



Rockingham County

Governmental Center

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Lance L. Metzler
County Manager

TO: Board of Commissioners
FROM: Lance Metzler, County Manager
RE: Budget Message Fiscal Year 2012-2013
DATE: June 1, 2012

I am pleased to submit herewith the Fiscal Year 2012-2013 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 2012-2013 budget and an overview of the process and issues that drove the development of the Fiscal Year 2012-2013 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.

Rockingham County is a county in transition, experiencing recession like economic conditions well before the 2008 recession. We believe that even as the national economy slowly recovers, the local economy will continue to struggle. In 2011, unemployment rates were double (12.2%) what they were in 2007 (6.0%), which indicates a long way to go to simply return to pre-national recession figures.

The recommended budget takes into account two primary concerns expressed by the County Commissioners regarding their budget priorities; 1) maintain the quality of service and 2) do not add to the economic stress of county citizens and businesses.

When the Commissioners met in January 2012 during a multi-day strategic planning workshop, they established five strategic goals ([Exhibit I](#)):

- 1) Find innovative approaches to maintain quality services and control costs using the budget performance system.
- 2) Encourage greater participation and an educated citizenry through the use of the Citizen's Academy or other communication tools.
- 3) Create an environment conducive to economic growth.
- 4) Develop a system to receive feedback on the quality of our services.
- 5) Analyze our services to maximize the use of technology to improve the efficiency and consistency of service delivery.

To implement these priorities, I asked the departments to incorporate into next year's work plans and budget requests their intentions to meet the 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. The budget team conducted an initial review and cut nearly \$750,000 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)

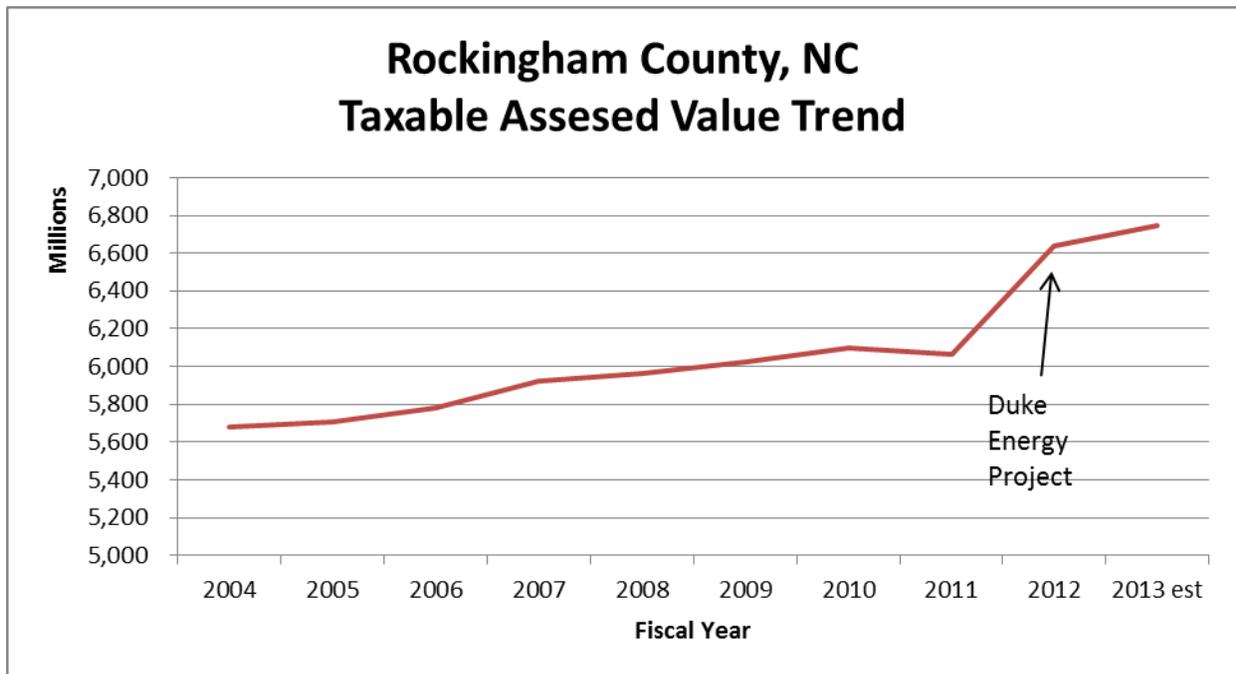
Revenues come with varying degrees of strings attached. Some revenues are restricted in that they can only be used to offset the costs of specific programs or services. Major unrestricted revenues are, therefore, extremely important because they yield the most flexibility and discretion in strategic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

Ad Valorem

The total recommended General Fund budget is \$84,655,550, which represents a 2.34% increase from FY 2012. Property tax revenue is the primary source of governmental fund revenue, providing 55.16% of the total revenue. Overall growth in county property values are fairly stagnant and are increasing on average 1% to 1 ½ % per year. However, due to improvements that are currently underway by Duke Energy, the estimated taxable value during the development of the FY 2012 budget was 3% less than actual. In FY 2013, I am projecting a 4.6% increase over last year's budgeted ad valorem revenues due in part to the average growth rate and in part to Duke Energy's improvement project.

The county awarded an incentive package to Duke Energy to encourage them to bring their proposed improvement project to Rockingham County. The incentive included a rebate on a certain percentage of the net new taxable value that comes to Rockingham County. The latest taxable values from the North Carolina Utilities Commission included the construction in progress values for the first year of a three year project; therefore, in FY 2012 we will recognize higher ad valorem tax revenues than were anticipated during the FY 2012 budget preparation. We have included a small increase in the upcoming year's taxable values in anticipation of additional project values becoming taxable. However, due to the incentive package that will require certain payments to be made to Duke Energy beginning in FY 2015, it is imperative that we not build these additional revenues into the operating budget and then find ourselves struggling to make the necessary adjustments in FY 2015 in order to budget for the incentive expenditure. In the FY 2013 budget, the estimated taxable value increase has been included in the revenue projection; however, the incentive payment for this amount has been calculated and set aside in the Economic Development department budget.

The total taxable property value for FY 2012-2013 is estimated to be \$6,748,599,776 and is comprised of real and personal values of \$6,143,640,689 and motor vehicle values of \$604,959,087. The recommended budget includes an ad valorem tax rate of 69.6 cents per \$100 of property value which is a rate that is .2 cents less than the previous fiscal year rate. 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. The collection rates of 98.01% and 88.41% have been applied to the real & personal category and the motor vehicle category, respectively. One penny on the tax rate generates approximately \$655,623.

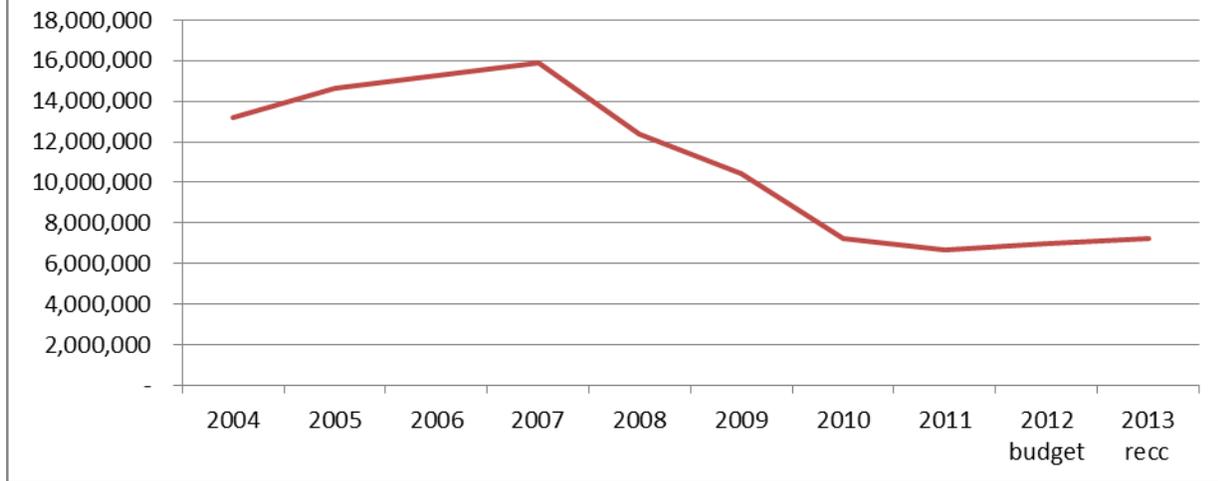


Sales Tax

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. We are beginning to see some positive movement in the sales tax revenue distribution to Rockingham County and economists predict that the trend will continue at a 2% to 3% growth next year. The recommended budget includes a conservative estimated growth of 2.5% or \$225,031 over the FY 2012 budget estimate. Currently, we are running ahead of the FY 2012 assumed 4% growth and we are tracking right along with the State average which gives us some confidence in projecting the 2.5% increase for FY 2013.

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.

ROCKINGHAM COUNTY, NC SALES TAX REVENUE TREND

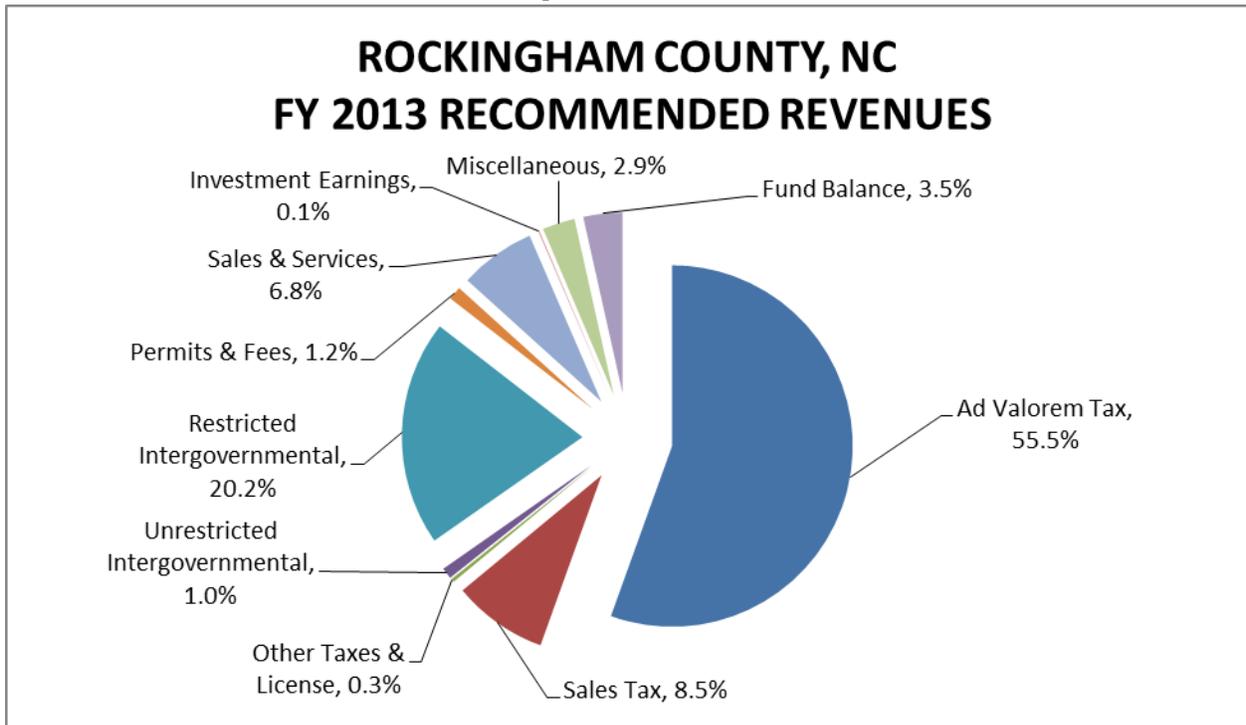


Other key revenue changes

- 1) Two years ago the State balanced its budget in part by taking **Beer & Wine** revenues from counties. They restored that back to counties in the current year and we believe they will not take it away next year.
- 2) The **Hold Harmless** payment that has been in place for many years as a State offset to revenue that was lost due to a change in tax law will sunset after FY 2013; therefore, we will have to be prepared to find a way to plug a \$550,000 hole in next year's budget.
- 3) There are a lot of uncertainties regarding **Social Services** funding sources including Administrative funding and Temporary Assistance for Needy Families (TANF) dollars. These uncertainties are forcing DSS to be creative in how they organize and meet demands and mandates for services.
- 4) **Public Health** is projecting an increase in State grant funds that is ultimately realized based on their ability to provide service to the clients outlined in agreements for next year.
- 5) The County is eliminating the Day Resource Center, which was funded by **Criminal Justice Partnership Program (CJPP)** grant money from the State, due to a change in the State's funding strategy and most counties opting to no longer partner with the State to provide these post-sentencing services. We will continue to offer Pre-Trial services but can no longer offset one-third of the director's salary with CJPP grant money.
- 6) The struggling economy is still impacting revenues that are generated from building activity (**inspection fees**) and land transactions (**recording fees**). Although the total revenues generated from these sources is still low compared to the county's history, they do appear to be stabilizing and maybe even beginning to see a very slight growth.
- 7) The **Animal Shelter** projected revenues are currently meeting their targets and are projected to move upward next year.
- 8) Historically, the county's **Facility Projects** department costs have been shared by the County (1/3), Rockingham Community College (1/3) and Rockingham County Schools (1/3). For FY 2013 budgeting purposes, certain partners that were not utilizing this county service requested to discontinue their contributions to this function.
- 9) **Jail bed rentals** have under-achieved their revenue projections over the past two years. However, with the county's participation in the new Jail Misdemeanant Program, there is renewed hope that the

revenue generation from jail bed rentals will begin to pick up. Since January 2012 there has been a steady group (15+) of sentenced misdemeanants serving sentences less than 180 days in the County jail for which the State will pay \$40 per day plus any medical or transportation costs.

- 10) **Investment Earnings** continue to be stagnant due to the historically low interest rates that continue to remain low coupled with the general statutes that limited the investment opportunities for public funds. North Carolina has always stressed safety and liquidity over yield on public funds; therefore, return on investments may be low but the invested principal is safe and runs a very low risk of loss.
- 11) The FY 2013 budget includes the second \$300,000 pay back to the general fund from the county's **Workers Compensation Fund**. 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.
- 12) **Fund Balance** in the amount of \$2,975,000 is included in the FY 2013 recommended budget. This is \$220,425 or 6.9% less than in the FY 2012 adopted budget. Of this amount, \$2,900,000 is the expected amount of unspent funds (surplus) due to the nature of budgeting the Health and Human Services budgets and the typical lapse salaries that occur throughout the year. The remaining \$75,000 is being recommended to fund the request for needed renovations to the elevator located in the Public Health Department. Due to the infrequent and one time nature of this expenditure, it is appropriate to use available fund balance for this expenditure.



EXPENDITURE ([Exhibit B](#))

Positions

Almost every area can make valid arguments for more positions in order to meet growing demands and, where it will enhance opportunities for efficiencies, should be considered. Unfortunately, we simply cannot afford to increase staff and instead ask employees to step up and do more, often without any increase in compensation.

There were 25 new position requests ([Exhibit E](#)) that would have added over \$1 million to the budget had they been approved. There were logical explanations and justifiable needs in all requests; however, there are just not enough resources to fund them all. The Permanent Positions page in Exhibit E shows a history of approved positions by department. A summary of the positions items is as follows:

- 1) **911** requested additional Tele-communicators. Call volume is increasing slightly but a parallel decline in the quality of performance is not seen. The trend that is worrisome is that Emergency Medical Dispatch (EMD) calls are on the rise, which requires Tele-communicators to follow a very specific protocol. These calls are more time consuming and stressful. My recommendation in 911 is to create one new position that can be funded 100% by 911 revenues (State 911 Funds). The position will help with the technical assistance needs that are seemingly more a part of every job but especially in a place like the 911 Center with new OSSI software. Information Technology (IT) needs will continue to be supported by the County IT department.
- 2) **Elections** requested a position that they lost several years ago to be reinstated.
- 3) **Emergency Medical Services (EMS)** requested more positions in order to complete their transition to 12-hour shifts and to help relieve other scheduling and service demand needs that they are struggling to meet.
- 4) **Emergency Management** asked to fill the position left vacant due to a promotion.
- 5) **Facility Projects** eliminated two positions (due to reduction in inter-local government cost sharing revenues) which meant the loss of one employee and filling another vacancy with one employee.
- 6) The **Jail** is facing familiar challenges in meeting demand for services in peak times and finding jailers to fill in for staff that takes time off. I have asked that they allow time for an alternative solution to be researched and implemented that could actually reduce the jail population.
- 7) **Information Technology (IT)** department will gain one DP Systems Analyst II position that will spend one-half time in the IT department and one-half time in the Library department. The Library currently has funding for a half-time IT position, so the impact to the County budget will be to fund the other half of this existing position.
- 8) **Public Health** requested an Information Technology support position that will be 100% funded by State and Federal funds; therefore, this position is included in the recommended budget.
- 9) The **Sheriff Department** request for two new deputies is not included in the recommended budget.

Employee Pay

Last year's 2% cost of living adjustment (COLA) took effect January 2012 which means that only half of the total increase was budgeted in FY 2012. The other half of the full year implementation created an automatic increase in every department's salary and benefits. For FY 2013, I am proposing a 1.5% COLA with implementation to be in October 2012 (9 months budgeted) as an effort to show the County employees that they are valued and to try to prevent our best employees from leaving for better pay elsewhere. 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 maybe be avoided if known and properly planned for during the budget development process.

This year's capital request amounts to approximately \$1.75 million ([Exhibit D](#)) and this recommendation includes approximately \$900,000 in capital funding. There are a few capital requests that are not funded in the FY 2013 budget; however, some departments had shared savings significant enough to purchase needed capital items through those dollars or the capital item(s) may have qualified for purchase through remaining capital project funds.

- 1) **Sheriff Department** vehicles totaling \$280,000 represent 1/3 of the total amount recommended and include 10 of the 14 patrol cars that were requested as well as one Jail van and one Animal Control truck.
- 2) **Emergency Medical Services** recommendation of \$289,592 represents another 1/3 of the total recommended capital budget. This includes one new ambulance and one re-mount ambulance as is in accordance with the county's replacement schedule of ambulances.
- 3) A replacement vehicle for the **Emergency Management** director is included in the recommendation.
- 4) A recommendation to lease / purchase a new backhoe and dump truck for **Engineering and Public Utilities** is included. The life of this equipment is expected to be 15 to 20 years and due to the high cost and infrequent purchase of this type of equipment, the ability to spread the payments over several years makes sense and helps ease the FY 2013 budget. It is anticipated that costs associated with renting this equipment from other vendors or municipalities will in turn decrease. A straight purchase of a trailer to haul this equipment from site to site is also included in the budget to be fully funded from current year revenues.

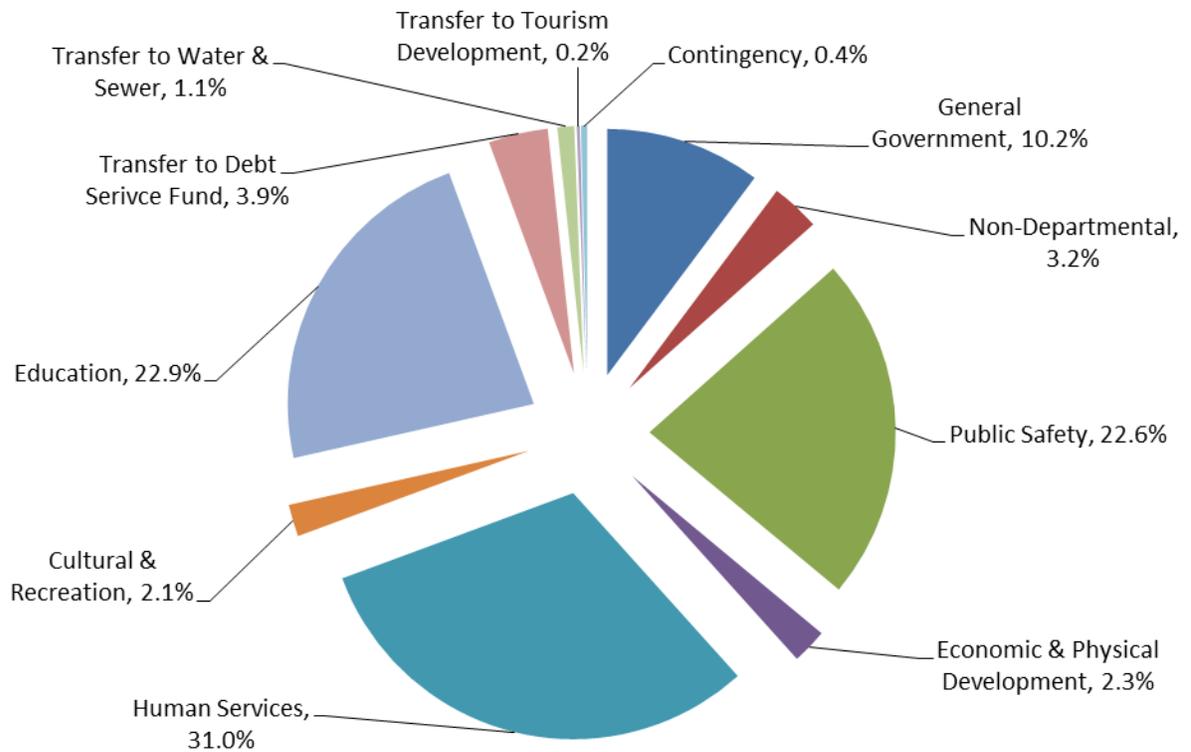
Replacing vehicles is a significant piece of the total capital outlay request each year ([Exhibit F](#)) and the county is in the process of reviewing and improving how we manage the fleet of future requests for vehicle replacements. In the absence of an improved system we review each request as we have in the past, by using a points system that is based on vehicle age, mileage and repair history with priority being given to public safety needs.

Other significant expenditure items

- 1) Due to significant improvements in the overall health and well-being of employees, this budget recommends only a 2% increase in **health care costs**. This percentage is based on very early conversations with our insurance broker and is subject to change. The County's plan year begins in October each year; therefore, firm rate increases are not possible at this time. For comparison, the County's rate increase three years ago was 10%, two years ago was 5% and the current year was 4%, so the county is trending in the right direction. However, there are still many uncertainties about health care costs based on the national discussions and legislation. Management will continue to monitor all of these and react accordingly.

- 2) Funding is recommended to continue the process of developing new and innovative ways to communicate to the citizens of the county through the **Public Information Officer** department. Through various media forums, recordings of County meetings and the creation of a Citizen's Academy, I anticipate seeing even more significant strides in the number and quality of media coverage of Rockingham County Government.
- 3) Departmental **Fuel** line items were not adjusted for potential rises in fuel costs due to the volatile nature of fuel prices. However, \$50,000 has been set aside in the non-departmental budget as a cushion should the need arise. The additional fuel funds will be transferred to departments as needed later on in the fiscal year.
- 4) The **Performance Management Program and Lean Management** principles are now a part of how management reviews and improves programs and processes, especially those facing demands that outpace resources, and County staff has made tremendous strides in managing and measuring performance. To that end, the budget includes funds to expand the Lean Management efforts next year by providing some targeted on-site training for a few key staff. As they learn and incorporate Lean principles into their business practices, others throughout the organization will learn and expand the Lean culture accordingly. Recognizing that sometimes the physical layout of a facility is either a help or hindrance to efficiencies, \$50,000 has been included in the budget to continue making improvements to County Government buildings.
- 5) The **Rockingham County Board of Education** has not asked for an increase in their current expense allocation again this year. The decline in the schools average daily membership (ADM) coupled with a healthy fund balance that the school board has been able to achieve through conservative budgeting and spending practices have enabled the Board of Education to hold the line on their request for many years now. As the State and Federal (Stimulus) dollars continue to decrease I am not certain that they will be able to continue this trend much longer.
- 6) Rockingham Community College allocation includes a small increase (2%) to their current expense. However, I have included in this budget a means to fund the top priority item in their capital requests which is Phase I of the Science Lab Renovations in the amount of \$750,000. A debt financing is proposed with the debt service payments being funded through a reduction in the amount of annual capital outlay funding that has historically been provided to the community college. This will reduce the funds that will be available to them to manage the day to day maintenance and small capital items for which these funds are utilized; however, the community college has indicated that they are willing to try to manage to the best of their ability in order to tackle their top capital priority.
- 7) The general fund continues to subsidize the **Water and Sewer Enterprise** funds with FY 2013 expected to be \$632,019 and \$326,460 respectively. Management and Staff continue to look for opportunities that would enable the Water and Sewer Funds to become self-sustaining funds, which is intended and required of an enterprise fund. I look forward to seeing these operations become more economical and to achieve what they were intended to achieve from the onset, to provide sustainable growth and development to rural corridors of the county targeted for growth.
- 8) 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.

ROCKINGHAM COUNTY, NC FY 2013 RECOMMENDED EXPENDITURES



The charts below demonstrate County leader’s budget over the past 10 years. Constant dollars represent the declining value (inflation) of money over time. While budget totals increase over 10 years, the budgeted buying power of 10 years ago compared with the current year actually declined (Chart A).

Chart A

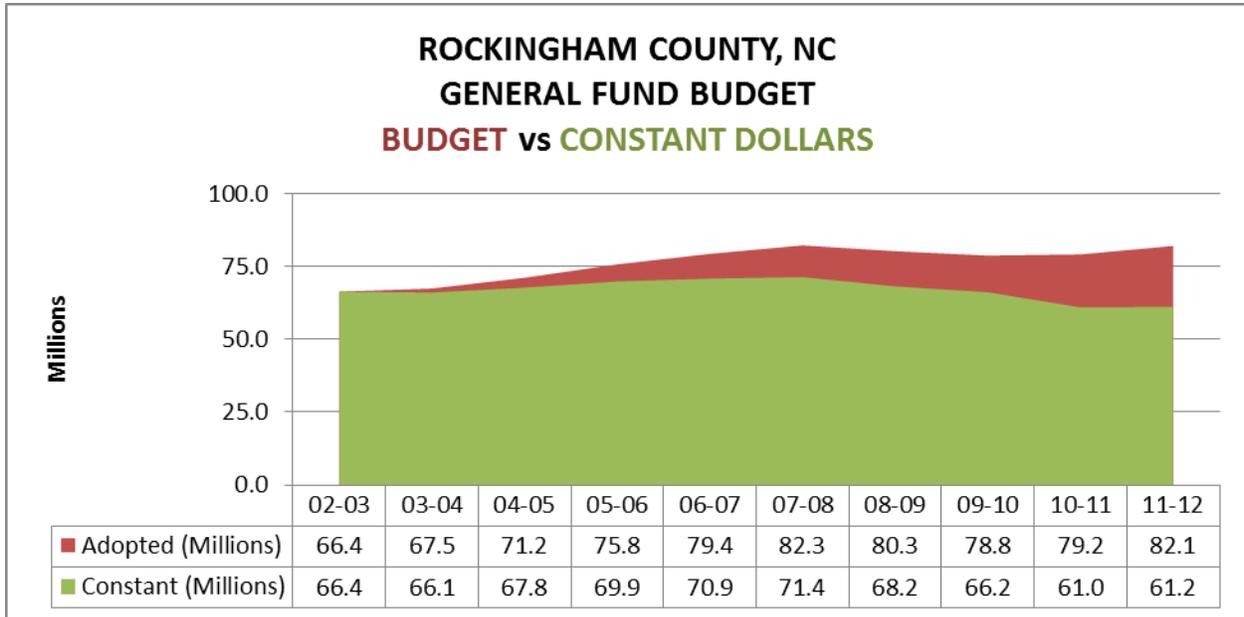
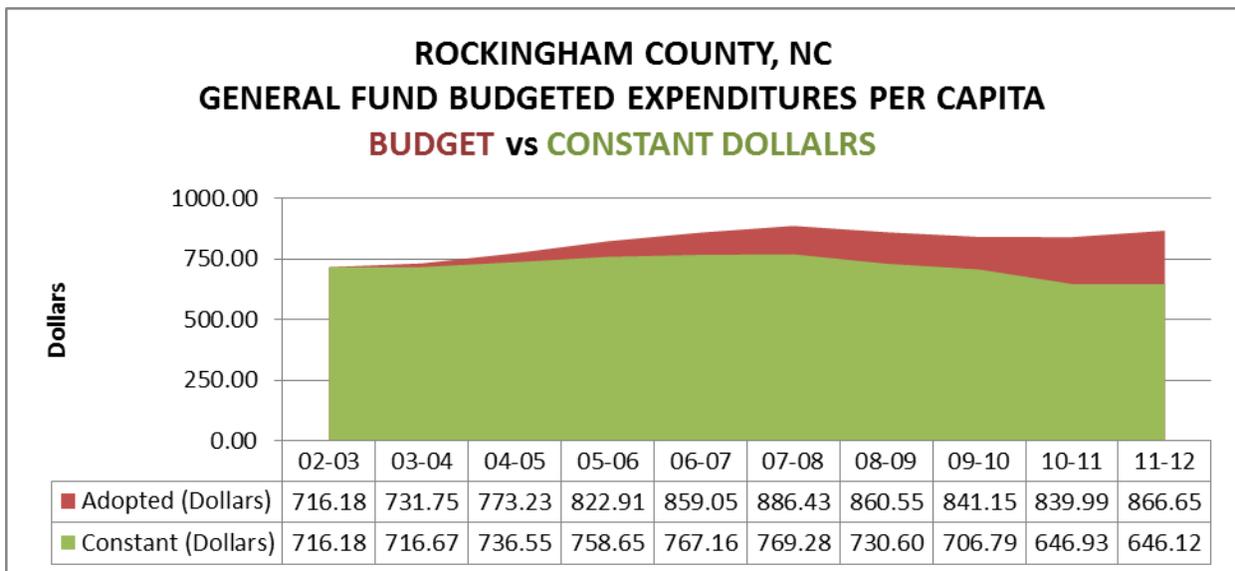


Chart B depicts how budgeted expenditures per capita have increased over time. However, the value of a dollar has actually declined faster than the increase to the effect that 10 years later budgeted expenditures per capita have actually declined using constant dollars.

Chart B



Fire Districts

There have been no requests from the county fire districts to make any change to the fire district fees for FY 2012-2013.

Conclusion

The outlook for FY 2012-2013 is stabilizing somewhat from the previous years but the unknowns and uncertainties still exist with how the economy will perform. Therefore, it is imperative that we continue to identify and evaluate alternative ways of doing business that will result in cost reductions while maintaining service levels as well as searching for revenue enhancement opportunities other than in the property tax revenues.

I would like to thank the Board of Commissioners for providing valuable direction to the staff to assist in the development of this recommended budget. I look forward to working with you to develop a final budget for FY 2012-2013 that will meet the service needs and expectations of everyone we serve.

Respectfully submitted,

Lance Metzler
County Manager