

# **FY 2010 ADOPTED BUDGET FISCAL HIGHLIGHTS**

## **BUDGET APPROACH**

This budget was extremely challenging and presented many obstacles that were difficult to overcome. The heavy use of fund balance in the budget for FY 2009 to fund recurring expenses (\$3.2 million) and the economic downturn had a large negative effect on the ability to balance the budget without further severe expenditure cuts. In addition to this, the County Manager was requested by the Board of Commissioners at their retreat in March to produce a budget with the absence of a tax increase, use of fund balance for recurring costs, cut in positions, or cut in services. The only request from this wish list that was granted was the absence of a tax increase. Fund balance was appropriated in the Health Fund for \$700,000 and DSS Fund for \$137,182. This fund balance was appropriated to balance the budget and will be a shortage to cover for the following budget year since this was pledged against recurring program expenditures. There were eight position cuts approved from the ten that were recommended. Two of the positions were restored at a 60% part-time, benefited level. Unfortunately, there were many service cuts due to the level of operational and personnel cuts that were required to get to a balanced budget.

The new County Manager met with all department heads, schools and community college representatives, and outside agencies to begin the analysis process of everyone's needs for the budget year. Also newly implemented was a non-profit application process that allowed for the streamlining and justification of current requests from these agencies.

As is required by state law, the County Manager develops a "recommended" budget that is presented to County Commissioners in the month of May. Commissioners hold public hearings and work sessions to review the recommended budget in depth. Normally, Commissioners make changes to the recommended budget before the final budget is approved. The changes for the FY 2009-2010 budget from recommended to approved is included in the Introduction Section in this budget document.

## **GENERAL FUND REVENUE**

Overall, Commissioners maintained the current tax rate of \$.70 while reducing the budget by \$599,294 from what was recommended. In order to achieve a self sufficient operation, this adopted budget includes the receipt of \$50,089,077 in revenue (by function) to support General Fund activities for the 2009-2010 fiscal year. Estimates of revenues for budgetary purposes are gathered from a variety of sources. To estimate revenues for the coming year, the County Manager and Finance Director consulted with the Tax Administrator and other department heads. These individuals played an important role in providing estimates of revenue from program-related fees; state and federal grants; licenses and permits; charges for services; property tax and sales tax. Past trends, current and future economic conditions along with the input of County department heads were used to establish revenue projections for the coming year.

Greater than 83% of the government's proposed revenues are derived from three sources: property tax, intergovernmental revenues and sales tax. Therefore, it is important to understand the significance of the projected revenue proceeds. Exhibit 1 shows the changes in the three revenue sources and the County's reliance on each as a percentage of total expenditures.

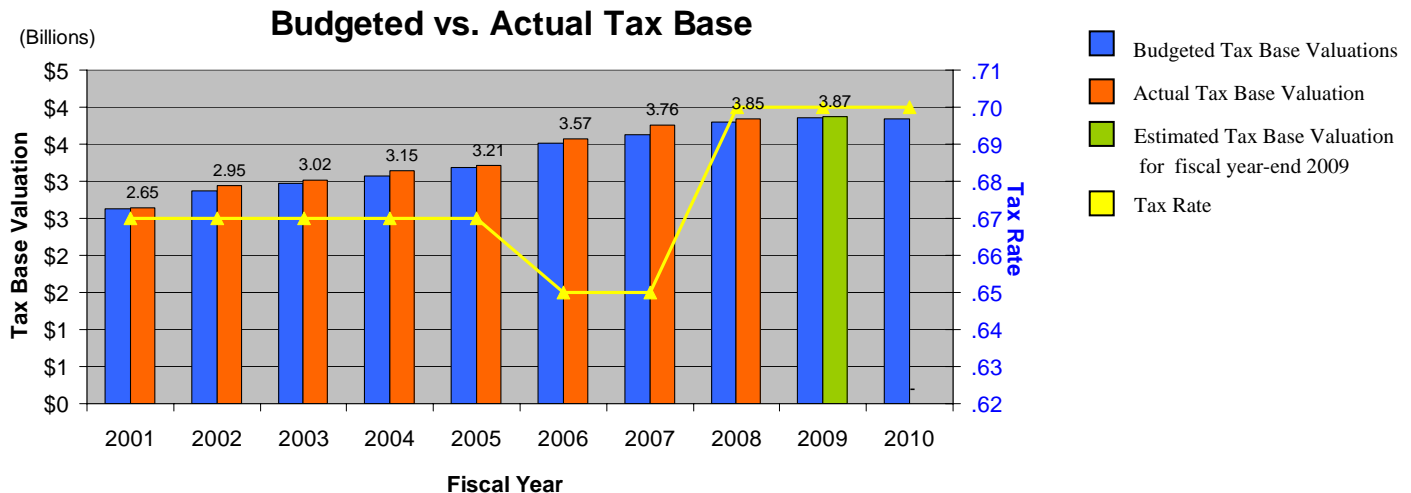
**Exhibit 1**

<b>Major Revenue Sources</b>				
	<b>FY 2008-2009 (Projected)</b>	<b>FY 2009-2010 (Adopted)</b>	<b>Difference</b>	<b>% Change</b>
Tax base	3,872,300,000	3,840,000,000	(32,300,000)	(0.83%)
Tax rate	0.70	0.70	0.00	0.00%
Ad valorem rev.	26,900,000	26,737,050	(162,950)	(0.61%)
<i>% of total exp.</i>	47.82%	53.38%	5.56%	11.63%
Intergov. Revs	9,681,468	8,548,154	(1,133,314)	(11.71%)
<i>% of total exp.</i>	17.21%	17.07%	(0.14%)	(0.81%)
Sales tax rev.	7,250,000	6,341,599	(908,401)	(12.53%)
<i>% of total exp.</i>	12.89%	12.66%	(0.23%)	(1.78%)

**Ad Valorem Taxes**

Person County has not been omitted from the economic downturn faced by our nation. This is evidenced by the estimated .83% decrease in the tax base and .61% decrease in the estimated collection of ad valorem taxes. However, it is difficult to compare with fiscal year 2007-2008 since this was the year that Person County recorded their best collection rate on record. The County is anticipating the collection of 96.5% of its current year’s tax levy compared to 97.0% last year, due to unemployment and other economic conditions. Also, by having a strong year in fiscal year 2007-08, this leaves less prior year taxes to collect, which also reduces revenues in the current year. As illustrated in the table below (Exhibit 2), collection rates have been consistent in that slightly more has been collected over what was projected each year. The tax rate for FY 2009-10 is approved to remain at 70 cents per \$100 of valuation. Based on the current estimated valuation, one cent per hundred dollars valuation of property is \$370,560. There is a 1% or \$291,700 decrease in estimated property taxes for FY 2010 over the adopted amount for property taxes in FY 2009. Much of this is due to a decrease in state-appraised properties caused by a reporting error at one of the state utilities. Person County decided to delay revaluation because the current market conditions would not allow for a significant increase in values.

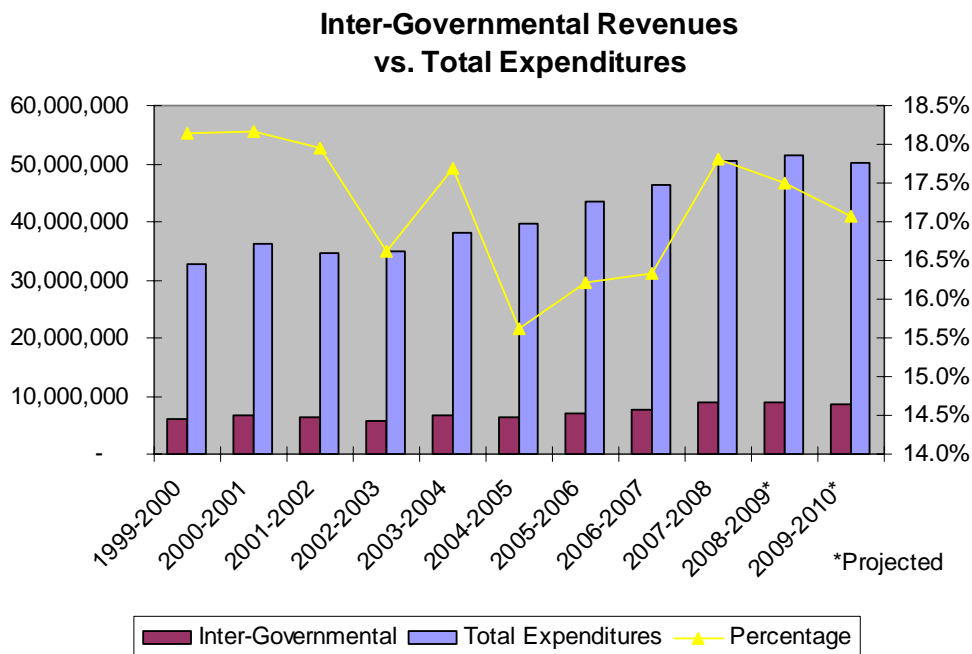
**Exhibit 2**



### Intergovernmental Revenues

Intergovernmental revenues are projected to be lower as fewer revenues are available. The approved amount for intergovernmental revenues for fiscal year 2009-2010 is \$8,548,154, a decrease of \$875,580 over the budget for fiscal year 2008-2009. Some of the decreases include the ADM funds from the Public School Capital Fund, state grant closeouts in EMS and Sheriff’s Department, and grant reductions in EDC, the Library, Health Department and DSS. The ten year trend graph (Exhibit 3) demonstrates the relationship between intergovernmental revenues and the % of total expenditures they support.

#### **Exhibit 3**



Intergovernmental revenues sharply increased in fiscal year 2007-2008 due to the economic development grants that were awarded in the amount of \$900,000. Unfortunately, it was recently discovered during the budget process that \$500,000 of the EDC grants will not be received due to a delay in the organization and targeted goals by one of the industries. It is expected that \$400,000 of the \$900,000 in EDC grant funding will be received in the coming year for this same industry. Otherwise, inter-governmental revenues are projected to remain flat for the following year unless other state or federal grants become available.

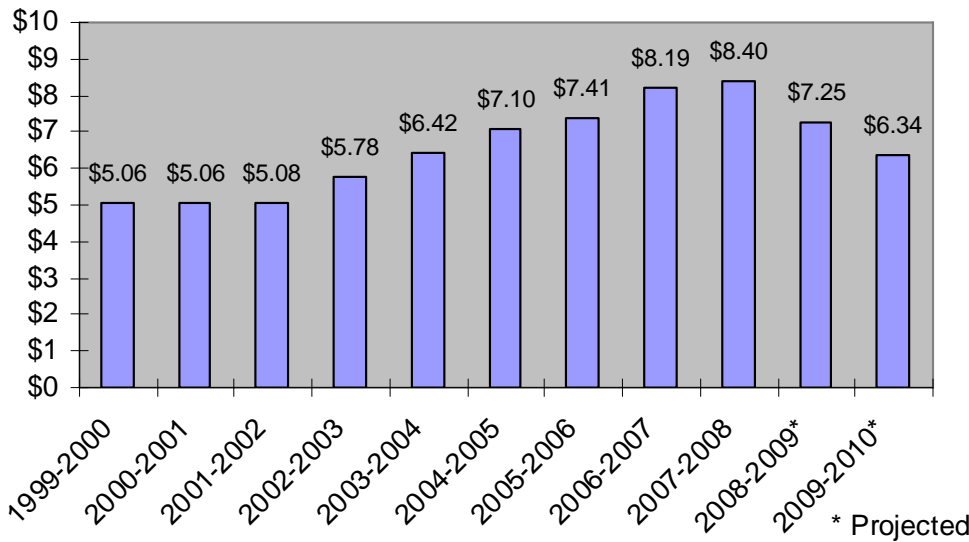
### Sales Tax Revenues

Sales tax (generally the second largest source of revenue but the third this year with intergovernmental revenues exceeding it by \$2.2 million) is projected to decrease by 24.5% compared to the actual amounts received in FY 2007-08 due to a decline in retail sales. The economy’s impact on consumer confidence, the reversion of Sales Tax Article 44 back to the State to help recoup their losses from the Medicaid Swap, and the hold harmless provisions that counties are required to provide to cities and to the ADM Fund are the major causes for the shortage in sales tax. The North Carolina Association of County Commissioners (NCACC) recently reported that revised models now predict a decline of 4% for 2009-10, on top of a revised 6.5% decline in 2008-09 collections. This is interpreted to mean that the state's budget will be predicated on sales tax collections roughly 10% below what was collected in 2007-08. Based on NCACC’s future growth projections, it will take sales tax collections five years to return to 2007-08 levels. The overall projection of a 24.5% decrease includes the loss of Sales Tax Article 44 in October of 2009. The projected loss for the three remaining sales tax articles reflects a 9.9% decrease over the actual amounts received in FY 2007-08.

## Exhibit 4

### Local Option Sales Tax Revenues

Millions



### Medicaid Relief

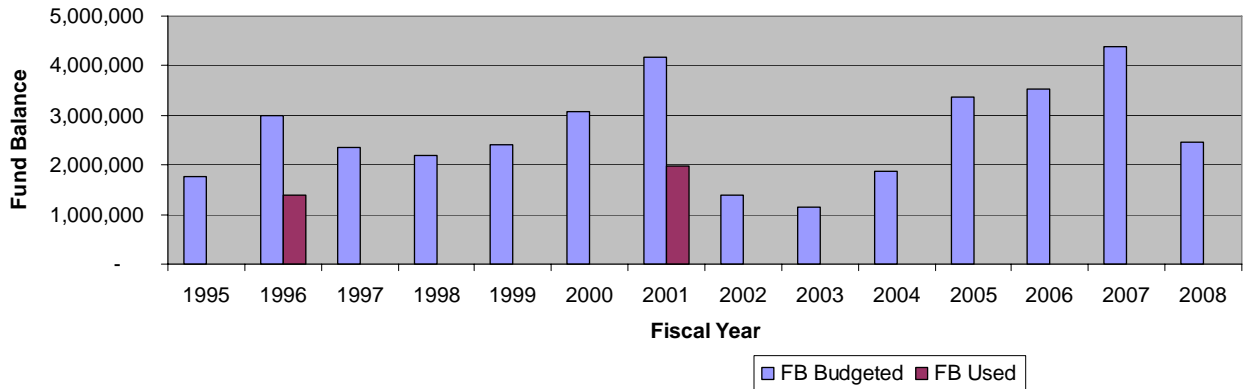
Medicaid relief approved by the Legislature in FY 2007-08 will continue to have an impact on sales tax revenue since it provides for the State to assume the full cost of Medicaid over a five-year period. In order for the State to be able to absorb this cost, local governments will relinquish a portion of the sales tax revenue that has previously been earmarked for counties and cities. With the implementation of the final phase of the Medicaid relief changes, total local option sales tax revenue is projected at \$6,341,599 (see Exhibit 4), a \$1,267,501 decrease from the FY 2008-09 adopted budget amount. Also, as part of the State's agreement to take Medicaid payments from counties, the calculation of who gets Article 44 taxes was adjusted by the State. The first month's adjustment was done incorrectly and most counties will be docked due to an over-distribution of sales tax. Person County was one of those counties that received excess money in the fall of 2008 from the over-distribution of sales tax; therefore Person County will be receiving a negative monthly adjustment to sales tax until December 2009.

### Fund Balance

The necessity of having a fund balance is to provide adequate cash flow, given the erratic revenue cycle of the County's operations. According to the North Carolina Local Government Commission, a local government entering a fiscal year with less than 8% undesignated, unreserved fund balance available will not have adequate resources to meet its obligations until it begins receiving property taxes. This adopted budget's use of fund balance reserves is very modest in an effort to make sure that the County stays above the 18% available fund balance floor set by the County's financial policies. A fund balance appropriation of \$837,182 is included as supplemental revenue for FY 2009-10 in the Health and DSS Funds. The Board of Commissioners adopted a CIP in June of 2009 for the budget year with the contingency that it would not be funded until the amount of fund balance was established during the audit in the coming year. According to the Capital Reserve Policy adopted in 2004, any excess fund balance above 21% should be one of the primary sources of funding for the County's capital needs. With this adoption, the capital projects on the CIP will be funded as prioritized if funds are reported to be available. The chart in Exhibit 5 shows a use of fund balance in years 1996 and 2001 during times of economic downturns.

**Exhibit 5**

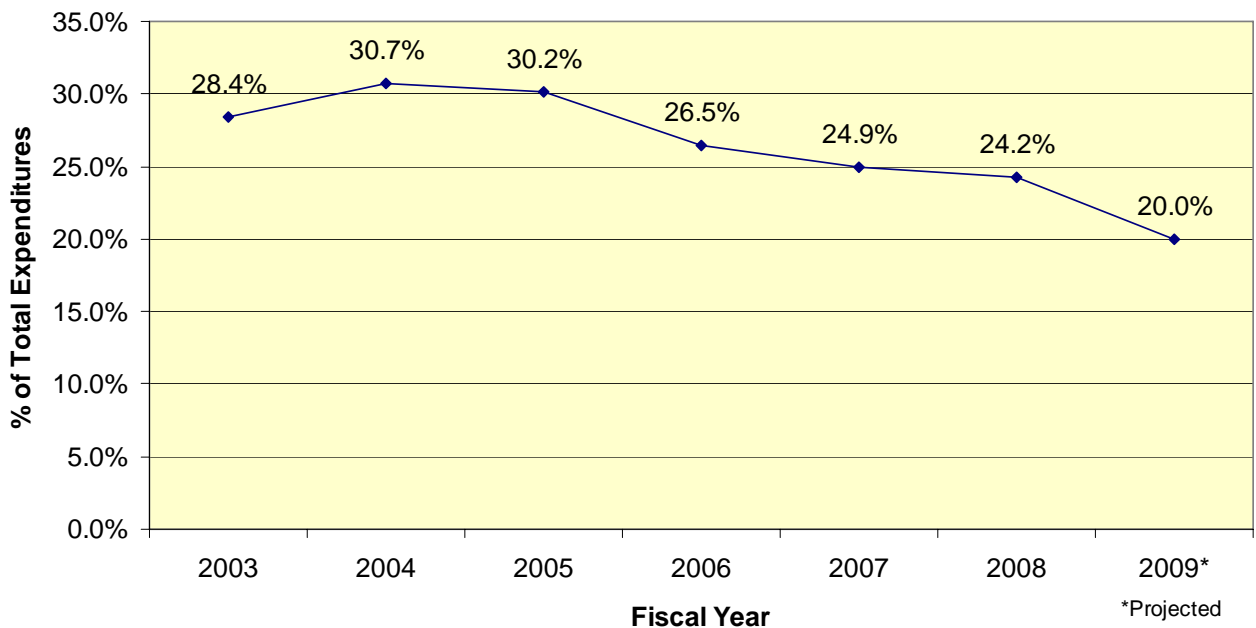
**Fund Balance Appropriated - Budgeted and Used**



If this trend holds, it is anticipated that a use of fund balance will be inevitable at the close of the current fiscal year. There has been a gradual decline since 2004 in fund balance appropriation as a % of total expenditures (Exhibit 6). Due to the instability of the market and the volatility in the sales tax due to changes by the Department of Revenue, it is difficult to project what level of fund balance as a % of total expenditures will be remaining at year-end. However, due to mid-year cuts and a conservative approach on spending, a fund balance level of around 20% is expected.

**Exhibit 6**

**Fund Balance as a % of Total Expenditures**

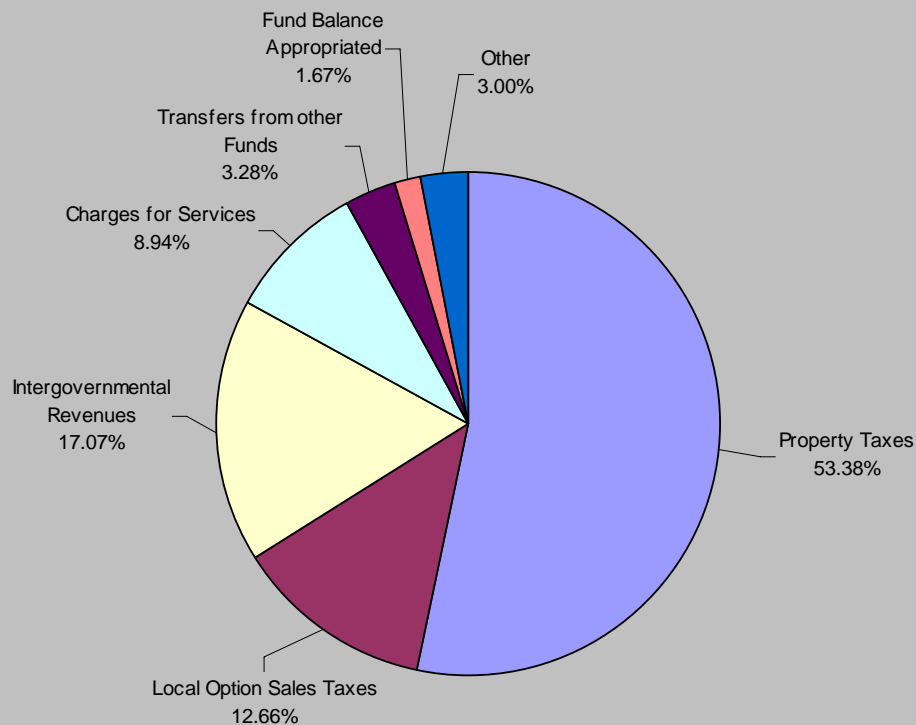


## Decreased Revenues

• Property Tax	\$ (291,700)
• Sales Tax	(1,267,501)
• Register of Deeds Fees	(60,000)
• Inspection Fees	(85,000)
• Transportation Services	(30,000)
• Public School Capital Building Fund	(300,000)
• Lottery Proceeds	(299,700)
• Home Health Fees	(75,000)
• Environmental Health Fees	(65,000)
• Library State Grant	(9,656)
• IV-D Admin Program-DSS	(31,396)

*(Note: differences are from 2009-10 Adopted Budget)*

### FY 2010 General Fund Revenues by Source



“Other” includes: Other Taxes (.44%), Licenses and Permits (.39%), Investment Income (.48%), Other Revenues (Donations and Rents) (1.32%), and Transfers from Component Unit (.37%).

## EXPENDITURE OVERVIEW

The adopted budget includes decreased funding for a number of important services in all functions with the exception of debt service. Important capital items such as vehicles and technology have also been reduced for the 2010 fiscal year. Expenditures approved herewith total \$50,089,077 (by function), a decrease of \$5,500,301, or 9.9% less than the current year's adopted budget.

### Personnel

There are no new positions in the adopted budget for the upcoming year, although 3 were requested. Below is a list of specific positions requested by the Department of Social Services.

POSITION TITLE	EFF. DATE	GROSS SALARY	SALARY & FRINGES	REQUEST	RECOM	APPROVED
Social Worker Supv III	7/1/09	44,986	59,471	59,471	-	-
Income Maint. Caseworker II	7/1/09	30,100	41,657	41,657	-	-
Income Maint. Caseworker II	7/1/09	30,100	41,657	41,657	-	-
50% DSS revs tied to positions				(71,393)	-	-
<b>Total Costs + Benefits</b>				<b>71,393</b>	<b>-</b>	<b>-</b>

There were ten full-time recommended position cuts totaling \$495,303. All ten Full Time Equivalent positions were cut with the exception of the Veterans Services and Economic Development Administrative Assistant positions. These two positions were restored at a 60% part-time benefited level. The total cost savings approved totaled \$458,183.

DEPARTMENT	POSITION	RECOM COST SAVINGS	APPROVED COST SAVINGS
• Register of Deeds ( <i>as of 11-1-09</i> )	Deputy Register of Deeds *	\$30,325	\$30,325
• Central Services	Custodian *	30,874	30,874
• Inspections	Code Enforcement Officer *	46,321	46,321
• Economic Development	Director *	89,119	89,119
	Administrative Assistant	42,064	27,199
• Veterans Services	Veterans Services Analyst	56,814	34,559
• Health Department	Health Educator *	46,117	46,117
• Environmental Health	Environmental Health Specialist	52,811	52,811
	Environmental Health Specialist *	50,517	50,517
• Person Industries	PI Production Manager *	50,341	50,341

\* *Vacant positions*

Also included in the budget for FY 2009-2010 is a five day furlough for all regular employees and five days of unpaid holiday leave for public safety employees. One day of furlough generated around \$62,000 in cost savings. The approved days scheduled are, for regular employees, July 2, 2009; September 4, 2009; December 28, 2009; April 5, 2010; and May 28, 2010. For public safety employees unpaid holidays are scheduled as, July 3, 2009; September 7, 2009; December 24, 2009; April 2, 2010; and May 31, 2010.

It was attempted to schedule these days close to a holiday or on days when children were out of school. Five days of annual leave will be added to all employees leave balances. In addition to the furlough, there was a proposed delay of longevity for the coming year. However, the longevity pay was restored and replaced with a 2.5% cut to 401k. The amount restored for longevity totaled \$280,360 and the cost savings for cutting the 401k from 5% to 2.5% was \$335,805. These figures were also affected by the five day furlough for employees.

**Debt Service**

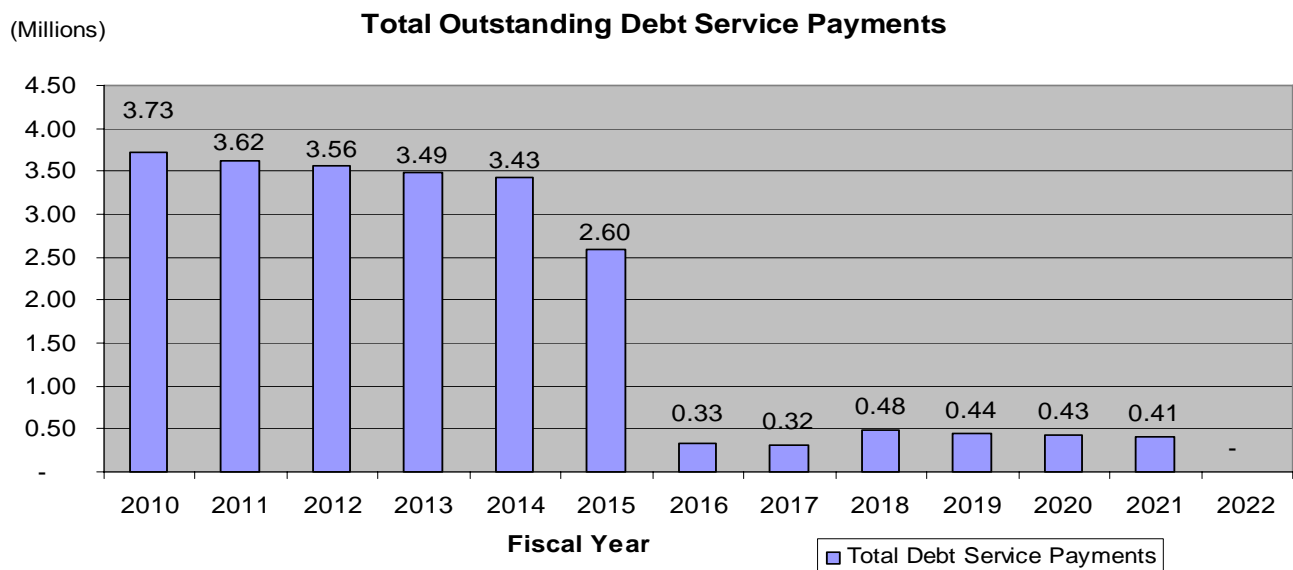
General Fund debt service is responsible for the accumulation and appropriation of resources for repayment of general long-term debt. Debt service payments include principal, interest and other related charges. Debt service for all governmental funds is budgeted in the General Fund and is paid from General Fund revenue. The types of long-term debt budgeted in the General Fund include installment purchase financing and a capital lease.

Total debt service payments represent 7.6% of total actual expenditures for FY 2008 and 6.5% of adopted budgeted expenditures for FY 2009. Based on the adopted budget for FY 2010, total debt service payments represent 7.45% of total budgeted expenditures. For most local government units, 15% is considered too high while 6.5% is average for counties in Person County’s population group. The bond rating for Person County still remains strong with a rating of AA- from Standard and Poor’s Corporation and A1 from Moody’s Investor Services.

The adopted budget includes debt service totaling \$3,731,524, an increase of \$91,179 or 2.5%. This increase is due to the financing for the purchase and installment of equipment associated with a new Material Recovery Facility to begin operations on July 1, 2009. This was the only function that reflected an increase versus a decrease for the budget year 2010.

The following graph (Exhibit 7) displays the future outstanding debt schedule for the four projects listed in Exhibit 8:

**Exhibit 7**



**Exhibit 8**

<b>Current Projects</b>					
<b>FY</b>	<b>Amount</b>	<b>Type of Debt</b>	<b>Purpose of Debt Issue</b>	<b>Balance</b>	<b>Last yr of payment</b>
2006	4,050,000	Installment Financing Contract	Various roofing/paving projects	\$ 4,374,027	2021
2007	4,300,000	Installment Financing Contract	School Bus Garage/Health Building Renovation/PCC Roofing	3,916,552	2014
2008	14,685,000	Installment Financing Contract	Refinance 1999 & 2000 Schools and LEC Building	14,068,783	2015
2009	457,778	Capital Lease	Purchase of Equipment for Material Recovery Facility (MRF)	493,343	2014

No new debt obligations are anticipated for the upcoming year. However, the CIP that was adopted in June 2009 includes provisions for renovations at the Courthouse and the construction of the Technical Education Building at Piedmont Community College to be borrowed for in FY 2011. Also on the horizon is the General Obligation Bond Referendum that passed in November 2008 for the construction of a Recreation and Senior Center facility. Currently, this is scheduled on the CIP to begin in FY 2012.

**Vehicle Capital**

The only capital items included in the adopted budget are three vehicles for the Sheriff's Department (usual rotation is nine) and one ambulance for EMS. There is a concern for delaying operational capital such as vehicles which will cause aging on more of the fleet, thereby risking higher maintenance costs. Currently, there is no formal vehicle rotation program in place as there is no staff available to manage the entire fleet. This may become a larger issue if Person County maintains this same level of vehicle replacement for the following year.

**Contingency Fund**

The County maintains a contingency fund to budget for unexpected yet reasonable changes in costs of governmental operations. Included in the budget for next year is an appropriation of \$50,000 in undesignated contingency to account for any problems that may arise. This is \$150,000 less than last year and is another concern due to the large amount of cuts made in expenditures and the uncertainty of the economy. The other noteworthy item includes a reduction in the technology contingency line of \$219,189 from the FY 2009 adopted budget. It was decided to move forward and complete many of the projects from funds available in the current year. Therefore, the amount of \$30,000 budgeted for next year is for unanticipated costs associated with technology.

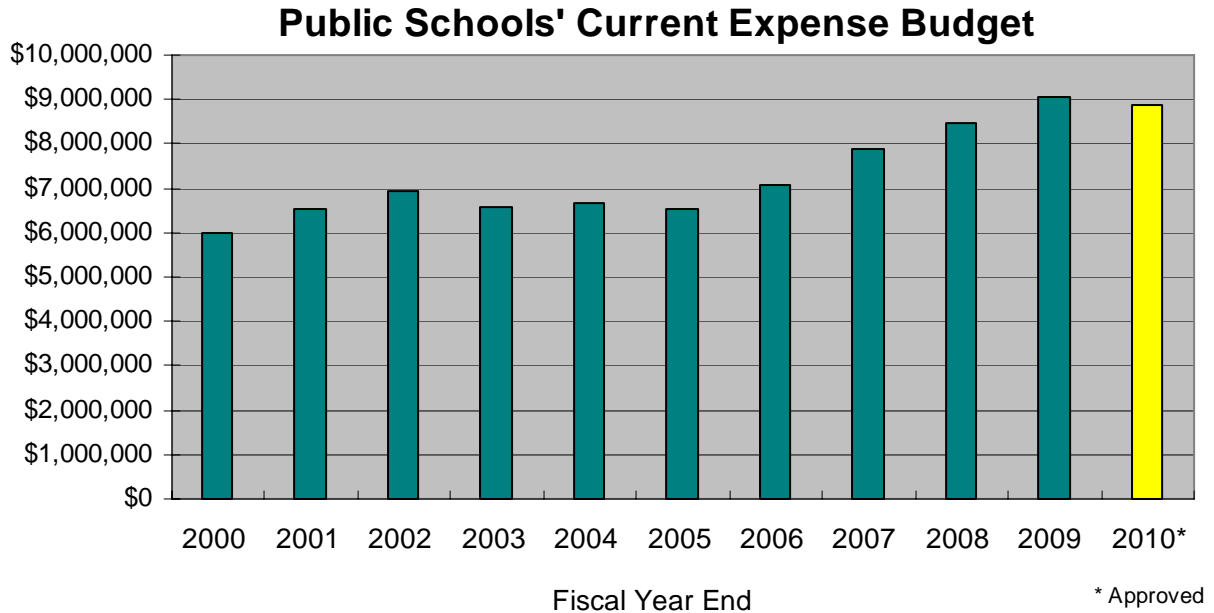
The only expenditure increase in the Contingency Department was for unemployment insurance by \$50,000. Due to the anticipation of higher unemployment, it is expected that these costs will continue to rise. On a more positive note, costs for property and liability insurance costs have come down which reduced this contingency line by \$118,237 from what was adopted in FY 2009. Overall, this fund has been cut by 58.2%.

## Education

### *Public Schools*

The approved current expense appropriation to Person County Schools is \$8,861,567, a decrease of \$186,433, or 2.06% from the current year's amended budget. See Exhibit 9 for the current expense budget for Public Schools since FY 2000.

### **Exhibit 9**



The Schools also requested \$2,848,400 for capital funding. However, this included \$2,580,000 in projects that were placed on the proposed Capital Improvement Plan (CIP) for possible funding over the next five years, leaving \$268,400 in the proposed budget for regular capital needs.

The adopted CIP includes \$1,060,000 in fiscal year 2010 for the following school projects: \$200,000 for a fire alarm and security system replacement and \$60,000 for waterproofing an exterior wall at Person High School, and set aside funds of \$750,000 for a new roof at Northern Middle School and \$50,000 for a new roof on the gym at Southern Middle School.

Thirty percent (30%) of the revenue generated by the Article 40 one-half cent sales tax and sixty percent (60%) of the Article 42 one-half cent sales tax is dedicated to capital outlay and debt service for the public schools. Based on sales tax revenue projections, the budget includes an appropriation of \$1,640,721 in sales tax revenue reserved for school debt payments. The school system has additional sources outside of the County budget from which it can receive funding to address capital needs. The following is a source of funding currently available to be accessed by the Board of Education, with required joint approval by the Board of County Commissioners:

*North Carolina Education Lottery (As of 6-1-09)      \$860,958.47*

This balance in the Lottery Fund includes current projects requested from the North Carolina Department of Public Instruction (DPI), but not approved. These include the PHS stadium improvements, Earl Bradsher roofing, and additional funds for the Southern Middle School carpeting.

The Corporate Income Tax, or Average Daily Membership (ADM) account in the Public School Building Capital Fund is typically another source of funding to counties for school capital or the payment of school debt. However, this fund was depleted in March 2009 to cover the additional shortage in sales tax that was dedicated for school debt.

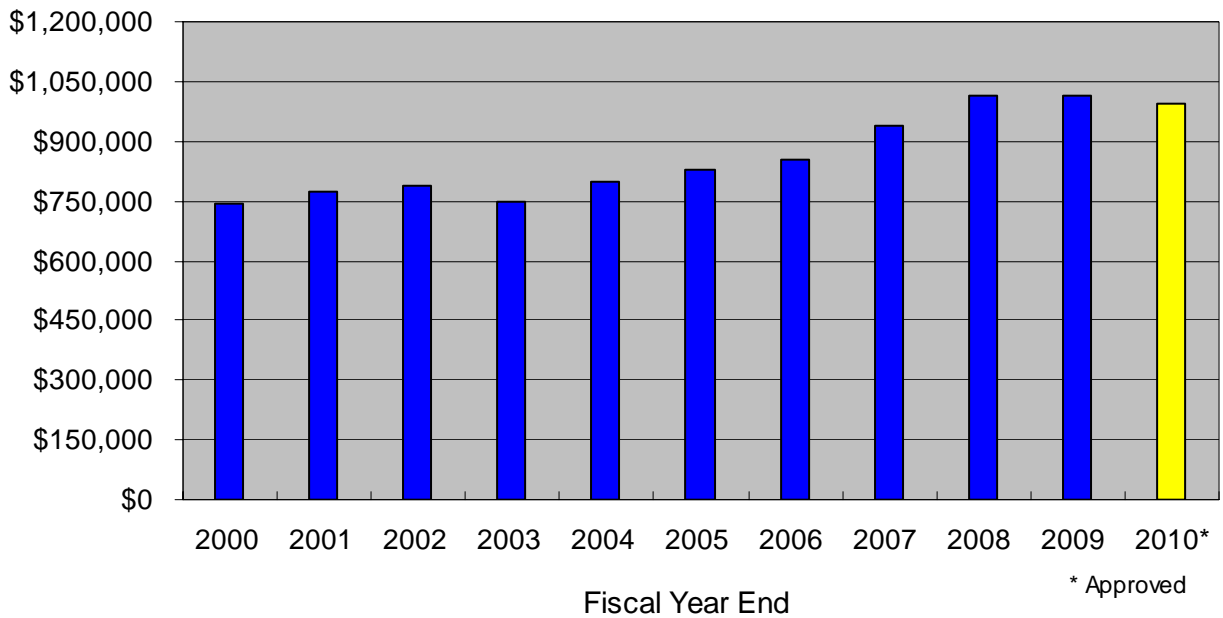
There has been discussion between the Board of Education and the Board of Commissioners for the possible dedication of these funds toward other capital projects. However, it is uncertain at this time, whether the State will seize the unallocated funds to cover their shortages, thereby preventing counties from using ADM funds as a future source of revenue for school capital needs.

***Piedmont Community College***

The approved current expense appropriation to Piedmont Community College (PCC) is \$991,699, a decrease of \$20,239, or 2% from the current year’s amended budget. See Exhibit 10 for the current expense budget for PCC since FY 2000. PCC also requested \$17,500 for capital funding which was approved. In addition to this, \$225,000 is included in the adopted Capital Improvement Plan for Person County for a roofing replacement to be funded in FY 2010.

**Exhibit 10**

**Piedmont Community College Current Expense Budget**

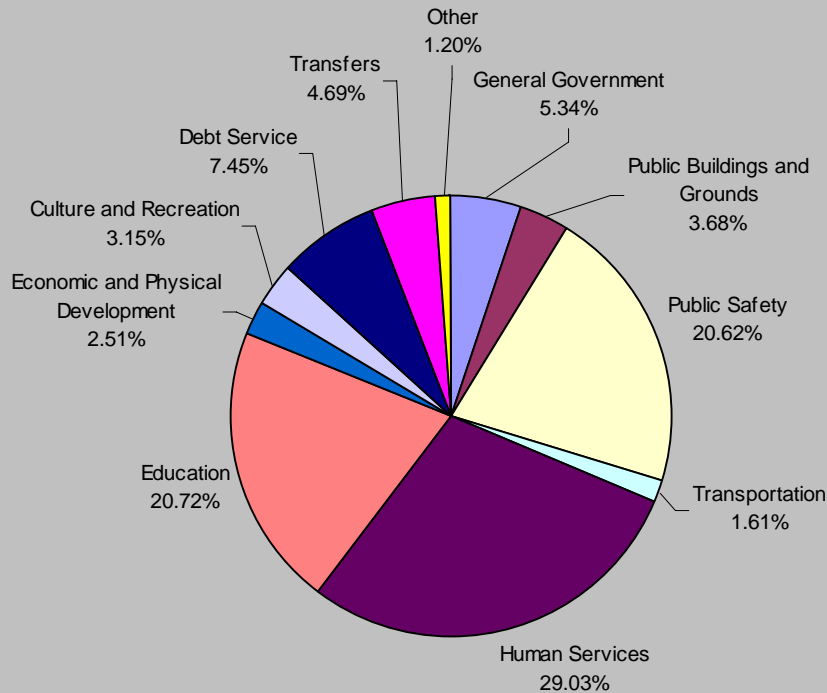


## Decreased Expenditures

• Position cuts	\$ (458,183)
• 5 day furlough & holiday pay cut	(312,000)
• Cut of 2.5% in 401k benefit	(335,805)
• Public Schools (current expense & capital)	(251,168)
• Piedmont Community College (current exp.& capital)	(62,863)
• Outside Agencies	(124,285)
• Contingency	(570,458)
• Economic Development Commission (operations only)	(94,204)
• Recreation, Arts, and Parks (operations only)	(110,158)
• Separate Funds (transfers from General Fund)	(418,190)

*(Note: differences are from 2009-10 Adopted Budget)*

### FY 2010 General Fund Expenditures by Function



“Other” includes: Contingency (.82%) and Environmental Protection (.38%).