

CUMBERLAND COUNTY FINANCE COMMITTEE
COURTHOUSE, 117 DICK STREET, 5TH FLOOR, ROOM 564
AUGUST 6, 2015 - 9:30 AM
MINUTES

MEMBERS PRESENT: Commissioner Marshall Faircloth, Chairman
Commissioner Jeannette Council
Commissioner Larry Lancaster

OTHER COMMISSIONERS
PRESENT:

Commissioner Glenn Adams
Commissioner Kenneth Edge
Commissioner Jimmy Keefe

OTHERS:

Amy Cannon, County Manager
James Lawson, Deputy County Manager
Tracy Jackson, Assistant County Manager
Rick Moorefield, County Attorney
Vicki Evans, Finance Director
Deborah Shaw, Budget Analyst
Tammy Gillis, Director of Internal Audit and Wellness
Sally Shutt, Governmental Affairs Officer
Jeffrey Brown, Engineering and Infrastructure Director
Kristoff Bauer, Deputy City Manager
Michael Gibson, Parks and Recreation Director
Candice White, Clerk to the Board
Press

Commissioner Faircloth called the meeting to order.

1. APPROVAL OF MINUTES – JUNE 4 , 2015 REGULAR MEETING

MOTION: Commissioner Council moved to approve the June 4, 2015 meeting minutes.

SECOND: Commissioner Lancaster

VOTE: UNANIMOUS (3-0)

2. PRESENTATION ON A PROPOSED CITY OF FAYETTEVILLE PARKS &
RECREATION BOND ISSUE

Amy Cannon, County Manager, stated the Parks and Recreation Capital Program was presented to the Fayetteville City Council on Monday, August 3 and is being presented to the Finance Committee for information only with no action requested.

Kristoff Bauer, Deputy City Manager, stated his presentation would include an overview of the following:

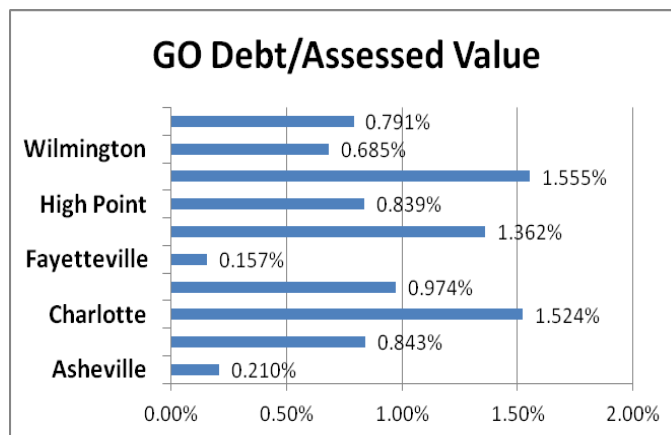
- Financial Information

- GO Bond Process Update
- Recommended Next Steps
- Ballot Options
- Project Review / Questions
- Discussion

Mr. Bauer stated in the earlier countywide bond issue, the key issues were that there would have to be a countywide vote, including citizens who would not participate in the district, and the county would have to carry the debt. Mr. Bauer stated the financing piece later moved toward the City taking the debt side of what is now put in the context of a capital program as opposed to a bond issue. Mr. Bauer stated the bond debt is a tool to finance the capital program and not the goal. Michael Gibson, Parks and Recreation Director, provided a handout of capital projects to include City funded multipurpose aquatic center with senior center, city pools, neighborhood parks, river park, skateboard park, sports complex, tennis center, greenways acquisition and development, park land acquisition and existing parks and building renovations.

Mr. Bauer stated in earlier bond issue, there was also a lot of debate as to whether the appropriate information was being disclosed relative to the cost of the project. Mr. Bauer stated the financial information or costs” associated with the capital program are land acquisition, design and construction. Mr. Bauer stated the GO bond authorization is what is financed and will include debt payment, financing costs and interest expense. Mr. Bauer clarified the bond piece is a subset of the costs and is not meant to encompass the total cost of the project from a construction or financing perspective. Mr. Bauer stated the bond piece is just the legal authorization limit for debt and clarified that only the GO bond limit can be disclosed on ballot.

Mr. Bauer displayed the following debt comparison and stated Fayetteville is the lowest in terms of debt capacity.



Mr. Bauer stated the statutory limit is 8% of appraised value which for Fayetteville is \$1.1 B.

Mr. Bauer stated a special election is not an option in the GO bond process and it can only be part of a regularly scheduled election. Mr. Bauer stated the primary is May 3, 2016 which means the first vote of the Fayetteville City Council will be January 11, 2016.

Mr. Bauer stated the next step is to conduct a cost estimate review of projects identified by the City Council and to determine whether there are additional land acquisition costs for any of the projects. Mr. Bauer stated survey data will be collected from the community to determine which parts of the bond have strong support and to give the Fayetteville City Council more input from the voter base. Mr. Bauer stated staff will return to the Council in October to finalize program elements and then a financial plan will be developed. Mr. Bauer stated this will let the projects drive the financial plan rather than the financial plan drive the projects.

Mr. Bauer stated questions presented to the City Council included the GO bond capacity needed, dedicated revenue required and project timing; the question is really how much debt can be issued. Mr. Bauer stated overtime feedback will be requested from the Board of Commissioners on County specific issues.

Mr. Bauer stated there are significant advantages to packing GO bond debt together; it can be repaid over a longer period of time than conventional debt and it can be used to finance improvements for which conventional financing cannot be used. Mr. Bauer stated the City Council was asked if they wanted to consider including additional authorizations for other kinds of projects because by law a ballot issue can only be about a single use.

Mr. Bauer stated another question is to determine whether there is a need or interest in considering GO debt to support some of the Park and Recreation District projects. Mr. Bauer stated the Parks and Recreation system serves the entire County and one of the purposes of this conversation is to determine whether there can be continued dialogue about the County's participation in some of the costs for these projects so they can be included in the analysis and brought back later in the process for discussion.

Mr. Bauer stated an analysis was conducted on the differences in using GO debt versus other obligations such as pay-as-you-go or conventional financing, and the bottom line is that GO debt projects can be completed in seven years at a lower cost compared to 25 years to complete the same projects using the same cash flow. Mr. Bauer stated the fundamental piece when talking about debt authorization is identifying the revenue source to repay the debt and to support the projects over time. Mr. Bauer stated this is the decision elected officials have to make. Mr. Bauer responded to questions regarding private agency operation, patron participation as part of the financial plan and the City Council's request to analyze alternative locations and the associated cost implications.

3. UPDATE ON SENATE PROPOSAL TO MODIFY SALES TAX DISTRIBUTION

BACKGROUND:

A proposal before the Senate would modify the method of distributing local option sales tax to counties. In effect, the analysis by the State's Fiscal Research Division indicates a shift of sales tax dollars from more urban retail counties of the State to the less wealthy counties.

- In addition to modifying the distribution, the proposal includes taxing items previously exempt.
 - installation, repair and maintenance of tangible personal property
 - veterinary services

- Reduce the non-profit sales tax refund
- Allows counties to levy an additional 1/4 cent sales tax via referendum
- Maintains county authority to determine distribution method to cities (i.e., ad valorem or per capita)

Based on the information provided by the Fiscal Research Division, it appears the impact of the new legislation for Cumberland County includes:

- Potential increase of approximately \$880,000 by FY 2019-20 under the 80/20 method
- Additional \$9.3 million by FY 2019-20 if the additional 1/4 cent is approved by referendum

As of the last update from the NCACC, the Governor has stated he will veto any bill that includes this modification to the distribution method and the bill continues to face other opposition as well.

RECOMMENDATION:

No action by the Committee is needed; this is for information purposes only.

Melissa Cardinali, Assistant County Manager, reviewed the background information as recorded above and stated this information was put together based on what was known at the time. Ms. Cardinali stated at that time, the proposal was for 80/20 but there is now talk about changing to 50/50. Ms. Cardinali stated based on those numbers, Cumberland County does not look like it will gain or lose, and if the sales tax base were expanded, the County might pick up another \$1.6 million. Ms. Cardinali stated her understanding as of the last update is that the House is opposed to any change so the push is likely from the Senate.

Chairman Edge stated the NCACC is lobbying that the 1/4 cent sales tax, should it become an issue, be allowed by resolution rather than referendum. Commissioner Faircloth asked whether the County could apply for the 1/4 cent. Ms. Cannon stated a change in this legislation will allow the County to apply. Commissioner Keefe inquired regarding the use of the 1/4 cent. Ms. Cannon stated it can be used for transit purposes and schools, and under the new legislation it can be used for those purposes or general purposes. Commissioner Keefe asked whether this would affect the current sales tax agreement with municipalities. Ms. Cannon stated she and the city manager concur that until the sales tax is settled in the General Assembly, no one will know what can be negotiated. Ms. Cannon further stated once the sales tax is resolved, she and the city manager are committed to begin sales tax discussions. Chairman Edge inquired whether the county could use ad valorem for some of its municipalities and per capita for others. Rick Moorefield, County Attorney, stated that cannot be done under the existing law. Commissioner Council stated she did not want the decision regarding sales tax to wait. Ms. Cannon stated it is her intent to begin discussions with all of the municipalities once the sales tax issue is settled in Raleigh.

4. CONSIDERATION OF AMENDMENT TO THE ANNUAL AUDIT CONTRACT

BACKGROUND:

Earlier this year, the Board of Commissioners approved a contract for Cherry Bekaert, LLP to perform the annual audit. Since that time, the N.C. Office of the State Auditor has made revisions to the work required of audit firms.

We recently received notification from the Office of the State Auditor that they are auditing the Schedule of Expenditures of Federal Awards (SEFA) and compliance over the major federal programs of the State of North Carolina as of June 30, 2015. The goal of the additional procedures is to provide reliable data to the State Auditor who will use the data in their audit of major federal programs. The requirement for the auditors contracted by the County to perform additional procedures for the State is clearly an unfunded mandate. The cost of the additional procedures is \$2,000 annually.

RECOMMENDATION:

Approve a \$2,000 amendment to the annual audit contract with Cherry Bekaert, LLP for the fiscal year 2015 audit.

Vicki Evans, Finance Director, reviewed the background information as recorded above.

MOTION: Commissioner Council moved to approve a \$2,000 amendment to the annual audit contract with Cherry Bekaert, LLP for the fiscal year 2015 audit.

SECOND: Commissioner Lancaster

DISCUSSION: Commissioner Faircloth asked whether the state put a mandate on auditors. Ms. Evans responded in the affirmative and stated an amendment to the audit contract had to be approved last year in the same dollar amount for the same reason. Commissioner Keefe stated consideration should be given in the future to rotating auditors every few years to keep a fresh look when auditing county government. In response to a question from Commissioner Faircloth, Ms. Evans stated the county is in the second of a three-year contract with Cherry Bekaert, LLP.

VOTE: UNANIMOUS (3-0)

5. CONSIDERATION OF BUDGET REVISIONS TO ALLOCATE FUNDING FOR BENEFITS NOW REQUIRED FOR TEMPORARY WORKERS

BACKGROUND:

Compliance with the Affordable Care Act requires that the County extend health insurance benefits to temporary employees who are hired to work thirty or more hours per week. These employees will now be offered the same benefit as regular full time employees and if they choose to participate they will make the same contribution amounts. This fiscal year there are thirty five positions within DSS who this applies to, therefore a budget revision is needed to

cover this additional cost. This does not apply to any temporary staff who is working for the County through an employment agency.

In the process of thoroughly reviewing required benefits of temporary staff, we also found that employees who have worked 1,000 or more hours in a twelve month period must be enrolled in the retirement system as of their one year anniversary. We are approaching that date for some of the thirty five DSS positions mentioned above. This additional cost has been projected in the budget revision.

No other benefits will apply to temporary employees, per the County's policy.

RECOMMENDATION/PROPOSED ACTION:

Approval of budget revision B16-024/A which will authorize payment of these employee benefits.

Ms. Cardinali reviewed the background information as recorded and stated because the employees are working greater than thirty hours per week, the County under the Affordable Care Act is required to provide health insurance coverage for them and under the State Retirement System the County is required to enroll those employees in the retirement system once they have been employed by the County for twelve months. Ms. Cardinali stated the budget revision would fund the retirement and health insurance benefits the County is required to give those time-limited positions. Ms. Cardinali stated at present, it appears there are only a handful of employees that would be eligible for the retirement system but this budget revision would take into account the entire year so staff will not have to return to the Board should someone become eligible during the year. Ms. Cardinali acknowledged a 75% reimbursement from the Medicaid funding.

MOTION: Commissioner Lancaster moved to approve budget revision B16-024/A which will authorize payment of these employee benefits.

SECOND: Commissioner Council

VOTE: UNANIMOUS (3-0)

6. CONSIDERATION OF SCHOOL HEALTH NURSE PAY GUIDELINES AND ASSOCIATED BUDGET REVISION

BACKGROUND:

The Guidelines for School Health Nurse Pay and Leave Accrual have been in place and have been followed since 2003. To summarize, the guidelines state that employees in these positions will be paid prorated annualized salaries over a 12-month period even though they actually only work ten months. On a bi-weekly basis this means that the work schedule of 70 hours per pay period will amount to 59.23 paid hours. In the event one of these type employees terminates, the individual may owe the County or more likely, the County will owe the employee a pay differential.

An issue with the guidelines was recently brought to the attention of Finance and Human Resources staff when a school health nurse *transferring* to another internal department requested to be paid her annualized salary difference prior to her transfer. This was the first time a school health nurse who transferred to another internal department requested these funds. Staff had been processing pay actions according to the guidelines that were implemented in 2003 for school health nurses who *terminated* employment, only.

Calculations show that the school health nurse who brought this to our attention does have a balance owed to her because of being paid for fewer hours than she worked in accordance with the guidelines. In an effort to determine the full impact for all school health nurses, staff conducted further analysis and research, and final calculations show seven other active employees and one retired employee who transferred to other internal full time positions have balances owed covering the time period 2003 to present. The total one-time cost to correct this is \$24,257 which will result in pay adjustments for nine individuals. To prevent future recurrence, the following actions were taken as of July 1, 2015:

- The guidelines were updated to include a payout calculation for school health nurses who *transfer* within the County; and
- The action to pay these individuals will be initiated by Human Resources staff on a Personnel Action Form, directing payroll to calculate and pay out or collect any discrepancies in pay.

RECOMMENDATION/PROPOSED ACTION:

Consensus to move forward to the next scheduled meeting of the Board of County Commissioners and approve the associated budget revision which will authorize payment to the nine former school health nurses.

GUIDELINES FOR SCHOOL HEALTH NURSE PAY AND LEAVE ACCRUAL

Effective Date: July 1, 2003

(Updated July 1, 2015 – changes shown in red)

1. Salary will be annualized over a 12-month period, but they will only work 10 months. This will insure payments for any deductions (ex: BCBS, term, dental...). This also means that the work schedule of 70 hours a pay period will be paid at 59.23 hours.
2. Reduced hours worked will not affect the number of years with the Retirement System. Retirement benefits are calculated based on the salary paid during the four highest paid years in a row. As a matter-of-fact, the health nurses will be in a much better position as it relates to time with the Retirement System because no contributions to the Retirement System means no creditable service. Salaries being paid over twelve months mean contributions will be made to the Retirement System monthly and they will receive credit time for the two months they are out of work.
3. Calculations will be made when an individual **in the school nurse special pay plan terminates or transfers to another County position** to determine the correct payout. In most cases, the County will owe the employee some additional pay because they will be working 70 hours per pay period, but are receiving pay for 59.23 hours. In the event an employee **in the**

school nurse special pay plan decides to terminate employment or transfers to another County position during the period the advanced money has been paid, advanced funds are due to the County to be paid back to the County by the employee. County HR will notify Payroll in the comments section of the Personnel Action Form anytime an individual in the school nurse special pay plan terminates or transfers to another County position, noting that the calculation must be made.

4. Accrual of sick/annual leave will be at 88% of full-time rate; however, no leave will be accrued for the two months not worked. Other leaves will be paid at 88% of full-time rate, (i.e., holidays).

5. Since pay is being generated during the summer, the payroll system will show leave accrual. These accruals will be adjusted back to actual at the beginning of the school year.

Ms. Evans reviewed the background information recorded above as it relates to school health nurses who transfer to another department within the County and called attention to the revision to the guidelines that have been updated to include a payout calculation for school health nurses who transfer within the County in order to pay out their prorated annualized salary as if they only worked ten months. Ms. Evans stated the total one-time cost to correct this is \$24,257 which will result in pay adjustments for nine individuals, eight of which are still working for the County. Questions followed.

MOTION: Commissioner Council moved to forward to the full Board at its next scheduled meeting approval of the budget revision which will authorize payment to the nine former school health nurses.

SECOND: Commissioner Lancaster

VOTE: UNANIMOUS (3-0)

7. CONSIDERATION OF REIMBURSEMENT RESOLUTION REGARDING PROPOSED FINANCING FOR CAPITAL IMPROVEMENT PROJECTS

BACKGROUND:

As addressed in the Manager's budget message, infrastructure repairs and maintenance is a funding priority continuing the Board's goal of providing adequate infrastructure and specifically addresses the objective of ensuring that facilities are well maintained. Areas of improvements within the general fund and crown fund considered and approved in the fiscal year 2016 budget include: parking lot repair/resurfacing, roof repair/replacement and building exterior improvements. To address these categories of infrastructure needs over the next three years a total of \$9,823,625 will be financed to cover these costs.

U. S. Treasury regulations and guidelines that involve debt financing transactions require that a governmental entity declare its intent to use debt financing for a given project before expenses are incurred. In accordance with this requirement, the County must adopt a resolution of intent

to use installment financing for the capital improvement projects in order to reimburse itself for any costs incurred before the financing is executed from the proceeds of the installment contract.

The resolution would satisfy the federal reimbursement requirements by declaring the County's intent to finance the capital improvement projects from an installment contract in an amount not to exceed \$10 million.

RECOMMENDATION/PROPOSED ACTION:

Consensus to move forward to the August 17 meeting of the Board of County Commissioners and adopt the resolution recorded below declaring its intent to reimburse costs associated with the identified capital improvements projects from financing proceeds.

**RESOLUTION OF OFFICIAL INTENT TO PURSUE
TAX EXEMPT FINANCING AND TO REIMBURSE
EXPENDITURES WITH PROCEEDS OF A BORROWING**

WHEREAS, the Board of Commissioners of Cumberland County, North Carolina (the "County") intends to provide a portion of the financing of the acquisition, construction, renovation and equipping of certain capital improvements to various County property, including but not limited to the Crown Complex, the Courthouse, the historic Courthouse, the Sheriff's office, the Department of Social Services Building, and the Health Department, including parking lot, exterior building and roof repairs (collectively, the "Projects");

WHEREAS, the County may advance its own funds to pay expenditures related to the Projects, may borrow funds on a short term taxable or tax exempt basis in order to pay such expenditures or may enter into contracts obligating third parties to make certain expenditures relating to the Projects (the "Expenditures") prior to incurring indebtedness and to receive reimbursement for such Expenditures from proceeds of tax-exempt bonds or taxable debt, or both;

BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF CUMBERLAND COUNTY, NORTH CAROLINA:

1. The County intends to utilize the proceeds of tax-exempt indebtedness, including but not limited to installment finance agreements (the "Indebtedness") or to incur other debt, to pay the costs of the Projects in an amount not currently expected to exceed \$10,000,000.

2. The County intends that the proceeds of the Indebtedness be used to reimburse the County for Expenditures with respect to the Projects made on or after the date that is no more than 60 days prior to the date of this resolution. The County reasonably expects on the date hereof that it will reimburse the Expenditures with the proceeds of the Indebtedness or other debt.

3. The County intends that the adoption of this resolution confirms the "official intent" within the meaning of Treasury Regulations Section 1.150-2 promulgated under the Internal Revenue Code of 1986, as amended.

4. This resolution shall take effect immediately upon its passage.

Ms. Evans reviewed the background information as recorded above and stated the County's bond attorney was asked to write a bond resolution that would satisfy the federal reimbursement requirements by declaring the County's intent to finance the capital improvement projects from an installment contract in an amount not to exceed \$10 million. Ms. Evans stated within the County's fiscal year 2016 budget and the capital improvement plan, there were capital improvement items identified that need to go forward for financing; these total \$9.8 million. Commissioner Faircloth asked why U.S. Treasury regulations were involved. Ms. Evans explained those regulations require that a governmental entity declare its intent to use debt financing for a given project before expenses are incurred. Ms. Cannon also explained the County must adopt a resolution of intent to use installment financing for the capital improvement projects in order to reimburse itself for any costs incurred before the financing is executed from the proceeds of the installment contract. Ms. Cardinali further explained the U. S. Treasury is involved because the IRS regulates all of borrowing by government.

MOTION: Commissioner Lancaster moved to a forward to the full Board at its August 17 meeting adoption of the resolution declaring intent to reimburse costs associated with the identified capital improvement projects from financing proceeds.

SECOND: Commissioner Faircloth

DISCUSSION: Commissioner Keefe inquired regarding the Crown's \$3.5 million. Ms. Evans explained there are benefits, such as a better rate, to including the Crown in one financing package with capital improvement projects. Ms. Evans stated general financing is \$6.65 and the Crown is \$3.173 for a total of \$9.823 or \$10 million for both. Ms. Cannon stated as far as any debt capacity, it is for the total organization and it does not matter whether it is repaid from the enterprise fund or the general fund.

VOTE: UNANIMOUS (3-0)

8. MONTHLY FINANCIAL REPORT

BACKGROUND:

The monthly financial report summary for fiscal year 2015 is incomplete at this time. We are currently operating in the 13th period of fiscal year 2015, working toward closing out that fiscal year and are getting geared up for audit. In addition, we are also working within the first month of fiscal year 2016 with less than a month's data. Preliminary results of the 13th period of fiscal year 2015 will be presented at next month's Finance Committee meeting.

Other highlights include:

- Cumberland County Tax Department is reporting a total collection rate of 99.17%. This is the highest overall rate the department has ever attained.

- Cumberland County Finance Department recently received the Certificate of Achievement for Excellence in Financial Reporting for Fiscal Year Ended June 30, 2014.

RECOMMENDATION/PROPOSED ACTION:

No action needed – for information purposes only.

Ms. Evans reviewed the background information recorded above and stated although there is no regular monthly financial report, she wanted to highlight the County Tax Department and County Finance Department.

9. OTHER MATTERS OF BUSINESS

Ms. Cannon introduced Deborah Shaw as the new budget analyst and stated she will lead the County in developing a separate budget division and will be available to help County Administration on special projects such as the sales tax discussions.

Ms. Cardinali provided an update on the employee clinic and stated it is anticipated the clinic will be open five days per week in the fall and since its opening in July, it has averaged twenty patients per day. Ms. Cardinali stated Novant invoiced the County \$15,000 for those visits which would have cost the County over \$21,000 had those patients gone through the traditional medical system.

There were no other matters of business.

There being no further business, the meeting adjourned at 10:25 a.m.