

LEE COUNTY

NORTH CAROLINA

Committed Today for a Better Tomorrow

Fiscal Year 2006-07 Budget at a Glance

Total Property Valuation: \$3.94 billion

Proposed Tax Rate: \$.79

One Penny Generates: \$378,366

General Fund- Revenues

	Amended 05-06 Budget	Recommended 06-07 Budget	Adopted 06-07 Budget	Increase/ (Decrease)
Property Taxes	\$29,283,713	\$29,890,938	\$29,890,938	\$607,225
Local Option Sales Taxes-Total	\$7,857,169	\$8,597,430	\$8,597,430	\$740,261
Other Taxes- Total	\$2,944,796	\$3,156,230	\$3,156,230	\$211,434
General Revenues -Total	\$3,263,617	\$3,501,450	\$3,501,450	\$237,833
Human Services-Total	\$9,320,208	\$8,786,523	\$8,786,523	(\$533,685)
Designated Fund Balance	\$3,453,077	\$2,433,953	\$2,320,284	(\$1,019,124)
Total Revenues	\$56,122,580	\$56,366,524	\$56,252,855	\$243,944

General Fund- Expenditures

	Amended 05-06 Budget	Recommended 06-07 Budget	Adopted 06-07 Budget	Increase/ (Decrease)
General Government-Total	\$7,313,222	\$7,062,815	\$7,033,975	(\$250,407)
Public Safety-Total	\$6,468,146	\$6,078,134	\$6,026,866	(\$390,012)
Economic/Physical Devel.-Total	\$1,718,556	\$2,099,253	\$2,015,731	\$380,697
Health and Welfare-Total	\$16,779,074	\$17,196,463	\$17,192,463	\$417,389
<i>Public Health</i>	\$3,170,688	\$3,558,414	\$3,552,414	\$387,726
<i>Mental Health</i>	\$252,000	\$252,000	\$252,000	\$0
<i>Social Services</i>	\$11,247,812	\$11,303,006	\$11,294,006	\$55,194
Education- Total	\$14,641,266	\$15,341,911	\$15,371,828	\$700,645
<i>School Current Expense</i>	\$12,171,984	\$12,666,167	\$12,666,167	\$494,183
<i>CCCC Current Expense</i>	\$1,726,282	\$1,803,127	\$1,833,044	\$76,845
Cultural and Recreational -Total	\$1,851,127	\$1,937,149	\$1,934,149	\$86,022
Debt Service-Total	\$5,924,599	\$5,716,799	\$5,716,799	(\$207,800)
Reserves- Total	\$1,426,590	\$934,000	\$961,044	(\$492,590)
Total Expenditures	\$56,122,580	\$56,366,524	\$56,252,855	\$243,944

FISCAL YEAR 2006-2007 BUDGET RECOMMENDATIONS

GENERAL FUND REVENUE

In order to achieve a self-sufficient operation, this proposed budget includes the receipt of \$56,366,524 in revenue to support General Fund activities for the 2006-07 fiscal year. As that greater than 73 percent of the government's revenues are derived from two sources, the property and sales taxes, it is important to understand the significance of the projected revenue proceeds. The following table should help show the projected growth in the two revenue sources and the County's reliance on each as a percentage of total expenditures.

Table #1 – Major Revenue Sources

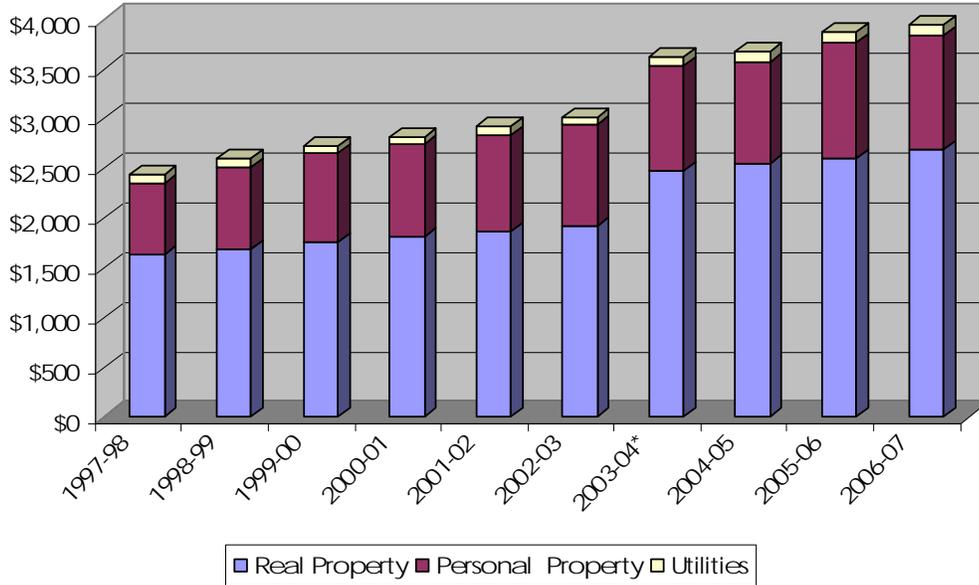
	FY 2005-2006	FY 2006-2007	Difference	% Change
Tax base	\$ 3,868,339,293	\$ 3,939,672,390	\$ 71,333,097	1.84%
Tax rate	0.79	0.79	0.00	0.00%
Ad valorem rev.	29,283,713	29,890,938	607,225	2.07%
<i>% of total exp.</i>	<i>53.62%</i>	<i>53.02%</i>	<i>(.60%)</i>	<i>(1.12%)</i>
Sales tax rev.	9,333,865	10,336,860	1,002,995	10.75%
<i>% of total exp.</i>	<i>17.09%</i>	<i>18.33%</i>	<i>1.24%</i>	<i>7.26%</i>

As illustrated above, the tax rate for FY 2006-07 is recommended to remain the same 79 cents per \$100 of valuation as was levied for the 2005-06 fiscal year. Due to natural growth of the tax base, this should realize a modest \$607,225 of additional ad valorem revenue to support the proposed \$56,366,524 budget. When compared to the 2005-06 fiscal year budget, this budget is funding more than \$1.3 million of net additional expenditures.

The low tax base growth projection of 1.84 percent reflects a \$23 million decrease in taxable personal property at Wyeth Vaccines. Additionally, new construction growth has not been realized at anticipated levels. Regardless, growth in this revenue source permits the local tax base to produce \$378,366 for each penny of tax rate levy. Therefore, based upon a collection rate of 97 percent, real, personal and utility tax revenue is projected at \$27,291,630. Motor vehicle tax receipts are projected to fall by 0.2 percent in this budget due to a NC General Assembly mandated change from a single annual billing event to staggered bills for commercially registered vehicles. The schedule implemented by the State will have some taxpayers paying bills in the later part of this fiscal year and will not be billed

again until the FY 2007-08. Collected at an 87 percent rate, motor vehicles will realize net proceeds of \$2,599,308 for this proposed budget.

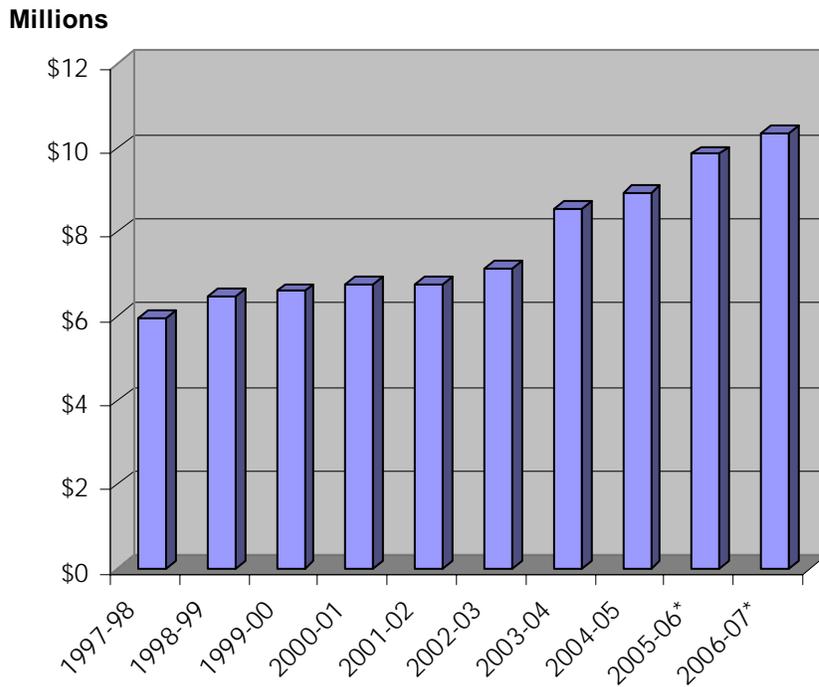
Property Tax Base Growth



*revaluation year

Growth in projected sales tax receipts is the other major source of increased revenue proposed herewith. On average, the various sales tax sources are projected to grow by five (5) percent. This ambitious projection is based upon a recovering local and state economy that is anticipated to realize growth of five (5) percent in FY 2005-06. Total local option sales tax revenue is projected at \$10,336,860, a \$1,002,995 increase over the FY 2005-06 budgeted amount.

Local Option Sales Tax Receivable



*projected

Considering the anticipated use of \$1,328,212 in the current year budget, it is projected that the year end 2006 available fund balance will be 16 percent of general fund expenditures. This proposed budget's use of fund balance reserves is significant, yet justifiable. \$2,433,953 of fund balance is included as supplemental revenue for FY 2006-07. All of the acquisitions and projects that utilize this general fund reserve in the proposed budget are one-time expenditures. A list summarizing the requested and recommended fund balance uses by category are illustrated in the table below. A detailed list can be found in Exhibit 4.

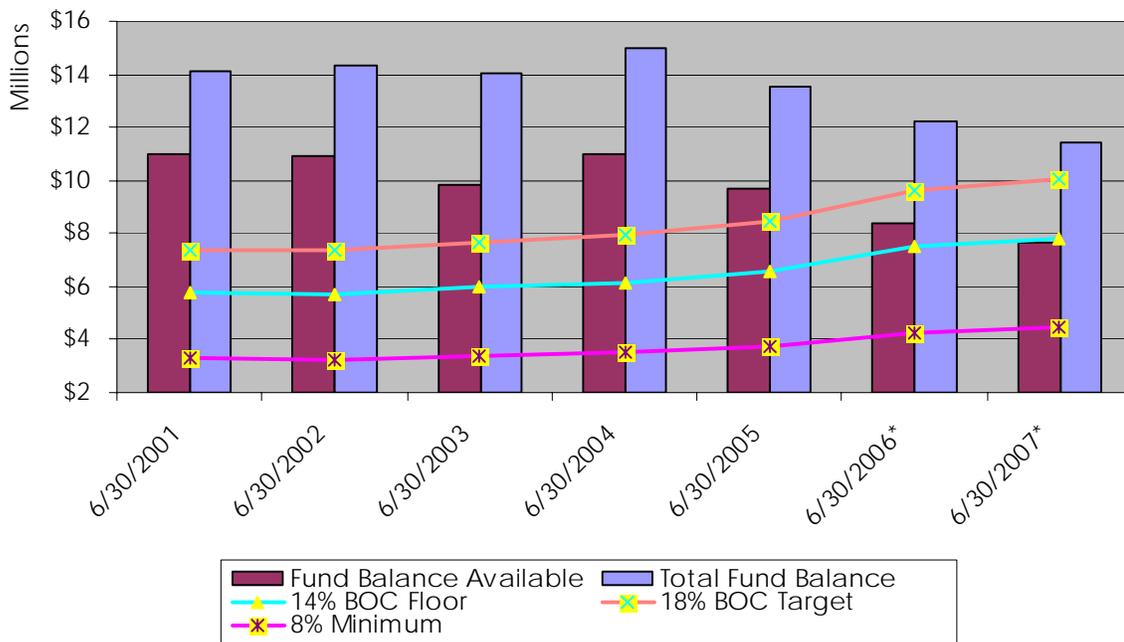
Table #2 – Fund Balance Uses

Category	Requested	Recommended
Capital	\$1,020,990	\$ 808,853
Building Improvements	174,600	117,100
Facility Development	42,600	8,000
Total	\$1,238,190	\$ 933,953

While the use of fund balance for one-time expenditures is not in and of itself a negative action, the ongoing annual use of fund balance is cause for contemplation. If this trend continues, the County risks increased scrutiny from the Local Government Commission and ultimately forced oversight by this regulatory

body. A much better method for funding capital acquisitions is the use of a capital reserve fund. The Board did adopt a capital reserve appropriation policy that requires an annual contribution amount equal to one (1) percent of General Fund expenditures; this budget does appropriate said amount. Without such a fund, the depletion of fund balance is prone to continue. The Board also adopted a minimum fund balance policy that requires an amount equal to 14 percent of expenditures and strives for a target fund balance to expenditures ratio of 18 percent. In light of the ongoing appropriation of fund balance reserves, it is projected that FY 2006-07 this will be the final year in which the activity will not breach the Board's 14 percent fund balance floor.

Fund Balance History



*projected

GENERAL FUND EXPENDITURES

Expenditures proposed herewith total \$56,366,524, an increase of .43 percent or \$243,944 more than the FY 2005-06 amended budget. The modest increase is attributable to normal inflationary influences; no new programs or services are proposed. Among such customary increases to the County operating budget is a Cost of Living Adjustment (COLA) of 3.7 percent to keep employee salaries on par with economic conditions. The Board of Commissioners wisely included a competitive employment provision to its financial policies last year that specifies the County's use of a specified Consumer Price Index (CPI) to determine increases to employee salaries. Adherence to this policy will help prevent the need for dramatic pay adjustments as required last fiscal year to address several years of stagnant or below average compensation adjustments.

Another initiative aimed to provide benefit to the employee is the adoption and implementation of a merit based performance evaluation system. Adopted at the Board's March 20, 2006 regular meeting, this program will provide financial incentives for employee accomplishment. Effective January 1, 2006, the County no longer provides automatic "step" increases for new employees. Now, the only salary increase opportunity other than the annual COLA is through a negotiated performance agreement that specifies a reward for specific accomplishment. An employee-led committee devised the program which will officially commence July 1, 2006. These investments in the Lee County workforce are viewed as essential to retention and development of a highly qualified staff. The new compensation methods will provide incentive for accomplishment and performance while eliminating the traditional view that tenure is the determining factor for rate of pay.

The FY 2005-06 budgeted 12.2 new positions was the first significant action to add employees to the County payroll in recent times. Since FY 2000-01, County employment has increased by a total of 10 positions, bringing total County employment to 365. While total employment has increased modestly, the workload of existing employees has increased at a more significant rate. For example, the caseloads in Food Stamps and Medicaid have increased 78.6 percent and 22.0 percent, respectively over the last 5 years. Incidents of calls for emergency response have increased by 4%, and the number of sites and total facility square footage maintained by the General Services Department has increased by 24% during the same period.

This budget proposes to increase total employment by one (1) full time equivalent (FTE) to address deficiencies in County personnel effort. A total of 13 new positions were requested in this FY 2006-07 budget. The following table illustrates said requests and those recommended for approval.

Table #3 – Position Request Summary

<u>Department</u>	<u>Position Title</u>	<u>Salary *</u>	<u>Recommended</u>	<u>Notes</u>
Human Resources/Veterans	Administrative Support Assistant II	\$35,029		
Tax Administration	Revenue Collection Clerk	32,061		
IT	IT Technician (2)	99,016		
General Services	Part-time Admin. Support Assistant I	13,146		
General Services	Maintenance Worker I (2)	69,998	\$ 17,500	1
General Services	Housekeeping Assistant	28,827		
Sheriff	Target Team Investigator (2)	96,576		
Sheriff	Captain of Operations	53,826		
Social Services	Administrative Officer II	53,711	26,856	1, 2
Parks and Recreation	Park Operations Technician	35,138		
Total requested	13	Total recommended	1	
Notes: * Includes fringes (social security, retirement, 401(K) & insurance)				
1. January 1, 2007 hire date				
2. 50% County costs				

As an agent of the General Assembly, the County provides many mandatory human services programs of which the eligibility and cost are not determined locally. \$7,616,040 of County revenue is dedicated to these type required services; \$25,584,923 is dedicated to mandatory programs and services outside human service functions. A detailed list of mandated and non-mandated program is provided in Exhibits 2 and 3. The County's inability to control the vast majority of the annual budget is an ongoing frustration that many outside of daily government affairs do not necessarily comprehend. This year, however, there may be opportunity for modest relief from the County's required contribution to the State's Medicaid program. A proposal initiated in the House of Representatives may provide \$461,127 of reduction to the estimated \$2,889,980 of FY 2006-07 Medicaid expenses. If such is realized, an equal reduction to appropriated fund balance or contribution to capital reserve will help the County achieve a firm financial position in preparation for repayment of middle school construction debt.

Following is a more detailed description of proposed General Fund expenditure activities by functional area. The Board should be aware that the requested operational budgets for the various County departments were very conservative and contained very few unreasonable requests. Appreciation is extended to the department heads for submitting practical proposals that considered the County's mission and its financial status. The Board should extend praise to each for their

sincere dedication to the organization and their ability to provide high-quality services on somewhat less than adequate operational budgets.

General Government

General government activities can be viewed as the administrative support and governing activities of the organization. Included in this category are the governing body and administrative management, revenue and finance functions, courthouse responsibilities, as well as facility and technology support. Total expenditures in this category are down 3.42 percent or \$250,407.

The responsibility of general government activities can be summarized as support services for the functional areas of County government. These back-office functions provide the revenue, administration, professional and technical support necessary to operate local government. While largely unseen by the general public, these services are essential and must receive continued investment of County resources to ensure high achievement standards in all government departments.

The increase of constituent services has a direct and proportional effect on the need for quality general government activities. When new offices and employees are added, there is a need for increased support in facility maintenance, human resources and information technology services. Over time, if left unaddressed, these changes in government activities can overburden the general government staff designated to provide support. This is the case currently in the County's Information Technology (IT) and General Services departments. The increased utilization and deployment of personal computing devices has increased demand on the IT department from a support ratio of 50 devices per technician to 160 per technician since 1999. Unfortunately, this budget cannot recommend the addition of the requested IT Technician positions to alleviate the workload demands of the current staff.

Two information technology initiatives started in FY 2005-06 and proposed to continue in this fiscal year are the computer replacement schedule and employee computer purchase program. All County-owned computers are placed on a six-year replacement schedule, which requires an expenditure of \$62,584 in this proposed budget. The employee computer purchase assistance initiative requires a \$25,000 appropriation. This new program allows employees to acquire and sharpen computer literacy skills by providing interest-free loans to purchase personal computer equipment and software similar to what employees use for County business. Employees may purchase the equipment from the County and repay the loan through payroll deduction.

The grounds maintenance division of the General Services Department continues to be handed increased maintenance responsibilities. Since 1999, this division has added maintenance of grounds at two (2) buildings, four (4) ball fields, and Tramway Road Park with no increase in staff. The facility maintenance division of General Services has also added 12,960 square feet to its maintenance schedule without increasing staff during this period. The Department requested two general

maintenance workers and one housekeeper. This proposed budget recommends one of the requested grounds maintenance employees.

Tax Department operations continue to focus on improving customer service and more completely integrating each division (Collections, Listing, and Appraisal) into a cohesive unit. As a result of a Department of Revenue efficiency study, the Tax Administrator has implemented many changes to bring the department into modern business practices. In an effort to modernize the tax billing process, the department proposes to outsource bill printing and distribution. This change is brought about by software and hardware conversion improvements that render former billing methods obsolete. It is projected that the outsourcing initiative will save the department considerable effort and allow the reassignment of personnel resources to realize a higher tax collection rate.

A requested Tax Department initiative not funded is the outsourcing of collections via a lockbox service. The cost of this service is equivalent to the cost of an additional tax collection clerk. At this time, the Tax Department does not feel that the service could replace an employee in the department without having a negative impact on customer service. If a vacancy should occur in the Collections Division, management suggests that this service be reconsidered as the long range costs may be lower than an employee's salary and related fringe benefits.

This budget proposes the continued funding of the County's real property revaluation project at a cost of \$216,999. This project changed course after the Revaluation Coordinator's resignation in February, 2006 and is now managed by a third party assessment firm. The proposed budget contemplates the filling of the vacancy in January 2007, after completion of the revaluation project. This position is critical if the County desires to maintain a four-year revaluation cycle as opposed to the previous and traditional eight-year process. The payment to vendor Assessment Solution, Inc. is budgeted at \$113,575. Upon completion, it is estimated that the entire revaluation project will have cost the County \$693,079 or \$22.81 per parcel.

The Register of Deeds office proposes herewith an initiative to save \$5,400 annually in web hosting services by relocating deed and plat web data services from Logan Systems to another vendor. The County's reliance on Logan Systems for indexing and scanning services is projected at \$74,600 for FY 2006-07. Other alternatives for supplying records management should be sought in an attempt to save County resources in the Register of Deeds Department.

One item that the County Commissioners may desire to review in the near future is the payment of retired County employee health insurance. This budget recommends the appropriation of \$225,000 to cover the health insurance related retiree expenses. When this program began in 1996, the cost of individual employee health insurance was \$1,932 annually; today this expense is \$4,435. As of June 30, 2006, 45 employees will be participating in the retiree health insurance program. Another 13 individuals will become fully eligible at year end, but have not announced retirement plans. Over the next five years, 37 additional employees will become eligible for the benefit, while 19 more would be able to participate but would leave the County under reduced local government retirement system

benefits. With these numbers, the potential expense of this program will become increasingly burdensome.

Another item that the Board of Commissioners needs to consider when addressing retiree insurance is the Governmental Accounting Standards Board's (GASB) Statement 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions." This statement requires that beginning in Fiscal Year 2008-09, the County must report its costs and obligations pertaining to health benefits of current and future retired employees as a general obligation. Currently, the County is recognizing the costs of this program as it occurs. GASB 45, however, requires that an actuarial study be conducted to determine the annual expense of this program and to the extent not pre-funded, a liability be reported on the financial statements. GASB 45 does not require that the program be pre-funded; however, with 45 employees currently enrolled in the program and 50 – 69 employees eligible to participate over the next 5 years, the unfunded liability will be significant.

A final note on general government operations is the combination of Administration and County Attorney departments under the Administration umbrella. In this budget is housed the salaries of the County Attorney and Customer Service Representative/Office Assistant positions that were not accounted for in the FY 2005-06 Administration budget.

Public Safety

Total public safety related expenditures are proposed to decrease by 6.03 percent in the recommended FY 2006-07 budget. Included in this category is a contract-specified cost increase in the jail food services and additional expenses in the Fire Marshal Office. Not recommended in this budget is a request for two Target Team Investigators, an Operations Captain in the Sheriff Department as well as temporary clerical assistance in the Emergency Services Department. Several capital outlay requests in both departments also are recommended as unfunded in this proposed budget.

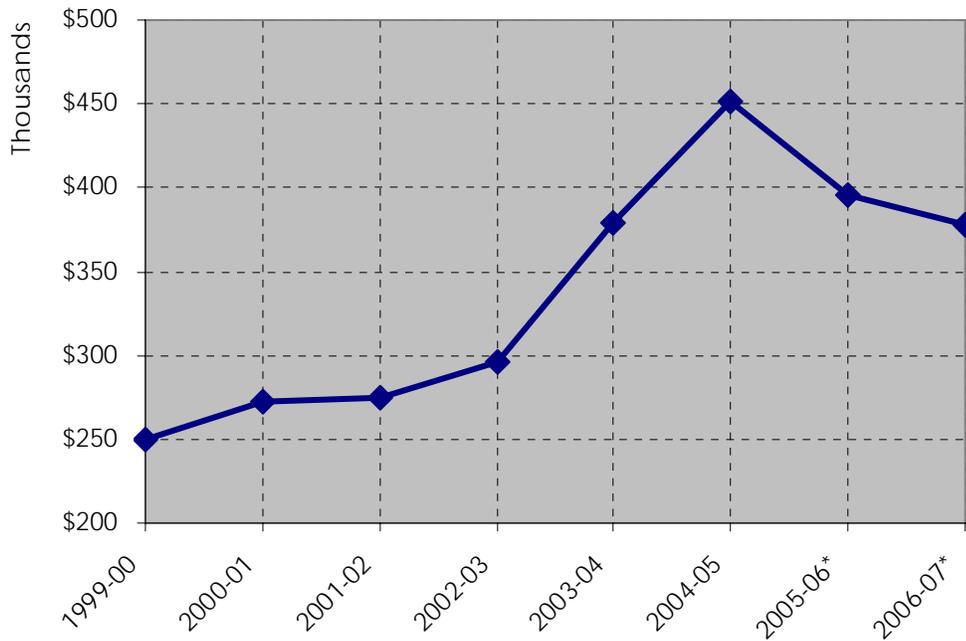
Effective with the February 6, 2006 regular Board of Commissioners meeting, the Fire Marshal's Office became a stand-alone department of Lee County Government instead of a functional division of Emergency Services. The Board's appointed Rural Fire Protection Improvement Task Force recommended not only the separation of these two departments but the organizational elevation of the Fire Marshal to department head status. The task force also recommended the removal of inspections from the Fire Marshal's primary responsibilities in order to allow a focused effort on county-wide fire service improvement and planning. This budget proposes the continued outsourcing of fire inspections until a more definitive plan is recommended by the newly created Lee County Fire Advisory Board. The creation of this citizen advisory group was the first step in moving forward with the task force's recommendations. The County is currently in search of a quality individual to serve as Fire Marshal and lead the volunteer departments to become the premier county fire service of North Carolina.

Changes in the Fire Marshal department are also found in the budgeting of administrative assistance and the costs of maintaining Special Rescue Team functions through various volunteer departments. In 2002, the County disbanded the traditional rescue squads and contracted with volunteer departments to provide specialty services such as trench, confined space, water and heavy rescue. Support for these services was through a special grant fund established by the County Commissioners. Now that the grants have been distributed, there is a need for ongoing support of these functions. This budget appropriates \$12,000 for said services. It is recommended that the funds be administered by the Fire Marshal and not directly appropriated to the individual departments. This budget also proposes the 50/50 cost sharing of the Emergency Services Program Assistant IV position in order to accurately account for the assistance provided to Fire Marshal activities.

Funding for the Fire Marshal Office is wholly supplied by fire district tax contributions. As that the Fire Marshal supports no areas that incorporated municipal departments serve, it is appropriate that the users of the service (fire district tax payers) pay for Fire Marshal activities. Accordingly, this budget proposes the purchase of a new vehicle for the Fire Marshal's use through lapsed salary reserve proceeds that accumulated during the prolonged vacancy of said position.

Last year the Board of Commissioners entered into contract with a third party vendor to provide food preparation services in the Jail. The County's cost of providing this serve was escalating dramatically; the outsourcing of this service was projected to save nearly \$170,981 annually. The projected end of year (June 30, 2006) expense for this service is \$396,000; a savings of \$216,050. It is proposed that the County continue to contract with Aramark at a cost of \$312,380 or \$2.69 per meal for Jail meals and a cost of \$65,000 or \$2.22 for Enrichment Center meals. The following chart provides a historical perspective of this service. The chart does not include salaries for the previous food staff.

Jail Food Costs



*projected

Economic and Physical Development

Per contractual relationship with the City of Sanford, it is proposed that the joint Planning and Community Development Department's budget continue to be funded by the County. This amounts to \$339,700 for FY 2006-07; a 10.0 percent increase over the current fiscal year. Both Cooperative Extension and the Soil Conservation Department budgets realize little change from FY 2006-07 appropriations. Last fiscal year Cooperative Extension requested the full 45 percent County share for an Agricultural Agent that was previously shared with Harnett County. The adopted budget intended to end this two-county effort in order for the agent to focus solely on Lee County matters. However, North Carolina State University (NCSU) did not match the County's increased effort and the position remains unfilled. Without the County increasing its contribution or NCSU budgeting the full 55% (per the current "lock-in" agreement) this position will remain unfilled indefinitely.

The most financially significant difference in this year's Economic Development budget is the increased appropriation for previously committed industrial incentive payments. These \$1,322,572 payments are an increase of \$327,850 over the FY 2005-06 level; the total appropriation is the equivalent of 3.5 cents of the County tax rate. The incentives are provided to new and expanding industries that have made a significant investment and employment commitment. The incentive program is managed by the Lee County Economic Development Corporation who recently

revised its economic development incentive guidelines. A list of approved incentive contracts and the anticipated payment amount is provided below.

Table #4 – Approved Incentive Contracts

Company	Jobs Created	Capital Investment	Annual Incentive	Expiration Date
Moen	>150	\$30,300,000	\$ 93,598	2007
Pentair	>100	\$3,000,000	\$ 8,105	2010
Wyeth #1	>20	\$120,000,000	\$493,106	2006
Wyeth #2	0	\$ 85,000,000	\$270,683	2008
Wyeth #3	>25	\$152,000,000	\$457,080	2010

Health and Welfare

Health and Welfare services budgeted by the County are proposed to increase 2.49 percent over the FY 2005-06 budget; a \$417,389 increase. Services budgeted in this category include Mental Health, Health, Senior and Social Services Departments. The services that fall under this umbrella are vast and account for \$17,196,463, or 30.5 percent of the total FY 2006-07 recommended General Fund budget.

The 2005-06 fiscal year represented the first of the County's membership with the Sandhills Center for the provision of Mental Health, Developmental Disability, and Substance Abuse (MH/DD/SA) Services. While the County's obligation to the new service provider is identical to that of the previous Lee-Harnett MH/DD/SA Authority, the per capita contribution is significantly higher than that of 75% of the member counties. For the 2006-07 fiscal year, the Sandhills Center has requested a contribution of \$252,000; the same as the FY 05-06 appropriation. Regardless, and as the following table illustrates, it can be argued that Lee county citizens pay a disproportional amount for MH/DD/SA services. The Board of Commissioners may desire to initiate a conversation with the Sandhills member counties to devise a more appropriate cost-sharing relationship.

Table #5 – Sandhills Center County General Funding

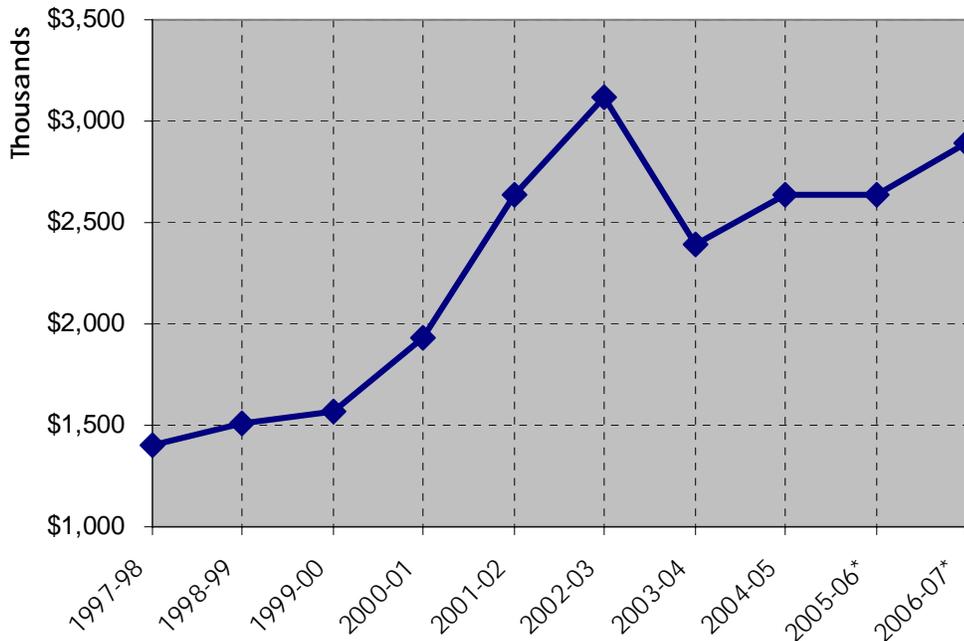
County	FY 05-06 Allocation	FY 06-07 Request	Net Increase	FY 06-07 Per Capita
Anson	\$ 55,000	\$ 55,000	\$ -	\$ 2.15
Hoke	\$ 58,000	\$ 58,000	\$ -	\$ 1.47
Harnett	\$ 199,679	\$ 199,679	\$ -	\$ 2.41
Lee	\$ 252,000	\$ 252,000	\$ -	\$ 5.37
Montgomery	\$ 87,675	\$ 87,675	\$ -	\$ 4.02
Moore	\$ 298,107	\$ 298,107	\$ -	\$ 3.66
Randolph	\$ 1,001,565	\$ 1,001,565	\$ -	\$ 7.16
Richmond	\$ 150,000	\$ 150,000	\$ -	\$ 3.21
Total	\$ 2,102,026	\$ 2,102,026	\$ -	\$ 4.27

Despite the elimination of State funding assistance, the Board of Commissioners did establish a pre-trial release program during the course of the 2005-06 fiscal year to alleviate unnecessary and costly incarceration expenses at the jail. Managed by the Department of Social Services, this program provides pre-trial jail release and expedites the judicial process in an attempt to reduce the County's incarceration expenses. Funding for this service is wholly assumed by the County at a cost of \$65,692. Through its first month, it is estimated that the County has reduced incarceration related expenses through supervised release by \$9,927. Additionally, expedition of guilty plea court cases has saved the County potential costs of \$33,082. It is anticipated that the County's investment will continue to realize measurable savings in jail inmate costs and prove to be a beneficial initiative of Lee County Government.

Medicaid funding is an ongoing struggle for North Carolina Counties. As the following graph illustrates, Lee County's local share of Medicaid funding has increased by 106 percent over the past 10 years. Today it accounts for \$2,889,980 or 7.64 cents of the proposed tax rate. The desire to relieve Counties from this uncontrollable expense has increased in the current session of the North Carolina General Assembly. The session has seen numerous Bills with widespread sponsorship surface only to be stalled in committee as the lawmakers apparently contemplate how to secure adequate revenue to absorb the Counties' approximate \$500 million share of the service. During its winter recess, additional proposals have surfaced to reduce or eliminate County contributions for this State welfare program. The Lee County Board of Commissioners vocally and formally stated its opposition to one proposal that required the compulsory increase of local sales taxes to replace the State's confiscation of existing sales tax revenue. A more recent proposal provides immediate relief to all Counties based on their percentage of Medicaid eligible citizens. Under this proposal, Lee County would realize \$461,127 of State contribution

to offset local expenses. However, this plan does not eliminate County participation, which is the primary goal of the NC Association of County Commissioners. Due to systemic inadequacies of the State's revenue statutes, it seems unlikely that any substantial relief will pass the NC General Assembly. Therefore, this budget does not include any Medicaid relief appropriations.

Medicaid Spending



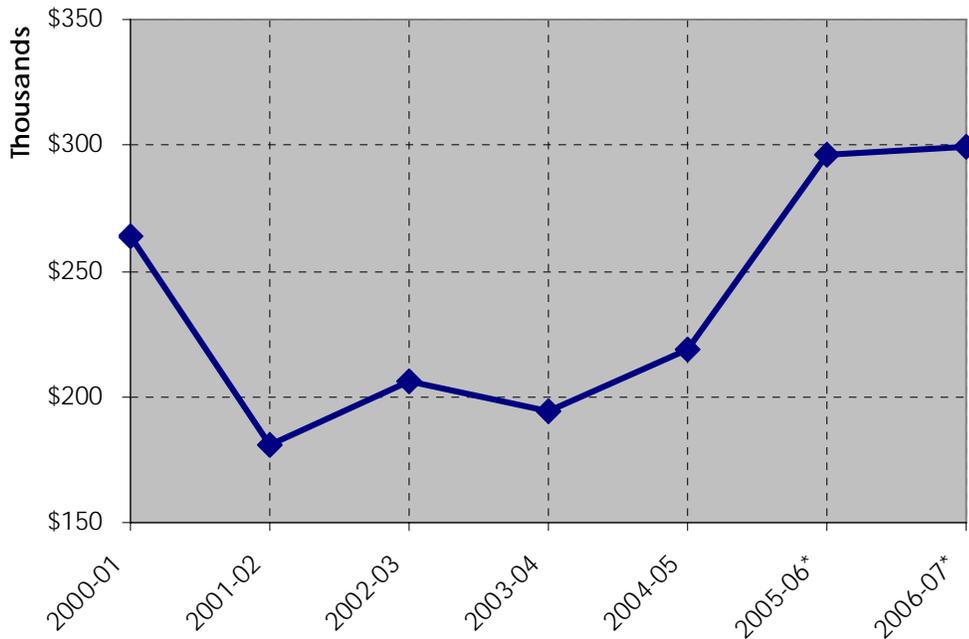
*projected

The Lee County Health Department has a reputation and history for providing effective health improvement services through creative means. Its primary care concept has finally received favorable opinions from the NC Attorney General and Commissioner of Insurance to allow the County to provide basic medical services to employers on a fee for service basis. Lee County businesses that can not afford health insurance for their employees are now able to contract with the Health Department to receive preventative care and other services routinely offered by the traditional family practice. In addition to previously received financial assistance, the program did recently receive a \$50,000 grant from the UNC-CH Institute of Public Health to assist with the marketing and development of the program's availability. The County also continues to seek Federal funding assistance in hopes of ultimately removing the program from under the local government umbrella and become a community sponsored service.

The Health Department also continues to strive for improvement in its Animal Control Division and relationship with the City of Sanford for leash law enforcement. The County's previous investment in two (2) Animal Control Officer positions and a revised Memorandum of Understanding with the City of Sanford have helped to

improve this previously strained division. The relationship with the City's Code Enforcement division is proving to be a successful partnership.

Animal Control Spending



*projected

Both the Health and Social Services Department FY 2006-07 budgets provide funding necessary for the reclassification of certain positions as determined by the Office of State Personnel (OSP). These salary increases and job title/responsibility amendments are routinely reviewed by OSP; County compliance is required. Total cost of OSP required salary adjustments in these two departments is \$91,427. The Social Services budget also includes the addition of one staff member to provide administrative assistance to the Director in the daily management of this \$11.3 million department and its 93 employees. This Administrative Officer will primarily be responsible for fiscal related activities and comprehensive business planning for Social Services. Due to ever increasing legislative demands, these tasks have become extremely demanding as has the day to day supervision of all the many and varied programs.

Education

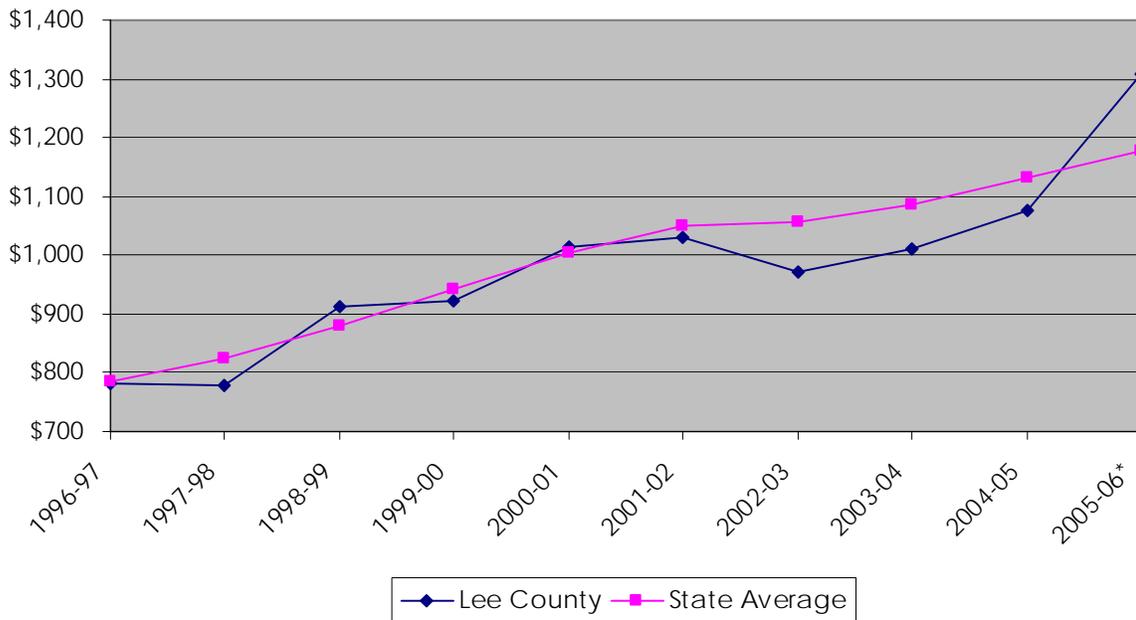
The four (4) expenditure budgets for the Education category are Lee County School System (LCSS) Current Expense, LCSS Capital, Central Carolina Community College (CCCC) Current Expense, and CCCC Capital/Civic Center. These four (4) budgets combined represent 27.2 percent of total General Fund expenditures for FY 2006-07,

which equates to a total Education appropriation of \$15,341,911; 4.8 percent greater than the 2005-06 fiscal year budget of \$14,641,266. Even though not at the requested level, increases proposed for education spending are higher than any other functional area of County responsibility.

The Lee County Board of Education’s submitted budget represents a \$14,539,647 funding request; \$1,624,663 higher than last fiscal year (a 12.6% increase). Much of the requested contribution for the LCSS is for “expansion” items that represent the initiation of new service levels or increased employee benefits. As communicated in the preceding transmittal letter, new and expanded services are not a priority of this FY 2006-07 budget. In order to reduce the occurrence of drastic funding request increases, the Board of Commissioners attempted to establish an education funding formula. However, the Board of Education did not ratify the presented BOC resolution.

In light of last year’s considerable increase (23.3 percent) in LCSS current expense funding, the County’s per pupil funding amount has surpassed the state average. In fact, if funded at the level proposed herewith Lee County education funding will be at \$1,362 per student, \$186 above the state average for FY 2005-06.

Lee County Schools-Per Pupil Expense



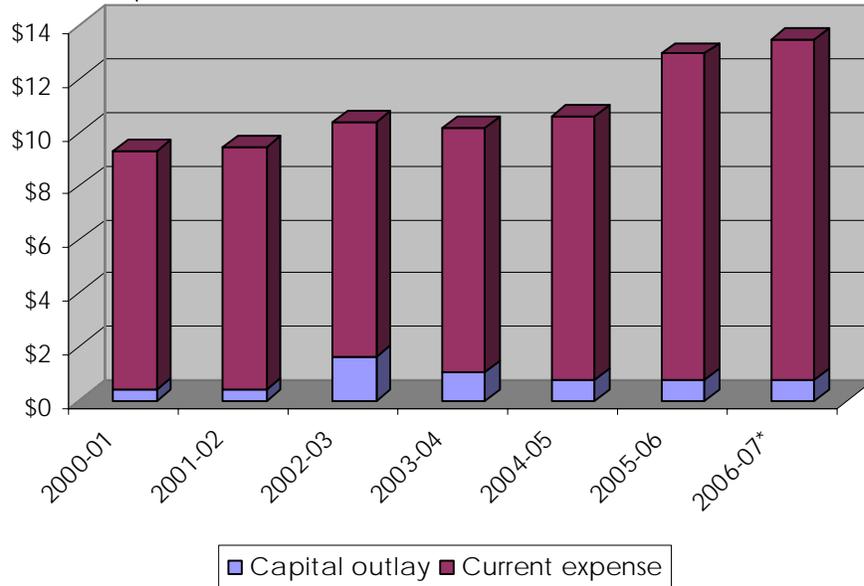
*projected

Source: NCAACC Budget & Tax Survey (February 22, 2006)

While also not funded at the requested level, this budget represents an increase in recommended LCSS capital appropriation. When considering the County’s debt obligations for school construction and the increased level of current expense and capital outlay support, the Commissioners should be applauded for their efforts to improve the educational opportunities of Lee County children. Total education

appropriations in this proposed budget are the equivalent of 35.5 cents of the tax rate levy. The graph below illustrates the County's current expense and capital outlay funding history.

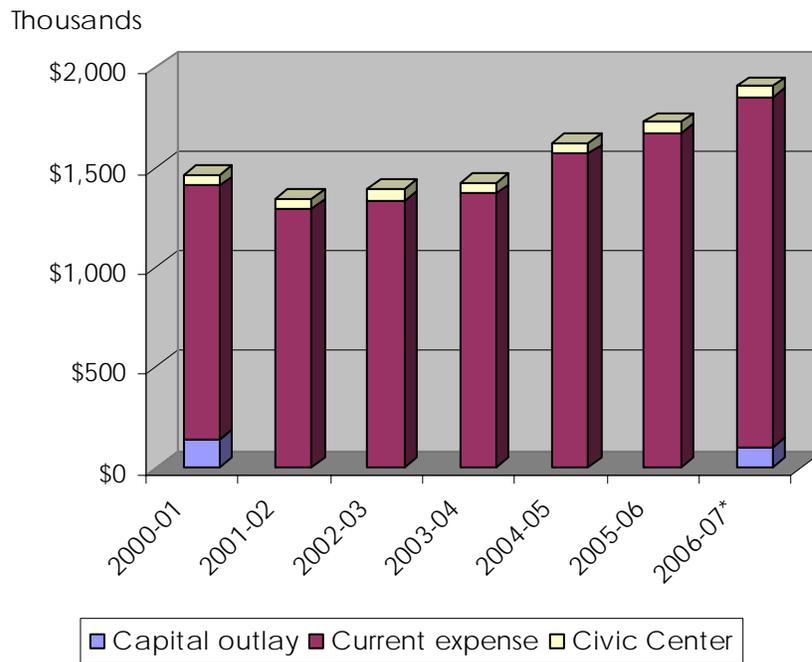
**Lee County School System
Funding for Current Expense and Capital Outlay**



*projected

Central Carolina Community College also proposed a significant increase to their current expense funding for FY 2006-07. Contained in this request is a \$76,400 appropriation for the College's rental expense for moving the Dental Hygienist program to the new W.B. Wicker School community center. As previously mentioned, this facility will house the cooperative effort of the College and the County to provide high caliber dental care to all citizens. The Community College's requested 9.8 percent increase from the current year appropriation is recommended to be funded at \$1,803,127; a 4.45 percent increase. The capital request includes appropriation for the County's share of the cost of acquiring an additional 56 acres of land for the college's future expansion. The remainder of the \$2,194,408 acquisition expense will be funded through 2000 State Bond monies and existing college reserves. Additionally, \$400,000 will be funded through debt financing for roof replacement of the Dennis A. Wicker Civic Center. For illustration purposes, following is a history of current expense funding for CCCC.

Central Carolina Community College Funding



*projected

Cultural and Recreational

Very few changes are proposed in the Cultural and Recreational category of General Fund appropriations for FY 2006-07. It is recommended that several capital outlay purchases be authorized in the Recreation Department to replace worn equipment and acquire additional equipment necessary to maintain the new Tramway Road Park. Not funded in the Recreation Department is a request for an Operations Technician position for San-Lee Park. It should be noted that this department, like many others, is increasing its workload without the addition of needed staff.

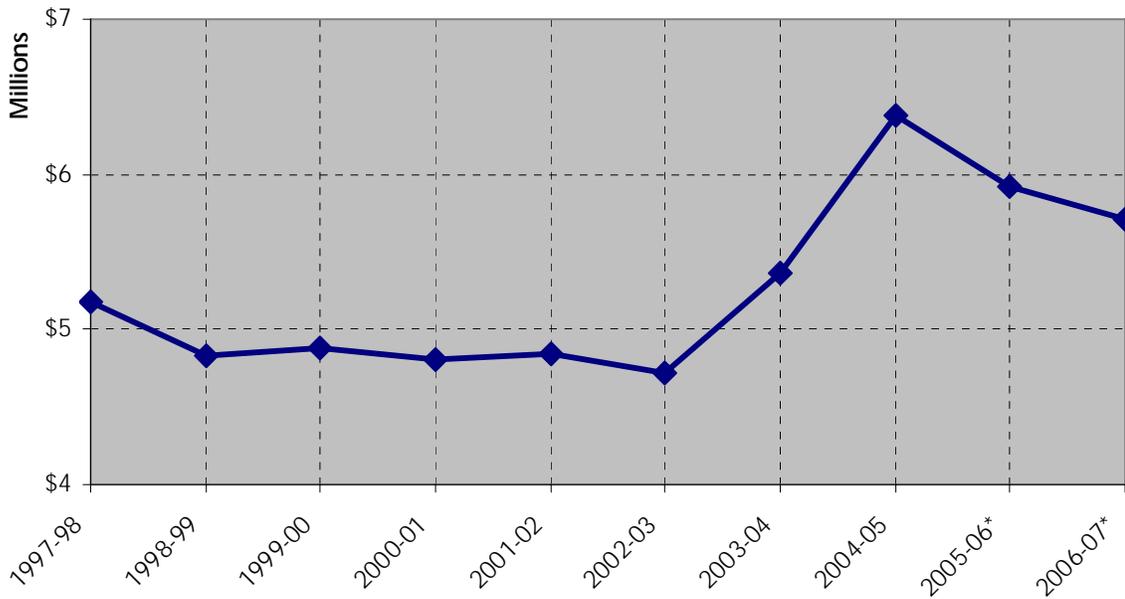
The Library, Temple Theater, and Arts Council recommended appropriations reflect no significant change over FY 2005-06 funding levels even though all requested increases in County funding.

Debt Service

This proposed budget includes debt service for the County's debt issued in 2004 for Southern Lee High School and CCCC's Emergency Services Training Facility as well as outstanding debt on six elementary schools, additions and renovations to Lee Senior High School, and other County government facilities. Based on the Board's adoption of the April 18, 2006 CIP, the proposed budget includes an interest payment of \$154,000 to cover debt issuance for an administrative building and

funds for the completion of Tramway Road Park. Following is a graph that illustrates the County's total debt service expenditures over the past ten (10) years as well as a table that illustrates future debt service payments throughout the life of each loan. Please note that of the County's total debt payment for the coming fiscal year, \$3,764,399, or 65 percent, is for Lee County School System facility construction.

Debt Service Expenditures



*projected

Table #6 – Future Debt Service Payments

Fiscal Year Ending June 30,	1997 School Bonds	2001 Refunding Series	2001 Public Improvement Bonds	2004 COPS Series	Agribusiness Center Lease	EMS Facility Lease	Telecommunication School Lease	Total
2007	2,075,000	1,329,000	160,980	1,626,445	209,904	110,970	240,841	5,753,140
2008	2,000,000	1,256,000	156,980	1,615,195	209,904	110,970	234,224	5,583,273
2009	2,225,000	884,000	152,980	1,601,445	192,412	110,970	227,604	5,394,411
2010	3,035,000		148,980	1,796,445		46,235	220,986	5,247,646
2011	2,900,000		144,980	1,773,370			214,367	5,032,717
2012	1,365,000		290,980	2,753,520			207,750	4,617,250
2013			280,980	2,667,908			201,131	3,150,019
2014			270,730	2,607,882			194,512	3,073,124
2015			245,105	2,539,283			187,894	2,972,282
2016				2,474,112			181,277	2,655,389
2017				2,388,363			174,657	2,563,020
2018				2,319,762			168,314	2,488,076
2019				2,229,725				2,229,725
2020				2,139,688				2,139,688
2021				2,049,650				2,049,650
2022				1,959,612				1,959,612
2023				1,869,575				1,869,575
2024				1,797,400				1,797,400
Totals	13,600,000	3,469,000	1,852,695	38,209,380	612,220	379,145	2,453,557	60,575,997

Emergency and Contingency

The County maintains an emergency and contingency account to budget for unexpected yet reasonable changes in the operation costs of governmental operations. This year’s Miscellaneous Expense budget includes two (2) unusual items that deserve mention. The first is a \$200,000 appropriation for workers’ compensation insurance contingency. These funds are budgeted to cover the projected 60 percent increase in said insurance.

The other noteworthy item in the Miscellaneous Expense budget is a \$564,000 contribution to the General Fund Capital Reserve account in accordance with the Board’s adopted financial policies to annually fund said reserve by the equivalent of one (1) percent of General Fund expenditures. The adoption and adherence to this goal is a wise decision that will ultimately reduce the Board’s reliance on fund balance to pay for capital acquisitions. It is hoped that as the County’s financial condition improves, this goal will be increased to more adequately fund the capital projects of the government.

A complete accounting of all Emergency and Contingency appropriations is provided in the following table.

Table #7 – Miscellaneous Expense Account Expenditures

Amount	Purpose
\$ 42,000	Unemployment insurance contingency
\$200,000	Workers' compensation insurance contingency
\$ 28,000	Property and Liability insurance contingency
\$100,000	General contingency
\$564,000	Capital Reserve Fund transfer (per Financial Policy)

-----End of General Fund-----

ROOM OCCUPANCY TAX FUND

The revenues from this fund are derived from a 3% surcharge placed on hotel/motel rooms within Lee County and are dedicated to the operation and capital improvements of the Dennis A. Wicker Civic Center. An appropriation of \$161,353 is budgeted from estimated annual receipts to fund the operations of the Civic Center.

SPECIAL REVENUES SCHOOLS FUND

The restricted portions of Articles 40 and 42 sales tax proceeds are deposited in this fund as required by State law. Also, the proceeds from the Public School Building Capital Fund (ADM) are deposited in this fund for accounting purposes. Using current year projections, an increase in sales tax collections is projected at five (5) percent or \$82,830.

An increase of \$83,258 is projected in the public school building capital fund. These funds are transferred to the general fund to service funding school related debt.

CAPITAL RESERVE FUND

It is recommended, for the 2006-07 fiscal year, that a General Fund budgeted contribution of \$564,000 be made to support reserves for capital projects. This amount is derived from a calculation of one (1) percent of General Fund expenditures and is in accordance to the Board's financial policies.

EMERGENCY TELEPHONE SYSTEM FUND

The Board established this fund during the 1996-97 fiscal year to account for the E-911 surcharge revenues collected by Alltel. An appropriation of \$339,075 is being transferred to the City of Sanford to compensate them for leasing equipment and paying other qualified costs for the E-911 Communications Center located in the basement of City Hall. The balance of the funds will be transferred to the County's

General Fund to pay for qualified E-911 cost at the Sheriff's Dispatch Center, which is located at the Courthouse and in the Strategic Services department. The total appropriation from this fund is \$353,842.

STATE SCHOOL BOND RESERVES FUND

This fund has been used to hold monies received from the State School Bonds approved in 1997. These funds have been used to cover debt service for Southern Lee High School. As all funds should be depleted in FY 2005-2006, this fund will be closed through the Budget Ordinance for FY 2006-078.

AIRPORT TAX RESERVE FUND

On February 20, 2003, the Board of Commissioners approved a funding agreement for the Sanford-Lee County Regional Airport Authority. The agreement establishes a reserve fund based on the amount of property tax collected on personnel property located at the airport during each fiscal year. The first priority in the use of the collected funds will be for the operation and maintenance of the airport and airport capital projects. Excess funds may be used for public purposes that benefit both the city and county.

As of this writing, the Airport Authority has not completed their budget for FY 2006-07; however, management has indicated that the maximum request from this fund would be \$159,298. This is an increase of \$72,322. \$65,000 of the increase is requested to fund the potential acquisition of a fuel farm for the airport. The total request can be met with current year tax revenues.

WATER DEBT SERVICE FUND

This fund was established in FY 2005-06 to accept contributions from the City of Sanford to offset the remaining debt that Lee County Water & Sewer District #1 holds on the water system that was transferred to the City of Sanford in March 2005.

FIRE DISTRICTS FUNDS

With the establishment of the Lee County Fire Advisory Board (FAB), this proposed budget does not include recommendations for the volunteer fire department budget requests. The FAB is considering the FY 2006-07 funding levels for each of the fire districts and will present their recommendation to the Board of Commissioners by May 23, 2006.

SOLID WASTE FUND

The purpose of this fund is to account for revenues and expenditures in the Solid Waste enterprise budget. Total projected revenues for the fund are \$1,275,104 a 3.4 percent increase from the current fiscal year. The primary reason for the increase is the projected use of \$62,917 of fund balance in FY 2006-07 to purchase equipment.

The fees assessed to fund this enterprise fund are being proposed as follows:

<u>FEE</u>	CURRENT RATE	PROPOSED RATE	DIFFERENCE
(1) Disposal fee	\$38.50	\$38.50	\$0.00
(2) Collection fee	\$38.50	\$38.50	\$0.00
Total	\$77.00	\$77.00	\$0.00

Other revenues that make up this fund include construction and demolition tipping fees (\$30.00 per ton), a \$1.07 per ton increase. Other revenues include State grants for tire and white goods disposal and recycling revenues.

Expenditures in this fund are designated in two categories, waste disposal operations and waste collection operations. The cost of waste disposal operations is increasing \$47,187 in FY 2006-07. Most of the increase can be attributed to major repairs that are needed to the dozer that is used to maintain the working face at the Lee County Construction & Demolition Debris Landfill.

In reviewing initiatives to reduce cost of the Solid Waste Fund, a recent audit of convenience center usage was conducted. Use of Lee County's Solid Waste convenience centers is restricted to the unincorporated area's residents, home-based businesses and churches. The audit indicated that an average of 14 percent of users reside outside of Lee County. Illegal use of the Wilson Road Convenience Center alone was 25 percent. To curb this misuse, the implementation of a convenience center decal system is recommended in FY 2006-07. Under this system decals will be issued to anyone who pays the annual solid waste fee allowing them unlimited use of our convenience centers. This system could result in the avoidance of up to \$19,000 in tipping fees next fiscal year.