



STOKES COUNTY

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Budget Message

Fiscal Year 2013/14

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

FROM: Richard D. Morris, County Manager

DATE: May 28, 2013

SUBJECT: **Fiscal Year 2013/14 Recommended Budget**

Introduction

In accordance with the North Carolina Local Government Budget and Fiscal Control Act (G.S. 159-8), I hereby present and submit for your review and adoption a proposed balanced budget for Fiscal Year (FY) 2013/14. A mandatory Public Hearing for the proposed FY 2013/14 Budget has been scheduled for 7:00 pm in Courtroom "A" of the Stokes County Government Center on Tuesday, June 11, 2013.

Budget Theme

The budget theme for the Stokes County FY 2013/14 recommended budget is "**The light at the end of the tunnel is a train**". The County faces a potential financial train wreck which is driven by huge revenue reductions, which are the result of the expiration of approximately \$2.2M in annual "Hold Harmless" payments to the County, coupled with the loss of approximately \$487,255 each of the next four years in General Fund property tax revenue, due to the reduction of Stokes County property values. The county is facing an extended period where unfunded mandates, a slow recovering economy and the impact of decreasing property values will likely cause a steady, but much smaller revenue level over the next four years, beginning with the FY2013/14 Budget. This new revenue level is defined by the loss of "Hold Harmless" and the property tax revenue reduction. This budget also recognizes the approaching addition of new recurring education facility construction/renovation debt for Forsyth Technical Community College and Lawsonville Elementary Projects and addresses other increasing operational expenses as effectively as possible. All recommendations in this budget were analyzed based on their impacts for the FY2013/14 Fiscal Year and also with a close eye on how they might affect the FY 2014/15 Budget. The primary objective of the FY2013/14 budget process was to show the BOCC a baseline budget that kept services the same, did not increase property taxes, but also provided alternatives to ensure the County remained in sound financial condition for future years. This all had to be accomplished with the significant decreases in revenue noted earlier in this paragraph. The baseline budget that was proposed requires the use of \$3,104,116 from the

General Fund to balance the budget. Alternatives that would reduce the amount required from the General Fund are discussed later in this message. This is a conservative, low risk budget recommendation that addresses mandatory increases while continuing to re-baseline the budget to operate without "Hold Harmless" revenue and with reduced property tax revenues. In this budget environment the question is not only whether a budget requirement is valid, but whether or not validated requirements can pass the test of affordability.

Executive Summary

The total recommended Stokes County Budget for FY 2013/14 is \$42,917,782. This is a 6.4% (\$2,917,569) reduction over last year's approved budget. As was the case last year, the development of this recommended budget proved to be a challenging exercise. Many of the reasons for the difficulty are the same as last year, along with new ones such as the County's latest revaluation results. The largest negative impact to this recommended budget was the expiration of the \$2.2 million "Hold Harmless" payment. This proposed budget was also impacted by the Federal Government's mandated communications upgrade, where no grant funding was made available to offset the cost of upgrading the county's radios and E911 equipment, which required the County to acquire new debt. As stated earlier, this budget was developed using a two-year focus in the thought process, which addressed current needs and also factored in the impacts of this year's decisions, on next year's budget. "Obama Care" also looms on the horizon for the FY2014/15 Budget and we have no idea what the impact might be. As was the case last year, I had to dip heavily into the General Fund to balance this budget. None of the personnel positions that were unfunded two years ago have been reinstated in this budget; however, the BOCC did approve the reinstatement of two paramedic positions and the defunding of the Assistant EMS Director Position when the EMS Director retired in December of 2012. This caused a net increase of one position in EMS. Further reductions of personnel were not recommended because further reductions of the County's service providers will directly impact the County's ability to run efficiently and continue the current level of services to our citizens.

The overall 6.4% decrease in this year's budget, over last year's budget, was driven by six major contributors which are listed below:

- Mandated communications upgrade was addressed in last year's budget
- Employee health insurance had a minimal increase this year
- The cost of the new Health Department building was addressed in last year's budget
- The payment owed to Baptist Hospital was resolved and is not in this budget
- The request from CenterPoint for additional funding was addressed in last year's budget
- Fuel cost and usage has leveled out though it remains high

This budget recommends the following two major organizational changes to improve the County's operations and efficiency:

- That on a one-year trial basis, the Fire Marshal's office be moved under the Sheriff's Department and the Fire Marshal's Office be physically re-located near or in the same building as the Sheriff's Department
- That the County Garage be re-located to the Autumn Square Building if the purchase of the building is completed by the County

These organizational changes will be addressed more specifically later in this message.

Other factors that influenced the FY 2013/14 proposed budget, most of which are beyond the control of the County are listed below:

Under Revenue

- Current year and projected reduction of Home Health revenue has become a major issue
- Sales taxes are up slightly, but down from earlier years
- Interest income from idle funds remains low due to the Federal Government keeping rates low

Under Expenses

- Replacement of multiple servers in several departments, all of which are at end of life and no longer supportable by their vendors
- Health insurance increased slightly
- Fuel and energy costs remain high with projected increases
- Mandated increase of County requirement for retirement contributions
- Mandated change in the budget process for unemployment compensation

Other Major Influencers

- No more “Hold Harmless” to replenish “General Fund” balance
- Revaluation reduction in Ad Valorem property tax revenue
- North Carolina Electric Membership Corporation retired their load management equipment from service. Therefore they will not be reporting them as assets, which will reduce the co-op’s tax value. This will reduce the amount of Ad Valorem property tax revenues beginning in this FY 2013/14 Budget.

In summary, I would ask that as the Board reviews and analyzes my recommended budget that you keep the following important considerations in mind:

- The shortage of revenues will, in this budget, force the County off of its normal rotation schedule for replacement of vehicles, which increases the risk of vehicle breakdowns, which are especially critical in the area of emergency response. This could also increase the maintenance & repair auto expenses. This situation will worsen in the next budget.
- My recommendation is that the County’s General Fund Balance should remain at or near 20% at all times for Stokes County; however, this cannot be accomplished in the current economic environment without changes in either the level of services provided to the citizens or the amount of property tax the citizens are levied for those services. A 20% fund balance is approximately three months operating expenses for this county.
- **I expect the General Fund balance to remain at or near 20% for the FY2013/14 projected budget; however, without reduction in services or tax revenue increases (AdValorem tax, sales tax, etc.), the County is now on a downward trajectory to have its General Fund balance drop 4% per year starting in FY 2014/15, which will place the County at an 8% General Fund balance by the FY 2016/17 Budget. As the BOCC is aware, the Local Government Commission considers an 8% General Fund balance to be the minimum acceptable level.**

- To maintain a General Fund balance at or near 20%, serious consideration should begin during this year's budget process to increasing the Ad Valorem tax rate in the direction of "Revenue Neutral" to address a portion of the County's projected revenue shortfall and corresponding reduction in General Fund Balance.

Budget Requests from County Departments

For the most part, the department heads were conservative in their budget requests. They continue to operate on very lean budgets, as evidenced by the relatively low amount of dollars the County was able to recoup during quarterly financial execution reviews of the FY2012/13 Budget. Structural increases in the proposed budget, across all departments, were primarily the addition of a new state requirement to shift the budgeting of unemployment pay forward by one year, fuel / utilities, longevity increases, retirement contributions and health insurance premiums.

Other specific areas are addressed below:

Equipment

Requests were submitted for a variety of equipment to include computers. All computer requests were reviewed by the Information Technology Department and only computers at the end of their life were approved, unless they were funded by other than county dollars. Other equipment items recommended for approval were:

- One new ambulance for EMS
- Minitor V pagers for EMS
- Fujitsu 61302 Scanners for EMS
- New replacement credit card machines for Finance
- Security cameras for Finance to improve internal controls
- Additional security cameras for the Jail
- A new washing machine for the Jail
- One police interceptor pickup for the Sheriff's Department
- Propane floor stripping / waxing machine for Public Works
- Bullet proof vest carriers for the Sheriff's Department
- 24 Green boxes to replace old boxes at greenbox sites and schools plus an addition for Autumn Square
- Replacement computers for those at end of life
- Servers and software at end of life and no longer supportable

The recommended computers and some E-911 equipment are funded by a combination of county, state & federal, and E-911 funds, which are identified specifically in the detailed budget documentation. One pickup truck was approved for the Sheriff's Department, which without restrictions, can later be passed down to other county departments. The new police interceptor pickup truck will also serve as a test vehicle to determine if additional trucks of this type should be ordered in the future in lieu of patrol cars. A significant investment in replacement servers and network equipment is required in this budget because they are at end of life and are no longer supportable by the manufacturers. The total amount recommended for equipment in this budget is \$543,669 with \$388,550 of that amount to be financed. The financing will cover vehicles and servers. Other funding sources for equipment are Register of Deeds Technology funds, State

Fines & Forfeitures and state & federal funds. Only \$96,386 will be required in the FY 2013/14 Budget from the General Fund.

Personnel

Reclassification Requests / New & Current Positions - Reclassification requests were received from Public Works, EMS, Health Department, Tax Department, Social Services and the Sheriff. The only reclassifications recommended for approval were where the job duties actually changed or where people were doing the exact same jobs, but were classified differently. No new positions were approved and no reinstatements of previously unfunded positions were approved. Reclassifications recommended for approval are listed below:

- Reclassify Health Department's Nutritionist II to Nutritionist I Program Director
 - Performing the duties of supervisor over other nutritionists plus administrative duties
 - Paid for with 100% federal funds
- Reclassify Health Department Processing Assistant III to Processing Assistant IV
 - Performs exact same duties as other Processing Asst. IVs in the department
 - 15% county funds (\$181 per year)
- Reclassify Maintenance Worker /Road Signs/ Water & Sewer to Water & Sewer Maintenance Worker /Road Signs
 - Job description changed after completing water/sewer certifications
 - Allowed for termination of some private contractor support after certifications were obtained
- Reclassify DSS Community Employment Case Mgr. to Income Maintenance Caseworker III
 - Required by State due to transition to N.C. FAST
 - No cost increase with this change, only job title
- Reclassify DSS Community Employment Case Manager to Social Worker II
 - Required by State due to transition to N.C. FAST
 - Increase in county funding (\$676 per year)
- Reclassify Billing/Collection Assistant to Tax/EMS Collection Clerk
 - Change made to match other employees doing the exact same job
 - This change is result of consolidation of collections approved in FY2012/13 Budget
- Reclassify Office Assistant II to Tax/EMS Collections Clerk
 - Change made to match other employees doing the exact same job
 - This change is result of consolidation of collections approved in FY2012/13 Budget

The total amount of funds required for the recommended reclassifications is \$12,468.24 of which \$5,053.75 comes from federal or state funds. The funding impact of approving my personnel recommendations would be an increase of approximately \$7,414.49 county dollars annually.

Employee COLA

This budget includes the recommendation for a 2% employee cost of living adjustment (COLA) for all full and part time employees. The COLA would also apply to the BOCC, the Sheriff and the Register of Deeds. The estimated cost for the COLA to the County is \$229,740.00 including fringe benefits, where General Fund portion will be \$217,253. The decision to include an employee COLA during this challenging budgetary period was based on several factors, some of which are listed below:

- The County has not approved a COLA since 2008. Though bonuses are much appreciated by employees, a COLA is needed at least every five years to partially keep pace with increased living expenses.
- The cost of living, especially for food, fuel, and healthcare premiums keep going up.
- Due to known revenue losses during the next few years, COLAs and bonuses will become much more difficult, if not impossible, to offer.
- Employees have worked hard to do their jobs on increasingly lean departmental budgets, which contributed to the increase in the County's General Fund Balance.

Board of Education (BOE) Requests

As stated in the Executive Summary of this message, the county budget is now on a downward trajectory, which will also directly impact the school system. Valid requirements must now pass a stringent affordability test before they can be funded. Though the BOE request appears to contain valid requirements, affordability will still be the key evaluation criteria for the foreseeable future before the BOE budget can be increased. New school construction and renovation has added debt in previous budgets, and one BOE project remains to be financed this year, that being the Lawsonville Elementary Project, which will be financed in conjunction with the Forsyth Tech Community College Building Project. Both projects are in the design phase and should soon be underway. The budget challenge will now shift to the repair, modification and maintenance of the existing schools, which will remain a big challenge until previous school debt is retired, which will then make more funds available.

Current Expense

The Current Expense budget request from the BOE for county funding contains an approximate 11.62% increase over last year's approved budget. This translates to an approximate \$1,186,260 dollar increase over last year's BOE request. Last year's BOE budget appropriated \$1,004,841 of their Current Expense fund balance toward their current expense budget and in this year's request the BOE chose not to appropriate any of their Current Expense fund balance for current expense. My recommendation is to provide the BOE \$10,211,763 for Current Expense, which is the same amount approved in last year's budget. My recommendation also provides \$110,000 to the BOE for Current Expense to pay for operations & maintenance expenses for the new Poplar Springs Elementary School. This funding will continue to come from the New School / Forsyth Tech Construction / Renovation Fund (previous 4 cent tax increase) and will not impact the County's General Fund.

Capital Outlay Expense

The BOE Capital Outlay request for this budget was \$5,178,810. This would require \$4,952,712 from the General Fund to meet this request. My recommendation is to provide the BOE \$1,307,731, and include the authorization for the BOE to spend up to \$1,000,000 from their Current Expense Fund Balance on capital projects. If they choose to do so, this increased authorization from their fund balance will allow the BOE to address roofs and other important capital needs such as school safety and security items. As in previous years, my recommendation is to continue prioritizing the capital funding toward the retirement of debt from earlier school construction, which will require \$1 million in the proposed FY 2013/14 Budget. This annual \$1,000,000 debt payment for General Obligation bonds (West Stokes and Piney Grove schools) will continue for four more years before this amount could be considered for application to annual school capital projects. The remaining capital funds in the amount of \$300,000 plus \$7,731 ADM funds will be appropriated for capital projects in the areas of safety, school security and roof repair / replacement. Included in the recommended budget is \$21,911 for the South Stokes Waste Water project funded from ADM funds that has not been completed and is being carried over from FY2012/13.

Hold Harmless Funding

Hold Harmless funding is no longer available to replenish the General Fund Balance. This is a very important point because Hold Harmless has been the major contributor to the recent success in building up and maintaining the General Fund Balance. Hold Harmless has also been used to purchase capital equipment and fund non-recurring items, which will also be a major negative impact, starting in the FY2013/14 Budget. This is illustrated by the fact that this budget recommendation finances items such as servers, which were not financed in recent budgets. The expiration of "Hold Harmless" this year was a major consideration in the development of this budget. The loss of "Hold Harmless" equals an approximate decrease of 5% in the County's total budget revenue. We have projected that approximately \$1,000,000 will go back to replenish the General Fund Balance on June 30, 2013 from unappropriated Hold Harmless plus a small amount of unexpended funds recouped from the 4th quarter financial execution review. Next year at this time little or no funds are projected to be available for this replenishment.

Health and Dental Insurance Costs

The shift in last year's budget to a Health Reimbursement Account (HRA) / Split Deductible appears to have been a good decision based on experience to date. The County will continue with a Health Reimbursement Account (HRA) / Split Deductible this year to cover county employees. The county will continue to pay 100% of the premium cost for employees. The terms and conditions of the insurance plan will remain almost the same, with only minor adjustments, which will occur because a new insurance carrier was selected. The new carrier will be MedCost, who the County will access through the League of Municipalities Insurance Pool. This is the first year that counties have been eligible for this pool, and the selection was made using full and open competition between the major insurance carriers. The cost for the employee co-pays in the areas of emergency services, urgent care and prescriptions will remain the same. Under the plan that was selected the County will experience an approximate 2.44% increase (\$35,388) in premiums and will budget the additional required funds in the HRA account to cover the County's portion

of the deductible costs. Dental insurance premiums decreased by approximately 7.96% (\$8,568) for FY 2013/14 under the new carrier.

Enterprise Funds

The County has three enterprise funds which are described below.

- **“Stokes Reynolds Memorial Hospital Fund”** – This budget recommendation appropriates \$200,000 for Pioneer Health Services (PHS). It also adds the \$10,000 per year to fund future capital based expenditures based on the receipt of \$500,000 in lease payments from PHS and the return to PHS of \$490,000 for “emergency services”. All budget items related to PHS are in accordance with the terms and conditions of the County’s lease with PHS. The County is also using this fund to manage all “accounts receivable” and “accounts payable” remaining from the County’s prior operation of the hospital, after the transfer back from Baptist Hospital, and before PHS took over.
- **“Regional Sewer Fund”** – This fund remains financially sound with no rate increases; however, the institutional rates were reallocated between the sewer and Danbury Water Fund.
- **“Danbury Water Fund”** – This fund is not financially sound, even with the rate increase that was approved in this year’s budget; however, the County has a plan to address this deficiency. The plan for fixing this fund is to redistribute institutional rates between this fund and the sewer fund, which will fix the deficit in the water fund and not break the sewer fund. This change will be transparent to both residential and institutional users whose bills will not change. What this actually does is modify the accounting process for the water and sewer revenues to ensure both funds remain solvent.

General Fund Balance

Under my proposed budget, \$3,104,116 will be required from the County’s General Fund to balance the budget. An estimate of approximately \$1,000,000 will be returned to the County’s General Fund Balance on June 30, 2013 from the un-appropriated “Hold Harmless” and other unexpended funds remaining from the FY 2012/13 Budget. The net effect from these two transactions would be approximately \$2,104,416 being used from the County’s General Fund this year to balance the recommended FY 2013/14 budget. As stated earlier in this message, I would recommend that the BOCC strive to keep the County’s General Fund in close proximity to 20%. With the use of \$3,104,116 from the County’s General Fund Balance to balance the proposed FY2013/14 budget, it is projected that the County’s General Fund Balance will remain at or near 20% for the FY2013/14 fiscal year, but will experience a steady decline beginning FY 2014/15 with the absence of tax increases or service cuts and “Obama Care” looming on the horizon.

Interest Earnings /Rates

Interest Earnings – Interest earnings on idle funds invested by the county remain negligible due to continued low market rates. Interest rates are projected to remain low through the next fiscal year.

- The Fed does not intend to raise rates until unemployment rates improve

Inflation – Officially inflation remains low; however, commodities such as food and fuel remain high.

Sales Tax Receipts

Sales tax receipts for the “General Fund” are up by \$129,479 over last year, as of March 31, 2013, which is a 5.2% increase. Article 40 and 42 sales tax receipts, where a proportion goes to the school system, are up by \$38,556 over last year for the same time period, which is a 3.88% increase. Even though sales tax receipts are fairly consistent from last year, they remain significantly lower than the levels received prior to 2008.

Ad Valorem Taxes

Ad Valorem taxes are the main source (49.78%) of revenue for the county budget. Based on the last Stokes County audit, the FY 2011/12 actual collection rate was 96.19%. This proposed budget uses a more conservative collection rate of 95.5%. Should the BOCC desire to do so, the collection rate could be raised as high as 96.19%, though I do not recommend going above 95.5%. A new variable will enter the picture in FY2014/15 Budget when tobacco buy-out payments end to farmers, which will mean approximately \$6.2 million annually will no longer be coming to Stokes County.

Legal Services

This proposed budget includes a change in the current approach to providing legal services to the County. Currently the county contracts with three attorneys, two of which are dedicated to providing specific legal services to the Department of Social Services (DSS) and one County Attorney, who provides general legal services to all county departments, including DSS. The new structure will consolidate all county legal services, including the specific DSS work, under the County Attorney’s firm, Melvin and Powell, for a flat rate of \$175,000, which will cap the County’s financial exposure for legal support. The County Attorney currently provides support based on a limited number of approved hours per month. Under the new approach, across-the-board legal support will not be limited by a set number of available hours. It will allow for increased availability of the County Attorney for all legal matters with no limitation on hours. This change will become effective on July 1, 2013.

Fire Marshal Recommendation

It is my recommendation that the Fire Marshal Office be moved under the Sheriff’s Department and that the Fire Marshal Office be physically relocated to the Government Center or a location in close proximity to the Sheriff’s Department. I further recommend that this be a one year pilot program to determine how well it works. The thought process behind this change is to improve the efficiency of the Fire Marshal operations without adding additional positions to the office. By placing the Fire Marshal and the Sheriff together organizationally, it will be much easier for the Sheriff to back up the Fire Marshal, especially in the area of fire investigations, which the Sheriff’s Department is also trained to perform. This arrangement will also place the administrative personnel from both offices in a better situation to back up and support each other. A final benefit would be the Sheriff’s ability to assist the Fire Marshal Office with “on call”

duties. Under the current situation, the Fire Marshal personnel are on call every other week, which can be a major problem, especially if one of them has to be out for illness or other reasons. This pilot program would not involve a demotion of the Fire Marshal personnel; however, it would place them under the Sheriff's standards for personnel purposes.

Animal Control Recommendation

Some changes have been made, and more are needed to address cleanliness issues at the Stokes County Animal Shelter. A recent disease outbreak at the shelter illustrates the need for improvements to the shelter to reduce the chances of animals contracting diseases. Outdoor runs have been donated and are being installed, at no cost to the County, to address the cleaning and disease issues. Operational changes have also been made that reduce the hours that the shelter is open to the public to allow more downtime for the staff to clean and disinfect the shelter. In addition to the changes that have already been made, I am recommending that the adoption fee at the shelter be increased from \$36.00 to \$100.00. The breakout of the \$100.00 fee would be as follows:

- \$6 county tags
- \$10 rabies vaccination
- \$20 adoption fee
- \$64 spay/neuter voucher

The addition of the spay/neuter voucher is to encourage pet owners to have their animals spayed/neutered to reduce the population of unwanted animals that end up in the shelter. The spay/neuter vouchers would expire in 3 months, and where they were not used, the funds would revert to the Animal Shelter into a spay/neuter fund that could be used to assist with the spay/neuter of other animals. Stokes County currently has an artificially low adoption fee when compared to surrounding counties that structure their fees to encourage spay/neutering. The current Stokes County fee structure makes us the bargain basement adoption location, which in many cases, encourages people to adopt pets who can't afford to properly care for them. It can also lead to irresponsible pet ownership and larger numbers of animals that end up at the Animal Shelter, where they must be euthanized if they can't be placed elsewhere.

Home Health

The Home Health Agency in the Stokes County Health Department has experienced a significant revenue reduction this fiscal year and the budget projection is for major revenue shortfalls in FY 2013/14. This problem was caused by significant personnel turnover. The funds involved are all county funds. The Home Health budget request for FY 2013/14 is \$460,723 from the General Fund. Even though no county funding was requested in FY2012/13, it now appears that the County may have to add funding from the General Fund to Home Health this fiscal year. The potential current year shortfall will negatively impact the amount of funds the County can return to the General Fund balance at the end of this fiscal year, which impacts the FY 2013/14 Budget by reducing revenue available to the General Fund. The County's Home Health function needs to be monitored closely since it is now in a very competitive environment with private home health providers now located in Stokes County and competing for the same business.

Land Use Plan

At the direction of the BOCC, funding has been included in this budget to initiate the process of developing a comprehensive land use plan for the County. This plan is needed to support the zoning process and is also needed to ensure the County will qualify for all grant funding opportunities it would like to pursue. The initial amount recommended for land use plan development is \$10,800. This amount was derived using recently added annual cell tower revenue as the revenue stream that could logically be used for land use planning. This amount will not fund a comprehensive land use plan; however, it may provide matching funds that could be used to pursue additional grant funding to pay for a plan.

Purchase of “Autumn Square” Building

Stokes County is in the process of purchasing the Autumn Square Building in Meadows. The building was offered with seller financing at a very competitive interest rate for ten years. This purchase will require a \$200,000 down payment from the General Fund. The strategy for acquiring this building is to lease the 4000+ square feet of office space plus other leasable space to pay the entire cost of the building. The County's immediate plan is to move the County Garage to the new building and possibly an EMS unit at a later date. The purchase of this building is currently before the Local Government Commission for approval before the deal can be finalized.

Fire Departments and Fire Tax

My budget recommendation keeps all fire tax at the current rates with the exception of Walnut Cove. It is recommended that Walnut Cove fire tax be increased to 6.5 cents to be on par with all other fire departments. During previous years the Walnut Cove Fire Department has had an adequate fund balance to keep a lower fire tax rate, but that level of fund balance is no longer available to balance their budget. Rural Hall has had major equipment failures and plans to replace one pumper tanker truck and one rescue truck. Rural Hall requested a 4 cent fire tax increase; however, I recommend their fire tax rate remain at 6.5 cents. A public hearing was held by the Town of Rural Hall on their fire tax rate increase and little or no opposition was present; however, I cannot justify increasing Rural Hall's fire tax rate and leaving the other fire districts the same.

Inmate Reimbursement

The County will again not budget any federal inmate reimbursement funds; however, the Sheriff has enrolled in the State Misdemeanor Confinement Program (SMCP) which will continue to provide a source of revenue for the county. This program got a slow start in Stokes County due to impediments from the State Government, but those have been addressed and the program should go into full swing in FY 2013/14.

Communications Upgrade

The communications upgrade is still underway due to unexpected “road blocks” which are still being worked by the County staff. All of the communications equipment has been received but cannot be placed into service until a tower issue is resolved and radio identification numbers are issued to Stokes County by the N.C. Highway Patrol. Stokes County currently has a waiver of the January 2013 Federal Communications Commission narrowbanding requirement until June 30, 2013. A request for the waiver to be extended will be submitted soon by the County or State if it is determined that the June 30 deadline cannot be met.

Relocation of the E911 Center

The relocation and installation of the new E-911 center equipment is complete and the center is operational. An effort is also in process to transition to the Rockingham County E-911 Center as a backup for Stokes County. The E-911 Board has informally approved this approach and must formally approve all backup plans before they will provide E-911 funding.

New Addition to Building for Health Department

Construction and equipping of the new addition for the Health Department is underway with the initial design recently being approved by the Stokes County BOCC. The expansion is needed for additional administrative space, which will provide more clinical space, and is funded using Title XIX Medicaid Settlement funds and no county funds. The budgeted cost for the new expansion is approximately \$475,000 from the Health Department Title XIX Fund.

Miscellaneous Requests from Outside Agencies

Several outside agencies requested and received funding in the Stokes County FY 2012/13 Budget. Agencies that were denied funding in the recommended budget are listed below:

- YVEDDI – Request for weatherization funding was denied (\$3,060)
- Roanoke River Basin – Request was denied (\$3,500)
- N.C. Wildlife Resource Commission Beaver Management Assistance Program – Request was denied (\$4,000)
- N.C. Forestry Service - Request for temporary smoke chaser funding was denied (\$6,253)
- Stokes County Fire Association - Water point funding was denied due to available funding in Capital Reserve (\$16,500)

Revenue Neutral Calculation

In compliance with North Carolina General Statute 159-11(e), the General Fund “revenue neutral” tax rate would be 63.73 cents per \$100 of property value. The General fund “revenue neutral” tax rate would produce \$22,660,636 of revenue. The General Fund property tax revenue used in this year’s proposed budget with no property tax increase is \$20,374,005, which is derived using the 95.5% collection rate, and is not included in the “revenue neutral” number above. The “revenue neutral” amounts are also required for the “Forsyth Tech/ New School

Construction Fund” and the individual fire district fire tax funds. These calculations are included in this message as Attachment #2.

Given the significant revenue reduction from last year in this proposed budget, and the County’s future budget needs, careful consideration should be given to the tax rate that will be approved in the FY2013/14 Budget. For this proposed budget, one cent in property tax equals \$339,567 of revenue at the 95.50% collection rate. The revenue neutral calculation has a 3% average growth percentage included and does not reflect the collection percentage.

Summary

In summary, my recommended budget attempts to place the county in the best possible position to absorb both the loss of “Hold Harmless” funding and the projected annual reduction (\$487,255) of General Fund Ad Valorem tax revenue for four years beginning this budget year.

- What this recommended budget does not do.....
 - Does not increase Ad Valorem taxes
 - Does not furlough or lay off any county employees
 - Does not eliminate or reduce any existing services to our citizens
 - Does not reinstate any of the unfunded positions from the FY 2011/12 Budget
- What this recommended budget does do.....
 - Appropriates County General Fund dollars to balance the budget
 - Keeps the projected County General Fund Balance in close proximity to 20% for the FY 2013/14 Fiscal Year
 - Funds a limited amount of capital outlay for equipment
 - Continues to pay 100% of employees’ health and dental care premiums with no benefit changes
 - Provides a 2% COLA for all full and part time employees, the Sheriff, Register of Deeds and the BOCC
 - Increases the mandatory share of retirement contributions for employees
 - Budgets mandatory increase in unemployment compensation

Conclusion / Recommendations

In last year’s budget message, I stated that the “new normal” might also be defined as the beginning of a “Perfect Storm” for the county. It is my conclusion after developing this recommended budget that the County will be fully engulfed in the “Perfect Storm” as we build the FY 2014/15 Budget during this timeframe next year. This FY2013/14 recommended budget is the last one that will preserve a General Fund balance at the desired levels unless taxes are raised or services are reduced or eliminated. The budget challenges that are beginning this year, and will be fully present by next year, cannot be addressed by making small changes around the fringes. The removal of the \$2.5 to \$3.0 million deficit bubble that has been moving from year to

year will require significant changes in the budget thought process if the county is to maintain its strong financial position during the next three to five years. The obvious challenge will be generating sufficient revenues to keep services at acceptable levels, without reducing the County's General Fund balance to an unacceptable level. The first step in this process is for the BOCC to consider the four options below for the recommended FY 2013/14 Budget:

Option #1 – Adopt a budget that does not raise property tax rates, which uses \$3,104,416 from General Fund Balance and in my opinion provides a budget that addresses all major budget issues faced by the county for FY 2013/14.

Option #2 – Adopt a budget that increases the General Fund property tax rate toward “Revenue Neutral” and appropriates less from the General Fund balance. In FY04/05 when the revaluation increased most property values, the BOCC at that time, chose this option and moved toward “Revenue Neutral” by reducing the property tax rate by 2 cents. Approving this option would be consistent with actions taken by the BOCC at that time. As a benchmark, if the current BOCC wanted to replace the \$487,255 revenue reduction in the FY2013/14 budget proposal, which resulted from revaluation, a 1.44 cent property tax rate increase to 61.44 cents per \$100 in value to the General Fund would be required. Choosing this option would not change the total recommended budget amount of \$42,917,782, it would only add additional AdValorem tax revenue, which reduces the General Fund appropriation that will be required to balance this budget.

Option #3 - Adopt a budget that increases the General Fund property tax rate to 63.73 cents per \$100 of property value, which is the “Revenue Neutral” rate and only appropriates \$1,837,532 from the General Fund to balance the budget. This option will place the county in a more sound financial position for the future than Options #1 and #2 above.

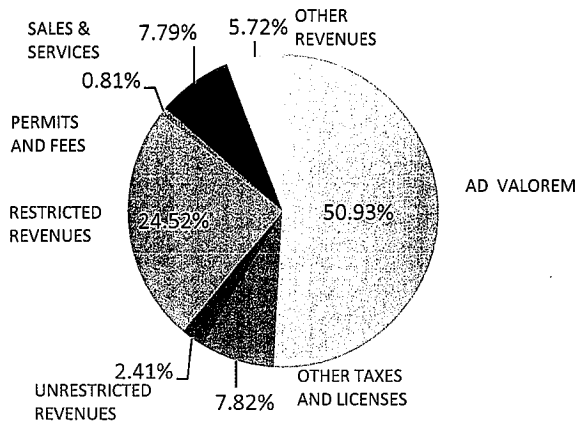
Option #4 – Adopt a budget that increases or decreases my recommended budget, as long as it meets the objectives of the BOCC and does not add risk by increasing revenue projections. Recommended revenue projections are conservative but will not remain so if increased much beyond the levels in this budget recommendation.

It is my recommendation that the BOCC strongly consider adopting Option #2 or #3 for the FY 2013/14 Stokes County Budget.

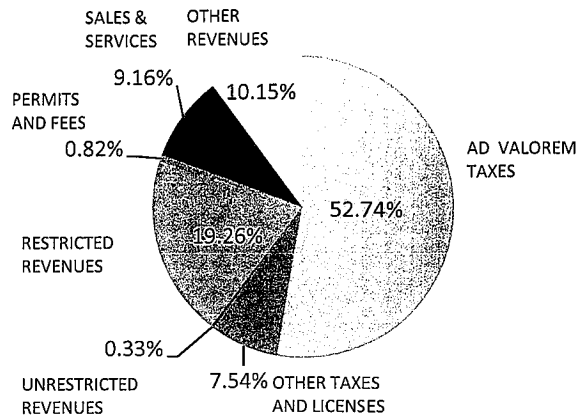
This budget message includes two attachments. Attachment #1 is a graphic comparison of revenues and expenses in the current and recommended budget. Attachment #2 is a group of sheets that individually breakout the “Revenue Neutral” calculations for the General Fund, the Forsyth Tech / New School Construction Fund and the individual fire districts.

COMPARION OF FISCAL YEARS

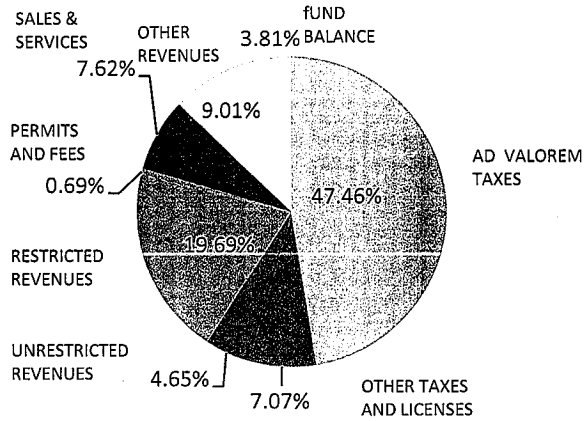
FISCAL YEAR 2010-11



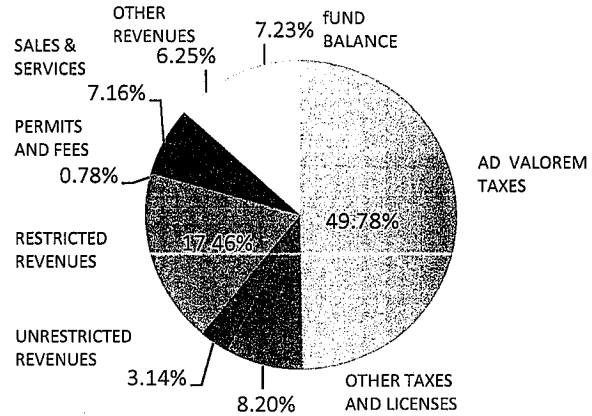
FISCAL YEAR 2011-12



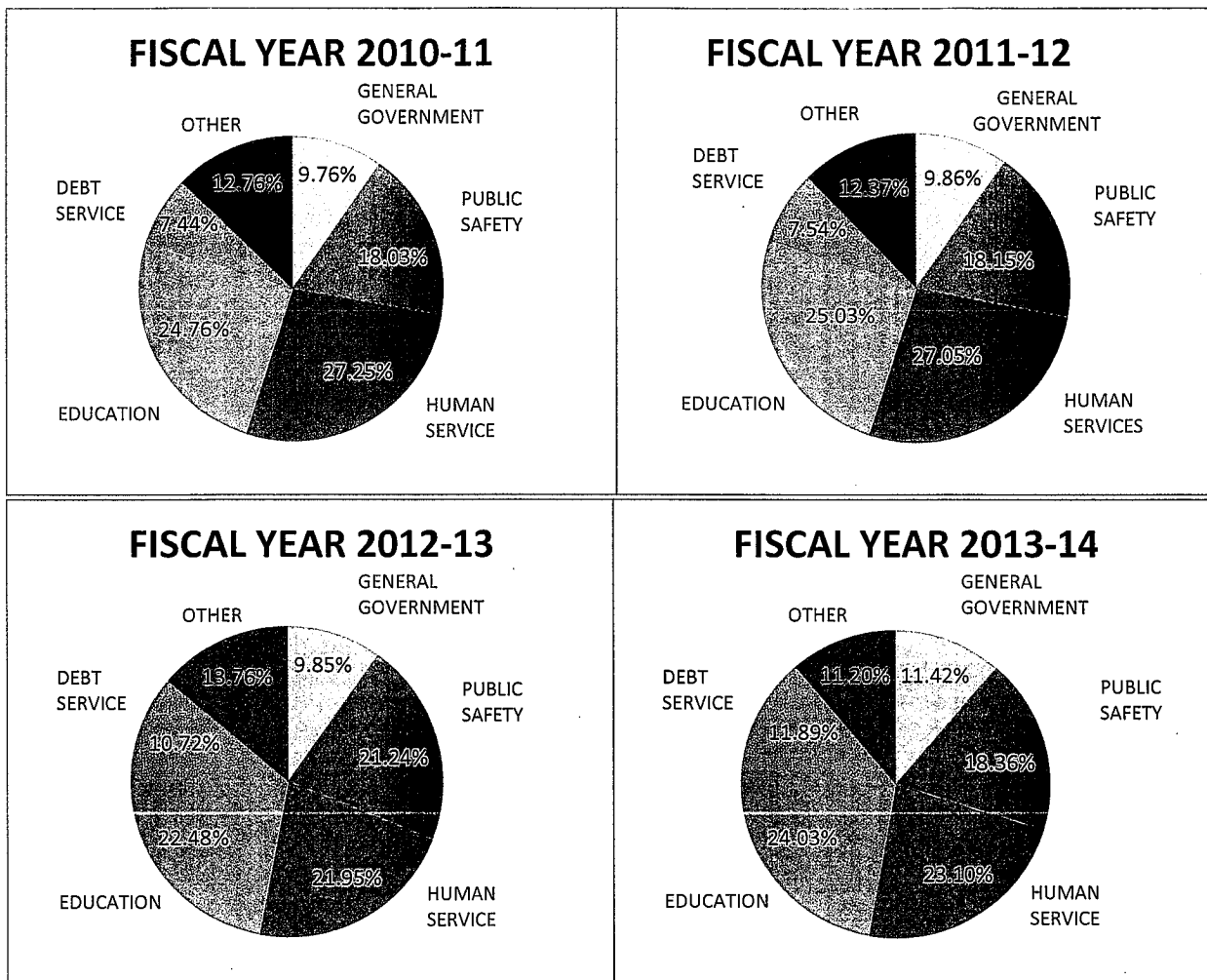
FISCAL YEAR 2012-13



FISCAL YEAR 2013-14



COMPARION OF FISCAL YEARS



GENERAL GOVERNMENT

Administration
Elections
Finance
Governing Body
Information Sys.
Legal
Mapping/GIS
Public Buildings
Purchasing
Register of Deeds
Superior Court
Tax Administration
Vehicle Maint.

PUBLIC SAFETY

Animal Control
Day Reporting Center
Emer. Commun.
Emer. Mgt.
EMS
Fire Marshal
Jail
Medical Examiner
Sheriff's Dept.

HUMAN SERVICES

Aid to Blind
Child Daycare
Environmental Health
Family Health Center
Home Health
KING CLINIC
Medicaid
Mental Health
Public Assistance
Senior Services
Social Services
Veteran Svcs.

OTHER

Solid Waste Coll
Coop. Ext.
Econ. Deve.
Natural Resources
Planning & Insp.
Arts Council
Libraries
Parks
Recreation
Special Approp.
Transfers
Contingency

EDUCATION

DEBT SERVICE

Neutral Property Tax Increase

Note: The top part of this worksheet is used as working papers to make it easier for you (counties and municipalities) to calculate amounts that should be used in the actual

Revaluations as of:

January 1, 2009 and 2013

Fiscal year	Assessed Valuation	Annexation (Deannexation)	Total w/ Annexation or Deannexation	Valuation Increase	Percentage change
2013-14	3,555,672,667				
2012-13	3,666,621,947		3,666,621,947	33,816,422	0.93%
2011-12	3,632,805,525		3,632,805,525	10,437,946	0.29%
2010-11	3,622,367,579		3,622,367,579	14,633,772	0.41%
2009-10	3,607,733,807		3,607,733,807	339,620,799	10.39%
2008-09	3,268,113,008				

3.00% Average growth %
Doesn't include
revaluation increase

Last year prior to revaluation	Tax rate	Estimated tax levy
2012-13	0.6000	21,999,732
First year of revaluation		
2013-14	0.6187	21,999,732
Increase tax rate for average growth rate		
	0.6373	22,660,636
	Increase	660,904
	Average Percentage Increase	3.00%

Neutral Property Tax Increase

Note: The top part of this worksheet is used as working papers to make it easier for you (counties and municipalities) to calculate amounts that should be used in the actual

Revaluations as of:

January 1, 2009 and 2013

Fiscal year	Assessed Valuation	Annexation (Deannexation)	Total w/ Annexation or Deannexation	Valuation Increase	Percentage change
2013-14	3,555,672,667				
2012-13	3,640,708,445		3,640,708,445	6,242,005	0.17%
2011-12	3,634,466,440		3,634,466,440		0.00%
2010-11	-		-		0.00%
2009-10	-		-		0.00%
2008-09	-		-		0.04%
Revaluation 1/1/2009					
0.04% Average growth % Doesn't include revaluation increase					

Last year prior to revaluation	Tax rate	Estimated tax levy
2012-13	0.0400	1,456,283
First year of revaluation		
2013-14	0.0410	1,456,283
Increase tax rate for average growth rate		
	0.0410	1,456,909
Average Percentage Increase		
	Increase	625
		0.04%

Neutral Property Tax Increase

Note: The top part of this worksheet is used as working papers to make it easier for you (counties and municipalities) to calculate amounts that should be used in the actual

Revaluations as of:

January 1, 2009 and 2013

Fiscal year	Assessed Valuation	Annexation (Deannexation)	Total w/ Annexation or Deannexation	Valuation Increase	Percentage change
2013-14	451,837,038				
2012-13	448,645,812		448,645,812	(7,065,654)	-1.55%
2011-12	455,711,466		455,711,466	(5,241,676)	-1.14%
2010-11	460,953,142		460,953,142	4,489,371	0.98%
2009-10	456,463,771		456,463,771	34,775,884	8.25%
2008-09	421,687,887				1.64% Average growth % Doesn't include revaluation increase
Last year prior to revaluation 2012-13	448,645,812			Tax rate 0.0650	Estimated tax levy 291,620
First year of revaluation 2013-14	451,837,038			Tax rate to produce equivalent levy 0.0645	291,620
Increase tax rate for average growth rate	451,837,038			Revenue neutral tax rate, 0.0656	296,390
				Increase	4,770 1.64%
				Average Percentage Increase	

Neutral Property Tax Increase

Note: The top part of this worksheet is used as working papers to make it easier for you (counties and municipalities) to calculate amounts that should be used in the actual

Revaluations as of:

January 1, 2009 and 2013

Fiscal year	Assessed Valuation	Annexation (Deannexation)	Total w/ Annexation or Deannexation	Valuation Increase	Percentage change
2013-14	87,344,116				
2012-13	90,222,108		90,222,108	(18,881)	-0.02%
2011-12	90,240,989		90,240,989	(1,187,139)	-1.30%
2010-11	91,428,128		91,428,128	(1,066,570)	-1.15%
2009-10	92,494,698		92,494,698	5,128,203	5.87%
2008-09	87,366,495				

0.85% Average growth %
Doesn't include
revaluation increase

Last year prior to revaluation	Tax rate	Estimated tax levy
2012-13	0.0650	58,644
First year of revaluation 2013-14		
	Tax rate to produce equivalent levy	0.0671
		58,644
Increase tax rate for average growth rate	Revenue neutral tax rate,	
	0.0677	59,142
	Increase	498
	Average Percentage Increase	0.85%

STOKES COUNTY
2013-14 REVALUATION
WALNUT COVE FIRE DISTRICT

05/21/09

Neutral Property Tax Increase

Note: The top part of this worksheet is used as working papers to make it easier for you (counties and municipalities) to calculate amounts that should be used in the actual

Revaluations as of:

January 1, 2009 and 2013

Fiscal year	Assessed Valuation	Annexation (Deannexation)	Total w/ Annexation or Deannexation	Valuation Increa	Percentage change
2013-14	328,696,806				
2012-13	340,897,781		340,897,781	(6,566,397)	-1.89%
2011-12	347,464,178		347,464,178	(9,500,482)	-2.66%
2010-11	356,964,660		356,964,660	9,075	0.00%
2009-10	356,955,585		356,955,585	47,218,166	15.24%
2008-09	309,737,419				

2.67% Average growth %
Doesn't include
revaluation increase

Last year prior to revaluation	Tax rate	Estimated tax levy
2012-13	0.0500	170,449
First year of revaluation		
2013-14	0.0519	170,449
Increase tax rate for average growth rate	Revenue neutral tax rate,	175,007
	0.0532	
	Increase	4,558
	Average Percentage Increase	2.67%

Neutral Property Tax Increase

Note: The top part of this worksheet is used as working papers to make it easier for you (counties and municipalities) to calculate amounts that should be used in the actual

Revaluations as of:

January 1, 2009 and 2013

Fiscal year	Assessed Valuation	Annexation (Deannexation)	Total w/ Annexation or Deannexation	Valuation Increase	Percentage change
2013-14	2,084,938,345				
2012-13	2,130,008,152		2,130,008,152	11,505,244	0.54%
2011-12	2,118,502,908		2,118,502,908	41,940,430	2.02%
2010-11	2,076,562,478		2,076,562,478	(32,309,208)	-1.53%
2009-10	2,108,871,686		2,108,871,686	193,827,552	10.12%
2008-09	1,915,044,134				
					2.79% Average growth % Doesn't include revaluation increase

	Tax rate	Estimated tax levy
Last year prior to revaluation 2012-13	0.0650	1,384,505
First year of revaluation 2013-14	0.0664	1,384,505
Increase tax rate for average growth rate		
	0.0683	1,423,105
		38,600
		2.79%