

**COUNTY OF PERQUIMANS**  
**FY 2010 – 2011**  
**BUDGET MESSAGE**



**June 7, 2010**  
**Bobby C. Darden**  
**County Manager**

June 1, 2010

To: The Honorable Chairman, Board of Commissioners, and taxpayers of Perquimans County

I respectfully submit the proposed budget for Perquimans County for the Fiscal Year 2011. The budget has been prepared in accordance with the North Carolina Local Government Budget and Fiscal Control Act. The budget identifies the estimated revenues and expenditures for the Fiscal Year 2011 for Perquimans County.

In preparing the County's operating budget for next year, it didn't take long to realize that the Fiscal Year 2011 would be worse than FY 2010. The economic recession continues to take its toll on local governments' operating budgets. As revenues directly associated with the economy, such as Sales Taxes, Land Transfer Taxes, Interest Earnings, Building Inspection Fees, and Register of Deed Fees, are expected to remain suppressed, Perquimans County's General Fund must rely more on Property Taxes to anchor the operating budget.

For the second consecutive year, Perquimans County's operating budget will reduce; down by \$1.7 million or 12.5% from two years ago.

<b><u>Budget Year</u></b>	<b><u>General Fund Budget</u></b>
2008-2009	\$13.6 million
2009-2010	\$12.6 million
2010-2011 (proposed)	\$11.9 million

The budget proposes a one cent property tax increase, which would raise the Perquimans County Ad-Valorem tax rate to 42 cents per \$100 of valuation. Even with the increase, Perquimans County will still enjoy one of the lowest property tax rates in the North Carolina. In fact Perquimans County continues to have the lowest property tax rate among the 34 "non-oceanfront" counties east of Interstate 95. The one cent increase translates to an average increase of about \$18 on an annual tax bill for a typical Perquimans County house.

The one cent tax increase is not intended to resolve all of the county's budget problems for next year, nor is the increase intended to fulfill every request received by the Board of Commissioners. The proposed budget still eliminates over \$800,000 in requests for County funding for next fiscal year, which I venture to say is the largest amount budget reductions ever made by Perquimans County. An additional one cent on the tax rate will generate approximately \$165,000, which will be used to fund a county-wide drainage study, provide a 3.7% increase in school operating funds, partially replace a lost retirement benefit for county employees with a 1.5% salary increase, and reduce the amount of reserve funds needed to balance the general fund budget.

### **General Fund Revenues**

In the past years, Perquimans County has seen solid growth in its property tax base, mainly through the increase in residential development, therefore creating additional operating revenues without having a property tax increase. Obviously, that is no longer the case. With the downturn in the economy the County's tax base growth slipped to less than 1% increase from last year. By comparison, the tax base grew by over 10% from FY 2007 to FY 2008. Therefore, the County is expected to only receive about \$45,000 in new property tax revenues as opposed to recent years that provided over \$500,000 in new revenues. The budget proposes a 96.6% property tax collection rate, which is slightly lower than recent years, but still relatively strong considering the economic climate.

Sales Tax revenues, which are the second largest source of general fund revenues, are budgeted to remain at the same levels as FY 2010 actual receipts. Unfortunately FY 2010 receipts were approximately 35% less than FY 2009 receipts. The locally generated point of sale tax is expected to generate \$278,500 next year, down from its peak of almost \$600,000 in FY 2008.

There are a few bright spots expected in the general fund revenues, but are very minor compared to the loss of Sales Tax revenues. Building Inspections fees, Land Transfer Taxes, and Register of Deed fees have slightly exceeded expectations in the current year, and therefore have been proportionately increased for next fiscal year. It's important to keep in mind that these revenues are still about 50% less than several years ago.

There are no new significant sources of revenues expected for FY 2011 from the State or other new fees. The State budget does propose to fully reinstate the Beer and Wine Tax, two-thirds of which was withheld by the State in FY 2010.

## **General Fund Expenses**

County Departments were generally very responsive and understanding of the economic situation when requesting operating funds for next year. There are a number of proposed cost-saving measures implemented in order to present a balanced budget. These included a 20% reduction in the travel and training budgets for all county departments, over \$200,000 in reduced capital expense requests, eliminating a part time fire marshal position (which would shift fire inspection duties to the Building Inspections Department), and eliminating an optional retirement supplement for employees. Public safety vehicles for the Sheriff's department and Emergency Medical Services were not eliminated. The EMS ambulance unit replacement, at a cost of \$125,000, was actually delayed one year to FY 2011 as a cost saving measure in the current year, but with only four EMS units, it's imperative to keep these vehicles current.

## ***School Funding***

As explained by the Board of Education, Perquimans County Schools (PCS) will continue to be faced with reduced operating revenues from the State of North Carolina next year due to the State's budget reductions. Low Wealth funding, which is based on a formula measuring counties' ability to pay, continues to decline as Perquimans County's tax base and per capita income levels continue to improve compared to State averages. PCS expects approximately \$700,000 less in State funding next fiscal year for operations. After next year, PCS faces even more reductions in funding as Federal stimulus dollars disappear. The Perquimans County Schools requested an increase in the County's Current Expense appropriation of approximately \$283,000 for next year. The requested increase is primarily due to 1) the School's request to shift in expenses previously paid from Low Wealth Funding from the State and 2) expected utility increases for school facilities. The Schools also requested \$345,384 in Current Capital Outlay for next year. In addition, PCS requested an additional \$125,000 in funding for athletic complex design and 1:1 Computer Initiative.

This budget proposes to increase Current Expense funding by \$75,000, which is the first increase in two years, and reduce the capital outlay request to \$200,000. A debt payment of \$742,940 is also budgeted for the High School loan. The County's FY 2011 budget also proposes to allocate funds for the profession services associated with the design of a proposed athletic complex. As you are aware, the sales taxes and land transfer tax has been heavily impacted by the economy. This forces

the County to rely on general fund revenues of about \$225,000 to meet capital and debt obligations in the coming year. Funding for the schools comprises over 25% of the total proposed County's General Fund operating budget.

There is also the possibility of new State legislation to amend the North Carolina Education Lottery funding. There is a new funding formula proposed, which is based strictly on student population and not partially based on the counties' tax rate. This would increase Perquimans County's receipts from \$120,000 to \$220,000 if passed. Also, the State may allow Lottery proceeds to be used for School operating expenses in addition to School capital expenses, at the request of the local school board. This budget proposes not to use any Lottery funds for any school expenses. Our County has historically allowed these funds to accumulate in order to "pay as you go" for school projects as much as possible, and the funds are not relied upon for recurring expenses, such as school debt payments and annual capital needs.

**Summary of Proposed School Funding for Fiscal Year 2010-2011**

	<b>FY 2009-2010</b>	<b>FY 2010-11</b>	<b>FY 2010-11</b>
	<b><u>Actual</u></b>	<b><u>Requested</u></b>	<b><u>Proposed</u></b>
Operating Expenses	\$ 2,061,540	\$ 2,344,563	\$ 2,137,040
Capital Expenses	\$ 250,000	\$ 345,384	\$ 200,000
Debt Service Payment	\$ 742,940	\$ 742,940	\$ 742,940
Special Projects	<u>\$ -</u>	<u>\$ 125,000</u>	<u>\$ 35,000</u>
<b>TOTAL</b>	<b>\$ 3,054,480</b>	<b>\$ 3,557,887</b>	<b>\$ 3,114,980</b>
% Increase		16.5%	2.0%

***Department of Social Services***

The Department of Social Services (DSS) budget has been increased by over \$60,000 from the current year initial budget. Most of the increase is attributed to the Child Support Enforcement Services, which was formerly a State provided services, but becomes a county service July 1, 2010. Foster Care expenses, which are mostly funded by the County and partially by the State, remain as

the most unpredictable DSS expense. The total proposed DSS budget for next year is \$2.2 million. However, the County expects to receive approximately \$1.4 million in state and federal revenues to offset most of the DSS program costs.

### *Sheriff's Department*

Funding for the Sheriff's Department remains at about \$950,000 for the coming year. As mentioned previously, there is funding for replacement of three Sheriff's vehicles. The County routinely replaces two or three Sheriff's vehicles per year and the vehicles meet the guidelines of the Replacement Policy, which prevents large fluctuations in capital expenses in the Sheriff's budget from year to year.

### *Personnel*

The proposed budget includes a 1.5% cost of living salary increase for all employees. However, full time employees will lose their 2.5% NC 401(k) optional supplemental retirement benefit. The County's savings from the eliminated optional retirement benefit will fund the cost of living increase. The County will continue its contribution to the Local Government Employee Retirement System on the employees' behalf. This mandatory contribution, with the rate set by the NC Department of State Treasurer, will increase from 4.86% of full time employees' salary to 6.41%, which is an additional county expense of \$43,000.

As usual, the County will continue to pay 100% of full-time employee's medical insurance and absorb a 4% increase in insurance premiums. Full medical insurance coverage is a tremendous employee benefit and one that is often taken for granted. Outside of State and local government, this is very uncommon. Health insurance costs over \$5,500 annually per employee and costs the County \$500,000 total per year for all 85 eligible employees.

### **Water Fund**

All water fees are proposed to remain at the same rate as fiscal year 2008-2009, with the exception of tap fees, which are proposed to increase by \$500 to \$800, depending on the size of the water tap. The water budget is actually reduced by over \$100,000 from the current year to just over \$1.9 million. The water fund is also impacted by the slow economy in the form of new water tap

revenues. The water department is installing about one-third of the number of water connections from several years ago.

The County expects to complete the Winfall Water Plant Improvements in the next fiscal year. The County received the maximum amount per project (\$3 million), with half being a “forgivable loan” and half 0% interest loan. The first payment will not be due until FY 2012. This project will greatly improve water quality from this plant and allow the County to better meet peak demands. Also of note, the last debt payment for the Bethel Water Plant occurs in FY 2011

### **Solid Waste Fund**

The proposed budget keeps the solid waste fee at \$120 per year. Operating cost reductions allow the solid waste fee to remain at this level. In fact, Perquimans County has historically had to allocate general fund monies to fully cover the cost of solid waste operations. The FY 2011 budget intends for the solid waste fund to be fully self-supporting. The Perquimans-Chowan-Gates Landfill Commission intends to continue to lower the operating costs by implementing a new recycling contract for materials starting in FY 2011, and to take advantage of the strong scrap steel market.

### **Other Items**

- The two housing rehabilitation projects funded by the Community Development Block Grant and the North Carolina Single Family Rehabilitation Grant should conclude in FY 2011
- Mental Health contribution decreases from \$2 per capita to \$1 per capita, which the new Mental Health provider (East Carolina Behavioral Health) leave the decision to each County for funding to match the level of service
- Funding for the 6 volunteer fire departments remains at \$55,000 each
- Completion of Parks and Recreation Trust Fund Grant project at the Recreation Center
- Funding for the Perquimans County branch of the Pettigrew Regional Library remains the same at \$144,256
- Purchase of new Emergency 911 Equipment to accommodate 911 calls from Voice Over Internet Protocol users
- Funding for College of the Albemarle remains at \$30,000

- Approximate \$1,000 increase in funding for the Tri-County Animal Shelter

## **Conclusion**

The challenges with developing this year's budget are obvious. Fortunately, Perquimans County's debt obligations are relatively low, which affords the County more flexibility to weather slowdowns in the economy.

I'd like to thank the Department Heads for their stewardship in this budget process and their consideration of the decline in County revenues. I would also like to thank the Board of Commissioners for your involvement in the budget process and for making difficult, but important decisions on behalf of the citizens of Perquimans County. Finally, I'd like to thank County staff: Sharon Ward, Tracy Mathews, Frank Heath and Mary Hunnicutt for their assistance and guidance in this process.

I thank each of you for your consideration of this proposal and welcome any changes the Board deems appropriate.

At the request of the Chairman and Board of Commissioners, a public hearing has been scheduled for Monday, June 21, 2010, at 7:00 p.m. in the Annex Second Floor Courtroom for public comment and to consider adoption of the budget.

Submitted by:

---

Bobby C. Darden  
County Manager/Budget Officer