

BUDGET MESSAGE
Rockingham County, N.C.
June 1, 2011

To the Rockingham County Board of Commissioners and Citizens:

Enclosed for your consideration is the County Manager's recommended annual budget for Rockingham County for Fiscal Year 2011-2012. The recommended General Fund budget for next year is \$82,623,800 and reflects a 3.5 percent increase over the current year budget. The budget is balanced with a tax rate of 69.5 cents which is a 2 cent decrease from the current year tax rate of 71.5 cents. For the most part, the budget reflects a hold-the-line approach except for the areas of EMS, water and sewer services, new animal shelter expenses and transition expenses for the new Justice Center.

Rockingham County conducted the State mandated revaluation of all real property in FY 2010-11. State law requires that the County publish the revenue neutral tax rate that would generate the same amount of revenue given normal growth from the old tax base. The recommended tax is a 1.31 cent increase over the revenue neutral tax rate of 68.19 cents. The calculation of the revenue neutral tax rate is shown on [Exhibit M](#).

It has been three years since County employees received a salary increase of any type, except for a very few positions where job duties changed significantly. I am recommending a 2 %, mid-year, cost-of-living adjustment for all County employees. We are also concerned that our pay plan has fallen so far behind the market that some of our key department heads and other professionals will leave the County's employ if we do not adjust their pay. I am including a very modest market adjustment for the most market sensitive department head and professional positions.

The County is finishing up major construction activities associated with the Justice Center, 800 mega-hertz emergency communication system, Emergency Operations Center and Animal Shelter. This coming year will be a time to finish remaining Capital Improvement Plan projects, including the western library and the western EMS base. Rockingham County will also continue its efforts to improve efficiency and effectiveness with performance budgeting and lean management review of several County operations. The County will continue its efforts to be more efficient by automating more systems and going paperless with more processes, including the Board of Commissioners agendas. The County will use its recently updated website as a building block to use more social media and other communication techniques to better communicate and have a more transparent government.

We have been in a budget reduction mode for the past nine years. The County's major source of revenue, the ad valorem tax has only been growing at a rate of 1% to 1 ½ % per year while expenses have been growing 3% to 4% per year. Five years ago the County General Fund budget was over \$94 million with 780 employees. In contrast, the recommended budget of \$82.6 million and 658 employees, while a slight increase over the current year, reflects years of belt tightening. I am very concerned that we have tightened certain County operations to the point they are unable to function properly. This situation

needs to be addressed in the coming year. If revenues are going to continue to lag significantly behind expenses, and I believe they are for at least one or two more years, then the Board is also going to need to make some very difficult decisions this coming year as to the level of services to be provided for our citizens. Unfortunately, counties mostly exist to provide State mandated services administered at the local level. As such, the Board of Commissioners has little control in cutting or eliminating many programs or services. Even with the recent property revaluation, Rockingham County's tax base per capita is only 66 percent of the State average. It is very difficult, if not impossible, to provide the services our citizens have come to expect and hold the tax rate down when available revenues are so inadequate.

The [exhibits](#) to this budget provide summary information on expected revenues, expenses, personnel, fees, capital outlay, Fund Balance and fire district tax requests. The following narrative directs attention to the major changes in these areas of the budget. The narrative also discusses future concerns and opportunities for the County.

Revenue Overview

Rockingham County continues to suffer from both the national economic recession and the local economic decline in our agricultural, tobacco and manufacturing base. All three of our major revenue sources (property taxes, sales taxes and investment earnings) remain below historic levels of growth, although sales tax revenue is projected to grow by 4 % in the coming year. For the first time in recent history the tax base value declined 0.64% from the previous year. Investment earnings are expected to decline from \$350,000 budgeted in the current year to only \$100,000 in the coming year. Not so long ago, we used to count on close to \$1 million in investment earnings per year. Interest rates are at near record lows and as County investments mature, they are unfortunately being replaced with extremely low yielding investments. A summary of expected revenues is shown in [Exhibit A](#).

The poor economy has led to a recommended budget that includes another year of lower than normal county fees in areas such as Building Inspections, Environmental Health and Register of Deeds. Over \$400,000 in revenue was projected in the FY 2010-11 budget in anticipation of renting excess space in the new county jail. Because the Sheriff has been unable to rent out space in the new jail to neighboring counties, the State, or Feds for a number of reasons, including a higher than expected jail population, this revenue opportunity has been reduced considerably for next year. There is also additional concern that the State will soon require counties to house all misdemeanor inmates to help alleviate overcrowding of State prisons. Such a move might totally eliminate any revenue generation potential from excess jail capacity that now exists.

In accordance to accounting standards, the County uses the General Fund to sustain most recurring services and costs each year. In accordance to law, revenues must balance with expenditures and be approved by the Commissioners each year. There are some funds that do not operate on an annual basis or follow the same standards, but still follow accepted accounting standards. In 2005 the County General Fund loaned the County's Worker's Compensation Fund \$1 million to stabilize this fund. Since that time the County has made remarkable progress in reducing injuries and worker's compensation claims. This Fund is

now very healthy. I am proposing that this Fund repay the General Fund over a three-year period of time.

Fund Balance. The Finance Director has served the County very well for almost 30 years and historically budgets revenues very conservatively. This, coupled with normal unspent expenditures (most from lapsed salaries), typically yield a surplus of funds at the end of the year. Instead of reducing personnel costs and being more aggressive on revenues, the County budgets a Fund Balance revenue equal to the anticipated gain in Fund Balance that will happen by the end. This past year we appropriated \$2.8 million in Fund Balance as the figure we could safely cover. This coming year we are budgeting \$3 million in Fund Balance. While the two primary sources of the surplus should remain constant, all unspent General Fund dollars feed into this amount and continued tightening of operating margins may cut into this amount.

Even with many years of tight budgets and low revenue expectations the County Fund balance continues to be in fairly good shape at \$13.4 million or 17% of the General Fund operating budget as of July 1, 2010. I would note that the County has two rather large one time contributions to Fund Balance that will improve these numbers. Early in the current fiscal year the County banked a \$922,266 tax settlement with Swift Trucking. We are also expecting a repayment of \$650,000 from the refund of contributions from the Alamance-Caswell Local Management Entity. Neither of these payments is being used to balance the recommended budget for next year. This revenue is being placed in Fund Balance. An analysis of the County's Fund Balance is shown in [Exhibit J](#).

Fire Districts Tax Rates. Just as the County must calculate revenue neutral general property tax rate for the County, it must now also calculate and publish a revenue neutral tax rate for each fire district. The current tax rate and the revenue neutral tax rate for 2011-12 for each fire district is shown on [Exhibit K](#). Each Fire District has been made aware of the new revenue neutral tax rate, but they have not had enough time to consider these rates and their needs for revenue. Therefore, the proposed rates for the fire districts have not been included on Exhibit K yet and will be added as soon as available.

Expenditure Overview

County departments were told to prepare their budgets with little or no expectations of increased revenue to cover increased expenses or for new or expanded services. For the most part, the recommended budget is a hold-the-line budget. On the other hand, each department's expenditures were automatically increased in three areas: General Liability insurance (everyone shares increased liability of adding new buildings), retirement contribution (2nd year of three year required State increases), and Health Insurance costs increases (we project a 7% increase). A summary of the changes in expenses from the current year to the next fiscal year are shown on [Exhibit B](#).

The Board of Commissioners did not ask, nor did I direct, departments to provide cuts to their programs. Rockingham County has been in a very tight budget dilemma for the past nine years. As mentioned above, the average ad valorem revenue increase available to cover expense increases has been only around 1% to 1 ½ % per year. This is far short of the revenue needed to provide employee raises and cover other yearly cost increases.

County departments, for the most part, have been in a downsizing/hold-the-line scenario for many years. We continue to tighten operations and eliminate personnel where possible.

County government services are a mix of essential and useful services, many of which we are mandated to provide by the State. The County is to the point that some departments are spread so thin that they do not function efficiently. Next year, the Board should seriously consider a comprehensive review of all County services in order to analyze how to effectively downsize County operations and services in order to keep the tax rate reasonable. The State of North Carolina provides counties with little revenue flexibility or options other than the property tax. **It is not reasonable to continue to place the major burden for county services primarily on property owners. It is also not reasonable for the Governor to propose passing along State responsibilities to counties with no additional revenue to cover the additional expenses.** In other words, even if you effectively downsize County government and services, the State may simply supplant the gains with additional costs and service requirements. Rockingham County, other counties and our County Commissioner's Association must continue to lobby our State leaders for modernization of our revenue options and a total revaluation of State/County responsibilities for the provision of services to our citizens.

Education expenses for our public school system and the local community college comprise 24% of the General Fund budget but 41% of the anticipated property tax revenue in the recommended budget. Even though the County School System is experiencing major reductions of funding from the State, they understand that Rockingham County is also hurting financially and has no additional money to provide for education. To their credit, the School System has not asked for a funding increase, nor is one proposed in the Manager's recommended budget.

It remains to be seen if the State will continue to take traditional local school funding sources such as average daily membership (ADM) funds and Lottery proceeds to cover the State budget deficit. Many counties, including Rockingham County, have pledged these revenue sources to cover debt service payments. The situation with the State will need to continue to be monitored closely. We need to continue to communicate with our State legislators to keep them informed of the local implications State budget balancing options may have on the abilities of counties and school systems to provide reasonable levels of education to our children. Our School Capital Reserve Fund is already in a deficit due to the State taking ADM funds. We are currently using CIP Reserve Funds to cover this deficit. Unless ADM funding is restored by the State, then Rockingham County will likely face a deficit in both funds in two years.

Rockingham Community College asked for a 5 percent funding increase to cover increases in their operating expenses. No increase has been recommended. The College has also identified major capital expenses that need to be addressed. The College has requested an \$850,000 increase in funding to begin to address their most pressing capital needs. No increase has been recommended to cover these capital outlay needs. The needs of the Community College are too extensive to be met with annual General Fund appropriations. I recommend that the Board consider meeting with the Community College to review their capital needs and consider a debt financing plan to address these needs. These needs should be worked into a new Five-Year Capital Improvement Plan.

Pending Needs

As discussed during the budget workshops, this budget attempts to meet the emerging needs and costs associated with operating the new Justice Center, opening and operating the new Animal Shelter, and to address serious issues in the provision of services to our citizens by EMS and the three area Rescue Squads. There are also issues in the County's water and sewer utilities that are addressed in the budget.

Justice Center. The County has added over 100,000 square feet of new space in the new Justice Center that must be heated, cooled, and maintained, including the outside grounds. Additionally, the County is now providing increased security screening of people entering the courthouse and security in the expanded number of courtrooms and courtroom inmate holding cells. These costs add over \$300,000 to the County's annual operating budget. In addition, the County added 6 additional jailer positions and 4 bailiff/holding cell guard positions during the current year. These positions will need to be funded for a full year in next year's budget. The State of North Carolina has increased the fees it charges counties to house youth offenders from \$89 per day to \$122 per day. This one action alone will cost Rockingham County at least \$30,000 in additional expense next year. Furthermore, what to do with the existing courthouse and how to maintain it will all be issues that come before the Board and cannot be totally anticipated at budget time.

Animal Shelter. Rockingham County has never operated its own animal shelter until now. The County had to build its own shelter when the privately operated shelter we had used for years was slated to be torn down to make way for the widening of Freeway Drive in Reidsville. After considerable study and investigation, the Board voted to build a modern animal shelter that would include an adoption center and spay and neuter clinic, believing that these features plus responsible pet ownership education would help save the taxpayers money over the long run. The County will look to partner with the UMAR Opportunity Center to employ their clients and will seek to also partner with local animal protection groups to staff and run the adoption center. The estimated increase to run the new shelter is \$232,000. Revenues generated by services and our municipal partners will partially offset this expense. Additionally, \$114,000 in annual debt service cost for the shelter is recommended to be paid from Capital Reserve Fund revenue. At the time of preparing this budget, we are preparing additional information and will request additional staffing to meet the tremendous demand that has accompanied the shelter's opening. We are worried about staff burnout and giving the Director enough people so that he can focus on the fundraising and community awareness components of his job.

EMS/Rescue Squads. The County's EMS service has become increasingly stressed by a call volume which continues to grow, limiting the availability of County ambulances to respond to emergencies which may occur at any time and without warning, day or night, seven days a week. Because of this growing volume, the number of times daily that the County EMS is down to one or no ambulances has increased. To address these situations, our three voluntary rescue squads in the County are engaged to provide back up to County EMS. The County's increasing call volume also stresses our voluntary rescue squads by making it more difficult for them to respond as back up to County EMS and to meet their primary mission of rescue and being first responders. Additionally, the heavy call volume

reduces down time for County EMS crews who staff 24-hour shifts at our Eden, Mayodan and Huntsville EMS bases.

Our rescue squads requested that the County approve a one cent Rescue Tax to allow these squads to have adequate funds to put on paid personnel. If granted, they offer to provide back up service to County EMS and to support their ability to handle requests for rescue and first responder calls. In response to this request the County hired Mr. Steve Allan, with Solutions for Local Government to study the needs of both the County rescue squads and the County EMS. After extensive study Mr. Allan recommended that the County add two advanced life support (ALS) ambulances, add one basic life support (BLS) ambulance, provide over \$220,000 in additional revenue support for the rescue squads and change the Eden EMS base from 24-hour shifts to 12-hour shifts. Mr. Allan also recommended that the County hire a Scheduler for non-emergency and convalescence calls among other recommendations. The cost for implementing these changes would be well over \$1.5 million.

I think most people would agree with most of Mr. Allan's recommendations but the County simply does not have the money to fund the full recommendations of his study. Nor is there support to impose a one cent tax dedicated just for our rescue squads. This is a very difficult issue that involves important public safety for both our citizens and our EMS workers. After considerable study and consultation with many people I am recommending that the County provide \$30,000 in additional funding to each rescue squad to allow the hiring of part-time personnel to better allow them to provide rescue and first responder coverage. This additional \$30,000 in County support will bring each rescue squad support from the County to \$62,000 (\$186,000 in total support for the three rescue squads).

As for the County, I am recommending that the County put on an additional 12-hour, seven day a week BLS ambulance and add two hours to the existing County BLS ambulance that is now operating with part-time employees 10 hours a day five days a week. I am also recommending that the County hire a person to schedule non-emergency BLS and convalescent calls with nursing homes, hospitals, etc. to lessen the likelihood of using our ALS ambulances for non-emergency calls. I would further recommend that the County work with Morehead and Annie Penn Hospitals to develop a dedicated ALS service, either County or private, to handle hospital to hospital transfers. I have added \$319,000 to the budget to hire four additional emergency medical technicians, a schedule coordinator and the purchase of one basic level equipped BLS ambulance.

One of the options considered was to privatize convalescence calls in the County. At least three private firms have requested franchises to provide this service. I am not recommending privatization for three reasons. First, our analysis shows that the County makes money on these transports (over \$200,000 a year) that is used to offset the expense of providing ALS paramedic services. Second, the employment of a scheduler should greatly reduce the number of times the County is down to one or no ambulances and three, keeping these BLS ambulances under the County will provide a training program and career ladder for paramedics. One of our worst personnel problems is finding Paramedics.

Our EMS Director, Mr. Stewart has stated his recommendation that his personnel discontinue 24-hour shifts. This change would reduce the potential for fatigue resulting from long hours and heavy call volume. He further states that the base most in need to convert to 12-hour shifts is the Eden base. The cost to convert this base to 12-hour shifts for the crew and supervisors is \$235,000. I have not included funds for this conversion in the budget even though such a change would be justified. Instead, I would like to see what impact adding the BLS ambulance will have. I am also hopeful that we can work out an agreement with the two County hospitals to take some of the call volume off our bases which would lessen their stress. Mr. Stewart has also strongly urged that the County fill the Assistant Training Officer position that has been held vacant for two years. I agree with his assessment of the need to fill this position and have appropriated \$56,500 to cover salary and benefits.

Water and Sewer. The State of North Carolina has mandated that all public water and sewer utility systems develop master plans for operations and capital needs. This past year Rockingham County retained Hobbs and Upchurch Engineers to develop a Master Water and Sewer Plan for the County partially in response to this mandate and to gain better insight into our water and sewer system needs and opportunities. This plan has revealed several areas in both our water system and our sewer system that need major upgrading in order to stay in compliance with State law. Funding has been included in the budget to implement the first phase of the State required improvements to both systems. The County has funding left over from the US 220 Water and Sewer project that will be used to cover some of the expenses. Some of the needed improvements will serve the new Justice Center and will be paid from unspent funding from this project.

The Master Plan has also identified areas of the County where public water and sewer service is needed and feasible for expansion. The County has developed the backbone of major water and sewer lines and should now look for opportunities to build infrastructure to serve residents and businesses along these lines to meet their utility needs and to gain revenue to reduce the County General Fund subsidy to these utility systems. The County has reached the point where it should consider, in the coming year, hiring a full-time civil engineer to oversee operation and expansion of the County's water and sewer systems.

Capital Funding/Deferred Needs. The requests for capital outlay and the manager's recommendation for funding are shown on [Exhibit G](#) to this message. I would note that even though the County's available revenues have been inadequate for several years, we have tried to make sure we fund the most pressing capital needs of the County. Still, we are falling behind in our ability to maintain our fleet, IT systems, etc.

The Board should carefully consider the Capital Improvement Plan that was put in place several years ago to fund the Justice Center, Emergency Operations Center, Western EMS base and the Emergency Communications System. The recommended budget proposes moving two capital projects to the CIP fund: Animal Shelter and Reidsville EMS Base. Hopefully, we have been conservative in the growth of these funds and if tax base or interest rates improve, these funds will accumulate in excess of what are needed to pay the debt service on the mentioned capital projects. The County can use this money to reduce the general property tax rate or use it to establish another Five-Year Capital Improvement

Plan covering other needs of the County. Such a plan should be developed in conjunction with the development of a Ten-Year Major Facilities Plan.

Continued Efforts to Improve Efficiency and Effectiveness. It is very difficult to provide State mandated services and other services at a level our citizens expect when, after property revaluation, we only have a tax base that is 66 % of the State average. If Rockingham County had the State average tax base of \$105,000 per capita instead of its \$69,300 per capita tax base, then the County tax rate would be 43.5 cents to provide the same level of services recommended in this budget. Rockingham County simply does not have the revenue most counties have to provide services. Unfortunately, the County also has very little flexibility in the services it provides or the revenue it can generate to provide them.

The County will continue its efforts to improve efficiency and effectiveness by continuing to work with departments to establish and refine goals and realistic outcomes for services with both internal and external benchmarks. A pay-for-performance employee evaluation and reward system should also be implemented this coming year. The County should strongly consider expanding the use of Lean Management to review all County operations to streamline systems and eliminate wasted time and effort. A full-time Lean Management expert on staff will return at least six times his or her expense in annual savings for the County.

Personnel. Most County employees have not had a raise of any type in over three years. A 2 % mid-year cost of living adjustment is proposed. This adjustment will cost \$290,000. I am also including \$60,000 to provide a 1/7 step to the market rate for certain department heads and market sensitive professional positions that are most behind our competitors for their services. These positions are most vulnerable to move to other counties and entities that are paying much higher than we are for their skills. Losing and then having to recruit, often at much higher salaries, and then retrain key department heads and professionals is very expensive and disruptive to our ability to provide services to our citizens.

There were 17 EMS related positions requested in the coming year budget. As previously stated, I am recommending only six of these positions in the budget. There were only five additional positions requested by other departments. Four of these positions are recommended in next year's budget. Six positions are proposed to be eliminated. A summary of these position requests and changes are shown on [Exhibit E](#).

Rockingham County has developed a wellness program and clinic for employees to help improve employee health and limit health risks. The program resulted in the County only having a 4 % increase in health insurance costs in the current year. We have historically budgeted at least a 10 % annual health insurance cost increase. Due to the success of the wellness program and clinic we are only budgeting for a 7 % increase in health insurance costs for the coming year. Still, this increase amounts to over \$480,000 in additional expense. A large portion of this increase is for retiree health insurance which the County is responsible to pay.

Summary

This has been another very difficult budget to develop. The recommended budget does contain a very modest 1.31 cent tax increase in order to balance the budget. The major initiatives and changes from the current year have been highlighted. There were many needs and requests left unmet. There simply are not enough revenues available to do the things that are mandated or desired by our citizens.

I have a major concern that in this time of very limited resources, Rockingham County will retrench instead of taking bold steps needed to help promote prosperity, job growth and a stable tax base. The Partnership for Economic and Tourism Development and the Reidsville Area Foundation recently hired Dr. James Johnson with the UNC School of Business to do an assessment of the County and to help determine the most important things that the County as a whole needs to do to promote a prosperous future. These six areas are as follows.

- Develop sustainable community economic development strategies – rebrand Rockingham County as a sustainable community,
- Embrace diversity and make talent recruitment a core element of the sustainable community economic development re-branding effort,
- WEB based re-branding and marketing strategy,
- Re-engineer K-12 education – especially around intellectual entrepreneurship,
- Nurture and grow the local elder care economy, and
- Aggressively pursue regional collaborations.

These recommendations will take bold and community-wide thinking and effort to bring about, but they are so important to reversing the downward course the County is on now. The County government has a leadership role in helping to bring about these strategies through responsible budgeting. The easy thing to do is to retrench, but the thing that is needed most is to invest in the county's future with responsible budgeting.

I would like to thank all of our county departments for understanding the very poor economic conditions this County is in and in working with my Finance and Budget staff to develop a responsible but very conservative budget. I especially want to thank Mike Apple, Kelly Burton and Adam Lindsay for their hard work to develop this budget. We look forward to working with the Board to answer your questions and make adjustments to the recommended budget as you desire.

Respectfully submitted,

Thomas B. Robinson
County Manager