May 19, 2008

To the Board of Commissioners and Citizens of Rockingham County:

I am pleased to present the County Manager's recommended annual budget for Fiscal Year 2008-09. The budget is balanced with the current 65.5 cents property tax rate for the operating budget and the current 5 cents property tax rate for the capital improvement plan (CIP). The recommended budget does not draw down county reserves. The General Fund portion of the recommended budget is $84,940,476, which is a reduction of $6,269,343 from the current year. Two major changes causing this reduction are a transfer of restricted sales tax revenue to a capital reserve fund and the State assumption of a portion of the County Medicaid expenses which has removed both the expense and offsetting local revenues from the budget.

Due to the poor local and national economy, the Board of Commissioners has stated that the main budget priority for the coming year is to maintain the current county property tax rate. This has proven to be a very difficult task due to the fact that the growth in the two main sources of non-restricted county revenue, county property taxes and sales taxes, is insufficient to maintain the historic level of county services. Property taxes and sales taxes are projected to only grow by 1.5% and 2.5% respectively for the coming year and expenditures normally grow 3%to 6% a year. Even so, County departments have done a very good job holding expenses and requests to a minimum. It was still necessary to eliminate almost $1 million in current year operating expenses. Eighteen positions have been either eliminated or reduced in hours in order to cut county expenses. These reductions are delineated in Exhibit J to this message.

Reductions in County services are painful. It is very difficult to eliminate jobs and cut services, as once a service level has been established, the public, our clients and customers do not want the level of service to go down. Demand for many county services, (unlike most private sector businesses), actually goes up when the economy is bad. Also, State and Federal mandates do not stop. We simply cannot have a deputy or paramedic not show up when needed. The number of people suffering from depression, drug addiction, spousal and child abuse, etc. increase during a poor economy. People still expect quality and timely service from the Register of Deeds, the Library System, Building and Inspections and Environmental Health among other services. The need for Public School and Community College facilities and their maintenance also does not decrease.

Even in a very trying time, the County is progressing with its highest work program priorities. An overview of the projected FY 2008-09 budget revenues, program initiatives and expenditures is provided next.

Revenue Overview

Projected revenues for the County General Fund are shown in Exhibit A to this message. Rockingham County has developed a five-year financial forecast to help plan operating and capital improvement expenditures. This forecast is shown in Exhibit N. Projected revenues and expenditures for FY 2008-09 are close to the estimated figures. Almost $1 million in existing expenses and another $5.2 million in requests for revenue were eliminated from the budget to stay within the overall 70.5 cent tax rate. Additionally, fees and grants increased by $202,000 (see Exhibit J).

Ad Valorem Tax. The projected 1.5% tax base growth continues the trend of the past six years where the average tax base growth has been only 1.25% annually. The following table provides a ten-year history of the growth in the tax levy, operating budget tax rate, and the Consumer Price Index.

10 Year Operating Budget Tax History

Fiscal Year	Property Tax Increase	Property Tax % Increase	Operating Tax Rate & Year of Revaluation		FY CPI
2007-08	1,569,541	4.17%	0.655		4.0
2006-07	198,814	0.53%	0.635		2.7
2005-06	969,551	2.66%	0.635		4.1
2004-05	103,087	0.28%	0.635		2.5
2003-04	(55,685)	-0.15%	0.635	Revaluation Year	3.2
2002-03	653,515	1.83%	0.69		1.9
2001-02	2,604,965	7.86%	0.69		1.0
2000-01	1,333,656	4.19%	0.66		3.2
1999-00	2,567,874	8.78%	0.66	Revaluation Year	3.6
1998-99	1,217,856	4.34%	0.67		2.0
1997-98	1,789,398	6.82%	0.67		1.4

Notes:

One cent on the FY 2007-2008 Tax Levy generates $580,000

In FY 2006-2007 the Board of Commissioners adopted a 5 Cent Tax Levy to fund the Capital Improvement Plan (CIP). This 5 Cent Tax is not shown in the operating budget history.

Consumer Price Index (CPI) is based on national averages and is calculated on the fiscal year.

A couple of observations can be drawn from this table. First, the County has been operating on very meager property tax increases for the past several years. Second, the County cut the tax rate significantly with the 2003-04 real property revaluation. In hindsight, the rate cut, coupled with slower economic growth, has greatly contributed to the financial dilemma now facing the County. The County should have cut the level of services when it enacted a tax rate that was 1.5 cents below a revenue neutral rate (a tax rate that generates the same level of revenues after adjusting for the change in personal property values). The operating budget tax rate and tax base for a Tier 1 county (poorest economic condition out of three categories) is too low to maintain the historic level of services the County provided when it had greater wealth. The County's tax base per capita is now 66% of the state average. These factors led to the recommendation that either the tax rate increase or the level of services decrease.

Finally, the 5 cent CIP tax enacted in FY 2006-07 has clouded the picture of the county's operating budget tax rate. Many think the County is operating on a 70.5 cent tax rate when the actual figure is 65.5 cents. (The CIP is discussed throughout the remainder of this message.) As a reminder, several major capital projects were delayed for years and the County is now trying to catch-up. The CIP is shown in Exhibit O.

Sales Tax. The sales tax figures shown on Exhibit A show a whopping drop of $5,379,617 from the current year to the upcoming year. Much of this drop is attributable to two things. First, last year we decided to no longer budget the restricted sales tax for school construction in the General Fund and instead budget it directly into a capital reserve fund. This accounts for $3,648,000 of the drop. Second, when the State agreed to phase in a takeover of the rapidly growing Medicaid expense, it took the per capita portion of the Article 44 local sales tax to cover the State's increased Medicaid expense. They also required counties to hold cities harmless from their loss of Article 44 tax by reducing counties' Article 39 tax to replace cities' loss of Article 44 tax. These two changes reduced sales tax revenue by an additional $2,036,492. Sales taxes in general have been estimated to increase 2.5%.

Medicaid Relief. While we are very happy to have the huge Medicaid burden lifted, the primary benefit will be no longer having to fund a rapidly growing expense in the future over which we have no control. Had the State not agreed to assume 50% of the County's Medicaid costs for 2008-09 as part of a five-year plan to assume all, the County's Medicaid budget would have increased about $700,000 making it even more difficult to balance this budget. State projections show an average annual increase in Medicaid costs of nearly 10% over the next three years. This represents a 1 cent tax increase each year just for Medicaid costs. As stated above, the State is also taking some local revenues to cover its increased Medicaid expense, but those revenues are growing a lot slower than the Medicaid expense. The initial swap will net the County even more than the $700,000 Medicaid costs for 2008-09 but the net "savings" will be less in future years as it is fully implemented, partly due to the conversion of the Article 40 ½ cent local sales tax from per capita to point-of-delivery distribution.

I want to make two final points about Medicaid relief. First, the County is not netting a huge windfall in savings from this swap. The projected savings used by the State are not consistent with our budget experience. The State shows much larger savings from expense numbers we have seen as actual experience. Second, Rockingham County is going to be relatively worse off compared to many counties in the State as a result of this relief. Rockingham County must give up a large amount of local revenue to gain this relief. Counties with lower Medicaid costs must give up substantially less revenue. For example, in neighboring Guilford County Medicaid amounts to 4 cents on their tax levy while it amounts to 10 cents on our tax levy. Additionally, the change in the distribution of the Article 40 sales tax from per capita to point-of-distribution is a huge loss in revenue for the County compared to many other counties. Many of our citizens travel to Greensboro to shop. Urban counties, such as Guilford, will see a major gain in sales tax revenue from this change while rural counties like Rockingham will see a major loss in revenue. The former ½ cent Article 40 per capita sales tax used to bring almost as much revenue as the full 1 cent Article 39 point-of-distribution sales tax. Now this Article 40 sales tax will be distributed on a point-of-distribution basis and the amount of revenue it will bring in will be substantially reduced.

Investment Earnings and Fund Balance. The other major source of unrestricted revenue for the County is investment earnings. A $300,000 drop in earnings is projected. There are two primary reasons for this reduction. First, interest rates are down due to the economic recession. The second factor is the drop in Fund Balance available for investment. Until recently, the County maintained a Fund Balance of 22% to 32% of General Fund expenditures (see Exhibit L). In June of 2005 the County had a Fund Balance of $20.7 million. This figure dropped to $13.7 million, or 15.8%, by the end of June 2007. Much of this drop in Fund Balance was planned. The County provided $2.5 million over three years as start-up money for the County Mental Health Agency and used Fund Balance to "front-end" expenses for projects in the CIP. We are now to the point that we need to prevent the Fund Balance from dropping any further and build it back up over the next couple of years.

Major Budget Initiatives and Expenditure Overview

The good news for the County is that we are using this economic down time to lay the foundation for solid quality growth that will occur in the near future. We are also taking care of priorities for major infrastructure needed for this anticipated growth with the implementation of the CIP projects. The County is in the enviable position of being located in the greater Greensboro Metropolitan/Piedmont Triad region of the State. This region is projected to become an international multimodal distribution center anchored by the new FedEx terminal being built fifteen miles south of the County at the PTI Airport. North Carolina's population in general is expected to grow by approximately 50 percent over the next 20 to 25 years with much of this growth occurring in the three major metropolitan areas including greater Greensboro.

Budget Initiatives. The major budget initiatives of the County for the coming year are almost identical to the current year with a few exceptions. The carry over priorities are:

1. Construction of a new Courthouse, Jail, Sheriff's Office, Emergency Operations Center (EOC) and an Emergency 800 Mega-hertz Communications System,
2. Construction of an Emergency Medical Base (EMS) in western Rockingham County,
3. Continued efforts to improve effectiveness and efficiency through Performance Based Budgeting and Lean Management Practices,
4. Work with the School System and Community College to improve education and workforce skills,
5. Development of a regional Equestrian Center,
6. Work with the Partnership for Economic and Tourism Development, the Business Technology Center, municipalities and State agencies to promote economic development in the county, and

Work with the State, the Alamance-Caswell-Rockingham LME and our County Mental Health Agency to promote adequate mental health, developmental disabilities and substance abuse services and treatment for our citizens.

New priorities for upcoming fiscal year are:

8. Maintenance of the current 70.5 cent tax rate,
9. Construction of a new animal shelter and development of an expanded animal control program, and

Construction of a new regional library in Western Rockingham County.

An overview of each of these work program priorities is provided in Exhibit M to this budget message.

Expenditure Overview. Except for the major initiatives identified previously, there are few changes for next year. Exhibit B provides a summary of the FY 2008-09 General Fund expenditures. Approximately $6.2 million in funding requests and existing expenses were deleted to balance the budget. Interestingly, the requested funding is less than the adopted budget for the current year. This anomaly is due to the removal of the restricted capital shown under transfers to other funds and the partial elimination of the required Medicaid payment through the State phased takeover of this expense. These two items were previously discussed under the revenue portion of this message.

The biggest change in the recommended FY 2008-09 budget from the current year budget is the elimination of over $1 million in current year expense. We have been able to work on smaller and smaller operating margins through our efficiency efforts and will continue to gain efficiencies in the years to come through our focus on performance budgeting and lean management practices. We are at a point, however, where such efforts will only take the County so far. With past years of meager revenue growth and likely modest growth over the next couple of years, we simply cannot sustain the size of our organization and must look at service reductions if the tax rate is to stay in the moderate range. Since we are primarily a service organization this means cuts in employment.

In a four year period from FY 1997-98 to FY 2001-02 the County increased County employment from 675.5 FTEs to 784.7 FTEs, an increase of 109.2 employees. There were good reasons for these increases and the enhanced level of services. A recent reduction in Mental Health employment resulting from State mental health reform has reduced this number to 747.15 in FY 2007-08. The employment totals are shown in more detail on Exhibit D. The recommended budget eliminates or reduces the hours for eighteen employees, providing a 14.25 FTE reduction in County employment. A summary of the action taken to reduce the $1 million, including the elimination of the 14.25 FTEs, is provided in Exhibit J.

There will be many County employees retiring in the next couple of years. As these and other vacancies occur, the County should look for opportunities to further reduce employment. Reductions in positions and services should be planned and be consistent with the County's priorities for service. Therefore, the Board should consider evaluating and prioritizing all of the services that the County provides. Often, the County is required to provide services that are little appreciated but very necessary. Many of these services are mandated by the State since a county functions primarily as "an arm of the State Government" functioning at the county level. Caution needs to be taken that the need for these services is carefully considered along with more popular services. Most services the County provides are those that the public would hope they never have to use; they are little appreciated but they are very much needed.

A major increase in expense in the General Fund for the coming year is in Emergency Services. The County is switching to an outside vendor to do EMS billing and collections. This change results in an increased cost of $248,000 for the vendor and a one time cost of $150,000 for software and hardware to enable paramedics to enter data in the field. There is a possibility that this cost could be reduced by 50% but we will not know until later. We are also carrying extra staffing for six months to make this transition. Even with these extra costs, the net revenue increase for the coming year is estimated to be approximately $100,000.

There are a couple of other noteworthy increases in the budget. Major fuel cost increases are projected in many departmental budgets. We are seeking ways to limit fuel expense from idling and enhanced travel policies, etc. but additional money is needed in most departments. We have also placed an extra $50,000 in contingency in case the amounts budgeted are insufficient. More and more employees are retiring and retiree health insurance is becoming a major expense that we will need to address in the future. We are budgeting an additional $200,000 for this expense. We are also budgeting for a 10% increase in employee health insurance. We are going to start a major health care initiative this year. We need to be more proactive in helping our employees, their dependents and our retirees prevent illness and look for ways to lower costs once medical care is needed. We believe that this initiative will be instrumental in lowering costs just as our risk management program has done in lowering injuries.

As has been our policy, the proposed increases for the School System and the Community College mirror the County increases in ad valorem and sales tax revenue. Our ad valorem and sales tax revenues are going up a combined 1.8% and we are budgeting this same increase for the School System and the Community College. Both the School System and Community College have identified much larger needs in their requests for county support, but we simply do not have the revenue.

We are budgeting the last $456,153 of the $2.5 million Fund Balance revenue commitment as start up money for our Mental Health agency in FY 2008-09 along with the State required $300,000 maintenance of effort.

Salaries and Benefits. Inflation is on pace to increase by 4% in the current fiscal year. We are only recommending a 2.5% cost of living increase (COLA) at a cost of approximately $500,000 due to lack of funds. If, during the budget process we can find another $100,000, I would like to increase this COLA to 3%. We are also recommending continuing the one-third annual review of positions for market adjustments to keep our positions competitive. This adjustment is expected to cost $130,000. No adjustments are proposed to employee benefits.

Personnel Requests. There were only 5 new positions requested in the budget. These positions are to allow the Eden EMS base to move from 24 hour shifts to 12 hour shifts. It will take about $240,000 to make this change. This change is very much needed, but is not recommended due to lack of funds. Finding adequate numbers of qualified paramedics is a major challenge and the 12 hour shifts will help, plus it will reduce County liability associated with tired and stressed EMTs. The County will need to find a way to make this transition happen in the Eden base and the planned base in western Rockingham. I will propose that the County make this transition next year.

There is a very great need to hire someone to take over the water and sewer operations from the County Engineer. The County eliminated this position four years ago due to the lack of work for a full time utilities director at that time. Since this time, the County has added a major water and sewer line along US 220 and has added to the sewer system in Wentworth, plus the customer base has grown considerably. Additionally, the County is in the midst of planning, designing and constructing major projects including the emergency operations center, courthouse, jail, Sheriff's office, emergency communications system, western EMS base, western regional library and animal shelter. The County Engineer needs to have his time freed up from administration of the water and sewer system to oversee these projects. We are in the process of developing the job description for this position and will utilize revenue derived from the lease of space to cell phone companies on water towers and the new central emergency communication tower to offset this position's cost. Money for this position is not included in the budget but will be added later in the year.

Utility and Rate Schedules. Small rate increases are being proposed for EMS calls, Environmental Health fees, and water and sewer fees. We are adding GIS fees this year based on what we see other counties do and charge. This fee schedule is still being developed but is expected to produce approximately $25,000 in annual revenue.

Budget Summary. Rockingham County is very fortunate to have a well trained, dedicated workforce of county employees. Department heads understand our dilemma with the budget and have worked to make the very difficult adjustments necessary in their budgets. I particularly want to thank Mike Apple, Kelly Burton and Adam Lindsay for their hard work helping develop this budget. We have tried to provide a responsible budget that accomplishes the highest priorities of the Board of Commissioners. We look forward to working with the Board to finalize the FY 2008-09 Budget.