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FY 2019-20 BUDGET

SUMMARY OF 2019-20 BUDGET AND KEY ISSUES

TO: Chairman Tommy Bowen
Vice-Chairman Dempsey Bond
Commissioner Butch Lilley
Commissioner Ronnie Smith
Commissioner Joe Ayers

FROM: David Bone, County Manager

DATE: May 22, 2019

Commissioners:

In accordance with the General Statutes of North Carolina, I respectfully submit for your review and consideration the Proposed Budget for the County of Martin for Fiscal Year 2019-20. This document represents the manager's recommended budget, as is required by the NC General Statutes. The FY 2019-20 Budget totals \$32,798,464 for all County General Fund operations, capital improvements and debt service.

Budget Development Process

Departments and County Agencies submitted their budget requests to the County Manager by February 22, 2019. Presentations on these requests were made to the Board of Commissioners on March 20th. Outside agencies presented their budget requests on March 27th. The Board of Commissioners held a joint meeting with the Board of Education about its budget needs on May 1st. Budget work sessions were held with the Board of Commissioners on May 13th and 20th.

Statutory Requirements

North Carolina General Statute § 159-11(b) requires the County Manager to submit a proposed budget and budget message to the governing body by June 1st of each year. On the same day that the budget is presented to the governing body, the budget officer shall file a copy of it in the office of the clerk for public inspection and schedule a public hearing. This public hearing has been scheduled for the regularly-scheduled Board of Commissioners Meeting on June 12, 2019 at 7:00 p.m.

The governing body must adopt the annual budget ordinance by July 1st [North Carolina General Statute 159-13(a)]. However, North Carolina General Statute § 159-16 directs that if the budget ordinance is not adopted by July 1st, the governing body must adopt “interim appropriations for the purpose of paying salaries, debt service payments, and the usual ordinary expenses” of the county until the ordinance is adopted. North Carolina General Statute § 159-13 specifies that not earlier than 10 days after the budget is presented to the governing body and not later than July 1st, the governing body shall adopt a budget ordinance. Otherwise, the Board of Commissioners may adopt an interim budget ordinance to be effective from July 1st to August 1st.

Budget Includes the General Fund, Enterprise Funds and Other Funds

The County budget is composed of revenues and expenditures for several funds, including the General Fund, the Water District (Enterprise) Funds and Other Funds. The General Fund accounts for resources traditionally associated with government that are not required legally or by sound financial management to be accounted for in other funds. Enterprise funds consist of a grouping of activities whose expenditures are wholly or partially offset by revenues collected from consumers in form of fees and charges. Enterprise funds are traditionally run more “like a business”.

Budget Emphasis – Maintaining Services, Absorbing Increased Employee Benefit Costs and Minimizing a Tax Increase

The FY 2019-20 budget is based on a tax increase of 2-cents per \$100 valuation – taking the tax rate from the current \$0.79 per \$100 valuation to \$0.81 per \$100 valuation, plus the applicable fire district tax, which ranges from 4-cents to 8-cents.

The county is expecting a decrease in property value of about \$7,000,000. At the current tax rate of \$0.79 per \$100 valuation, that represents about \$50,000.

The cost of the State Health Plan for employee health insurance is expected to increase by 5%, which will cost approximately \$60,000.

The cost of the Local Government Retirement System will cost an extra \$80,000 in 2019-20. This will be the first of at least three annual increases.

Many agencies requested increased funding from Martin County for 2019-20, and these requests were strongly considered. In an effort to minimize a tax increase, most outside agency requests for increased funding were not included in the this budget, while some agencies received modest increases.

One penny on the tax rate equates to about \$166,000 in property tax revenue.

A preliminary draft of the FY 2019-20 budget suggested the need for a 4-cent tax increase. After the two budget work sessions with County Commissioners, cuts were made from the preliminary draft budget, so the FY 2019-20 budget includes a tax increase limited to two (2) cents per \$100 valuation.

Revaluation

North Carolina General Statute § 105-274 states all real and personal property located within its jurisdiction shall be subject to taxation unless it is otherwise exempted or excluded from taxation by law. North Carolina General Statute § 105-286 requires each county to conduct a General Reappraisal of all real property at least once every eight years. Martin County’s most recent revaluation was concluded as of Jan. 1, 2017. The next revaluation should be completed by January 1, 2025. The primary purpose of any revaluation program is to provide equalization among all property owners, as well as among all classes of property.

Since property taxes are based on value, it is important to have all property valued periodically on a uniform basis, using a modern system of valuation. Property values change with time. Some values go up, some go down, and others remain static. Appraisals must be updated, or inequities in tax distribution will result.

Reappraisals cover all residential and commercial land and structures, which includes homes, apartments, condominiums, office buildings, stores and warehouses. Reappraisals do not include what is classified as individual personal property, such as vehicles, boats, airplanes, and business equipment. These property types are valued annually.

North Carolina General Statute § 105-283 requires appraisals to be made of each property's "true value in money" or "fair market value", which is the most probable price a property would bring in a competitive and open market. Property values for a reappraisal are determined by comparing what similar properties are selling for, what it would cost to replace one's property, the potential income or highest and best use of one's property, as well as many other factors that may affect value.

During the revaluation, professional appraisers analyze data by reviewing of properties and establish the estimated fair market value (i.e., the price a willing seller would receive from a willing buyer).

FY 2019-20 BUDGET SNAPSHOT

TAX RATE: The budget is based on a 2-cent increase in the tax rate – from \$0.79 per \$100 valuation to \$0.81 per \$100 valuation, plus the applicable fire district tax.

TAX VALUATION: The total tax value decreased slightly from \$1.7578 billion to \$1.7509 billion.

WATER RATE: The water rate will stay at the current base rate of \$50 per month.

RAISES: The budget includes approximately \$160,000 for a 2% cost-of-living increase for employees, which equates to approximately one cent on the tax rate. The budget does not include a merit raise for employees.

STAFFING: The budget includes funding for a one new position in the Department of Social Services (which includes a 50% federal match), and one position in the Adult and Aging Services Department (the cost of which the Council on Aging has agreed to pay half). The budget also includes the conversion of two part-time Transit positions (which have been a challenge to fill) into a full-time position. The budget also creates an Economic Development Director position. Martin County has contracted with Martin County Economic Development Commission (EDC) for economic development services. Under the new arrangement, which starts July 1st, the County will have an Economic Development Director position, and Martin County EDC will contract with Martin County for the services of the Economic Developer.

USE OF SAVINGS: The budget includes a Fund Balance appropriation of \$1,270,777 and a transfer of \$1,566,667 from the Hospital Fund.

BOARD OF EDUCATION: The Board of Education requested \$6,110,255 in Current Expenses, an increase of \$320,097. An increase of \$94,000 is included in the proposed budget. The Board of Education requested \$881,979 in Capital Outlay (not including the \$1 million investment in the Career Technical Center), an increase of \$342,107. No increase in Capital Outlay is included in the proposed budget.

MARTIN COMMUNITY COLLEGE: MCC requested \$1,056,806 in Current Expenses and \$170,000 in Capital Outlay (total of \$1,266,806). Last year, Martin County funded \$1,029,054 for Current Expenses and \$60,000 for Capital Outlay (total of \$1,089,054) for MCC. The 2019-20 budget maintains the 2018-19 level of funding for MCC – a total of \$1,089,054.

JAIL: The 2018-19 funding level for the Bertie-Martin Regional Jail (\$1,346,486) will be maintained in 2019-20.

YOUTH DETENTION: This budget maintains the line item for youth detention at \$70,000.

DRUG RECOVERY COURT: \$10,000 is included in the 2019-20 budget for a new Drug Recovery Court initiative.

HEALTH DEPARTMENT: Martin-Tyrrell-Washington District Health requested \$410,312 in funding. The 2019-20 budget includes maintenance of the current funding level of \$378,733.

MENTAL HEALTH: The budget includes maintenance of the current funding of \$48,462 for Trillium.

LIBRARY: The Beaufort-Hyde-Martin (BHM) Regional Library requested an increase in funding of \$10,419. The 2019-20 budget maintains the 2018-19 funding level of \$104,194 for the BHM Regional Library.

ECONOMIC DEVELOPMENT: With the creation of the Economic Developer position, the contribution to Martin County Economic Development decreased to \$160,853. There are three economic development investment grants included in the budget, including grants for Syfan, AR Textiles and Weitron.

CADA: The Choanoke Area Development Agency (CADA) is the Community Action Agency and Community Services Block Grant (CSBG) administrator serving Martin County. Its mission is to assist low income citizens achieve self-sufficiency. \$52,000 was requested. Maintenance of the current level of funding (\$25,000) is included in the 2019-20 budget.

RESCUE SQUADS: Martin County currently provides each rescue squad with a flat funding level of \$27,500. Additionally, the County provides \$45 per call for rescue calls, as well as an additional \$5 per call increase for squads providing an Advanced Life Support (ALS) level of service, rather than Basic service. This was implemented an incentive for squads to provide an Advanced Life Support (ALS) level of service. Robersonville, Jamesville and Williamston provide ALS service. The proposed budget raises the flat funding level by \$5,000 per squad. Additional increases are based on call volume.

CAPITAL OUTLAY: Major Capital Outlay expenses the replacement of 6 vehicles in the Sheriff's Office, 1 vehicle for Social Services, 1 vehicle for Buildings and Grounds and a new telephone system for the Governmental Complex.

BUILDING MAINTENANCE: No major building projects are included in the Building Maintenance Department. Martin County will be paying for additional operating expenses for the renovated Ray Street Building (for Transit) and the new 911 center.

DEBT SERVICE: No new debt service is scheduled in the FY 2019-20 proposed budget.

Deferment of Major Capital Projects

Two major capital projects were discussed in the 2019-20 budget development process:

- (1) Renovations to the courthouse to allow for one point of entry (for security purposes) – estimated cost of \$680,000; and
- (2) Building for Emergency Management, Maintenance and Sheriff's Office – estimated at \$290,000.

Neither of these projects are included in the 2019-20 budget but may be considered in the future.

NOTE: The renovations to the courthouse also would require staffing and equipment costs of \$190,000.

Ongoing Concern about Water Districts' Financial Health

Martin County Water Districts 1 & 2 continue to struggle with funding operational needs, debt service and capital reserves. Water Districts 1 & 2 are Enterprise Funds, which are traditionally run more “like a business”. Revenues in Water District 1 did not cover debt service payments and expense in 2018. At June 30, 2018, District 1 owed the General Fund \$156,053. Revenues in Water District 2 have not been covering debt service payments and expenses. Water District #2 is a younger district and has more debt. At June 30, 2018, Water District 2 owed the General Fund \$1,071,325.

The Water Districts continue to struggle absorbing the additional cost to purchase water from the Martin County Water and Sewer Authority (MCRWASA). Due to MCRWASA’s debt service and operational needs, the Town of Williamston and Water Districts 1 & 2 began making payments to MCRWASA, effective July 1, 2015. The MCRWASA water treatment plant began distributing water to its member organizations March 1, 2016.

For 2018-19, the MCRWASA wholesale water rate (the rate charged by MCRWASA to the Town of Williamston and Martin County Water Districts #1 and #2) will remain at the 2018-19 level – \$5.63 per 1,000 gallons. The 2017-18 rate was \$5.15 per 1,000 gallons, and the 2016-17 wholesale rate was \$4.75 per 1,000 gallons.

The 2019-20 budget does not increase the water rates for Martin County Districts 1 & 2. In 2018-19, the base monthly was increased from \$42 per month to the current rate of \$50 per month. 1,000 gallons of water is included in the base rate. The usage fee for additional water usage remains at \$8.50 per 1,000 gallons. Martin County still faces challenges in regards to the financial health of the water districts. The NC Local Government Commission (part of the NC Treasurer’s Office) reviews the annual financial statements / audit reports for all local governments in NC. As a result of their review of Martin County’s audit report, the LGC has expressed concern about the rate structure not creating enough revenue to support operating expenses and capital needs. Martin County is on the LGC’s “watch list”, due to the financial challenges facing the districts, and a consultation visit is scheduled for the near future.

Martin County Water Districts 1 & 2 are relatively young – District 1 became operational in 2001 and District 2 in 2006. The customer base of both districts totals less than 1,900 households, with only a few commercial customers. This is well below the projections provided at the beginning of these projects, and therefore, revenues have not achieved projected levels.

The Martin County Water Department is a lean, efficient organization with limited opportunities for cost savings through further cost control measures. In December 2014, Martin County did refinance the construction debt for Water Districts 1 & 2 by issuing bonds.

The bonds were very well received in the market, and Martin County should receive about \$2.7 million in savings for repaying the Water Districts 1 & 2 debt over the bond term; however, most of the savings will be realized on the tail end of the debt repayment – after 2044.

Martin County is a rural county with a decreasing population base and limited development. In 2010, the population in Martin County was 24,505. Currently, it is 23,199. Martin County loses about 1% of its population each year. The declining population base limits the opportunity for expansion of the service area / customer base.

Use of Savings

The County's savings consists of the Fund Balance from the General Fund, as well as the Hospital Fund. The state requires a minimum of 8% in the Fund Balance for cash flow purposes. The 8% Fund Balance requirement is the minimum amount needed for cash flow. Martin County's main source of revenue is the property tax, which is mostly collected between November and January. The County needs its cash reserves to pay for bills in July, August, September and October. Additionally, the County needs to maintain a certain amount of reserves for unforeseen events, such as hurricanes.

A Fund Balance Policy was established on April 10, 2013 and is intended to address the needs of Martin County in the event of unanticipated and unavoidable occurrences which could adversely affect the financial condition of the County. This policy ensures the County maintains adequate fund balance and reserves in the County's general fund balance to provide sufficient cash flow for daily financial needs, provide funds for unforeseen expenditures, and offset significant economic downturns or revenue shortfalls. The Board of Commissioners adopted a policy / goal of maintaining a Fund Balance of 20%. As of June 30, 2018 the Martin County Available Fund Balance (according to the LGC definition, not the CAFR) was approximately \$8.5 million (or about 30%). According to the CAFR definition of "Unassigned" Fund Balance, Martin County has approximately \$8.4 million (or about 29%). The following is the historical trend for the County's Total General Fund - Fund Balance:

YEAR	TOTAL
2018	\$11,994,271
2017	\$11,972,890
2016	12,033,819
2015	10,599,984
2014	8,648,701
2013	6,694,544
2012	7,441,804
2011	8,892,145
2010	9,353,041
2009	10,087,996
2008	9,366,394

The Hospital Fund consists of lease payments paid in advance for a 30-year lease, which was entered into in 1998. 1/30th of these funds are considered “earned” for each year of actual use of the hospital building. Accounting principles dictate that the County should not spend lease payments until they have been “earned”. In the Hospital Fund, as of June 30, 2018, the County had about \$13.5 million. The earned revenue in the Hospital Fund as of June 30, 2018 was about \$7.7 million.

YEAR	TOTAL	EARNED
2018	\$13,546,770	\$7,738,441
2017	\$12,411,798	\$6,036,802
2016	12,380,235	5,438,572
2015	13,115,690	5,607,359
2014	14,806,697	6,731,700
2013	15,779,000	7,137,336
2012	15,851,383	6,643,052
2011	16,016,113	6,241,115
2010	16,048,998	5,707,333
2009	16,134,334	5,226,002
2008	16,455,039	4,979,794

NOTE: In FY 2018, Martin County sold the shell building in the industrial park to Weitron. The shell building was built with a combination of Golden Leaf grant funds, US CIAP (federal) funds and local funds. When the property was sold, a pro rata share of the sale proceeds (\$1,062,693) was returned to the Hospital Fund. The pro rata shares of the sale proceeds that originated from Golden Leaf and US CIAP are being managed by Martin County EDC. The Golden Leaf funds are restricted for the development for future shell building / sites in the industrial park.

Looking Ahead

A number of issues with budget implications are in the foreseeable future for Martin County. The Board of Commissioners may want to keep these items in mind in preparation for the FY 2020-21 budget process. These issues include the following:

1. Martin County continues to lose population. In 1980, Martin County's population was 25,866. Currently, it is 23,199. Projections indicate population will decrease to about 20,410 over the next 13 years (source: Martin County Comprehensive Land Use and Wellness Plan). The population decrease directly affects certain population-based revenues and raises issues such as school consolidation. Also, a decrease in population negatively impacts the need for new construction / investment and the County's property tax base. Martin County will continue to experience financial challenges, due to the declining population.
2. As aforementioned, Martin County continues to struggle with the debt service from Martin County Water Districts #1 and #2, as well as a small customer base. This situation is exacerbated by the debt service and operational costs of the Martin County Regional Water and Sewer Authority (MCRWASA). Martin County is a partner in MCRWASA, and Martin County Water Districts #1 and #2 purchase treated water on a wholesale basis from MCRWASA.
3. The budget relies significantly on the use of savings to balance the budget. This situation needs to be continuously monitored over the next few years and appropriately managed so Martin County does not grow overly reliant on savings. Such a practice is not sustainable.
4. Martin County will continue to struggle addressing the capital maintenance needs of the County, Martin Community College and Martin County Schools unless revenues improve.
5. In order to retain and recruit high performing employees, Martin County will need to keep an eye on the market rate of salaries in nearby jurisdiction, particularly in public safety positions.

While Martin County has some challenges, a number of positive factors also provide some optimism for the future:

1. Martin County and the Martin County Economic Development Commission continue to make strides in the recruitment of new industries and expansion of current industries. In 2019, Weitron, Inc., a packager and distributor of refrigerant gases, opened its new production facility in Martin County's newly rebranded "NC Rail and Commerce Park".
2. Weitron needed rail access at its new facility. To provide Weitron rail access for the new facility located in the Martin Regional Business Park, Martin County pursued and was awarded multiple grants, including grants from the NC Railroad Company, NC Commerce, NC DOT, and the Golden Leaf Foundation. The rail project involved the installation of approximately 4,900 track feet of industrial track, 4 switches, demolition, clearing and grubbing, excavations, grading, importation of select fill material if not available on-site, storm drainage (pipes and structures) and associated sedimentation/erosion control measures and related appurtenances to serve the NC Rail and Commerce Park. The rail project provides rail access to other sites in the industrial park and will be attractive to additional industries considering investment in northeastern North Carolina.
3. In December 2015, the federal government designated the US-64 / US-17 corridor as a "future interstate." In May 2016, the corridor was given the I-87 number. An interstate highway between Raleigh, NC and Norfolk, VA will increase mobility between two significant metropolitan areas in our adjoining states and enhance economic development for citizens and jurisdictions in between. Having the "future interstate" designation in place enhances the attractiveness of the region for economic development and industry investment. Furthermore, the NCDOT has applied for federal INFRA grant funding, which would expedite the development of the US-64 portion of the future I-87 corridor to interstate standards.

Conclusion

Planning and preparing for the future is fundamental to the effective governance and management of a County. The County staff has worked diligently to present a balanced budget which will meet the needs of our citizens, while striving to be good stewards of the funds which they have entrusted to us. I offer my gratitude to Finance Officer Cindy Ange, County Clerk Jessica Godard and the entire staff for their help preparing this budget. I also thank the Board of Commissioners for its input in the development of the budget and for its continued leadership to Martin County.

Respectfully submitted,

David Bone
County Manager