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FY24 BUDGET MESSAGE

TO: Washington County Board of Commissioners
FROM: Curtis S. Potter, County Manager/County Attorney & Budget Officer
RE: Budget Officer's Recommended Budget for July 1st, 2023 to June 30, 2024 ("FY24")
DATE: May 15, 2023

In accordance with the North Carolina Local Government and Budget Fiscal Control Act, as the County Manager and Budget Officer of Washington County, I hereby submit this Budget Message to the Board of County Commissioners of Washington County for its review and consideration together with the recommended budget for the upcoming fiscal year identifying revenue and expenditure estimates, and making line item and departmental recommendations to allocate funds based on those estimates, departmental funding requests, and other information gathered from a wide variety of internal and external sources.

The overall budget presented seeks to balance and meet the needs of county citizens in a manageable and cost-effective manner. Any increases or decreases in revenues or expenditures within the recommended budget are based on researched justifications, and held to a manageable level within individual departments to the fullest extent possible. Any major exceptions to this will be highlighted in this message, and in the recommended budget materials presented to you for your review.

Budget Development Process:
The budget development process began this year with the presentation and adoption of the budget calendar in December of 2022 followed by a Budget Planning Workshop held by the Board of Commissioners and staff in January of 2023.

A Budget Kickoff message and Budget Request Forms and Instructions were made available to all county departments and other partner agencies receiving regular funding from Washington County on or about February 8th, 2023. Budget Request Forms were due to the County Manager by March 8th, 2023. Several departments and agencies were unable to meet this deadline, but this did not cause any significant delays in the overall process this year.

As noted in previous budget messages, in my experience as a Budget Officer, the practical ability to physically meet and engage in personal physical budget discussions is vitally important to developing a more accurate and complete budget for the upcoming fiscal year. This is particularly true in small rural county's with limited administrative support staff and less efficient budget preparation resources compared to larger jurisdictions.

With only a few limited exceptions, both the County Manager and Finance Officer were able to meet in person, at least once, with each department head and/or major outside agency representative, to review departmental/agency requests, and prepare the proposed budget for the upcoming fiscal year.

Major budgetary highlights and comments are broken down primarily by the applicable funds from which each budget is allocated, followed by notes on:

- Capital Improvement Plan ("**CIP**")
- Personnel (Salaries, Benefits, and Modifications)
- Other Items/Summary

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1. **General Fund Revenues, Allocated Fund Balance, & Expenses**:

    a. Introduction: The General Fund (sometimes herein referred to as the ("**GF**") is the largest and primary operating fund of the county from which the overwhelming majority of all governmental operations are funded.

    b. GF Revenues: Revenues of the GF are primarily generated from ad valorem property tax collections, sales tax receipts, motor vehicle tax receipts, various fees, fines, grants and limited shared revenues received from the State of North Carolina.

        i. According to the Washington County Tax Department, the county's Total Tax Base (including real and personal property, public utilities, and motor vehicles) for the upcoming fiscal year is projected to be $1,040,459,553 representing an overall increase of approximately 8% compared to the current fiscal year's tax base of $954,400,821, and a 4% increase compared to the prior fiscal year's higher tax base of $996,003,364 prior to the loss of a substantial amount of commercial pipeline inventory which caused the County's tax base (and the calculated amount of each collected tax penny) to drop considerably in the current fiscal year.

        ii. The overall increase of $84,058,732 in the Total Tax Base consists of the following:

a. A $49,258,732 increase in the Real & Personal Property portion of the tax base due in large part to the full listing this year of assets related to one of the major solar farms that recently began operating in the county.

b. A $22,800,000 increase in the Public Utilities portion of the tax base due to the listing of new public utility upgrades/assets installed by a variety of public utility companies in the county. Dominion Energy was the largest of these and accounted for over $15,000,000 alone.

c. A $12,000,000 increase in the Motor Vehicles portion of the tax base.

iii. <u>Tax Rate Projection</u>: The currently assessed Ad Valorem Tax Rate of $0.840 cents per $100 of assessed property value is recommended to be maintained at the same* rate for the upcoming fiscal year in order to continue adequately funding county operations.

a. *Note the special comments within the School Capital Outlay section of this message with respect to the potential impact of significant debt service on the future tax rate.

b. Also note that the currently assessed Special Tax rate of $.01 cent per $100 of assessed property value for Watershed Improvement (as authorized by voter referendum held on May 6, 1972, and levied in addition to the general ad valorem tax rate) is recommended to be maintained at the same rate for the upcoming fiscal year.

   a. Revenues from this special tax do not support the General Fund, but instead are restricted for use exclusively to adequately fund and manage watershed drainage systems and projects throughout Washington County.

c. As a result of the changes in the overall Total Tax Base, and based on the proposed Tax Rate, the projected per penny ad valorem tax collection amount is expected to increase by $7,721 from $92,016 this current fiscal year, to $99,738 for the coming fiscal year. This should equate to an overall increase of $648,564 in ad valorem tax revenues collected next fiscal year compared to the current fiscal year.

d. The tax rate projections for the upcoming fiscal year are based on collecting an estimated 95.36% of all assessed real and personal property values and public utility values, as well as 100% of all motor vehicle values. In accordance with applicable law, these collection rates are based on the actual tax collection rates from the prior fiscal year, which was a nominally slight decrease from the prior fiscal year's collection rate of 95.45%.

iv. Approximately $16.15M is estimated to be the total General Fund revenues for all taxes, programs, and other activities for the upcoming fiscal year BEFORE the allocation of additional available unassigned fund balance from the General Fund which may be needed to balance total revenues against the total GF budget.

v. A line item by line item comparison of the projected revenues for the upcoming fiscal year to the current fiscal year's budget as of March 4th, 2023 (about 66% of the current fiscal year), as well as to the actual revenues received for the prior fiscal year is included in the "Revenues" Tab of your Recommended Budget Notebooks.

c. Allocated GF Fund Balance & CIP Items: The total GF budget for all county operations and debt service requirements totals approximately $17.7M compared to the current fiscal year's amended budget of $20.1M (as of the date of this Memo), and is balanced against projected revenues and total projected expenses by relying upon an allocation of approximately $1.55M in unassigned fund balance. This amount is shown in the "Revenues" Tab of your Recommended Budget Notebook as an additional revenue source for the upcoming fiscal year.

i. Although the amount of GF fund balance currently recommended to be allocated is substantially smaller than the amount allocated in the current fiscal year, it still represents a considerable portion of the overall available unassigned GF fund balance, and should be carefully reviewed prior to approval.

a. To assist in this effort, management has summarized a variety of larger expenditures and Capital Improvement Items which are recommended to be funded from the GF fund balance for the upcoming fiscal year. This summary can be viewed at the bottom of the last budget sheet in the "Revenues" Tab of your Recommended Budget Notebook.

b. Please note that many of these items represent a continuation of funding for CIP items that were funded in the current fiscal year but have not yet been completed, or in some cases initiated, while others represent new funding for new CIP items.

c. CIP recommendations for the upcoming year include:
   - $280k Replace 2 Transit Vehicles (1 from FY23)
   - $169k Replace Tax Software (Con't FY23)
   - $120k Roof Replacement Reserves
   - $108k Replace 2 Sheriff Vehicles

- $74k Replace DSS Roof Shingles
- $54k Complete DSS Renovation (3rd of 3 years)
- $50k Courthouse/Detention Plumbing (Cont' FY23)
- $35k New County Manager Fleet Vehicle (1/2 of CIP)
- $30k Handicap Rec bathroom upgrade (Cont' FY23)
- $30k Replace main IT switches
- $22k Replace Animal Shelter Fencing
- $16.5k Local grant match for VW Bus Repl (Con't FY23)
- $9k Staff lockers 911
- $6k Viper Radio Programmer WCSO
- $5k New Postal Machine (mandated by USPS)
-

d. <u>GF Expenditures</u>: General Fund expenditures encompass most of the major governmental operations of Washington County including: education, public health, human services, law enforcement, debt and most other general governmental services.

i. Approximately $17.7M is recommended as the total GF expense amount to be allocated for the upcoming fiscal year. This amount is broken down into subtotals by department/category in a relatively short budgetary comparison spreadsheet provided under the "Budgetary Comparison" Tab of the Recommended Budget Notebook. The proposed budget for each department/category is further itemized in separate budget spreadsheets that can be found at the front of each separate TAB of your Recommended Budget Notebook corresponding to the applicable department, agency, or category.

ii. The following provides a very general overview of the rough percentages of the overall total recommended GF expenditures to the largest departments/areas:

FY23	FY23 Original	FY24	FY24	
100%	$19.9M	100%	$17.7M	Total Recommended General Fund
24.5%	$4.87M	28%	$5.02M	Social Services
17.5%	$3.48M	20%	$3.69M	Sheriff's Office, SROs, Detention, Communications
10.3%	$2.05M	See Transfers	See Transfers	WCH Pension Plan
9.7%	$1.74M + CAP	9.8%	$1.74M + CAP	Education Local Appropriation (Does not Incl. Fund21)
8.9%	$1.76M	8.2% 2.5%	$1.45M $0.45M	Transfers to Other Funds Transfers to New WCH Pension Fund
8.4%	$1.66M	11%	1.96M	Admin Depts: Board/Mgr/Finance/Tax/IT
5%	$1M	4.7%	0.84M	Buildings & Facility Services
15.7%	$3.2M	14.4%	2.55	All Other Departments Combined

e. Special General Fund Notes for the Upcoming Fiscal Year:

i. Due to staff turnover and a compressed timetable for completing the budget preparation process this year, no formal budget request forms were created for the Facilities Department (which is also sometimes referred to as Buildings or Maintenance) or for the Soil & Water Department. Staff have consulted with the new department heads in both of these Departments in preparing the proposed departmental budgets by summarized spreadsheets only this year. Please contact the County Manager or Finance Officer with any questions or concerns about the requested amounts in either of these departmental budget sheets for more details.

ii. For the upcoming fiscal year, staff proposes to wind down two separate departments and place them essentially in mothball status with minimally funded budgets.

a. GIS: The core functions of this department will be contracted out to Atlas and processed at least monthly in coordination with the Tax Office which will generate addresses, and provide the info to Atlas necessary to map all splits and modifications. Atlas will also provide additional GIS services on an as requested basis from staff to continue providing internal GIS resources. This will significantly alter the traditional process by which county citizens have been used to dropping in to visit a dedicated GIS staff member with parcel mapping questions. Staff in the Tax, Planning, Library, and Management Offices will need to work together to help deal with customers during this transition, and to begin to educate our citizens on the availability and use of online mapping resources.

b. Veteran's Services: The core functions of this department have been handled for over a year by an out of county Veteran's Services Officer without complaint. The current VA files are secured under County Manager supervision and accessible in the event of any requests. The phone line is being maintained and has a recorded message to provide information to citizens about how to access services through the Pitt County VA office. This is the same model that Tyrrell County has used for some time now as well.

iii. Separation of Pension Funding from GF: In regards to the currently allocated GF fund balance, please recall and note that the larger portion of the previously allocated $3.8M in GF fund balance, was a $2M allocation this Board approved upon Management's request last year, to begin rebuilding the funding that will be needed to meet the substantial long term legal and financial liabilities associated with Washington County Hospital Employees' Pension plan. That now frozen plan, was retained by the County when it sold the hospital around 2007.

a. For FY24 the Finance Officer and I have agreed that the most responsible course of action is to begin utilizing a completely separate accounting fund from the GF in order to more responsibly and transparently separate the funding allocated to this plan from other governmental operation funding in the GF. You will notice this year that there are no allocations to the pension plan directly from the GF. Instead you will find a single proposed transfer from the GF to the newly created WCH Pension Fund (Fund 40) which will continue to make the quarterly and annual payments to beneficiaries as they become due, along with other related professional services fees.

iv. <u>Fire Protection</u>: To support the continued provision of fire protection services throughout the county, I recommend an allocation of $398,952 which is calculated at exactly $.04 collected cents per $100 of assessed property value. This represents an increase of $14,965 over the prior hold harmless amount.

v. Transfers Out of the General Fund: Several larger than usual transfers out of the General Fund are recommended for the upcoming fiscal year including the following:

a. $450,000 to the newly est. Washington County Hospital Pension Fund.
b. 398,952 to be transferred to the EMS Fund representing a continuation of four cents anticipated revenue to help operate the EMS system.
c. $99,738 to the Airport to support continuing operations.
d. $50,000 to the Sanitation Fund to help offset rising scrap tire costs.
e. $40,000 to the Tax Revaluation Fund.
f. $10,000 to the Special Projects & Grants Fund to continue making annual contributions in this amount toward an eventual PARTF grant local match requirement. For the upcoming fiscal year the total accumulated funds for this purpose will reach $50,000.

vi. Contingency Recommendation: $40,000 is requested for contingency purposes to permit the Budget Officer to more efficiently deal with unexpected expenses or emergencies during the upcoming year, and to help prevent delayed services or operational interference that may otherwise result without the availability of such funds. All transfers from contingency are transparently reported to the Board per applicable policy at each board meeting after any such transfers.

2. **Enterprise Fund Revenues, Expenditures, and Operations:** Several major services are operated from self-sustaining enterprise funds (also known as proprietary funds). These include the landfill/sanitation fund (also known as the solid waste fund), the water fund, and the emergency medical services fund, although technically this last fund which relies heavily on annual transfers from the general fund is technically providing governmental rather than proprietary services, and from an auditing standpoint is sometimes treated as part of the total governmental services funded through the general fund.

   a. **Solid Waste Enterprise Fund (33)** Approximately $1.66M is allocated for total Solid Waste Fund revenues and expenditures for the upcoming fiscal year compared to the current fiscal year budget of $1.43M. The $231,284 difference is due primarily to an upcoming mandatory grinding of yard debris next year projected to cost over $75,000, continuing high inflationary pressure on both the solid waste hauling and regional dumping contracts, and an unprecedented rise in the cost of complying with the state mandated scrap tire program. Costs for this compliance have more than doubled with a projected expense this current fiscal year of around $120k compared to $50k last fiscal year. The County has sought legislative support and is actively lobbying to modify the current method of distributing scrap tire tax revenues to help alleviate these increases in price driven largely by a lack of competition in the scrap tire recycling market.

   Solid Waste revenues are derived from household solid waste user fees, town solid waste user fees, regional commercial landfill disposal fees, construction contractors' disposal fees, penalties and interest, white goods and scrap tire disposal fees. Revenues are based upon a proposed $35 increase in the solid waste user fee (SWUF) from $300 per household this fiscal year to $335 per household next fiscal year.

This fee is used to adequately fund the solid waste proprietary enterprise fund. The fee covers costs associated with both curbside pickup services which are anticipated to increase in costs by 5.25% compared to 4.16% last fiscal year, and regional landfill tipping fees which are anticipated to increase in costs by 6.41% compared to 7.48% last fiscal year. In addition this fee is used to help fund the general availability and operation of the local County C&D Landfill.

Historically the SWUF was last raised two years ago from $275 to $300 per household, and had not been raised for at least 4 years before that. Last year's budget message warned that an increase in this fee was anticipated to be needed in the upcoming fiscal year's budget even before the unprecedented rise in scrap tire compliance costs. To help alleviate the pressure caused by those costs, $50,000 is recommended to be transferred from the GF to the solid waste fund in the upcoming fiscal year.

An increase in the municipal availability fee from $40 to $44 is also recommended. This fee is charged to the Town of Plymouth (which does not pay a SWUF) to provide local C & D Landfill access to town account owners on the same basis as county account owners.

The total amount of solid waste per account that can be tipped each year without charge in the C & D Landfill remains set at the current rate of 2,000 pounds of waste per account. Management recommends considering a further reduction of this amount once a viable option has been established to accept credit card payments by customers at the landfill.

The C&D Landfill recently expanded its next cell of available space to increase its overall capacity. In the current fiscal year substantial revenues were generated due to the demolition of Pines Elementary which should help the landfill close the year in the black for the first time in years, but will not resolve the longer-term financial issues facing this fund. In addition, the audit for the prior fiscal year required a restatement of this fund's net position due to an error made by a consulting engineer during a prior evaluation of the landfill's remaining capacity and related calculations of post closure landfill liabilities. This restatement resulted in the landfill having a positive net position for the first time in years, but this position is considered fragile by management at best due to the recurring annual underperformance of this fund.

With the recent expansion of capacity, audit restatement, and large amount of activity this year, management looks forward to carefully reviewing and reassessing the overall remaining capacity and related post closure landfill liability costs during the upcoming FY23 audit process. The results of that analysis will guide and heavily influence future long-term landfill management and funding recommendations.

Due to its ongoing distressed condition, for the upcoming fiscal year, no transfers out of this fund for cost allocations to the GF are recommended.

CIP Project recommendations include:

- $18,000 to replace an older mower to keep the large amount of landfill cover space mowed in compliance with state regulations.

b. **<u>Waterworks Enterprise Fund (35):</u>** Approximately $8.54M in total Waterworks Enterprise Fund revenues and expenses are projected for the upcoming fiscal year compared to the current fiscal year budget of approximately $2.16M. This substantial difference is due primarily to the need to budget for administering two large grants obtained this fiscal year by county staff including a $5,472,000 grant to undertake the long-discussed expansion of the main waterlines from Roper to Pea Ridge, and a $970,000 grant to repair and improve interconnections between the county system and municipal systems. Adjusted for the removal of these two grants, the total revenues and expenses would equate to approximately $2M.

The projected operational revenues for this fund are based on a total of approximately 2,667 customers with an average usage of 3,600 gallons per month. Total combined revenues for water base and consumption charges are projected to increase by approximately $64,000 from $1,365,000 this fiscal year to $1,430,000 next fiscal year.

Historically revenues from water sales have not kept pace with expenditures and long term utility system capital improvement needs, although net position of this fund has improved substantially over the last few years. The State of North Carolina also recently created a Vulnerable Utility Reserve program which essentially scores every utility system in the state on a variety of metrics, and places lower scoring systems into a mandatory remedial training and action program commonly referred to as "VUR".

Washington County, along with all three municipal systems, and most other smaller rural jurisdictions has been placed in the VUR. As part of this process, the County anticipates undertaking a more formal rate review study in the next year or two.

However, for the upcoming fiscal year, the Utilities Department recommends an immediate increase of $2 per monthly base rate charge to every customer countywide to help offset rising inflationary pressure on expenses, particularly for chemical costs related to treating the county water supply.

Most residents currently pay $24 per month for the first 2,000 gallons of water consumed and $13 for each 1,000 gallons thereafter. With the proposed increase, the monthly base rate would increase to $26 per month for most customers. Historically there has not been a rate increase since FY16, when rates were raised in response to a letter of concern received from the LGC regarding the sustainability of the fund balance in this proprietary water fund.

Water Fund Cost Allocations to the General Fund: Cost Allocations are justifiable expenses of one fund made for the benefit of another fund which are "allocated" to that fund within a formal Cost Allocation Plan.

- In FY17 the cost allocations paid from the water system to the general fund were substantially reduced after internal restructuring of some water department staff and due to the concerns about fund balance which appear to have stabilized.

- In FY18 and FY19 the cost allocations were increased again slightly based on the most recent cost allocation report available.

- Since FY18, and continuing through the current fiscal year, a substantially lower cost allocation has been allocated from the Water Fund to the general fund based on the most recent cost allocation reports which typically run one year in arrears for each fiscal year, and are carefully tracked by management to monitor and maintain the separate integrity of the enterprise fund from the general fund, and to ensure that transfers between such funds are only made pursuant to justifiable actual cost allocation reports.

- $100,000 has been recommended as the cost allocation for the upcoming fiscal year.

CIP Project recommendations include:
- $40,000 to replace one of two aging SUVs with the 2nd to be replaced next year.
- $164,000 to begin replacing 20% of the county meters on an annual basis.
- $20,000 to replace aging meter reading hardware.
- $225,000 to replace the SCADA system.
- $70,000 to replace the oldest of three primary wellheads.

c. **Washington-Tyrrell Emergency Medical Services (EMS) FUND (37):** Washington County EMS continues to successfully fulfill its emergency medical services mission to the county's citizens. Washington County operates emergent and non-emergent (transport) services to the county's residents. Washington County EMS also operates emergent services through a contract with Tyrrell County for their citizens.

The primary sources of revenues for emergent and non-emergent services are Medicare, Medicaid, private insurance and private pay patients as well as additional funds from Tyrrell County for operating its EMS program. These revenue sources do not provide enough revenue to fully cover all county EMS operational expenses. For that reason, the county has historically been compelled during previous fiscal years, as well as the current fiscal year, to make a general fund transfer to the EMS Fund to compensate for expenses not reimbursed by the sources cited above, as well as to maintain a fiscally responsible fund balance in this sometimes-volatile fund, due to unpredictable fluctuations in calls for service. The county may be unable to sustain reliance on the county general fund as a revenue source for the EMS program in future years.

Considerable review and evaluation of current EMS operations have been performed over the past decade in an effort to lower expenditures and lessen reliance on county general funds. After implementing a fluctuating workweek schedule for staff to reduce overtime costs, changing billing companies to improve collection rates, and franchising point to point non-emergent medical transport, the EMS system has undergone a noticeable improvement but still requires a regular transfer of general fund revenues, although that transfer is now much more predictable and manageable than in previous years due primarily to proactive fund balance management policies and strong departmental administration in recent years.

In FY19 after much discussion and analysis, it was determined that while the fluctuating work week assisted in temporarily controlling the unpredictable overtime expenses associated with previous shift schedules, that model was no longer considered a viable long-term option due to low recruitment, morale, and high turn-over as well as increased competition from surrounding jurisdictions that do not utilize that particular model.

While more expensive overall, the estimated additional expenses associated with eliminating the fluctuating workweek continue to prove largely accurate based on performance data. Similar estimates have been used for proposing to continue this staffing model for the upcoming fiscal year but will need to continue to be monitored closely in light of the inclusion of the EMS Department in the relatively recently adopted progressive pay plan system, and the addition of a Deputy Director two fiscal years ago.

Approximately $2.36M in total EMS and Transport revenues and expenditures are projected for the upcoming fiscal year compared with approximately $2.78M in the current fiscal year. This $420,191 decrease is due primarily to a reduction in the number of CIP items to be purchased in the upcoming fiscal year compared to the current fiscal year. Of the total $2.36M in projected revenues, approximately $1.83M is anticipated to be received from outside revenue sources, and $398,952 is anticipated to be transferred to EMS from the General Fund representing 4 cents ($0.04 cents) of projected collected ad valorem tax revenues. An additional appropriated fund balance from the EMS Fund of $131,859 is recommended primarily to balance the fund against projected expenses and to help fund several CIP items including:

- $54,000 to replace one aging QRV/SUV
- $23,147 to purchase VIPER compliant radios for the Transport division
- $4,500 to purchase a Stair Chair Pro

3. **Other Miscellaneous Fund Budgets:**

a. **Washington County Schools Current Expenses (GF) and Capital Outlay (Fund 21):** Washington County Schools submitted its recently approved school budget for the upcoming fiscal year to county staff in early May, 2023 outlining intended uses of funding. Pursuant to the written Funding Agreement entered into between the Board of Commissioners and School Board related to the construction of a new PK-12 consolidated school building which began in the present year and is anticipated to accelerate in earnest during the next two fiscal years, the County agreed to hold both the operation and capital funding of the School System at the same levels as the current fiscal year for next fiscal year before changes are anticipated to begin in the overall funding formulas in the following fiscal year.

Management recommends funding to be allocated at the same levels next fiscal year as this fiscal year being $1,705,000 for operations from the general fund, and $400,000 for capital outlay purposes from Fund 21.

Considerable staff time and resources will be devoted again next fiscal year, like the current fiscal year to monitoring and managing the PK-12 project which is the largest capital project undertaken by Washington County in living memory. The revenues and expenditures related to this project are accounted for in Fund 21 and are anticipated to fluctuate frequently next year.

Initially management recommends an additional allocation for this project of $68,903,719 together with a separate additional allocation of $431,058 to make the first interest only debt payment on a $19,796,000 loan, which the County approved at the end of the current fiscal year to help facilitate this project. That brings the total allocated for all revenues and expenses in Fund 21 to $69,734,777.

Unless additional funds are secured to use toward this debt service obligation, next year's debt service which will include principal and a full year's interest will jump to approximately $1.8M. This projected debt service, even with anticipated uses of existing restricted sales tax revenues and annual lease payments from the School System will have a dramatic impact on not just Fund 21, but on the overall ability of Washington County to maintain financial stability without securing a considerable amount of additional new revenues.

In the absence of other revenues, management has discussed with the Board of Commissioners its anticipation that a tax increase will most likely be required to manage these debt service obligations as early as next year.

- From a fiscal responsibility standpoint, management would actually recommend considering some form of tax rate increase around four (0.04) cents starting immediately with the upcoming fiscal year to mitigate against the risk that no additional revenues are received which the County can utilize to address this issue.

- A wait and see strategy has also been discussed with the Board in recent meetings based on the repeated assurances that the County is supposed to receive additional funding from the legislature during the upcoming fiscal year.

- Management assesses the chances of being able to actually access and utilize such funding toward its existing debt service obligations in the coming years essentially at 50/50, and would advocate that the responsible approach would be to raise taxes earlier and lower them later if able to do so. This is based on the reality that it would be much easier to manage the large debt service obligations by getting ahead of the cash flow curve immediately, rather than trying to catch up by reacting after the liability is realized and when the proposed rate might need to be increased.

- However, it is also acknowledged that the maintenance of a steady reliable tax rate, especially one that is already among the highest in the state, is an important component to generating sustainable continuing economic development within the county.

- It should also be noted that even if no additional funding is secured during the upcoming fiscal year to help address the debt service obligations, it may be possible to once again consider a local referendum for a local options sales tax to generate additional sales taxes to offset the need for a potential property tax increase prior to next year's budget adoption if that referendum is held during the 2024 spring primaries.

- For the upcoming fiscal year, based on management's understanding of the Board's current positions on a tax increase in the upcoming fiscal year, no increase has been factored into the budget at this time.

b. **Drainage Fund (30):** $123,000 in total revenues and expenses are projected for this fund which is used to account for special drainage tax revenues and to maintain the various drainage projects and expenses throughout the county.

The currently assessed Special Tax rate of $.01* cent per $100 of assessed property value for Watershed Improvement (as authorized by voter referendum held on May 6, 1972, and levied in addition to the general ad valorem tax rate) is recommended to be maintained at the same rate for the upcoming fiscal year. Revenue from this special tax are used to generate revenues specifically for this special drainage fund.

This fund is also used to account for revenues and expenses of the Eddie Smith Special Assessment District which is expected to begin active assessments again in the upcoming fiscal year. These have been included in the total recommended figures for this fund.

c. **Plymouth Municipal Airport Grants (38) and Operations (39):** Operational revenues and expenditures are estimated in the proposed budget at $265,693 compared to the currently budgeted $209,976 for the current fiscal year. Revenues are generated from airplane fuel sales and airplane hangar rentals. The increase in revenues next fiscal year is due to additional fuel sales anticipated now that the QT Pod/credit card self-serve fuel station is fully operational. The recommendation also includes a continuation of the historical transfer of one collected penny or $99,738 from the General Fund ad valorem tax revenues to the Airport to sustain its operations, along with an allocated fund balance of $49,955 for the upcoming fiscal year.

Washington County continues to receive $150,000 annually in NPE Grant Funds and in more recent years the NC DOT DOA has waived the 10% County Match required to utilize NPE grant funding on certain safety sensitive projects. There is a total of $666,668 recommended for eligible grant revenues and expenditures for the upcoming fiscal year.

d. **Washington County Hospital Pension Fund (40)**: As previously outlined in the general fund section of this message, for the upcoming fiscal year this fund will be utilized to account for revenues (primarily transfers from the general fund) and expenditures made in connection with the WCH Pension Plan obligations of Washington County. For the upcoming fiscal year management recommends allocating $450,000 in total revenues and expenditures for this fund, to be funded from a one-time general fund transfer. This amount includes an allocation of $50,000 to begin addressing long term legal needs of this plan, and to research ways to offer and process early beneficiary buy out options.

e. **Opioid Settlement Fund (50)**: For informational purposes, this fund was established to account for the special revenues received in connection with Washington County's participation in a wide variety of opioid epidemic related litigation over the past several years. For the upcoming fiscal year, management recommends allocating $89,201 in total revenues and expenditures for this fund.

f. **DSS Trust & FC Deposits Fund (51):** This relatively recently created, and externally mandated fund was required to comply with GASB and LGC directives and serves as a passthrough for funds held in trust by DSS. For the upcoming fiscal year management recommends allocating $180,000 in total revenues and expenditures.

g. **ARPA Fund (55):** No allocations have been recommended for this fund in the upcoming fiscal year as management anticipates expending all funds by the end of the current fiscal year and does not anticipate receiving additional funding at this time.

h. **Special Projects & Grants Fund (58):** This fund is used to separate and account for special projects and grants. For the upcoming fiscal year, management recommends allocating approximately $4.56M in total revenues and expenditures. These include:
    i. $4,150,000 to construct a new Multipurpose County Facility at the Airport utilizing $3,250,000 in specially designated legislative appropriations received in the current fiscal year for such purpose together with $900k in local match.
    ii. $50,000 for a future PARTF local match funded with an additional $10,000 transfer to this fund from the general fund.
    iii. $179,153 in potential spending on an Economic Development Motorsports Grant
    iv. $84,270 in potential spending by the Sheriff using specially appropriated state grant funds received in the current fiscal year.

i. **TTA Fund (63):** COVID-19 did not impact overall occupancy tax revenues as originally anticipated. Due to a relatively small fund balance historically, and the inconsistency of occupancy driven revenues, this fund balance and annual operations should also be carefully monitored to ensure that a negative fund balance is not inadvertently created particularly during periods of economic decline. Beginning in FY18 the TTA's largest single activity, the NC Black Bear Festival, branched out to form its own non-profit corporation with financial autonomy which has considerably reduced the amount of administrative work associated with that event by county staff and has also made TTA budgeting overall much more stable and predictable.

Total revenues and expenditures in this fund for the upcoming fiscal year are projected to be $278,635 compared to the current fiscal year budget of $207,504. This increase is primarily due to a proposed $120,000 marketing campaign requested by the TTA which relies upon an allocation of $118,635 in TTA fund balance.

j. **E911 Fund (69):** This fund is used to account for special revenues received from the State of North Carolina for E911 related expenses. Total revenues and expenditures in this fund for the upcoming fiscal year are projected to be $118,952 compared to the current fiscal year budget of $209,020. This decrease is primarily due to completion of the majority of the upgrade work for the primary PSAP prior the upcoming fiscal year which is anticipated to consist primarily of annual routine operations and maintenance expenses. The overall fund balance and annual performance of this fund will need to be monitored and managed closely in the coming years as the program and associated reimbursement rules and amounts constantly change leaving uncertainty about reliable revenue streams.

k. **Revaluation Fund (70)**: For the upcoming fiscal year a continuation of the annual contribution of $40,000 into this fund to set aside for revaluation of the assessed tax base which is required to be conducted at least every eight years is recommended.

4. **Capital Outlay & Capital Improvement Plan (CIP) Items**:

a. The county has been making steady progress toward developing and utilizing a more formalized CIP process over the last few years. For the upcoming fiscal year, staff intends to rely upon and continue developing its formal CIP which was updated and published online under the Finance Office's webpage earlier this year.

b. In the fall of the current fiscal year, staff were notified of their opportunity and need to provide updated CIP requests spanning the next two years. The intent in doing this was to reduce the monumental amount of time and effort taken by staff and administration to comprehensively review and update the CIP itself. By conducting a biennial comprehensive review process, management hopes that this process can be conducted every other year in the fall ahead of the next fiscal year's budget cycle.

c. To assist in your review of these items, staff has included a simplified itemized list of current CIP items along with their current status
in "Tab 48" of your Recommended Budget Notebooks.

d. In addition to the specific CIP items summarized in this message, and for ease of reference, many of the recommended CIP Items to be funded in the upcoming fiscal year have also been inserted into the total recommended budget amounts for each appropriate department budget sheet or fund budget sheet, and are generally highlighted in blue on those sheets in your Recommended Budget Notebooks.

5. **Personnel:**

   a. Insurance & Benefits:

      i. Health insurance rates rose sharply and unexpectedly in the prior fiscal year. Thus far the county has not been informed of any pending increases in the next fiscal year, but an additional 5% increase has been factored into the recommended budgeted Group Health Insurance Rates for the upcoming fiscal year.

      ii. For the upcoming fiscal year, the County will also switch from UNUM insurance to Blue Cross Blue Shield for all dental, eye, and life insurance benefits. This change is expected to save money for both employees and the county, and will resolve administrative issues the County has faced recently with its current carrier.

   b. Progressive Years of Relevant Service (YORE) Based Pay Plan Background: During FY21, Washington County adopted and implemented a new compensation system based on each employee's years of relevant experience in each position. This plan was specifically designed to address serious issues that arose in previous years related to staff morale and recruiting and retaining qualified applicants to provide quality public services to county citizens.

      i. The plan results in an ongoing number of salary adjustments countywide from year to year depending upon each employee's time/years of relevant experience which is typically measured each November, and any resulting increases in compensation typically occurring with the start of the following December payroll period, and the actual increase in pay reflected with the following January payroll.

      ii. All such adjustments have been factored into the proposed budget based on the terms of the plan.

      iii. Ongoing review and adjustment of the plan is anticipated as several positions remain in need of further review and adjustment as previously discussed, and as the overall plan's impacts on actual county recruitment and retention, as well as related financial costs, continues to develop and become clearer with time.

      iv. Staff currently estimates the difference from last fiscal year to this fiscal year in terms of YORE Pay Plan impacts is approximately $80,000.

   c. COLA Recommendation: After careful consideration and evaluation of our overall financial integrity, and discussions with surrounding counties about their intentions with regard to potential recommendations for cost of living adjustments (COLA) for employee salaries for the upcoming fiscal year amidst the backdrop of one of the most volatile periods of inflation in most of our lifetimes, I am recommending another 2.5% COLA for all county employees as part of the overall recommended budget.

i. The current projected cost of this recommendation is approximately $230,000 based on estimates using the combined salaries projected for next year which take into consideration pre-planned step progressions under the recently adopted progressive pay plan. This figure has been reflected in the General Fund budget using a placeholder shown under the "Central Services" Tab of your Recommended Budget Notebooks.

ii. Under the current pay plan, each step of progression already equates to an approximate 2.5% increase, meaning that combined with the proposed 2.5% COLA, for those employees scheduled to progress next fiscal year, they would realize a net increase in pay of 5%, and for those who do not, they would be anticipated to realize this same increase at the time of their next progression typically in the following year under the current plan guidelines.

iii. For informational purposes, the last countywide COLA was an increase of 2.5% on June 16, 2022 and before that an increase of 2% on June, 16, 2018.

iv. This recommendation is in line with similarly sized governments in our region according to a recently published survey by the NCACC which is available on their website and will be provided under the "Personnel" Tab of your Recommended Budget Notebooks for your review.

d. Other Personnel Reclassification Recommendations: The following additional adjustments to the current pay plan are recommended and have been incorporated into the projected salaries of the proposed budget unless otherwise indicated:

i. Detention Regrades: $30,000 has been allocated under a place holder line in the Central Services section of the General Fund to fund the following increases to detention staff. Although these increases will not entirely push the starting pay for detention officers into a competitive range with several surrounding jurisdictions, it is hoped that they will improve morale and recruitment in this department which is suffering from systemic vacancies.
   a. Regrade Detention Officers from Grade 13 starting at $27,193 to Grade 15 starting at $29,254
   b. Regrade Detention Corporals from Grade 14 starting at $28,243 to Grade 16 starting at $29,254
   c. Regrade Detention Lieutenant from Grade 17 starting at $31,251 to Grade 18 starting at $32,275

ii. County Manager's Office:
   a. Conversion of a Senior Project Manager position with starting pay of $34,297 which will be vacant by August to an Assistant County Manager position with starting pay of $60,000.

iii. Finance Office:
   a. The budget includes funding for the anticipated hiring of the Grants & Procurement Manager at a starting salary of $40,400 and a total anticipated cost of $61k to be partially offset by grant admin funding.

This position was previously approved by the Board during the budget workshop in January.

iv. Tax Office:
   a. The recommended budget includes a substantial allocation for the creation of two new positions in this department to be offset by an anticipated increase in the overall Tax Collection Rate.
   b. A Peer Review study by the NCACC and NC Dept. of Revenue related to the staffing needs and recommendations of the Tax Office along with detailed justifications for these positions from the Tax Administrator are attached to the Tax Budget Request under that Tab in your Recommended Budget Notebooks.
   c. The anticipated cost of both positions is expected to be around $106k

v. Sheriff's Office: The proposed budget reflects the freezing of two FTE deputy positions which were approved to be frozen by the Board during its consideration and approval of a series of pay increases for law enforcement during the current fiscal year.

vi. Social Services: The DSS budget includes an additional SWII Supervisor position as requested by DSS during its presentation to the Board during the budget planning workshop.

vii. Additional Part Time Hours: The following departments have been allocated additional part time assistance in the proposed budget:
   a. Animal Control
   b. Elections
   c. Recreation
   d. Soil & Water

e. Except as stated above, no position reclassifications or previously unapproved modifications to individual full-time employee salaries, nor any new fully funded full time employee positions, are included in the proposed budget.

   i. Management notes the need to update its comprehensive pay study last conducted about three years ago to account for changes in market conditions and to prepare for making better long-term staffing decisions in what is certain to be a challenging future for personnel recruitment and retention. This process is recommended to be initiated in the early fall of the upcoming fiscal year once we have a better idea of any additional funding to be received in relation to the PK-12 School project and a better idea of our standing available fund balance at that time.

a. Management recommends particular scrutiny of the telecommunications salaries to assist that department with more competitive recruitment and retention, although there are a variety of departments and positions which are in an increasing need for further review.

6. **Summary:** This recommended budget attempts to manage expenses and utilize revenues in order to meet all current mandated funding requirements and ongoing needs. The NC General Assembly may pass along other costs or change revenues that may alter the budget once it's adopted. The county will need to monitor and evaluate the effects of any legislative changes on the budget during the fiscal year.

   It should serve as some comfort that over the past few years, Washington County has done an admirable job of building its available unassigned Fund Balance to an amount more in line with Management's recommendations, and which as of the prior year audit, appears to provide us with a solid footing on which to think about how to best meet the challenges ahead of us. The recent use of the CIP process along with this fund balance will help equip us to meet and overcome those challenges. Those challenges in the coming fiscal year will be numerous including without limitation:
   - Construction of the PK-12 School
   - Preparing to pay for the debt service installments related to that project
   - Construction of a $4M Aviation/Emergency Management Building
   - Dealing with increasing inflation and unprecedented staff competition

   A public hearing regarding this recommended budget is scheduled for **June 5th, 2023** in the Washington County Board of Commissioners Room at 116 Washington St. Plymouth, NC 27962.

   Please contact the Clerk to the Board at the information in the letterhead of this Budget Message for more information about how to attend or be heard at this hearing.

   Final adoption of the budget for the upcoming fiscal year is anticipated to occur sometime during the month of June this year, and could occur as early as the same night of the public hearing.

   If the Board desires to hold any additional special meetings to discuss any questions or concerns it may have related to the recommended budget, staff requests that those meetings be scheduled prior to the upcoming public hearing to the greatest extent possible in order to keep the overall timetable on track for budget adoption by early June of this year.

   Thank you for your time and consideration of this recommended budget. I look forward to continuing to work with this Board and the staff through its deliberation and eventual adoption.

Respectfully Yours,

Curtis S. Potter
County Manager