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CUMBERLAND COUNTY
NORTH CAROLINA

OFFICE OF THE COUNTY MANAGER

May 26, 2016

TO THE CUMBERLAND COUNTY BOARD OF COMMISSIONERS:

In accordance with the North Carolina Local Government Budget and Fiscal Control Act, I am pleased to present for your consideration, the Fiscal Year (FY) 2017 Recommended Annual Budget for Cumberland County. The budget is balanced, identifies revenue and expenditure estimates for FY2017, and attempts to maintain the County's core value of providing excellent customer service within a constrained revenue environment.

The recommended budget provides $430,053,378 in total expenditures across all operating funds, with a General Fund total of $327,284,888. This budget document does not include multi-year funds, such as capital projects, since these multiyear budgets have previously been approved by the Board of Commissioners. The General Fund budget represents an increase of $7,292,410, or 2.28% compared to the current year's adopted budget. The proposed tax rate to support the FY2017 budget remains constant at 74 cents per $100 of assessed valuation. The value of one penny on the tax rate is $2,331,465.

Current Year Revenue Performance

Projections indicate real and personal property collections will exceed the current year budget by $1,689,106. Our Tax Department has achieved a real and personal property collection percentage above 99% for the last four years, which is indicative of their tenacious and dedicated collection efforts. The statewide Tax and Tag Together initiative for motor vehicle tax collections went live in September 2013.

Since the implementation of this new system, these motor vehicle collections have increased significantly from $11,827,703 in 2012 to $16,363,186 in 2015. The new Tax and Tag Together program was designed to capture motor vehicles that were not being listed with each county's tax office. It appears this goal has been achieved and going forward the motor vehicle tax collections will no longer experience significant growth.

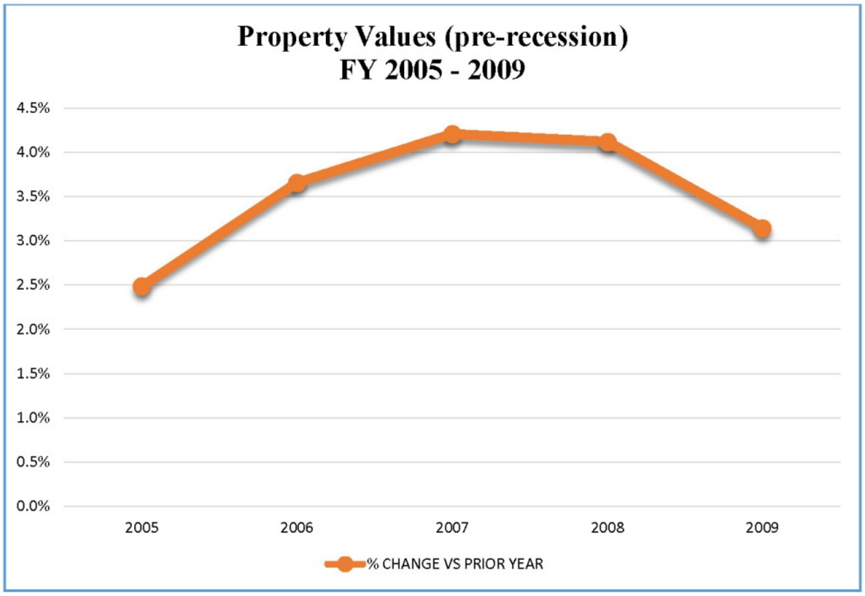
Sales tax collection has improved since FY2014 when our retail sales weakened due to federal budget issues, sequestration and the federal government shutdown, but our local taxable sales remain stagnant. Current year collections are projected to exceed the current year budgeted amount by only $285,599 or 0.72%.

Local Economy

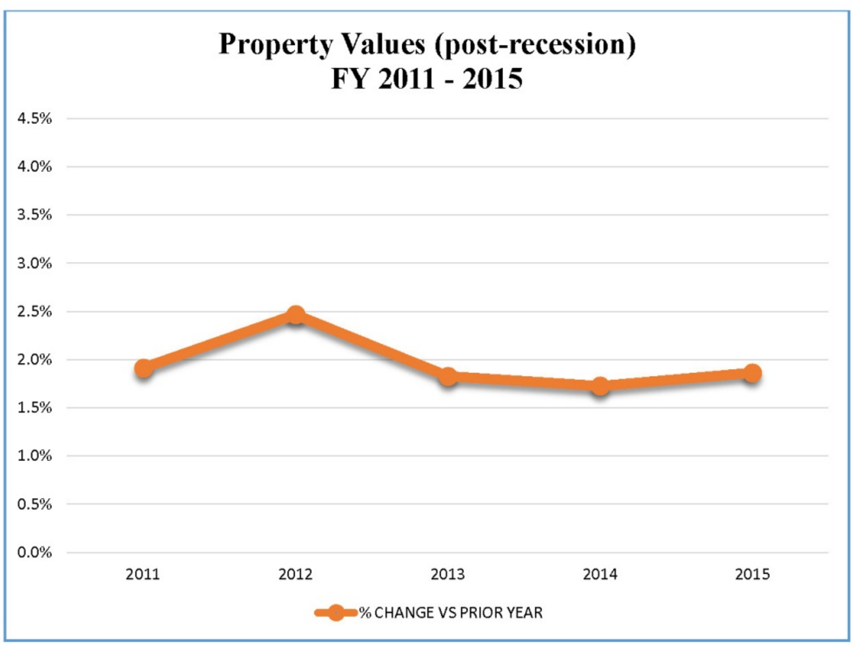
Over the last several years, Cumberland County, our state and nation have faced unprecedented economic challenges as a result of the Great Recession. The increasing demand for services and rising operational expenses significantly outweigh our available revenue, which has not returned to pre-recession levels.

Although other communities in our state have seen significant growth since the recession, Cumberland County's economy continues with a pattern of weak growth. This pattern is best portrayed by reviewing the natural property tax growth over the past 10 years. Real property growth occurs from new construction, increased home prices and additions in the business valuation base.

The average rate of natural growth for the years prior to the recession, which began in 2008 was 3.78%.



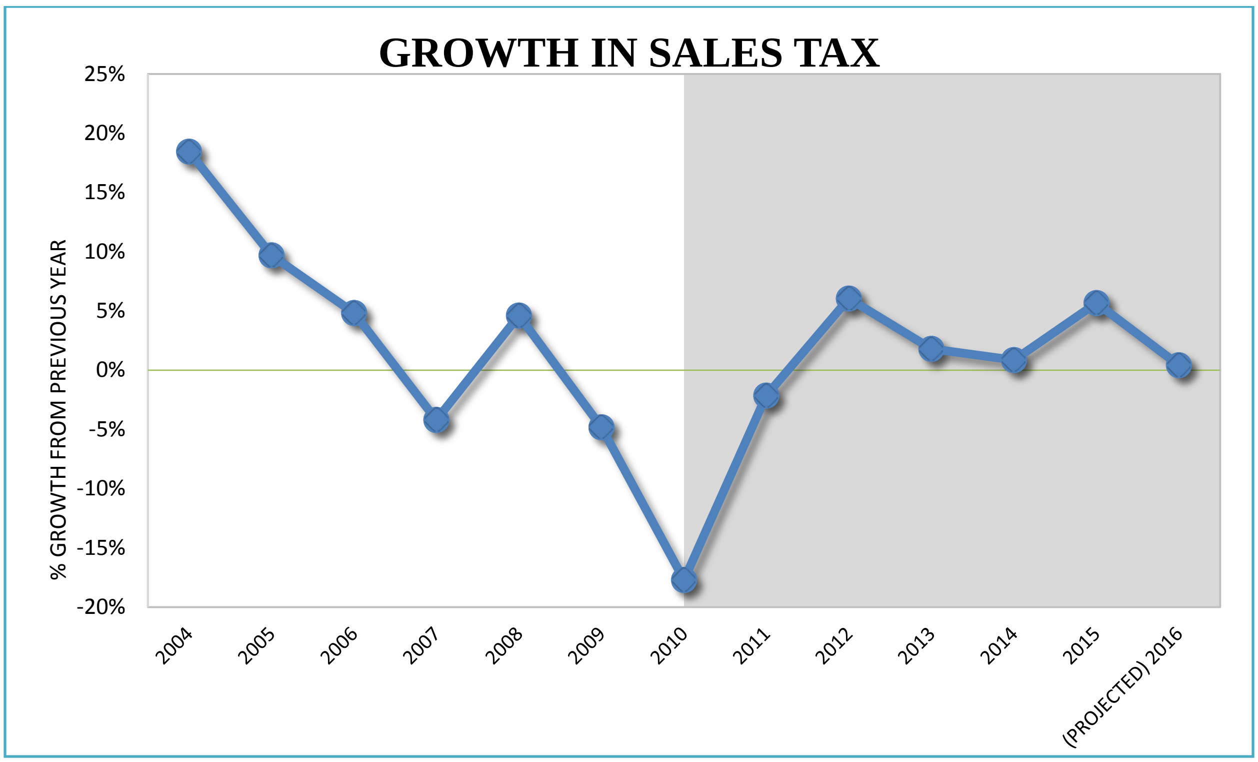
For the years after the recession, the average rate of growth is 2.04%.



This reduction in the natural growth equates to an average annual revenue loss of $680,552, or a five-year loss of $3.4 million.

Sales tax revenue is another key indicator of the economic condition of the local economy. Our sales tax has not returned to pre-recession levels and continues to be very sensitive to troop deployments, military contracts and other federal actions that are unique to military communities.

The average rate of growth in sales tax for the years prior to the recession, which began in 2008 was 6.68%. For the years after the recession, the average rate of growth was 2.45%. This reduction in the growth equates to a recurring average annual loss of $1.88 million, or a five-year loss of $9.43 million.



Property and sales tax revenues account for over 65% of the total revenue in the general fund. The natural growth in these revenue sources has historically been relied upon to fund new initiatives or expand services. The charts above depict the new reality within which we must operate. This significantly limited revenue growth is absorbed by uncontrollable expenditure increases, growing employee benefit costs and unfunded mandates. Moving forward, the County must develop ways to increase our capacity for the most efficient delivery of services to our citizens. This can only be accomplished through continued emphasis on business process improvements based on our Business Intelligence model.

FY2017 Budget Development Considerations

The fiscal impact of new positions added after the adoption of the FY2016 budget was a significant consideration in developing the FY2017 budget. Due to challenges in the Food and Nutrition and Medicaid programs, 13 Income Maintenance Caseworker positions were added and time-limited positions were increased to a total of 45 slots.

The projected cost for annualized salary and fringe benefits for a full year on these positions is almost $1 million. Recurring County dollars of approximately $330,000 had to be identified to cover the County’s share of these positions.

Financial sustainability is another key consideration and remains the guiding principle in the County’s development of budget recommendations to ensure protection of our solid financial position. This recommended budget continues to honor the fiscal policies adopted by the Board and the practice of conservative budget projection of revenues and expenditures.

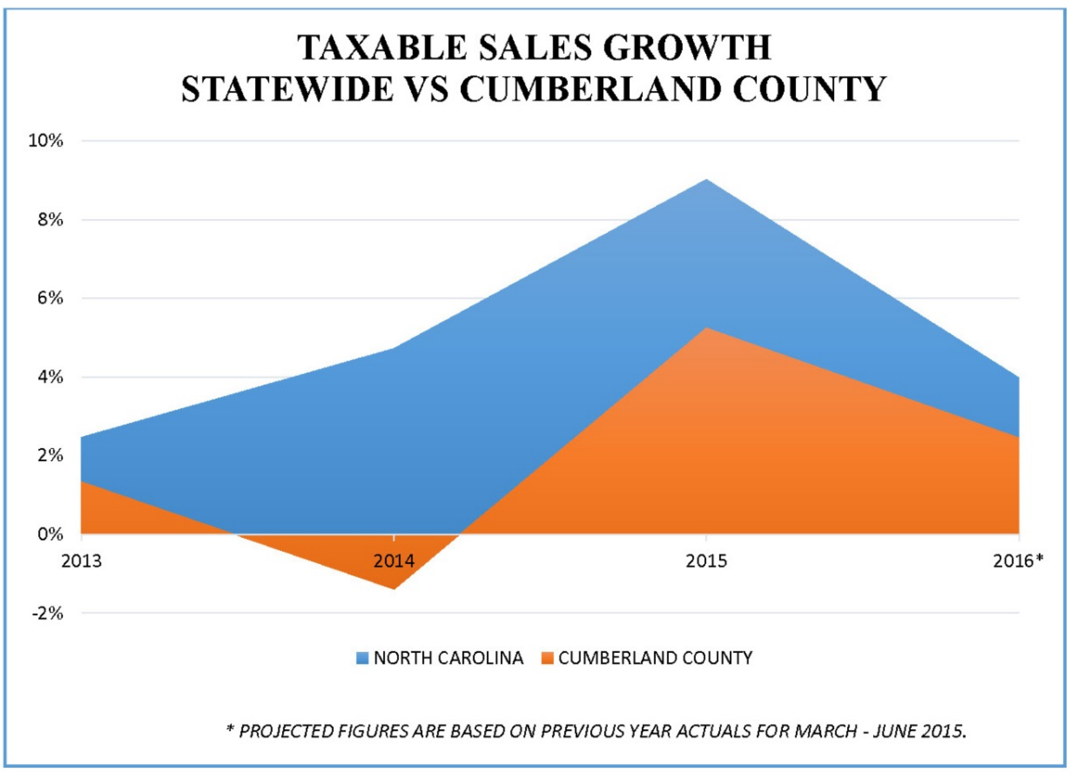
Four key funding priorities were identified to guide the allocation of the limited available revenue:

- Investment in Our Workforce
- Funding Mandates
- Operational Efficiency
- Capital Investment Planning

Revenue Assumptions

- Ad Valorem Taxes: Current year ad valorem taxes for FY2017 are budgeted at $153,901,517, an increase of $1,797,105 (1.18%) over the FY2016 adopted budget. Motor vehicle collections are anticipated to reach $15,773,637 under the Tax and Tag Together initiative. These taxes are based on the combined values for real property, personal property and motor vehicles of $23,314,650,229.

- Sales Taxes: Sales taxes are budgeted conservatively at $40,912,780, which represents a 2.5% increase over the expected collections for FY2016. Countywide taxable sales continue to lag behind statewide taxable sales by 2.25% in FY2016, and the growth in countywide taxable sales is 1.52% less than the FY2015 growth of 5.3%. Sales tax projections should continue to be conservatively projected since we are still recovering from negative growth in countywide sales tax collections for FY2013 and FY2014.



Fund Balance Appropriated

The fund balance appropriation of $7,927,760 for recurring expenditures is within the policy previously adopted by the Board, which limits the appropriation to no more than 3% of recurring expenditures. In addition, our policy sets forth a minimum unassigned fund balance goal of 10%.

Expenditure Highlights

Departments submitted $10,030,715 in supplemental one-time or recurring requests.
The supplemental budget includes requests for 75 new positions, 48 vehicles, capital outlay of $2,843,151 and $774,900 in maintenance and renovation.

Due to the limited revenue growth projected in the upcoming fiscal year, management had to make some difficult decisions in balancing this recommended budget. Our focus in allocating funding was first, to maintain current service levels and to continue our mission of providing quality services while being fiscally responsible; and second, to allocate funding that supports the Board of Commissioners' strategic plan.

Funding Priorities

The four key funding priorities, which align with our core values and strategic goals and objectives, were funded as follows:

1) ***Investment in Our Workforce: This funding priority enhances the Board's goal of retaining motivated, professional and well-trained personnel who offer excellent customer service with PRIDE.***

Due to historic increases in our health insurance claims over the last 18 months, the County was forced to make significant changes in our medical insurance plan effective July 1, 2016. One key change is the cost of specialty doctor visits, which are now subject to the deductible and coinsurance. To assist our employees in making this transition, management is recommending that one-time funds be utilized to provide a one-time $800 stipend to all regular full-time employees and a prorata share of the $800 to regular part-time employees.

Another key plan design change is the addition of an annual pharmacy deductible for employees who do not utilize our Employee Pharmacy. The number of prescriptions filled at our pharmacy has increased by 43.67% over the same time period last year. This volume coupled with the impending new pharmacy deductible warrants the addition of another pharmacy technician. With that addition, we will be able to add 13 hours during the week and open the pharmacy on Saturdays from 9:00 a.m. to 1:00 p.m. Therefore, the recommended budget includes $106,760 to fund an additional pharmacy technician as well as increased contract pharmacist hours.

2) ***Mandates: This funding priority encompasses the allocation of resources to continue our mission of providing quality services while being fiscally responsible.***

Funding under the mandates category includes items that fall under the traditional definition of mandated services, but also includes operational funding increases that are necessary or mandatory to continue providing the same level of service.

Local Government Employee Retirement System (LGERS): Earlier this year, the LGERS Board adopted an Employer Contribution Rate Stabilization Policy, which established employer rates for the next five years. This will require an increase in the employer retirement contribution of $515,000 or 0.50% for FY2017 and further increases of 0.25% annually through FY2021. Adoption of this policy and the corresponding rate increases will allow for predictability and stability in the contribution rates, while continuing to ensure the financial strength of the State Treasurer’s fund.

Fair Labor Standards Act (FLSA): A revision to the Fair Labor Standards Act is being finalized and will soon be released by the Department of Labor. The revision raises the salary threshold for the non-exempt employee classification. This revision will affect a number of employees currently exempt from overtime, now requiring them to be reclassified as nonexempt and subject to overtime. Funds in the amount of $100,000 have been included in this FY2017 budget to implement the change once released.

Replacement of Voting Machines: The State Board of Elections has mandated changing the State's voting process by returning to a paper ballot. This will require complete replacement of all voting machines before 2018. The recommended budget includes funding in the amount of $809,045 to replace the County's voting equipment.

3) ***Operational Efficiency: This funding priority addresses the strategic objectives of advancing the County's automation capabilities and optimizing service delivery through innovation, automation and technology to enhance current services and create new service opportunities.***

During the FY2015 budget process, management determined that the County's long-term financial stability was contingent upon streamlining our operations to create a leaner, more efficient and effective organization. During the FY2016 budget process, a new initiative was introduced to advance this philosophy. A new division was established in our Information Services department to implement the Business Intelligence model in reviewing our business processes to identify technology enhancements as well as informational, relationship or staffing changes that maximize efficiency opportunities.

After a recruiting and training period, this new division has completed several business process reviews this fiscal year and has many more projects underway. A timeline of the Business Intelligence initiatives in progress is shown in the chart that follows.

Initiative	Current Status
Wrapping Up	
DSS - FNS	In final review stages
Veterans Services	Procurement of Licenses
Jury	Routine Follow-ups
In Progress	
Central Permits	Research
Mailroom	Collaborating with Department Head
PrintShop	Collaborating with Department Head
Legal	Business Process Analysis
Upcoming	
DSS - Medicaid	Pre-planning, IS management discussions
Environmental Health	Pre-planning, IS management discussions
Animal Control	Pre-planning, IS management discussions
Tax	Pre-planning, IS management discussions

Many of the recommendations include technology enhancements and the review and implementation of new software to achieve the operational efficiencies identified through this review. The FY2017 recommended budget includes $68,626 to fund a new Project Manager position in the Information Services Department. This position will lead the effort to implement the technology enhancements recommended through the Business Intelligence reviews and will conduct periodic follow-ups to determine that recommendations have been fully implemented. Without this new position, the Business Intelligence team will have to continue to monitor the implementation process, which will reduce the number of business process reviews that can be accomplished and implemented each fiscal year.

4) ***Capital Investment Plan: This funding priority establishes a planning mechanism to provide adequate infrastructure consistent with orderly growth of a dynamic county.***

The challenge of maintaining financial stability in an environment of inflationary expenditure increases, coupled with the erosion of local revenue, has been a recurring theme. The guiding principle in creating the FY2015 and FY2016 recommended budgets was developing strategies to address financial sustainability. The following operational and infrastructure strategies have been previously implemented:

Operational: Management continued its focus on adding recurring expenses to the extent that recurring revenue can be identified to maintain financial sustainability in County operations and to avoid shifting costs into subsequent budget years.

Infrastructure: Professional engineering evaluations were conducted of parking lots, roof systems and building exteriors to assess and prioritize the repairs and maintenance of our County buildings in conjunction with the development of a comprehensive Capital Improvement Plan.

The next phase in addressing financial sustainability is future capital planning for County needs, such as the consolidated 911 center, as well as capital needs of the Board of Education (BOE) and Fayetteville Technical Community College (FTCC). This can be accomplished by creating a systematic method of setting aside recurring funds through the creation of a Capital Investment Fund.

We recommend adopting a policy of “freezing” the recurring funds currently allocated for debt repayment and transferring those funds to the Capital Investment Fund as debt is retired. This concept will in essence create a dedicated revenue stream that can be used for annual payments on future debt.

The advantages of this Capital Investment Plan are:

- Provides a road map for future debt and capital capacity
- Creates a proactive approach in considering the feasibility of new projects
- Provides financial flexibility and opportunities
- Creates opportunity to prioritize projects in a systematic method
- Enhances our financial position and addresses credit agency criteria

The FY2017 recommended budget includes the creation of this Capital Investment Fund with a general fund transfer of $746,376, which represents the debt service funds budgeted for the Capital Improvement financing that was delayed this fiscal year.

Other Items Included in Recommended Budget

Additional New Positions: The recommended budget includes funds in the amount of $110,636 to fund an Assistant County Engineer position. This position will provide more depth in terms of engineering expertise and will address succession planning in this critical area. Based upon the number of County facilities, the multiyear capital improvement projects approved last fiscal year and the transition of solid waste regulatory compliance to the Engineering Department, it is clear additional engineering capacity is necessary to effectively and timely accomplish the County's goal of protecting our infrastructure.

In addition, continued funding has been recommended for the Gun Permit Division position approved in April for the final quarter of fiscal year 2016. It is anticipated that this position will be funded through increased gun permit revenue.

Education: The recommended budget includes $834,942 in additional current expense funding for the Board of Education in conjunction with the school funding agreement approved by the Board of Commissioners in FY2014.

An increase of $523,271 in current expense funding for Fayetteville Technical Community College was requested and is included in the recommended budget. An additional $334,489, beyond the customary capital outlay appropriation of $945,000, was included in the recommended budget to fully fund debt service for Fayetteville Technical Community College.

Vehicles: The Sheriff's Office requested $1,459,504 for replacement of 17 vehicles and 13 additional vehicles. The recommended budget includes $830,504 for replacement of 17 vehicles.

Funds in the amount of $50,000 are included to purchase two hybrid vehicles for Tax Administration. These vehicles address the County's strategic goal of energy-efficiency initiatives.

The recommended budget includes $70,000 for replacement of two trucks in Animal Control and $90,400 for replacement of two vans for Social Services.

Technology: Funding in the amount of $265,000 has been recommended for the replacement of the Central Permitting software in Planning and Inspections. This is currently a mainframe application and is the next phase of migration from that outdated platform. This creates an opportunity to implement software that will streamline our processes, give alerts on the status of an application process and enhance communication to contractors/citizens through its notification system. This single system will replace multiple systems used for Permitting, Inspections, Plan Review and Code Enforcement.

Homelessness: This recommended budget continues our funding commitment in providing services to the homeless in our community. Funds in the amount of $100,000 have been placed in our Community Development Department budget.

Social Services/Alliance Behavioral Healthcare: Included in the recommended budget is $35,000 to fund half the cost of a new Alliance Behavioral Healthcare position. This position will be located at Social Services and will be dedicated to securing appropriate assessments, supports and treatment to keep families together. If a child cannot remain in the home, the goal will then be to secure appropriate residential treatment options. Additionally, on-going case management of children remaining in the community and transition assistance for children removed from their homes will also be provided.

Foster Care: The Department of Social Services requested an increase in the Foster Care Board budget of $778,111, of which $433,446 would be additional County dollars. The number of children in foster care has remained high, but recently the number of children in our care has decreased.

We hope that strategies such as better utilization of our group homes and the addition of a courtroom, Guardian Ad Litem attorney and a new Alliance Behavioral Healthcare position dedicated to family court will result in a continued decrease in the number of foster care children.

Therefore, we have set aside $433,446 in a contingency fund to monitor the number of children in foster care, as well as the funds needed for foster care board payments during FY2017.

Community Funding: The recommended budget includes $1,467,296 in funding for community organizations. We received funding requests from the following agencies that do not receive County funding: Vision Resource Center, Fayetteville Urban Ministry, Cumberland County Chapter 46-Disabled American Veterans and UX Cowork. As a result of very limited revenue growth, the FY2017 recommended funding does not include any new community agencies. The funding for the Fayetteville Cumberland Economic Development Corporation is recommended at $395,000, which is $15,000 less than the current year appropriation since we now provide accounting services.

Crime Lab: Funding in the amount of $129,000 is included for the costs associated with the Crime Lab. Previously, this expenditure was funded through a Governor's Crime Commission grant that expired this current fiscal year.

Youth Misdemeanor Diversion Program: A new initiative was introduced during the May Finance Committee meeting. This initiative offers a 90-day supervised program as an alternative to prosecution for 16- and 17- year-old first-time, non-violent offenders. Funds in the amount of

$25,000 are recommended for the start-up costs incurred in the implementation of this youth diversion model in Cumberland County.

Other FY2017 Considerations

Mental Health Funding: The FY2017 recommended budget includes the following amounts for the continuation of Mental Health Services to our citizens:

Alliance Behavioral Healthcare (Alliance)	$2,400,000
Cape Fear Valley Health System	$2,400,000

The recommended budget funds these mental health services from the following sources:

Alliance Behavioral Healthcare Fund Balance	$2,250,000
County Assigned Fund Balance	$1,800,000
Recurring Funding	$ 750,000

Currently, the Alliance has unspent County service dollars in an assigned fund balance on their financial statements in the amount of $5.3 million. As you may recall, during FY2016 we recommended using $1.3 million of this balance for the Executive Place renovations. It is recommended that $2,250,000 of this fund balance held by the Alliance be applied to the FY2017 allocation, which is in accordance with the provisions of our funding agreement with the organization.

Since the coordination of Cumberland County mental health services was changed as a result of the merger of our Local Mental Health Entity (LME) with Alliance Behavioral Healthcare in 2013, we have utilized the significant accumulated fund balance. At the time of the merger with the Alliance, our mental health fund balance was over $12 million and we have strategically appropriated these funds as a result of state concerns regarding large mental health fund balances accumulated by LMEs. The balance after appropriating the $1.8 million recommended above will be $2.8 million. In the FY2017 budget we are recommending a phase-in of recurring dollars, commencing with $750,000 next year, as the mental health fund balance is depleted.

Health Insurance: The FY2017 recommended budget includes the health insurance recommendations previously approved by the Board of Commissioners in March. The recommendation included plan design changes projected to save $2,600,000 and an increase in the employer contribution of $1,500,000. In addition, we are implementing a "Weight Watchers at Work" program for our employees to address risk factors that contribute to high claims.

Future Considerations

Health Insurance: As we move into the upcoming fiscal year, it is recommended that we begin exploring employee health savings accounts and expanded health insurance plan options to provide employees a choice for FY2018. There has been a movement in the insurance industry toward health savings accounts coupled with higher co-insurance options to reduce claims expenses and to provide a long-term option for employees to build savings for future health care claims.

Consolidation of Services: During FY2017, it is recommended that we take the next steps with the City of Fayetteville in consolidating our 911 Centers and constructing a new joint center with the goal of submitting a grant request to the State 911 Board in the spring of 2017.

Jail Health Services: During the month of July, a request for proposal should be developed to evaluate the feasibility and effectiveness of providing jail health services to inmates by contracting with a private entity, following discussion at a recent Finance committee meeting. In conjunction with this initiative, we should continue to explore any opportunities with the Affordable Healthcare Act in the Jail Health program.

Sales Tax: The Sales Tax Interlocal agreement was extended for an additional three-year period during FY2016 with the condition that the parties begin discussing a new agreement no later than January 2017. It is recommended that during the first quarter of FY2017, a working group be established to discuss options for a new sales tax agreement. This working group should include the County, City of Fayetteville and representatives from other municipalities within our community.

Revaluation: It is too early to develop any assumptions regarding the impact of our property tax revaluation which will be effective January 2017. Management will continue to meet regularly with the Tax Administrator to remain engaged in this process as we prepare for the approval of the schedule of values, mailing of notices, appeals process and budget projections for the FY2018 budget. In addition, planning is underway and will continue in educating the citizens about the upcoming revaluation. It is recommended that we include revaluation updates from our Tax Administrator to the Finance committee beginning in August.

Conclusion

As shown earlier, our local economy continues in a pattern of weak growth. Our tax base growth remains sluggish, but steady, and our sales tax collections continue to be difficult to project. On average, our revenue growth from property and sales taxes is $2.56 million less annually since the recession of 2009. This significantly impacts our ability to expand services or fund new initiatives.

This is the "new reality" we are operating in today and for the foreseeable future. Moving forward we need to continue our focus on financial sustainability and increasing our capacity for the most efficient delivery of services to our citizens. This can be accomplished with a sustained commitment to our business process improvements through our Business Intelligence model.

Although we have been operating in this "new reality" for the last several years, progress has been made. During this period of weak revenue growth, Commissioners should be proud that the school funding agreement was renewed in 2014 and funding commitments to the Board of Education and Fayetteville Technical Community College have continued.

A long-term Capital Improvement Plan was approved and funded last fiscal year to proactively maintain our investment in county facilities. Commissioners approved a pay and classification plan that was implemented over a two-year period in FY2013 and FY2014. This Board has continued to approve funding for technology and automation to achieve our goal of excellent customer service.

During FY2016, additional income maintenance positions were approved in conjunction with other strategies to meet Food and Nutrition standards. As a result, timeliness has improved from 78% to a sustained rate of 95% and above for the last several weeks.

All of these priorities and many more have been funded without an increase in our 74 cent tax rate, which was reduced after our 2009 revaluation.

The above initiatives have been achieved because of the Board of Commissioners' continued focus on the guiding budget principle of safeguarding our financial sustainability through matching new recurring expense with available recurring revenue and utilizing one-time funds only for one-time expenses. The Board has continued to support defining our core services as an "arm of state government" and allocating resources in support of these responsibilities and the County's strategic plan.

Cumberland County has survived the Great Recession and continues to make progress despite a weak economic rebound by remaining fiscally conservative and honoring Board-approved financial policies. The Board of Commissioners has taken the next step in creating a leaner organization while improving service delivery by embracing the Business Intelligence model. This model is our leading strategy for identifying operational efficiencies, streamlining work flows, improving customer service and creating an innovative, high performing organization to weather economic storms.

<u>Acknowledgement</u>

This has been another difficult recommended budget to prepare and balance with significant departmental requests which outweighed available revenue. I want to thank each County department head and their staffs for their budget preparation and presentations as the management team met with each department to understand their budget needs. Our County

department leaders and employees are committed to excellence and the County's core values which contribute our mission of positively impacting the citizens of Cumberland County.

I do want to acknowledge the challenges our new budget division faced beyond the lack of available revenue. This recommended budget was developed utilizing our new Munis budget software which involved training County departments and working between multiple systems. I want to thank our budget analysts, Deborah Shaw and Heather Harris, for their dedication, perseverance and for enduring long days in creating this budget. I also wish to thank Assistant County Manager Melissa Cardinali for her leadership and guidance of our budget staff and process. Finally, I want to express my sincere appreciation to the many other staff members in Administration and Finance who contributed to the review and completion of this recommended budget.

Respectfully submitted,

Amy H. Cannon

Amy H. Cannon
County Manager