



# STOKES COUNTY

## Administration

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### Budget Message

Fiscal Year 2011/12

**TO: The Honorable Chairman and Commissioners  
Stokes County Board of County Commissioners**

**FROM: Richard D. Morris, Interim County Manager**

**DATE: May 23, 2011**

**SUBJECT: FY2011/12 Recommended Budget**

#### Introduction

In accordance with the North Carolina Local Government and Fiscal Control Act (G.S. 159-8), I hereby present and submit for your review and adoption a balanced proposed budget for Fiscal Year (FY) 2011/12. A mandatory Public Hearing for the proposed FY 2011/12 budget has been scheduled for 7:00 PM in Court Room "A" of the Stokes County Government Center on Monday, 6 June 2011.

#### Budget Theme

The budget theme for the FY 2011/12 recommended Stokes County Budget is "survival during difficult economic times". While significant budget measures will be required to weather the struggling economy, it was my intent to structure the proposed budget with enough flexibility to quickly respond, when the economy rebounds. It was also my intent to maintain the maximum level of services possible for the citizens, while keeping tax increases as low as possible. To accomplish this, my recommended budget includes the reduction of recurring expenses and the cautious management of the county's final "Hold Harmless" revenue allocation, to ease the transition from this budget to next year's FY 2012/13 budget. It also incorporates a sound and transparent financial approach to fund new school construction and renovation. This is a conservative, low risk budget recommendation that is designed to re-baseline the county's operations costs during 2011 and 2012, to absorb the impacts of expiring "Hold Harmless" funding, to address decreased revenues and increasing expenses and to factor in future economic unknowns and their associated risk.

## Executive Summary

The total recommended Stokes County budget for the FY 2011/12 is \$40,824,874. This is a .53% increase over the FY2009/10 budget and a 4.02% decrease from the FY2010/11 budget. The development of my recommended F/Y 2011/12 budget proved to be a challenging exercise that was negatively impacted by reduced current and future revenue projections, rising costs and the continued slow recovery of the U.S. Economy. Also impacting the proposed budget were unfunded mandates, examples being the second straight year of employer retirement contribution increases, increasing health and dental insurance costs, and a looming, federally mandated communications upgrade, which is required by January 2013. My recommended budget was developed using a two year thought process, which addressed current needs, and also factored in the impacts of this year's decisions on the challenges that are expected in the development of the FY 2012/13 budget. This year's recommended budget includes both a tax increase and the layoff of county employees, which were required to balance the budget. Details of the tax increase and layoffs are included later in the budget message.

A major area of interest will be my recommendation to change the name of the "Dedicated Fund" account to improve budget transparency, and to use it to balance the 2011/12 budget. My recommended budget changes the name from "Dedicated Fund" to "School / FTCC Construction/Operations-Debt Service" Fund. Approximately \$1.7 Million dollars is recommended for transfer from the current balance of the "Dedicated Fund" to address the county's FY 2011/12 operational needs. The funds being transferred were originally designated for school construction and renovation plus Early College debt. With the name change of this fund, it will continue to be used for new school and Forsyth Technical Community College (FTCC) construction and associated costs, and will be replenished annually using a designated segment of the county's Ad valorem taxes. My recommended budget approach segments the Ad valorem tax levy to clearly show which segment of the tax rate is being levied for existing county government and school system operating / capital expenses and which segment is being used for the sole purpose of new school & FTCC construction and associated costs. It was also my intent, from this point forward, to ensure the deliberate segregation of the Ad valorem taxes, which are specifically levied for new school construction / renovation and associated costs, and to make sure those funds are not used for any other purpose. In order to provide an adequate level of funding to the "School / FTCC Construction/Operations-Debt Service" Fund, a four cent Ad valorem tax increase will be required. The four cent tax increase is based on a financial calculation of required funding for new school construction / renovation & other associated costs of recently completed projects and approved future projects. The proposed model incorporates risk assumptions to address unknowns such as the interest rate, required number of debt repayment years and school construction lottery variances. Specific projects covered by the four cent tax increase are listed later in this message. The four cent increase should maintain an adequate fund balance to allow for fluctuations in the projected revenue stream for school construction and renovation. It will also provide recurring revenue to satisfy recurring debt for school construction. It is recommended that the four cent tax rate increase be listed separately on the tax bill to clearly show that it is being levied solely for the

purpose of school / community college construction and associated costs, and the revenue will be directly deposited into the "School / FTCC Construction / Operations – Debt Service" Fund.

This budget was also influenced heavily by external factors, beyond the control of the county.

On the revenue side:

- Sales tax receipts were down over last year
- Federal inmate reimbursement was significantly less than projected
- Interest income for idle funds is at a low
- Decreasing activity in the Register of Deeds Office

On the expense side:

- Unexpected increases in health / dental insurance occurred; NCACC pool coverage was dissolved on short notice
- Projected energy costs (examples; fuel and utilities) are up significantly
- Unfunded mandate to increase county proportion of employer retirement contribution

Other major influencers were:

- No growth in the County's property tax levy
- Expiration of "Hold Harmless" funding beginning next year
- A potential Stokes-Reynolds Memorial Hospital (SRMH) debt of approximately \$1.38M payable to Baptist Hospital as early as 30 June 2011
- Other County risks associated with the ownership of SRMH, which were difficult to quantify pending the outcome of the county's sale / lease solicitation of the hospital
- Unfunded mandate to upgrade the County's communications system by January of 2013

**Budget Requests from County Departments**

The department heads were conservative in their requests and recognized the challenges we face to do more with less for both the 2011/12 budget and the one that will follow. The combined total budget request from the County departments and outside agencies was \$43,662,308. This is a 2.64 % increase over last year's request. Increases were driven primarily by mandated changes in the county's retirement contribution and health / dental premiums. Other specific areas are addressed below.

- **Equipment**

Requests were submitted for a variety of equipment, to include new computers. Equipment items recommended for approval were two ambulance remounts and two defibrillators, all of which would be financed over five years instead of the normal two year period. The purchase of the remounts keeps the county on its ambulance rotation schedule. The defibrillators are experiencing parts obsolescence which creates

maintenance issues. Other equipment recommended for approval was the replacement of a worn out parts washer for the county garage, which will be funded from capital reserve, and matching funds for the Sheriff to purchase up-to-date bullet proof vests. Only three new computers were recommended, all of which are being funded from non-county funding sources. No county funds are recommended for new computers. No new vehicles or other equipment was recommended for procurement in the F/Y 2011/12 budget.

- **Personnel**

1. Reclassification requests / new positions – Reclassification requests were received from the Emergency Communications, Health Department, Home Health, Public Buildings, Senior Services, Tax Administration and the Sheriff's Department. All were disapproved with the exception of two in the Sheriff's Department. The first was for reclassification of three Deputy I positions to Deputy 2. Justification for this change is that these deputies were qualified as Deputy 2s upon graduation from Basic Law Enforcement Training (BLET). Our current Deputy 1s meet this requirement. In the future it is recommended that new BLET qualified deputies only be hired as deputies at the current Deputy II pay scale. The second reclassification is to add duties to the Deputy / Sheriff Sgt. /DARE position. This addition of duties will support my recommendation to not fund one other full time position next year, which is addressed further in Paragraph #2 below. I accepted Home Health's recommendation to fund a currently unfunded PHN II position using Home Health fees. It is also recommended that a new position be added for the Early College. This is a combined position that will provide custodial services and security, which are required with expanded activity and the addition of a second POD to the Early College site. Addition of this position is an associated cost of the Early College and would qualify for funding under the recommended four cent Ad valorem tax increase.
2. Recommended personnel reductions - In consultation with the departments heads, an evaluation of positions was conducted throughout the county organizational structure to determine where potential reductions could be made for FY 2011/12 to reduce recurring costs. There are a number of positions that I would recommend the BOCC not fund during the next fiscal year to reduce county operations cost. I would also recommend that these positions remain on the books in case they are needed when the economy shows a recovery. These reductions are designed to get the county through this fiscal year and the next one, if needed. Some of the positions are occupied and others are currently vacant. A summary of these positions by department is shown below.

- Cooperative Extension – Do not fund one clerical position effective 1 Nov 2011.
- Planning Department – Do not fund one Code Enforcement Officer I position.
- Economic Development – Do not fund one Administrative Assistant position.
- Emergency Medical Services – Do not fund three Emergency Medical Technicians. Shift supervisors will return to the trucks while maintaining supervisory duties.
- Environmental Health – Do not fund one Environmental Health Specialist.
- GIS Mapping – Do not fund one Mapping / Addressing Technician position.
- Health Department – Do not fund two part time Registered Nurse positions.
- Home Health – Do not fund Lead Worker IV position. Duties will be contracted.
- Natural Resources – Do not fund one Soil Conservationist Tech I part time position.
- Register of Deeds – Do not fund one Deputy Register of Deeds part time position effective 1 Nov 2011.
- Solid Waste – Do not fund one full time driver position. This would require closing of the green box sites for one additional day per week.
- Department of Social Services – Do not fund part time Processing Assistant.
- Fire Marshal Office – Do not fund one Assistant Fire Marshal position.
- Sheriff's Department – Do not fund E911 System Coordinator position for Spillman system.

3. The funding impact of approving the personnel recommendations described in Paragraphs #1 and #2 above would be an approximate \$410,273 net reduction in county operations cost . This recommendation would cause seven current full and/or part time permanent county employees to be laid off on June 30, 2011, with the exception of two, who would be laid off on 31 October 2011. The affected employees will be notified in writing on 24 May 2011 in accordance with county personnel policy, which requires a 30 day notification. I have also recommended the addition of a new personnel contingency line item to reduce risk, and make any required adjustments during FY 2011/12, which might be needed as a result of the significant personnel reductions recommended above.

## Board of Education (BOE) Requests

1. Current expense & capital outlay expense - The Current Expense budget request for county funding from the Stokes County Board of Education (BOE) contains an approximate 5.54% increase over last year's approved budget. This translates to an approximate \$581,704 increase. My recommendation is to provide the BOE \$10,194,063 for Current Expense, which is a \$300,000 decrease (2.86%) over what was approved in last year's budget. The \$300,000 decrease includes the \$100,000 that was provided last year as a one-time appropriation. The BOE Capital Outlay budget request contained an approximate 28.23 % increase over last year's approved budget. This translates to an approximate \$254,840 increase. My recommendation is to provide the BOE \$531,500, which includes the authorization for the BOE to spend up to \$300,000 from their Current Expense fund balance on capital projects. As in previous years, my recommendation is to prioritize the capital funding toward retiring debt from earlier school construction, \$1 Million for FY2011/12, and then appropriating remaining capital funds (\$231,500) for capital projects, to be prioritized by the BOE.
2. New school construction / renovation - As described earlier in the Executive Summary, this budget levies a four cent tax increase for the sole purpose of paying for new school construction and renovation plus associated costs. The approved and/or completed projects to be covered by this recommended Ad valorem tax increase are Nancy Reynolds Elementary, Early College /Community College, new Yadkin Township elementary school, Southeastern Middle School, Lawsonville Elementary School plus the land purchased for the Nancy Reynolds Elementary School, Early College and the new Yadkin Township elementary school. Also included will be other associated costs of these projects, such as the addition of operations cost for the new Yadkin Township elementary school and Early College. The total cost for the recently completed plus the approved future projects is approximately \$40,599,000, which does not include annual operating costs. The tax increase will also address fluctuations in lottery funding allocations. The proposed tax increase will provide recurring revenue for the recurring debt required for these projects. This will free up funding from the current 60 cent segment of the Ad valorem tax revenue to fund current operations costs for the county government and school system, without an increase to that segment of the tax rate. As mentioned earlier, the four cent Ad valorem tax increase, levied specifically for the school projects, will provide maximum transparency to the taxpayers on how their Ad valorem taxes are being allocated. The tax increase will also be well received by the Local Government Commission (LGC), who must approve

the county's new debt, and will require a clear explanation of the county's plan for repaying this debt.

3. Community College – In addition to the regular school construction / renovation projects, approval has been given for the construction of a new community college permanent facility in 2013 at the Early College location in Meadows. As stated earlier, the community college debt will also be repaid as part of the four cent Ad valorem tax increase.

### **“Hold Harmless” Funding**

The expiration of “Hold Harmless” funding, after this year, was a major consideration in this budget development process. Losing Hold Harmless translates to an approximate 5% reduction in the overall budget. My recommended budget does not appropriate any of this year's total “Hold Harmless” allocation of \$2,183,691.78 (NCACC estimate). The “Hold Harmless” allocation will remain un-appropriated to cover the approximate \$1.38 Million payment owed to Baptist Hospital, and to reduce risk associated with the FY2012/13 budget. The risk reduction amount is approximately \$803,691. The exact amount due to Baptist Hospital may be reduced slightly below the \$1.38 Million, as a result of payments made by SRMH; however, the county must be prepared to pay this bill when it becomes due. If the Baptist Hospital payment turns out to be less, then it is recommended that the remaining “Hold Harmless” funds, which were being held for the Baptist Hospital payment, be transferred to fund balance on 30 June 2012 to reduce the impact of no “Hold Harmless” funding in the County's FY2012/13 budget. In further consideration of FY2012/13 budget, it should also be noted that the \$1.7 Million, transferred this year from the “Dedicated Fund”, will not be available next year to use in balancing the budget.

### **Health and Dental Insurance Costs**

Stokes County was notified mid March of 2011 that the NCACC health and dental insurance pool would no longer offer coverage for county employees. The health and dental insurance market is increasing in volatility, which contributed to the short notice the county received from the NCACC. The change required the county to quickly advertise in the private market for county employee and dependent insurance coverage. Extensive market research was conducted and a competitive solicitation was conducted to obtain the lowest cost and maximum benefits possible. The BOCC selected a new plan from proposals that were received, and also approved the continued payment, by the county, of the full premium for county employee coverage. There are reductions in benefits under the new plan. Even with the reductions, the new plan increased the county's health and dental insurance cost to approximately \$1.4 Million, an approximate \$160,568 increase over last year's cost.

### **Enterprise Funds**

The county has three enterprise funds which are shown below

- “SRMH Fund” – This budget appropriates \$300,000 for SRMH operations
- “Regional Sewer Fund” – This fund remains financially sound with no rate increase
- “Danbury Water Fund” - This fund remains financially sound with no rate increase

### **“General Fund” Balance**

Under my proposed budget, the “General Fund” fund balance will increase through the addition of “Hold Harmless” funds. “Hold Harmless” funds are un-appropriated to cover the debt owed by SRMH to Baptist Hospital (approximately \$1.38M). My intent is for the remaining un-appropriated “Hold Harmless” funds (approximately \$803,691) to go directly into General Fund Balance on 30 June 2012. As stated earlier, the \$1.7 Million used this year from the “Dedicated Fund” will not be available next year. Maintaining a strong “General Fund” balance will remain critical to qualify for increased school construction borrowing and to reduce risks.

### **Interest Earnings / Rates**

1. **Interest Earnings** - Interest earnings on idle funds invested by the county are negligible due to continued low interest rates. The county is currently earning less than a 1% return. This is driven by continued low interest rates set by the Federal Reserve, which are projected to remain low through the current calendar year.
2. **Inflation** – Inflation is currently low; however, consideration should be given to the budget impacts, should inflation quickly return. An example would be interest rate increases associated with the financing of future school construction.

### **Sales Tax Receipts**

Sales tax receipts for the General Fund are down by \$338,041 from last year, as of 31 March 2011, which is a 12.85% decrease. Article 40 and 42 sales taxes, which go to the school system, are also down by \$256,699 from last year, as of 31 March 2011, a 21.5% decrease. The slow receipt of sales tax revenue is an illustration of the slow recovery of the economy, which directly impacts local government’s revenue stream.

### **Ad Valorem Taxes**

Ad valorem taxes are the primary source of revenue (52.9%) available to the county to balance the budget. This has been a no growth year for Ad valorem tax revenues in Stokes County. Based on the last Stokes County audit, the FY2009/10 actual collection rate was 96.41%. This proposed budget uses a more conservative collection rate of 95.5%. Should the BOCC desire to do so, the collection percentage could be raised as high as 96.41% for this year’s budgeting purposes.



### **Fire Departments and Fire Tax**

The City of King and the Town of Rural Hall both requested one cent increases in their fire tax rate. My recommendation is that both requests be denied for this budget and perhaps considered later when the economy starts to show improvement. Both municipalities' current fire tax rates are the same as the Stokes County Fire Service District.

### **Federal Inmate Reimbursement**

Reimbursement for the housing of Federal inmates is approximately \$170,000 less than the amount budgeted in the FY2010/11 budget. This revenue projection was reduced significantly in the FY2011/12 budget recommendation to \$7,000. Indications are that the state plans to shift additional misdemeanor inmates to the counties during the next fiscal year, which would significantly reduce the space available to house Federal inmates.

### **Mandated Communications Upgrade**

My proposed budget allocates funding for the unfunded federal mandate to upgrade the county's communication systems by January 2013. Additional fact finding is in process to determine the cost and best course of action to meet this mandate.

### **Miscellaneous Requests from Other Agencies**

Several outside agencies requested funding in the Stokes County 2011/12 budget. Agencies that were denied funding were:

- YVEDDI – Separate request for \$25K for purchase of new facility
- Roanoke River Basin – Request was for \$3,722
- N.C. Wildlife Resource Commission – Request was for \$4,000
- King Chamber of Commerce – Request was for \$5,500. Funds for the chamber will continue to be provided through Economic Development Office. Approximately \$3,600 was provided during this fiscal year.

## Summary

In summary, my recommended budget attempts to put the county on the best possible glide slope to re-baseline the budget by next year (FY 2012/13) to operate without the annual \$2 Million "Hold Harmless" revenue. It deals with the funds owed to Baptist Hospital, the unfunded federal mandate to upgrade communications and the approved new school and community college construction and associated costs. It also deals with the effects of a sluggish economy where local government revenues are down and expenses are up.

### 1. What this budget does not do.....

- Does not require furlough of county employees
- Does not Impact the longevity increases in the salary plan
- Does not reduce the county 1% match for 401K
- Does not provide a cost of living adjustment for county employees
- Does not require employees to cost share health and dental insurance premiums
- Does not appropriate any General Fund balance
- Does not eliminate any existing services currently provided by the county

### 2. What this budget does do.....

- It segregates the Ad valorem tax levy into two segments, one that will be used for the current county government and school system operations / capital expense and one that will be used for the sole purpose of new school construction / renovation to include the new community college
- Does provide clear plan to the LGC for repayment of new school construction debt
- Does reduce service levels and could impact county responsiveness

## Conclusion / Recommendation

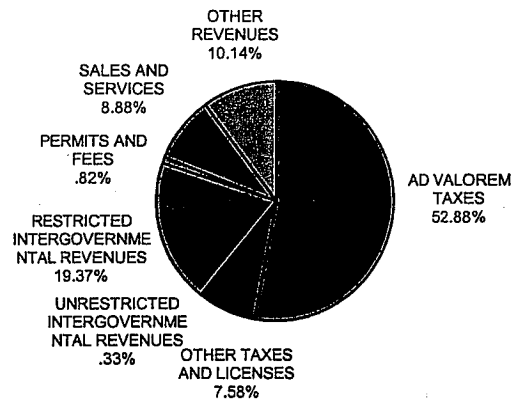
In developing this budget, it was my conclusion that to meet the operational requirements of the county government and school system, plus fund the new school / FTCC construction and operations, there are two alternatives.

Alt #1 – Adopt my recommended budget which includes a four cent Ad Valorem tax increase for new school construction. This alternative also transfers the one time appropriation of approximately \$1.7M from the "Dedicated Fund" to the General Fund.

Alt #2 – Adopt a budget that increases or decreases my recommended budget. Additional increases, which would likely have a negative impact next year, would require the search for additional revenues this year, beyond those recommended in Alt #1. Further decreases could reduce risk for next year, but would possibly jeopardize the delivery of services to the citizens of the county this year.

## Graphic Breakout of Revenues & Expenses for FY 2011/12 Recommended Budget

### REVENUES FISCAL YEAR 2011-12



### EXPENDITURES FISCAL YEAR 2011-12

