

BUDGET MESSAGE
Rockingham County, N.C.
June 2, 2010

To the Rockingham County Board of Commissioners and Citizens:

I respectfully submit my recommended annual budget for Rockingham County for Fiscal Year (FY) 2010-11. The budget is prepared and balanced in accordance with the North Carolina Local Budget and Fiscal Control Act and seeks to fund Board priorities and mandated operations and services. The recommended General Fund portion of the budget for the upcoming fiscal year is \$79,755,745, which is a 0.7 % reduction over the current year adopted budget. The tax rate is proposed to remain at 71.5 cents per \$100 of property valuation.

The primary goal of the County for the upcoming budget year is to maintain basic services without raising taxes. Another major goal is to work with the Partnership for Economic Development and Tourism, the Community College, the School System, our municipalities and the State to promote job growth and 21st century skills in our workforce. Secondary goals are to finish the judicial center and animal shelter, begin the design and construction of the western EMS base, conduct the required property revaluation, and continue efforts to improve efficiency and effectiveness of county programs and services.

It has been several years since the County developed a strategic plan. I would thus recommend that the Board consider development of a new three to five-year strategic plan as well as a long range facilities plan and new five-year capital improvement plan. It is more important than ever for the County to focus its efforts and limited resources on priorities to help achieve desired outcomes.

The proposed budget for FY 2010-11 can best be described as austere. There are no proposed raises for employees, few increases in operating expenses and only the most essential of capital outlay purchases that are recommended. There are significant increases in most department budgets due to a required 30% increase in the local contribution to shore up the local government retirement system contribution for retired workers and an expected 10% increase in health insurance costs. Counties across the state are also experiencing increased costs where the State of North Carolina, in an effort to balance its budget, is passing costs of providing services, like housing state prisoners and rent of probation offices, on to local governments to fund.

Rockingham County, like most jurisdictions in the County, is faced with a depressed economy and declining revenues with which to meet increasing citizen needs for services. Unfortunately, Rockingham County has been experiencing a declining economy well beyond the current national recession. The proposed budget is lower than the County budget of nine years ago, and County employment is also below levels of nine years ago. The County property tax base has only grown an average of one and a half

percent per year during this same period of time excluding FY 2003-04 when the County conducted the last property revaluation.***

Still, for the most part, the County has been able to maintain priority and mandated services and address major capital needs while maintaining the tax rate. The County has done so through tightening operating margins and improving departmental efficiency and effectiveness through use of performance budgeting and total quality initiatives. Efforts over the past several years to hold and reduce costs have helped put Rockingham County in a position of not having to make such drastic reductions in the recommended budget as some other counties and municipalities are now experiencing. Still, this has been a very difficult budget to develop, as department and agency staff is very stressed dealing with lack of resources and increasing demands for services in many cases. County government, unlike most private business sees increased demands for many services such as law enforcement, child protective services, public health, food stamps and Medicaid assistance during tough economic times.

Table 1

**General Fund Budget
Tax Base and Tax Rate History**

| Year | Tax Base | % Change | Tax Rate | Budget *** | Employees |
|-----------|---------------|--------------|----------|--------------|-----------|
| 2009-2010 | 6,103,353,640 | 1.07 | 71.5 | \$80,318,265 | 649.95 |
| 2008-2009 | 6,038,515,463 | 1.20 | 70.5 | 84,950,506 | 712.05 |
| 2007-2008 | 5,966,867,685 | 0.72 | 68.5 | 91,209,819 | 740.15 |
| 2006-2007 | 5,924,428,387 | 2.48 | 68.5* | 88,211,902 | 738.15 |
| 2005-2006 | 5,781,105,285 | 1.27 | 63.5 | 94,453,330 | 757.72 |
| 2004-2005 | 5,708,714,363 | 0.46 | 63.5 | 88,155,043 | 765.45 |
| 2003-2004 | 5,682,571,802 | 8.38 (Reval) | 63.5** | 83,080,701 | 780.70 |
| 2002-2003 | 5,243,001,622 | 1.80 | 69.0 | 81,294,218 | 778.30 |
| 2001-2002 | 5,150,466,000 | 3.25 | 69.0 | 80,923,764 | 751.25 |

Notes:

*In 2006-2007 the Board enacted a 5-cent Capital Improvement Plan Tax to fund the new Judicial Center (Courthouse, Jail and Sheriff's Office), Emergency Operations Center, 800 Mega-hertz Emergency Communications System, and Western Emergency Medical Services Base. All but the western EMS will be completed by February of 2011.

**In 2003-2004 the Board set a tax rate that was 1.5 cents below a revenue neutral tax rate (65.0) that would have brought in the same tax revenue as the previous year but did not cut County services to correspond with the reduced tax revenue.

***Part of the reduction in the budget and employment was attributable to the Medicaid for Sales Tax Swap with the State and the closing of the County Mental Health Program.

Revenue Overview

The poor economy is severely impacting the County's three primary sources of unrestricted revenue growth: Ad valorem taxes, sales taxes and interest earnings. Inter-governmental revenues from the State and Federal government are also down as well as are fees from services. Projected revenues for the General Fund for FY 2010-11 are shown on Exhibit A to this budget document. Combined, ad valorem taxes, sales taxes and investment earnings are projected to be reduced \$401,140 from the current year.

Ad Valorem Taxes: Ad valorem taxes are the primary source of revenue (55%) available to the County to help balance the budget. Unfortunately the ad valorem tax base has grown less than 1.5 percent per year over the last nine years, excluding 2003-04 when the County last undertook a property revaluation. The tax base is only projected to increase by 1.1 percent next year. This growth is inadequate to maintain basic County services including public safety and public education responsibilities. Additionally, the tax burden is shifting to residential as industry and commercial development have declined. In the past ten years the tax base has shifted from 60% residential and 40 % commercial/industrial to 70% and 30% respectively.

Rockingham County is classified as a Tier One county with Tier Three being the best. Our tax base per capita ranks 81st out of 100 counties in the State and we have only 60% of the tax base per capita of what the average North Carolina county has to provide the same State mandated or desired services.

| Valuation Per Capita | |
|---|-----------|
| 2009-2010 State Average | \$108,451 |
| 2009-2010 Rockingham County | 65,451 |
| 2009-2010 Rockingham Co. Valuation as % of State Ave. | 60% |
| Number of NC Counties with higher Per Capita Valuation. | 80 |
| Source: NCACC Budget and Tax Survey | |

This County once was one of the leading counties in the State in terms of the number of jobs in manufacturing and agriculture. These jobs in textiles, tobacco and agriculture are, for the most part, not coming back. The County must be proactive and look at non-traditional approaches to job growth and position the county to take advantage of the growth that is expected to come to the region in logistics, nano-science, medicine and tourism.

Sales Taxes: Projected sales tax revenues on Exhibit A show major changes from the current year. Last year and this year counties in North Carolina were forced to give up some of their sales tax revenue to compensate for the State taking over all of the County share of annual Medicaid costs. North Carolina is the last state in the nation to require counties to pay a portion of this cost even though North Carolina counties had no control over these expenditures. Counties were also required to "hold harmless" the local school

system and local municipalities for their loss of sales tax revenue (cities paid no Medicaid costs).

Additionally, to get buy-in for the swap from the larger more urban counties, the method of sales tax distribution for the Article 42 ½ cent sales tax was switched from a per capita basis to a point-of-sale method of distribution, which primarily benefits those urban counties. Most large urban counties had a relatively smaller Medicaid burden than poorer, mostly rural counties. (For example, it had cost Rockingham County 11 cents of the tax rate to pay Medicaid while it only cost Guilford County 4 cents of its tax rate).

Interest Earnings: Revenues from interest earnings are expected to decrease as funds mature and lower yields are realized on new investments. Just a couple of years ago the County was generating over \$1.2 million dollars annually from investments. The projected investment revenue for the upcoming year will only be \$351,000. To put this in perspective, this is the equivalent of 1.25 cents of revenue on the tax rate.

Fees, Other Revenues, and Fund Balance: Fees and other revenues are down in many areas of County government. Consequently, we are seeking to eliminate and hold positions open where demands for service are down.

Due to tighter operating margins, we are recommending that normal fund balance appropriation be reduced from \$3 million in the current year budget to \$2.8 million in next year's budget.

The recommended budget for FY 2010-11 uses \$700,000 in non-recurring revenue to balance the budget. The judicial center project is on time and under budget. The law enforcement center should be ready for occupancy in August of 2010 and the courthouse in February 2011. Approximately \$1.9 million in contingency money from this project still remains. Due to extensive planning and good management very few change orders have occurred nor are they anticipated. The bond for this project requires that any of the borrowed money not expended go towards paying the debt on the facility. Consequently, because of this anticipated pay-down in debt, we are suggesting that \$700,000 of money that would have gone into the CIP fund be used to cover the General Fund budget gap. If the Board desires to not use these funds in this manner then further reductions in the proposed budget will need to be found. This gap also strongly points to continued efforts to hold expenses down during the upcoming year to negate this gap if the economy does not improve.

Expenditure and Work Program Overview

The major emphasis for the recommended budget is to hold the line on expenses, finish major projects underway or funded, work on job growth and skills development and continue efforts to improve efficiency and effectiveness of county departments. A summary of the proposed County expenses by department is shown on Exhibit B.

Judicial Center Transition. As mentioned earlier the new law enforcement center, composed of the jail and sheriff's office, will be ready for occupancy in August 2010 and the new courthouse will be ready in February 2011. We are already in the process of transitioning into these facilities and this effort will intensify in the coming months. New jailers have already been hired and have been in training for the transition from indirect supervision to the direct supervision of inmates in the new jail.

The old jail will need to be kept open for eight months during the new fiscal year until the new courthouse is ready for occupancy. Four new jailers will be hired to help maintain the old jail until it is abandoned. These officers will then transition into daytime security for inmates in holding cells in the new courthouse. The County will rent space in the new jail to the US Marshal Service and neighboring counties. We are budgeting conservatively to rent out 25 beds at \$55 per day. The revenue from this rental will more than offset the cost of the new jailers and the anticipated increase in operating expenses for the new judicial center.

Animal Shelter Construction and Operation. The County has gone through more than two years of planning for the development of a new animal shelter. Our planning has shown that the best way to control unwanted animal population and hold costs down is through education, spay and neutering of animals and an adoption program with strong volunteer support. The new shelter incorporates these elements and provides space for our municipalities to participate in the operation of the shelter. The new shelter should be operational in January of 2011. Operational expenses for half a year have been programmed into the budget.

Property Revaluation. The County delayed undertaking a scheduled four-year revaluation in 2007-08 until 2009-10 due to the lack of economic growth in the regional economy. In 2009-10 the national economy went into a major recession and the property revaluation was again delayed. State law requires that real property be revalued at least every eight years, which will be the coming year for Rockingham County. The County Tax Department is in the process of updating property values for the required 2011-12 revaluation. A new schedule of values will be prepared for release in November and adopted by the Board of Commissioners in December of 2010. Notification of revised real property values will be mailed to property owners in early 2011 so that the new property values will be in place for the FY 2011-12 Budget.

The reasons for conducting a revaluation of property are greatly misunderstood. The purpose is not to raise additional tax revenue but to ensure equity in property valuation throughout the County. Over time some areas of the County have experienced greater appreciation of property values. Some areas actually experienced property valuation decline. If a revaluation is not done periodically, many property owners will pay more taxes than they should while others will be paying too little due to the lack of adjustment in valuation. As required by statute, we will calculate and share with the County citizens the tax rate that, based on the revalued tax base, will generate the same revenue had the revaluation not been done and the tax rate had remained the same as the previous year.

Efficiency and Effectiveness. One of the main efforts of the County to improve departmental performance is to establish goals and objectives and measurable outcomes for each service. Next year will be the fifth year that Rockingham County has been working to improve performance through benchmarking. The UNC School of Government has been a partner with the County in training departments on goals, measurable outcomes and benchmark setting. We are now working with the School of Government to encourage other counties across the State to join in a statewide benchmarking initiative so we will have both internal and external benchmarks for comparison. The Rockingham County Performance Measurement Project report for FY 2009-10 is enclosed with this budget document and is available for viewing upon request.

We sometimes hear complaints that there are no incentives for government workers to save money. Rockingham County initiated a gainsharing program three years ago in which participating county departments get to keep a portion of the money they do not spend each year provided certain goals are met. They are able to bank these savings or buy items for their departments that the county has not been able to purchase. This year this program provided over \$300,000 in net savings.

Another major initiative to improve performance is through the use of Lean Management. The North Carolina Industrial Extension Service is helping train county employees in the use of this Total Quality (Six Sigma) improvement tool by working to improve various processes in County government. We find that we have little ability to cease providing most of the services we currently provide, but we can use Lean Management principles to streamline processes and eliminate waste. It is our goal to eventually review all County operations using Lean Management practices.

We are also seeking to work smarter and communicate more effectively through use of technology, automation of systems and imaging of records such that the County is going paperless over time. As we examine our processes we are employing technology to cut costs, extend and enhance work time and eliminate the need for space. The County has recently selected a firm to help redesign the County website to be more interactive and communicative with citizens on county activities. Hopefully, within the coming year the County will have the entire detailed agendas for each meeting available online prior to each meeting.

Health, Wellness and Risk Management. Three years ago the County hired a full time Risk Manager to keep our employees safer and to reduce the County's losses in workers' compensation claims. At the time the County was averaging over 70 claims per year with expenses running \$800,000 - \$1,000,000 per year. New claims are now averaging around 15 per year with expenses of less than \$75,000 per year.

Our Risk Manager has been so successful that we have now tasked him to work to make improvements in the County wellness program in order to improve employee health and productivity. This should also serve to help control our rising health insurance costs, which has been experiencing rate increases of over 10 percent per year. Part of our efforts to curb health insurance costs is to improve the overall health of employees,

dependants and retirees. We started a new employee wellness program in 2008 with an onsite clinic for employees. The clinic allows employees to see a nurse practitioner on site two days a week for acute minor illnesses, but more importantly the nurse practitioner works with employees and retirees to reduce health risk factors in their lives. Eliminating risk factors will prevent illness and lower costs over time and help improve employee morale and productivity. It normally takes three years for a wellness program to begin to show major benefits to an organization. We are very confident that the overall County wellness program will be very successful in helping to hold down health care costs.

Personnel. No raises are proposed in the recommended budget. This will be the third consecutive year without raises of any type for county employees. Due to this fact no furlough days are recommended. The 1% County 401k contribution will be held for a second year. If the economy picks up, I would recommend that the Board consider some type of mid-year, across the board salary adjustment for employees.

There were very few requests for new positions in the upcoming budget year. Departments know that we are still in a downsizing situation and continue to hold open vacant positions for as long as possible. The only department where new positions are recommended is the new jail as per the original staffing plan for the facility. Fortunately, the County will be able to rent out space in the new jail that will cover the cost of these positions and provide revenue to offset increased operating costs. We are recommending a couple of positions be eliminated that are or will become vacant next year. A summary of the requested, recommended and removed positions are shown in Exhibit E.

Capital Outlay. Requests and recommendations for capital outlay are shown on Exhibit G. Only \$706,523 in capital outlay is recommended. Although far more is justified for funding, revenue is simply not available. Priority was given to public safety agency vehicles with over \$471,028 going to fund two ambulances, one emergency services truck and eight patrol cars. The County will utilize some of the unspent communication bond funds to help purchase emergency radios and other emergency equipment.

Education. I am recommending the same level of funding as the current year for both the Public School System and the Community College. Both have needs far greater than the County is currently able or likely to be able to fund in the near future. Additionally, the State of North Carolina is having trouble adequately funding its obligation to the School System and the Community College as well.

The question has been asked if the County can step up and provide funding at the State average and/or make up for the cuts in state funding to school systems. Being a Tier One county with a tax base of only 60% of the State average does not provide Rockingham County with the financial resources to do so without greatly increasing the County tax rate, which our citizens probably would not want the County to do. It is also not wise for the County to try to take over funding for expenses that are clearly State responsibility. However, some time in this coming year the County, the School System and the Community College should consider placing a referendum before the citizens of the

County to see if they would support a quarter percent sales tax increase dedicated totally to fund Public School and Community College capital outlay needs, which are county responsibilities. More and more counties are enacting the quarter percent sales tax to provide these.

Planning for the Future. Stephen Covey identified as one of his seven habits of highly successful organizations what he calls “Sharpening the Saw”. Many times we spend so much time doing our jobs that we fail to look for ways to improve the organization so it can work better. The County is already undertaking many initiatives to improve our processes and outcomes. We also need to take time to think strategically about what the County’s priorities need to be for the next three to five years. It has been several years now since the last County strategic plan. I recommend that the Board consider working with the Partnership for Economic and Tourism Development to develop a new strategic plan to focus County efforts and limited funds to achieve highest priorities to move this County forward towards a prosperous future. Additionally, the County will complete most of the items on the current Capital Improvement Plan this coming year. I further recommend that the County also look at developing a long range Facilities Plan for not only County needs but the Community College and School System as well. These needs should then be incorporated into a new Capital Improvement Plan for the County.

Enterprise Funds. All three of our municipal partners have found it necessary to go up on their utility rates to the County for water and sewer service. Rockingham County currently subsidizes its Water and Sewer Funds and is not in a position to increase these subsidies. Consequently rate adjustments are needed in these utilities. Staff is still working out the details on these rate adjustments. It may be that these new rates will need to be adopted after the main General Fund Budget is adopted to give time to fully consider and publicize these adjustments. The County recently was awarded a State Community Development Block Grant to provide sewer service to thirty-four homes in Wentworth. This project will be finished in approximately six months and will help add new customers to the sewer system. Hobbs, Upchurch and Associates, our consulting utility engineering firm, is exploring the feasibility of extending water service to various parts of the County. The County has invested heavily in extending major water lines in strategic corridors of the county. There are many areas along these corridors where extending water service is both feasible and desirable. I am recommending that the County explore extending water service into these areas where it is feasible to do so.

Our Solid Waste Fund continues to operate well. The recent addition of Reidsville to the Solid Waste Compact with our other municipalities has been very positive and has provided additional waste to stabilize reduced flows associated with the poor economy. The County is gearing up to start an expanded recycling program in the rural areas of the county through the use of mobile recycling trailers. The State of North Carolina has now banned cardboard, plastic bottles, oil filters, wooden pallets and other items from landfills. The County must develop a recycling program to handle these items and to encourage more recycling in general. The County has secured a grant to help offset part of the cost of purchasing the trailers and will begin the expanded recycling program this

fall. The only increase proposed for the landfill is for clean construction material to go from \$19 per ton to \$21 per ton.

Volunteer Fire Departments. The Fire Tax Districts in the county (working with the local Volunteer Fire Departments) are required by State Law to submit their budgets to the County each year and have the Board of Commissioners enact a tax rate sufficient to fund these budgets. Today, we have only a couple of Fire District budgets. The Fire Marshal only knows of one or two Districts that will likely request a tax rate hike. These Districts will need to come before the Board of Commissioners during the budget process to justify the rate increases or be subject to having the current rates adopted for the next year.

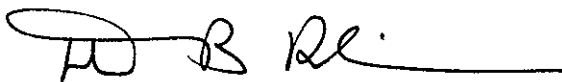
Summary

This year represents another very tough year for not only counties but the entire nation. This is a year we all need to work together to stay within available revenues and do the best we can with what we have. It is a year to survive until the economy improves. With this said it is also a time to be forward thinking and put plans in place to help promote a bright future for the citizens of Rockingham County.

As County Manager I am very proud of the efforts of our departments and our employees. They provide high quality services to our citizens in often very difficult situations. Many of the services we provide are services you hope you will never need to turn to, but hope are there in times of trouble. We also seek to provide a safe environment where businesses and families can grow and prosper. I believe that we have provided a responsible County budget for the coming year that does not raise taxes and helps to achieve the major priorities of the County and mandates of the State and Federal government.

I, my management team and departments look forward to working with the Board in the coming days to finalize the budget for next fiscal year. I would like to especially thank, Mike Apple, Kelly Burton and Adam Lindsay for their solid work to help put this budget together.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'T B Robinson', with a long horizontal line extending to the right.

Thomas B. Robinson
County Manager