



## CASWELL COUNTY OFFICE OF THE COUNTY MANAGER

June 1, 2024

### 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) 2025 Recommended Annual Budget for Caswell County. The budget is balanced, identifies revenue and expenditure estimates for FY2025, and attempts to meet the needs of our community through excellent customer service and fiscal responsibility.

The recommended budget provides \$42,755,000 in total expenditures across all funds, with a General Fund total of \$36,141,000, net of intrafund transfers. The proposed tax rate to support the FY2025 budget is 65.35 cents per \$100 of assessed valuation, which is still the lowest tax rate among like counties. The proposed tax rate is 6.85 cents above the revenue-neutral rate of 58.5 cents, which results from the eight-year property revaluation. This rate increase includes allocation for debt repayment for the Bartlett Yancey Senior High School expansion and renovation project. A tax increase to support the project was approved by a referendum of the voters three budget cycles ago but has not increased collections for the additional funds and is recommended in this budget. The value of one penny on the tax rate is \$230,000.

This budget reflects recommendations based on department meetings, evaluation of existing service needs, and input from County Commissioners and Citizens. The FY 2025 budget represents a level of funding that will allow the County to maintain or improve current service levels while making organizational changes to provide the best possible programs for our community. It is important to note that with any budget, external forces can affect these projections, which is why the amounts proposed are a conservative forecast of our revenues and expenditures for the following year.

The purpose of the budget message is to provide an understanding of the 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 several 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 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 additional new tax base. For FY2021 through 2023, sales tax revenue exceeded budget expectations due to federal pandemic funding that boosted disposable income. Sales have slowly continued to grow but not to the previous year's increment levels.

Another important economic factor has been inflation. Nationally, it is finally trending down from a forty-year high of more than 9% to approximately 3.4% currently. The Consumer Price Index remains high at 313.548, relating to the increased costs of goods and services, and high interest rates continue to reduce disposable income.

## **Long-Term Financial Sustainability**

Given the context of the last few years, rising employer retirement costs, operating expenses such as utilities and fuel, salary pressures to remain competitive and increased demand for workers all outweigh our available, recurring revenues.

The recommended budget funds expenditures for FY2025 and begins building the foundation for long-term financial sustainability, which is essential for building a resilient organization. Financial stability can only be achieved through fiscal discipline through a healthy balance between revenues and expenditures.

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

- Recurring expenditures are added only to the extent that available recurring revenue is identified or offset by an additional tax increase
- Develop a fund balance policy identifying the minimum level or percentage of fund balance to be maintained to ensure cash flow and adequate funds for emergencies or adverse financial events. The General Fund Reserve recommendation is 20%.
- Fund Balance is appropriated to fund only one-time expenditures in compliance with the fund balance policy to achieve essential priority projects or purchases.
- 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 services

The County conducted the statutorily mandated Property Revaluation during FY2024, which is effective with the FY2025 budget. Given that median home prices soared and hit an all-time high in 2024, property values have increased significantly through the revaluation since the last valuation, which occurred eight years ago. County valuation has increased from \$1.8B to \$2.3B during this timeframe.

Revaluation is linked to achieving fiscal discipline, as the Board reports the revenue-neutral rate and considers the property tax rate that adequately supports the mission of providing services and achieves long-term financial sustainability and organizational stability.

## **Budget Development Goals**

The FY2025 recommended budget has been developed to maintain current service 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 a suitable tax rate for enhancing operations based on the 2025 Property Revaluation
- Limit reliance on fund balance as a revenue source for recurring expenditures
- Continue to enhance maintenance and repair efforts for county facilities and assets

## **General Fund Revenue**

► **Ad Valorem Taxes:** The largest revenue source in the General Fund is ad valorem taxes, representing almost 37% of net general fund revenues. These taxes are based on the combined values for real property, personal property and motor vehicles of \$2.4B. Ad Valorem taxes for FY2025 are budgeted at \$13.4M, an increase of \$1.6M (12.5%) over the FY2024 budgeted amount, which aligns with current year receipts.

► **Sales Taxes:** From 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 FY2023/24, and we project annual growth will be closer to levels before March 2020. Sales Taxes are budgeted at \$7.347M, a decrease of \$92,000 or 1.2%. The decrease results from the expected loss of approximately \$450,000 in Medicaid Hold Harmless dollars.

## **Fund Balance Appropriated**

Over the last several years, the budget has relied upon fund balance, one-time funds, as a revenue source to balance the budget. This is not financially sustainable, and if smaller incremental tax increases are not implemented, larger-scale increases should be anticipated to sustain current operating service levels. Fortunately, based on preliminary unaudited results, the fund balance forecast estimates the total fund balance at more than 50%, with an unassigned fund balance of approximately 18%. Given these healthy amounts, the budget use of fund balance is slightly more than \$4 million.

An attainable goal is to maintain the current budget estimated unassigned fund balance at 20% and work to maintain this level moving forward. To begin reducing reliance on fund balance and matching recurring expenditures, a tax rate adjustment to the 15.00 revenue-neutral decrease this year, retaining approximately half 6.35 cents to support and fund a sound budget, is recommended.

## **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 representing a 1% increase in the employer rate for Law Enforcement Officers and .75% for all other employees.

► **New Positions**

The recommended budget includes limited additional new positions. The recommended budget includes funds in the amount of \$160,770 for two (2) 911 Telecommunicators (Dispatchers). There were several requests for additional Full Time Employees (FTEs) by departments; however, revisiting the County's classification and pay for employees should be undertaken and improved to enhance retention and existing salary and benefit shortfalls is my recommendation before additional ongoing personnel expenses are encumbered.

► **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 than our counterparts, thus increasing our recruitment challenges. The study revealed significant salary compression from a retention standpoint, meaning that many long-tenured employees are paid very close to the minimum salary or close to their peers with minimal experience or years in their positions. 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 actions approved by the Board in 2023 and 2024 were a step toward 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, continually fill gaps, and train new personnel. Operating in this fashion is far costlier than providing competitive higher salaries to attain continuity of employees.

The labor market continues to be volatile with rapidly changing dynamics. As other employers continue to evaluate pay and benefit structures and increase their salaries, Caswell has continued to fall further behind in market salary comparisons. In this environment, we continue to lose critical staff members to other organizations with more affordable healthcare options and notably higher pay. The budget has a placeholder for salary adjustments of approximately 4%, and during the year, the developed recommendations will be brought back for consideration before any adjustments are funded.

► **Maintenance and Repair - County Facilities**

The recommended budget includes an appropriation of \$1,349,106. This funds the Maintenance Department and essentially needed repairs and maintenance to protect the county's investment in our public facilities.

► Education Funding

The Board of Education requested a significant increased appropriation funding of \$3,539,637 and Supplements of \$500,000. Their allocation is recommended to remain constant for FY2024 at \$2,779,228. The schools have not been immune from the negative impacts of inflation in purchasing supplies, materials, and utility bills; however, this outlay continues at a level higher than the county's statutory requirements.

The recommended Caswell County Schools budget includes using Capital Reserves to cover HVAC needs in the full amount requested (\$777,500), which is an increase of \$312,500 to the FY2024 Capital Outlay base amount from last year's allocation of \$465,000.

The recommended budget includes current expense funding for Piedmont Community College in the amount of \$494,459, an increase above last year's \$417,271. Capital outlay funds (use of reserve funds) are budgeted at \$585,000, used to fund HVAC replacement for the K Building and classroom carpeting in the amount of \$15,000.

**Conclusion**

The FY2025 Recommended Budget is presented for your review and consideration as you develop an adopted budget. Again, foregoing small incremental tax increases for prolonged timeframes will ultimately lead to much more significant future tax impacts. Therefore, the recommended tax rate is at a level that balances operational needs and respects the fiduciary responsibility to our citizens.

The last several 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 remain here and serve our community. They truly are our greatest asset.

I have to thank all County departments and Department Heads. I cannot express enough how critical Melissa Miller and our Finance Team, as well as the oversight of Johnna Sharpe from the NCACC, whose contributions and long hours made it possible to develop this budget and continue to work to achieve compliance on our audits and enhancement of our financial processes and operations.

Respectfully submitted,



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County Manager

Caswell County, North Carolina