



**Rockingham County
Governmental Center**

**371 NC 65
PO Box 101**

Wentworth, NC 27375

Telephone: (336) 342-8101 · Fax: (336) 342-8105

**Lance L. Metzler
County Manager**

TO: Board of Commissioners
FROM: Lance Metzler, County Manager
RE: Budget Message Fiscal Year 2013-2014
DATE: May 10, 2013

I am pleased to submit herewith the Fiscal Year 2013-2014 budget that is balanced and in conformance with North Carolina law. The budget is in compliance with state statutes, Generally Accepted Accounting Principles (GAAP), and in compliance with the priorities and direction given by the Board of Commissioners.

The following pages are an overview of the Fiscal Year 2013-2014 budget and an overview of the process and issues that drove the development of the Fiscal Year 2013-2014 budget including a discussion of economic factors, trends in revenues and expenditures.

The purpose of this budget is to provide the county with a fiscally responsible plan. The formal budget development process and the use of a budget help to ensure that the county's financial strength and integrity is maintained and enhanced.

An adopted budget is a legal document that serves many purposes; it embodies the priorities, goals and objectives of government. It defines not only financial aspects of government, but government organization and operations as well. This budget contains information that gives citizens insight into government activities.

I am proud to say that the Manager's Recommended Budget takes into account the County Commissioners' wishes to not expand services and to look for ways to be as efficient as possible without raising taxes.

While a budget is first and foremost a spending plan, it also represents the priorities that we ask staff to focus on next year. Rockingham County is a leader tying performance and outcomes to allocation of resources.

Looking back to this same point in time last year, County Departments were tasked with developing and working on measurable objectives to meet the Commissioners' Goals that were established for the current FY 2012-13. We will report our progress on meeting performance targets at the May 15, 16, 17 Budget Workshop sessions.

Building on the success of last year, when the Commissioners met in January 2013 for a strategic planning workshop, you revised your Mission Statement and established three new strategic goals (also found in Exhibit I).

Mission:

Provide Rockingham County residents with the highest quality of life and the opportunities to achieve it.

Goals:

- 1) Improve economic conditions.
- 2) Proactively manage the risks and opportunities regarding regulatory and funding mandates.
- 3) Effective citizen outreach and involvement.

To implement these priorities, I asked the departments to incorporate into next year's work plans and budget requests measurable objectives to meet the new goals established by the Commissioners.

The county departments began the budget process in February when I, along with the budget team, met and reviewed budget preparation procedures and expectations. Departments were asked to hold-the-line on expenditures as much as possible in order to not only maintain the current tax rate but to also free up dollars that can be redirected to programs or expenditures related to achieving the commissioner's goals and objectives. After the budget requests were submitted and calculated, the budget was almost \$5 million out of balance, 20% of that deficit was from State and Federal pass downs or mandates. Even before the first County funded department request was ever made, the expiring Hold Harmless revenues combined with mandated increases to State Unemployment Insurance Reserve Fund, Federal Health Care Reform Stabilization Fund, and NC Local Retirement Rate had already put us in the hole by nearly \$1,000,000, almost 1.5 cents on the tax rate. The Personnel costs (salary + benefits) increased due to the above mentioned and the fact that last year's COLA was implemented mid-year. The full year impact is now hitting everyone's budgets. For these reasons, most departmental budgets show an increase overall, but increases are due to factors outside of their control.

The budget team conducted an initial review and cut nearly \$1,000,000 out of the requests. After a close review of all revenues and expenditures, the budget team found the means to balance the budget by various revenue increases and expenditure decreases. The budget team and I met at least once with every department and agency that received funding to discuss their budgets and their department priorities.

REVENUE (Exhibit A)

Revenues come with varying degrees of strings attached. Some revenues are restricted in that they can only be used to offset the costs of specific programs or services. Major unrestricted revenues are, therefore, extremely important because they yield the most flexibility and discretion in strategic allocation.

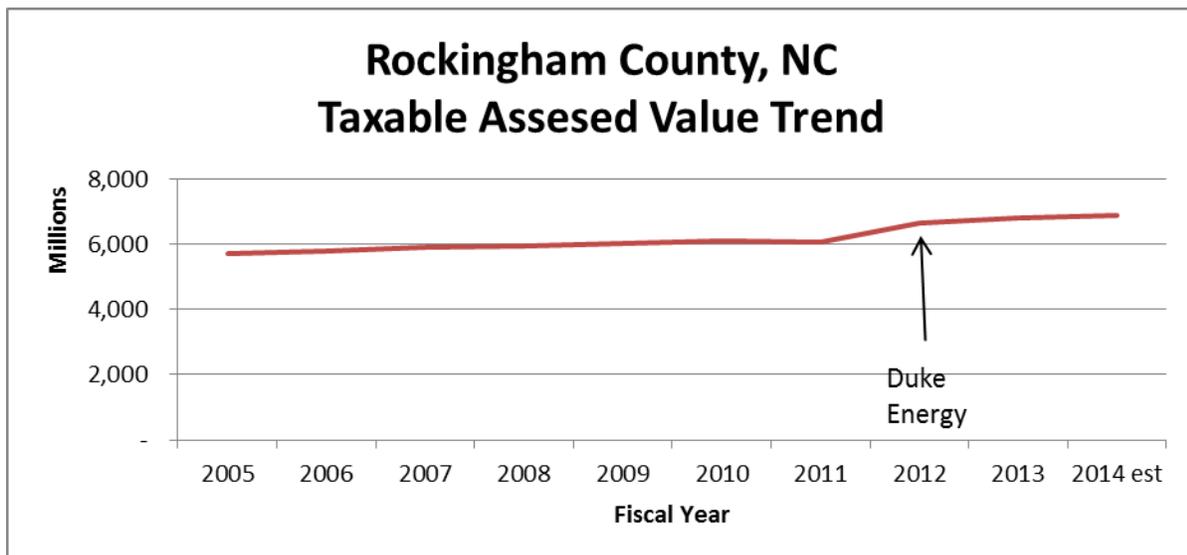
Ad Valorem

The total recommended General Fund budget is \$87,784,937, which represents a 3.7% increase over FY 2013. In FY 2014, I am projecting a 5.0% increase over last year's budgeted ad valorem revenues due partly from the final year of property valuation gains resulting from the Duke Energy improvement project. We will again hold in reserve a portion of the revenue growth gain from the Duke Energy project

in anticipation of the incentive payments that will begin in FY 2015. Without that project, revenue growth would be almost non-existent. If this trend does not change, future years will be much more challenging.

An historic change is taking place in North Carolina regarding Motor Vehicle tax collection that will take effect midway through FY 2013-2014. Motor vehicle tax levies (based on the ad valorem tax rates of cities and counties) will now be collected through NCDMV offices. Because motorists will not be able to renew their license tags unless they have paid their current year motor vehicle tax levy, it is projected that the collection rates statewide will increase significantly. If so, this will help next year's budget. Due to general statute limitations on budgeting property tax revenue that is discussed below, a surplus in Fund Balance is anticipated at fiscal year-end. The change from billing Motor Vehicle taxes four months in arrears to billing at time of registration will cause four extra billings in FY 2014. This one-time revenue is the other item factoring into the overall 5% increase in budgeted ad valorem tax revenues. However, a reserve has been set aside in the expenditure budget in order to recognize this as one-time revenue and not as an available resource for operating needs.

The total taxable property value for FY 2013-2014 is estimated to be \$6,901,484,696 and is comprised of real and personal values of \$6,245,761,983 and motor vehicle values of \$655,722,713. The Recommended Budget maintains the ad valorem tax rate of 69.6 cents per \$100 of property value. In accordance with the North Carolina Local Budget and Fiscal Control Act, the collection rate as reported in the most recent audited financial report must be applied to the gross levy and the result of that calculation is the amount that can be included in the new budget. For this reason, the motor vehicle tax collection rate cannot be increased until the actual collection rate changes and is reported in next year's audit. The delay in implementation should create two years of positive impact before the rate becomes more stable. Collection rates of 97.98% and 88.59% have been applied to the real & personal category and the motor vehicle category, respectively. One penny on the tax rate generates approximately \$670,050.

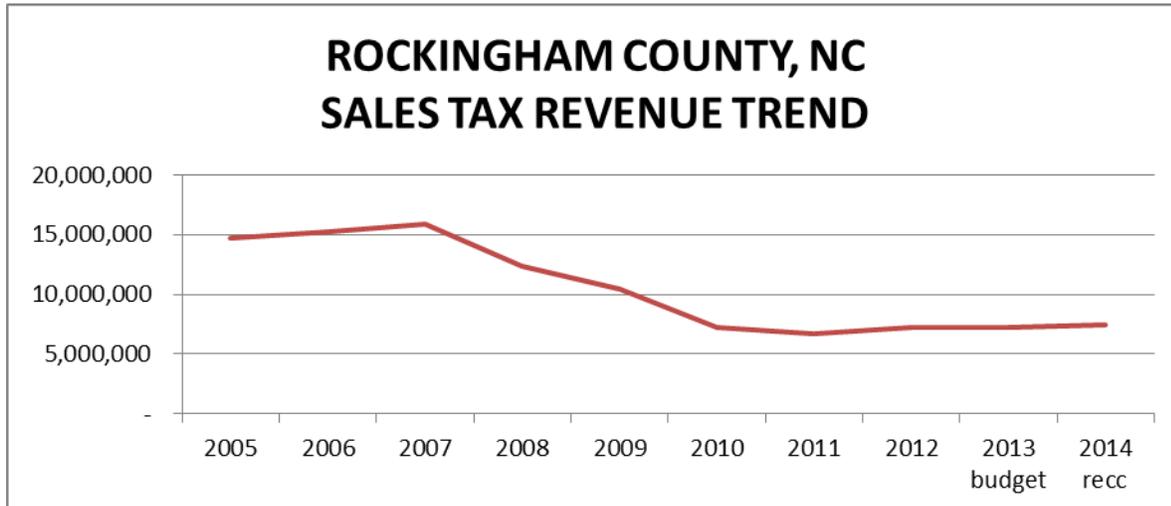


Sales Tax

A portion of the sales tax revenue is restricted by general statute specifically for school capital needs and is recorded directly into a reserve fund designated for the approved purposes. The remaining amount of

sales tax revenue is unrestricted intergovernmental revenue and represents our second most significant source of discretionary funding.

For the first several months of the current fiscal year, sales tax revenue growth was exceeding the projected budget; however, the last few distributions have been significantly lower and have flattened out the year to date revenue back to the projected budget. Following economists' predictions, we will remain conservative next year, projecting an increase of 2% over the FY 2013 budget. The local portion of the sales tax is 2.25 cents and the State sales tax rate is 4.5 cents for a total of 6.75 cents pending no other sales tax changes by the General Assembly.

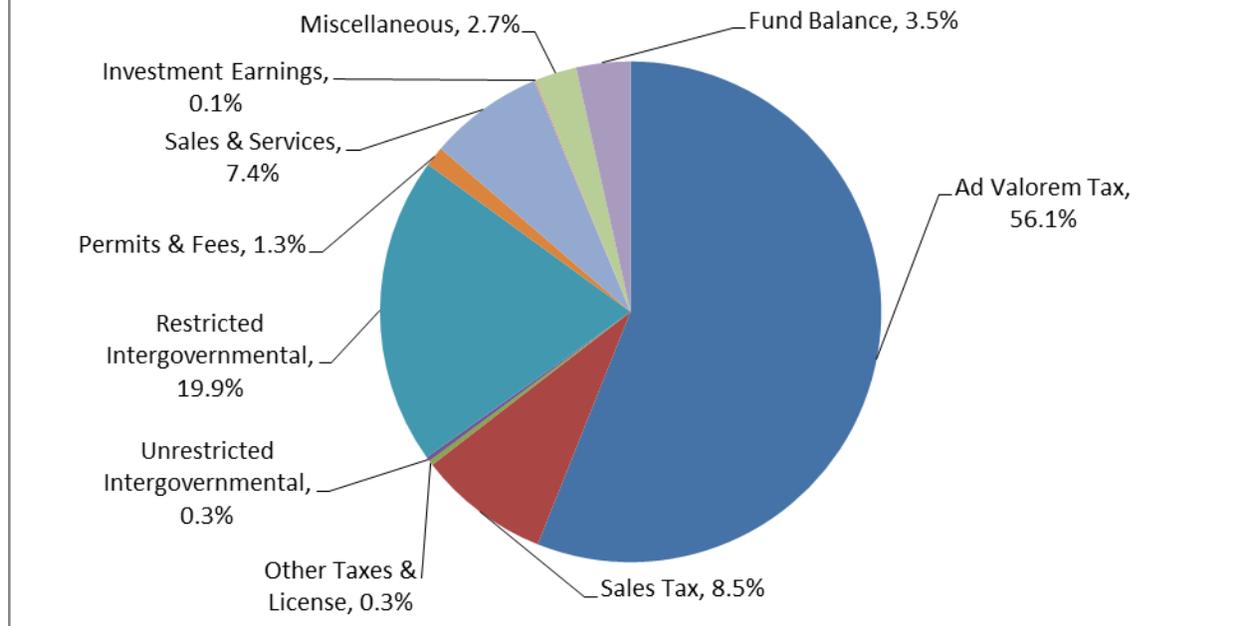


Other key revenue changes

- 1) The **Hold Harmless** payment in place for many years as a State offset to revenue lost due to a change in tax law will sunset at the end of the current FY 2013; therefore, we have had to plug a \$550,000 hole in next year's budget. We haven't given up hope that efforts by our local delegation may bring back the revenue, but at this time it doesn't appear likely.
- 2) Expected reductions in **Social Services** from Federal and State funding totaled almost \$400,000 going into the budget process. These uncertainties and in anticipation of consolidation, DSS has held many vacant positions open. However, demand for services has not diminished and this has created extreme burdens on staff. Facing a request to increase County funding to meet the \$400,000 shortfall, DSS proposed using some of their Shared Savings earnings from participating in Performance Management in order to lessen the increase to \$116,963. A lot of work will need to take place this year to ensure that the gap can be closed before next year's budget.
- 3) **Public Health** funding is also less certain and we are actually projecting a slight decrease in State grant funds available.
- 4) Once a consistent source of revenue growth, revenues generated from building activity (**Inspection Fees**) and land transactions (**Recording Fees**) are still stagnant but seem to have stabilized.
- 5) The **Animal Shelter** projected revenues are continuing to meet their targets and are projected to move upward next year. The Spay & Neuter program has been very successful and is critical to reducing the pet overpopulation problem. We hope the current year intake numbers represent a downward trend resulting from our efforts.

- 6) **EMS** fees continue to exceed expectations each year and we increased revenues again by \$100,000 for FY 2013-14. We believe this is still a conservative projection. Our confidence in our collection's process has stabilized since the County opted to privatize several years ago. If we have to make further adjustments to the budget, this is an area we will consider.
- 7) **Jail Bed Rentals** will come close to achieving revenue projections this year. The Jail Misdemeanant Program is working. Because we will fall slightly below our projection we are reducing this revenue by \$50,000. Thanks to Sheriff's leadership on this issue the County taxpayers funding of the local jail is at least partially being supplemented by some State revenues. Misdemeanants sentenced to serve less than 180 days in the County jail are paid for by the State at a rate of \$40 per day plus any medical or transportation costs. There are fewer opportunities to house Federal inmates at this time.
- 8) We reduced the payback of general fund dollars from the **Workers Compensation Fund** from \$300,000 to \$150,000. Several years ago the County established a Workers Compensation Fund and annually budgets dollars to it to ensure a safety net to cover the unknown costs to pay for claims in any given year. The success of the programs have been well documented and it should be noted again how much deeper the county may have found itself in finding dollars to cover work related incidences had the improvements not been made. In FY 2013, the County began a three year payback to the General Fund to refund the startup funds that the General Fund contributed to the Workers Compensation Fund. We just replaced our experienced Risk Manager and we should take a "wait and see" approach to make sure our claims do not begin to rise.
- 9) **Fund Balance** in the amount of \$3,087,000 is included in the FY 2014 Recommended Budget. This is \$112,000 or 3.8% more than in the FY 2013 Adopted Budget. This is the expected unspent funds (surplus) due to the nature of budgeting. Fund Balance appropriated has increased over normal levels due to a couple of items. First, the Department of Social Services has requested to use \$150,000 of their Shared Savings balance to meet possible revenue shortfalls in the upcoming fiscal year. Second, an increase in billing and collecting costs associated with the new motor vehicle tax billing process is estimated to be \$137,000. A surplus in motor vehicle tax revenue is expected due to this change in billing and collecting; however, NC general statutes prohibit budgeting tax revenues over the percentage collected as reported in the previous fiscal year.

ROCKINGHAM COUNTY, NC FY 2014 RECOMMENDED REVENUES



EXPENDITURE ([Exhibit B](#))

Positions

In accordance with the Commissioners' instructions to not expand, we were not able to add any additional staff in the upcoming FY 2013-2014.

In accordance to the Board's wishes to hold the line and not expand services or operations next year, I did not recommend approval for 15 of the 15.5 positions requested (See [Exhibit E](#)). Funding of all of the positions would have added over \$1 Million to the budget. The half position that was approved was not County dollars. The Permanent Positions page in Exhibit E shows a history of approved positions by department. A summary of the position decisions is as follows:

- 1) **911's** request for four positions will be considered next year. The projection is that the new 911 PSAP will not be in operation until July 2014.
- 2) I did not recommend filling the four **EMS** positions requested.
- 3) While I agree that Public Safety would greatly benefit from having a dedicated **IT** resource, given all that we did to improve IT in the current year budget I did not think we should add another IT position at this time. Also, I would want the Sheriff's office to be proactive in pursuing this position, should it come up again in subsequent years. This would follow the pattern we have established in Public Health and DSS, both of which now have a dedicated IT resource.
- 4) I did not recommend adding two positions to the **Library** budget.
- 5) The **Sheriff** asked for seven additional positions at a cost of \$510,000. I did not recommend filling those positions at this time. Public Safety remains one of my top priorities and I continue to maintain dialogue with the Sheriff about their needs.

- 6) **Youth Services** was the only position request that I approved. They are moving a part time position to a full time position. This is necessary because the position was already working full-time hours but we were not compensating accordingly. There are no County dollars necessary in making this adjustment.

There are 5.5 FTE position reductions included in my Recommended Budget.

- 1) **Pretrial Services** is changed to **Court Services**. The sworn position was moved to the Sheriff's Office and the Director position was not funded. A position was added mid-year which is why the position history chart does not reflect a net loss of one.
- 2) Following a retirement and previous agreement to do so, a position was removed from **Tax**.
- 3) At my request, the **Animal Shelter** is eliminating a part-time position.
- 4) Following a retirement, we did not hire a second attorney and eliminated one position from **Legal**.
- 5) Study comparisons to other **Register of Deeds** offices indicate that we are overstaffed and as result I am recommending eliminating two positions from that office. Since these are filled positions I want to be sure that open positions within the County give consideration to any individuals that lose their positions. Over the past several recession years we have reduced five positions in other land development related offices, in part because they were not generating the revenues to sustain their operations. We have only reduced the Register of Deeds by one over that same time period.
- 6) Through the process of creating the Central Permitting office, we are eliminating a position from **Public Health**.

Employee Pay

Last year's 1.5% cost of living adjustment (COLA) took effect January 2013 which means that only half of the total increase was budgeted in FY 2013. The other half of the full year implementation created an automatic increase in every department's salary and benefits. For FY 2014, I am proposing a 1.5% COLA with implementation to be in July 2013. Because we held the line as far as increases yet have not reduced the expectations in services and outcomes, we are asking everyone to do more with less. One of the biggest challenges we face is salary compression in that recent hires are often making the same or sometimes more than long time employees. If we don't continue to move people along in the salary progression the problem gets worse each year. By no means is 1.5% a lot of money by individual, but a little bit goes a long way in showing employees that we appreciate them, even in these very challenging economic times. Increases to employee FICA contributions (Federal action) in reality erased the small gains that employees have received most recently. Furthermore, as the economy at large improves, the last thing we want is our best and brightest to move elsewhere. We know that some of our neighbor jurisdictions are providing COLA and/or Merit based increases in their recommended budgets. Also, in continuation of the pay plan, 1/3 of positions and certain market sensitive positions were studied to ensure that salaries remain competitive against regional communities against whom we compete. Details of the amount and timing of the implementation of this is yet to be determined as the study is just now becoming available for our review and consideration. Included in the recommended budget are amounts expected to be needed for this implementation as well as for the cost of the next year's 1/3 position study.

Capital

How to fund capital needs (purchases of significant value that have a useful life of greater than one year) is an aspect of the budget that demands careful consideration during the review process. Some capital needs are predictable based on normal wear and tear, such as computers. To validate that we are in-line with what has been done in the recent past, a look back over the past five years budgeted capital outlay totals by function is presented in [Exhibit G](#). It is not uncommon to see fluctuations in capital from year to year and all capital requests are typically not funded. In spite of that, we ask departments to request all of their capital needs so that all needs can be evaluated and a calculated decision can then be made to delay a purchase rather than be surprised mid-year by a need that emerges that could have possibly been avoided if known and properly planned for during the budget development process.

This year's capital requests amount to approximately \$2.08 Million ([Exhibit D](#)) and this recommendation includes approximately \$1.18 Million in capital funding.

- 1) **Sheriff Department** has been given \$350,000 to use towards the purchase of 10 or more vehicles. We are in the habit of giving them a total and allowing them to maximize it for their vehicle needs. They requested 20 vehicles total across several areas. They also received funding for 22 additional mobile radios.
- 2) **Emergency Medical Services** recommendation of \$670,893 represents another 2/3 of the total recommended capital budget. This includes two new ambulances. Our normal schedule is to purchase one new and one re-mount ambulance each year, but best practices warn not to have fleet where the number of remounts exceeds new. One of the ambulances caught on fire this year, but it was a new ambulance. We will also purchase 9 cardiac monitors for the ambulances, but because these have a long life, we will pursue using a lease purchase and spread the costs out. The other significant purchase here is 12 new Tough Books. The current laptops are over six years old and need to be replaced.
- 3) **Engineering and Public Utilities** requested almost \$350,000 in capital needs. Funding was limited to only \$46,050. The largest amount dedicated to partial renovations to the Mental Health building not to exceed \$20,000.
- 4) **Public Health** was given \$56,996 but most of these approvals are non-County dollars.
- 5) **Water & Sewer** capital and operations, although on the Enterprise side of the ledger, operations continue to be subsidized by the General Fund, therefore the \$138,702 capital needs I recommend funding for in capital should also be noted.

Replacing vehicles is a significant piece of the total capital outlay request each year ([Exhibit F](#)) and the county is in the process of reviewing and improving how we manage the fleet for vehicle replacements. In the absence of an improved system we review each request as best we can with priority being given to public safety needs. We attempt to reuse vehicles where possible.

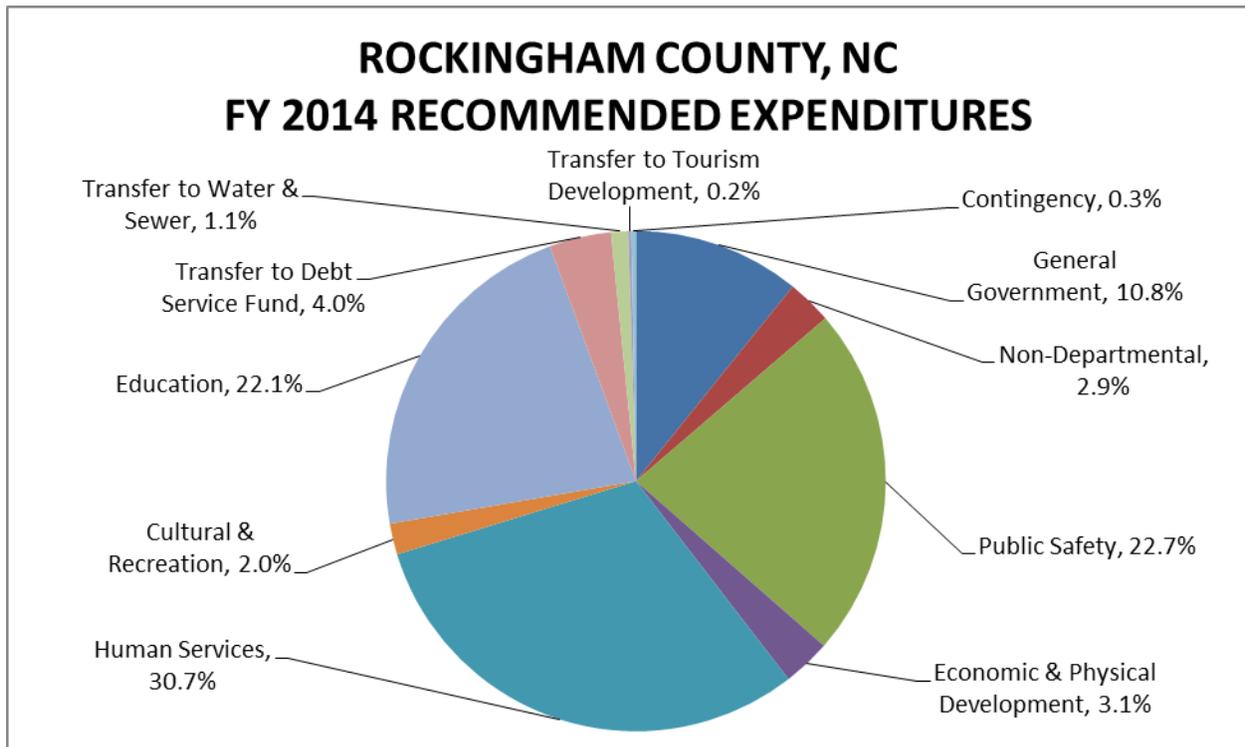
Other significant expenditure items

- 1) For budgetary purposes, the **Health Insurance** rate that will be charged to county departments must be estimated five to six months prior to the plan renewal date and prior to being able to obtain firm renewal rates from the insurance carriers. In FY 2013, the rate set for departments was about 7% higher than the actual insurance carrier's renewal rate. The last plan renewal included a guaranteed 7% rate increase on the next renewal; therefore, the

current rate charged to the departments will be sufficient to cover the guaranteed insurance cost increase in FY 2014.

- 2) Departmental **Fuel** line items are difficult to project given the volatile nature of fuel costs. In the current year we set aside \$50,000 in case of short falls at the end of the year. We haven't needed to tap into the reserves and therefore are not recommending doing the same thing again this year. Should we run into shortfalls at the end of the next year we will need to access Contingency.
- 3) The **Rockingham County Board of Education** has not asked for an increase in their Current Expense allocation again this year. Unless something changes at the State level, a shortfall is coming next year in our ability to pay our existing debt service payment. As it stands, we are facing the fourth consecutive year of diminished revenue from the State. We have asked legislatures to restore ADM funds and to fully fund the statutory requirement of Lottery Funds so that we can meet our existing debt obligations. Our existing project debt service schedule indicates that beginning in FY 2014-2015 and through FY 2018-2019 we will need to fill a \$2.46 Million gap. Possible options to meet the need are an ad valorem tax rate increase or the adoption of the Article 46 one-quarter cent sales tax rate.
- 4) Rockingham Community College allocation includes a small increase (0.55%) to their current expense. This increase will restore the capital portion of their current expense to the level funded in years previous to FY 2013. The FY 2013 appropriation was reduced for an anticipated debt service payment; however, the community college managed the project costs without the county needing to make direct debt service payments. Their capital needs far exceed our ability to pay for them on a year to year basis. I recommend that the Commissioners explore options related to an Article 46 one-quarter cent sales tax that might be used to help pay for some of these and other public school capital needs.
- 5) The General Fund continues to subsidize the **Water and Sewer Enterprise** funds at \$498,860 and \$477,381 respectively. I will make it a priority to explore options to move us closer to sustainability in these operations in the coming year.
- 6) As in the past, this recommended budget includes a **Contingency** amount of \$300,000. These funds are used when things occur during the year that are not or cannot be anticipated to happen and require immediate attention or for items that we decide now to delay to future years but find out during the budget year that they have to be addressed earlier than expected. The Budget Ordinance stipulates how and when this money may be accessed.
- 7) At the time of preparing this budget not all of the **Fire Districts** have submitted a budget. Of those already received, there are no requests to make any changes to the fire district tax rates.
- 8) There are several major ongoing **Projects that** may still require additional funds. Some additional one time revenues have been kept in reserve for this purpose and staff and I will continue to provide you with updates on progress and changes, should they arise.
- 9) Commissioners have made it clear that **Economic Development** is their top priority. Rockingham County's unemployment rate is too high at 11.3%. North Carolina's unemployment is reported at 8.9%. All of our neighboring counties are in better shape (Alamance 8.8%, Caswell 8.8%, Stokes 7.9%, Forsyth 8.4% and Guilford 9.0%). Even our neighbor Virginia counties are in better shape (Patrick 7.3%, Henry 8.9%, and Pittsylvania 6.2%). There are two budgetary impacts included in my recommended budget related to Economic Development. **First**, the Business and Technology Center is fully funded in the Recommended Budget. Revenues generated from the Methane Gas project and the sale of Carbon Credits completely offset its operations. This funding arrangement reflects a

commitment that Commissioners made several years ago to allow the small business development arm of the County to not have to rely on General Fund and grant money in order to exist. **Second**, while fully funded, the Partnership for Economic Development has been given notice, per the Commissioners, that continued funding will be contingent on its ability to adapt and change into a stronger business model following best practices. Otherwise, funding will only be given through December 2013. It is my hope and belief that we can work with the partnership to help it succeed.



Summary

In summary, the proposed budget for Fiscal Year (FY) 2013-2014 is presented for your consideration, debate, and eventual adoption in accordance with all statutory provisions. It will provide a fiscally sound and responsible map for administering the revenues and expenditures for FY 2013-14. I look forward to the detailed review and examination that ensures that the budget, as a policy document, reflects your goals for our county.

Thank you for the opportunity you have given me to work for such a great and dynamic organization. I appreciate your support, guidance, and encouragement as we continue to improve services to our citizens while controlling the costs in this uncertain economic climate. Putting together a budget is a tremendous effort. I need to thank all the Department Heads, the Sheriff and the Register of Deeds, for sharing information and supporting data about their operations. I especially want to thank Adam Lindsay, Director of Strategic Management & Budget Analyst, Pat Galloway, Director of Finance and Kelly Burton, Deputy Director of Finance. Our team worked extremely hard to present to you a balanced budget of \$87,784,937 with no tax increase considering the state's reduction of a little more than \$1 Million

before we even started the budget process. The proposed budget ensures the continued successful operations of the county in providing the highest level of services in a very efficient and effective method.

The county unemployment rate has continued to plague our county at 11.3%. Unfortunately, it is the same rate as in 2012. The federal unemployment rate is 7.6%, state rate is 9.2% and the following are a comparison of some of our surrounding counties: Alamance 8.8%, Caswell 8.8%, Davie 8.1%, Guilford 9.0%, Forsyth 8.4% and Stokes 7.9%. Rockingham County is ranked 75th out of 100 counties with our unemployment rate percentage. We look forward to continuing our focus on the recruitment of new businesses and the retention of our current businesses. There have been some recent existing industry job expansions and prospective new companies that we intend to entice to locate here in Rockingham County. Creating and retaining jobs for our citizens will help stabilize our local economy as well as assist with maintaining a stable tax rate. We are currently working on a measurable economic development strategy which, if successful, will have a positive impact on our overall economy and unemployment rate. Staff will place a large emphasis on improving services and opportunities in order to entice business and industry to locate in our county.

As we continue to operate under economic uncertainty, this budget focuses on keeping operating costs down while maintaining the same level of public services. The county departments have been exploring all avenues to manage costs while providing exceptional quality services. With the County Commissioners' direction and leadership, we will continue to operate with no reduction in county funded services and again, no increase in property taxes.

I would like to express my thanks and appreciation for the opportunity to develop and present the FY 2013-14 budget, and most of all I would like to express thanks and appreciation for everyone's efforts, time and expertise in helping to create a very sound and responsible budget; without everyone's patience and input, the budget process would be infinitely more challenging.

Respectfully,

Lance L. Metzler
Rockingham County Manager