

FINANCE COMMITTEE MEETING
THURSDAY, NOVEMBER 6, 1997, 8:00 AM
ROOM 564, COUNTY COURTHOUSE

PRESENT: H. Mac Tyson II, Chairman
Billy R. King, Commissioner
Ed G. Melvin, Commissioner

OTHERS: County Staff
Press

The meeting was duly called to order.

INVOCATION: Commissioner Ed Melvin

AGENDA ITEMS:

1. Report on Projected Revenues and Expenditures for Fiscal Years 1999 and 2000.

Chairman Tyson stated he had asked Mr. Strassenburg to provide this information at the meeting. He noted Mr. Strassenburg did not want to try to project past two years.

Mr. Strassenburg presented a packet of information that is attached hereto and incorporated into these minutes. The packets provide information regarding projected general fund expenditure changes and general fund revenue changes along with options to increase revenues and decrease expenditures as well as a list of all County franchises and leases.

Mr. Strassenburg noted he was asked to project revenues and ways to avoid a tax increase as well as discussing the re-financing of bonds and re-negotiating of the County's leases. He noted it was early to be making forecasts. He wanted the committee to understand the information is general as we are only into the first four months of the current fiscal year and no budget requests have been received from departments for the next fiscal year. The information was built on actual expenditures from last year's budget and what we have on the platter. The information is preliminary and general. They had to work with assumptions and the figures are conservative.

Mr. Strassenburg first reviewed the bar charts regarding General Fund expenditures. For FY 1999, they are seeing a probable increase in expenditures of 18.50 million. On the Revenue side, they are seeing a reduction of almost ten million. For the 1999 Expenditures they showed the major components of the major expenditures. A six million dollar increase involves full implementation of the new pay plan, the longevity and the assumption that the Board will be giving a 3% cost of living and a 2% performance pay increase. No new employees are included in this figure. The next block represents the debt service increase of 8.50 million. This includes the debt service on the library bonds and the school bonds they anticipate to be sold in March of 1998. These bonds will total 53 million. It also includes financing for the DSS building, Community Corrections Center and the Jail if it stays on the current schedule. If the Jail stays on schedule, one semi-annual payment will be due in 1999.

Commissioner Melvin asked how much the DSS building is projected to cost.

Mr. Strassenburg reviewed page 4 of the information on expenditures which includes the projected costs for these projects. He noted the current debt service begins to slope down.

Chairman Tyson then stated he would like the minutes to reflect the Committee's thanks to Cliff Strassenburg, James Martin, Howard Abner and Amy Cannon for the work they have done to provide this information. The Committee also wanted to congratulate Amy Cannon on the recent birth of her child.

Mr. Strassenburg noted the costs shown for the DSS building include all costs associated with the project.

Chairman Tyson asked when management would have the bids opened on the DSS building.

Mr. Strassenburg advised they are now working on the bids and should have them by December 12th or December 16th. They hope to have them by December 12th so they can be presented to the Board of Commissioners at the mid-month meeting. A 5% increase is shown for education which includes the County Schools and FTCC. This 5% is the normal increase in the school's budget plus the continuation of the technology commitment and the \$600,000 for teacher's supplements. The next bar is new operating which includes the branch libraries and the community corrections center coming on line. The fifth bar is for the 800 Mhz radio system. The Sheriff's Office has a real need to upgrade their radio system. Management has been working with them for some time with developing a new radio system. The Sheriff has secured some grant funding for this project. It will impact the budget by approximately 700 to 800 thousand dollars per year for air time and leasing. They have showed a reduction in capital outlay which is the sixth bar on the graph. He feels the County can drop back on capital outlay expenditures because of recent computer upgrades, etc. The seventh bar is for miscellaneous items. He then reviewed expenditure projections. The bottom line is that, right now, they are projecting, without budget revisions an 18.50 million dollar increase in expenditures.

Commissioner King asked if cars for the Sheriff's Office had been included in these projections.

Mr. Strassenburg advised they have included the same number of vehicles as last year. They will continue with the lease/purchase plan they are currently using to acquire vehicles.

Mr. Strassenburg then reviewed the revenue information. He first discussed the General Fund Balance. For the current fiscal year, 9 million of the fund balance was placed into the budget. They do not know how much we will have next fiscal year. There will be some, but there is now no way to know how much, therefore they are showing a 9 million dollar deficit. He then reviewed the first bar which reflects changes due to annexation. The City of Fayetteville will be annexing Cottonade and Bonnie Doone, This will result in a \$600,000 loss in revenues based on sales tax. The annexation also impacts the County's cable franchise fees and all revenues that are based on per capita. The real impact of the annexation over a few years time is approximately one million dollars. The next bar represents Ad Valorem Tax. The real estate market is

flat right now because there is not alot of building going on. They are projecting a 1 to 1.5% increase.

Restricted money represents monies going into the Human Services funds.

The Sales and Service fund represents monies collected from copy charges, etc.

Other funds represented permit fees, etc. They predict a deficit due to the decrease in construction. This reflects a decrease in building permits, etc. The big item is fund balance. The question is how much will we have. The 9 million taken from the fund balance last year put the county below the 8% level we need to maintain.

Howard Abner noted we are now at around 7.5%.

Mr. Strassenburg noted the fund balance changes daily, so it is very difficult to predict what we will have at the end of the fiscal year. They have tried to be conservative. It will not be a 9 million dollar negative.

Chairman Tyson stated he sees a loss of revenue with an increase in expenditures to be close to 30 million.

Mr. Strassenburg noted the fund balance may close that gap some. The expenditure side is driven by the county's capital projects and financing them along with the salaries and wages driven by the pay plan along with longevity. They have some control over current expenses such as the increase to the school system, cost of living and performance pay for employees. They cannot do much about the new facilities coming on line.

Chairman Tyson asked how each capital project breaks out.

Mr. Strassenburg referred to page four in the packet of information regarding expenditures and noted all the capital projects are broken out on this page. He noted that if the jail does not stay on the projected schedule and slides even slightly, no payment will be made in 1999. It will just go to the year 2000. However, delays on the jail project could make the costs rise. They are projecting financing on General Obligation Bonds is 5% and on COPs it would be 5.50%. This could change, however. On the DSS building, alot will depend on where the bids come in. They should have bids on all the capital projects by the end of the year. He then noted the memorandum he sent to the Commissioners regarding the school bonds. He has met with the Board of Education to determine their building schedule. They then went to the Local Government Commission and reviewed the schedule. The LGC felt the County had a logical plan schedule. The LGC has a date set to sell 53 million in bonds on March 3, 1998.

Commissioner Melvin asked Mr. Strassenburg what he determines the tax rate will have to increase based on the information he has presented.

Mr. Strassenburg advised one penny on the tax rate raises a little over 1 million. The rate will depend on the fund balance, and they would need to look at the property tax. An increase of approximately 30 cents may be needed.

Commissioner Melvin asked about the tax rate for the year 2000.

Mr. Strassenburg noted the deficit would be even greater. He again noted these figures are very preliminary.

Commissioner Melvin stated they need to look at this matter stronger than ever before.

Mr. Strassenburg then reviewed the list of options and leases/franchises. He noted that if the County gets the 1 cent sales tax, that would change the picture dramatically. However, the County needs to get it unrestricted. It will generate more than what the County would need to cover the school bond costs.

Chairman Tyson asked if the sales tax is the way it is now, would it have to be split with the municipalities.

Mr. Strassenburg advised he did not know the answer.

Deputy County Attorney, James Martin noted the tax may not apply to food sales.

County Attorney, Neil Yarborough stated that if the one cent sales tax is not dedicated, it would be divided with the City, just as it normally is. The City of Fayetteville receives approximately 50% of the sales tax revenue that comes back to the County. If the tax is restricted to the schools, the County would get it all.

Mr. Martin stated it would be great if it could be restricted to County buildings.

Mr. Strassenburg then noted the County has alot of leases.

Commissioner King asked if there have been any adjustments to the leases in the last few years.

Mr. Strassenburg noted there had been adjustments to leases in the last few years.

Commissioner Melvin asked about the Cape Fear Valley Hospital lease.

Mr. Yarborough advised the lease with Cape Fear Valley Hospital is done on a year to year basis. It is renewed each year on March 10th. This lease is automatically renewed. The lease calls for a 90 day notice by either party if the lease is not to be renewed. The county would have to give notice by December 10th of a given year to affect the next year's lease.

Chairman Tyson asked how much the County is receiving in rent from Cape Fear Valley Hospital.

Mr. Yarborough noted the Hospital operates the Ambulance service which, until a few years ago was operated out of the County's general fund. The hospital also pays the debt service on their bonds.

Chairman Tyson asked how much Cape Fear Valley pays on the debt service on their bonds

each year.

Mr. Strassenburg advised the total was 90 million, but they pay 9-10 million per year.

Mr. Yarborough also advised Cape Fear Valley provides approximately 30 million in unreimbursed indigent care each year. The County is ultimately responsible for the indigent care. He noted a hospital they had visited that was reimbursed approximately 30 million each year by the County to pay for indigent care.

Commissioner Tyson stated the rent Cape Fear pays to the County each year is \$1.00. He then asked what all of the hospital property is worth and what is the loss to the County on property taxes and sales taxes.

Mr. Strassenburg stated if the property was taxable, he would assume the value of the property to be approximately 300 million. The tax office doesn't have a value for it because it is a County property and tax exempt. He would estimate the tax revenue to be around 2.25 million. On the sales tax issue, he does not know how many purchases the hospital makes each year and how much of what they purchase is purchased out of state. The finance office does not keep up with these figures because they are tax exempt. He would assume it is a rather large amount.

Chairman Tyson asked what Highsmith-Rainey pays in rent.

Mr. Yarborough stated the County is locked into the lease with Highsmith-Rainey. The total lease package is 11 million when it first started. There is an annual payment and every fifth year there is a balloon payment. He then reviewed the original payment schedule. Currently, Highsmith-Rainey pays \$195,000 per year.

Howard Abner advised a balloon payment will be made in 1998. The payment will be approximately 1.6 million.

Mr. Yarborough stated most of the County's leases are accommodation leases.

Mr. Strassenburg noted they are working on taking back the Elk Yarn building. He would like the County to sell it. He also noted the audits on businesses outside the County have been going well and the County needs to continue this practice.

He then reviewed the options to decrease expenditures. The County has already frozen lapsed salaries. The second item; Freeze/Eliminate Vacant Positions, has been done in the past and is always a disaster. The third item; Eliminate/Reduce non-essential Services. They have been tightening-up on supplies, utilities and travel. He feels they have done well in this area. Any other reductions will have to be in services. We will either have to cut back or eliminate some. The fourth item; Reduce Operating Hours for Facilities Open More Than 40 Hours Per Week, would primarily deal with the libraries. This is not an essential service. The libraries are open approximately 70 hours per week. Reducing these hours would save on utilities and manpower. The fifth item; Reduce Scope of Capital Projects, has been done with the DSS building. The County has always been projecting a 500 bed jail. The Board may consider a 300 bed and continue to utilize our existing space. This will reduce

operating costs on the new facility, but we may end up expanding the new facility sooner. We could also refinance our outstanding debt.

Chairman Tyson then reviewed the financial information from Craigie Incorporated. This information is incorporated into and made a part of these minutes.

Mr. Strassenburg reviewed the information regarding the refinancing of Cape Fear Valley Hospital's debt. Refinancing of the Coliseum COPs could also be done. This will not, however benefit the General Fund because this debt is paid by the food and beverage tax. The refinancing would be a one shot deal. They need to determine a target figure before the refinancing is done. They could also look at refinancing the series '93 school bonds. However, it doesn't look like it would be worth doing. Another expenditure reduction being done is the cost reduction initiatives Bob Segal has been hired to work on for the County. They have recently restructured the cellular phones and pagers. The next item will be contracting for copiers. The bids are out and should have something soon on this matter. Assistant County Manager Cliff Spiller is working with the Public Works Commission on reducing our electrical charges.

Commissioner King asked about the reimbursements to the County on the DSS building.

Mr. Strassenburg noted the reimbursement is administrative. It is built into a formula. It is not in the form of a check. The figure is amortized based on the cost of the building.

Chairman Tyson asked how the date for the DSS building to be completed was arrived at and has the date ever been adjusted.

Mr. Strassenburg stated the date was arrived at with the most recent construction schedule. The date has been adjusted many times as they have been promising to build it for ten years. The State has been firm in their advising us the building must be built soon. If the building was under construction and the date slipped a month or two, he does not feel that would be a problem.

Commissioner Melvin asked if the building had to be a certain size.

Mr. Strassenburg advised the State has standards of how much space is to be allowed for workers and conferences. The building has to be acceptable to them. He noted these costs and the fact that this was coming has been discussed for years.

MOTION: Commissioner Melvin offered a motion to have Management present this information to the full Board of Commissioners at the next meeting. Mr. Strassenburg is instructed to continue to explore all options to avoid a tax increase for the next fiscal year.

SECOND: Commissioner King

DISCUSSION: Commissioner King noted he understands we have alot to deal with alot to do. He does not feel it is realistic to talk about what is going to happen with taxes in the next few years. He doesn't want the Board to get boxed in. He has seen this happen before and understands Commissioner Melvin's sentiment. We have a serious problem that must be dealt with.

Commissioner Melvin stated his concern is to start now and let the rest of the Board know what is going on. He wants to look at this situation in increments. Commissioner Tyson noted he has heard from several people that this type of planning had never been done before.

VOTE: UNANIMOUS

2. Other Committee Concerns.

Mr. Strassenburg advised the County will need to choose a trustee for the DSS financing. They have taken proposals and asked if the Committee wants to see this information first or can it be taken directly to the Board of Commissioners for a decision.

Mr. Martin noted three responses were received for a trustee: First Union, First Citizens and BB&T. At this point, it looks as if they will choose between First Union and First Citizens and their bids are lower than BB&T's.

Mr. Yarborough noted this information will be available at the next Board of Commissioners meeting.

Mr. Strassenburg noted the bids were kept to North Carolina companies.

Meeting adjourned at 9:38 AM.