



**Board of Commissioners**

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May 3, 2013

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 13/14. The proposed General Fund budget is \$51,559,963 which represents a \$938,651 (1.9%) increase from this current fiscal year. This increase is directly attributable to capital projects and new mandated or required spending obligations for FY 13/14. The overall fiscal year budget totals \$88,383,951. Included in the total budget is the additional revenue and expenditure generation attributed mainly to the new water treatment facility and utility system upgrades (new county asset located just off U.S. Hwy. 421) as they are now incorporated into the county's financial system. Existing and future debt service and capital projects are also inclusive in this final budget number. The most recent property revaluation took effect January 1, 2011, and a new tax rate based on the 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 tax rate of .5120 cents has remained the same for FY 12/13 and is being recommended again for FY 13/14. The recommended new tax levy for FY 13/14 is projected at \$31,491,582 which represents a modest increase of only \$182,308 over the projected amount for FY 12/13. A detailed discussion of the revaluation and proposed tax rate is provided under the section General Fund Highlights.

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

Because of the continuing economic recession and the negative impact on revenues the past several years, the most recent county budgets have necessitated major cuts in departments and other outside funding requests. As well, significant capital projects and other needs have been cautiously delayed. The tax rate has remained consistent for eight straight 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. Since my tenure as County Manager in early 2012, no recommendation has been made to the Board of Commissioners to utilize or draw down fund balance reserves at current levels.

Consequently, Pender County received an upgrade in its credit rating by Standard & Poor's from A+ to AA- in May 2012. Standard & Poor's cited maintenance of a very strong financial position and sound fiscal management policies despite recent weaknesses in the local economy and commitment to maintaining strong reserves as the primary determinants for the improvement in the county's overall credit rating. Moody's Investors Service also assigned Pender County an Aa2 rating for both the \$27.25 million General Obligation School Refunding Bonds (Series 20) and the \$57 million outstanding parity debt. This most recent Aa2 rating by Moody's Investors Service reaffirms the excellent financial condition of Pender County, NC as fiscal improvements were identified and approved by the Board of County Commissioners in the FY 12/13 Budget regarding several prudent refinancing initiatives.

Maintaining strong credit ratings is extremely important for county governments that sell tax-exempt bonds in the public market and will inevitably lead to a potential lower cost of borrowing for the county regarding future bond transaction. This past year Pender County sold all callable high interest bonds and refinanced high interest existing debt to a lower interest rate (taking advantage of some of the lowest interest rates in history). The county estimates this improvement in credit rating will generate immediate and future additional savings to the taxpaying citizenry.

Achieving two ratings in the double-A category aligns the county with others in the area including Onslow County (Aa2/AA-), Brunswick County (Aa2/AA), Dare County (Aa2/AA), and Jacksonville, NC (Aa3/AA-). Pender County also received an affirmation of their bond credit rating by Moody's Investors Service at the Aa2 level.

The economic recession undoubtedly continues to have an impact on the federal, state and local economies. The local economy is beginning to slowly improve but continues to cause 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 educational lottery and ADM monies originally earmarked for the state school systems and other 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 Pender County strives to maintain expected service delivery to the citizenry while at the same time insuring a positive financial condition to avoid unnecessary property tax increases on the county's 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 county's recent credit rating upgrades and the FY 13/14 recommended budget of \$51,559,963 and a projected June 30, 2013 fund balance of \$14,601,782, the fund balance percentage as of June 30, 2013 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 continual national emergency in many states and communities across the U.S.), the proposed FY 13/14 Budget does not further diminish the existing fund balance of 28.32% set by the Board of County Commissioners the last two fiscal years, but holds it steady. Also, given the continued negative economic climate, the FY 13/14 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 (\*current census projections by the NC Department of Commerce estimate total population numbers in Pender County by 2016 will exceed 58,125). Commercial and residential building permits issued have fallen from 1085 in 2007 to 598 for 2012. Tax base growth has been consistently stagnant, with little noted growth during the last few years. 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 20<sup>th</sup> 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 (which represents almost 70% of the county's ad valorem tax value east of U.S. Hwy. 17), 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 industrial retention and 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 excellent position as the economy begins to improve.

Thus in summary, while the current economic climate is presenting challenges to Pender County, the Board of Commissioners continue to be optimistic in promoting sound economic and fiscal policy initiatives to position Pender County favorably 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 Commissioners have currently received a Rail Feasibility Grant from the Economic Development Administration to study the possibility of linking the Pender Commerce Park with rail access from the Port of Wilmington. Also, the Pender Commerce Park was awarded the "Duke Energy Carolinas Site Readiness Grant" in April, 2013.

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 despite the economic downturn, has been shown and marketed to several potential clients during this last year. Economic development activities in FY 12/13 focused in part on filling the Pender Progress Shell Building space, US 117/I-40 Industrial Site opportunities, Pender Commerce Park marketing and rail access, Coty Facility, Port Enhancement Zones, Duke Energy Site Readiness Program, as well as marketing and current county projects.

In FY 12/13, WBD submitted the Pender Progress Shell Building for 14 projects and have had 4 client site visits. Interested sectors include: manufacturing/assembly, food processing, warehouse distribution and breweries. The building continues to facilitate interest from clients to consider Pender County.

The US 117/I-40 opportunities take advantage of water and wastewater facilities in place along US 117 with excess utility capacity. There is available acreage along the corridor for potential industrial development, and we are consistently seeking to identify willing owners of potential sites for further evaluation. In FY 13/14 a concerted effort will be made between Pender County and WBD to continue to pursue and developing partnerships, identifying funding for site evaluations, and market the county's available industrial/commercial sites and buildings.

Up to FY 12/13, Pender Commerce Park has been submitted to 12 clients in four sectors: manufacturing, distribution/assembly, food processing, corporate offices and research and development (aerospace). A proposal is currently underway to extend rail approximately 1.8 miles from the current CSX terminal to Pender Commerce Park. An EDA grant of \$16,000 is in place with \$16,000 in county funds for the rail corridor planning study to determine route options.

Port Enhancement Zones were authorized by the General Assembly in 2011. This economic engine provides for enhanced state tax credits for industry above what is normally provided for a Tier 3 County (Pender and New Hanover). WBD researched, identified, and submitted potential areas for the PEZ. Two PEZs were approved by the Department of Commerce in Pender County in September, for Pender Commerce Park and for the former Coty facility in Rocky Point, NC.

Pender Commerce Park and the adjoining BASF industrial properties (over 700 acre tract) have been selected for the "Duke Energy Site Readiness Program". This program involves an assessment of the sites by McCallum Sweeney, a national site-selection consultant, which will result in recommendations for addressing shortcomings in site development and marketing. The assessment of these sites will begin in August, 2013.

Wilmington Business Development, NC Ports Authority, Brunswick County EDC and North Carolina South East hosted a national site selection consultant's forum April 17-19, 2013 to highlight industrial development potential in the region, and have recently partnered regional retail conferences including: a supply chain conference (RILA), and a metal fabrication conference (FABTEC) to market the area and recruit potential business/industrial clients.

Since late 2007, economic development has been a very challenging and often an ardent process. We are seeing incremental improvements in the national and state economies, and are positive about future economic activity in our area and specifically Pender County. In FY 13/14, we will continue to diligently work with our economic

development partner to showcase and market Pender County to new business and for potential industrial development.

According to the NC Employment Security Commission, the Pender County's average unemployment rate for 2012 was 10.8%. As of January 2013, the county's labor force was 24,258 and the unemployment rate was 11.5%. In retrospect and comparison, Pender County's average unemployment rate in 2011 was 12.0% and in 2008 the average county unemployment rate was only 6.2%! 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 to attract and recruit industrial development, jobs and investment into Pender County.

Strategies for upcoming years include a primary focus on the retention of existing businesses, evaluating opportunities for creating business, continued tourism development incentives, securing/preparing additional sites for industrial development, and actively facilitating economic development to all areas of Pender County. Make no mistake, Pender County's Economic Development Initiatives have been affected over the past several years by what many leading domestic and global economists have described as "the worst economic recession and market downturn since the Great Depression of the early 1930's".

#### **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 now complete in the Pender Commerce Park on US 421. The total cost of the project was \$33 million. The plant has been operational since 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. This project is now complete and the system has been online since the late summer of 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.

### **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 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. As of the date of this Budget Message, almost 50% of Pender County's general fund budget goes to public education current expense, capital outlay and debt service funding. The Commissioners work in partnership with the Board of Education to make sure education and school facility priorities are funded. The most recent capital facility project was a new auditorium-gymnasium addition at Heide Trask High School. Currently (as of the date of this message) it is our assumption the School Board has identified over \$80 million in anticipated capital facility needs for the next 5 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 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 finalizes their budget. Thus, stability of educational revenue sources for FY 13/14 and beyond is nebulous and of great 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](http://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, 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. The new budget proposes to bring an enhanced focus on recreational coordination, grant procurement and planning in Pender County by reclassifying the current Planner II Parks & Recreation position to a Parks & Recreation Supervisor Position. It is recommended this position report to the County Manager and work closely with the Parks & Recreation Board to promote and create recreational opportunities throughout Pender County.

A new public access to the intra-coastal waterway is now complete and is open to the Public. 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 operated with great success by the Pender County Health Department and provides top rate dental services to pre-school, elementary and middle children throughout the county. The dental program serves nearly 1000 students annually. 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 and supported in Pender County. Due to increased Veteran client numbers, this year's budget recommends funding to support moving a part-time Veteran's Service Officer to a full-time position. This will give the Pender County Veteran's Service Office a total of two full-time positions to handle increased Veteran case load and demand within our county.

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 supported annually through these programs. A food bank is available at DSS as part of an employee initiative to help provide non-perishable items to families. Food items are donated largely by Pender County DSS employees.

Over the years, 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 provided \$275,000 in grant funds to Pender County to distribute to those who meet qualifications for assistance. To date, numerous Pender County families continue to benefit 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 has established priorities, goals and strategies for attainment in the future. Four core strategic priorities have been identified and set as a benchmark for Pender County Government: A High Performing Organization; A Sustainable & Vibrant Economy; Excellence in Education; and A Diverse County with an Exceptional Quality of Life.

The budget recommendations for FY 13/14 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 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%.

With respect to A Sustainable & Vibrant Economy goals and strategies, the FY 13/14 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 for economic and industrial marketing and recruitment. A housing development study has been conducted to ascertain future housing needs facing the County, including but not limited to workforce housing and affordable housing needs. Continued expansion of the county's water and sewer systems is also funded, including new budgets for the US 421 water treatment plant operations, the Maple Hill wastewater system operation 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, along with assignment of responsibilities for these 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 the county and citizens not only continue to weather the current economic climate, but are positioned in the future for prosperity and sustainability.

## **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 12/13 Budget was approved by the Board of County Commissioners with the previous revaluation year tax rate unchanged at \$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 13/14 is \$0.5120, which represents no increase from FY 12/13 and the revenue neutral property tax rate of \$0.5120 cents set 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. The recommended

property tax rate will generate an estimated tax levy of \$31,491,582 in FY 13/14 as compared \$31,309,274 projected for FY 12/13, which represents a slight increase of only \$182,308 for FY 13/14. As of April 2, 2013, one penny on the current tax base, at a collection rate of 96.00%, will generate approximately \$615,069.

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	4.29%	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
2014 Projected	.5120	6,406,978,792	.06%	31,491,582

2007 - 2011 Information was obtained from audit.  
 2012 - 2012 Information was obtained from audit.  
 2012 - Increase due to Revaluation year  
 2013 - \*Projected pending FY 12/13 audit  
 2014 - \*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 fire district for FY 13/14 will be set when the Board adopts the overall County Budget Ordinance in June 2013.

**Major Expenditure Requirements and Recommendations for FY 13/14**

The proposed FY 13/14 Budget includes funding for major expenditure items that are newly mandated such as increased recurring expenses and recommended capital improvements or reserves. Some of these items are estimated at this point, and are contingent upon the final state and federal budgets.

Exhibit "A" sets forth recommendations for capital improvement recommendations for FY 13/14 totaling \$1,621,040 in requested funding being appropriated from General Fund Balance. The largest expenditure is \$892,551 which is being carried over from FY 12/13 and is appropriated for architectural and design work for a new Jail/Law Enforcement Center.

While annual appropriations in the past have been recommended to Parks Capital Reserve Fund, Drainage Capital Reserve Fund, Industrial Development Reserve Fund and Courthouse Renovation Reserve Fund, the proposed budget for FY 13/14 makes no appropriations due to ongoing economic constraints. Funding needs that may arise during the year will need to come from the general fund contingency balance. As the economy improves in future years, appropriations to these funds will be recommended.

### Sales Taxes

The County Finance Office has projected an increase in growth for Article 39 and Article 40 for FY 13/14. 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.

<b>FY Ending June 30</b>	<b>Article 39</b>	<b>% Increase/(Decrease)</b>
2007	2,942,951	(2.76%)
2008	2,922,062	(1%)
2009	2,545,036	(12.90%)
2010	2,270,386	(10.79%)
2011	2,532,476	11.54%
2012	2,731,546	7.86%
2013 Projected	2,865,000	4.89%
2014 Projected	2,925,000	2.09%

<b>FY Ending June 30</b>	<b>Article 40</b>	<b>% Increase (Decrease)</b>
2007	1,786,106	13%
2008	1,882,745	5.4%
2009	1,722,329	(8.52%)
2010	1,670,727	(2.99%)
2011	1,737,960	4.02%
2012	1,827,433	5.15%
2013 Projected	1,835,000	.41%
2014 Projected	1,850,000	.82%

2007 – 2012 are actual audited numbers

2013 – Projected pending final Audit

2014 – Projected budgeted amount.

Sales, services, and other revenues are projected to increase somewhat from the original FY 12/13 budget amounts as the local economy begins to stabilize and return to pre-2007 levels of growth hopefully in early to mid-calendar year 2016. The county will continue to feel the impact of the economic slowdown until this turnaround fully recovers and will need to budget accordingly.

## **Personnel**

County department requests for new position/reclassifications and wages in the General Fund this year totaled \$1,578,755.61 with only \$259,843.36 being recommended. Five new positions are recommended. An Administrative Assistant I in Emergency Management which will be 100% grant funded, a Dental Assistant in the Health Department, a Tax Appraiser in the Tax Assessor's office due to only one other Tax Appraiser in the department, one Meter Reader and one Transfer Station Scale-house Operator in the Utilities Department which will both be funded from the Utilities Enterprise Fund (the Utilities Department currently has only one Meter Reader on staff servicing the entire county). Two positions within the Water and Sewer Maintenance Division are being recommended for reclassification and will also be fully funded by the Utilities Enterprise Fund. Also recommended is reclassification of the Finance Officer position with the functions of an Assistant County Manager position, thus creating a position with dual responsibilities. A recommendation is being made to reclassify the Planner II Parks & Recreation position into a Parks & Recreation Supervisor, and to reclassify the Assistant Veterans Service Officer from part-time to full-time status. Temporary wages are being recommended for the Elections Department due to state and federal election mandated requirements.

A salary study was conducted by the Human Resources Director which took benchmark communities into account through a procedural rule process with a 1.2% COLA and longevity recommended in certain circumstances. If implemented in July 2013, the result would be a total cost of approximately \$315,000. \*The new salary study and 1.2% COLA are recommended for an effective date of the first payroll during the first week in October 2013. The cost of approximately \$250,000 is not included in the proposed budget department salary line items, but has been placed in General Fund Contingency pending formal approval by the BOCC. 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 has notified the county that employer contribution rates have increased from 6.74% to 7.07% for general employees and from 6.77% to 7.28% for Law Enforcement in FY 13/14. This increased cost has been budgeted in the FY 13/14 departmental salary line items.

## **Employee Health Care Plan**

Brokerage of the county's health plan was competitively bid for the 13/14 Fiscal Year. A new broker was selected; Mr. N. Steven Sims of Wells Insurance. Mr. Sims has pledged to obtain the best quotes and service available for Pender County. The new broker expects a potential increase in rates of around 8%, and this estimated cost is included in the new budget (with overage protection from the General Fund Contingency if needed). The average rate of annual increase for most public sector entities is approximately 9-10%. Currently, the County is self-insured and provides health, dental, and vision care to employees. Employees cover the cost of family/dependent care.

The Pender County Board of Commissioners officially created Pender County's Wellness Program with 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 various county departments to lead the wellness effort.

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. An updated cost savings analysis will be conducted in FY 13/14.

**\*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 three 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, 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 county contributions to the schools operating budgets over the last 8 years and what is recommended for funding in the 2014 final budget. It also shows the comparison of dollar % increase as it relates to population % increase from year to year.

<b>FY Ending June 30</b>	<b>Population</b>	<b>Operating Budget</b>	<b>\$ Per Student</b>	<b>% Dollar Change</b>	<b>% Population Change</b>
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	13,358,406	1,633	6.96%	7.08%
2011	8,241	13,217,433	1,606	-1.07%	.04%
2012	8,340	13,239,008	1,602	1.63%	1.20%
2013	8,519	13,248,924	1,592	.67%	2.14%
2014	8,691	13,366,694	1,538	.89%	2.01%

\*Student population numbers do not include Pre-K. \*Statistics denote K-12 only.

<b>FY Ending June 30</b>	<b>Capital Outlay Appropriation</b>	<b>% Change</b>
2007	938,000	2.85%
2008	1,210,000	28.99%
2009	2,677,590	121.29%
2010	1,200,000	-55.18%
2011	1,110,000	-7.50%
2012	1,110,000	0%
2013	1,110,000	0%
2014	1,110,000	0%

The Board of Commissioners is facing considerable financial pressure for school funding/construction in the coming years, and much of what happens is dependent upon state legislative action and the state budget. Of particular concern to counties in FY 13/14 is a continuation of the loss of school construction lottery funding. Also of concern is the potential permanent loss of the state's general fund corporate tax set aside (ADM Fund) for school construction. The General Assembly established the Public School Building Capital Fund in 1987 to assist county governments in meeting public school building capital needs. A portion of the N.C. corporate income tax is to be automatically credited to the ADM Fund each quarter and is distributed to each county based on the county's average daily membership (ADM). ADM Fund allocations for school facilities are matched \$1 local dollar for every \$3 state dollars. The state's proposed FY 13/14 Budget permanently redirects the corporate tax set-aside for school construction to the state's general fund, continuing NC County losses annually at \$75 million. Any county losses to the Pender County School System perpetuated by unexpected state budget changes are not included in this year's appropriated school budget and would be thoroughly evaluated by the County Commission if a school construction program were to be implemented. \*The FY 13/14 Budget fully funds all current schools debt service payments for the upcoming 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 outlying fiscal year budget cycles as the economy continues to improve, county debt load drops-off, and specific need options with financing are identified.

It is noteworthy to add that the state continues 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 over \$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 unknown potential state mandates. Unfunded state mandates proposed by the General Assembly and shifted to the county will require the Commission to decide whether or not to appropriate these funds to the schools current expense budget during the 13/14 fiscal year. The proposed FY 13/14 Budget does maintain the current capital outlay funding level of \$1,110,000.

\*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, 2013 (over two months after this fiscal year Budget Message 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. 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. The Financial models are run each year to assist in preparing the next fiscal year budget and to establish the recommended water and sewer rates for each District. These models review annual 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 are to each be self-sufficient. It is anticipated the goal will again 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 13/14 budget for the Rocky Point/Topsail Water System is \$3,485,000, a 4.1% increase over FY 12/13. 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), and the 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 \$4.29 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 \$4.79 per 1,000 gallons.

Rocky Point/Topsail Water & Sewer District – Sewer: The recommended budget for the RPT Sewer System is \$112,426, a 3.82% decrease over FY 12/13 primarily due to the continued 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 \$140,000, a 0% change over FY 12/13. 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 \$59,578, an 18.8% decrease over FY 12/13. 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 \$234,814, a 3.44% decrease over FY 12/13 primarily due to the insufficient lack of customers still not 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 remain \$4.32 per 1,000 gallons. The Commercial fixed Availability Fee will continue to be \$29.50 per month while the Usage Rate will remain \$4.82 per 1,000 gallons.

Surface Water Treatment Plant: The recommended budget for the Pender County Surface Water Treatment Plant is \$1,105,222, a 19.3% increase over FY 12/13. This will be the first full-year operational budget to run the water treatment 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 also enterprise (proprietary) funded program intended to be self-sufficient through the collection of fees for the services provided. The recommended budget is \$4,645,800, reflecting a 4.46% increase to offset the estimated 4.5% annual contract rate increase from Waste Industries. The Transfer Station Tipping Fee will increase by \$2.00/ton to \$74.00 per ton; the User Fee for MSW and recycling will increase by \$12.00 a year (\$1.00/month) to \$173.00 per year, and the Availability Fee for recycling only will increase by \$6.00 a year to \$86.00 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 sound fiscal management 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 eight straight years (currently at .5120) primarily to help Pender County Citizens cope with adverse economic factors. Consequently, the Board of Commissioners has had to reduce expenditures, delay capital projects (including school renovation and construction) over the past several years.

Despite the overall positive financial condition of the county, the fact still remains that we are still in challenging budget times and must continue to exercise a high degree of financial prudence and caution (many economic experts still compare current financial conditions as similar to the Great Depression of the 1930's). The Nation, States, and Counties continue to make hard budget decisions regarding spending during this continued economic recession. The FY 13/14 Budget recommends holding the fund balance steady at 28.32% (since this fund balance percentage was tied directly to the county's most recent credit upgrades). The Board of Commissioners realizes these funds are available for spending only one time in the event of an extreme emergency and not recommended for reoccurring expenditures. If expended for recurring expenditures, the Board must identify future funding sources to restore these funds immediately or risk losing the recently awarded upgraded credit ratings.

The county has prudently managed its enterprise funds to gain maximum interest yields 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 these systems.

Overall, the county remains in solid financial condition this year as evidenced by a strong audit and recent credit upgrades from S & P and Moody's Investors. 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 process often being characterized as "crystal ball economics" as related to the many unknowns (particularly in trying to anticipate what state and federal government specific fiscal impacts to counties will be), 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 most likely continue to prove to be financially challenging. 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 Finance Officer, Mr. Butch Watson, and Human Resource Officer, Mrs. Denise Mulhollen (and all respective staff) who assisted me in preparing the financial, salary, and insurance information contained in the FY 13/14 Budget. Deputy Clerk to the Board, Mrs. Glenda Pridgen, with over 22 year's expertise in Pender County Government, has worked tirelessly to organize and produce the final budget binder document. Lastly, I am very appreciative to all Pender County Department Heads and employees who devote countless hours to this process annually along with routine daily duties and job responsibilities.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. Duvall', with a long, sweeping horizontal line extending to the right.

Dr. Michael N. "Mickey" Duvall  
Pender County Manager

**EXHIBIT A**

**CAPITAL IMPROVEMENT RECOMMENDATIONS (FUND 60)**

Courthouse Sidewalk Project Completed FY 12/13	\$125K			
York House Renovation - Completed FY 12/13	\$75K			
US 421 Property Acquisition Payment (5 years)		\$326,278.00	Carried Over	
Industrial Shell Building Payment (3 years)		\$227,211.00	(\$214,108 Principal + \$13,105 In 105 Interest Payment Carried over from FY 12/13)	
New Jail/Law Enforcement Center		\$892,551	Carried Over	
New DSS Center		\$0	Propose moving to Fund 999 GF Contingency (\$225,000)	
Old Topsail School Renovation Project FY 13/14		\$175,000.00	*Annual Installment Pymt on /\$2,420,987.42 amortized 20 years @ 3.80% Fixed Int	
<b>Total:</b>		<b>\$ 1,621,040.00</b>		