

LEE COUNTY

NORTH CAROLINA

Committed Today for a Better Tomorrow

May 4, 2009

Lee County Board of Commissioners

Richard B. Hayes, Chairman
Larry "Doc" Oldham, Vice-Chairman
James C. Kelly
Nathan E. Paschal
Robert T. Reives
Linda A. Shook
Amy M. Dalrymple

Re: Budget Message
Fiscal Year 2009-10 Recommended Budget

Dear Chairman Hayes and Commission Members:

In accordance with the Local Budget and Fiscal Control Act and the duties as the County's Budget Officer, it is my responsibility to present Lee County's FY 2009-10 recommended budget. The FY 2009-10 recommended budget has been developed with the Commissioners primary goal to maintain the current tax rate of 75 cents per \$100 of valuation. Due to the current economic recession, this budget reduces the level of services provided in many departments so that the current property tax rate can be maintained. This budget challenges the Commissioners to advance Lee County's Mission: Through vision and leadership, setting the standard for professional local government.

Lee County, as are most of the 100 counties in the State, is facing the most difficult financial situation in decades. Even with this economic downturn, this area is in a unique position to take advantage of growth opportunities in our region and be posed to move quickly forward when the economy begins to grow again. 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. Now more than ever, the County needs to look forward and begin planning to address the growing capital needs of our education partners.

Last year the budget focused on increased expenditures in education. However, given the loss in revenue to the County from drops in ad valorem and sales taxes, all areas of the budget including education will see a lower amount of funding next year. The

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

total budget presented is \$59,828,714. This represents a decrease of 10 percent from the FY 2008-09 amended budget and a 7 percent decrease over the original FY 2008-09 budget passed by the Commissioners. County departments have implemented 6 percent budget reduction plans, with several reducing their budgets even greater. All outside agencies will see a reduction of 4 percent in their funding.

The conclusion of the 2008-09 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 \$2,398,966 from reserves, which has now been amended to \$2,713,136; this amount was largely used for one-time purchases, matching grants, purchase of a new chiller system at the courthouse, leasing and setup of the new POD units at Lee County High School and minimal ongoing expenses. It is estimated that the County will use \$2,365,945 of this amount to end the current fiscal year. If so, total available General Fund balance will end the year at \$9,653,476, or 15.23 percent of the FY 2008-09 projected expenditures. This is a very significant reduction from the 18.18 percent available fund balance at the end of FY 2007-08. 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 2009-10 budget is \$1,033,016. The fund balance appropriation is for one-time expenses and includes consideration of the full-funding of salaries at \$253,297. This amount is routinely referred to as the County's "float". Due to our declining revenues, the County's ability to generate significant amounts of float has been diminished greatly. The County will need to monitor spending and revenue receipts very closely next year to make sure that the actual fund balance used does not go below 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 \$770,719 in the budget.

The revaluation of real property in the 2007-08 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." With the recent decision to push the next revaluation back to FY 2013 instead of FY 2011, the property tax rate may need to be increased before the next revaluation if the county is expected to address ongoing capital needs and continue to address ongoing current expense and service issues. Maintaining the current tax rate over the next several years will also 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 has been discussing transferring the funding of transportation projects and services to counties which 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 2009-10 proposed budget reflects a decrease of 10 percent in revenues bringing total revenues to \$59,828,714. The net revenue decrease over the FY 2008-09 budget is \$6,667,626. Property tax revenue is projected to decrease 2.12 percent from the 2008-09 budget year. The lack of natural property tax base growth and a reduction of the collection rate percentage account for the decrease. The County is showing a decrease in Local Option Sales Taxes of 25.17 percent due to the final phase of the Medicaid relief swap and declining sales in the retail markets. The net decline in sales tax receipts is 10 percent. The decrease in sales tax revenue from retail sales is a major blow to the budget. 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).

Over the last five budgets, the Board of Commissioners has made significant expenditure increases in Education. Due to our declining revenues, this trend will end in the coming budget. In the proposed budget, both the Lee County School System (LCSS) and Central Carolina Community College (CCCC) are proposed to have 4 percent reductions in both current expense and capital expenses (net of the POD units for both). The LCSS requested a total of \$3,028,262 in capital or a decrease of \$448,901 from the FY 2008-09 budget. The recommended funding amount for FY 2009-10 is \$1,953,831. The capital issue is clouded by the uncertainty of the lottery receipts for next year. NC Lottery proceeds and Public School Building Capital (PSBC) Fund monies pay for debt and school capital outlay. The LCSS has estimated lottery receipts of \$1,465,619, and we have estimated \$1,000,000, a difference of \$465,619. Also, the LCSS asked for the lease payment of \$207,654 for the POD units at Lee County High School. Based on the commitment by the Commissioners last year, we have broken this payment out from the request and created a separate line item to fund this payment. The net County capital request (minus the POD units) is \$1,354,989 which is an increase of 100 percent over the current amount. Projects to be funded from the lottery proceeds 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 decreased 4 percent to \$14,978,050. This amount is \$624,085 lower than the \$15,602,134 requested by the Board of Education. In total, the FY 2009-10 budget does not fund a total of \$2,147,416 of the current expense and regular capital outlay requests by the LCSS. To fund these additional requests would require a property tax rate increase of 4.82 cents.

Spending per pupil, using the schools ADM, for current expense increased in last year's budget from \$1,394.70 to \$1,561.18 or an increase of 12 percent. In the FY 2009-10 budget, per pupil expenditures will decrease from \$1,561.18 to \$1,551.17. In the FY 2004-05 budget (6 years ago) this amount was \$1,090.10.

In the current fiscal year budget, current expense funding for CCCC was increased by \$184,193 or 9.17 percent. The Community College's primary current expense request in FY 2009-10 is \$2,324,573. The College also submitted expense reduction plans of 4, 6 & 8 percent. The appropriation of \$2,195,054 was initially reduced by the 4 percent plan,

and then the expenses associated with the move to the W.B. Wicker Business Center were added back. Due to the rent and operational expenses at the Wicker Business Center, net current expense funding for FY 2009-10 goes up slightly by .11 percent. The Community College's current capital funding also increases due the lease of POD units for the W. B. Wicker Business Center. The County only funded \$8,000 of capital for the College last year so the new expense of \$193,074 appears to be large increase. The space at the Wicker Business Center will replace the Jonesboro Campus which is in terrible physical condition and needs to be vacated. This budget fully funds the additional space at the Wicker Business Center.

The County's compulsory contribution to the State of North Carolina's Medicaid program is ending in the FY 2009-10 budget due to the Legislature's Medicaid relief initiatives to counties. In the FY 2008-09 original budget, \$1,632,132 was set aside for Medicaid expenditures. These savings are offset by the loss of \$1,230,478 in sales tax revenues. In addition, the County will continue 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 and holding the municipalities harmless, the County will see no net savings from the swap in the FY 2009-10 budget.

This year, no Cost of Living Adjustment (COLA) is recommended for employee pay. Per the County's financial policies, a COLA for employees is determined by a US Department of Labor index. This years COLA index was zero so the budget reflects this amount.

The Budget also reduces the number of full time positions from 368 to 342. This is a reduction of 26 positions or 7 percent of our workforce. This reduction was realized through attrition of 14 positions, elimination from retirements of 3 positions and a reduction in force of 9 positions. On an ongoing annualized basis the reduction of 26 positions will save the County \$1,168,428 in salary and benefits.

The FY 2009-10 budget realizes additional decreases in two employee benefits. First, the County's workers compensation insurance coverage renewal was 12.8 percent less than last year's actual premium. This reduction provides the County with a savings of \$64,877 in the budget. We achieved this reduction through better claims management and claims history. Second, the proposed budget incorporates a 6.5 percent decrease in employee medical insurance rates. The County will change from a single PPO plan to offering three different plans. Employees and non-Medicare (pre-age 65) eligible retirees will have the choice of continuing in a PPO plan or moving to a HSA plan. Medicare eligible retirees (post-age 65) will be moved to a Medicare supplement program that actually provides better coverage in most areas than the employee plans. The original renewal quote from Blue Cross & Blue Shield (BCBS) to stay in a single PPO plan was a 13 percent increase. Staff, realizing that a decrease was needed, worked with our consultant, Mark III, to develop a new plan that would reduce the County costs.

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 and at least 20 years in the retirement system. The 2009-10 fiscal year realizes a total possible

exposure of \$301,632. Presently, 68 former employees receive this benefit. In August of 2009, 10 more retirees will be added to retiree health insurance coverage. 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.

After last year's 7 percent increase in spending for the Sheriff's Department and Jail, the departments will see a decrease in funding. This funding will mainly be in the operational expenses of the Department. No positions in either the Sheriff's Department or Jail will be reduced. The Jail budget was originally submitted at the 6 percent reduction requested. However, after review of the budget and analyzing capital needs for security reasons in the Jail, funds were added back to the budget. Overall Public Safety, including the Emergency Management and the Fire Marshall budgets, is down 4.93 percent or \$377,652.

The County's Human Services functions continue as the backbone of how the County affects the lives of its citizens. This proposed budget reduces services in these areas. Overall, the Human Services budgets are down 16.87 percent or \$2,951,462. The net decrease of Medicaid Expenditures is \$1,200,000. A substantial reduction in services in all areas accounts for those reductions. State reduction in revenues to these programs is another reason for the reduction in services.

North Carolina General Statute (NCGS) 159-13(a) directs that the Budget Ordinance and tax rate adoption take place by July 1, 2009. On the same day that 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 2009-10 budget will be available at the Suzanne Reeves Library on Hawkins Avenue in Sanford and online at the County's website, www.leecountync.gov. The public hearing for this recommended budget is scheduled for May 18, 2009, in the Commissioners Board Room at the Lee County Government Center. 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 11, 2009, 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 1, 2009, regular Board meeting.

In the following pages you will find a more detailed account of this FY 2009-10 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 4, 2009, 3:00 p.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, for her assistance in preparing this budget. I also want to thank all the department heads who understood the challenges that 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 optimistic that the steps we have taken in reducing our reoccurring expenditures will position us to take advantage of opportunities when the economy turns for the better. This will be a difficult year for us and all the agencies that we fund. However, I am excited about the future and believe that Lee County is in a good financial position. The County's staff stands ready to help in the review of the budget, and we await the next step in the process.

Sincerely,

A handwritten signature in black ink, appearing to read "John Crumpton". The signature is fluid and cursive, with a large initial "J" and "C".

John Crumpton
Manager/Budget Officer