

Craven County



Fiscal Year 2021 – 2022

County Manager's Budget Message

May 17, 2021

Mr. Chairman and Members of the Board of Commissioners:

It is my privilege to present to you the recommended fiscal year 2022 budget for Craven County. As proposed, this budget incorporates the priorities and policy direction of the Board of Commissioners while continuing to provide the highest quality of services to the citizens of Craven County in the most fiscally responsible manner. The recommended general fund budget for fiscal year 2022 is \$120,828,123 without any fund balance appropriated and recommends that the ad valorem tax rate for fiscal year 2022 be set at 56.00 cents per \$100 of valuation. The current ad valorem tax rate of 54.94 cents has been maintained for the last two years and is no longer adequate to support the increasing demand on County services and the enhancements to school safety as we head into next fiscal year.

While there is no fund balance appropriated in the recommended budget, local governments are strongly encouraged to maintain adequate fund balances in order to ensure against unanticipated events that could adversely affect the County's financial position and jeopardize the continuation of County services. As such, the County continues to budget and operate in a fiscally responsible manner which has provided a fund balance sufficient enough to accomplish this while also remaining consistent with that of our peers statewide. Craven County's available fund balance was 24% of expenditures at June 30, 2020, while other counties with over 100,000 in population had fund balances averaging 26.77% and all one hundred counties averaging 29.07%.

As we approach the new fiscal year, the County's financial position remains stable and the outlook on the local economy is positive as we enter the recovery phase of the COVID-19 pandemic. Revenues collected for the first ten months of the current fiscal year are \$9.6 million ahead of last year, while expenditures for the same period are approximately \$4.9 million more. While the pandemic produced a sharp decline in economic activity in the beginning of 2020, the recovery was much quicker than anticipated. Consumer activity rebounded at a rapid rate resulting in much higher sales tax revenue than expected.

As a result, sales tax collection for the year through April has been trending 8.3% higher than the same time last year. The County has also experienced higher than projected revenues from other sources including \$837,000 from the Medicaid-Sales Tax Hold Harmless distribution and approximately \$4.4 million in CARES Act funds that have also contributed to the County's enhanced revenue position. Expenditures and transfers out for the first ten months of fiscal year 2020 are higher in many of the functional areas including general government, public safety, and debt service. Some of these increases are one-time costs such as the County's response to the COVID-19 pandemic, while others are reoccurring such as four additional School Resource Officers added mid-year as the County prepares to take over the school safety program in most schools. The current fiscal year was also the first full year of annual debt service payments totaling \$935,000 for the Convention Center renovation and repair loan.

The County ended fiscal year 2020 in a strong financial position using only \$5,000 of the \$7.2 million appropriated from fund balance during the fiscal year. Higher than projected revenues along with the County's conservative approach to spending limited the use of fund balance. Although the County did not make a transfer into the Capital Reserve Fund during the fiscal year, approximately \$638,000 was used towards budgeted capital items and projects. Thus reducing the fund balance in the Capital Reserve Fund by approximately \$580,000 for the fiscal year ending June 30th, 2020. As the County has experienced over the past few years with Hurricane Florence and the COVID-19 Pandemic, funding of the Capital Reserve Fund when excess revenues or savings are realized continues to serve as an important part of the County's financial position. This provides for future needs while helping to prevent tax increases and borrowing costs to fund much needed capital items.

There are a variety of factors that has a significant impact on the proposed budget. The current assessed value for fiscal year 2022 is estimated to be \$10.01 billion which is a 1.11% increase over the estimate of \$9.9 billion used for the fiscal 2021 budget. The County has experienced modest growth in the tax base over the past year. The fiscal 2022 estimate projects an increase of approximately \$113 million in value over the actual reported for the previous fiscal year. Most of the valuation lost to Hurricane Florence has been recovered and is reflected in the current projected valuation.

Total revenues and expenditures each amount to \$120,828,123 in the recommended budget for fiscal 2022. This represents a decrease of \$4.4 million or 3.5% compared to the current budget of \$125,180,728 through the end of April 2021. Although still very much a factor, most of the decrease is attributed to budgeting less towards the COVID-19 response as the rate of infections and demand for the vaccine are trending downward in the County and around the State. Property tax revenues are budgeted at a 2.6% increase while sales tax revenues are budgeted at a 22% increase over last fiscal year's budgeted amounts. The reason for the increase in sales tax revenue was due to the methodology applied last year as the budget was developed during unprecedented times at the onset of the pandemic with very little to no historical data to base revenue projections. Sales tax collections have outperformed the expectations of many economic forecasts as consumers spent more on taxable goods during the pandemic. Additionally, strong sales tax collections were assisted by the prior implementation and requirement for online marketplaces to collect and remit sales tax on purchases. Overall, the amount budgeted for sales tax next fiscal year estimates a 3% increase on the last twelve months of actual receipts as strong consumer spending is expected to continue in the County.

Transfers into the General Fund from the Capital Reserve Fund are down approximately \$979,000 from the current budget. Capital expenditures and major repair projects were closely examined and only as a result of the Capital Reserve Fund, many were able to be funded. Overall capital outlay costs are down approximately \$2.6 million compared to the current budget. Out of the total \$3.9 million capital expenditures budgeted for fiscal year 2022, \$1.9 million is funded with transfers from the Capital Reserve Fund. The majority of capital

expenditures funded in this budget include the maintenance and replacement of vital infrastructure in the areas of technology and facility improvements.

In addition to the capital items funded in this budget, the County is planning for several major projects heading into next fiscal year. One of these is the continuation of the County's Enterprise Resource Planning (ERP) software replacement project. With the accounting module completed in fiscal year 2019, and the payroll/human resources module completed in fiscal year 2021, resources will be allocated in fiscal year 2022 towards implementing the cashiering system along with the utility billing and permitting modules. Phase two of the ERP project included the replacement of the County's tax system. Both the property tax collections and billing modules were implemented last fiscal year leaving only the real estate appraisal component to be completed. The completion date for the appraisal module is targeted for late 2021 and will be used to complete the next countywide revaluation. Craven County's Hurricane Florence recovery efforts will continue into next year with the restoration of the Courthouse buildings, elevation of Lawson Creek Pump Station, and the repair and replacement of the water system's telemetry communication infrastructure with fiber. All three of these projects are in the final stages of planning with the final funding determinations being negotiated with FEMA. Other major projects programmed into the fiscal year 2022 budget include expanding utility infrastructure in our Industrial Park, performing HVAC control upgrades throughout our court facilities, and addressing structural and air handler issues at the New Bern Library.

Total salaries and benefits in the recommended budget are \$3.4 million higher than the current budget. Of this increase, approximately \$780,000 includes a full year of the two percent cost of living that was not funded in the original fiscal 2021 budget due to the pandemic but later approved at December's mid-year budget work session. Additionally, \$341,000 was added to the budget for positions added mid-year. Those include; four School Resource Officers, one Deputy Sheriff Patrol, and the reclassification of the Roadside Litter Foreman from a part-time position to full-time in the Solid Waste Department. The fiscal 2022 budget continues the County's investment in its greatest asset by recommending a two percent cost of living increase for employees. This accounts for both increases resulting from inflation while also maintaining the competitiveness of Craven County in the current labor market. Recommended in the fiscal 2022

budget are a total of 14 new full-time positions and they are; a Payroll Technician III, a HVAC Maintenance Technician, a Sheriff Administrative Support Assistant III, four additional School Resource Officers, one Deputy Sheriff Patrol, a Telecommunicator I, a Mobility Manager in CARTS, two Social Worker III's at DSS, and a new Water Field Tech in the Water Department.

Total benefit costs are budgeted at approximately \$1.4 million higher than the current budget due to increases in the County's health and dental premiums and the retirement system rates. So far this year, health and dental claims have been running slightly below last year's levels, however, the budget includes a five percent increase to both County and employee premiums and accounts for \$504,000 of the total increase to benefit costs. For the third year in a row, the retirement system employer contribution rates were increased in the budget by 1.2%. This accounts for \$588,000 of the total increase in benefit costs and is the rate established under the retirement system's Employer Contribution Rate Stabilization Policy which is anticipated to remain the same through fiscal 2022. At this time Craven County has not been notified if any increases will be needed for fiscal year 2023 and beyond.

Overall current expense funding for Craven County Schools is recommended to remain flat at \$22,189,991 per the Board of Education's request, and continues the County's investment and support for our local school system. Craven County Schools faces complex and varied budget challenges similar to Craven County. While the recommended funding amount continues Craven County's financial commitment to the school system, there continues to be long term issues that will need to be addressed in future budgets. As revenues from federal and state sources tied to enrollment numbers continue to decline, the cost to operate and maintain aging school facilities does not. This issue will be ongoing and will likely need to be addressed over the next several budget cycles. Forecasted enrollment numbers by Craven County Schools continue to show a decline in enrollment trends that will continue over the next 4 years in all grade levels. The current budget request maintains retirement system contributions at 21.68%, health care premiums at \$6,326 per employee, and the local supplement at 10.0%. Capital outlay requested is \$1,958,000, a reduction of \$37,000 from the current year's budget and includes no category 1 projects over \$100,000. There are various repairs and enhancements throughout the school system including boiler and chiller repairs, intercom upgrades, gym bleacher repairs, and

renovation of the culinary arts room at West Craven High School. Also included in the Capital Outlay amount requested is \$900,000 which continues the funding for the systems Apple iPad lease agreement.

The proposed budget funds Craven Community College's requested current expense at \$4,101,425 which represents an increase of \$172,125 over the current year. Part of this increase includes \$28,733 towards additional personnel cost for salaries, retirement, and health benefits. The current expense budget also includes an increase due to the Volt Center Expansion including the new Law Enforcement Simulator, Diesel and Heavy Equipment Programs expansion, and Small Business Center. Capital Outlay for the college was budgeted at the previously agreed upon baseline allocation of \$500,000. Projects planned for this year include renovations to the lab floor in the Bosch Advanced Manufacturing building, HVAC upgrades at the Bender and Perdue Buildings, chiller replacement at Kelso Hall, and miscellaneous roof, parking lot, sidewalk, and road repairs.

The proposed fiscal year 2022 budget provides balance and fiscal responsibility in addressing the many needs across the County while continuing to maintain the lowest tax rate possible for the citizens of Craven County. Craven County values the competitive edge maintaining a low tax rate offers in areas such as economic development and retirement relocations. As always, there is still the possibility that the General Assembly may take actions that could affect the County budget. We will continue to monitor for those potential impacts however I believe Craven County continues to be well positioned fiscally to address any challenges that may come forward.

I wish to commend the Department Heads, staff and agencies for their cooperation and valuable assistance in this very difficult budget process. I would also like to thank our Finance Director Craig Warren, Assistant County Manager Gene Hodges, Human Resources Director Amber Parker, and Budget Analyst Sarah Williams for their essential contributions in developing this budget. I look forward to working with the Board of Commissioners in finalizing the fiscal year 2022 budget. The recommended budget shall immediately be available for public inspection in

the Manager's office and posted on the County website. I recommend the Board schedule a public hearing at 7:00 PM on June 7, 2021 and conduct budget work sessions as required.

Respectfully submitted,

Jack B. Veit, III, Craven County Manager