

NORTH CAROLINA'S SAMPSON COUNTY

TO: Board of Commissioners
FROM: Ed Causey, County Manager
DATE: May 22, 2017
RE: Proposed Budget FY 2017-2018 – Budget Message

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

This budget message builds on the budget message from last year. Last year, we indicated that County government was operating in a satisfactory manner. This year, we are projecting an uptick in both tax collections and sales tax. Likewise, we believe that County operations have continued to move forward in a positive and stable manner. It is our goal to continue to prepare budgets that accomplish two basic objectives: reasonably and realistically plan for the short term operational needs and maintain as much consideration for the long-term impacts/conditions as possible.

The Tax Rate and the Positive Impact of Economic Development Efforts

Because of improved revenue projections, we are proposing that the tax rate be reduced by one-half cent from 83 cents to **82.5** cents per \$100 valuation. There are a number reasons we feel the reduction in tax rate is appropriate, but primarily because we have experienced an increase in the property tax base that can be attributed to significant industrial growth. For years, we have talked about the need to increase our industrial tax base for many reasons, not the least which is to increase the overall tax base and thus reduce the property tax burden for the citizens of Sampson County. This year, the reduction in the property tax rate has clearly proven that economic development can directly provide economic benefits for all our property taxpayers.

We are fortunate to welcome many new corporate citizens to Sampson County. They have clearly enriched the County by adding jobs and demonstrating that our valuable resources can offer opportunities and stimulate economic development. We need to maintain this momentum. Our continued and future success will depend on innovation and creativity in our approach to economic development. At the same time, we are reminded that much success can be attributed to ensuring the availability of building sites for economic development, the immediate availability of needed infrastructure, and attaining all or most of the necessary environmental clearances before economic development prospects inquire about site availability. In the case of Enviva, part of our success in attracting this company was the availability of land for development and the County's ability to provide needed infrastructure in a timely fashion. We invite and encourage everyone to participate and assist in the ongoing dialogue about promoting economic development and creating a cadre of available sites.

Many individuals and groups have worked hard to grow Sampson County and should be thanked. However, we would be remiss if we did not specifically mention our Economic Developer and his tireless efforts regarding industrial development and recruitment. Mr. John Swope works hard every day to promote the opportunities for industrial development in Sampson County. We also hope this positive action galvanizes interest in industrial development and motivates everyone to assist in looking for new ideas to assist with the development of new jobs for our county to further increase the tax base. **More importantly, we want everyone to understand that significant growth in the tax base can potentially help us achieve a tax rate over time that is more in line with surrounding counties.** The Board of Commissioners should likewise be recognized for their commitment to providing leadership and direction in Sampson County government that benefits the entire population. The clear direction from the Board has enhanced the ability of our departments and partners to work within the framework of established parameters. The good work of many County departments should not be overlooked as well as the thoughtful suggestions and input from many Sampson County citizens.

BUDGET HIGHLIGHTS

The balance of our budget presentation will be offered in several parts: looking back at 2016-2017, a review of challenges and opportunities moving forward, a recap of our FY 2017-18 budget drivers, a discussion of long-term needs, and a final summary.

Looking Back at Fiscal Year 2016-2017

1. ***Audit/Fund Balance*** The audit for the year ending June 30, 2016 indicated that the general fund had grown by \$1.6 million dollars. The general fund balance is now approximately 33.5% of general fund revenues. This is an improvement from previous years. This percentage is well above the 8% threshold required by the North Carolina General Statutes and very close to what is recommended for counties of our size. The actual fund balance available for expenditure is approximately 20%.

2. **Tax Rate** The tax rate for last year was set at \$.83. This rate is higher than the rate of many surrounding counties. However, if we did not have the debt associated with the schools and County infrastructure it is likely that the tax rate could be approximately 13 to 15 cents lower. This would put us into a more favorable position when compared to many other counties. We must remember that geographically Sampson County is the largest county in North Carolina, and thus the services that we provide our citizens are often more expensive to provide.
3. **Pay Plan Implementation** We will implement the third year of our pay plan in July, 2017. The pay plan is being implemented consistently with the Board-approved pay plan implementation program and without a tax increase. Moreover, the budget savings of \$1,163,000 has already been designated and mostly implemented. As mentioned in other communications, we have received feedback from the bonding underwriters that our pay plan is fiscally responsible. In addition, the actuarial valuation that was done in 2015 reflected that our unfunded actuarial liability in June 2014 was \$18,838,000. This liability was projected to drop to \$14,017,000 by June 30, 2016, at a savings of \$4,821,000.
4. **Fire Inspections** The County has hired an additional fire inspector and implemented the fee program that was adopted last year. Unfortunately, the fall weather disaster distracted our efforts and necessitated resources be diverted to disaster-related initiatives. We are very mindful of the Board's direction that the fire inspection fee schedule and collections cover the cost of the additional inspector, and we will be very mindful of our program moving forward to ensure that revenues offset the salary and benefits for the added position.
5. **Public Water System** Our public water system has over 500 miles of lines and represents many opportunities and occasional challenges. We are moving from a system that primarily purchases water to a system that primarily produces water, and this effort will be very positive over time. In the short run, however, we have encountered some growing pains where the retention times for water in our lines causes manganese (which is within the state allowable limits) to oxidize with the chlorine in the water and create discoloration. With the assistance of our engineers, we will be adding a treatment operation that will minimize this problem. Fortunately, the State has awarded Sampson County slightly more than \$1,000,000 in grant funding to assist with these efforts. In addition, we are developing a third well with the assistance of Golden Leaf and Economic Development Administration (EDA) grant funding in the amount of \$554,000 and \$789,000, respectively.
6. **Human Resource Director and Recreation Director** The Human Resources Director position and department are important resources that we have been trying to establish for several years. We are pleased that the Director's position has been filled, and we are looking forward to further development of the department that will provide expanded assistance to our many valued employees. We have also filled the Recreation Director's position with a full-time employee. Recreation is a very valuable service that many families in Sampson County utilize and enjoy; this community quality of life endeavor deserves full time oversight.

7. ***Business Personal Property Listing Compliance Reviews*** Our program for business compliance reviews is moving forward and is helping us achieve the appropriate balance among the classes of property that are taxed, to the direct benefit of the citizens of Sampson County. Moreover, we have achieved positive results with our efforts for citizen education in this area.
8. ***Capital Reserves*** This is the third year of earmarking significant funds for the capital reserve account. In year one, the allocated funding was used for improvements at Sampson Community College and the Expo Center. Last year was the first year that funding was actually set aside. We hope that this fund can build for several years before significant withdrawals are needed. The maintenance of our infrastructure is critical to ensure the long term financial stability of our county.

Challenges and Opportunities Moving Forward

1. ***Medicaid Transportation*** Sampson County will be providing Medicaid-related transportation services as of July 1, 2017. This is a significant undertaking that is intended to improve the efficiency and quality of the transportation services that are provided to the citizens of our county, both Medicaid-related and in our general transportation services. We do recognize that the startup of any significant program will necessitate close scrutiny, an attention to detail, and may require adjustments in its early stages. We will work diligently to mitigate any start up glitches that accompany the new program implementation.
2. ***Customer Service*** The Board of Commissioners has encouraged all departments to become fully engaged in a significant and self-perpetuating effort to raise our overall good level of customer service to an excellent or exceptional level of service. This is an effort that will receive a great deal of attention from all of us in County government moving forward.
3. ***School Systems*** (Recommendations for this year's school funding follow under the Budget Drivers section.) The County has worked diligently to fund our school operations at a reasonable level. When this funding is added to the resources allocated to paying school related debt, it is apparent that significant dollars are involved. At the same time, it is recognized that Sampson County is currently contributing \$975 per student for operations, when the state average is over \$1,700. This funding seems to be further challenged by the allocation of state resources such as low wealth funding. We do not believe that we can maintain or achieve a beneficial level of funding for our most important resource, our children, unless both the County and the school systems do some effective and substantive long-term planning. Realistically, it is unlikely that we will achieve the State average in the operational funding for all schools in the next 10 years. Therefore, it is imperative that both the Board of Commissioners and members of the Boards of Education for the two school systems thoroughly develop long-term funding and resource projections. Our broad steps should be threefold. First, both the Boards of Education and the Board of Commissioners will need to spend time understanding each other's budget and the challenges intrinsic to

them. Second, County government, with input from the citizens and school boards, will need to determine what the long-term goal for operational funding will be. Third, once the funding level is determined, the school systems, in turn, will need to determine the operational changes/ adjustments that will be required to maximize the efficiency of the dollars committed. This is a process that can achieve positive results if everyone is committed to effectively accomplishing all three parts. The overall process is more than a decision to provide additional money.

Budget Drivers

1. ***Sales Tax*** We are projecting an increase in sales tax revenue of \$543,659.
2. ***Property Tax Revenues*** Property tax collections are expected to increase by \$907,628 (net of incentives). We are projecting a collection rate of 97%. The tax office staff continues to do a good job of servicing our tax base.
3. ***Fund Balance Appropriated*** We are appropriating approximately \$1,880,000 to balance the budget, but we anticipate that lapsed salaries and benefits will negate the need to spend a significant amount of this appropriation.
4. ***Capital Outlay Funding for Public Schools*** The city school system has requested \$389,000 in capital outlay funding. We are proposing to fund same at \$294,776. The county school system has requested \$809,976 for annual capital outlay, \$592,000 for maintenance capital repairs, and a total of \$300,000 for two construction projects at Midway High School and Union High School. We are proposing to fund \$811,000 of the capital outlay requests. Both of our projected capital outlay amounts represent the pro-rata distribution of the annual sales tax received for school capital outlay projects. The Board may wish to consider if additional appropriations from reserves merit consideration.
5. ***Current Expense Funding for Public Schools*** We have previously discussed some of the challenges of the schools. We are proposing to increase funding per pupil by \$72 per student. This represents a 6.1% increase in funding. The formula that we proposed in 2016 for funding operational expense indicated that we would fund current expense at 19.5% of our general revenues. Our actual projected operational expenses for the schools represent 20.22 % of revenues according to the formula. When county school funding for debt service is added to the formula, the percentage for this year becomes 33.11 %, compared to 32.82% for last year. The actual projected dollar increase for both school systems is \$679,881.
6. ***Sampson Community College*** We have increased the operational funding for the community college by \$10,831 as they requested. In addition, we are proposing \$250,000 for capital outlay (as proposed in the 2016 budget for the following 10 years).
7. ***Parks and Recreation*** As planned, we have filled the position with a full-time employee.

8. **Cost of Living Increase** We are recommending a COLA for county employees of .75%. The total projected cost is \$187,705. The net cost to the county will be \$162,115.
9. **Contingency** The contingency balance includes the regular amount of \$300,000 plus \$50,000 from the allocation to Eastpointe to pay deputies to transport mental patients. In addition, there is an additional \$67,456 included in case there is the need for an additional election. We have had several discussions with Eastpointe officials. We are leaving their annual funding intact with the exception of the transportation cost discussed herein.
10. **Special Contingency** There is a special contingency of \$415,775 that is reserved for the pay plan implementation in July, 2018 that has already been achieved and implemented.
11. **Detention Center** The detention budget has increased by \$89,688. Approximately \$24,000 of this increase can be attributed to salaries. The balance can be attributed to increased maintenance and repairs as this facility is now 10 years old. The Sheriff has done an exceptional job of maximizing revenue and capacities by maintaining contracts for out-of-county prisoners.
12. **Sheriff's Department** The sheriff's budget has increased by \$310,579. Approximately \$200,000 is salary and benefit costs related to the pay plan implementation, approximately \$30,000 is related to equipment purchases, and there is an approximate increase of \$30,000 in supplies.
13. **Airport** There is a budget increase planned for the airport because of increased maintenance costs.
14. **Rescue** The rescue budget has increased by \$279,907. Approximately \$128,229 of the increase is in salaries and related costs. Approximately \$66,000 is related to the need to purchase a new rescue ambulance instead of a remount. The balance of the increase is due to increases in supplies, insurance, and miscellaneous costs.
15. **Aging/Sampson Area Transportation** The decrease in expenditures for Aging and Transportation is because of increased projected revenue from the addition of Medicaid transportation services.
16. **Human Resources** The increase in expenditures for Human Resources is because 2018 is the first year that this function has been established as a stand-alone department. Likewise, there is a corresponding decrease in the Finance budget.
17. **Special Appropriations** In recent years, we have limited our consideration of new initiatives. We are recommending allocation of \$50,004 for the Sampson County History Museum, \$6,888 as the local match for the Mid Carolina RPO, and \$750 for travel for the mandated CAC committees. There were several requests that were not recommended. However, we

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are going to also include a sum of \$10,000 that can be specifically designated by the Board of Commissioners at the first budget workshop.

18. **Debt Service-Vehicles** In the recommended budget, we are proposing to replace 18 Sheriff's vehicles, one ambulance, and one QRV.
19. **Retirement System Contributions** The County's contribution for our share of the regular employees' retirement system will increase .22%, and the contribution for law enforcement employees' retirement will increase by .25%.
20. **Elections** The amount of \$173,585 has been included to replace elections equipment. Due to the technological nature of the equipment, it was determined that IT would be the best department to coordinate the purchase, installation, and training on the new equipment. Also, we have not included in their budget the potential for an additional election. If that situation occurs, we will allocate needed funds from contingency.
21. **Capital Reserve** As stated in last year's budget message, we are appropriating \$750,000 for the maintenance of buildings. We continue to believe that our long term financial health necessitates that we maintain significant reserves for the maintenance of buildings. We are proposing that this amount be increased by \$50,000. We have one report that the County has already accumulated current deferred maintenance costs of \$975,000.
22. **Revaluation** The contract for revaluation has been signed, and work has begun. This is a two-year process. The new values will come out in 2019.
23. **Personnel** The permanent number of employees at the time of last year's budget message was 547. Our cost saving efforts have reduced the number of permanent employees over the last year. The Register of Deeds has reduced staffing by one position, the Cooperative Extension Service has reduced one position, the Health Department has reduced one position, the Library has reduced three full-time positions, and the Department of Social Services has reduced one position. Sampson Area Transportation has increased by two positions, which was approved by the Board of Commissioners with the proposed assumption of Medicaid transportation services. Therefore, we have reduced the total number of permanent full time employees by 5 positions, and our new ceiling for the total number of fulltime employees is 542.
24. **Solid Waste** As stated last year, we continue to be concerned about the increased cost of handling electronic waste as mandated by the State. Two years ago, we budgeted \$9,600 for this line item. This year we budgeted \$72,000. We are now projecting an annual cost of \$94,000 in our projected budget. We continue to make our state legislators aware of the excessive fiscal impact that legislation related to electronic waste has on our budget, but there has not been any change in the laws to date. We will likely need to evaluate this situation moving forward to determine if there are any program changes within our control that can be implemented.

Discussion of Long Term Needs

It is difficult to truly evaluate and have a full perspective regarding our long-term financial stability without considering future needs; it is important that we always view our present circumstances in the context of those impending needs. We are encouraged by our current economic progress and the favorable impact it will have on the programs and services we can provide our citizens. We believe that the future is bright and will continue to be bright if we remain vigilant over our current needs and resources and strategically plan how to best use our resources to meet the needs of the future. Without question, this includes a continued emphasis on retiring our long-term debt. Some of our other long-term needs include the following, not necessarily in order of importance. We invite everyone to participate in the ongoing dialogue regarding long term needs.

1. In times of disaster, there is no facility more important than our Emergency Operations Center. In the last several weather disasters, this facility has been close to being flooded in a manner that could be devastating to the county's disaster response. In addition, we are close to having outgrown our existing facilities. Without question, we are closely reaching the point where new facilities will be essential to the county's ability to respond to a significant natural disaster or other catastrophes where the life and safety of our citizens is of paramount importance.
2. We note the current interest by the State in developing a state park that extends into Sampson County. We believe that our rivers are a valuable natural and cultural resource which afford both opportunity and challenge. There is great opportunity in enhancing the rivers for water activities that much of the country's population now enjoys. However, tourism dollars are but one impetus for taking care of our water resources. We believe that added emphasis is needed regarding the cleaning/clearing of the rivers. This will enhance drainage of much of our farmland. In addition, there seems to be a significant and growing problem with beavers that does not seem to be improving. We assume that some of these drainage concerns may have exacerbated the damage to our roads during Hurricane Matthew last October.
3. Our population is an aging population. As noted by UNC's Carolina Population Center, "The population proportion 65 and older has increased markedly for both the US and North Carolina since 2010, when it was just 13% of the population. This growth has been fueled by the aging of the large Baby Boom generation, the oldest of whom began turning 65 in 2011. The share of the population at older ages will grow steadily in coming decades. By 2035, more than one in five residents in both North Carolina and the nation will be 65 or older." Our seniors are an important and vital part of our society. As time passes, we will need to give more consideration to the needs and support for our elderly population. The needs will be changing and will need to carefully consider the county's role regarding these services.

4. Our Courthouse is clearly an iconic and historic structure. At the same time, we will need to evaluate how long this structure can continue without a major rehabilitation or replacement.

SUMMARY

In summary of last year's proposed budget, we wrote: *"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."*

We are very proud to be recommending a reduction of one-half cent to our tax rate. However, even with our economic improvement, the objectives offered in previous budget years become no less critical and still guide our budget recommendations. Moving forward into fiscal year 2017-2018, we certainly want to be mindful of our continuing responsibility to look after and maintain both our human Infrastructure as well as our physical infrastructure. We believe that significant progress has been made in these areas in recent years. Our educational partners are of paramount importance as our children are our most important resource. We need to increase our emphasis on understanding the needs of our partners and fostering a dialogue that helps them to understand our challenges in meeting all the needs for which County government is responsible. Every department, every funding partner, and especially the citizens of Sampson County will continue to be the focus of our continued success in customer service. It is important to always hear what our constituents are trying to tell us. It is even more important to demonstrate both that we are hearing and understanding what is being conveyed. We will continue the journey toward exceptional customer service.

It is my privilege to work with the Board of Commissioners and the employees of Sampson County as well as our funding partners to serve the citizens of Sampson County.