

# LEE COUNTY

NORTH CAROLINA

*Committed Today for a Better Tomorrow*

May 5, 2008

Lee County Board of Commissioners

Robert H. Brown, Chairman  
Jerry M. Lemmond, Vice-Chairman  
James C. Kelly  
Nathan E. Paschal  
Robert T. Reives  
Linda A. Shook  
John Quiggle

Re: Budget Message  
Fiscal Year 2008-09 Recommended Budget

Dear Chairman Brown and Commission Members:

In accordance with the Local Budget and Fiscal Control Act and the duties as the County's Budget Officer, it is a pleasure to present Lee County's FY 2008-09 recommended budget. The FY 2008-09 recommended budget has been developed with the Commissioners primary goal to maintain the current tax rate of 75 cents per \$100 of valuation. In addition, the budget allows for continued service to our citizens at the same or higher level of service. The budget also allows the Commissioner's to advance Lee County's Mission: Through vision and leadership, setting the standard for professional local government.

Lee County is in a unique position to take advantage of growth opportunities in our region. The pending Base Realignment and Closure (BRAC) at Fort Bragg, continued growth along the US 1 corridor, and growth in surrounding counties will add new challenges to the County. The County must continue to illustrate its intent to control its future by making proactive decisions rather than reactive decisions that ultimately cost the taxpayers of Lee County more. This budget proposes increased commitments today in education, public safety and technology that will bring a better tomorrow.

Over the last three budgets, the Board raised property taxes to deal with the growing need for classroom space in the County and the need to expand County services to our growing population. Once again, this year's budget has a large focus on the increasing needs of our school systems. The total budget presented is \$64,417,098. This represents an increase of only .85 percent from the FY 07-08 amended budget and a 2.7 percent increase over the original FY 07-08 budget passed by the Commissioners last year. County Departments have been very conservative in their requests knowing

**OFFICE OF THE COUNTY MANAGER**

P. O. Box 1968 • 106 Hillcrest Drive • Sanford NC 27331-1968  
Tel 919-718-4605 • Fax 919-777-9315 • [manager@leecountync.com](mailto:manager@leecountync.com)

the Board of Commissioners would need additional funds to allocate to the Board of Education and the Community College for current expense items without raising the property tax rate.

The conclusion of the 2007-08 fiscal year will see the continued reliance on fund balance reserves to achieve balanced budget status. The County began the current year with an appropriation of \$2,098,270 from reserves, which has now been amended to \$2,840,902; this amount was largely used for one-time purchases, matching grants, and minimal ongoing expenses. It is estimated that the County will use \$566,724 of this amount to end the current fiscal year. If so, total available General Fund balance will end the year at \$10,060,741, or 16.26 percent of the FY 07-08 projected expenditures. This is a slight reduction from the 16.62 percent of fund balance at the end of FY 2006-07 budget. The Board's policy states that it will strive for a fund balance of 18 percent and will not allow reserves to drop below 14 percent.

The proposed fund balance used to balance the FY 08-09 budget is \$2,398,966. The fund balance appropriation is for one-time expenses and includes consideration of the full-funding of salaries at \$1,200,000. This amount is routinely referred to as the County's "float". The County will need to monitor spending very closely next year to make sure that the actual fund balance used doesn't approach the 14 percent minimum. Eligible fund balance-use projects are routinely viewed as purchases that have a useful life of more than one year and are not "consumable". These purchases total \$1,198,966 in the budget.

The revaluation of real property last fiscal year produced a 12.4 percent increase in the County's tax base. Lee County financial policies adopted May 5, 2005, stated "In an effort to stabilize the County's tax rate, the Board of Commissioners will adopt a tax rate that considers the succeeding four years' anticipated expenditures and will strive not to change the rate until the next revaluation." This policy was considered in the preparation of this proposed budget and if the current rate of 75 cents per 100 dollars of valuation is approved by the Commissioners, the county will be half way to achieving this policy goal. Maintaining this tax rate over the next two years will be extremely difficult given the current climate in the General Assembly. The property tax base is being challenged by several groups and bills providing exemptions are expected to be introduced during the upcoming short session. These bills could have a significant impact on our operating budget and our capital improvements program. In addition, the General Assembly's decision to allow Counties to fund transportation projects and services will lead to greater pressure on the Commissioners to address these items with property tax revenue. The proposed tax rate does contemplate the continued funding of a capital reserve per the County's financial policies and continues the current year's property tax contribution to debt service as outlined in the County's Capital Improvements Program.

The total FY 2008-09 proposed budget reflects an increase of .85 percent in revenues bringing total revenues to \$64,417,098. The net revenue increase over the FY 2007-08 budget is \$542,788. Property tax revenue is projected to increase 3.42 percent over the 2007-08 budget year. Natural property tax base growth and fewer appeals and exemptions being granted than expected account for the increase. The County is

showing a decrease in Local Option Sales Tax of 4.51% due to the Medicaid relief swap which will be discussed in greater detail later. The decrease in sales tax revenue is also greater than originally anticipated due to the economic slow down. The County is also showing significant decreases in fee revenue, program revenue, and other revenues. These decreases reflect the trend since the fourth quarter of 2007 which began a decline in these revenues. Once again, this decline is largely due to the slow down in the economy, especially in the areas of home sales (excise taxes) and housing starts (building inspections and environmental services fees).

One expenditure category that is proposed to increase above that of any other government function is Education. Represented in this classification are the Lee County School System (LCSS) and Central Carolina Community College (CCCC). This category's 12.55 percent increase can be largely attributed to a \$2,100,000 increase in current expenses to the Board of Education for continuing operations and the new operational costs at San-Lee Middle School. The budget continues the \$2,242,887 contribution for School Capital Outlay which was a significant increase in last year's budget. The BOE requested a total of \$4,569,108 in capital or an increase of \$2,326,221, which is not funded. \$1,465,617 of the contribution will come from NC Lottery proceeds and Public School Building Capital (PSBC) Fund monies. Projects to be funded from these sources must be approved by the Department of Public Instruction. Approval should be demonstrated to the County by LCSS before any project begins. Current expense funding for LCSS has increased 15.55 percent to \$15,602,134. This amount is \$465,088 lower than the \$16,067,222 requested by the Board of Education. In addition to this request, the BOE asked for consideration of \$915,471 for supplemental programs and additional personnel, which is not funded in this proposal. In total, the FY 2008-09 budget does not fund a total of \$3,706,780 of the current expense, regular capital outlay and expanded program requests by the BOE. To fund these additional requests would require a property tax rate increase of 8.13 cents.

Spending per pupil, using the schools ADM, for current expense jumped from \$1,394.70 to \$1,561.18 or an increase of 12 percent. In the FY 04-05 budget (5 years ago) this amount was \$1,090.10. The increase in five years has been \$471.08 per pupil or a 43 percent increase over this time. Current expense funding for CCCC is increased \$184,193 or 9.17 percent. This amount is largely going towards utility expense increases at the Lee County campus. Increases in future years at these levels to both entities cannot continue at the existing tax rate. Maintaining the school facilities is the primary responsibility of the County Commissioners. New programs being developed by the BOE cannot be funded while at the same time maintaining the school facilities given the projections of our current revenue sources.

The County's compulsory contribution to the State of North Carolina's Medicaid program is decreasing in this year's budget due to the Legislature's Medicaid relief initiatives to Counties. The FY 2007-08 original budget of \$3,079,515 is being reduced to an expected amount of \$ 2,552,177. The FY 2008-09 budget shows a decrease of \$1,447,383. These savings are offset by the loss of \$1,230,478 in sales tax revenues. In addition, the County will start the hold harmless provisions of the Article 44 sales tax loss for the City of Sanford and the Town of Broadway. After "swapping" sales tax revenues for Medicaid expenses, we are projecting a \$600,000 pickup for the County in the FY 08-

09 budget. This is a one time savings, and in future budgets, this amount will not be available again for use by the Board. This entire savings amount was allocated to the LCSS as part of their current expense increases.

The Board has repeatedly stated its support and commitment to the employees of Lee County. This proposed budget continues to invest in the County's greatest asset. Per the County's financial policies, a Cost of Living Adjustment (COLA) determined by a US Department of Labor index will be given to all employees. By designating this unbiased economic indicator, County employees are assured that their salaries will keep pace with inflation and that such decision is made external to annual budget pressures. This budget does account for a COLA of 4.4 percent. Without this provision, employees effectively take home less money to cover the increasing costs of food, shelter and other factors of daily living.

The FY 2008-09 budget process faced additional increases in two employee benefits. First, the County's workers compensation insurance coverage was anticipated to increase 6 percent or \$44,611. The actual increase that we received from the NCACC was \$108,952 or 14.65 percent. Changes in the workers compensation underwriting guidelines were the sole reason for the unexpected increase. These changes caused the County's experience modifier to increase from 1.21 to 1.37, despite a significant decrease in our number of claims and expected claims for next year. Even though this increase is being offset by a similar decrease in our property and liability premium, staff is seriously exploring the potential of moving to a self-funded program for workers compensation insurance coverage. The County will be able to set up reserves for future claims through savings realized in the first two years from going to self insurance. Building a reserve has been a barrier to self insurance for the County in the past, but given the tremendous growth in our fully insured premiums, the Association is forcing us into a self insured program. Second, the proposed budget incorporates the 9 percent increase in employee medical insurance rates. The original renewal quote from Blue Cross & Blue Shield (BCBS) was 18 percent. Staff, realizing the increase was unacceptable, worked through our Consultant, Mark III, to reduce the increase to a single digit percentage increase. A couple of our coverage levels have to be "standardized" per BCBS policies, but the changes will have minimal affect on the employees, but save us significant administrative fees.

For years, the Board has provided a health insurance benefit for retirees that serve at least 15 continuous years with Lee County immediately preceding retirement. It is estimated that this benefit will represent a \$254,592 expenditure in FY 2007-08. The 2008-09 fiscal year realizes a total possible exposure of \$316,759. Presently, 59 former employees receive this benefit. It is anticipated that in the next five (5) years, an additional 22 employees will be eligible to retire with full retirement benefits and benefit from the program. There will also be 31 employees during the next five (5) years that can retire with reduced retirement benefits and qualify for the insurance benefit. In light of increased medical insurance costs and the increasing number of retirement-eligible employees, the Board of Commissioners should monitor this program closely and be prepared to modify such, if it becomes cost prohibitive.

While this budget does not propose the full funding requested by the Sheriff's Department, it does include a significant investment in Public Safety. The Sheriff's Department and Jail are proposed to receive a 5.4 percent increase or an increase of \$311,805. The proposed budget includes five (5) new employees for the Department. Two of the positions are funded through grants with the State of North Carolina. The recommendation leaves \$375,969 of the Sheriff's request unfunded. The Jail reflects a 15.03 percent increase. The substantial increase is due to the increase in inmate population and the addition of one jailer. The jail has been at capacity since January 1, 2008, and the trend is expected to continue. Based on population, expenses to Southern Health Partners, Inc. for the provision of medical care to the inmates and to Aramark for meals are expected to increase greatly. The County will also be making significant investments into Emergency Services and the Fire Marshall's office to enhance the services provided by these two critical departments.

The County's Human Services functions continue as the backbone of how the County affects the lives of its citizens. This proposed budget sustains the County's commitment to the quality of life of Lee County citizens by appropriating more than \$17 million for Health, Social Services, Senior Services and Youth Services departments. This amount has decreased by more than \$1.5 million due to Medicaid relief and the reduction of capital in Senior Services Transportation and the Health Department. These programs were reduced due to declines in revenues from various sources, mainly the State of North Carolina.

North Carolina General Statute (NCGS) 159-13(a) directs that the Budget Ordinance and tax rate adoption take place by July 1, 2008. On the same day the budget is presented to the governing body, the Budget Officer is required to file a copy of it in the Office of the Clerk to the Board for public inspection and schedule a public hearing. In addition to the Clerk's office, a copy of this proposed FY 2008-09 budget will be available at the Suzanne Reeves Library on Hawkins Avenue in Sanford and online at the County's website, [www.leecountync.gov](http://www.leecountync.gov). The public hearing for this recommended budget is scheduled for May 19, 2008, in Courtroom #4 at the Old Lee County Courthouse. NCGS 159-13 specifies that not earlier than 10 days after the budget is presented to the governing body and not later than July 1, the governing body shall adopt a budget ordinance and levy a tax rate. A work session for the Board or Finance Committee to contemplate this proposed budget is tentatively scheduled for May 12, 2008 at a time to be determined. It is hoped that deliberations will be complete and that the budget ordinance may be adopted at the June 2, 2008, regular Board meeting.

In the following pages you will find a more detailed account of this FY 2008-09 proposed budget. I encourage you to review such and contact me if a specific explanation is required. A presentation of the document and the proposals contained within is scheduled for the May 5, 2008, 9:00 a.m. regular meeting of the Board.

The drafting of this recommended budget has taken many hours of work and dedication from many employees. I wish to thank Lisa Minter, Finance Director, and Sherry Poindexter, Budget Analyst, for their assistance in preparing this budget. I also want to thank all the department heads who understood the challenges we faced in

this budget and took steps to reduce their expenditure requests so we could maintain our existing tax rate.

Going forward, I am excited about working with each of you through the remainder of this year's budget process. The County's staff stands ready to help in the review of the budget, and we await the next step in the process.

Sincerely,



John Crumpton  
Manager/Budget Officer