



To: **Board of Commissioners**

From: Richard D. Morris, County Manager/Budget Officer

Date: May 23, 2005

Re: Fiscal Year 2005-06 Budget Message

As required by North Carolina General Statute 159-11, I hereby submit my proposed balanced budget for Fiscal Year (FY) 2005/06. The mandatory Public Hearing for the proposed FY 2005/06 Budget has been scheduled for 7:00 pm on Friday June 3, 2005 at the Stokes County Government Center Building, Courtroom "A".

Budget Theme

The theme of the proposed FY 2005/06 budget is defined by the following three major objectives:

- Continued recovery and rebuilding from earlier revenue reductions.
- Restoration of the General Fund to an acceptable level.
- A reduction in budget growth from the FY 2004/05 Budget, which grew 9.6% over the previous year's budget (FY 2003/04).

With the proposed FY 2005/06 Budget, Stokes County should continue to emphasize its recovery from past revenue reductions even though significant progress was made on the General Fund balance in this year's FY 2004/05 Budget. The total budget request for 2005/06 from both internal and external requesters was \$ 41,420,560.00, which is a 12.58 % increase over last year's request. My total proposed budget is \$ 39,181,258.00, which is a 6.49 % increase over the 2004/05 approved budget. It should be noted that approximately .5 % of this year's 6.49 % increase can be attributed directly to price increases for fuels. My proposed budget requires no increase in the property tax rate and restores the General Fund balance from 7.73 % to 8 %.

Eight percent (8%) is the minimum recommended by the Local Government Commission and is critical to the county maintaining its A (S&P) and A1 (Moody's) bond rating. The county's bond rating will be critically important should the Board of Commissioners decide to seek financing for new school construction at some point in the future. My proposed budget also applies a portion (45.20 %) of the Hold Harmless funding to rebuild the General Fund balance if Hold Harmless funds are received as promised. Hold Harmless is discussed further in the next paragraph.

The contingency line in this proposed budget for emergencies is funded at \$100,000, the same as FY 2004/05. The Hold Harmless revenue for FY 2005/06 is projected to be \$1,994,458.00. Of this amount, 54.80 % is budgeted to specific items with the condition that these funds will not be executed until the Hold Harmless is received. Also, the majority of the budgeted portion of Hold Harmless funding is designated for non-recurring expenditures. This strategy is designed to eliminate the county's dependence on Hold Harmless funding since these funds are always uncertain and are eventually planned for elimination.

Revenues

Revenue projections for my proposed budget are supported by a strong collection effort by the Tax Department where we should exceed budget for the second consecutive year. This is also a revaluation year in the County and additional revenues may be realized as a result of increased property values.

A number of the fees charged by the County are recommended for an increase to meet the increased cost of providing services. Those requesting these increases include the Health Dept., Emergency Medical Services Dept. and the E-911 Fund. A fire tax increase is also being requested for the following fire districts:

- Walnut Cove Fire District
- King Fire District
- Stokes County Fire Service District

In the case of Walnut Cove, the fire tax increase is to offset the elimination of inventory tax, which historically allowed a lower fire tax rate for the Walnut Cove Fire District than for its neighboring districts. The King Fire District and Stokes County Fire Service District had expectations that the revaluation would provide adequate funding for this year's budget request without a tax increase. The revaluation has not met these expectations. Therefore, additional funds are needed to fund the fire district budget requests and to restore depleted fund balances. The Rural Hall Fire District requires no tax increase for this year's request; however, their estimated fund balance will be reduced to \$731.00.

Capital Financing

My proposed budget is designed to take advantage of the current low interest rates by using Debt Service to finance a number of remaining required capital items over three years, which will spread out cash outlays while locking in a low interest rate. Items included in this purchase are as follows:

- One (1) ambulance - Emergency Medical Services
- Nine (9) patrol cars - Sheriff's Department
- One (1) new truck - Animal Control
- One (1) new truck - Public Buildings
- One (1) new larger van - Jail

Under a consolidated financing arrangement, the schedule will be constructed such that the initial payment on the note will not be due before July 1, 2006. This will allow the equipment to be placed on order and received this fiscal year (FY 2005/06) with the first outlay of funds not occurring until next fiscal year (FY 2006/07).

Personnel

In the area of personnel, my proposed budget provides a 2% cost-of-living adjustment (COLA) for all county employees, which includes the Board of Commissioners.

My proposed budget also provides for a longevity increase in the base salary for all permanent full time and permanent part time employees with the exception of law enforcement personnel who already receive midpoint longevity increases at the five-year point of service. The added longevity increase is for employees who have fifteen consecutive years of Stokes County employment with no break in service. These employees will receive a \$ 2,000.00 increase added to their base salary. This increase will become effective on July 1st of each year for employees completing fifteen years of service during the prior fiscal year subject to budget approval. The percentage of the \$2,000.00 increase received by permanent part time employees will be based on the percentage of full time they are working at the time of eligibility.

These increases in employee compensation are needed given the overall lack of salary increases for several years prior to FY 2004/05. In reviewing the classification upgrades included in last year's 2004/05 Budget, the employees who have demonstrated the longest term commitment, by staying with the County, in most cases received minimal or no salary increase from the upgrades at that time. This was due to the current salary structure, which only provides systematic pay increases through the three- year developmental cycle in the initial phase of employment. It should also be noted that employee health insurance and dental insurance costs have both increased again this year though the percentage increases will be slightly less than last year. The recommended COLA and longevity increases are conditioned on the receipt of Hold Harmless funds and will become effective with the pay period beginning 9/23/05.

Also included in my proposed budget are six (6) personnel reclassifications for the departments shown below:

- Two (2) - Planning Department
- One (1) - Department of Social Services
- One (1) - Elections Department
- One (1) - Solid Waste
- One (1) - Part-time position in Senior Services

The reclassifications are called out in the budget notes under each department and scheduled to become effective with the pay period beginning 09/23/05. Final Board approval of personnel reclassification changes will result in an update of these positions on the personnel classification guide for the County.

Updates to the classification guide will not include any increases in the minimum and maximum salary ranges for the affected grade levels. Personnel reclassification changes are being recommended to ensure that duties being performed are accurately reflected in the position descriptions and that employees are being properly compensated for their current position responsibilities.

Also in the area of personnel, my proposed budget includes three new positions for the departments shown below:

- Two (2) - Department of Social Services
- One (1) - Administration

These are also called out in the budget notes under each department. Detailed justifications will be available for the reclassifications and added positions. New positions, with the exception of DSS, and the reclassifications are conditioned on the receipt of Hold Harmless and will become effective with the pay period beginning 9/23/05.

Revenue-Neutral Tax Rate

North Carolina General Statute 159-11(e) requires that the taxing unit publish in the operating budget a statement reflecting the revenue-neutral tax rate for the fiscal year following the revaluation year. In complying with this requirement, I would remind the Board of Commissioners that during the past four (4) years Stokes County has experienced a number of difficulties that have negatively affected the level of revenues available for appropriation. Examples include the state revenue emergency that occurred in FY 2000/01, and the replacement of the inventory tax in FY 2001/02 with a combination of Hold Harmless funding (for 10 years) plus a new one-half cent sales tax, the result being a net revenue reduction from that provided by the inventory tax. One additional consideration is the increasing requirement to fund mandated items such as Medicaid, which will approach \$ 2,000,000.00 of local funding in the proposed FY 2005/06 Stokes County Budget.

The cumulative effect of these negative revenue impacts was a depleted General Fund balance that dropped as low as 3.76 % in FY 2001/02 and is only projected to return above the recommended 8 % level by the end of FY 2004/05. It is the position of the Local Government Commission that counties in the general category of Stokes maintain a 20% - 22 % fund balance as an acceptable level of risk. In setting the property tax rate for FY 2005/06, I would recommend the Commissioners give careful consideration to the County's recent history and future budgetary needs plus the fact that this year's Hold Harmless is not guaranteed.

My recommendation is that the current property tax-rate of 62 cents (\$0.62) per \$100.00 of property value remain in effect. The revenue neutral tax rate would be 55.56 cents (\$0.5556). The revenue now generated by one cent of property tax is estimated to be \$316,256.00.

Department Highlights

Additional points of interest for selected departments/activities contained in my proposed 2005-06 budget are highlighted below:

- Administration – Adds one new administrative position.
- Animal Control – Adds a new truck to replace one with over 200,000 miles.
- Cooperative Extension Service – Supports full staffing of the office.
- Debt Service – Overall cost of Debt Service is reduced from last year. Includes financing of additional vehicles to complete replacement of vehicles currently beyond service life. Includes savings from recent refunding of G.O. Bonds.
- Department of Social Services (DSS) – Adds two (2) new positions one of which is federally funded by CAP and one for foster care. Also funds one reclassification. Funds a salary increase for DSS Director as requested by letter from the DSS Board.
- Economic Development – Provides funds for continued promotion of tourism.
- Elections - Funds municipal election and two (2) primary elections. Also funds one reclassification.
- Emergency Medical Services (EMS) – Funds one (1) new ambulance.
- Finance – Funds one (1) new server.
- GIS/Mapping – Funds initial part of fly-over from E-911 Fund. Increasing permanent part time employee to full time.
- Health Department – Funds 2.5% salary increase (over and above COLA) for public health nurses and nutritionists and increases fee structure for services.
- Jail – Funds new larger van for prisoner transport plus equipment required by state jail inspector.
- Natural Resources – Funds training for Agricultural Advisory Board. Also funds one John boat.
- Parks - Funds increased use of part time personnel for Moratock Park to address flood damage.
- Planning – Funds two (2) personnel reclassifications.

- Public Buildings – Provides funding for a work lift and one (1) new truck. Also provides funding for Court System facility renovations and potential renovations of the third floor or new construction to meet expanding facility space requirements.
- Recreation –Funds additional activities throughout the county to include new activities at the new satellite YMCA Program Center located in Danbury.
- Schools – My proposed budget funds 9.80 % of the requested 14.18 % increase in Current Expense and provides funding for all of the state mandated items plus a 2% cost of living adjustment for teacher pay. It also funds increases to the clerical/custodial pay scale, funds classroom technology initiatives and three (3) of the current six (6) SRO officers. Additional roof replacements are funded using ADM funds. The School Budget includes State & Federal funding estimates broken out by purpose and function. We have attempted a “best guess” estimate of where to assign reductions from the school request by purpose and function; however, I would suggest the two Boards closely examine and reassign the reductions should they desire to do so.
- Senior Services – Funds one (1) reclassification of a part-time position.
- Sheriff – Funds nine (9) new patrol cars.
- Solid Waste – Funds one (1) personnel reclassification.
- Special Appropriations – Adds new funding line for Agricultural Advisory Board and funds second part of King Senior Center.
- Tax Department - Eliminates part time salary funding in revaluation and added part time salary funding to tax administration for collections and billing.
- Capital Reserve – Adds funding for new Tax Department software, first payment to Walnut Cove Library expansion project and partial funding for a new book mobile.

I would like to personally recognize the outstanding efforts of the County Department Heads and especially Finance Director Julia Edwards, Assistant Finance Director Lisa Lankford, and Administrative Assistant Darlene Bullins for their outstanding efforts in constructing this year’s proposed budget. The department’s budget packages were thorough, well thought out and well justified.

I appreciate the Board’s consideration of my proposed fiscal year 2005/06 Budget.

Respectfully submitted, Richard D. Morris.