

STATE OF NORTH CAROLINA )  
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COUNTY OF STOKES )  
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OFFICE OF THE COMMISSIONERS  
STOKES COUNTY GOVERNMENT  
DANBURY, NORTH CAROLINA  
NOVEMBER 4, 2013

The Board of Commissioners of the County of Stokes, State of North Carolina, met for a Goals/Budget Guidance Work Session in the Third Floor Conference Room of the Ronald Wilson Reagan Memorial Building (Administration Building) located in Danbury, North Carolina on Monday, November 4, 2013 at 10:00 am with the following members present:

Chairman Ernest Lankford  
Vice Chairman James D. Booth  
Commissioner J. Leon Inman  
Commissioner Jimmy Walker  
Commissioner Ronda Jones

County Personnel in Attendance:  
County Manager Richard Morris  
Clerk to the Board Darlene Bullins  
Finance Director Julia Edwards

Chairman Ernest Lankford called the Goals/Budget Guidance Work Session to order.

Commissioner Walker delivered the invocation.

**GENERAL GOVERNMENT-GOVERNING BODY-PLEDGE OF ALLEGIANCE**

Chairman Lankford opened the meeting by inviting everyone in attendance to join the Board in the Pledge of Allegiance.

**Goals/Budget Guidance Work Session**

Chairman Lankford turned the meeting over to County Manager/Budget Officer Rick Morris.

Manager Morris presented the following Agenda for the Board to approve for the two Goals/Budget Guidance Work Sessions to be held in November:

**Agenda for the November 2013 Meetings**

- Budget Execution Update
- Presentation of Major Budget Issues for FY 2014/15
  - Includes policy issues
  - Includes potential unfunded mandates
- Board discussion regarding major budget issues for FY 2014/15

Chairman Lankford entertained a motion to approve the Agenda presented by Manager Morris.

Commissioner Jones moved to approve the Agenda as presented. Vice Chairman Booth seconded and the motion carried unanimously.

Manager Morris presented the following information for the Board's review and discussion.

**Purpose**

The purpose of conducting earlier goals/budget planning sessions is to address major budget issues earlier in the budget formulation process and for the County Manager to be able to provide concrete, written budget guidance to the Department Heads before they start their departmental budget building process.

Manager Morris noted that the only decision that the Board would need to make today would be to allow two vendors at the November 18<sup>th</sup> work session which will be discussed later in the work session today.

**Snapshot of the Budget Process with Updated Information in Italics (Charts were used in the FY 2013-14 Budget Process, FY 2014-15 has been Updated.**

**Requested Budget for FY 2013-14 = \$49,623,076**

**Summary**

- Difference between estimated revenues and requested expenditures was short \$9,912,275
- To fund the requested budget a tax rate of 89.83 cents at a 96.19% collection rate would be required
- The size of this request should illustrate to everyone the need for a reality check on affordability

**After Cuts for FY 2013-14: Expenses = \$42,917,782 and Revenues = \$39,813,666**

**Summary**

- Difference between estimated revenues and recommended expenditures was short \$3,104,116
- Reviewed personnel & equipment requests and made cuts
- Other cuts in varied areas resulted from line item review of each department request

## **Balance Budget for FY 2013-14**

### **Summary**

- Uses \$3,104,116 from General Fund Balance
- 16 positions remained unfunded
- Capital Outlay was limited to essential requirements
- Personnel reclassifications were limited to actual changes of duty and classification equality
- 2% COLA included

## **FY 2014-15 Projected Shortfall = Projected \$1,290,093 instead of \$2,752,548**

### **Summary**

- \$487,255 Revaluation revenue reduction remains
- Hold Harmless eliminates revenue of \$1,142,191
- Tax rate increase of at least 8 (4) cents would be required to make up total loss of revenue or fund balance must be further reduced
- Other alternative is cutting of services or potentially total departments

## **Re-base lining the Budget**

### **FY12-13 = \$45,835,351**

- New School QSCB/QZAB Loan payment
- Paid Stokes-Reynolds Medicaid / Medicare bill from final cost report
- Completed majority of communications upgrade
- Settled with Baptist Hospital
- Created new Title XIX Fund and removed balance from General Fund

## **Approximate \$3,104,116 Shortfall FY 13-14 Budget = \$42,917,782**

- No Hold Harmless
- Revaluation
- Revenues down / expenses increasing
- New Debt for communication upgrade
- Transferred \$3,104,116 from County General Fund Balance
- Re-baselining has begun when compared to FY11/12 budget if structural increases and capital expenditures are considered

## **Projected \$1,290,093 Shortfall FY 14-15 Budget = \$43,990,726**

- Will be the most difficult budget year in past ten years
- Must cut services, raise taxes or use more fund balance
- Budget guidance process from BOCC will need to be modified

## **Budget Assessment**

- Major Facts bearing on the FY 2014/15 Budget
  - Again, “Hold Harmless” appears to be gone this year
  - Revenues down/expenses up; however, revenue is now a real challenge
  - County budget has built in structural increases
    - Longevity, health/dental insurance, retirement contribution, unemployment insurance, etc
  - Loan process has begun for new educational construction / renovation and associated costs (Forsyth Tech and Lawsonville Elementary), which will increase debt service

- Budget Realities
  - Recovery of the U.S. economy remains weak, not helping much
  - During fiscal years 2013/14 through 2016/17, the approved county budget must be re-baselined to absorb the Ad Valorem tax decrease plus the loss of “Hold Harmless”
  - Next year’s budget guidance should not be “business as usual” if a tax rate increase or fund balance are not used to balance the budget
    - Budget work sessions may need to be held earlier before end of the calendar year
    - Detailed discussions on service reductions and re-baselining the budget should be held during budget sessions

**Overview of FY 2013-14 County Debt Commitment:**

<b>Debt Description</b>	<b>Purpose of Debt</b>	<b>Years Left</b>	<b>Amount (principal +interest)</b>
Refinance/GO Bonds	West Stokes & Piney Grove	4	\$ 1,518,700.00
PODS	Purchase for Early College	10	\$ 110,509.00
Land Purchase	Poplar Springs Elementary	15	\$ 116,786.00
School Construction	Nancy Reynolds & Com. College	16	\$ 657,460.00
QSCB	Poplar Springs & Southeastern	14	\$ 1,781,829.00
QZAB	Southeastern	14	\$ 295,714.00
<b>Total School Debt</b>			<b>\$ 4,480,998.00</b>
Capital Lease Payment #1	EMS & Sheriff	3	\$ 98,334.00
Capital Lease Payment #2	EMS Remounts & other equip.	2	\$ 65,132.00
Capital Lease Payment #3	New roof and EMS Station	5	\$ 48,664.00
Capital Lease Payment #4	Communications Equipment	4	\$ 348,819.00
Capital Lease Payment #5	Autumn Square Property	9	\$ 62,299.00
<b>Total Capital Lease Debt</b>			<b>\$ 623,248.00</b>

Manager Morris noted that an updated debt commitment including the Lawsonville Renovation Project will be provided to the BOCC at the next work session from Finance Director Julia Edwards.

**Major Budget Issues FY 2014-15**

Manager Morris noted that each item below will be discussed separately:

- Obamacare Impacts ( part-time and ins. premiums)
- Home Health financial strategy
- Capital reserve, county buildings
- Part time pay scale, specifically E-911
- Capital outlay, vehicles, computers, etc.
- School System capital funding

- Fire service funding strategy/operational model
- Solid waste study
- Cost savings through propane conversion
- CCNC funding reduction- Health Dept
- QZAB / QSCB reductions
- New signage for Government Center
- Employee bonus / COLA?
- Moving / renovation costs
- New tax software (cost avoidance current budget)
- Capital reserve voting machines
- Gap filling - Meadows water/sewer project
- Land use plan funding shares for FY2014/15

Manager Morris requested approval from the Board to allow a study on other solid waste operations (roll off for Pinnacle and Walnut Cove sites) for the County to possibly consider being presented at the November 18<sup>th</sup> meeting.

Manager Morris provided the BOCC with a copy of the study to review before the November 18<sup>th</sup> meeting.

Manager Morris requested approval from the Board to allow Clyde Hall to present information regarding the use of propane in vehicles and other areas.

Mr. Hall indicates that propane prices may be decreasing with the increase of fracking.

Commissioner Walker noted that YVEDDI is changing some of their vehicles to propane.

Finance Director Julia Edwards provided updated Sales Tax Revenue:

- Only two months of this fiscal year have been collected
- Total of \$620,717.83 has been received for the first two months of this fiscal year for the general fund which is \$15,334.02 more than last year for the same period of time
- \$250,294.29 which is \$5,934.96 more than last year for the same period of time has been collected for the schools
- \$926,825.99 has been collected for all sales tax revenue for the first two months of this fiscal year

Manager Morris requested the Board add any other major budget issues for FY 2014-15 they feel need to be on the list for discussion.

Commissioner Walker commented:

- Funding that is in question such as the school system wanting more because of the state and federal funding shortages

Vice Chairman Booth questioned what was the status of the QZAB/QSCB

reimbursements?

Finance Director responded:

- There was an 8.2% reduction in the reimbursement to the County which equated to approximately \$36,000 in FY 2013-14 (only one payment)
- There is a 7.2% reduction in the reimbursement to the County which equates to approximately \$69,244.11 in FY 2014-15

Commissioner Inman commented:

- Attended a NCACC meeting in New Bern with a spokesperson who is a capitol hill liaison to NCACC
- Sequestration is a ten-year process, far from being out of the woods from impacts of the sequestration
- State did away with the statutory language regarding the lottery school construction funding
- Eliminating the statutory language simply means there is no statutory requirement to give the counties any lottery funding
- Stokes County and many other counties throughout the state built schools thinking revenue from the lottery would help pay the debt
- \$100 million statewide was allocated last year
- There is no guarantee that will happen again in the upcoming year
- Representative Lucas has made some comments about not being hammered about the school lottery funding
- Feel huge things will be coming down the pipe
- Representative Holloway attended the Public Education Steering Committee and stated the Legislature will not “kick the can down the road”
- Must remember, Representative Holloway is only one person
- Hold Harmless funding is gone
- Predict a very tough time in the Legislature to just maintain where we currently are
- Would like an analysis of revenues and expenditures
- County and the staff have done a great job holding the line, but must remember there are other appropriations the county has each year such as education
- Have got to try to figure out new revenue sources
- Can’t go back to the taxpayers and ask for more
- Agree with Commissioner Walker’s observation that the County can’t make up the shortfalls from state and federal funding
- Tough decisions are going to have to be made
- Have to increase revenues or cut expenses
- Applaud the manager for getting the work sessions started early this fiscal year
- By starting early, maybe the BOCC can be more proactive with this budget instead of reactive

Commissioner Walker commented:

- Noted that this year, increase revenues AND cut expenses might be the way the County has to go instead of saying increase revenue OR cut expenses

Commissioner Inman concurred with Commissioner Walker's comments.

Commissioner Jones commented:

- Have mentioned this before about having to just take what the state dishes out
- Don't think it is right, just because administration changes, don't think they should be allowed to change or not honor previous commitments such as the lottery
- State needs to pull the line
- If they want to get rid of the lottery, then do a twenty year span to allow counties to get debts paid off before doing away with it
- If taxes have to be raised, the state should have to do it and not push it down to the counties as an unfunded mandate

Chairman Lankford commented:

- Feel the education lottery for school construction will be the number one NCACC legislative goal this year
- The issue is that it has been cut from 40% to 22%
- Need to lobby this year to get the percent increased
- There is actually lobbying going on today for increased wages for educators

Commissioner Walker commented:

- State needs to look at two things regarding the lottery – amount and how it is distributed
- Don't understand how these legislative changes (statutory language) can be happening with Republicans in charge of both houses in Raleigh
- The County's financial model was formulated with the 40% lottery funding

Vice Chairman Booth commented:

- Would like to commend this Board and former Boards for being conservative enough to increase the Fund Balance to be able to build schools and have funding available to balance the budget
- Noted the only tax increase during the past 10 years was the 4 cents for schools/community college

Commissioner Walker requested Manager Morris explain the decrease in the projected shortfall for the upcoming FY 2014-15 budget.

Manager Morris responded:

- Hold harmless and additional utilities revenue changed the projected shortfall from \$2,752,548 to \$1,142,191
- The \$1.5 million that was received this year will be carried over to next year's budget
- The unexpected \$1.5 million reduces the shortfall for the FY 2014-15
- The \$43,990,726 projected budget is only an estimate
- The projected shortfall can always change with unknowns
- Noted the recent articles in the paper about Duke Energy and the use of coal
- Duke Energy could shut the Belews Creek Plant down overnight

- Duke Energy pays Stokes County approximately \$2 million in tax revenue each year

Chairman Lankford commented:

- Duke Energy spent \$1 billion to reduce emissions which should help

Manager Morris commented:

- The newspaper's article yesterday stated that the Belews Creek Plant is the worst in the state

### **Obamacare Impacts (part-time, insurance premiums)**

- Will have a major impact on part-time workforce expense and potentially increased health insurance premiums
  - Use a lot of part time workers for emergency services (E911, EMS, Sheriff's Department, and Jail)
  - The new law regarding insurance for those who work at least 30 hours a week becomes effective January 2015
  - Don't have an answer for this topic
  - Under Obamacare, any worker who works at least 30 hours a week must be offered insurance
  - Must develop a measurement range to determine if the employee is eligible for insurance (the range can be any period from 3 month to 12 months which can't be changed) (measurement period will have to be started in 2014)
  - If it is determined in the measurement range that the employee averages over 30 hours a week, you must offer the employee insurance
  - The employee then gets insurance, if desired, for the same amount of time which is considered the stability period
  - During the stability period, the employee is being measured for the next stability period
  - This is going to be an administrative nightmare to keep up with and control
  - Will have to have a process to make sure that calculations are done accurately
  - You can cut the hours, but you must increase the part time staff in order to keep emergency services operating
  - Part timers are also hard to find
  - Adding part timers is also expensive for training, uniforms, equipment, etc.
  - The penalty for not offering insurance to those who qualify and their dependents (not their spouse) is \$2,000 per full time employee which would run approximately \$550,000 a year
  - Will need to discuss this issue in depth to determine the continuation of providing insurance or having the employee start paying for part of the premium
  - Need to get more information about this measurement period requirement

Commissioner Jones commented:

- May have to look at paying part timers premium wages in order to have more part timers who would work less than 30 hours per week, thus eliminating having to worry about providing insurance
- May have to look at cost sharing the premiums with the employees



- Suggested departments such as EMS try to coordinate with other counties with working part timers
- Need to start thinking “outside the box”

County Manager Morris commented:

- This is going to be a very complicated measurement to keep up and no available staff that has that much free time to take on the responsibility
- First thing is to decide what the County’s measurement period is going to be

Commissioner Walker commented:

- Agree with Commissioner Jones that cost sharing might be an option to consider
- The County is actually a minority when it comes to paying the entire premium for the employee
- Could possibly increase the benefits with the amount of funding being paid by the employee (lower deductible, copays, etc.)

County Manager Morris commented:

- Read information last week that noted that employers will receive direct insurance premium increases due to Obamacare
- Increasing benefits will have an impact on renewals with the insurance paying more of the claims

Commissioner Walker commented:

- Feel the BOCC needs to give the manager guidelines on what the BOCC would like to see in the way of options for the insurance; this will eliminate the manager wasting time on items that the BOCC is not interested in

### **Home Health Financial Strategy**

- Short and long term strategy will need to be developed
  - Sent the RFI out
  - Did not receive any interest except from Pioneer Health Services who requested some additional information
  - Public strategy is probably to wait to see how the CON in Forsyth County comes out in January 2014
  - There could be 3 or 4 who do not get the CON
  - Department has had resignations, loss of patients
  - Director Scott is having to contract to keep the services going
  - If the County closes the department, the license will be terminated

Chairman Lankford requested updated revenue information for the next work session.

Finance Director Edwards noted the department lost \$200,000+ last fiscal year.

### **Capital Reserve, County Buildings**

- Need to budget for older systems to address replacement of HVAC/generator systems, to include the hospital

- Might want to consider putting funding in capital reserve for future major capital expenditures such as the recent HVAC problems at the Jail this past summer

Chairman Lankford confirmed with Finance Director Edwards that the balance in Capital Reserve was \$806,170.00 which includes approximately \$54,000 Register of Deeds Technology funding that can only be used for Register of Deeds' computers and \$122,928 that can only be used on Economic Development.

Commissioner Jones commented:

- Glad to see this item included in the list
- Need to try to be prepared for major issues

**Part time pay scale, specifically E-911**

- Need to review part-time rates to ensure availability of trained personnel to perform key functions
  - Noted specifically E911 due to possibly adding additional staff to keep the risk level down; their part time rate is lower than other Emergency Services
  - Need to look at all part time rates
  - The county's emergency services rates are the lowest within the surrounding counties

**Capital Outlay, Vehicles, Computers, Etc.**

- Need to decide what level of capital outlay will be needed for vehicles and other equipment
  - BOCC will need to decide whether to stay on the schedule, buy few or buy none
  - Will be doing a complete review of the number of vehicles in all departments before making a recommendation
  - Guidance will help department heads know what to request

Vice Chairman Booth commented:

- Agree with manager to make sure you have enough vehicles with spares, but not have vehicles that are never used

Commissioner Walker commented:

- One thing I look for is spending money to save money
- When looking at capital equipment, need to look to see where you can spend money to save money in the future such as maintenance on equipment to increase the life of the equipment

Vice Chairman Booth commented:

- One thing the County has recently done to spend money to save money is the purchase of Autumn Square and moving Vehicle Maintenance to the new location
- Efficiency is increasing with additional bays, storage for parts, etc.

### **School System Capital Funding**

- Need to continue to evaluate capital needs and funding sources for the School System this year and next
  - Use of Lawsonville excess funding, if available
  - Sales tax refund if County pays capital project bills
- Adopt project specific capital funding, using 1 to N list
  - This would require the BOE to prioritize all capital requests
  - The County would then decide how much funding could be allocated for a certain number of projects (for example: funding would be allocated for the first 6 projects)
  - Funding would be disbursed by the County once the project is completed
  - This would eliminate the county providing funding for top priority capital projects which were never done such as roofs
  - These things could all be set in a policy
- Waiting for the BOE to decide on using the excess funding from the Lawsonville Project
- Legislature change this year will not allow the school system to request sales tax refunds
- County can start paying the capital project bills and then claim the sales tax for refunds

Commissioner Inman commented:

- The County has been following a priority list of capital needs that was given to the BOCC from the BOE
- Now the Board is being criticized for building schools and not maintaining schools
- Can't line item the school's budget
- Have approved for the Board of Education to use \$1 million of their Fund Balance for the past two years for capital needs (roofs); the school system chose to use the \$1 million this past year to keep locally funded positions
- Agree with Commissioner Walker, can't offset the cuts the School System is receiving from the state and federal

Commissioner Jones commented:

- Don't like to see funding given to a department or agency with the assumption that it is going to be used for a particular purpose and then to find out it was used for something else

Chairman Lankford commented:

- Went back a few years and did some research
- All the roofs the BOE is asking for funding were presented in 2008
- In 2008, 2009, and 2010, the allocation was over \$1 million each year

Commissioner Walker commented:

- Like the sound of the 1 to N List
- Seems it would really work well with everyone knowing what is actually being funded along with getting back the sales tax that the school system can no longer claim
- Have questions about energy efficient programs
- Need to be more involved with school construction to make sure energy efficiency is being considered

Vice Chairman Booth commented:

- Have heard the energy efficient program started by the school system with Johnson Controls is not profitable

The Board discussed the energy efficient program being done in the school system.

### **Fire Service Strategy**

- Need to discuss strategy for dealing with Fire Service funding and operational issues
- Have discussed issues with Fire Commission Chairman Clifford Hall
- One department last year wanted to buy a truck that cost over \$400,000
- Fire Commission removed the cap that had been implemented on capital truck purchases
- Having Service District Departmental issues with low membership, low staff response to emergencies/fire
- Having to dispatch 4 departments to cover a fire
- Departments not having personnel to respond
- Not sure what we need to do
- Putting paid firemen in the departments will be costly

Chairman Lankford commented:

- The daytime hours are the times when there is low membership.
- One thing to look at, which is good, fire calls are down in the county
- Calls are being run, but most calls are medical calls

County Manager Morris noted:

- The departments have high standards from the Department of Insurance in Raleigh to follow

Commissioner Walker commented:

- There is a competitive factor among the departments wanting to have the best

The Board discussed possible options to review.

Chairman Lankford commented:

- Need to set a prototype on what kind of truck is needed and can be purchased, one that doesn't have all the bells and whistles
- Each department has a five mile radius; the same type of truck can be used in Lawsonville, Sandy Ridge, King, etc.

Commissioner Inman commented:

- Operational issues need to be discussed possibly at a future meeting
- Could develop a written fiscal policy that lists what the county will authorize to be bought – functional equipment
- Should consider doing a fiscal policy for the school system, other departments, etc.
- This would eliminate departments competing against each other

Chairman Lankford suggested the manager meet with the Fire Commission to convey the thoughts from the Board: keeping things equal, looking at a prototype for purchasing fire trucks, recruitment efforts, etc.

Commissioner Jones commented:

- Agree with Commissioner Inman that a fiscal policy could have all this information outlined
- Need to make sure that the departments understand that the County doesn't have deep pockets

County Manager Morris commented:

- One thing to remember is that these fire departments are not like our regular departments
- Each department is a nonprofit with its own rules/regulations, bylaws, boards, etc.
- Don't think the departments will like the idea of a fiscal policy
- Individuals in these departments make a big commitment in training and time with no pay
- Not sure what their reaction will be

Chairman Lankford noted the Fire Commission over the past years has done a great job.

Commissioner Inman agreed with Chairman Lankford regarding the excellent job done by the Fire Commission.

The Board discussed the purchase of fire trucks by departments.

Chairman Lankford discussed the policy that the Fire Commission was using when allowing a department to purchase a truck.

Manager Morris noted that he would meet with the Fire Commission regarding the items discussed by the Board today.

Commissioner Walker confirmed with Manager Morris that he had enough information from the BOCC to meet with the Fire Commission.

The Board unanimously agreed to allow Manager Morris invite Clyde Hall and Joyce Engineering to the November 18<sup>th</sup> work session.

**Adjournment**

There being no further business to come before the Board, Chairman Lankford entertained a motion to adjourn the Goals/Budget Guidance Work Session.

Vice Chairman Booth moved to adjourn the Goals/Budget Guidance Work Session.

Commissioner Jones seconded and the motion carried unanimously.

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**Darlene M. Bullins**  
Clerk to the Board

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**Ernest Lankford**  
Chairman