

ORANGE COUNTY
BOARD OF COMMISSIONERS

ACTION AGENDA ITEM ABSTRACT
Meeting Date: April 8, 2010

Action Agenda
Item No. 2

SUBJECT: FY 2010-11 Budget Work Session

DEPARTMENT: County Manager and Financial Services

PUBLIC HEARING: (Y/N)

No

ATTACHMENT(S):
Attachment 1. FY 2010-11 Projected Budget Funding Issues

INFORMATION CONTACT:
Frank Clifton, (919) 245-2300
Clarence Grier, (919) 245-2453

PURPOSE: For the Board to make decisions regarding development of the FY 2010-11 budget.

BACKGROUND:

1) Current Year Fiscal Update

- **Recommended Board Action** - The County Manager recommends the Board receive an update from staff regarding the County's current FY 2009-10 fiscal status.
- a) **Revenues** - Overall revenue collections are ahead of where they should be at this point in the fiscal year.
 - i) **Real Property Taxes** - Preliminary reports indicate property tax revenues year-to-date are ahead of the prior years' collection rates. Of the \$122.3 million budgeted for real property taxes, the Tax Administration Office has collected about 100.5% of total budget or \$123 million as of March 31, 2010, an increase of \$5.6 million over the previous fiscal year.

Delinquent property tax receipts are 91.3% of budget and ahead of projected delinquent property tax receipts.

- ii) **Motor Vehicle Property Taxes** - Motor vehicle property tax collections to-date are ahead of where the County should be at this time of the year. Total collections on motor vehicles are \$6 million. Staff continues to monitor the numbers monthly and will provide additional information to the Board as it becomes available.
- iii) **Sales Taxes** - To date, the County has received six months of sales tax receipts for the current fiscal year. The state distributes sales tax revenues monthly, 45 days after the month collected. Out of a \$16.8 million budget, the County has received \$7.6 million or 46%. Unfortunately, we did not receive the \$2.6 million in Hold Harmless Funds expected for the Medicaid Relief/Article 44 Sales Tax Swap as previous discussed in our February 2010 Budget Work Session.

Due to a decrease in sales taxes and an offsetting increase in Medicaid expenses, we were only one of six counties to receive funds due for the Medicaid/Article 44 Sales Tax Swap in excess of the State calculated \$500,000 hold harmless amount. This net reduction is expected to be \$1.9 million. We do not expect to receive this revenue in the future.

- iv. Intergovernmental Revenues – Year to date intergovernmental revenues are lagging due to slow reimbursements from the Federal, State and other funding agencies. As of March 31, 2010, intergovernmental revenues totaled \$9.6 million, which is less than the prior fiscal year of \$2.5 million due to funding cuts by Federal and State agencies.

- b) **Expenditures** - Overall departmental expenditures are under budget at this point in FY 2009-10. Total expenditures are currently \$5.1 million under budget with 3 months remaining in this fiscal year. Departments have been very prudent and conservative in their departmental spending throughout this fiscal year. Additionally, the County Manager has continued to communicate a number of budget directives for the current fiscal year. The list below outlines current year budget directives and guidance the Manager has issued to date:

- Continuing the County's 12-month hiring freeze for vacant positions created by the retirement incentive and eliminating vacant positions this year.
- Increasing fund balance by 2% of budgeted operating expenditures
- Delaying capital expenditures
- No out of state travel and postponing other travel if possible

Other North Carolina counties have implemented similar budget constraints and tightening measures in reaction to the slow economy and recession.

2) FY 2010-11 Budget Activity to Date

- **Recommended Board Action** - The County Manager recommends the Board receive information regarding staff activity to-date in preparation for the upcoming FY2010-11 budget.

The FY2010-11 Budget process presents another year of challenges. On the revenue side, we anticipate little or no growth in the County's tax base. The normal growth in the real property valuation will be offset by decreases in motor vehicle valuations, foreclosures and bankruptcies. Additionally, the Commissioners have expressed a continued desire to avoid a tax rate increase.

In regards to expenditures, departments have submitted their budget requests. Total projected revenues are expected to be \$174.2 million. Preliminary departmental requests for FY2010-11 total \$187.6 million. Thus, we have a \$13.4 million difference between requests and estimated revenues. This is an increase of \$7.7 million over our previous projection. It is stressed that this gap is prior to the County Manager doing a formal review of each department's proposal and developing the Manger's recommended budget. Variations from previous estimates are highlighted in Attachment 1. As discussed in prior meetings, the Manager is obligated to provide the County Commission a balanced budget recommendation. Doing so, will involve significant changes in how Orange County approaches many services and programs from past practices. Difficult choices will demand dramatic decisions be made.

Revenues

- Sales tax losses of \$1.9 million.
- Reduced impact fees of \$1 million.
- Losses of intergovernmental revenues of approximately \$1 million.

Expenditures

- \$1.4 million for new EMS staff to reduce emergency response time.
- \$1.75 million increase in current expenses for both School Systems.
- \$1.5 million for new capital equipment and vehicles.

a) County Manager FY2010-11 Budget Preparation Directions to Departments

In order to balance the FY2010-11 budget goals and meet the anticipated priorities, it will be necessary to decrease future spending levels and programs. Because of this, the County Manager has provided the following direction to department directors as they prepare for their FY 2010-11 budget meetings.

Departments should submit FY2010-11 budget requests reflecting core services only. The dollar amount or potential percentage decreases will be 15% in order to balance the FY2010-11 budget.

Department heads are expected to look critically at their department and propose reductions in, and in some instances elimination of, programs; non-mandated services and activities to achieve a balanced budget.

3) BOCC FY 2010-11 Budget Decisions and Guidance

Recommended Board Action — The County Manager recommends the Board make decisions that provide direction to staff in developing the FY 2010-11 budget.

During our January 2010 Budget Work Session, staff engaged the Board in a preliminary conversation about budget drivers, including a target tax rate and funding for schools that would affect the upcoming budget for FY2010-11. Some of the major issues influencing the FY2010-11 budget are as follows:

- Property and Sales Tax Growth is expected to remain stagnant with only an anticipated increase of .50% to 1%.
- Salaries will be budgeted at 100%.
- Increases in fringe benefits and retiree cost of \$1.9 million in FY2010-11.
- Debt service costs will increase approximately \$2.9 million in FY2010-11.

This handout highlights budget drivers that influence the upcoming budget. The County Manager recommends Commissioners make decisions at tonight's work session to guide in developing the upcoming budget.

Strategies to Balance the FY2010-11 Budget

- Defer County and School Capital Pay-as-you Go Expenditures
- Hold both school systems operational expenditures to the current year funding.
- Defer new EMS expenditures.

FINANCIAL IMPACT: Financial impacts are included in the Background section.

RECOMMENDATIONS: Recommendations are included in the Background section.

Attachment I

**General Fund
2010/2011 Projected Budget Funding Issues**

	2009/2010	2010/2011	Preliminary 2010/2011	Difference
Expenditures	\$ 177,589,039	\$ 177,724,539	\$ 177,724,539	
Add				
County Attorney	\$ 99,500			
Sanitation Convenience Ctrs	\$ 36,000			
Budget 100% Salaries		\$ 1,165,200	\$ 1,165,200	\$ -
New EMS Response Time (staff)			\$ 1,400,000 (1)	\$ 1,400,000
Schools Current Expense			\$ 1,745,000 (2)	\$ 1,745,000
Net New Debt		\$ 2,511,656	\$ 2,854,862	\$ 343,206
Retirement		\$ 656,289	\$ 695,000	\$ 38,711
Vehicles & Equipment		\$ 500,000	\$ 1,560,000 (1)	\$ 1,060,000
Employee Benefits Increase		\$ 315,000	\$ 235,000	\$ (80,000)
Transfer To CIP Library		\$ 245,000	\$ 245,000	\$ -
Retiree Incentive Savings		\$ 900,000	\$ 900,000	\$ -
Energy Costs Increase		\$ 100,000	\$ - (1)	\$ (100,000)
Rebuild Fund Balance		\$ 400,000	\$ -	\$ (400,000)
Additions	\$ 135,500	<u>\$ 6,793,145</u>	<u>\$ 10,800,062</u>	<u>\$ 4,006,917</u>
Less				
Possible Positions Eliminated		\$ 912,134	\$ 912,134	
\$ -	-			
Deductions	<u>-</u>	<u>\$ 912,134</u>	<u>\$ 912,134</u>	<u>\$ -</u>
Total Expenditures	\$ 177,724,539	\$ 183,605,550	\$ 187,612,467	\$ 4,006,917
Revenues	\$ 177,589,039	\$ 177,589,039	\$ 177,589,039	\$ -
Add				
Property Tax Growth		\$ 615,000	\$ 1,400,000	\$ 785,000

Sales Tax growth		\$ 72,500	\$ (1,900,000)	\$ (1,972,500)
Intergovernmental Revenues			\$ (1,000,000)	\$ (1,000,000)
Impact Fees			\$ (1,000,000)	\$ (1,000,000)
Charges for Services & Fees		\$ 150,000	\$ (348,000)	\$ (498,000)
Fund Balance Applied	\$ 135,500			
	Additions	\$ 135,500	\$ 837,500	\$ (2,848,000)
				\$ (3,685,500)
Less				
Investment Income		\$ 500,000	\$ 500,000	\$ -
	Deductions	\$ 500,000	\$ 500,000	\$ -
Total Revenues		\$ 177,724,539	\$ 177,926,539	\$ 174,241,039
				\$ (3,685,500)
Budget Over/Short	\$ -	\$ (5,679,011)	\$ (13,371,428)	\$ (7,692,417)

(1) Revised based on Departmental Requests

(2) Based on requests from CHCCS for a \$46/student increase and 279 new students for both school systems