



May 31, 2013

Honorable Chairman Ann Holton and Pamlico County Board of Commissioners:

I respectfully submit the recommended Pamlico County, North Carolina fiscal year 2013-2014 budget. The budget is balanced and prepared in accordance with Article 3 of Chapter 159 of the North Carolina General Statutes, the Local Government Budget and Fiscal Control Act.

Indicated by the minimal growth in the tax base and other local revenue sources, the economy continues to struggle in recovery. As state and federal agencies trim their respective budgets, some of the cuts are passed down to the local level. Effects of Hurricane Irene linger in the form of an out-migration of population in certain parts of the county and incurably damaged properties remaining vacant. Fourteen properties are in process of potential acquisition through participation in a \$2.4 million hazard mitigation grant and an additional 60 properties have been submitted to FEMA for consideration of approval for acquisition.

The budget was prepared considering four primary directives issued by the Board of Commissioners: retain current service levels, no tax increase, allocate minimally from fund balance, and include a cost of living adjustment for employees.

The proposed General Fund Budget is balanced at \$15,993,504 with a proposed tax rate of \$.625/\$100 in value. Some of the highlights include:

- A 3% cost of living (COLA) salary increase for employees
- Insurance costs increased by approximately \$24,000
- Public School funding is increased by approximately \$90,000.

GENERAL FUND

GENERAL FUND REVENUES

Ad Valorem Taxes

At the proposed tax rate of \$.625 per \$100, estimated fiscal year 2013-14 tax collections are budgeted at \$9,528,562. Part of the increase is due to a change in the method of collecting motor vehicle taxes, currently collected by the county. Scheduled to begin in September, the State will collect motor vehicle taxes as part of the vehicle registration process. This change results in 16 months of revenue in fiscal year 2013-14 for an increase of approximately \$200,000, a onetime occurrence.

Owners of the defunct Cutter Bay Subdivision filed an appeal of taxes that ultimately went to the State Property Tax Commission. The county settled the appeal resulting in a reduction in value from \$39.5 million to \$5.9 million equating to a loss in revenue of approximately \$210,000 for the 2013-14 fiscal year.

Lease Bed Fees

The Pamlico County Law Enforcement Center is a 108 bed local confinement facility that houses individuals being held pretrial, serving civil judgments, or serving short term criminal sentences. Local capacity is currently averaging less than half of capacity which enables the ability to lease to other jurisdictions. Since opening of the jail in 2006, Pamlico County has successfully contracted with the federal government and other counties to house inmates generating approximately \$5,000,000 to date.

Leased jail bed fees are again projected to be a substantial revenue source with a budgeted amount of \$700,000. Although this revenue source generated in excess of \$1 million in fiscal year 2012-13, trends indicate that this level of revenue cannot be sustained for FY 13-14. With the number of federal beds leased currently averaging less than 40 per day and beds leased to other counties decreasing as new jails are constructed, the average number of inmates are projected to average 38 beds leased per day equating to the budgeted revenue.

Sales Tax

According to forecast from the North Carolina Association of County Commissioners, sales tax receipts are forecasted to increase by 3%. Sales tax revenue is budgeted at \$1,953,353 representing 12% of all revenue sources.

Interest

In spite of transferring funds to higher interest investments, revenue from investments remains flat going into fiscal year 2013-14 primarily due to interest rates remaining at historic lows. As a result, investment revenue is proposed to remain at \$10,000 for FY 2013-14.

Fees

Permits and fees are projected to increase by about 5% or \$13,000 over the current year. A positive trend in this revenue source is an indication that the economy continues to grow.

Because inspections fees were increased last fiscal year and rates remain comparable to other jurisdictions in the area, no fee increases are recommended.

State Sourced Revenues

The county's Human Services, Health, and Senior Services Departments receive significant funding from the State of North Carolina totaling \$2,412,477 which represents 15% of projected revenues. With the State in the midst of budget deliberations, the budget was prepared with knowledge of anticipated cuts from the State. The ratified State budget may change the revenues received and the county will monitor and respond as necessary.

The following cuts (losses in revenue) from the State are anticipated and incorporated into the proposed budget:

- Library - \$ 4,830
- Rural Transportation (ROAP) - \$ 5,125
- Health -\$30,365

Fund Balance

A fund balance allocation of \$220,000 (rounded) is proposed in the recommended budget. For the fiscal year ending June 30, 2012, the unallocated fund balance was reported as \$3 million or 19.4% (adjusted) of general fund expenditures. With a \$220,000 proposed draw down in FY 2013-14, the unallocated fund balance is projected to be in the range of 17% to 18% by June 30, 2014.

GENERAL FUND EXPENSES

At the beginning of the budget process, requested departmental expenditures exceeded revenue projections by approximately \$1.9 million. After much deliberation and review, the budget was balanced by:

- Negotiating health insurance rates
- Reducing Board of Education and Pamlico Community College capital requests
- Eliminating the capital requests from various departments
- Reducing requested operating expenditures of a majority of county departments and county funded agencies
- Aggressively projecting revenue

A more detailed discussion of major expense categories is discussed below.

Medicaid

Counties continue to monitor the results of the landmark 2007-2008 legislative decision to shift Medicaid costs to the State. Part of the tradeoff included losing a portion of sales tax and changing the distribution method of a majority of the remaining taxes from per capita to point of sale. Because of the limited number of retail stores, Pamlico County was impacted significantly by the change in distribution method. In order to hold the county harmless for Medicaid related losses in sales tax, it is estimated and budgeted that the State will pay approximately \$200,000 to the county in fiscal year 2013-14 as part of the hold harmless provision in the Medicaid Relief Legislation.

Capital

Department heads requested in excess of \$470,000 for capital expenditures. In order to balance the budget, it was necessary to prioritize the requests and to cut back to those items absolutely necessary. Board of Commissioners prioritized requests with public safety and life safety implications. The list following identifies the capital projects funded in the proposed budget that total \$149,200:

- Courthouse structural repairs \$100,000
- Kevlar vests for jail \$ 8,000
- VIPER radio migration \$ 11,500
- Sheriff patrol car \$ 30,500

Local Schools

Current Expense is recommended at \$3,074,138. This is a \$89,538 increase in the funding received over the current year (2012-13). Capital Outlay is recommended at \$200,000, same level of funding as the current year. Total Board of Education allocation is recommended at \$3,274,138. The table following summarizes the proposed funding.

SUMMARY OF 2013-14 BOARD OF EDUCATION FUNDING

	<u>CURRENT</u> <u>YEAR (12-13)</u>	<u>REQUESTED</u> <u>(13-14)</u>	<u>RECOMMENDED</u> <u>(13-14)</u>
Current Expense	2,984,600	3,210,283	3,074,138
Capital	200,000	704,312	200,000
	<u>3,184,600</u>	<u>3,914,595</u>	<u>3,274,138</u>

The budget funds \$402,556 for a debt service payment on the loan for High School Cafeteria and Administration Building project. Approximately \$100,000 of the debt service will be funded from lottery proceeds with \$302,556 budgeted from sales tax income. A sales tax balance of \$123,913 remains and is available to fund school capital, thereby reducing the general fund allocation.

Pamlico Community College

Pamlico Community College (PCC) funding is proposed at \$547,993 for current expense, an increase of \$15,960 from fiscal year 2012-13.

PCC requested \$629,567 in capital outlay for a full roof replacement on the Johnson Building and paving the parking lot of the Bayboro Center. The budget proposes to finance the repairs through a 10 year loan fixed term loan with payments in arrears. Payments after the first year are approximately \$70,000 per year which will need to be budgeted for future years during the term of the loan.

The table following summarizes the Pamlico Community College funding.

SUMMARY OF 2013-14 PAMLICO COMMUNITY COLLEGE FUNDING

	<u>CURRENT YEAR (12-13)</u>	<u>REQUESTED (13-14)</u>	<u>RECOMMENDED (13-14)</u>
Current Expense	532,033	550,653	547,993
Capital	0	629,567	0
	<u>532,033</u>	<u>1,180,220</u>	<u>547,993</u>

Sheriff

The Sheriff’s Department Budget increased minimally. One deputy pursuit vehicle is funded in the proposed budget along with Kevlar vests for detention officers.

Forestry

Forestry requested \$13,417 additional, primarily for the purchase of a new truck. The recommended allocation for fiscal year 2013-2014 is \$80,449 remaining at the 2012-2013 funding level.

Rescue Squad

Pamlico Rescue requests an increase of \$15,637 to fund cost of living adjustment for employees. A 3% increase of \$11,640 is included in the proposed budget with total funding recommended at \$399,640.

Regional Library

Pamlico County Library (local) requests an increase of \$19,080 to fund employee cost of living adjustments, upgrades to computers, and furniture. The recommended budget increases funding to the local branch by \$5,552 or 3%.

Pamlico County is a member of the Craven Pamlico Carteret Regional Library system. Prior to this year the regional system has been 100% funded from a state grant. Due to a reduction in state funding, member counties were requested to contribute funding based on population; Pamlico County's requested contribution is \$4,800. The recommended budget funds the request.

Volunteer Fire Departments

Fire service in Pamlico County is provided by contracting with nine volunteer fire departments. In exchange, all nine departments each receive a county allocation of approximately \$7,000 per year. Excepting Goose Creek Island Fire Department, eight of the departments also receive funds through the assessment of fire taxes.

Leadership of the Goose Creek Island Fire Department has petitioned the county to establish a fire service district and to levy a fire tax beginning this fiscal year. A public hearing is scheduled prior to adoption of the budget with possible approval of the tax after the public hearing. The department is requesting to generate approximately \$25,000 with the tax levy which includes the \$7,000 county allocation. A rate of \$.06 is needed to generate the requested funds.

Personnel

Employees

Because of the economic downturn, county employees, like most private employees, have had no salary increases since fiscal year 2008-09. Although the economy is not yet fully recovered, it is imperative that the county keep salaries competitive to retain valued and experienced employees. A 3% cost of living adjustment is included in the recommended budget.

Insurance

Health insurance costs continue to escalate as the premium for FY 2013-14 is budgeted to increase from \$7,200 per person to \$7,350 per person. With approximately 160 participants (current employees and elected officials) on the plan, the annual impact to costs is an increase of approximately \$24,000. First Carolina Care will continue as the insurance carrier with premiums 100% county funded for employees.

Local Government Retirement

Due to earnings lower than expected, the State increased employer contribution rates for the Local Government Employee Retirement System from 6.74% to 7.07% for regular employees and from 6.77% to 7.28% for law enforcement employees. This equates to an increase of approximately \$28,629 that has been incorporated into the proposed budget. Rates are expected to increase over the next four to five fiscal years.

ENTERPRISE FUND

Summary

The Water Fund is balanced at \$2,887,588. Operational costs are budgeted at \$1,344,650 with capital at \$1,121,745 and debt service costs budgeted at \$421,193. The main capital item budgeted for fiscal year 2013-14 is the rehabilitation of the Kershaw Water Treatment Plant.

Water Rates

Water rates for fiscal year 2013-14 are recommended to stay the same as the current fiscal as summarized below:

- Water Usage Rate - \$4.25/1,000 gallons (2 inch meters and less)
- Water Usage Rate - \$6.26/1,000 gallons (3 inch meters and up)
- Flat Rate Monthly charge for $\frac{3}{4}$ inch meter - \$15
- Flat Rate Monthly charge for 1 inch meter – \$15
- Flat Rate Monthly charge for 2 inch meter or greater - \$40.

The water usage rate for fiscal year 2013-14 is recommended at \$4.25 per 1,000 gallons. A flat rate of \$15 monthly for a $\frac{3}{4}$ or 1 inch meter is recommended. A flat rate of \$40 for 2 inch or larger meters is recommended. Usage rates for 3 inch meters and above is recommended at \$6.26 per \$1,000.

At the proposed rate schedule, an average residential customer using 3,000 gallons of water can expect to pay \$27.75 per month.

Capital Projects

Major capital projects planned include rebuilding the Kershaw Water Treatment Plant and purchase of two utility trucks.

Rehab of the Kershaw plant will complete the following task: strip all controls, vessels, pipes, and electrical and replace with new. Estimated cost of the project is \$800,000 and the proposed funding is from capital reserves. The project is expected to take 6 months to complete. Approximately \$230,000 is budgeted to close out rehabilitation of the Grantsboro Water Treatment Plant

Other capital items funded in the proposed budget are 1) replace two utility trucks, 2) replace meters, and 3) install a fiber link from the finance office to the water department. Replacement of the meters is contingent on a pilot study to determine the approximate gain in revenue and payback period for the investment.

Expenditures

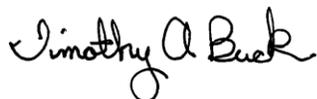
As with those employees that are paid from the General Fund, Water Fund employees will receive a 3% cost of living adjustment. The employees will also see the same changes to health insurance and employee retirement.

Closing Statements

Managing expenditures and encouraging economic development is the key to continued recovery and growth of the economy in Pamlico County. With adjustments for inflation, expenditures have been reduced to the funding necessary to retain current service levels. Fiscal Year 2013-14 will see the hiring of an economic developer with efforts to grow existing business and encourage new business growth. Constant effort must be made to keep our ad valorem taxes at competitive levels in comparison to other counties in our region and coupled with continued investment in infrastructure such as water, sewer, and schools will be the catalyst for growth.

As always, I thank the Board of Commissioners, Finance Officer, and Department Heads for the tireless work on the budget. By focusing on public service and investing in programs and infrastructure that improve our citizens' quality of life, we continue to see our county grow and recover from the economy and Hurricane Irene. Thank you for the opportunity to serve.

Sincerely,

A handwritten signature in black ink that reads "Timothy A. Buck". The signature is written in a cursive style with a large initial 'T' and 'B'.

Timothy A. Buck

County Manager