



CASWELL COUNTY LOCAL GOVERNMENT OFFICE OF THE COUNTY MANAGER

June 5, 2023

TO THE CASWELL 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) 2024 Recommended Annual Budget for Caswell County. The budget is balanced, identifies revenue and expenditure estimates for FY2024, and attempts to meet the needs of our community through excellent customer service.

The recommended budget provides \$39,143,000 in total expenditures across all funds, with a General Fund total of \$34,303,000. The proposed tax rate to support the FY2024 budget is 75.40 cents per \$100 of assessed valuation which is still the lowest tax rate among like counties. This rate includes a recommended increase of 1.9 cents above the prior year adopted tax rate. The value of one penny on the tax rate is \$173,653.

The purpose of the budget message is to provide an understanding of the County Manager's Recommended Budget. This document has been organized in the following sections to provide a foundation for decisions made in developing this budget.

- Economic Considerations
- Long Term Financial Sustainability
- Budget Development Goals
- General Fund Revenue
- Fund Balance
- General Fund Expenditures Highlights
- Conclusion

Economic Considerations

The last three years have been characterized by rapid, abrupt, and constant change resulting from the magnitude of the COVID-19 pandemic. Uncertainty continues as we transition to a "new normal." Economic recovery has been uneven, with wage gains for many workers offset

by the highest inflation rates in four decades and the labor market crippled by the “Great Resignation.”

The best indicator of our local economy is sales tax and for FY2021 through 2023, sales tax revenue significantly exceeded budget expectations due to federal pandemic funding that boosted disposable income. Sales have remained strong during FY2023, but growth may be beginning to slow down to pre-pandemic levels.

Another important economic factor is inflation. Nationally, inflation has averaged 8.6% over the prior year and is finally trending down from a forty-year high of more than 9% last June. Inflation, increased costs of goods and services and rising interest rates continue to reduce disposable income.

Long Term Financial Sustainability

Given the context of the last three years, it is clear we face uncertainty and unpredictable future challenges. The new normal is still evolving. Although Caswell County has persevered through the persistent impacts of the pandemic and the economic storm, financial sustainability continues to pose a real challenge for the foreseeable future. The rising costs of employer retirement costs, operating expenses, salary pressures to remain competitive and increased demand for services, outweigh available, recurring revenue.

The recommended budget funds expenditures for FY2024 and this Recommended Budget begins building the foundation for long term financial sustainability to build a resilient organization. Financial stability can only be achieved through fiscal discipline, achieved through a healthy balance between revenues and expenditures. Continued reliance on one-time fund balance as revenue source to balance the budget is not financially sustainable.

The following actions are recommended to create the foundation of fiscal discipline:

- Recurring expenditures are added only to the extent that available recurring revenue is identified
- Develop a fund balance policy identifying the minimum level or percentage of fund balance to be maintained to ensure cash flow, adequate funds for emergencies or adverse financial events
- Fund Balance is appropriated to fund only one-time expenditures in compliance with the fund balance policy
- Identify short-term and long-term goals to guide the allocation of limited resources to ensure a solid base of core services to achieve excellent customer service

The recommended tax increase of 1.9 cents is the first step in reducing the County’s reliance on using one-time fund balance as a revenue source to fund recurring expenditures. The 1.9 cent increase is dedicated for debt repayment for the Bartlett Yancey Senior High School expansion and renovation project. This tax increase aligns with the information shared with the citizens, regarding a tax increase to support the project, as they considered the bond referendum. This increase will currently add \$33.54 to the property tax bill of the median homeowner in Caswell County.

The County will be conducting the statutorily mandated Property Revaluation during FY2024, which will be effective with the FY2025 budget. Given that median home prices soared and hit an all-time high in 2022, property values are expected to increase significantly through the revaluation. Other counties have experienced value increases ranging from 40 to 80%. Revaluation is linked to achieving fiscal discipline as the Board reports the revenue neutral rate and considers the property tax rate that supports the mission of providing services and achieves long-term financial sustainability.

Budget Development Goals

The FY2024 recommended budget has been developed to maintain current services levels, fund mandated expenditure increases and address the ongoing challenges with staffing shortages. The following budget goals were identified in creating this budget:

- Address recruitment and retention through market adjustments
- Create the foundation for a successful 2025 Property Revaluation
- Limit the reliance on fund balance as a revenue source for recurring expenditures
- Fund maintenance and repair for county facilities

General Fund Revenue

- **Ad Valorem Taxes:** The largest revenue source in the General Fund is ad valorem taxes representing almost 39% of total budgeted revenue. These taxes are based on the combined values for real property, personal property and motor vehicles of \$1.76B. Ad Valorem taxes for FY2024 are budgeted at \$13.5M, an increase of \$2.5M (18.52%) over the FY2023 budgeted amount but are within projection for current year receipts.
- **Sales Taxes:** During FY2021 through FY2023, we experienced significant growth in sales tax collections averaging 12%. With the elimination of federal stimulus funding and rising inflation, disposable income has declined during FY2022, and we project annual growth will be closer to levels prior to March 2020. Sales Taxes are budgeted at \$6.6M, an increase of \$64,712 or .09%.

Fund Balance Appropriated

The Local Government Commission recommends local governments maintain a minimum of 8% of undesignated fund balance. However, to achieve long-term financial sustainability, and due to the significant statutory responsibilities that counties have, it is prudent to maintain an amount higher than the minimum of 8%. Over the last several years the Board has relied upon fund balance, one-time funds, as a revenue source to balance the budget. This is not financially sustainable.

Per the FY2020 audit, the unassigned fund balance is \$3.8M or 13.5%. Since fund balance has been appropriated to support recurring expenditures, the fund balance forecast for FY2021 through 2024 projects the unassigned fund balance will be reduced to approximately 9%. To begin the process of reducing reliance on fund balance and matching recurring expenditures with recurring revenue, the total fund balance appropriation is limited to \$2.8M, \$1.7M for recurring expenditures and \$1.1M for one-time items.

General Fund Expenditure Highlights

➤ **Local Government Employee Retirement System (LGERS) – Employer Rates**

Under the direction of the State Treasurer's Office, the LGERS Board voted to increase the system's employer contribution rates by 1.2% for multiple years beginning in FY2020. This mandated increase addresses a significant system funding shortfall expected in future years. The recommended budget includes additional funds in the amount of \$156,000 which represents a 1% increase in the employer rate for Law Enforcement Officers and .75% for all other employees.

➤ **New Positions**

The recommended budget includes the following three new positions. Funds in the amount of \$46,645 are budgeted for salary and fringe benefits for a Scalehouse Attendant in the Solid Waste Fund. The recommended budget includes funds in the amount of \$160,770 for the Communications Officer and Grants Manager.

- **Solid Waste Scalehouse Attendant:** The Board has concerns regarding illegal dumping in the county and convenience sites and has directed the Solid Waste Director to address this issue. Our solid waste function has three full-time positions which limits the Director's ability to tackle this significant community concern. The duties of this new position will include scalehouse and administrative functions, which will allow the Director to allocate more time to illegal dumping.
- **Communications Officer:** An important tenet of good governance is transparency. Transparency is achieved through communication with the citizens. Previously, local governments relied upon the "print media" to follow and report on local government actions. Today, most local governments have hired their own public communications staff to make sure the citizens have accurate and timely information. This new position is recommended to provide transparency through creating press releases as well as written and digital content to ensure the citizens are properly informed about county events and actions.
- **Grants Manager:** Grants writing, tracking and reporting takes a significant amount of time and expertise to remain competitive and to ensure compliance. Currently we rely on county departments to seek grant opportunities, write and prepare the grant application and to monitor grant compliance. This has become very difficult to accomplish with limited resources and continued position vacancies. This new position is recommended to assist departments in seeking grant opportunities that align with their departmental mission. The Grants Manager will help departments in preparing the grant application, tracking performance, reporting and compliance.

➤ **Recruitment and Retention**

The outside assessment conducted during FY2022 of our recruitment and retention challenges identified deficiencies in our pay practices. The study found that our starting salaries are lower in most classifications as compared to our counterparts, thus adding

to our recruitment challenges. From a retention standpoint, the study revealed that we have significant salary compression, which means that many long tenured employees are paid very close to the minimum salary or close to their peers who have minimal experience or years in their position. In addition, our cost-of-living adjustments (COLAs) have not kept pace with the Consumer Price Index or pay adjustments awarded by competing employers over the years.

The FY2023 budget included the following actions in response to the Salary Study:

- Minimum starting salary for all positions - \$30,000
- Increase of .5% for every year of service (excludes \$60,000 and above)
- Increase all salaries to 90% of the study minimum (excludes \$60,000 and above)
- Minimum increase for all employees is 7% (excludes \$60,000 and above)
- Increase of 2% for all employees over \$60,000
- Additional 5% for all employees over \$60,000 later approved

These actions approved by the Board last year were a step in the right direction to recognizing that our employees are our greatest asset. We are a service organization and experienced, talented employees are the key to efficient and compassionate service to the citizens of Caswell County. We have challenged our staff to do more with less and persistent vacancies have forced staff to take on additional workloads.

We are not immune from recruitment and retention challenges faced by other local governments and the private sector. Local governments have been forced to raise their minimum pay and evaluate and change their pay practices and benefits to remain competitive. This dynamic has created additional challenges for the county as employees can seek higher pay, attractive benefits and reduced caseloads or work levels to achieve that work/life balance.

Caswell County has struggled to recruit and retain experienced staff in our public safety departments that serve our citizens on the "front lines." Therefore, for public safety, I am recommending 15% market adjustments and 5% for all other employees.

The labor market continues to be volatile with rapidly changing dynamics. As other employers continue to evaluate pay and benefit structures and increase salaries, Caswell may fall further behind in market salary comparisons. In this environment, we are forced to continually survey the employment market and ensure we have a competitive compensation and benefits structure that recognizes and values our employees, our greatest asset.

➤ **Maintenance and Repair – County Facilities**

The recommended budget includes an appropriation of \$1,343,676, which represents an increase of \$328,230. This increase is to fund needed repairs and maintenance to protect the county's investment in our public facilities.

➤ **Capital Outlay**

Funding in the amount of \$1,649,799 is recommended for capital outlay purchases. This represents an increase of \$10,291 over the prior year's adopted budget.

➤ **Education Funding**

The Board of Education requested current expense funding of \$2,724,228 which represents an increase of \$124,228 or 4.8%. The current expense allocation has remained constant for the last four years. The schools have not been immune from the negative impacts of inflation in purchasing supplies, materials, and in their utility bills. The recommended budget includes their requested 4.8% increase, recognizing that inflation has hovered around 8% for more than a year. Funding for capital outlay is recommended at \$465,000, the same as the FY2023 adopted amount.

The recommended budget includes current expense funding for Piedmont Community College in the amount of \$417,271, an increase of \$44,256 or 10.8%. Capital outlay funds are budgeted at \$505,000, an increase of \$390,000 over the FY2023 adopted budget. This increase is needed to fund a HVAC replacement.

Conclusion

The FY2024 Recommended Budget is presented for your review and consideration as you develop an adopted budget. This budget preserves our core services, recognizes employees as our greatest asset and begins setting the foundation for long-term financial sustainability. The Board of Commissioner's commitment to resiliency, fiscal prudence and long-term sustainability will be the stabilizing factor in our ability to improve our financial position and weather future events.

The last three years have been plagued by uncertainty and instability caused by the pandemic, inflation, supply chain delays and labor shortages. Navigating this ongoing crisis has been a team effort and our employees have persevered through personal sacrifice and dedication to the citizens of Caswell County. I cannot thank our employees enough for their hard work and willingness to serve our community. They truly are our greatest asset.

Thank you to all County departments and Finance in developing this budget under continued pressures and unprecedented circumstances.

Respectfully submitted,



Bryan Miller

County Manager

Caswell County, North Carolina