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FY 2020-21 BUDGET

SUMMARY OF 2020-21 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 27, 2020

Commissioners:

This budget has been developed in an unprecedented time. The impact on lives locally and globally are well documented, but so much is still uncertain. The full economic impacts of the global pandemic are not yet known, and providing a precise estimate of revenues and expenditures is not possible in this ever-changing environment. However, we must establish a baseline and develop a budget that will guide us through the coming fiscal year.

In accordance with the General Statutes of North Carolina, I respectfully submit for your review and consideration the Manager's Proposed Budget for the County of Martin for Fiscal Year 2020-21. The FY 2020-21 Budget totals \$33,385,140 for all County General Fund operations, capital improvements and debt service.

Budget Emphasis – Maintaining Services, Adjusting to financial challenges, including factors related to COVID-19

The FY 2020-21 budget is based on maintenance of the current tax rate of \$0.81 per \$100 valuation, plus the applicable fire district tax, which ranges from 4-cents to 8-cents.

Prior to the arrival of the COVID-19 pandemic, it was understood that a number of financial challenges would be impactful to the FY 2020-21 budget, including:

- Concern about the county's declining population and tax base,
- Ongoing concerns about the financial health of the Martin County Water Districts,
- The trend of using the Fund Balance from the General Fund and the Hospital Fund to balance the annual budget, and
- Various increases in costs, including increases in health care and retirement costs for employees, among others.

With the arrival of the COVID-19 pandemic, Martin County's revenues are being negatively impacted in the current year, as well as in FY 2020-21. Additionally, COVID-19 is increasing expenses. Martin County has received \$615,106 through the State of NC's Coronavirus Relief Fund [funded through the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act] to help pay for COVID expenses, but the full budgetary impact of COVID-19 on Martin County is unknown at this time.

Additionally, staff has worked to adjust revenue forecasts, due to COVID-19. The FY 2020-21 budget is based on a 5% decrease in sales tax revenue and a 1% decrease in the collection rate (from 95% to 94%) for property taxes. There is some hope that Martin County will be provided some future funds as tax revenue replacement, but this is still uncertain.

Budget cuts have been made in every department / office.

Furthermore, the FY 2020-21 budget is based on additional use of the Fund Balance from the General Fund and the Hospital Fund to balance the budget. Times like this are some of the reasons for having adequate savings. This situation needs to be continuously monitored over the next few years and appropriately managed so Martin County does not grow overly reliant on its savings. Such a practice is not sustainable.

Budget Development Process

Departments and County Agencies submitted their budget requests to the County Manager by February 21, 2020. Presentations to the Board of Commissioners on these requests were scheduled for March 18, 2020, and outside agencies were scheduled to present their budget requests to the Board of Commissioners on March 25th; however, these budget presentation meetings were canceled, due to the Coronavirus (COVID-19) pandemic. On April 29, 2020, the Board of Commissioners held a joint budget meeting with the Board of Education via web-conference. A draft budget was distributed on May 8, 2020 and presented on May 13, 2020. The Board of Commissioners held a budget work session on May 26, 2020.

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 10, 2020 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”.

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 2020-21 BUDGET SNAPSHOT

TAX RATE: The budget is based on maintenance of the current tax rate of \$0.81 per \$100 valuation, plus the applicable fire district tax.

TAX VALUATION / TAX COLLECTION RATE: The county is expecting an increase in property value of about \$45,000,000, or about 2.5%. At the current tax rate of \$0.81 per \$100 valuation, that represents an increase of about \$364,500. However, due to economic factors related to COVID-19, Martin County is forecasting a drop in the collection rate – from 95% to 94%. A 1% drop in the collection rate equates to about \$145,000. One penny on the tax rate equates to about \$166,000 in property tax revenue.

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

RAISES: The budget does not include a cost-of-living or merit raise for employees.

STAFFING: The budget includes funding for no new, permanent positions. The budget does include the county's match (approximately \$20,000) for the Lead for North Carolina Fellowship program for one year. There is no obligation for the county's participation in this program past one year.

HEALTH INSURANCE: The cost of the State Health Plan for employee health insurance will increase in January 2021. The amount of this increase will not be known until September or October 2020. An increase of \$22,000 in health insurance costs is estimated for the last six months of the fiscal year (January 2021 – June 2021).

RETIREMENT EXPENSES: The cost of the Local Government Retirement System will cost an extra \$92,000 in 2020-21, which is a 1.2% increase. This is the second of at least three annual increases.

BOARD OF EDUCATION: The Board of Education requested \$6,098,631 in Current Expenses, an increase of \$54,424 over the amount the county budgeted in 2019-20; \$6,000,000 is included in the budget.

The Board of Education requested \$901,638 in Capital Outlay (not including the \$1 million investment in the Career Technical Center), an increase of \$361,766 over what the county provided for capital outlay for the Board of Education in 2019-20. Funding Capital Outlay at \$500,000 is included in the 2020-21 budget.

(Board of Education contd.)

The Martin County Board of Education applied for a Needs-Based Public School Capital Fund grant again in 2018, and a grant award of \$5.3 million was announced on October 8, 2018. The stipulations for the grant funding for the Career Technical Center project require the Board of Education / county to relinquish lottery funds for a 5-year period. This amounts to about \$280,000 per year. The County used the lottery proceeds to help make the debt service payment on Riverside Middle School. The last debt service payment on Riverside Middle School will be made in June 2026. Martin County will have to make up the \$280,000 difference in lottery proceeds in FY 2020-21 and through June 2026.

Martin County Schools and Martin County rely on grant funds from the NC School Safety Grant Program to help pay for School Resource Officer positions in each school. Without this grant funding, funding the positions will be a challenge for the Board of Education and Martin County. A legislative solution is being sought, and it appears this solution may be forthcoming – but it is not definitive, and the timing of a potential remedy is uncertain. The Board of Education did not include local funding for School Resource Officer positions in its FY 2020-21 budget request to the county. If this grant is extended, the Board of Education will have to either use its Fund Balance or seek funding from the county in FY 2020-21.

The salaries for all eight SRO's are included in the budget, but the Board of Education budgeted only for four SRO positions, due to the grant not being extended. The Board of Education pays for the salaries and benefits for the SRO's, and the county pays for the remaining expenses (vehicle, uniforms, gasoline, etc.).

MARTIN COMMUNITY COLLEGE: MCC requested \$1,044,054 in Current Expenses and \$60,000 in Capital Outlay (total of \$1,104,054). 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 2020-21 budget maintains the 2019-20 level of funding for MCC – a total of \$1,089,054.

JAIL: The 2019-20 funding level for the Bertie-Martin Regional Jail (\$1,346,486) will be maintained in 2020-21.

YOUTH DETENTION: This budget decreases the line item for youth detention from \$70,000 to \$30,000.

DRUG RECOVERY COURT: \$10,000 is included in the 2020-21 budget for the Drug Recovery Court initiative that was started in 2019-20.

HEALTH DEPARTMENT: Martin-Tyrrell-Washington District Health requested maintenance of the current funding level of \$378,733. The 2020-21 budget includes \$378,733 for MTW District Health.

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

LIBRARY: The Beaufort-Hyde-Martin (BHM) Regional Library requested maintenance of the current funding of \$104,194. The 2020-21 budget maintains \$104,194 for the BHM Regional Library.

ECONOMIC DEVELOPMENT: The contribution to Martin County Economic Development decreased from \$160,853 to \$154,061. There are economic development investment grants included in the budget, including grants for Domtar and AR Textiles. The amount of the budget line item for these grants have increased from \$210,000 to \$440,000, based on new corporate investments. The number and amount of economic development grants may increase during the budget year.

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. \$45,000 was requested. Maintenance of the current level of funding (\$25,000) is included in the 2020-21 budget.

RESCUE SQUADS: Martin County currently provides each rescue squad with a flat funding level of \$32,500. Additionally, the county provides \$55 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 amount of funding for rescue squads has decreased from \$447,500 to \$442,390, based on call volume.

CAPITAL OUTLAY: Major Capital Outlay expenses include the replacement of the compactor at the Landfill (\$60,000 for installment purchase), the replacement of 6 vehicles in the Sheriff's Office, 1 vehicle for Emergency Management, 1 vehicle for the Water Department and replacement of 3 vehicles in Transit (cost of \$205,000; 85% grant funded).

BUILDING MAINTENANCE: \$125,000 is budgeted for courtyard and sidewalk repairs at the Governmental Center, and \$40,000 is included for floor repairs at Moratoc Park. \$30,000 is budgeted for renovations to the District Courtroom. Also, funding is included in the Transit budget for storage building renovations, site improvements and improvements (cost of \$169,758; 85% grant funded).

DEBT SERVICE: Debt service for a used compactor (estimated purchase price of \$250,000) for the Landfill is proposed.

USE OF SAVINGS: The budget includes a Fund Balance appropriation of \$2,364,307 and a transfer of \$1,566,667 from the Hospital Fund.

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 2019. At June 30, 2019, District 1 owed the General Fund \$379,145. 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, 2019, Water District 2 owed the General Fund \$1,256,529.

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 2020-21, the MCRWASA wholesale water rate (the rate charged by MCRWASA to the Town of Williamston and Martin County Water Districts #1 and #2) will increase from \$5.63 per 1,000 gallons to \$5.73 per \$1,000 gallons.

The 2020-21 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 was held in 2019.

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. As of 2018, it was estimated at 23,264. 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, 2019 the Martin County Available Fund Balance (according to the LGC definition, not the CAFR) was approximately \$7.8 million (or about 26.8%). According to the CAFR definition of “Unassigned” Fund Balance, Martin County has approximately \$7.7 million (or about 26.5%). The following is the historical trend for the County’s Total General Fund - Fund Balance:

| YEAR | TOTAL |
|-------------|--------------|
| 2019 | \$11,510,902 |
| 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 |

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, 2019, the county had about \$12.7 million. The earned revenue in the Hospital Fund as of June 30, 2019 was about \$7.48 million.

| YEAR | TOTAL | EARNED, AVAILABLE |
|-------------|--------------|------------------------------|
| 2019 | \$12,729,912 | \$7,488,250 |
| 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 |

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. These issues include the following:

1. With the arrival of the COVID-19 pandemic, staff has worked to adjust revenue forecasts. The FY 2020-21 budget is based on a 5% decrease in sales tax revenue and a 1% decrease in the collection rate (from 95% to 94%) for property taxes. While the county may eventually receive some reimbursements for COVID-19 costs through federal and state sources, the extent of reimbursements is unknown at this time. Martin County has received \$615,106 through the State of NC's Coronavirus Relief Fund [funded through the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act] to help pay for COVID expenses, but the full budgetary impact of COVID-19 on Martin County is unknown at this time. The COVID-19 situation is fluid, changing daily. The federal and state government response strategies continue to evolve, and Martin County will continue to monitor the situation to take advantage of new resources.
2. Martin County Schools and Martin County rely on grant funds from the NC School Safety Grant Program to help pay for School Resource Officer positions in each school. Without this grant funding, funding the positions will be a challenge for the Board of Education and Martin County. A legislative solution is being sought, but if the solution is obtained, the timing is unknown. The Board of Education did not include local funding for School Resource Officer positions. If this grant is extended, the Board of Education will have to either use its Fund Balance or seek funding from the county. Even if a short-term solution is implemented for 2020-21, a conversation between the Board of Commissioners and Board of Education concerning funding School Resource Officer positions may prove helpful.
3. 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.
4. 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.
5. In recent years, Martin County Schools has relied on its Current Expense Fund Balance to balance its budget. At June 30, 2019, Martin County Schools had \$2,820,397 in its Current Expense Fund Balance. In 2019-20, Martin County Schools budgeted

\$915,653 from its Fund Balance. While Martin County Schools does not expect to use this amount of its Fund Balance in 2019-20, its Current Expense Fund Balance is decreasing, and Martin County's Fund Balance is decreasing, as well. Further erosion of the Fund Balances of each jurisdiction will create additional budgeting challenges in future years.

6. The Martin County Board of Education applied for a Needs-Based Public School Capital Fund grant in 2018, and a grant award of \$5.3 million was announced on October 8, 2018. The stipulations for the grant funding for the Career Technical Center project require the Board of Education / county to relinquish lottery funds for a 5-year period. This amounts to about \$280,000 per year. The county used the lottery proceeds to help make the debt service payment on Riverside Middle School. The last debt service payment on Riverside Middle School will be made in June 2026. Martin County will have to make up the \$280,000 difference in lottery proceeds through June 2026.

The manager recommends the Board of Education explore its Public School Building Capital Fund (PSBCF) to help fund the Career Technical Center project, various technology needs and various other capital needs, particularly through 2026. After 2026, the Lottery funds given up for the Career Technical Center grant will be restored, and the debt service on Riverside Middle School will be fully paid.

7. Martin County continues to lose population. In 1980, Martin County's population was 25,866. Currently, it is 23,264 (July 2018 Certified Population Estimate, NC Department of Commerce). Projections indicate population will decrease to about 20,410 over the next 12 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.
8. Martin County will continue to struggle addressing the capital maintenance needs of the county, Martin Community College and Martin County Schools unless revenues improve.
9. 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 jurisdictions, particularly in public safety positions.

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

1. 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.
2. Martin County continues to make improvement to its industrial park, and the park is well positioned for growth. To take advantage of its rail assets and the future I-87 interstate designation, Martin County rebranded the park to the “North Carolina Rail & Commerce Park”. On March 11, 2020, the Board of Commissioners approved a tank maintenance contract and a modified gravity sewer construction project contract in the park. The work is being funded through a \$1,013,940 Rural ReadySites grant from the North Carolina Department of Commerce.
3. Martin County Schools (in partnership with Martin County, Martin Community College and Martin County Economic Development Commission) will be renovating the former NC Telecenter property into a Career Technical Center. The Martin County Board of Education received a Needs-Based Public School Capital Fund grant award of \$5.3 million for the center on October 8, 2018. Construction of the project is expected to begin in the late summer of 2020. The project will assist the county in advancing its educational and workforce development goals.

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