



May 31, 2012

Honorable Chairman Paul Delamar and Pamlico County Board of Commissioners:

I respectfully submit the recommended Pamlico County, North Carolina fiscal year 2012-2013 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.

Although economic indicators suggest that our area is beginning to recover from the recession, growth in local revenue sources is projected to grow minimally or remain flat. As state and federal agencies continue to cut expenses, cuts are passed down to the local level. The county continues to recover from the effects of Hurricane Irene which has provided a short-term spike to the local economy due to recovery efforts. This year was also a reappraisal year with contracted appraisers completing the field work in late 2011 and with an appeal period expected to continue through the first half of 2012.

The budget was prepared considering four primary directives issued by the Board of Commissioners: retain current service levels, minimize any recommended tax increase, allocate a minimal amount from general fund balance, and adequately fund schools.

The proposed General Fund Budget is balanced at \$16,020,349 with a proposed tax rate of \$.625/\$100 in value. Some of the highlights include:

- A supplement of \$750 per employee is proposed
- Insurance costs increased by approximately \$72,000
- Public School funding is increased by approximately \$180,000.

GENERAL FUND

GENERAL FUND REVENUES

Ad Valorem Taxes

Real Estate property values were equalized to current market rates as a result of the 2012 revaluation. With an effective date of January 1, 2012, the new values will be applied in FY 2012-13. As a result, the tax base grew from \$1.42 billion to \$1.56 billion, an increase of approximately 10%.

During revaluation years, the county is required to publish the revenue-neutral tax rate, the rate that would generate the same amount of revenue for next fiscal year as generated prior to the revaluation. The rate is then adjusted by a growth factor equal to the average annual percentage increase in the tax base due to improvements since the last general reappraisal.

The Pamlico County 2012 Reappraisal produced a tax base of \$1,564,888,600. The total tax levy for the current fiscal year (11-12) is \$9,284,623 and the growth factor since the last reappraisal is 3.38%. Using the formula mandated by State law, the revenue-neutral tax rate for Pamlico County is \$.6134 per \$100 in value. The table below shows the calculation of the revenue-neutral tax rate.

PAMLICO COUNTY
REVENUE-NEUTRAL RATE values per audited financials
for revaluation January 2012

Fiscal Year	Assessed Value	Growth Rate	Tax Rate	Tax Levy
2004-2005	1,130,101,648		0.6575	\$7,430,418
2005-2006	1,177,724,106	4.21%	0.6525	\$7,684,650
2006-2007	1,202,558,551	2.11%	0.6525	\$7,846,695
2007-2008	1,311,677,701	9.07%	0.6525	\$8,558,697
2008-2009	1,367,585,747	4.26%	0.6525	\$8,923,497
2009-2010	1,381,832,490	1.04%	0.6525	\$9,016,457
2010-2011	1,395,846,304	1.01%	0.6525	\$9,107,897
2011-2012	1,422,930,800	1.94%	0.6525	\$9,284,623
2012-2013	1,564,888,600		0.5933	\$9,284,623
		3.38%	0.6134	Revenue-neutral Rate

At the proposed tax rate of \$.625 per \$100, estimated fiscal year 2012-13 tax collections are budgeted at \$9,271,965.

Lease Bed Fees

Leased jail bed fees are again projected to be a substantial revenue source with a budgeted amount of \$700,000. At the proposed budget amount, it is projected that 38 beds per day will be leased. One concern with this source of revenue is the unpredictability of the demand for bed space which was substantiated by a projected \$500,000 shortfall in FY 2011-12. The Sheriff has worked with federal, state, and local jurisdictions to stabilize the numbers of jail beds leased and in excess of 60 beds are currently being leased out.

Sales Tax

Although sales tax proceeds have trended up this year, sales tax is budgeted to remain flat. At least two years of trending are recommended before increasing projections.

Interest

In spite of transferring funds to higher interest investments, revenue from investments remains anemic going into fiscal year 2012-13 primarily due to low interest rates. As a result, investment revenue is proposed at \$15,710 less than the adjusted budget for FY2011-12.

Fees

Because of permits issued associated with repairs from damages resulting from Hurricane Irene, current year revenues for permitting are projected to exceed the budget amount by approximately \$26,000. This trend is not expected to continue into FY 2012-13 and therefore a small growth of approximately 1% is projected.

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 \$2,919,395 which represents 18% 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:

- Reduction of TANF funding for D.S.S. -\$35,000
- Loss of election grant for election equipment maintenance -\$18,324

Fund Balance

A fund balance allocation of \$250,000 is proposed in the recommended budget. For the fiscal year ending June 30, 2011, the unallocated fund balance was reported as \$3.2 million or 20% of general fund expenditures. With approximately \$250,000 of fund balance used in the current fiscal year coupled with a budgeted \$250,000 draw down in FY 2012-13, the unallocated fund balance is projected to be in the range of 15% to 17% by June 30, 2013.

GENERAL FUND EXPENSES

At the beginning of the budget process, requested departmental expenditures exceeded revenue projections by approximately \$2.6 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 2012-13 as part of the hold harmless provision in the Medicaid Relief Legislation.

Capital

At the onset of the budget process, department heads were instructed to identify all capital needs, regardless of budget constraints and approximately \$400,000 in capital expenditures were requested. In order to balance the budget, it was necessary to prioritize the requests and to cut back to those items absolutely necessary. The list following identifies all capital projects funded in the proposed budget:

- Add generator power to kitchen and certain confinement areas of the jail \$ 13,000
- Replace dishwasher in jail kitchen \$ 8,200
- Replace vehicle for D.S.S. \$ 18,000
- D.S.S. to implement paperless system for NC Fast \$ 7,500
- Replace zero turn lawn mower \$ 8,700
- Health Dept. electronic medical records and computer/furniture upgrades \$ 11,500
- Replace air conditioning in courthouse \$ 85,000
- Replace administrative building carpeting \$ 4,000
- Upgrade electrical wiring in Courthouse/Health Dept. \$ 8,000
- Lights and sirens package for a patrol vehicle \$ 2,800
- Preservation of maps and other important historical documents \$ 3,000

Local Schools

Current Expense is recommended at \$2,984,600. This is a \$91,667 increase in the funding received over the current year (2011-12). Capital Outlay is recommended at \$200,000, a \$91,987 increase from the current year. Total Board of Education allocation is recommended at \$3,184,600. The table following summarizes the proposed funding.

SUMMARY OF 2012-13 BOARD OF EDUCATION FUNDING

	<u>CURRENT</u> <u>YEAR (11-12)</u>	<u>REQUESTED</u> <u>(12-13)</u>	<u>RECOMMENDED</u> <u>(12-13)</u>
Current Expense	2,892,933	2,984,600	2,984,600
Capital	108,013	263,232	200,000
	3,000,946	3,247,832	3,184,600

The budget funds \$461,210 in debt service payments for school capital projects. Debt service for the High School Cafeteria and Administration Building project is \$412,990 which was reduced by \$28,208 from the current fiscal year due to refinancing of the debt to a lower interest rate.

New debt was incurred for repairs of the Middle School from damages caused by Hurricane Irene. The State loaned Pamlico County \$723,305 to be paid back over 15 years, interest free. The annual payment is \$48,220 and is incorporated into the proposed budget.

Approximately \$100,000 of the debt service will be funded from lottery proceeds with \$361,210 budgeted from sales tax proceeds. The remaining \$45,801 balance of sales tax proceeds is available to fund school capital and thereby reduces the general fund allocation.

Pamlico Community College

Pamlico Community College (PCC) funding is proposed at \$532,033 for current expense, an increase of \$53,687 from fiscal year 2011-12.

PCC requested \$689,388 in capital outlay for a full roof replacement on the Johnson Building. The college is currently implementing an alternative fix to repair current leaks and possibly extend the life of the roof by an additional 10 years. Based on this information, no capital allocation is recommended.

The table following summarizes the Pamlico Community College funding.

SUMMARY OF 2012-13 PAMLICO COMMUNITY COLLEGE FUNDING

	<u>CURRENT YEAR (11-12)</u>	<u>REQUESTED (12-13)</u>	<u>RECOMMENDED (12-13)</u>
Current Expense	478,346	532,033	532,033
Capital	0	689,388	0
	478,346	1,221,421	532,033

Sheriff

No vehicle replacements are funded in the proposed budget. The Sheriff will incorporate at least two seized vehicles into the fleet and roll high mileage vehicles out.

Forestry

Forestry requested \$10,000 additional, primarily for the purchase of a new truck. The recommended allocation for fiscal year 2012-2013 is \$74,000 remaining at the 2011-2012 funding level.

Rescue Squad

In the current fiscal year (11-12), Pamlico Rescue successfully increased their level of care to paramedic and established a satellite station in the Southeast Pamlico area. Although the allocation to the rescue squad is proposed to remain at \$380,000, the burden on the general fund will increase because the onetime allocation from E911 funds which funded \$42,000 in the current fiscal year will not be available in FY 2012-13.

Regional Library

Library funding is proposed at \$185,000, the same amount funded in 2011-12.

Volunteer Fire Departments

As with the general fund tax rate, it is necessary to report the revenue-neutral tax rate for fire taxing districts. Eight of the county's nine departments levy a fire tax. The Board of Commissioners directed that unless requested otherwise, the tax rate for each respective department would be set at the revenue-neutral rate. The following three departments requested a tax increase: Grantsboro, Olympia, and Reelsboro. The table below summarizes the revenue-neutral rates and the recommended tax rate.

Department	Arapahoe	Flor/Whort	Grants.	Olymp.	Reels.	S.E. Pamf.	Triangle	Vand.
11-12 Levy	96,295	108,396	34,295	15,298	37,120	122,721	32,539	21,078
12-13 Tax Base (in thousands)	311,612	183,641	84,982	27,798	89,639	547,228	103,129	82,572
Growth Rate	4.63%	3.93%	1.66%	2.32%	0.97%	5.05%	-1.21%	2.39%
Current Tax Rate	0.035	0.0700	0.0500	0.070	0.0500	0.024	0.035	0.0300
Revenue Neutral Rate	0.0323	0.0613	0.0410	0.056	0.0418	0.0236	0.0302	0.0261
Proposed 12-13 Tax Rate	0.0323	0.0613	0.0550	0.076	0.0500	0.0236	0.0302	0.0261

Personnel

Employees

Though no Cost of Living Adjustment (COLA) is recommended, the budget does increase the salary supplement from \$500 to \$750 per employee. Total supplement cost is \$113,500.

Insurance

Health insurance costs continue to escalate as the premium for FY 2012-13 is budgeted to increase from \$6,750 per person to \$7,200 per person. With approximately 160 participants (current employees and elected officials) on the plan, the annual impact to costs is an increase of approximately \$72,000. First Carolina Care will continue as the insurance carrier with premiums 100% county funded for employees.

Local Government Retirement

Due to actuarial gains and a temporary stay from death benefit payments, the State lowered employer contribution rates for the Local Government Employee Retirement System from 7.02% to 6.74% for regular employees and from 7.04% to 6.77% for law enforcement employees. This equates to a savings of approximately \$14,500 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 \$2,835,324. Operational costs are budgeted at \$1,486,239 with capital at \$900,000 and debt service costs budgeted at \$449,085. The main capital item budgeted for fiscal year 2012-13 is the rebuilding of the Grantsboro Water Treatment Plant. For the third straight year, a water rate increase is requested in the proposed budget. With the final rate increase, the water fund will return to a positive cash flow.

Debt service for the Kershaw Road project was reduced by \$37,787 from the current fiscal year due to refinancing of the debt to a lower interest rate. Debt service for the Minnesott project was restructured with an SRF loan at a longer term reducing projected debt service by an additional \$128,666 per year.

Water Rates

In 2010, the governing body approved a three year plan to increase water rates. Fiscal year 2012-13 will be the third year of this plan with rates proposed to change as follows:

- 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 2012-13 is recommended at \$4.25 per 1,000 gallons. This represents an increase of approximately 12% over the current fiscal year. A flat rate of \$15 monthly for a $\frac{3}{4}$ or 1 inch meter is recommended, a \$2.50 per month increase of the current charge of \$12.50. A flat rate of \$40 for 2 inch or larger meters is recommended, an increase from the current rate of \$36.25. 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. Customers would pay \$23.90 at current rates. This equates to an increase of approximately \$46.20 yearly.

Capital Projects

Major capital projects planned include rebuilding the Grantsboro Water Treatment Plant and installation of standby generators.

Rebuilding of the Grantsboro plant will complete the following task: strip all controls, vessels, pipes, and electrical and replace with new. Estimated cost of the project is \$500,000 and the proposed funding is from capital reserves. The project is expected to take 6 months to complete.

Permanent generators will be installed at the Grantsboro and Vandemere water treatment plants. Estimated cost of this project is \$200,000 with proposed funding from the Minnesott and Vandemere Pressure Improvement Project loan. The project is expected to be completed by September of 2012.

Other capital items funded in the proposed budget are 1) replace three utility trucks, 2) replace meters, 3) upgrade controls at Merritt booster pump, and 4) insert a valve at the Highway 55/NC 306 intersection. 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 an additional \$250 supplement. The employees will also see the same changes to health insurance and employee retirement.

The budget proposes contracting mailing of water bills. This will enable the conversion to envelope sized bills and will bring efficiencies to the billing process. Savings in postage and elimination of maintenance fees will keep the costs of this service near current year expenditures.

Closing Statements

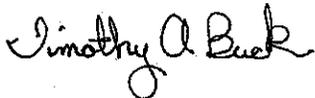
Dealing with decreasing revenues while maintaining service levels seems to be the new norm. In order to break out of this cycle and to reap growth in the future, we must continue to plan for and invest in the future.

Economic development and growth of the tax base must be at the forefront of our objectives. Over the last several budget years, the Board of Commissioners have invested heavily in improving infrastructure and investing in essential services that enhance quality of life. These investments coupled with our geographic strengths position us to begin building our economy.

The county must also be poised to operate more efficiently; investment in technology is the key. The county currently has no permanent IT staff and no technology plan. Future investments in these areas will enable efficient operations and help reduce or hold down costs.

In closing, I thank the Board of Commissioners, Finance Officer, and Department Heads for the tireless work on the budget. At the beginning of the budget process we were faced with seemingly insurmountable deficits, but through hard work and focus we were able to achieve a balanced budget that continues to serve the needs of our citizens.

Sincerely,

A handwritten signature in cursive script that reads "Timothy A. Buck".

Timothy A. Buck

County Manager