

# **MANAGER'S BUDGET MESSAGE**

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June, 2011

## **To the Pitt County Board of Commissioners and Citizens:**

The Fiscal Year 2011-12 Annual Budget for Pitt County is presented herewith. A preliminary balanced budget was submitted May 16 and budget workshops were held on May 17-20, and 26 for review and discussion. The final Recommended Budget was reviewed on June 7 and a public hearing was opened following the review. The Budget Ordinance totaling \$206,873,193 was adopted on June 7, 2011.

The Manager's Budget Message on the pages that follow is as presented with the Manager's Recommended Budget. Changes made to the budget by the Board of Commissioners before adoption of the final budget are not contained in this message. The only change made by the Commissioners at the close of the Public Hearing and prior to adoption was to remove the fire tax rate increase requested by the Winter Rural Fire Department. The Board opted to hold the department to the same rate as FY 10-11. The remainder of the original message reflects the final provisions of the budget.

The Budget represents hundreds of hours of deliberation on the part of many people—staff, departments, and the Board—and we extend our appreciation to all of them.

Sincerely,

D. Scott Elliott, ICMA-CM  
County Manager



# MANAGER'S BUDGET MESSAGE

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June 7, 2011

## To the Pitt County Board of Commissioners and Citizens:

The proposed Fiscal Year (FY) 2011-12 Budget for Pitt County, North Carolina, has been prepared in accordance with the North Carolina Local Government Budget and Fiscal Control Act and General Statute 153-A-82. The budget identifies revenue and expenditure estimates for FY11-12 and attempts to maintain Pitt County's tradition of high quality services while working within a constrained revenue environment. This proposed budget, while addressing current needs, was also developed with a purposeful intent to work and improve the County's fund balance. Over the past several years, the economic climate has led the County to utilize fund balance to cover costs. This proposed budget reduces the reliance on fund balance with the intention of rebuilding towards the County's stated goal of maintaining a fund balance of 18-20%.

The proposed budget for FY11-12 totals \$207,932,962. This budget represents a decrease of 7.45% when compared to the current year's amended budget. The General Fund, the County's main control fund, is projected at \$107,366,729 or a 2.39% decrease from the current year. The proposed tax rate to support the FY11-12 budget remains constant at 66.5 cents per \$100 of valuation. The distribution of these funds is 65.6 cents supporting general government operations and 0.9 cent directed to Industrial Development.

### Highlights:

- Maintains the current ad valorem tax rate of \$.665
- Maintains service levels to our citizens
- Preserves Pitt County Government workforce
- Includes funding for mandated .53% increase in employer retirement contribution

Before this message moves into the mechanics of the proposed budget and the development process, as Manager, I would like to take a moment and look towards the future. Even during times of state and national economic uncertainty, our County continues to experience growth and serve as the hub of activity (i.e. healthcare, retail, education, employment) in eastern North Carolina. The recently released 2010 Census has our population at 168,148, an increase of more than 25% over the 2000 population. Continuous growth, combined with economic stress, increases the demand for services provided by the County in all areas; especially education, public safety, and human services. This counter-cyclical effect – that demands for service are highest when the availability of new revenue is at its lowest, put significant strain on the County's budget. Growth in general governmental operations continues to be restricted to needed expansions in areas that support the priorities of the Board – public safety and education. As we construct new schools and open expanded bed space at the Detention Center, operational expenses increase and continue on an annual basis thereafter. Typically, annual growth in the tax base can cover normal budgetary increases related to salaries, rising prices, etc. However, the annual property tax growth has not been able to fund expansions (capital and operational) related to new facilities during this recent period.

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We are hopeful, that by continuing to work with the General Assembly, new revenue options can be identified to help address local needs and work to protect the integrity of our existing revenue base. The County continues to be vigilant in watching actions by the State that could transfer costs to the local government that had formerly been funded by the State. At the same time, the County will have to prepare to identify funding for operational costs (ie: utilities, insurance, janitorial costs) associated with the construction of new facilities for Pitt County Schools and Pitt Community College as well as funding the mandated radio narrow-banding project which is federally mandated to be in place for 2013.

### **BUDGET PROCESS**

The Board of Commissioners began the budget season by reviewing the County's Capital Improvement Plan at the February 7<sup>th</sup> regular board meeting. The Board also reviewed and affirmed the overall goals of the County for the upcoming year.

Departments began this budget process with a mini-retreat where the topic of "right sizing" was the focus. Staff was asked to review their operations and determine if our staffing levels were appropriate to the services offered. Honest assessments were completed and budgets were drafted based on the concepts reviewed. The initial proposed FY11-12 budgets were submitted in late March. Budget conferences to review departmental budgets, line item by line item, were conducted with individual department heads in April. From revenue projections and the information gained from departments, the preliminary budget reductions taken from the requests included elimination of vacant positions, reducing travel/training, capital and other miscellaneous expenses. The Manager's initial reductions to requests totaled over \$6 million in the General Fund, the County's main control fund. At the end of the review sessions, most departments, on average, had budget proposals that were 2.5% lower than their current revised FY10-11 budgets. These reductions were taken in an effort to live within available revenue projections and reduce reliance on the use of fund balance to cover current costs.

A preliminary balanced budget was presented to the Board in accordance with General Statute requirements on May 16, 2011. The Manager's preliminary balanced budget was the impetus for discussion at workshops held on May 17-20, 2011 and May 26, 2011.

### **BUDGET DEVELOPMENT CONSIDERATIONS**

At the Board's February 7<sup>th</sup> meeting, Commissioners reviewed and affirmed their priority areas to include:

- Education / Schools
- Community Safety / Emergency Services
- Economic Development
- Health / Welfare
- Facilities / Space Needs
- Infrastructure
- Recreation & Parks

These have been the priorities of the Board for a number of years. Support for these functions is a guiding principle in budget development as the Board believes a well educated and safe population leads to continued growth in our community.

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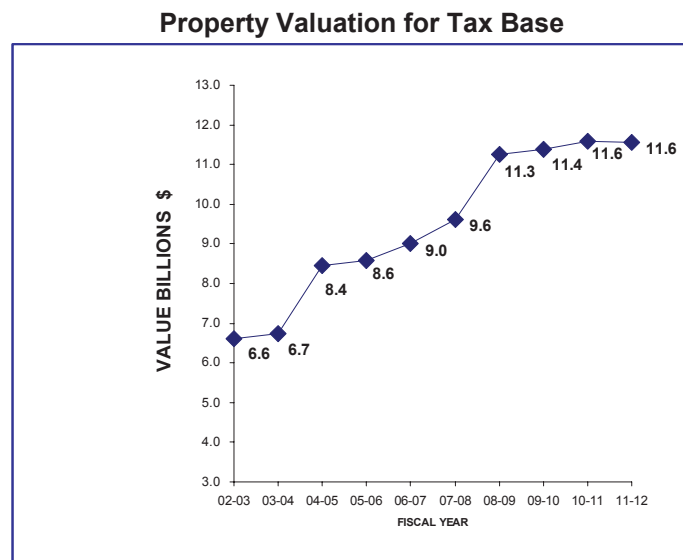
The recommended budget seeks to maintain the Board's priorities and to continue progress in meeting the ongoing needs of our citizens and the provision of those public services mandated by State or Federal law. Considerations that were included in the development of the coming year's program of work include:

- Addresses the stated priorities of the Board of Commissioners;
- Maintains existing service levels recognizing the increased demands for service created by current economy;
- Continues to implement strategies to address long-term cost containment;
- Addresses input received during May 2011 budget workshops

The proposed budget for the new year shows significant decreases within operational expenses in an effort to absorb increases being related to "uncontrollables" such as salary costs, utilities, higher fuel costs, etc. as well as have a reduction of approximately 2.5% as compared to current year amended budget.

### REVENUE ASSUMPTIONS

**Ad Valorem Taxes** – The County's base property valuation is estimated to be \$11.565 billion, reflecting a slight decrease in the base over the prior year due to the drop in personal property, motor vehicles and public service values. Pitt County continues to have growth in its real property valuation. For this reason, Pitt County Commissioners voted in May 2004 to conduct property revaluation every four years rather than waiting the maximum eight years. The next revaluation of property will be effective on January 1, 2012 and both the Board and staff have been reviewing possible scenarios should values drop in response to the economic climate of the past few years. As a growing university community that has seen steady measured growth, it is believed that while some degradation of the base may occur, it should not be a huge value loss as compared to other parts of the nation. The following chart demonstrates the continuous growth in the valuation of the tax base of Pitt County over the past 10 years.

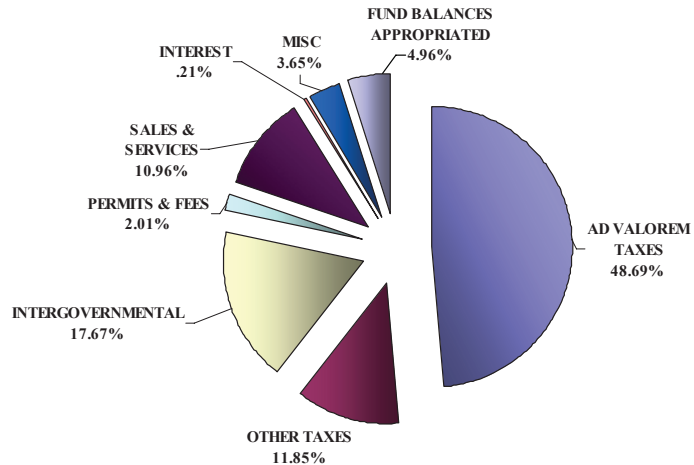


The Industrial Development Fund is allocated nine-tenths of a cent (0.9) from Pitt County's 66.5 cents tax levy. The Industrial Development Fund is used to support economic and industrial development activities throughout the County.

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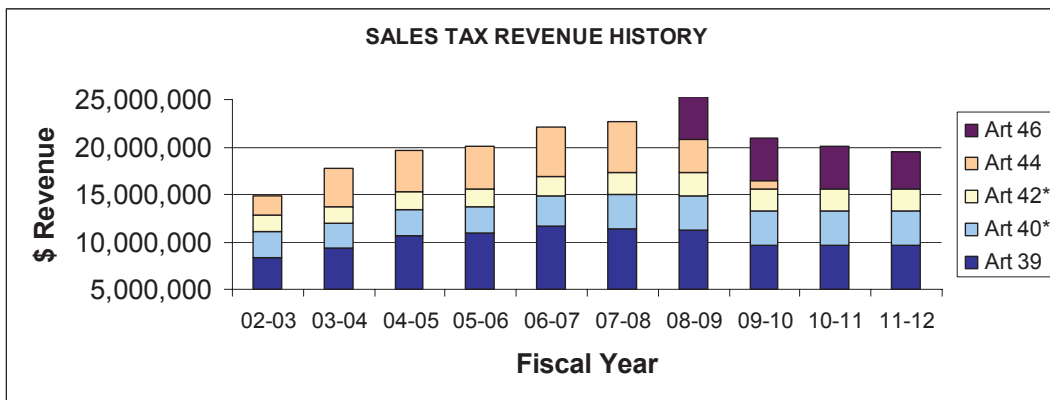
As presented in the pie-chart at the right, which represents the full County budget as opposed to just the General Fund, over 48 percent of Pitt County's budgeted revenue is derived from local ad valorem property taxes. Federal and State "Intergovernmental" revenue represents the second largest category, and taxes other than ad valorem are the third largest source of revenue. Within the General Fund, or the County's control fund, over 70 percent of the budgeted revenue is represented by the local ad valorem property taxes.



## Sales Taxes – Pitt County's total sales tax rate is 8 percent—a combination of 5.75 percent of which is retained by the State and 2.25 percent that is returned to the County.

At the present time, the Article 39 tax is a 1% tax while Articles 40 and 42 are both ½% taxes. With the proposal that is currently being considered by the State of North Carolina, 1% of this total sales tax may sunset thereby dropping the County rate to 7 percent in the new fiscal year.

In Pitt County, we also have a local option Article 46 tax that is a ¼% tax enacted after an affirmative vote of the citizens in 2007. Over the past four years, there have been many changes within the sales tax structure driven by the State's decision to assume the former local share of the Medicaid burden. As a part of that landmark legislation, the counties ceded the Article 44 tax proceeds back to the State to help offset the cost that was being transferred. Additional changes in distribution methodology from per capita to point of sale were also implemented. As a regional hub, Pitt County does still see evidence of growth as total taxable sales within the County have remained strong.



Note: FY10-11 & FY11-12 are estimates

**Fees** – Fees have been reviewed and increases are proposed for one area of the County's operations. The Animal Shelter has requested an adjustment in reclamation, daily boarding, adoption fees, owner requested euthanasia and special hold situation fees.

**Fire Taxes** – Six fire districts have requested an increase to their tax rate for their service area as indicated below. The remaining 12 districts that currently impose taxes have requested to hold their rates constant. All fire districts were established by vote of the citizens of that area.

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<u>Fire District</u>	<u>Current Rate</u>	<u>Proposed Rate</u>
Ayden	.0300	.0425
Farmville	.0360	.0365
Gardnerville	.0750	.0800
Grimesland	.0650	.0700
Staton House	.0200	.0215
Winterville	.0250	.0400

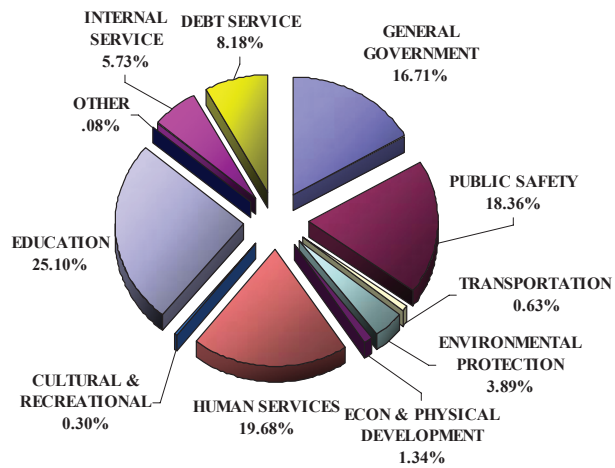
**Emergency Medical Service (EMS) District Tax** – The EMS District has been in place for nine years. The existing 4.4 cents tax rate for the District will remain in effect. The operation of this Fund is totally sustained by the EMS tax and user/transport fees in the proposed budget with no need for any infusion of General Fund contributions. The fund will also be able to implement the 1<sup>st</sup> year of the proposed fleet replacement plan due to the collection efforts over the past several years exceeding expectations and creating fund balance which is suitable for use in capital planning.

**Interest Earnings** – All government funds are internally managed and invested by the County's Financial Services Department. Deposit practices are governed by North Carolina General Statutes on the types of investments that can be made. For this coming year, Pitt County expects to earn approximately \$350 thousand on an average investment of \$22 million. This earning equals slightly more than the equivalent of ¼ cent on the tax levy that isn't placed on taxpayers. Unfortunately, the economic climate keeps investment rates at all time lows and while the County has similar amounts to invest, is not able to maximize returns to match performance enjoyed in prior years.

**Fund Balance** – Approximately \$3.66 million in Fund Balance is appropriated to balance the FY11-12 operating budget within the General Fund. Amounts budgeted below that benchmark are typically not expended due to over-collection of revenue and under-expenditure of operating budgets. As of June 30, 2011, it is projected that Fund Balance will be approximately 12.55%. According to the North Carolina State Treasurer, counties such as Pitt with populations of 100,000 or more held an average fund balance of 19.50% of expenditures at June 30, 2010 while the average of fund balance for all 100 counties was 21.03%. In an effort to look forward and gauge the impact of potential future budgetary actions on the County's fund balance, staff has projected as best can be done in advance the revenue and expenditure scenarios that may occur to ensure the June 30, 2012 balance will not reflect further reduction. The proposed budget was developed with the eye towards holding constant and improving the fund balance position of the County.

## EXPENDITURE HIGHLIGHTS

The County's expenditures are divided across several major service areas that are shown on the chart to the right. Education funding to Pitt County Schools and Pitt Community College account for the largest portion, with human services—such as Public Health and Social Services—in a close second. Public Safety is our third largest expenditure area.



The total County budget is projected to decrease from the current year revised budget by

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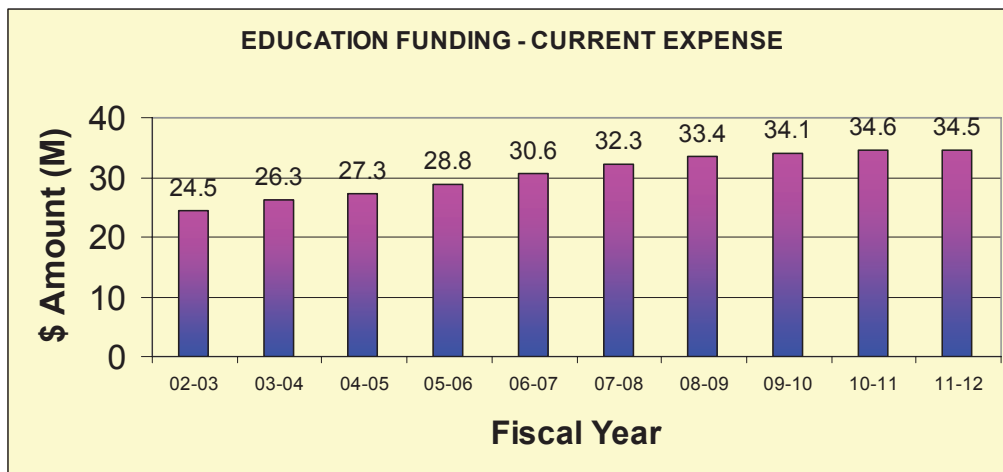
7.45%, with the General Fund, which is the controlling fund, decreasing by 2.39%. These reductions were purposefully made to have the County's departments live within available means and address our fund balance situation. The reductions were made with the intention of preserving services without negatively impacting staffing patterns or the returns the citizens see on their investment. Further contraction of expenditures will not be possible without significant changes to service delivery models (staffing) and service levels (timeliness).

Noteworthy changes to expenditures include:

**General Government** – The Board of Trustees of the Local Government Employees' Retirement System (LERS) voted on January 21, 2011 to increase the pension rate portion of the employer's contribution by .53 percentage points, effective July 1, 2011. The proposed FY11-12 budget includes funding for this mandatory participation increase.

**Education** – Pitt County is decreasing current expense funding to the Board of Education as compared to the current year. This is the first time in more than 10 years the County has had to restrict funding for the School System. However, in response to this functional area being one of the Board's top priorities, the reduction is only on current expense funding and is .5% while most departments and agencies of the County will see reductions in the 2.5% range.

The total appropriation is \$35,216,642 with \$34.5 million in current expense. The Board annually appropriates \$750,000 for pay-as-you-go Category I, II, and III capital needs. The chart below shows the Board of Commissioners' dedication to increasing current expense funding over the past 10 years. Education continues to be a high priority of the County.



**Human Services** – The Social Services' overall budget decreased by 5.42% as compared to the current year revised budget. The Health Department's budget reflects an overall decrease of 7.19%. These decreases reflect changes in operational design and headcount – permanent changes to the size of the respective operations. These actions were taken in an effort to create long term sustainability and address current and future economic constraints.

**Public Safety** – The Sheriff's overall budget decreased by 1% as compared to the current year revised budget. As was noted in the Education section, this smaller than average reduction is a reflection of the Board's commitment to Public Safety.

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The Emergency Medical Service Special Taxing District (all of Pitt County with the exception of the City of Greenville) has been operational for nine years. This budget continues the 4.4 cents EMS District tax rate.

The Fire Tax Districts continue to operate with individual tax rates and a general contribution of \$10,000 each from the County. Additionally, there is an established per call supplement and \$10,000 in available funding towards truck purchases. The General Fund also supports the districts with approximately \$300,000 per year in insurance and maintenance costs directly related to the operations of the fire departments.

**Personnel** – There is no market adjustment for employees recommended during this fiscal year. The January Consumer Price Index (CPI), which is normally used to benchmark the County's recommended adjustment, was at 1.6%. However, given the current economic climate, it was decided to work to preserve our current staffing and benefits rather than make any recommendation for change to our salary structure.

The County has a pay for performance system that has been in place for more than 16 years. Under this system, annual performance plans are created for each employee and then an annual evaluation is completed to measure work performance against the predefined plan. Each employee that satisfactorily meets their goals and makes the appropriate score is then eligible for an incremental increase. Additionally, the County has progression programs in place for employees within the Inspections Department and the Sheriff/Detention Departments. No funding to continue either these processes is included within the budget recommendation.

In the current year, the County completed the 6<sup>th</sup> year of our approved 3-year classification cycle of reviewing all County positions (3<sup>rd</sup> year of 2<sup>nd</sup> cycle). These systematic reviews ensure the County is maintaining its market position with our local competition as well as our relevant comparison counties (external review). Additionally, comparisons across departments ensure consistency among departments (internal review). The recommendations for change this year were actually down-grades of positions and are included as a part of the proposed budget and need no funding to implement.

At the outset of the budget process, 11.50 new positions were requested by departments this year. None have been recommended. Twenty four and nine tenths Full Time Equivalency positions (24.90 - all vacant) are being eliminated in an effort to resize the County's overall operation and respond to the current budget constraints.

### **CAPITAL IMPROVEMENT PLAN**

An updated Multi-Year Capital Improvement Plan is presented each year as part of the annual budget process. This year, at our February 7th regular meeting, the County completed a review of future capital needs. Staff presented data on construction costs, projected timelines, and operating impact. This data was then overlaid against existing debt service and growth projections to give better overview of full impact. For FY11-12, continuation funding is included for minimal recurring capital outlay, MIS projects, Pitt County Schools and Pitt Community College current annual projects and economic development (water, sewer, and gas) projects. The new projects for the foreseeable future will be implementing the fleet replacement plan for the EMS system which will be funded with revenues generated by transport fees and the federally mandated narrow-banding radio project due to be implemented by 2013. The County is currently grappling with identifying the full cost of this project along with the identification of a long term funding stream. It is anticipated that internal capacity will be available next year as the County's payroll funding requirements will drop in Fiscal Year 2012-13. In the 2011-12 year, the County has to budget for 27 pay periods due to the timing of the pay dates when we typically only have 26 pay periods in a given fiscal year. The value of the 27<sup>th</sup> pay period is about \$1.8 million which can be used in future years to offset cost increases and/or debt service needs on projects such as narrow-banding our radio communications system.

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Over the past 2 calendar years, debt has been issued for both the public schools and the community college system. Thirty-five million in Limited Obligation Bonds were issued in December 2009 for the construction of a new elementary school and several renovation/expansion projects on existing Pitt County School sites and in November 2010, \$27 million in Limited Obligation Bonds were issued for facilities at Pitt Community College. The proceeds from the Article 46 Sales Tax (1/4%) passed by voter referendum in November 2007 and implemented in April 2008 have been placed in a special revenue fund and are available to service both the 2009 and 2010 bond issues. However, the operating costs – janitorial, utilities, insurance – will become the responsibility of the County to fund. The greatest impact will be in the Fiscal Year 2012-13 budget as the facilities are complete and brought on-line.

### **CONCLUSION**

As we bring to a close yet another budget development process, it has been a pleasure for me to work with the Board of Commissioners to allocate the public resources in accomplishing the County's goals. Also, serving with the professionals that make up the entire County organization as we strive to provide the level of education, health, welfare and safety as needed and desired by our citizens, is a privilege. I appreciate the commitment of our staff to the citizens and the County's business. I'd like to acknowledge the assistance from all Pitt County department heads and their capable staffs in preparation of their departmental budgets and their presentations during our workshops to help illustrate and support the operational needs of the County. Special thanks are extended to Melonie Bryan, Deputy County Manager – Chief Financial Officer; Shelley Leach, Budget Administrator; and Denise Urban, Budget & Grants Analyst, for their dedication in developing, balancing and compiling the budget documents and presentation materials.

Respectfully submitted,



D. Scott Elliott, ICMA-CM  
County Manager

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