

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  
MAY 31, 2016

The Board of Commissioners of the County of Stokes, State of North Carolina, met for a Budget Work Session for the proposed Fiscal Year 2016-17 Budget in the third floor conference room of the Ronald Wilson Reagan Memorial Building (Administration Building) located in Danbury, North Carolina on Tuesday, May 31, 2016 at 2:00 pm with the following members present:

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

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

Chairman J. Leon Inman called the meeting to order and welcomed those in attendance.

Commissioner Walker delivered the invocation.

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

Chairman Inman opened the meeting by inviting the citizens in attendance to join the Board in the Pledge of Allegiance.

#### **Budget Work Session**

Chairman Inman noted that the Budget Work Session was delayed due to a called Emergency Meeting prior to the work session.

Chairman Inman turned the work session over to County Manager Rick Morris.

County Manager Morris presented the following opening comments:

- Will be going through the expense side of the proposed Fiscal Year (FY) 2016-17 Budget today
- Will be providing the Board the revenue side at the next budget work session

County Manager Morris presented the following Budget Overview for Fiscal Year 2016-17: “Ensuring Financial Sustainability in an Unpredictable World”:

County Manager Morris started his presentation with a visual regarding the County’s financial status.

County Manager Morris described his illustration:

- Since I have been back, I have put a series of budget recommendations together with the idea of taking the County through a turbulent period that I have been calling the “Perfect Storm” and having the County come out in good shape on the other side
- My plan and recommendations were designed to have the County’s financial status in an upward trend by FY 2016-17 with continual improvement in FY 2017-18 and FY 2018-19 (recommended a 6-cent tax increase for FY 2015-16 – only got a 2-cent tax increase)
- The proposed FY 2016-17 budget keeps the County on a path to improve the County’s financial status
- If the County’s financial status takes a downward trend, you will see:
  - Big Fund Balance reduction
  - Big cuts in services with possibly entire departments eliminated
  - Big reduction in personnel costs with possible layoffs
  - Big reduction in benefits
  - Big spike in personnel turnover
- Things that put the County’s financial status on a downward trend:
  - Loss of sales tax
  - Ad Valorem Tax recommendation of 6 cents FY 2015-16, only approved 2 cents
  - Loss of Hold Harmless Revenue that has not been replaced (\$7.7 million)
  - Hospital bankruptcy that no one suspected
- Major decisions have to be made with FY 2016-17 budget in order for the County’s financial status to stay on an upward trend
- My proposed FY 2016-17 budget was based on what I and the department heads collectively feel we need to run the County

### **Discussion Topics**

- Changes since budget proposal on May 23<sup>rd</sup>
- Budget Overview
- Budget Development Process
- Snapshot of Budget Process
- Budget Assessment
  - Major Facts Bearing on the FY 2016/17 Budget

- Budget Realities
- Budget Baseline Looking Forward
- Overview of FY2016/17 County Debt Commitment
- Overview of FY2016/17 Capital Reserve Fund
- Board of Education Request
  - Current Expense
  - School Capital Outlay & Capital Reserve
- Salary Issues
- Department Budget Highlights
  - Common Expenditures Across All Departments
- Capital Reserve Fund Transfers
- School/FTCC Debt Service Fund
- E-911 Fund
- Enterprise Funds
- Fire Districts (All)
- County Budget Comparisons
- Here is Where We Stand (Graphic)
- In Summary, So What's Important
- Backup Slides
  - Stokes County Tax Rate History

**Changes Not Incorporated in the Budget Proposal Presented on May 23, 2016**

- Walmart's delay was not incorporated into revenue estimate of \$250,000 that was included in the budget proposal
  - \$250,000 was recommended by the Board of Commissioners
  - Projected to open in Spring of 2017 instead of late Fall 2016
- Funding to address Pioneer Health Services bankruptcy was not incorporated into the budget proposal due to bankruptcy timing and lack of available financial information to make budget estimates
  - Proposed budget was almost completed when this bankruptcy unfolded
- Also of note, new legislation using the county's tier ratings that could impact the new sales tax allocation approved last year by the Legislature; budget proposal included \$1,250,000 of new sales tax revenue resulting from the new law

Chairman Inman commented:

- Received information from NCACC last week that the original new services sales tax allocation was not in jeopardy, only an additional \$36 million of discretionary funding was in jeopardy

Vice Chairman Booth commented:

- Have spoken to Senator Shirley Randleman who is looking into the issue to see what impact it might have on the County's sales tax revenue

County Manager Morris commented:

- Would need to know the impact before the adoption of the FY 2016-17 budget

### **FY 2016-17 Overview**

- Total budget recommendation for FY 2016/17 is \$47,073,728
  - Increase of 4.78% over the FY 2015/16 approved budget
  - Increase is driven by the cost of increased base salaries and part-time rates last year for Public Safety personnel for full fiscal year (4 additional pay periods)
  - Health insurance increase, and structural increases in personnel costs
  - A slight increase in county funding for equipment
  - Change of EMS from a 24/48 to 24/72 work schedule which requires 11 new employees, which will also reduce overtime pay
- Tax increase of 2 cents was recommended plus use of General Fund Balance to balance budget and stay at 20% General Fund balance
- This budget does not fix the problem of \$7.7 M lost hold harmless revenue
- Recommended budget was developed with the focus on FY 2016/17 with hope of an upturn in FY2017/18
- Revenue and expenditure estimates continue to be conservative
- Recommendation includes an outside salary study
- Recommendation includes new sales tax distribution formula created by last year's State Legislature legislation
- Recommended tax collection rate of 97%; Board can increase the tax collection rate up to 97.47%

### **Budget Development Process**

- Department heads and outside agencies submitted budget requests
  - County manager met with department heads to analyze and discuss details of their budget submissions
  - County manager reviewed all requests and made first round of cuts
  - County manager made a second round of cuts focusing on equipment and requests for personnel reclassifications/additions
  - Across the board cuts were not made in any departments
- After all cuts were made, a \$3,022,908 difference remained between revenues and expenditures
- County manager then looked at the county fund balance plus an Ad Valorem tax increase for required funding to balance the budget
  - Objective was to keep the fund balance in close proximity to 20%
  - Local Government Commission recommends a fund balance of 31% for counties similar to Stokes and ours was 38% in FY14/15 audit

Commissioner Walker confirmed with Finance Director Julia Edwards that the \$3,022,908 would equate to an 8.29-cent tax increase.

Chairman Inman confirmed with Manager Morris that over the past years, the County has allocated over \$9 million from Fund Balance to balance the budget.

Chairman Inman requested information regarding the amount of Fund Balance that had been allocated versus the amount that actually had to be used.

## Snapshot of the Fiscal Year 2016-17 Budget Process

- **Departments Requested Budget – \$48,187,211**
  - **Summary**
    - Difference between requested budget and recommended budget was \$1,113,483
    - To fund requested budget an Ad Valorem tax rate of 70.75 cents at a 97.47% collection rate would be required
    - Initial EMS request did not include new schedule change to 24/72 hours which adds an additional \$518,756 to \$48,187,211 request
- **After Cuts**
  - **Expenses**
    - \$47,073,728
  - **Revenues**
    - \$44,050,820
  - **Summary**
    - Difference between estimated revenues and recommended expenditures was short \$3,022,908
    - Reviewed personnel & equipment requests and made cuts
    - Other cuts in varied areas resulted from line item review of each budget request
    - No across-the-board cuts were made
- **Balanced Budget - \$47,073,728**
  - **Summary**
    - Uses \$2,297,018 from General Fund Balance
    - Includes 2 cent Ad Valorem tax increase, which equals \$725,890
    - Capital Outlay was limited to essential requirements
    - Personnel reclassifications were only to reflect actual duties
    - No COLA or Bonus recommended
      - Wanted to do a salary study which has been included in the proposed budget
    - Positions added to DSS, Public Buildings, Jail, Sheriff's Department, Forsyth Tech and Emergency Medical Services
- **Fiscal Year 2017-18 – Projected Shortfall = \$2,106,119**
  - **Summary**
    - \$632,374 from projected Revaluation 3% increase
    - No fund balance available to retain the 20% fund balance
    - Requires 6.0 cent Ad Valorem tax in FY 2017/18
    - Alternatives to tax increase are deeper fund balance cut below 20% or deep service cuts
    - Assumes an additional \$500K of sales tax generated by Walmart
    - Final version of State sales tax allocation still an unknown

Commissioner Walker confirmed with Manager Morris that projected revenue from the jail expansion, if approved, would probably not produce additional revenue until FY 18/19.

Commissioner Walker noted that there would also be a debt impact with the financing of the jail expansion, if approved.

## **Budget Assessment**

- **Major Facts bearing on the FY 2016/17 Budget**
  - Revenues up slightly / expenses are staying the same or going up
  - Sales tax revenue increase of \$1,500,000. \$1,250,000 from new sales tax and \$250,000 from Walmart recommended by Board of County Commissioners. These funds are budgeted in General Fund, School Capital Fund and fire funds.
  - County budget has built in structural increases between 1 and 2 percent
    - Longevity, medical insurance, retirement plus recurring cost increases such as energy costs
    - A certain amount of equipment and software must be funded each year to operate
  - Loan process has begun for construction of community college, which is the last in a series of new construction / renovation education projects approved by the BOCC
  - Emergency Medical Service issues - Changing from 24/48 to 24/72 work schedule
  - Uncertainty concerning the hospital bankruptcy situation
    - Very risky situation
- **Budget Realities**
  - Recovery of the U.S. economy remains weak and stresses county budgets
  - Base salary levels in Stokes County are non-competitive and causing higher than acceptable turnover rate of employees
  - During Fiscal Year 2016/17, the County must survive with hope that FY 2017/18 will bring growth in revenue
  - Tax rate increases for Fire Tax and Ad Valorem Tax in the FY 2016/17 Budget are needed to maintain the current level of services to the Public
  - Service levels to citizens should also be reviewed over the next two years to address additional needs, which are driven by increased demand

Vice Chairman Booth requested what the percentage increase would be over last year's budget if there were no personnel additions/reclassifications and no purchase of equipment?

Vice Chairman Booth confirmed with Manager Morris that the recommended change does not include changing the overtime pay rate from half time to time and a half for EMS.

Commissioner Walker questioned where in the budget process would privatization of EMS be looked at?

County Manager Morris responded:

- Understand the Board would like to have someone talk about privatization at one of the upcoming budget work sessions
- Too late to do anything about it now
- Needs to be evaluated

The Board unanimously agreed to have Manager Morris have someone at one of the future budget work sessions for informational purposes.

Vice Chairman Booth noted that implementation of privatization could be done after the budget is approved.

Commissioner Walker noted that his understanding that the only thing that can't be changed after the budget is approved is the tax rate.

### **Budget Baseline Looking Forward**

- **Fiscal Year 2014-15**
  - Approved Budget = \$43,832,644
  - Appropriated Fund Balance = \$2,823,913
    - **Summary**
      - Used fund balance and maintained fund balance above 20%
      - Adequate fund balance was available to balance budget without a property tax increase
      - Maintained current level of services
- **Fiscal Year 2015-16**
  - Proposed Budget = \$44,926,606
  - Appropriated Fund Balance = \$2,241,843
    - **Summary**
      - Uses \$2,241,843 of fund balance to balance budget
      - Keeps Fund Balance at or above 20%
      - Ad Valorem tax increase of 2 cents also used to balance budget to maintain current level of services
      - Budget increased 2.27% over 2014/15
- **Fiscal Year 2016-17**
  - Proposed Budget = \$47,073,728
  - Appropriated Fund Balance = \$2,297,018
    - **Summary**
      - Uses \$2,297,018 of remaining fund balance to balance budget
      - Keeps Fund Balance at or above 20%
      - Ad Valorem tax increase of 2 cents also used to balance budget to maintain current level of services
      - Budget estimates use 2% annual growth
- **Fiscal Year 2017-18**
  - Projected Budget = \$48,015,203
  - Appropriated Fund Balance = None projected
    - **Summary**
      - No fund balance available to retain the 20% fund balance
      - Last year's revenue increase(s) must support 2% annual growth or cut services
      - \$632,374 from projected Revaluation 3% increase
      - Assumes 6.0 cent Ad Valorem tax in FY 2017/18
      - Includes a full year of Walmart sales tax

Manager Morris noted that a majority of the county services are mandated.

### Overview of Fiscal Year 2015-16 County Debt Commitment

Debt Description	Purpose of Debt	Fiscal Year	Amount of Commitment
Refinance / GO Bonds	West Stokes & Piney Grove	1	\$1,273,573.00
PODS	Purchase for Early College	7	\$90,197.00
Land Purchase	Poplar Springs Elementary	12	\$99,069.00
School Construction	Nancy Reynolds and Comm. College	13	\$420,790.00
QSCB	Poplar Springs and Southeastern	11	\$1,781,829.00
QZAB	Southeastern	11	\$295,714.00
School Addition	Lawsonville Elementary	12	\$195,750.00
Satellite Campus	Community College	0	\$65,000.00
<b>Total School Debt</b>			<b>\$4,221,922.00</b>
Capital Lease Pymt #1	EMS & Sheriff	0	\$98,334.00
Capital Lease Pymt #2	EMS & Sheriff Vehicle and Garage Truck	2	\$219,212.00
Capital Lease Pymt #3	New Roof and EMS Station	2	\$44,332.00
Capital Lease Pymt #4	Communications Equipment	1	\$348,819.00
Capital Lease Pymt #5	Autumn Square Property	6	\$62,299.00
Capital Lease Pymt #6	Equipment-Sheriff, EMS and Servers	1	\$100,570.00
Capital Lease Pymt #7	Tax Office Software	7	\$42,000.00
Capital Lease Pymt #8	Equipment - Sheriff, EMS plus computers	2	\$110,875.00
<b>Total Cap. Lease Debt</b>			<b>\$1,026,441.00</b>



### Fiscal Year 2016-17 Capital Reserve Fund Recommendations

- Overall internal capital needs assessment shows a potential need of approximately \$425,500; not all inclusive
  - Recommend funding in the amount of \$100,000 be placed in capital reserve to address probable failures of aging HVAC systems at the hospital and county buildings plus other capital needs such as roofs, parking lot repair, carpeting and other major repairs

County Manager Morris noted there was \$160,475 currently in Capital Reserve for unexpected emergencies such as HVAC.

### School Current Expense

- **Budget recommendation of \$9,817,340 is a decrease of \$394,423 from fiscal year 2015/16 of \$10,211,763**
  - The recommendation was calculated using State ADM of 6,190 at \$1,586 per student, which is same as last year and compares favorably in per student allocation with counties of our size.
  - ADM has reduced from 6931 in FY 2011/12 to 6190 in FY 2016/17, a reduction of 741.
  - FY 2012/13 through FY 2015/16 the funding level remained the same at \$10,211,763
  - \$95,440 from the New School/F Tech Fund for Poplar Springs operating cost
  - \$9,721,900 from General Fund and Penalties & Interest
- **School Board requested \$587,934 increase over last fiscal year.**
- BOE appropriated \$713,839 from their current expense fund balance in FY 2015/16 budget; \$312,438 fund balance appropriation from the BOE was reflected in the FY 2016/17 BOE budget; BOE unassigned fund balance as of FY 14/15 audit shows \$1,026,277

County Manager Morris noted that at some time you have to consider how the loss of ADM impacts current expense.

Commissioner Jones noted the loss of one school – Francisco Elementary School (operating and personnel costs).

County Manager Morris noted that the closing of Francisco Elementary School was also a deciding factor in cuts to the current expense allocation this year.

County Manager Morris briefly discussed some of the increases in the school's requested budget for current expenses:

- Golden LEAF Matching Grant – computers for students at South Stokes and West Stokes High Schools - \$200,000 plus a \$73,038 for a position to oversee the grant
- Asking for the County to start paying \$75,000 towards current SRO positions plus \$28,000 for a matching grant for additional SRO position that was added during the FY 2015-16 = \$103,000 added to this year's request from the Board of Education

**School Capital Outlay and Capital Reserve Fund**

- BOE requested \$651,000 for capital outlay
- Sales tax revenue for schools has increased slightly.
- Manager’s recommendation is as follows:
  - \$1,000,000 was recommended for debt service payment. This debt has 1 year remaining
  - Recommended capital outlay for Schools is \$651,000 and authorization for use of up to \$1,000,000 from the School’s current expense fund balance for capital expenditures
- School capital expenditures are detailed on the next chart

Vice Chairman Booth confirmed with Finance Director Julia Edwards that the debt service payment for West Stokes High School and Piney Grove Middle School will retire with FY 2017/18. (\$829,722 payment in FY 2017-18)

**FY 2016/17 Board of Education Capital Request**

Requested Projects for 2016-17		
1	Emergencies	\$100,000.00
2	Boilers: London Elementary, Southeastern Middle and South Stokes High Schools	50,000.00
3	Piney Grove Middle School-Replace control panel for Sewer System	25,000.00
4	Elementary Schools-Fall protection for playground	25,000.00
5	Refinish gym floor at Middle Schools and High Schools	16,000.00
6	West Stokes High School-Correct drainage/erosion issue	100,000.00
7	South Stokes High School-New Security Camera System-Safety	24,000.00
8	Southeastern Middle School-Awning at main office entrance to extend to EC Bus Drop-off area	20,000.00
9	North Stokes High School-6 pole replacements and new lights at baseball field	100,000.00
10	Meadowbrook Academy-Replace VCT tile in the POD-Safety	24,000.00
11	London Elementary School-Pave parking lot-Safety	35,000.00
12	Activity Bus	100,000.00
13	Underground storage tank assessments-South Stokes High School and Pine Hall Elementary School	32,000.00
	<b>TOTAL</b>	<b>\$651,000.00</b>

County Manager Morris commented:

- Might want to question the \$100,000 for emergencies

**Salary Issues**

- Recommending that the County contracts for a salary study, estimated cost \$45,000 from PTRC
- Hope is that a comprehensive salary study will send a signal to employees that the issue of non-competitive base salaries will be addressed county wide, over the next two to three years
- Part time rates remain the same for FY 2016/17

- Emergency Medical Services changing from 24/48 to 24/72 per work schedule, which would require 11 new employees for the extra shift. This would reduce overtime pay.
- In the FY 2017/18 Budget, the County will need to look at paying time and half for over time, instead of half time as surrounding counties are already doing

Vice Chairman Booth commented:

- Employees receive longevity each year
- Some employees also receive an incentive of flex time

County Manager Morris noted that the employees work the same number of hours with flex time.

County Manager Morris continued:

- Everything you can do helps – for example – the step increases approved in last year’s budget helped to decrease the turnover rate
- The salary study I am recommending would be done by experts in the field with desk audits – putting job positions on the correct grade
- In my opinion, it needs to be an outside, independent salary study
- You have to consider what does turnover really cost?

Vice Chairman Booth confirmed with County Manager Morris that the new work schedule for EMS does not guarantee that it will fix the problem with EMS.

Vice Chairman Booth commented:

- Need to look at privatization
- Could have to look at paying time and a half for overtime for EMS
- No guarantee the 24/72 would fix the problem

County Manager Morris noted that he would finish the expenditure presentation and provide a short revenue briefing at the next meeting.

Chairman Inman noted that the Public Hearing is scheduled for Thursday, June 2, 2016 at 7:00 pm and next budget work session meeting is scheduled Monday, June 6, 2016 at 10:00 am.

Chairman Inman noted that he had received several phone calls regarding the cuts to the schools’ current expense.

Commissioner Lankford noted there was a decrease of \$700,000 with the closing of Francisco Elementary School.

### **Adjournment**

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

Commissioner Lankford moved to adjourn the Budget Work Session. Vice Chairman Booth seconded and the motion carried unanimously.

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

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**J. Leon Inman**  
**Chairman**