



Board of Commissioners

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April 27, 2012

The Honorable George R. Brown, Jr., Chairman and Members of the Board of County Commissioners:

I am presenting to you a recommended operating and capital budget for FY 12/13. The proposed General Fund budget is \$49,614,197 and represents a minor \$176,776 (.003%) increase from this current fiscal year. This increase is directly attributable to new mandated or required spending obligations for FY 12/13. The overall budget is \$84,006,316 and represents an \$823,982 (.009%) increase from this current year. A new property revaluation took effect January 1, 2011, thus a new tax rate based on the new valuation was set at \$0.5120 cents per \$100 of assessed real property value for the FY 11/12 fiscal year. *This rate reflected a revenue neutral tax rate for FY 11/12. The recommended tax rate for FY 12/13 is \$0.5120 cents, which is the same as the current rate of \$0.5120 cents applicable to FY 11/12. The recommended new tax levy is \$31,309,275 which represents an increase of \$426,471 over FY 11/12. A detailed discussion of the revaluation and the proposed tax rate is provided under the section General Fund Highlights.

This proposal includes some assumptions about funding requirements and levels that are ultimately contingent upon the final budget decisions of the North Carolina General Assembly. Therefore, adjustments will likely have to be made once the final State budget is adopted. The primary unknowns are issues related to public school and health & human services funding.

Because of the continuing economic recession and the negative impact on revenues the past four years, the most recent county budgets have necessitated major cuts in departments and other outside funding requests. As well, significant capital and other needs have been cautiously delayed. The tax rate has remained consistently level for seven years with no millage rate increases, and a 3.5 cents increase planned for FY 09/10 for school bonds was not implemented to give a financial break to Pender County Citizens dealing with the ongoing national economic recession unlike anything this country has seen since 1933. As a result, many funding needs have been deferred and fund balance has been used in past years to supplement increasing annually recurring county operating costs/needs.

The economic recession currently continues to have a devastating impact on the state and local economy. The anemic economy has caused a severe decline in local government revenues necessary to sustain even a modest county budget. To make matters worse, the General Assembly continues to target traditional local revenue

streams along with imposing additional mandates on county governments. Thus, the reduction in historical revenue streams and the increasing demand for public services is making for difficult budgetary decisions while the County strives to maintain a positive financial condition and avoid unnecessary property tax increases on our citizens and businesses.

In FY 10/11, the Board adopted a fund balance goal providing that the undesignated fund balance be maintained at a level of 30% of the general fund budget. Based on the FY 12/13 recommended budget of \$49,614,197, and a projected June 30, 2012 fund balance of \$14,000,082 the fund balance percentage as of June 30, 2012 is estimated to be 28.32%. The policy advises against using excess fund balance to fund recurring expenditures, or for tax stabilization or reduction purposes (except in extreme emergencies). Given the continued effects of the national recession (which has become an undisputed national emergency in many states and communities across the U.S.), the proposed FY 12/13 Budget does not further diminish the existing fund balance of 28.32% set by the Board of County Commissioners last fiscal year, but holds it steady. Also, given the continued negative economic climate, the FY 12/13 budget does not recommend replenishing the fund balance back to the 30% goal this fiscal year, but defers this appropriation until immediate future years when the economy shows steady signs of improvement.

Economic Outlook

Pender County has been one of the fastest growing counties in North Carolina during the last decade, however, growth in population and other indicators have slowed considerably. The 2010 census reflected a population of 52,217, up 27.1% from the 2000 census population of 41,082. Commercial and residential building permits issued have fallen from 1125 for 2007 to 536 for 2011. Tax base growth has been consistently stagnant, with little noted growth during the last few years. *The County's unemployment number has grown from 4.2% in 2007 to 12.2% as of April, 2012. The County's poverty rate still hovers above 10%, and Pender County wages still fall short of the Wilmington MSA and State averages. Ironically, in 2009 the NC Department of Commerce designated Pender County as a Tier 3 County, one of 20th most wealthy counties in the State. This designation results from the high population growth in the middle of the decade and the assessed value of Topsail Township, and certainly is not indicative of the true county-wide economic picture.

The distressed economy is not unique to Pender County but is common to all counties in the state and nation. The negative impact on the county's budget and its ability to provide services has been significant, while at the same time the demand for services for many county functions (such as public health and social services) increases during economically challenging times.

Despite the short term impacts of a distressed economy, the long-term economic outlook for Pender County is positive. The Board has committed to making investments and policy decisions to put the County in an enviable position to accommodate and attract new growth and development in the future. Developing industrial product to market, expanding water and sewer utilities, putting into place new land use plans and regulations, and taking a positive approach to business and industry development are proactive measures the Board has initiated in the past few years. These efforts combined with the County's assets including major highways, skilled labor force, access to airport and sea port facilities, and lower cost land, put the County in an enviable position for when the economy gets back on track.

Thus in summary, while the current economic climate is presenting challenges to Pender County, the Board is doing all the right things to position itself properly for attracting and managing new growth and development that will surely present itself in the coming decade.

Encouraging Business and Industry Development

A vital element for the economic viability of Pender County long term is success with economic development. In simple terms, economic development is the creation of wealth in a county through the creation of jobs and investment. Central to creating jobs and investment is creating a climate that is attractive to new business and industry, and for the expansion of existing industry. The county's proximity to major transportation corridors, the Wilmington port, the airport, and the Wilmington metropolitan area is a major asset for economic development. The Commissioners have been committed to creating industrial product to attract industrial clients, evidenced by the purchase of over 750 acres of industrial land in the recent years on the US 421 corridor near the New Hanover County line. This industrial site is named Pender Commerce Park and is shovel-ready for development.

The County, together with Pender Progress Corporation, Four County EMC, Wilmington Business Development (*formerly Wilmington Industrial Development) and the Town of Burgaw completed construction on an industrial shell building in Pender Progress Industrial Park in Burgaw. This 40,000 square foot building is expandable to 80,000 square feet, and is now being marketed to potential clients. Shell buildings are a proven tool for generating industrial client interest in a county.

The County's unemployment rate has hovered around 10%-12% for the past year and is now moving toward 13% (April 2012 NC Employment Security Commission data). Currently, close to 60% of the county's workforce commutes out of the county to work, and we have to reverse that ratio. Economic development is a process, and the County Commissioners will continue to devote time, effort and resources along with its economic development partners to attract and recruit industrial development, jobs and investment into Pender County.

Strategies for the next two years include evaluating opportunities for creating business and tourism development incentives, securing and preparing additional sites for industrial development and facilitating development of additional shell building product.

Developing and Expanding Water and Sewer Infrastructure

The vision and priority of expanding water and sewer infrastructure within the County has been many years in development and implementation. Subsequently, numerous infrastructure related projects have now come to fruition or are near completion.

After years of planning, construction on a new 2 million gallon per day (mgd) water treatment plant and 13 mile finished water transmission main are nearing completion in the Pender Commerce Park on US 421. The total cost of the project is \$33 million. The plant will be operational by the fall of 2012. The plant is designed to upgrade to 6 mgd with little additional investment and will operate to serve the current and future Water and Sewer Districts with safe drinking water supply for the next 10 to 15 years. An agreement with the Cape Fear Public Utility Authority was approved in 2010 for the design and construction of a future wastewater treatment plant in Pender Commerce Park that will eventually serve the US 421 industrial corridor.

The project to construct a major wastewater transmission line and two pumping stations between Burgaw and Wallace was completed and put online in March 2012 and will open up the US 117 corridor between the two towns for development now that both water and wastewater are available. The County contributed \$2 million to this \$7.5 million project. The County is also in the process of evaluating how to most efficiently expand water availability to the Moore's Creek, Central and Columbia-Union Water and Sewer Districts.

The County has been working diligently to construct a wastewater collection and treatment system to serve the Maple Hill community. \$4.2 million in grant funds were secured for this project, and construction will be complete and the system online by May 2012. The Scotts Hill water distribution system project is complete and began providing water to 521 new customers in October 2011. This project was funded with a \$2.7 million USDA loan.

In order to assure the financial sustainability of the water and sewer utility system, the County conducted a multi-year financial and rate analysis in January 2011. The analysis provides the Board and citizens with a specific financial plan for the coming five years and is updated each fiscal year. Pender County faces about \$500 million in water and sewer needs over the next 20 years, and county leaders are well on the way in addressing those needs with nearly 20 projects underway.

Managing Growth and Development

Planning in advance of growth and development is absolutely critical for being able to assure the County grows in a balanced and environmentally responsible manner. Over the past several years the County's Planning Board and staff have worked to develop updated and comprehensive development standards and regulations to manage growth, and to protect the County's natural, cultural, and agricultural resources. These new rules were supported and put into effect by the Board of Commissioners, and will serve the county for many years to come.

Recently the Board of Commissioners updated the County's hazard mitigation plan. The plan outlines the variety of hazards the county faces including hurricanes and flooding, and identifies resources and means to help the county mitigate and respond to future hazards and emergencies. Planning and evaluation for a US 17 by-pass around Hampstead has been on-going for nearly twenty years, and state transportation officials are finally close to identifying a by-pass corridor. Funding has been set aside for right-of-way acquisition in 2017, and efforts will be initiated to protect the new corridor from development. In the meantime, state transportation officials are working with citizens and the County to evaluate and implement measures to improve traffic safety for those that travel US 17 through Pender County.

Also, the Board of Commissioners have put into place a voluntary agricultural district ordinance, which provides for public notice and measures to help protect farms in Pender County from intrusion of development. Preserving and promoting farming and agriculture is important to the County, and the County has also put into place land use policies designed to foster agri-business and agri-tourism throughout the county.

Drainage in rural areas has become a huge concern for landowners across the county. As a result of the prevalence of streams, tributaries and rivers, beaver management has become a priority issue. The County partners with USDA Wildlife Services Program to fund beaver management activities that help relieve flooding and drainage pressures all across the county.

Facilitating Public Education

Quality public education is critical not only for educating our children for preparing a first class workforce that can attract new business and industry to the county, but for improving the quality of life for Pender citizens. Excellence in education has always been the very top priority for Pender County. For FY 12/13 approximately 27% of the County's general fund budget goes to public education, whether it be for current expenses, capital outlay or debt service. The Commissioners work in partnership with the Board of Education to ensure that education and facility priorities are funded. The newest capital facility project, a new auditorium-gymnasium addition at Heide

Trask High School, has been completed. The School Board has identified \$127 million in anticipated capital facility needs for the next 10 years.

Pender County also partners with Cape Fear Community College in assuring our graduates can continue their education and training after high school. The County is responsible for funding community college facilities, and recently a report was presented to the Commissioners outlining student growth and community college facility needs facing the County. Growth in the number of Pender students (FTE) attending Cape Fear Community College has consistently grown over 15% annually for the past six years, and investments in new facilities in Pender County will be required in coming years to educate our local students.

The economic recession is severely impacting both local school systems and community colleges as both are heavily funded by the State. While Pender County appropriates over \$25 million annually to the Pender County Schools, the majority of the system's funding comes through the State. And because of the State budget issues, Pender County Schools could potentially see an unprecedented loss of state funding this year. The end result will not be known until the General Assembly finishes its work and adjourns this summer. Thus, stability of revenue sources for FY 12/13 and beyond is of concern.

Enhancing the Quality of Life

The quality of life is second to none in Pender County, but many initiatives are underway to protect and enhance the County's natural resources and assets.

The Pender County Tourism Development Authority constantly markets and promotes Pender County as a great place to live and visit. The new visitor's guides and the web site www.visitpender.com are filled with information about the county's tourism spots, places to eat and shop, and fun things to do. In the past year, the Authority has also developed plans for a future Tourism and Events Center to provide a visitor's center to present and promote Pender County to our guests, and to provide a facility for a variety of group meetings, conventions and events.

A new Parks and Recreation Master Plan has been approved recently and sets forth approximately 30 future parks and recreation opportunities all across the County. The plan includes a variety of activities such as water access points, multi-use athletic fields, education and environmental centers, and community recreation facilities. Planning work is on-going on these projects so that when grants and other funds are available, efforts can focus on project implementation and construction.

Design for a new public access to the intra-coastal waterway is substantially complete, and is anticipated to be open by the end of April. The Wildlife Resources Commission is responsible for this project. Over the past several years, Hampstead Kiwanis Park and Pender Memorial Park in Burgaw have been expanded and improved. A passive park was completed in November 2011 at Millers Pond on US 117 south of Rocky Point, and planning is underway for a future regional park in Rocky Point.

Design work has been completed for a future regional public library on US 17 in Hampstead. The Board of Health's Mobile Dental Clinic Program is now being reorganized by the Health Department and will continue to provide dental services to pre-school, elementary and middle children throughout the county. The program served close to 1000 students in 2011. The Board of Commissioners continue to appropriate significant tax dollars to the beach nourishment effort on Topsail Island, and have a goal to eventually be able to appropriate the equivalent of one cent on the tax rate each fiscal year once the local economy begins to improve.

The Pender County Cooperative Extension Service continues to provide a variety of programs and educational forums around the county. Consulting work is on-going with our commercial fruit and vegetable growers, and Master Gardener volunteers are teaching in our public schools.

Veterans are special in Pender County, and our county was well represented in the new North Carolina Veteran's Park which opened last July in Fayetteville. A bronze cast hand of Pender County's own Evander McLendon, who served in the 1st Infantry Division, United States Army from 1961 to 1967, was on display with 99 others representing each of North Carolina's 100 counties. As well, bronze casts representing community support for veterans was displayed, and these casts were provided by veterans Royal Bannerman, Malcom Brown, Bernice Worrell and Roy Horne.

The Pender County Department of Social Services and community stakeholders are engaged in activities designed to strengthen and improve child welfare services. Hundreds of children and families are helped annually through these programs. A food bank is available at DSS as part of an initiative to help provide non-perishable items to families. Food items are donated largely by Pender County DSS employees.

In 2009, the County partnered with the Cape Fear United Way in an initiative to end chronic homelessness in the region. The Homelessness Prevention and Rapid Re-Housing program has provided \$275,000 in grant funds to Pender County to distribute to those who meet qualifications for assistance. To date, over 133 Pender County families have benefited from this program.

Enhancing the quality of life in Pender County involves many initiatives that can be undertaken by the Board of Commissioners; however, to be successful it requires community partnerships and citizen participation. The Board is committed to building those partnerships and relationships to foster and implement the many quality of life projects and programming opportunities throughout Pender County.

Partnerships, Collaboration and Strategic Planning

This is an important time for the future of Pender County. The Board of Commissioners are not sitting back complaining about the state of the economy or the negative impact on county revenues, or resting on their recent accomplishments. Board members and County leaders are proactively making plans and implementing strategies to ensure that County government is positioning the county and its communities for economic prosperity and vitality down the road. Pender County needs to control its own destiny, versus being in the unenviable position of destiny controlling Pender County.

Pender County would be remiss if it did not look strategically to the future and establish core priorities, goals and strategies to attain. This past year, after a series of focus group sessions with citizens around the county, the Commissioners have defined four core strategic priorities for the future for Pender County: A High Performing Organization; A Sustainable & Vibrant Economy; Excellence in Education; and A Diverse County with an Exceptional Quality of Life.

The Commissioners, along with County staff, have further developed specific strategies and outcome measures to help attain the core strategies of A High Performing Organization and A Sustainable & Vibrant Economy, as reflected in Exhibit D. Many of the budget recommendations for FY 12/13 are directly tied to those strategies. Goals and strategies related to A High Performing Organization emphasize commitment to providing exceptional customer service in the delivery of county services, as well as emphasizing commitment to maintaining a professional, ethical and skilled workforce. The budget includes funding to maintain the Human Resources

Manager position (first funded in FY 11/12), but also includes some funding for maintaining the county drug testing program and EAP services, investments in technology and software to improve human resource productivity, and funds for employee training from customer service to department specific skill training. As well, to assure the goal of maintaining financial viability, the proposed budget maintains the fund balance at 28.32% due to national, state and local economic circumstances (just below the county's goal of 30%), and carries over \$1.12 million in capital funding including architectural design work for a new jail/law enforcement center and DSS center from fiscal year 11/12 (\$895,275.00 Jail/LEC and \$225,000 DSS Center).

With respect to A Sustainable & Vibrant Economy goals and strategies, the FY 12/13 Budget continues to make investments in developing industrial product through setting aside of acquisition payments for the Pender Commerce Park and Burgaw Shell Building, and through continuing a contract with Wilmington Business Development (formerly Wilmington Industrial Development) for economic and industrial marketing and recruitment. A housing development study is now underway to ascertain future housing needs facing the County, including but not limited to workforce housing and affordable housing needs. And continued expansion of the County's water and sewer systems is also funded, including new budgets for the US 421 water treatment plant, the Maple Hill wastewater system and the Scotts Hill water system. Applicable water system rates and fees are also included in the new budget to assure system financial viability and self-sufficiency.

Staff is in the process of further defining implementation actions and timetables for the defined strategies, and to identify staff responsible for those actions. Further, the Commissioners will partner with the Board of Education and Cape Fear Community College to develop strategies and outcome measures for Excellence in Education, and to partner with the new Council on Community Affairs to develop strategies and outcome measures for A Diverse County with an Exceptional Quality of Life.

Success in controlling the County's destiny is very dependent upon collaboration and partnerships, and the County is fortunate to have many meaningful partnerships already in place with agencies such as the rural fire departments, the municipalities, Pender EMS, Southeastern Center for Mental Health, Soil and Water Conservation, Cooperative Extension, Forestry Resources, Pender Adult Services, Pender Memorial Hospital, WARM, Cape Fear Community College, Pender County Schools, and numerous non-profit agencies and community groups throughout the County.

All of these associations, in partnership with Pender County government, will determine how well Pender County and its citizens not only continue to weather the current economic climate, but position the County for prosperity and sustainability for the years ahead.

General Fund Highlights

Revaluation, Revenue-Neutral Rate, Property Tax and Levy

The Property Tax Base is the combined value of all the taxable property within the county. The general reappraisal of real property for Pender County occurs once every eight years. The last reappraisal was conducted and submitted to the Board of County Commissioners for approval prior to January 1, 2011. The Board approved the reappraisal and made it effective on January 1, 2011. Last Fiscal Year, the 11/12 Budget was approved by the Board of County Commissioners with a revenue neutral tax rate of \$0.5120 cents per \$100 of assessed real property value in Pender County.

The revenue-neutral tax rate, as defined by GS 159-11(e), is the rate that is estimated to produce revenue for the next fiscal year equal to the revenue for the current fiscal year if no reappraisal had occurred. The rate is then adjusted by a growth factor equal to the average annual percentage increase in the tax base due to improvements since the last general reappraisal.

The recommended property tax rate for FY 12/13 is \$0.5120, which represents no increase from the revenue neutral property tax rate of \$0.5120 cents in FY 11/12. The recommended tax rate remains the same as last year at \$0.5120 cents per \$100 of assessed real property value in Pender County. This recommended property tax rate will generate an estimated tax levy of \$31,309,275 as compared with \$30,882,804 for FY 11/12, an increase of \$426,471 for FY 12/13. As of March 29, 2012, one penny on the current tax base, at a collection rate of 95.50%, will generate approximately \$611,509.

FY Ending June 30	Tax Rate	Assessed Value	% Increase/(Decrease)	Tax Levy
2007	.65	4,376,354,154	10.5%	28,466,104
2008	.65	4,485,885,384	2.50%	29,180,752
2009	.65	4,678,118,922	3.50%	30,589,788
2010	.65	4,720,503,540	1.00%	30,729,299
2011	.65	4,778,765,449	1.23%	31,083,625
2012	.5120	6,349,260,783	32.86%	30,882,804
2013 Projected	.5120	6,403,238,494	.85%	31,309,275

2007 - 2010 information was obtained from audit.
 2012 - Projected levy at year end
 2012 - Increase due to Revaluation year
 2013 - Projected

The 2011 property reappraisal changed the tax base for the County's volunteer fire departments and Pender EMS. Tax base and rate information for each district and department is publicly available. The final tax rate for each district for FY 12/13 will be set when the Board adopts the overall County budget ordinance in June 2012.

Major Expenditure Requirements and Recommendations for FY 12/13

The proposed FY 12/13 Budget includes funding for major expenditure items that are newly mandated, increased recurring expenses, or recommended capital improvements or reserves. Some of these items are estimated at this point, and are contingent upon the final State budget.

Exhibit "A" sets forth recommendations for capital improvement recommendations for FY 12/13 totaling \$1,659,658 in requested funding being appropriated from General Fund Balance. The largest expenditure is \$1,120,275 which is being appropriated for architectural and design work for a new jail/law enforcement center and DSS facility.

Exhibit "B" reflects the recommended use of the General Fund Balance totaling \$857,940, which includes one-time capital expenditure items and one-time operational expenditure items.

While annual appropriations are recommended to Parks Capital Reserve Fund, Drainage Capital Reserve Fund, Industrial Development Reserve Fund and Courthouse Renovation Reserve Fund, the proposed budget for FY 12/13 makes no appropriations due to economic constraints. Funding needs that may arise during the year will need to come from the general fund balance. As the economy improves in future years, appropriations to these funds will be recommended.

The County's multi-year capital facilities plan provides for \$209.5 million in capital facility needs in the next 5-20 years. \$127.5 million of this is for new public school facilities. Timing of construction of these facilities will be dependent upon future growth rates, service demands, and economic recovery from a major national recession.

Sales Taxes

The County Finance Office has projected a decrease in growth for Article 39 and Article 40 for FY 12/13. Although the budget includes small increases in sales tax, it will take a few years to see the growth experienced in the middle of the past decade. Economists agree that public sector growth often lags behind private sector growth post major economic upheavals such as the recent national recession and economic downturn.

FY Ending June 30	Article 39	% Increase/(Decrease)
2007	2,942,951	(2.76%)
2008	2,922,062	(1%)
2009	2,545,036	(12.90%)
2010	2,270,386	(10.79%)
2011	2,305,893	1.56%
2012	2,384,340	3.40%
2013 Projected	2,050,000	(16.30%)

FY Ending June 30	Article 40	% Increase (Decrease)
2007	1,786,106	13%
2008	1,882,745	5.4%
2009	1,722,329	(5.86%)
2010	1,670,727	(2.99%)
2011	1,701,905	1.87%
2012	1,726,009	1.87%
2013 Projected	1,700,000	(1.53%)

2007 – 2012 are actual audited numbers

2012 – Projected Pending final Audit

2013 – Projected budgeted amount.

Sales, services, and other revenues are projected to continue to decrease somewhat from the original FY 12/13 budgeted amounts until the economy begins to stabilize, hopefully in early to mid calendar year 2014. The County

will continue to feel the impact of the economic slowdown until this turnaround occurs and will need to budget accordingly.

Personnel

County department requests for new positions and wages in the General Fund totaled \$695,731, with only \$177,108 recommended. Five new positions are recommended, two in Public Utilities, one Environmental Health Specialist, an Income Maintenance Caseworker II for the Food and Nutrition program at the Department of Social Services and a Systems Administrator position to support the information technology functions at the Health Department and Social Services. No COLA is included in the proposed budget due to the economy and financial picture for FY 12/13. A 1.8% COLA is recommended to be considered for an effective date with the first payroll in January. However, the cost of approximately \$275,000 is not included in the proposed budget. The last overall salary adjustment for County employees took effect when the new pay plan was implemented in 2008, and approximately 50 of 350 employees were not impacted by new plan. The North Carolina Department of State Treasurer Retirement Systems Division notified the County that employer contribution rates have decreased for FY 12/13 which will equate to an approximate savings of \$32,000 over FY 11/12.

Employee Health Care Plan

The County's health plan has been bid out by the County's brokers for the past several years and due to the plan's performance, it was not bid out for FY 12/13. Our brokers expect a potential increase in rates of around 4%, and the estimated cost is included in the budget. The average rate of annual increase for most public sector entities is now approximately 10-12%. Currently, the County is self-insured and provides health, dental, and vision care to employees. Employees cover the cost of dependent care should they elect that coverage.

The Pender County Board of Commissioners officially created Pender County's Wellness Program with the adoption of a resolution approving the Pender County Wellness Program Policy and Procedures in FY 11/10. The Human Resources Director established a 15-member Wellness Committee comprised of employees from all levels and from various departments to lead the County's wellness efforts.

The wellness program partnered with Doctors Direct Healthcare, Inc. to complete a voluntary KnowYourNumber™ employee health risk assessment. The FY 10/11 health risk assessment included a participation incentive where the County would continue to pay 100% of the employee only health insurance premium for eligible employees who participated in the health risk assessment. Eligible employees who elected not to participate were required to contribute \$25.00 per month towards their employee only health insurance premium. The participation incentive increased the health risk assessment employee participation rate from 25% in FY 09/10 to 98% in FY 10/11. The incentive program continued for FY 11/12 and in addition, the Board of Commissioners revised the original wellness policy to include an additional participation incentive which required employees to complete four wellness options and also follow-up with their doctor on their risk assessment screening results, if recommended by Doctors Direct Healthcare. The County's brokers conducted an analysis of 83 employees who participated in all three years of the risk assessment process. This analysis indicated that Pender County directly saved nearly \$75,000 in health care costs due to the improved health of the 83 employees who participated in all three years.

The Wellness Committee continues to be proactive in implementing wellness initiatives designed to improve employee health status. The Wellness Committee will continue to offer health education and promotion activities and an updated cost savings analysis will be conducted in FY 12/13.

***Pender County Schools**

North Carolina schools receive funding from federal, state and local governments. In North Carolina, counties are responsible for providing and maintaining school buildings, for paying the debt service on the bonds that provide the revenue for building and improving school facilities, and for contributing to the operating expenses of local school systems. In rapidly growing counties such as Pender County, the growth places many demands on public school systems and other public services and those demands often outstrip a local government’s ability to pay for the increasing demands through reliance on property taxes.

Pender County funds the school system through multiple mechanisms. In addition to the general fund contributions, the County receives sales tax revenue from 3 separate local option sales taxes; some of the sales tax revenue is restricted and must be used specifically for school capital outlay. For many years; however, Pender County has voluntarily exceeded the mandatory percentage of sales tax revenue earmarked for schools. Since its inception in 2002, the County has given 100% of the Article 42 sales tax to the schools, which exceeds the requirement by 40%.

The chart below captures what the County has funded towards the operating budget over the last 5 years and what is recommended for funding in the 2013 final budget. It also shows the comparison of dollar % increase as it relates to population % increase from year to year.

FY Ending June 30	Population	Operating Budget	\$ Per Student	% Dollar Change	% Population Change
2007	7,692	9,234,539	1,201	7.50%	3.78%
2008	7,959	10,852,469	1,364	17.52%	3.47%
2009	8,194	12,489,100	1,525	15.08%	2.95%
2010	8,206	13,389,690	1,633	7.16%	7.08%
2011	8,241	13,235,614	1,606	-1.15%	.04%
2012	8,340	13,453,985	1,602	1.65%	1.20%
2013 Project	8,450	13,453,985	1,592	0%	1.32%

FY Ending June 30	Capital Outlay Appropriation	% Change
2007	938,000	2.85%
2008	1,210,000	28.99%
2009	2,677,590	121.29%
2010	1,200,000	-54.81%
2011	1,110,000	-7.50%
2012	1,100,000	0%
2013 Projected	1,100,000	0%

The Board of Commissioners is facing considerable financial pressure for school funding in the coming years, and much of what happens is dependent upon State legislative action and the State budget. The Governor's proposed FY 12/13 Budget recommends a shift in state funding of school bus replacements, and workers compensation costs for school employees, to counties. The local school superintendents and others in North Carolina continue to meet with the Governor and Members of the General Assembly to preempt these traditional state funding programs to be passed down to the counties. If passed by the General Assembly, these additional state funding mandates would require an estimated minimum of \$217,000 from Pender County, which is not included in the this year's appropriated school budget and would need to be covered by the county's general fund reserves. The FY 12/13 Budget fully funds the schools debt service payments for the coming fiscal year.

The County no longer receives ADM monies for school construction or debt service. At present, the Governor's state budget proposal includes the possibility of reducing lottery funding coming to the County for public school construction and debt service. This, combined with the needed replacement of debt reserve funds preempts us to consider replenishing these funds in future fiscal year budget cycles as the economy continues to improve and funding options become more available.

It is noteworthy to add that if the Governor and NC General Assembly continue to target cuts in the local public school systems across North Carolina as a primary way to balance the State Budget, the Pender County School System could lose additional state and federal revenue in coming years. State revenues supporting education have dropped almost \$6 million the last two fiscal years, and the NC Educational System is anticipating further cuts of up to 12-15% or more.

Due to the economic downturn, this proposed budget does not appropriate any additional funding to the schools debt service fund reserve to help with funding increases regarding the potential State mandate to cover school bus replacement and workers compensation of school employees. If the State mandate proposed by the Governor is shifted to the County, then the BOCC will need to appropriate these required funds to the schools current expense budget. This proposed budget does maintain the current capital outlay funding level of \$1,100,000.

*The ultimate financial impact to the County and School System will not be known until the State budget is adopted sometime prior to June 30, 2012 (over two months after this fiscal year budget has been submitted).

Enterprise Fund Highlights

Water and Sewer Fund

Pender County Utilities prepares and manages the budgets for each of the operational water and sewer districts of the County. This fiscal year, three new departmental/operational budgets will be established from the Capital Budgets of the Scotts Hill Water System, Maple Hill Community Sewer System, and the Surface Water Treatment Plant projects. Prior to developing the FY 11/12 water and sewer budgets, PCU hired an independent financial consultant to assist in establishing long-term financial planning, capital programs and financial models for all the established Districts. This was done in part in response to letters the past two years from the Local Government Commission expressing concerns for the financial sustainability and self-sufficiency of the water and sewer fund. Financial models were completed and presented to the Board in its January planning session that address utility rates and charges, sales volumes, operating expenses, capital budgets and reserves, debt and non-debt capital funding, debt service, depreciation expenses, and fund balances with the overriding goal for the Districts to each

be self-sufficient. It is anticipated the goal will be realized this fiscal year through additional new customers and rates/fees that cover true costs and provide adequate reserves

Rocky Point/Topsail Water & Sewer District – Water: The recommended FY 12/13 budget for the Rocky Point/Topsail Water System is \$3,325,130, a 17% increase over FY 11/12. This increase was necessary to hold the District in line with the recommendations of the 6-year Rate Analysis to meet the goal of self-sufficiency. Every effort has been made to hold the line on operating expenditures; however, there are programmed increases for fuel, utilities (electricity), the 3% annual bulk rate increase from the Town of Wallace for our purchased water supply. The Residential fixed Availability Fee will continue to be \$25 per month while the Usage Rate will increase by \$0.32 per 1,000 gallons to \$3.97 per 1,000 gallons. The Commercial fixed Availability Fee will continue to be \$27 per month, while the Usage Rate will also increase by \$0.32 per 1,000 gallons to \$4.47 per 1,000 gallons.

Rocky Point/Topsail Water & Sewer District – Sewer: The recommended budget for the RPT Sewer System is \$113,700, a 22% decrease over FY 11/12 primarily due to the loss of revenue from the closed Del Labs. There is no recommended Rate increase to the customers for sewer service.

Maple Hill Water & Sewer District – Water: The recommended budget for the Maple Hill Water System is \$139,998, a 3.74% decrease over FY 11/12. The Residential fixed Availability Fee will continue to be \$16 per month and the Usage Rate will be \$4.25 per 1,000 gallons. The Commercial Availability Fee will continue to be \$18 per month and the Usage Rate will be \$4.75 per 1,000 gallons. There is no Rate or Fee changes recommended.

Maple Hill Water & Sewer District – Sewer: The recommended budget for the Maple Hill Sewer System is \$73,369. Since there is no debt service to recover, the budget only has to cover the operational and maintenance expenses of the system. The recommend Residential Sewer Usage Rate is \$8.00 per 1,000 gallons of water used. The average sewer bill should be approximately \$31.00 per month.

Scotts Hill Water & Sewer District – Water: The recommend budget for the Scotts Hill Water System is \$227,000, a 21% decrease over FY 11/12 primarily due to the insufficient lack of customers actually connecting to the system and using water as anticipated. The Residential fixed Availability Fee will continue to be \$27.50 per month while the Usage Rate will increase by \$0.32 per 1,000 gallons to be \$4.32 per 1,000 gallons. The Commercial fixed Availability Fee will continue to be \$29.50 per month while the Usage Rate will increase by \$0.32 per 1,000 gallons to \$4.82 per 1,000 gallons.

Surface Water Treatment Plant: The recommended budget for the Pender County Surface Water Treatment Plant is \$926,523. This will be the first full-year operational budget for the water treatment plant and will therefore include salaries and benefits for five (5) new employees and all operational and maintenance costs necessary to run the plant. Revenues for this budget will be recovered from bulk water sales to the Rocky Point/Topsail and Scotts Hill Water & Sewer Districts. The proposed bulk rate is \$5.40 per 1,000 gallons.

Solid Waste Fund

Pender Solid Waste is an enterprise (proprietary) funded program intended to be self-sufficient through the collection of fees for the services provided. The recommended budget is \$4,447,500, reflecting a 2.94% increase to offset the estimated 3-4% annual contract rate increase from Waste Industries. The Transfer Station Tipping Fee will remain \$72.00 per ton; the User Fee for MSW and recycling will remain \$161 per year, and the Availability Fee for recycling only will remain \$80.00 per year.

Other Funds

These funds include:

- Automation Enhancement
- Capital Improvement
- Employee Insurance
- Worker's Compensation
- E-911
- Domestic Grant
- Fire Districts
- Housing – Section 8
- Housing – Country Court Apts.
- Public School Capital Fund
- Emergency Medical Services
- Revaluation
- Vehicle Replacement

Summary and Acknowledgements

Pender County is in sound financial health as compared to other county governments across North Carolina, due to prudent decision-making and controlling spending over the last several years. For the past four years, traditional revenues have declined significantly, however the property tax rate has remained level with no increases for 7 straight years. Last year the Board of Commissioners elected to go under the 30% fund balance threshold and use a portion of this fund to sustain a revenue neutral tax rate (a property re-evaluation was conducted last year with a revenue neutral millage rate of \$0.5120 implemented). To cope with adverse economic factors, the Board of Commissioners has reduced expenditures, delayed capital projects, and trimmed the County's workforce over the past several years.

Despite the overall positive financial condition these are the most challenging budget times the County has faced in many years. Hard budget decisions have been made regarding spending during the economic recession facing the nation, state and county. While the fund balance is available to help (the County is now below the established fund balance fiscal goal of 30%). The FY 12/13 budget recommends holding the fund balance steady at 28.32% with no further draw downs. This strategy will position the county to replenish this fund once the economy begins to show steady signs of improvement in the future. The Board of Commissioners realizes these funds are available for spending only one time. If expended for recurring expenditures, the Board must identify future funding sources to restore this fund.

The County has prudently invested enterprise funds to gain maximum interest yields, but these funds have not been producing sufficient revenues to meet long-term viability and capital reserve needs. The financial system rate analysis conducted recently provides the Board guidance on ensuring appropriate financial decisions is made. The Board must be willing to support rates and fee structures that will sustain the long-term financial viability and capital needs of the systems.

Overall, the County remains in solid financial condition. As well, even during these tough economic times the Board is making decisions and investments relative to economic development, growth management, utility development, quality of life and education to foster and promote long-term economic growth and prosperity for Pender County and its citizens. The Board is to be commended for continuing to govern in a pro-active manner within the resources available to it, to ensure Pender County's future is well-planned and managed.

Development of the annual budget is always challenging because of the many “unknowns” and would not be possible without the input, help, time, and commitment of many people. I would like to commend our department managers for their understanding and commitment to the process especially in these very difficult economic times. Increased funding for education, maintaining county services, and meeting the basic needs of our citizenry over the next several years will prove to be financially challenging if the current economic climate continues. I want to recognize the entire ITS Staff, particularly Director, Mr. Erik Harvey and ITS Operations Manager, Mr. Earl Moore, the County Finance Office along with the new Finance Officer, Mr. Butch Watson, and Human Resource Officer, Ms. Amber Parker (and all their respective staff) who assisted me in preparing the financial, salary, and insurance information contained in the FY 12/13 Budget. Deputy Clerk to the Board, Mrs. Glenda Pridgen is a true gem and works tirelessly to organize and produce the final budget binder document. All Pender County employees devote countless hours to this process annually among their other routine duties and responsibilities. Finally I would like to also recognize my predecessor and friend, former Pender County Manager, Mr. Rick Benton, who provided me with a great deal of the budget information contained herein and worked hard to outline a smooth manager transition and budgetary process this year for Pender County prior to my arrival as manager on February 13, 2012 (only two months before the Pender County Manager’s Budget Recommendation was due).

Sincerely,

Dr. Michael N. “Mickey” Duvall
County Manager