic poll books that were utilized this year.

After considerable discussion, we all agree that our elections equipment is getting older, and we need to define a program for needed equipment replacement. We propose the following:

1. We will form an elections equipment committee that will evaluate our needs and make budget recommendations for needed equipment. The committee will consist of the Elections Director, the Finance Officer, our Contracting Officer, and the Information Technology Director. The Elections Board may wish to participate on the committee directly or indirectly, as represented by the Elections Director.
2. We want to proceed cautiously and deliberately regarding the purchase of needed equipment as we want to give the State time to certify additional vendors to ensure more competitive pricing. In addition, we want to determine if any mandates for equipment will be forthcoming in the near term from the legislature. Finally, we want to

give the Board of Elections an opportunity to evaluate their specific needs and any potential changes.

3. We would envision the determined equipment purchases will occur over the next 5 years.
4. We are allocating \$69,000 in this year's budget for the purchase of needed equipment as determined by the committee.

Cost of Living Increase

We are proposing a 1% cost of living increase for all employees. This is in line with the CPI (Consumer Price Index) as reported by the Bureau of Labor Statistics for 2015. The projected cost of this increase is approximately \$201,000, and is considered an investment in maintaining one of the primary goals of the Pay Study implementation: to ensure our wages reflect current market so that we can retain employees.

The Springsted Pay Study was completed based on salary information gathered in the summer of 2014. The Board approved the implementation of the Pay Plan over a four year period with a total cost of \$3.7 million dollars, an amount necessary to overcome the significant deficiency between market wages and what we were currently paying our staff. Budgetary considerations necessitated a four year implementation plan, which has been recognized as a fiscally responsible approach for meeting the needs of our employees and the long term stability of providing the services of county government. As previously reported, Sampson County received an A bond rating last year in conjunction with our bond refinancing, and for the first time, we were able to achieve such a bond rating without the significant added cost of insurance to ensure the rating. In our ratings conferences, everyone referenced the Pay Plan and its contribution to the long term financial stability of the County, primarily through the significant long term savings in postemployment liabilities the Plan's implementation would generate. Prior to the Plan's implementation, the Sampson County Postemployment Medical Benefits Plan Actuarial Valuation projected an unfunded actuarial liability of \$18,838,000 as of June 30, 2014. Following implementation of our Pay Plan, the Actuarial Valuation projected this same unfunded liability to be \$14,017,000 as of June 30, 2016. The actual annual required dollar contribution has dropped from \$2,191,000 in 2014 to \$1,207,000 as of June 30, 2016. The long term savings are significant.

The primary reason for these saving is the fact that in our adopted Plan we no longer pay for post-employment health benefits for new employees and those current employees with five years or less of service as of the date of Pay Plan approval. With this shift, it is important that we maintain wages that currently reflect the market in order to afford our very valuable employees a better opportunity to plan for the future and set aside resources to cover the costs.

Other Budget Drivers

Sales Tax We are projecting an increase in sales tax revenue of \$1,513,643.

Property Tax Revenues Property tax collections are expected to increase by \$714,986. We are projecting a collection rate of 97%. We are most appreciative of the conscientious efforts of our tax office staff. A penny on the tax rate generates \$418,458.

Fund Balance Appropriated We are appropriating approximately \$1,880,051 to balance the budget, but we anticipate that lapsed salaries and benefits will negate the need to spend a significant amount of this appropriation.

Schools Current Expense We have previously referenced the planned funding for schools in 2016. To recap, we are proposing to increase funding per pupil by \$45.00 per student. This represents a 4.8% increase in funding.

Airport The Airport budget includes a small increase as the Airport Advisory Board has requested that the budget be increased to cover several significant maintenance issues. We will cover these improvements from reserves established for the airport.

Expo Center The Expo budget reflects an increase of \$17,166. This increase is primarily related to a capital expenditure for a cost savings measure that will be reflected in the 2018 budget. The capital expenditure will be repaid over the next two years. Thus, the 2018 budget will reflect a reduction in costs of approximately \$12,500.

Planning The Planning budget reflects a small decrease in funding primarily due to the fact the purchase of a vehicle was not needed in this year's budget. More significantly, the Planning department is going to update our Land Use Plan utilizing our own internal resources. We appreciate this effort as we have discussed updating the plan in previous years and utilizing outside consultants. The potential savings for the county is significant.

Recreation Department We are proposing to advertise for a fulltime Recreation Director. Presently, this position is part-time. We propose to advertise in the early Fall and fill the position at mid fiscal year.

Information Technology Although we believe the position is needed, we are not including the IT liaison position for the Sheriff's Office. This position will be considered after all budget reductions are in place and we determine an available position that can be reclassified into this needed position for technical support.

Special Contingency We are establishing a special contingency account in addition to our regular contingency amount. The amount established will be \$166,035. Our Pay Plan implementation plan required that we save \$345,497 for the year beginning July 1, 2016. In actuality, we have achieved savings of \$511,531.42. The difference of \$166,035 represents savings to offset the Pay Plan implementation after 2016. Thus, we are placing this amount of savings in a special contingency account to be utilized in the subsequent years of the implementation plan.

Social Services We note that the Social Services budget is only reflecting a small increase in the amount of County support needed. This increase is primarily due to the Pay Plan

implementation. The program increases have been largely offset by changes in how the Medicaid reimbursements are now calculated.

Health Department The County's contribution to the Health Department is being increased by \$319,164. This increase is primarily due to a reevaluation of the income stream based on current economic circumstances, changes in reimbursement rates, and a projection of expected receipts based on historical projections.

Special Appropriations We are recommending \$50,000 in funding for the Sampson County History museum, \$5,816 as the local match for the Mid Carolina RPO, and \$750 for travel for the CAC committees. There were several requests that were not recommended.

Debt Service-Vehicles In the recommended budget, we are proposing to replace 17 Sheriff's vehicles, one ambulance, a QRV vehicle, a vehicle for the new fire inspector, 3 vehicles for Social Services, and one truck for Parks and Recreation. One needed vehicle for the water department will come from the enterprise fund.

Retirement System The County's contribution for our share of the regular employees' retirement will increase .5% or \$49,862, and the contribution for law enforcement employees' retirement will increase .85%, or \$30,138.

Capital Reserve As stated in last year's budget message, we are appropriating \$750,000 for the maintenance of buildings. We believe that our long term financial health necessitates that we maintain significant reserves for the maintenance of buildings.

Personnel There is one new position recommended for the Sheriff's Department, an additional Detective position. This request was discussed with the Board of Commissioners at the planning session and was well received by everyone. We will be filling the Human Resources position in 2016. However, this position is a reclassified position and not a new position and has already been approved by the Board. Likewise, we will be filling the previously approved Fire Inspector position, which will be paid for from the revenues generated by fire inspection fees. The employee "lockdown" number established with last year's budget was 547. Calculating the positions eliminated/re-assigned in budget reduction proposals and the positions recommended for this budget, the number increases to 548. However, this is offset by the reclassification of the CVB Executive Director position. This position is no longer considered a County employee (with no costs to the County for benefits or post-employment liabilities), so the permanent County employee position count remains at the previously established 547.

Solid Waste We continue to be concerned about the increased cost of handling e-waste as mandated by the State. The amount budgeted for next year is \$72,000. This is up from the \$9,600 that was budgeted last year. The increase is primarily due to the changes in the e-waste program. Based on current usage, we will have to place limits on the e-waste removal next year in order to stay within budget. Basically, we may need to limit the number of pickups at our two sites. This means there may be times when the sites will need to be closed for accepting e-waste.

Revaluation The next county revaluation will occur in 2019. The process typically begins two years prior to implementation; thus we will be preparing the Request for Proposals (RFP) in the Fall in order for work to begin early in 2017. This is an expensive process. Fortunately, the Board has elected to set aside monies each year to ensure the revaluation project can be accomplished without having to set significant funds aside in any single year.

SUMMARY

We are extremely pleased to present the FY 2016-2017 budget without a tax increase. It is important that we acknowledge the hard work that our department heads have done on their respective budgets and their conscientious efforts to try to conform to the goals for financial restraint as directed by the Board of Commissioners. We are pleased with the results to date. Because of the rapid changes that can occur in the economy and the amount of debt that we are trying (reasonably) to retire, it is imperative that we maintain a vigilant eye on the long term impact of our decisions. We also want to continue demonstrating equity and consistency in the evaluation of proposed department budgets as well as the budgets submitted by the community college and the school systems. The development of a standardized, long-term formulaic approach to school funding allocations will, as a minimum, enhance the effectiveness of everyone's planning. More importantly, it should demonstrate our interest in maintaining a level playing field for everyone who depends on the availability of financial resources from Sampson County. Offering our educational systems some insight regarding future expectations allows them to be cooperative partners in our continuing fiscal prudence.

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