

**CUMBERLAND COUNTY
FINANCE COMMITTEE MEETING
THURSDAY, NOVEMBER 5, 1998, 2:00 PM**

Present: H. Mac Tyson II, Chairman
Rollin W. Shaw, Commissioner
Commissioner Elect, J. Breeden Blackwell
Commissioner Elect, Talmage S. Baggett, Jr.
Cliff Strassenburg, County Manager
Juanita Pilgrim, Assistant County Manager
Garrett Alexander, Tax Administrator
Amy Cannon, Finance Director
Larry Carter, Solid Waste Management Director
Neil Yarborough, County Attorney
Howard Abner, Finance
Grainger Barrett, Senior Staff Attorney
John Bittle, Solid Waste Management
Terry Gagnon, Assistant Finance Director
Rhonda R. Davis, Deputy Clerk to the Board
Press

Absent: Ed G. Melvin, Commissioner

Chairman Tyson called the meeting to order.

Chairman Tyson asked that the minutes reflect his personal thanks to the Clerk for providing refreshments for the meeting today.

Chairman Tyson also welcomed Commissioners Elect Talmage Baggett and Breeden Blackwell and congratulated them on their election to the Board of Commissioners.

INVOCATION: Commissioner Elect J. Breeden Blackwell

1. Approval of Minutes: August 5, 1998.

MOTION: Commissioner Shaw offered a motion to approve the August 6, 1998 Finance Committee meeting minutes.

SECOND: Commissioner Tyson.

VOTE: UNANIMOUS

2. Management Updates:

a) Financial Projection - Fiscal Year 1999-2000

Mr. Strassenburg introduced staff members at the meeting to Commissioners Elect Baggett and Blackwell.

Mr. Strassenburg then advised that last year, the Finance Committee asked Management to make a two year projection for 1999 & 2000. Commissioner Tyson asked Management to update and modify the projections. Finance Department staff presented two handouts concerning revenue and expenditure projections. These handouts are attached to these minutes and are incorporated herein by reference. The attachments are labeled Exhibits "A" and "B". Mr. Strassenburg noted these figures are merely projections. They are not recommendations or proposals. They represent a trend analysis based on three months of the current fiscal year. Staff has not begun the year 2000 budget, so there were no requests from County departments or statements of needs from agencies such as the School System or Sheriff's Office to use in the projections.

County Attorney Neil Yarborough arrived at the meeting.

Mr. Strassenburg reviewed the handouts for the Committee. He noted the "Projected FY2000 as of 10/97 were originally done in June of 1998. The Projected FY2000 as of 10/98 is an update of those numbers. He noted the audited figure is the actual figure. There is good news in that there is more in the Fund Balance than was projected. The amount exceeds the minimum of 8% required by the Local Government Commission. He noted Management always projects conservatively. This larger Fund Balance will help with the year 2000 budget.

Reviewing the Revenue Projections handout, Mr. Strassenburg pointed out lines 1 and 2. He noted these figures are up substantially over what was projected a year ago due to the tax increase. Sales tax revenues will be approximately ½ million less due to annexation to be done by the City of Fayetteville. He also noted some action taken in the closing days of the General Assembly regarding school districts receiving sales tax revenue. At this point, he does not know what impact this will have on revenue. However, he is sure it will chip away at the \$25 million dollar figure. He also noted on line 15 (Licenses and Permits) that this figure will decrease due to annexation by the City of Fayetteville. He noted the \$3 million dollar increase on line 19 is a result of the Cape Fear Valley Hospital System lease payments.

Mr. Strassenburg then drew the Committee's attention to line 23 of the handout. He noted last year Management wasn't sure how much of the Fund Balance could be appropriated. They projected for the year 2000 at least 10 million from the fund balance into the budget. He noted there are notes and backup information attached at the back of the handout to be reviewed at the Committee members leisure.

Mr. Strassenburg noted one cent on the tax rate would raise approximately \$1,115,000 in tax revenue.

Assistant County Manager Juanita Pilgrim arrived at the meeting.

Mr. Strassenburg then reviewed the Expenditure Projections handout. He noted on line 1. the figure is \$1,600,000 less than what was projected. He noted the debt service projections were fairly accurate. This amount includes two payments on the Jail and the selling of the second series of the school bonds. He noted the County will sell another \$29 million in February of 1999. Line 12 (New Operating Expenditures) does not include the jail, but does include the new John Griffin School that is to come on line. He noted they will better know the operational expenses for the new libraries by the next budget year. He noted the amount projected for vehicles includes 40 new vehicles for the Sheriff's Office and five other new vehicles for the County's fleet. This is essentially what was done for the current fiscal year. He noted the figures for the vehicles is the amount that would be needed if the vehicles are purchased with cash. The County has purchased vehicles through a lease-purchase agreement. If this is the route they decide to take, the amount would be less.

Mr. Strassenburg then noted the difference between the projected revenues and expenditures is approximately \$13,700,000 out of balance without the benefit of any budget processes having been done. The figures are close to what Management projected one year ago. He noted backup information is attached to the handout. Mr. Strassenburg stated the Debt Service figures are a fixed amount. The biggest part of the new debt is the \$4 million for the new jail and the \$2.9 million for the school bonds.

Mr. Strassenburg advised that when the County Facilities Committee meets next week they will get a report on the jail and where staff is at this time on the project. The project is going well and the costs have gone down a little due to value engineering. He noted the new operational expenses on page 3 are annualized numbers. Mr. Strassenburg then brought the Committee's attention to the Y2K Non-IS figure on page 3 of the Expenditures Projections handout. He mentioned the report given by the Information Services Director on the Y2K preparations. He advised embedded chips may be in elevators, fire alarms, heating and air conditioning systems that might be date activated. The funds noted in this line are a contingency to take care of any problems that may happen to the equipment he just mentioned when we get to the year 2000.

Mr. Strassenburg then asked for questions.

Commissioners Shaw and Tyson had no questions.

Commissioner Elect Baggett asked if the .01 cent sale tax passes in the new long session, how would it affect these projections.

Mr. Strassenburg advised it would depend on when the legislation gets enacted. The budget and financial matters are usually considered at the end of the session. If the legislation is passed in June, it will have no impact on the year 2000 budget because they cannot rely on anticipated funds. He feels if the legislation is passed it will come with a provision for a referendum. In that case, the County still couldn't count on the funds. The whole thing will depend on how the funds are restricted to school capital. It will impact the debt service on that obligation, but the tax will provide more revenue than will be required to meet the debt service on the school bonds. The funds will be \$17 million if restricted to schools for the Counties. If the sale tax is distributed as the tax is currently done, municipalities will get their portion and that will drop what the County receives to approximately \$12 million. If the County share is restricted to schools, it will cover the school bond debt service with a little extra left over. Chances are that timing will be what gets the County. However, they still need it even if it is available in subsequent years.

Commissioner Elect Blackwell stated he understands the new County Jail will cost approximately \$40 million. Is this a set figure?

Mr. Strassenburg advised they have been able to hold the line so far and even cut some off the total amount. The costs for the jail are estimated to be \$38 million for construction and \$2 million for the land plus architectural and engineering fees. The total will be over \$40 million. He would guess the total would end up being approximately \$42 to \$43 million.

County Attorney Neil Yarborough stated they are not over the projected budget for the total project cost.

Mr. Strassenburg stated they have increased the capacity of the jail to 550 beds without increasing the cost. The jail will be an attractive looking building. It will not look like a jail.

Mr. Yarborough stated that at the end of the bidding process, they will have a set dollar amount for the facility.

Commissioner Elect Blackwell asked if there would be an inflation factor involved in the costs for the jail.

Mr. Strassenburg stated that when the project was cost, they set a bid date of July and projected to that. If the project is delayed, the figures will change due to inflation.

Commissioner Elect Blackwell stated if the County is successful in obtaining the .01 cent sales tax, it may not require a referendum. They need to lobby the returning legislature to get the legislation before June without a referendum. They need to work on this before the representatives go to Raleigh and they need to follow the legislation.

Commissioner Elect Baggett asked if they could not meet the June deadline for the .01 cent sales tax, could the jail project be delayed. Would that cost more than it would be worth to delay it.

Mr. Yarborough stated the cost overruns on the Crown Coliseum were due to their delaying the project.

Commissioner Elect Blackwell asked what the cost per square foot would be for the new jail.

Mr. Strassenburg stated the approximate square foot cost for the jail would be \$152.00 per square foot. That figure is based on an approximately 250,000 square foot building at a cost of \$38 million. He stated that includes all electrical and security features.

Chairman Tyson stated that what he understands is that the earlier the County builds the jail, the better. He noted a meeting is being scheduled between the City of Fayetteville and the County Commissioners. The sooner they meet with our Legislators to discuss our needs, the better.

Chairman Tyson then asked the Tax Administrator, Garrett Alexander to update the Committee on some discovery work being done through his office.

Mr. Alexander stated his office has been doing discovery work on unreported personal property. In 1997, \$7.5 million of unreported personal property was discovered resulting in \$108,000 in new revenue. So far this year they have discovered \$119,400,000 in unreported personal property resulting in \$1.7 million in new revenue. They will have discovered \$2 million by the end of the year in additional revenue. A portion of this revenue is penalties and interest. Approximately three-quarters of it is taxes.

Mr. Strassenburg stated for the Fiscal Year 1999, projections for property tax revenue will be less than what will actually be collected.

Mr. Alexander stated that if they expand these audits to companies in the County, there will be even more revenue generated. These discoveries are not costing the County anything. The County has contracted with a firm who has a staff of auditors that do these audits of companies who have their headquarters in other states, but are doing business here in Cumberland County. This auditing firm gets 30% of the amount collected the first year of the discovery. No County staff is doing these audits. This method allows the county to do these discoveries cheaper and more cost effectively. In the past two years, the County has discovered in excess of \$20 million in unreported personal property.

Mr. Yarborough stated an effective audit system makes everyone else more likely to list accurately.

Mr. Alexander stated he would like to audit business with home offices inside as well as outside the County. He noted all audits cross his desk and he has the discussions with the audited firms. The Company does the leg work, but he does the personal dealings with the businesses. He also wants to work with this company to help the County discover new businesses. This company has discovered \$60 million in new businesses for Durham County.

Mr. Alexander stated his office has also implemented aggressive-style foreclosures. They have turned over a number of accounts to a local law firm. To date, they have turned over \$628,000 worth of taxes that are delinquent. Two-thirds have been turned over in the last 30 days. The County has collected \$273,000 in taxes. \$202,000 of that was 1997 taxes and the rest was for prior year taxes. One of the bills was for 1998. He wants to begin this process again on January 6, 1999 as soon as the taxes become delinquent. The County may be able to have other firms help with these foreclosures in the future. He hopes this will result in an increased collection percentage for the County in the next year.

Mr. Yarborough stated that hopefully, the County will be able to get more law firms to help with these foreclosures because they have a track record to be successful. These foreclosures are done at no expense to the County because the attorney fees are collected with the delinquent taxes.

Commissioner Elect Blackwell asked if we collect the fees if the property is sold at foreclosure sale.

Mr. Yarborough stated most properties that go to foreclosure are ones that the County does in-house. These are properties that are unusual tracts or are estate properties or have some unique problem. The properties that are being foreclosed on by the private law firms are ones that never go to foreclosure sale because the mortgage companies usually step in before it goes to sale. They usually look for high-dollar properties where the owners normally "coast" for one year on the County taxes and then pay. The idea is to get these people to stop borrowing from the County and go ahead and pay their taxes.

Mr. Alexander stated they are currently working with 250 accounts at \$25,000 per account totaling approximately \$673,000 in taxes.

b) Solid Waste Proposals

Preliminary Cumberland County Solid Waste Proposals handouts were distributed to the Committee members and Commissioners Elect. This handout is made a part of these minutes and attached as Exhibit "C". Mr. Strassenburg gave background of why the Finance Committee asked for these proposals. He noted requests for proposals were sent to people in the Solid Waste Management business. These businesses were asked to bid on seven different solid waste

management components. He reviewed the seven components. The companies were also given an option to bid on other things. These items are listed at the bottom of the page. He noted staff has a challenging job of trying to analyze the information due to conditions and qualifiers included in the bids received. Staff has to determine what the company has bid and what is left for the County to do and what it will cost the County to do what is left. This will include fragments of personnel. He hopes to have some information for the Committee at their next meeting. Management will be through the proposals and they have the budget people analyzing the information as well.

Commissioner Elect Blackwell asked for staff to give him a run-down after this meeting of how the County got to this point.

3. Other Committee Concerns.

No other committee concerns were raised.

MOTION: Commissioner Shaw offered a motion to adjourn.
SECOND: Chairman Tyson
VOTE: UNANIMOUS

Meeting adjourned.