

Managers Recommended Budget – FY2015

Rockingham County, North Carolina

Budget Message to County Board of Commissioners – May 29, 2014



TO: Board of Commissioners
FROM: Lance Metzler, County Manager
RE: Budget Message Fiscal Year 2014-2015
DATE: May 29, 2014

I am pleased to present the recommended Fiscal Year 2014-2015 budget that is balanced and in conformance with North Carolina law. The budget is in compliance with state statutes, Generally Accepted Accounting Principles (GAAP), and aligned with the priorities and direction given by the Board of Commissioners.

The purpose of the County's annual budgetary process is to develop a fiscally sustainable plan that enables the organization to accomplish the goals and objectives established by the governing body in a concerted effort with leadership from all departments and agencies. The budget has therefore been formulated to support our long-term vision to *provide the best quality of life educationally, economically, and environmentally*. The difficulty often lies in balancing the requirements of a responsive government, low property taxes, and financial strength and stability while still offering the highest levels of service possible.

One of the major components utilized in the development of the annual budget are the goals and objectives created during the County's annual strategic planning process. This year marks the third consecutive annual strategic planning process for Rockingham County. During the 2014 strategic planning retreat, the Board of Commissioners clearly defined a vision for Rockingham County which also resulted in the fine tuning of our mission statement. As the Board reviewed the past three years of planning, a consensus was reached in recognizing four specific areas that consistently appeared in previous strategic goal setting efforts. Our vision, mission, and strategic focus areas serve as a foundation in all efforts including the budget process and are outlined as follows:

Vision: Provide the best quality of life educationally, economically, and environmentally.

Mission: Rockingham County will provide the highest quality of life and the opportunities to achieve it.

Strategic Focus Areas:

- Economic Growth
- Fiscal Sustainability
- Customer Service
- Efficient and Effective Government

I feel confident that the recommended budget outlined in this document will provide the best possible services to our citizens through a lean and balanced approach of meeting operational requirements and expectations. This budget document should serve as a guide for our citizens in providing insight into Rockingham County Government operations and activities.

ROCKINGHAM COUNTY BUDGET FISCAL YEAR 2015:

This fiscal year presented many challenges often times requiring difficult decisions and new ways of approaching our operational tactics in an effort to follow the County Commissioners' direction to not expand services but rather seek out new opportunities to be as efficient as possible without increasing the current tax rate. With this in mind, I asked the departments to incorporate into next year's work plans and budget requests measurable goals and objectives to support the strategic focus areas established by the Board of Commissioners.

The budget process formally began in February at which point I requested that each department hold-the-line on expenditures as much as possible to not only maintain the current tax rate, but to also free up dollars that could potentially be redirected to programs or other expenditures. After the initial budget requests were submitted to the budget team and calculated, we arrived at a budget deficit of \$10.1 million.

Primary factors contributing to the initial deficit included an increase in personnel costs (salary + benefits) due to last year's COLA; a projected 4% increase in health insurance premiums; increased cost due to the additional personnel included as a result of the consolidated 911 Communications budget; and an increase in the operational cost of the Library budget due to new buildings and consolidated services.

Regretfully, I was unable to recommend a COLA this fiscal year given the current budgetary constraints. Additionally, some departmental budgets show an increase overall, but for most departments the recommended budget is an overall decrease. This budget contains no increase in revenues, therefore these costs were balanced by:

- Reducing operating costs across other departmental budgets,
- Reducing Worker's Compensation Insurance premiums charged to departments,
- Reducing Contingency, and
- Increasing Fund Balance appropriations for anticipated unearned incentives on various economic development agreements.

REVENUE (Exhibit A)

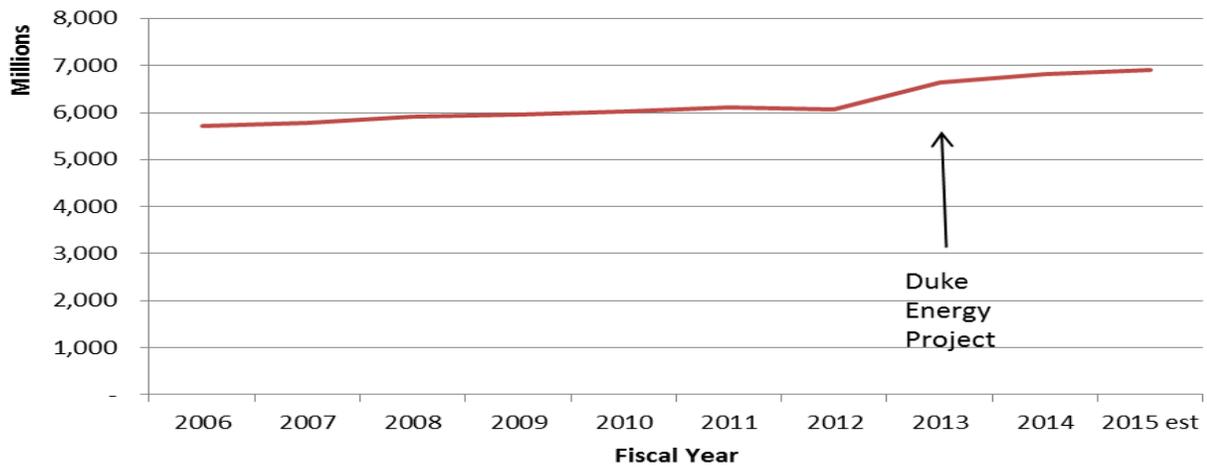
Revenues come with varying degrees of strings attached. Some revenues are restricted in that they can only be used to offset the costs of specific programs or services. Major unrestricted revenues are, therefore, extremely important because they yield the most flexibility and discretion in strategic allocation.

Ad Valorem

The total recommended General Fund budget is \$87,780,251, which represents a 0.15% decrease over FY 2014. In FY 2015, I am projecting a 2.86% decrease under last year's budgeted ad valorem revenues mostly due to the elimination of one-time revenue that was anticipated in FY 2013-2014 when the Motor Vehicle tax billing and collection process was switched from the County to the State that enabled Motor Vehicle billing and collection to occur at time of tag renewal rather than four (4) months in arrears. In FY 2013-2014, this one-time revenue was set aside in a reserve line item in the budget so that operating costs were not funded by this one-time source of funds. Therefore, a reduction in FY 2014-2015 expenditures will be seen for this item. Real and Personal property values growth is projected at .20% (based on prior year growth) and Public Utility values are projected to decline by 5%. This translates into a net reduction in taxable property values thereby contributing to the net reduction in Ad Valorem tax revenue for FY 2014-2015.

The total taxable property value for FY 2014 - 2015 is estimated to be \$6,890,700,277 and is comprised of real and personal values of \$6,231,537,683 and motor vehicle values of \$659,162,594. The recommended budget maintains the ad valorem tax rate of 69.6 cents per \$100 of property value. In accordance with the North Carolina Local Budget and Fiscal Control Act, the collection rate as reported in the most recent audited financial report must be applied to the gross levy and the result of that calculation is the amount that can be included in the new budget. Collection rate of 98.16% has been applied to the real and personal category. The change in billing of Motor Vehicle taxes and the delay in implementing that change this fiscal year have created uncertainty across all North Carolina jurisdictions in projecting this revenue for the next fiscal year. Although a collection rate closer to 100% is being achieved, the rate is derived from the tags that are actually renewed and not by the total number of tags that received an invitation to renew. The percentage of non-renewal or delayed renewals is still a number that we are unable to trend and predict over a full twelve month period. The best predictor of revenue that we have at this point in time is the actual remittances of Motor Vehicle Tax revenue that has been received from the State over the four month period of January 2014 through April 2014; therefore the recommended budget includes FY 2014-2015 Motor Vehicle Tax revenue of \$4,262,500, which is a 3% increase from the prior full year County billing of Motor Vehicle Tax. One penny on the tax rate generates approximately \$672,930.

ROCKINGHAM COUNTY, NC TAXABLE ASSESSED VALUE TREND

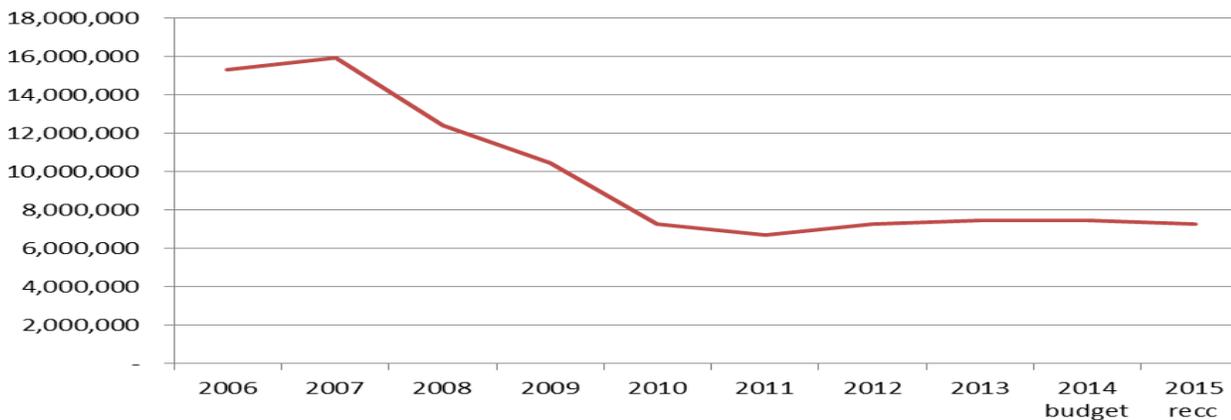


Sales Tax

A portion of the sales tax revenue is restricted by general statute specifically for school capital needs and is recorded directly into a reserve fund designated for the approved purposes. The remaining amount of sales tax revenue is unrestricted intergovernmental revenue and represents our second most significant source of discretionary funding.

For the first several months of the current fiscal year, sales tax revenue growth was not achieving the projected budget with the point of origin portion showing a .41% year to date growth and the per capita portion showing a 2.15% year to date growth. We will remain conservative next year, projecting an increase of 1% and 2.5%, respectively, over the FY 2014 budget. The local portion of the sales tax is 2.25 cents and the State sales tax rate is 4.5 cents for a total of 6.75 cents pending no other sales tax changes by the General Assembly.

ROCKINGHAM COUNTY, NC SALES TAX REVENUE TREND



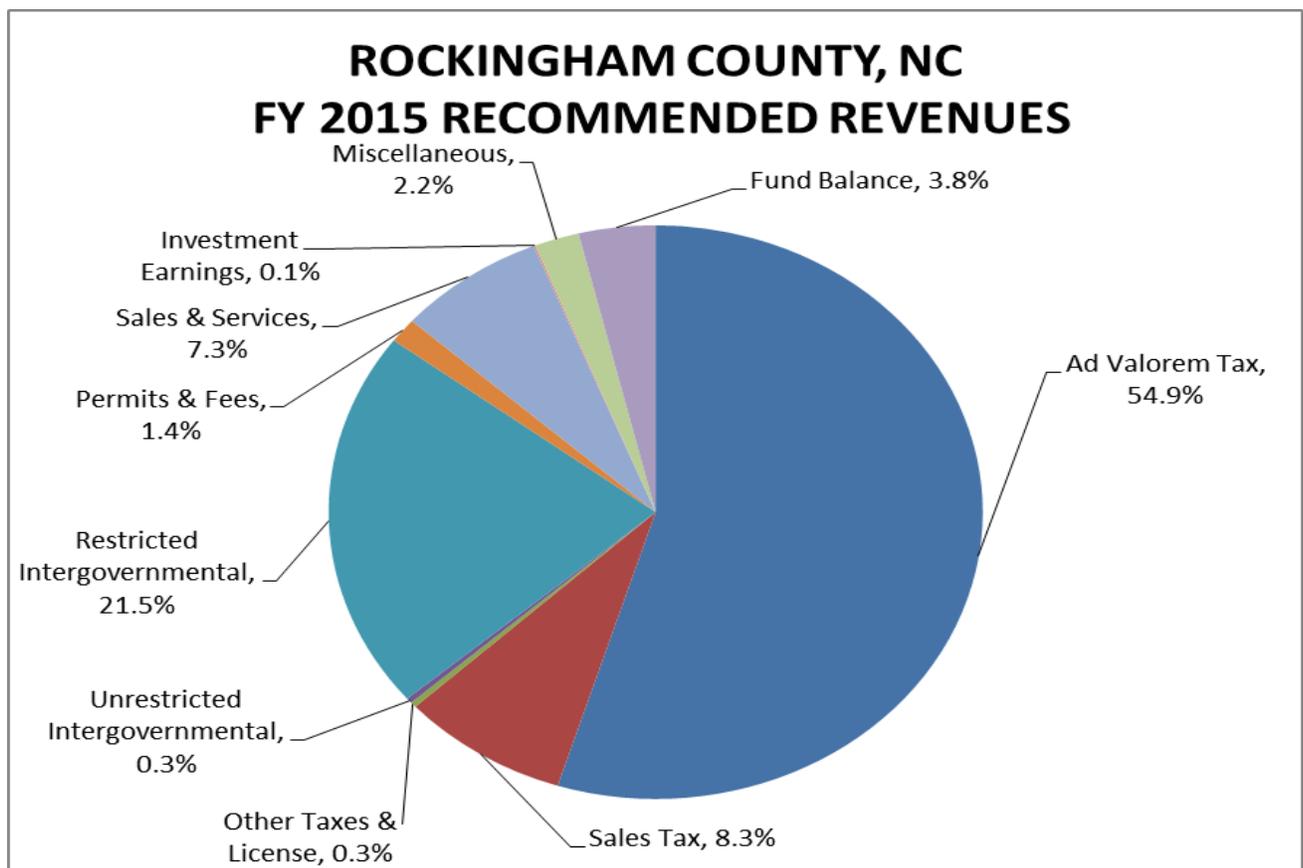
Other key revenue changes

- 1) **Tax Discount** given for early payment of taxes is recommended to be discontinued. This would increase revenues by \$200,000. In periods of higher interest rates, the loss in revenue due to the 1% discount is able to be made up by investing the funds that are paid in advance. With interest rates continuing to be held at historically low rates, the County is on average able to achieve interest rates in the .35% range which is far short of the 1% discount rate.

NOTE: After the recommended budget was finalized, it was determined that significant time and effort is needed to re-program the Tax Billing software in order to discontinue the Discount calculations. Therefore, it is not feasible to discontinue the Discount for FY 2015, but I do recommend that it be considered in future budgets.

- 2) **Methane Gas Operation Revenues** have been decreased by \$100,000 and is based on the actual activity seen in this revenue stream since the project became operational a few months ago.
- 3) **Charges to Other Funds** is the reimbursement from the Enterprise Funds (Water, Sewer and Landfill) for the indirect costs of general government services provided to those funds. The amount is derived from the most recent Indirect Cost Plan and is 9.1%, \$17,000, higher in FY 2015.
- 4) **Cell Tower Leases** in the amount of \$37,200 is new revenue in FY 2015 and is from cell phone companies that are leasing space on County owned towers in order to locate the equipment needed to enhance cell coverage within the county.
- 5) **PSAP Municipal Fee** in the amount of \$113,801 is new revenue in the FY 2015 recommended budget. This revenue is in accordance with the inter-local agreement between the County and the municipalities within the county where a portion of the new Consolidated 911 cost of operations will be reimbursed by contributions from the municipalities.
- 6) **EMS** fees are on target to meet the current year projected budget; therefore, no significant increase or decrease is projected in FY 2015.
- 7) **E-Rate Funds** are included in the FY 2015 budget; however, this revenue offsets a budget increase in the Library operations. Historically, the service provider for eligible E-Rate activity received the E-Rate funds directly and billed the County the net amount. Starting in FY 2015, the County will directly receive this revenue and pay the service provider the gross amount for the service.
- 8) We increased the payback of general fund dollars from the **Workers Compensation Fund** from \$150,000 to \$300,000. Several years ago the County established a Workers Compensation Fund and annually budgets dollars to it to ensure a safety net to cover the unknown costs to pay for claims in any given year. The success of the programs have been well documented and it should be noted again how much more difficult it may have been for the County to find dollars to cover work related incidences had the improvements not been made. In FY 2013, the County began a three year payback to the General Fund to refund the startup funds that the General Fund contributed to the Workers Compensation Fund. Due to a large claim and potential liability in FY 2014, we ensured that the Workers Compensation Fund would have sufficient funds available for claim costs by cutting in half the reimbursement to the General Fund. The large claim has been settled and paid out; therefore, in FY 2015 we are able to increase the reimbursement amount back to the original amount planned.

- 9) **Interest Earnings** continue to drop due to the continuation of historically low interest rates. A further reduction in revenue of \$30,000 is included in the FY 2015 recommended budget which is being offset by lower bank fees for lockbox services. Compensating balances are being utilized in order to earn a higher interest rate that is then applied toward the lockbox service fees.
- 10) **Fund Balance** in the amount of \$3,348,622 is included in the FY 2015 Recommended Budget. This is \$261,622 or 8.4% more than in the FY 2014 Adopted Budget. This is comprised of a) the expected unspent funds (surplus) due to the nature of budgeting, b) Health and ROD Escrow (restricted funds) being appropriated in the FY 2015 budget, c) the recommended purchase of 6 new stretchers for EMS, and d) anticipated unearned incentive dollars by Duke Energy and other various economic development project agreements.



EXPENDITURES (Exhibit B)

Positions

In accordance to the Board's wishes to hold the line and not expand services or operations next year, I did not recommend approval for 7 of the 9 positions requested in the general fund budget (See [Exhibit D](#)). Funding of all of the positions would have added over \$400,000 to the budget. The Public Health Department budget request included a reduction of one position. The landfill position that was approved does not include any County dollars. The Permanent Positions page in Exhibit D shows a historical view of approved positions by department. A summary of the each position request is as follows:

- 1) **911 Communication** added 8 new positions during the last quarter of the current fiscal year to meet the staffing requirements of the new 911 Consolidated PSAP. The FY 2015 recommended budget includes the entire costs of these new positions for the full fiscal year.
- 2) I did not recommend adding the three **EMS** positions requested.
- 3) I did not recommend adding the one **IT** position requested.
- 4) I did not recommend adding two positions to the **ROD** budget.
- 5) I did not recommend adding one position to the **Sheriff** budget.

Other than the one position in the Health Department mentioned above, there are no FTE position reductions included in my Recommended Budget.

Employee Pay

Due to the very tight budget constraints created by increasing operating costs and flat revenue growth, for FY 2015 I am unable to recommend a Cost of Living Adjustment (COLA) for the employees. Because we held the line as far as increases yet have not reduced the expectations in services and outcomes, we are asking everyone to continue doing more with less. One of the biggest challenges we face is salary compression in that recent hires are often making the same or sometimes greater salaries than tenured employees. Continuing to proceed down this path of not addressing the stagnant salaries of our tenured employees, the problem will increasingly be difficult to resolve. I have included in this recommended budget that we continue utilizing the mechanism of studying 1/3 of our positions which also includes certain market sensitive positions in efforts to ensure that salaries remain competitive against regional communities against whom we compete. Total cost projections and timing of the implementation has yet to be determined as the details of the study have only recently become available for our review and consideration. As a result, we have included our best estimates of amounts anticipated to fully implement and cover the final cost as presented.

Capital

Funding capital needs (*purchases of significant value that have a useful life of greater than one year*) is an aspect of the budget that demands careful consideration during the review process. Some capital needs are predictable based upon consumable life cycles for vehicles, computers, and other large ticket items. To remain in-line with how we have historically addressed capital needs, we reviewed the past five years of budgeted capital outlay totals by function as presented in [Exhibit F](#). It is not uncommon to see fluctuations in capital from year to year and many capital requests are typically not funded. In recent years, we have requested that departments present all of their capital needs in efforts to build a more predictable cycle overall. This in turn allows us to make the best possible decisions on an annual basis rather than reactively appropriating funds mid-year for capital expenditures that could have possibly been avoided if properly planned for during the budget development process.

This year's capital request amounts to approximately \$2.4 Million ([Exhibit C](#)) which includes approximately \$1.2 Million in capital funding.

- 1) **Sheriff Department** has been given \$350,000 to use towards the purchase of 10 or more vehicles. Our approach historically has been to allot a total amount in turn allowing them to maximize it for their vehicle needs. They requested a total of 13 vehicles across several functional areas. They also received funding for 10 replacement radios. **The Jail division** has been given \$30,082 for the purchase of a new vehicle.
- 2) **Emergency Medical Services** recommendation of over \$438,000 was comprised of two new ambulances, one supervisor's truck, 6 new stretchers and 3 protective EMS apparatuses. Our normal vehicle replacement schedule is to purchase one new and one remount ambulance each year. However, industry best practices warn not to have fleet where the number of remounts exceeds the number of new vehicles. Due to the age of the existing 12 stretchers, we must begin replacing them for safety reasons. I am therefore recommending replacing ½ of them (6 stretchers) with the use of fund balance. The other 6 will be replaced over the next three years as part of the purchase of new ambulances. Moving forward, I recommend that a new stretcher be purchased with each new ambulance which will allow for this equipment to enter into a rotational and predictable schedule allowing for regular replacement with annual resources rather than addressing with one time large purchases in future years.
- 3) **EMS Management** requested over \$361,007 in capital needs. Funding was limited to only \$6,300 for the required firmware upgrade to Motorola Radios.
- 4) **Engineering and Public Utilities** requested over \$561,000 in capital needs. Funding was limited to only \$65,600. The largest amount is a \$55,000 equipment allowance for the repair and replacement of security equipment across county buildings that have camera, badge system, audio/video, and PLC control technology. Two smaller items are \$5,600 to demolish the old Magistrates building and \$5,000 to repair the roof flashing at the Old Wentworth School building.
- 5) **Information Technology (IT)** requested \$106,000 in capital needs and I am recommending an amount of \$96,500 which includes the normal allowance for workstations, monitors, docking stations, adapters, and printers but also includes \$65,000 for upgrade of the County's voicemail

system, \$12,000 network upgrade to the Library Admin office and \$5,000 for FRT recording software.

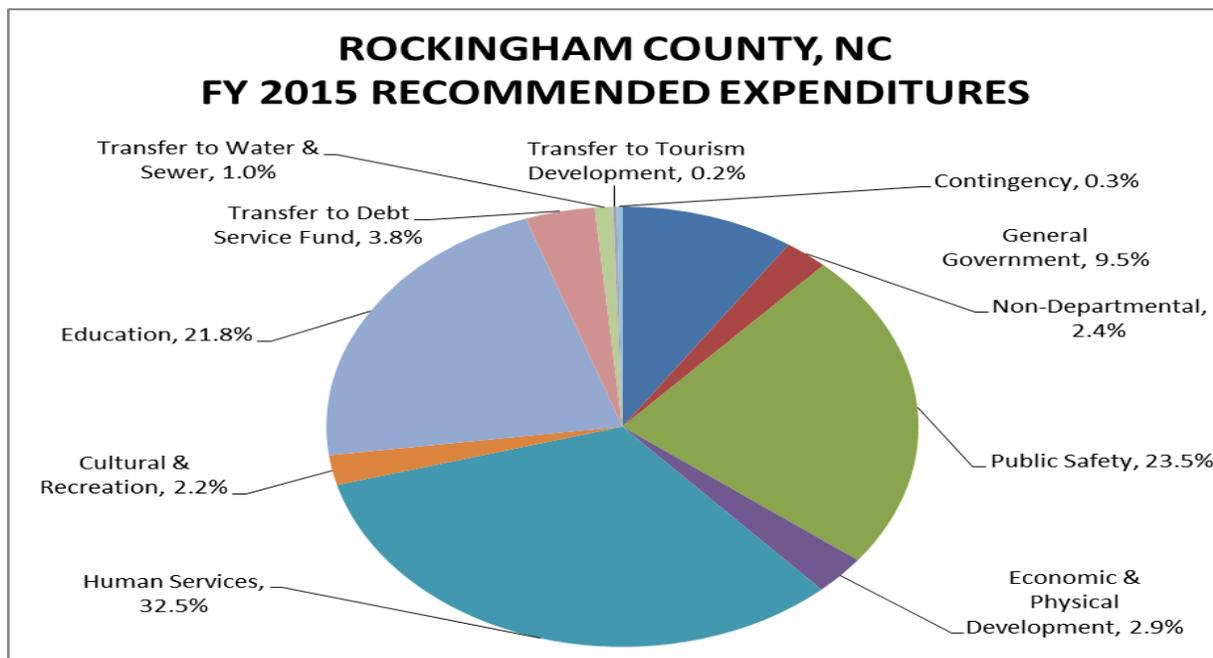
- 6) **Library** requested over \$102,000 in capital needs. Funding was limited to \$47,710 for the needed roof repairs at the Eden and Reidsville Library branches.
- 7) **Public Health** was given \$107,250 with the majority of the approved funding being non-County dollars.
- 8) **Water & Sewer** capital and operations, although on the Enterprise side of the ledger, continue to be subsidized by the General Fund. As a result, the \$36,215 capital needs I recommend funding should also be noted.

NOTE: Replacing vehicles is a significant piece of the total capital outlay request each year ([Exhibit E](#)) and the county is in the process of reviewing and improving how we manage the fleet for vehicle replacements. In the absence of an improved fleet management system we review each request as best we can with priority being given to public safety needs. We attempt to reuse vehicles and minimize replacements as much as feasibly possible.

Other significant expenditure items

- 1) For budgetary purposes, the **Health Insurance** rate that will be charged to county departments must be estimated five to six months prior to the plan renewal date and prior to being able to obtain firm renewal rates from the insurance carriers. Preliminary discussions with our insurance broker indicate an 8.8% increase to stay fully insured and a 4.0% increase if we switched to self-insured. A rate increase of 8.8% does not seem justified when the key indicators are examined; therefore, we have directed the broker to take the County's plan out for bid to see if a fully insurance plan can be achieved at a lower rate. We are prepared to move forward with a self-insured plan if the fully insured quotes do not return better results. Therefore, a 4% increase in health insurance premiums has been included in the recommended budget.
- 2) The **Rockingham County Board of Education** has requested a 27.16% increase (\$4,300,000) in their Current Expense allocation this year and has asked for no increase in the Capital Outlay funding. This is the year that the restricted revenues from the State fall short of the existing debt service requirement on School debt. I am recommending that the Current Expense funding remain the same as FY 2014 funding in the amount of \$15,834,840 and that the Capital Outlay funding be funded at \$882,525. This is a reduction of \$269,000 which will enable the county to meet the debt service obligations with the restricted revenue sources available in FY 2015. As it stands, we are facing the fifth consecutive year of diminished revenue from the State. We continue to ask the legislators to fully fund the statutory requirement of Lottery Funds so that we can meet our existing debt obligations. Our existing project debt service schedule indicates that beginning in FY 2014-2015 through FY 2018-2019 a gap of \$2.46 Million will need to be addressed. Possible options to meet this need would either be an ad valorem tax rate increase or the adoption of the Article 46 one-quarter cent sales tax rate.

- 3) **Rockingham Community College** requested a 4.17% increase (\$90,348) to their current expense and a 500.00% increase (\$1,125,000) to their Capital Outlay. I am recommending that the Current Expense and Capital Outlay funding remain the same as in FY 2014 of \$2,164,473 and \$225,000, respectively. Their capital needs far exceed our ability to adequately fund on a year to year basis. I recommend that the Commissioners explore options related to an Article 46 one-quarter cent sales tax that might be used to help pay for some of these and other public school capital needs.
- 4) The General Fund continues to subsidize the **Water and Sewer Enterprise** funds at \$405,541 and \$443,398 respectively. We continue to make it a priority to explore options that move us closer to sustainability in these operations in the coming year.
- 5) This recommended budget includes a **Contingency** amount of \$250,000, a reduction of \$50,000 from FY 2014. These funds are used when things occur during the year that are not or cannot be anticipated to happen and require immediate attention. These funds also cover items we delay now to address in future years but discover during the current budget year they have to be addressed earlier than expected. The Budget Ordinance stipulates how and when this money may be accessed.
- 6) The **Fire Districts** have submitted their budgets for FY 2014-2015 (**Exhibit I**) with only one requesting a change in the Fire District Tax Rate. Huntsville has requested a 54.5% increase from a rate of .055 to .085 which will generate additional revenue of approximately \$101,000
- 7) Commissioners continue to hold **Economic Development** as their top priority. Although the unemployment rate in Rockingham County has decreased from 10.3% in July 2013 to roughly 8%, much improvement can still be made. Both the Economic Development and the Business and Technology Center are undergoing a transformation. We continue our efforts in reallocating our economic development resources throughout the entire county as a joint effort in focusing on the areas industry recruitment, retention, and expansion; site and infrastructure development; and Rockingham County tourism. In the coming months, many decisions have yet to be made regarding the final organization of a unified Economic Development Agency. Our intent is ultimately to position our county as one of the most competitive in attracting any and all business and industry in our region.



Conclusion

Although each year presents unique challenges, this year was particularly difficult as we have reached a threshold of thinning out almost every area in the organization. Our revenue sources continue to decline at an alarming rate while the demand for services and the cost to provide them increase annually. As we proceed into this coming fiscal year, we must keep at the forefront the potential impact each budget years decisions may have on the next and evaluate the sustainability of the path forward.

I would like to thank the Board of Commissioners for providing valuable direction to the staff to assist in the development of this recommended budget. I look forward to working with each of you to develop a final budget for FY 2014-2015 that will meet the service needs and expectations of our citizens and communities.

Respectfully submitted,

Lance Metzler, County Manager