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May 2, 2014

The Honorable James David Williams, Jr., Chairman, and Members of the Board of County Commissioners:

I am presenting to you a recommended operating and capital budget for FY 14/15. The proposed General Fund budget is $54,003,329 which represents a $2,443,366 (4.7%) increase from this current fiscal year. This increase is directly attributable to capital projects and new mandated or required spending obligations for FY 14/15. The overall fiscal year budget totals $91,964,919. 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 FY 13/14, and is being recommended again for FY 14/15. The recommended new tax levy for FY 14/15 is projected at $31,847,251 which represents a modest increase of only $355,669 over the projected amount for FY 13/14. 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, health & human services funding, and crime control/public safety funding issues.

Because of the continuing economic recession and the negative impact on revenues over 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 nine 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 (28.32%). 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 2012) 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 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 transactions. As Pender County Manager, my strategy has been to sell all Pender County 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 for years to come.

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 is now showing signs of some recovery but continues to have an impact on 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.

*The Board recently adopted a comprehensive Financial Policy providing that the undesignated fund balance be maintained at a level above 20% of the general fund budget. Based on the county's recent credit rating upgrades and the FY 14/15 recommended General Fund Budget of $54,003,329 and a projected June 30, 2013 fund balance of $15,293,743, the fund balance percentage as of June 30, 2013 is estimated to be 28.32% (which is the same as the previous year's budget). 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 14/15 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.

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 are beginning to show signs of a steady fragile economic turnaround. 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). The Census' American Community Survey (ACS) 2013 population estimates show an estimate of 55,334 as Pender County's population in 2013 (this equates to a 6% increase from the 2010 benchmark). Commercial and residential building permits have not caught up to pre-recession levels and are still somewhat anemic at 631 for 2013 as compared to 1085 in 2007 (prior to the onset of the recession). 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 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 (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 and continues to be 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 recent 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 still 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. All of this diligent planning came to fruition as success finally came to the Pender County Board of Commissioners and Pender Commerce Park in the fall of 2013. Pender County was successful (with the help of economic development partner Wilmington Business Development) in recruiting RC Creations, LLC. (a subsidiary of ACME Seafood, Inc.).

RC Creations LLC (Company), is currently locating a 100,000 square foot seafood processing facility on a 20 (+/-) acre site located in the Pender Commerce Park. The company will import fresh and frozen seafood from around the world to create ready-to-eat seafood products that are packaged and shipped domestically and internationally. RC Creations LLC is a division of Acme Smoked Fish Corporation, based in New York. The four-generation, family-owned business has produced value-added seafood products for more than 75 years.

The Company will create 120 new full-time jobs in the initial phase and an additional 120 jobs when it expands. It will commit to create and retain for a six month period 100 new full-time jobs within 24 months of the grant offer date to leverage the requested $500,000 Economic Infrastructure grant. The Company's total estimated investment will be $43 million dollars, with each phase leveraging a $21.5 million private investment. The Company's average salary ($33,308) exceeds Pender County's 2013 average wage ($28,792) by fifteen percent (15%). The Park's proximity to the North Carolina Port at Wilmington was a major factor in the Company's site decision. Its product will be imported by 200 containers annually through the port for further processing/distribution. RC Creations, LLC will be the Pender Commerce Park's first tenant.

Pender County's employed workforce historically has exceeded the number of jobs created by county employers. In 1990 the total number of jobs provided by Pender County employers represented 40% of its employed workforce. For the month of March 2013 the number of jobs provided by Pender County employers represented 44% of the County's employed workforce and 39% of its total labor force. The lack of employment opportunities in Pender County results in a high percentage of its residents having to out-commute for employment opportunities. During 2000 a higher percentage (45.6%) of Pender County residents worked in neighboring New Hanover County than in Pender County (38.2%). Out-commuting is also due a disparity in the average wage paid by all Pender County employers to employers in adjacent New Hanover County. Pender County's 2013 average weekly wage for all industries ($554) is 75% of New Hanover County's average wage ($735).

The recent recession has severely impacted employment opportunities for Pender County residents. Pender County employers employed 721 less workers during March 2013 than the 2008 average number of workers. Pender County's major private employer, Coty, closed its manufacturing facility during this time (2011) laying-off 250 workers. Adding to workforce economic distress, 280 job layoffs in New Hanover County were announced during November 2013 (Corning – 180 and Invista – 100). DAK located in Brunswick County bordering New Hanover announced the closing of its facility laying-off 600 employees. These conditions are especially severe to Pender County's workforce that has experienced an average 10.27% unemployment rate for the past 24 months. There is a critical need to expand the employment base to help alleviate large layoffs in the area, especially in the manufacturing sector.

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 numerous potential clients during this last year. Economic development activities in FY 13/14 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.

During FY 13/14, WBD submitted the Pender Progress Shell Building for numerous projects and have had several active 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 has been 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.

During FY 13/14, Pender Commerce Park has been submitted to numerous 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. A federal EDA Rail Corridor Feasibility Grant of $16,000 with a county match of $16,000 has just been completed for determining rail access and route options to the Pender Commerce Park.

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 2013, for Pender Commerce Park and for the former Coty facility in Rocky Point, NC. These tax credits have since expired with the actual designated zones still in existence.

Pender Commerce Park and the adjoining BASF industrial properties (over 700 acre tract) were selected for the "Duke Energy Site Readiness Program". This program involved an assessment of the sites by McCallum Sweeney, a national site-selection consultant, which resulted in recommendations for addressing shortcomings in the site's development and marketing.

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 14/15, 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, close to 60% of the county's workforce continues to commute out of the county to work, and we are in the process of reversing 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.

It goes without saying that Pender County's Economic Development Initiatives have been somewhat 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.

The Surface Water Treatment Plant has now been online for over 18 months and provides all the drinking water for the Rocky Point/Topsail and Scotts Hill Water & Sewer Districts. The plant is designed to upgrade to 6 mgd with little additional investment and will operate to serve the current and future Water Districts with safe drinking water supply for the next 10 to 15 years.

Planning, design, and permitting activities are underway for the installation of water mains and services to the Moore's Creek and Central Pender Water & Sewer Districts. The seven-year General Obligation Bonds authorized in 2006 by the citizens of the two districts have been extended for an additional 3 years to 2016. As sufficient water supply wasn't available to extend waterlines into these districts until the same year as the Bond Authorizations would have expired (2013), the Board of Commissioners requested the LGC to extend the bond authorizations until November 2016. "Sign Up" campaigns began in February 2014 with an informational letter sent to over 9,000 property owners in the two Districts and a Public Meeting held in March. The sign up campaign will run through July 2014 and an additional Public Meeting is tentatively scheduled for May or June. Once the customer base is identified, the final design work and permitting can be completed. Construction is scheduled to begin in the spring of 2015 and be completed by November 2016. PCU is anticipating an additional 1,200 to 1,500 water customers upon completion of the project.

Construction of the Pender Commerce Park infrastructure began in December 2013 and is scheduled to be complete by December 2014. These improvements include water distribution, sewer collection, storm water management, street lighting, sidewalks, street trees, and over a mile of roadway construction to serve the entire Commerce Park. The Park will then have water and sewer service available to serve current and new tenants within the Park.

In order to provide wastewater treatment and disposal for development of the Commerce Park on US Highway 421, a new state-of-the-art wastewater treatment facility is also under construction as of March 2014. The project has been divided into two phases. Phase I consists of the influent plant pump station and an equalization basin that will be incorporated as part of a pump and haul operation. Completion of this phase is scheduled for September 2014. Phase II of the project includes the remaining wastewater treatment facilities and processes that will be constructed semi-concurrently with Phase I. The final facility will have a treatment capacity of 500,000 gallon per day and will utilize an NPDES permit that was acquired via inter-local agreement with the Cape Fear Public Utility Authority in New Hanover County. The NPDES provides for a point discharge to the Cape Fear River of up to 4 million gallons per day; however, permit provisions allow for construction in incremental capacities as demand increase. Final completion of the 0.5 MGD facility is scheduled for October 2015.

To accommodate the anticipated high-strength waste stream and provide a unique and sustainable facility, the process has been designed as an *Adaptive Eco-System* utilizing *Hydroponics* (plants) and moving bed bioreactors

(MBBR). This "Adaptive Ecosystem" Wastewater Treatment Plant is estimated to cost approximately $9.7 Million to construct. To date, Pender County Utilities has received preliminary approval for $3,925,000 in Grant Funding for the project from both state and federal economic development agencies. The project is now formally known as the "Melinda K. Knoerzer Adaptive Ecosystem Reclamation Facility".

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. As the economy begins to recover, the Planning Board and Board of Commissioners have positioned the county to address the upcoming growth and development pressures. The county has also been working in some of our communities around the county. Planning and Community Development have recently completed Small Area Plans for the Currie and Maple Hill Communities which were both adopted by the Board of Commissioners. These plans identify and address the challenges and opportunities that are unique to the certain areas.

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 have identifying a by-pass corridor. Funding has been set aside for right-of-way acquisition in 2017, and efforts have been 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, around 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, and will most likely be requesting a bond referendum in the near future to fund new school facilities and needed renovations.

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. Consequently, the Pender County Board of Commissioners committed $100,000 in FY 13/14 and $100,000 in FY 14/15 to help fund the construction of the new CFCC Surf City Campus, which is now underway. Also, the new FY 14/15 Budget includes an increase from $225,000 to $357,210 to help fund renovations at the CFCC Burgaw Campus and start-up expenses at the new Surf City Campus.

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 14/15 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 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. The Pender County Board of Commissioners partnered with the Town of Burgaw in renovating the Old Jail Building in Downtown Burgaw, NC. The Pender County Tourism Department is in the process of moving to the Old Jail Building which will afford greater visibility and accessibility for the public.

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. Last year's FY 13/14 budget brought 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 to promote and create recreational opportunities throughout Pender County.

A new public access to the intra-coastal waterway has been completed 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 continued to expanded and improve. 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.

Construction renovation is now underway in Hampstead on the Old Topsail School which will be restored to the splendor of yesteryear (nearly a $3.6 million dollar project). The renovated facility will house Pender County's departments and service agencies which will be in close proximity to better serve the residents of the Hampstead and surrounding areas which are a considerable distance from county offices in Burgaw, NC. The renovated Old School Facility will include an auditorium with seating for nearly 300 people. This project when completed will be a great regional asset.

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 1,000 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, last year's budget appropriated funding to support moving a part-time Veteran's Service Officer to a full-time position. The Pender County Veteran's Service Office now has 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 14/15 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 14/15 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 & Fire, Coastal Care (formerly 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.

This past year, the County Commissioners were responsible for leading an effort to combine a portion of Pender's fire departments and coverage areas (Sloop Point, Hampstead, Long Creek/Grady, and Scotts Hill) by merging them with Pender EMS and forming Pender EMS & Fire. This new entity has been directly responsible for lowering ISO homeowner's insurance ratings in the districts it serves. By adding new fire substations in strategically placed

areas, Pender EMS and Fire has been able to lower homeowner's insurance premiums by hundreds of dollars on average.

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 13/14 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 14/15 is $0.5120, which represents no increase from FY 13/14 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 $31,847,251 in FY 14/15 as compared $31,491,582 projected for FY 13/14, which represents a slight increase of only $355,669 for FY 14/15. As of April 2, 2014, one penny on the current tax base, at a collection rate of 96.25%, will generate approximately $622,016.

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	.5120	6,403,238,494	.85%	31,309,275
2014 Projected	.5120	6,406,978,792	.06%	31,491,582
2015 Projected	.5120	6,462,510,407	.86%	31,847,251

2007 - 2011 Information was obtained from audit.
2012 – 2012 Information was obtained from audit.
2012 - Increase due to Revaluation year
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 14/15 will be set when the Board adopts the overall County Budget Ordinance in June 2014.

Major Expenditure Requirements and Recommendations for FY 14/15

The proposed FY 14/15 Budget includes funding for major expenditure items that are newly mandated such as increased recurring expenses and recommended or BOCC pre-approved 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 14/15 totaling $1,289,444 in requested funding being appropriated from General Fund Balance. One of the largest expenditures is $450,000 which is in part being carried over from FY 13/14 and is appropriated for architectural and design work for a new Jail/Law Enforcement Center. The FY 14/15 Manager's Budget recommends moving approximately $400,000 from last year's Jail/LEC line item to the Sheriff's Department Jail line item and GF Contingency to fund potential inmate out-of-county detention overages in the upcoming fiscal year.

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 14/15 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 may be recommended.

Sales Taxes

The County Finance Office has projected an increase in growth for Article 39 and Article 40 for FY 14/15. 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	2,532,476	11.54%
2012	2,731,546	7.86%
2013	2,865,000	4.89%
2014 Projected	2,925,000	2.09%
2015 Projected	3,024,628	3.41%

FY Ending June 30	Article 40	% Increase (Decrease)
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	1,835,000	.41%
2014 Projected	1,850,000	.82%
2015 Projected	1,925,000	4.0%

2007- 2012 audited numbers
2013- Projected pending final Audit
2014- Projected budgeted amount.
2015- Projected

Sales, services, and other revenues are projected to increase somewhat from the original FY 14/15 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 the 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 $1,035,541.16 with only $149,547.38 being recommended. Three new positions are recommended. A Deputy Sheriff I (Jail) – Transportation in the Sheriff's department, a Senior Accountant in the Finance department, and a Social Worker I in the Health Department, for which no County dollars will be required for this position. Reclassifications totaled sixteen (16) in number, a Social Worker III to a Social Worker IV in the Social Services department (funded 50% by Medicaid reimbursement), an Elections Clerk to an Elections Technician in the Elections department, a Water Treatment Maintenance Tech I to a Water Treatment Plant Operator in the Utilities department which will be fully enterprise funded, a reclassification of a Grounds worker position in Public Works from P/T to F/T, and the following twelve (12) reclassifications from the Health department, for which no county dollars will be required: Administrative Assistant II to Administrative Assistant III, PHN Director I to PHN Director II, Accounting Specialist I to Accounting Specialist II, Environmental Specialist to Environmental Health Program Specialist , Environmental Health Supervisor I to Environmental Health Supervisor III, Processing Assistant IV to Administrative Assistant I, a Processing Assistant III to Administrative Assistant II, a Processing Assistant III to a Processing Assistant IV, an Animal Shelter Attendant from P/T to F/T, a Dental Hygienist from a contract position to 80% employee, a Dental Assistant from a contract position to 80% employee and a Nutritionist II to WIC Director. Two salary increases are recommended; an increase for the IT Operations Manager in the Information Technology department, and an increase for the HHS Director in the Health and Human Services department for which no county dollars will be required.

The salary study conducted by the Human Resources Director which took benchmark communities into account through a procedural rule continues throughout this fiscal year. If implemented in July 2014, the result would be a total cost of approximately $350,000. The cost of approximately $350,000 is not included in the proposed budget department salary line items (due to a low ad valorem growth rate coupled with non-discretionary spending requirements this year), and would require a ½ cent tax increase above the existing .5120 ad valorem tax rate if the Board of Commissioners approves adding Phase II of the Salary and Pay Plan this year. The last overall salary adjustment for county employees took effect when the new pay plan was implemented in 2013. North Carolina Department of State Treasurer Retirement Systems Division has not yet notified the county whether or not employer contribution rates have will increase or stay the same. Currently, the rates are 7.07% for general employees and 7.28% for Law Enforcement in FY 13/14. An increase has not been budgeted in the FY 14/15 departmental salary line items.

Customer Service Training Initiative

In March, 2014, Human Resources instituted a new, ongoing customer service training initiative that has the full backing of the Pender County Board of County Commissioners. Providing superior customer service to customers both internal and external is the focus of the initiative. Training began with upper level management attending a value-based customer service program facilitated by the UNC School of Government. Strategies discussed in this meeting encompassed how local governments can develop a uniform approach to defining, evaluating and prioritizing customer experiences as they relate to the organization, encouraging employees to make the connection between personal and core organizational values, and improving employee morale so employees want to provide effective customer service. Pender County is in discussion with Cape Fear Community College to provide additional essential customer service training for all employees.

Employee Health Care Plan

Our insurance broker expects a potential increase in rates of around 10%, mainly due to mandates set forth through the ACA (Affordable Care Act) as proposed and implemented by President Obama. This estimated cost is included in the new budget (with some 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, however many changes are being proposed to offset the additional ACA compliance fees and increased prescription costs. Proposals range from increased Rx copays, Specialist co-pay increases, to payroll contributions for single coverage. Even with the proposed changes caused primarily by the Affordable Care Act, Pender County's insurance coverage still remains what is considered to be a "Cadillac Policy" by the ACA and industry standards.

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 10/11. 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. Pender County has partnered with Healthstat to provide Wellness services to employees. The Wellness Committee will continue to offer health education and promotion activities. An updated cost savings analysis will be conducted in FY 14/15.

***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 9 years and what is recommended for funding in the 2014/2015 final budget. It also shows the comparison of dollar % increase as it relates to student 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	13,358,406	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%
2015	9,034	13,469,427	1,491	.76%	3.95%

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

*School's Operating Budget has increased 45.85% since the base year of 2007 to the 2015 projection.

*Student population has increased 17.45% since the base year of 2007 to the 2015 projection .

*These numbers do not include debt service per year per student.

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	-55.18%
2011	1,110,000	-7.50%
2012	1,110,000	0%
2013	1,110,000	0%
2014	1,110,000	0%
2015	1,442,000	29.91%

*School's Capital Outlay Appropriation has increased 53.73% since the base year of 2007 to the 2015 projection.

*These numbers do not include debt service per year per student.

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 14/15 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 FY 13/14 Budget permanently redirected the corporate tax set-aside for school construction to the state's general fund, continuing NC County losses annually at over $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 14/15 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 consistently dropped over the last two fiscal years, and the NC Educational System is anticipating further cuts this year and years to come.

Pender County School's submitted their FY 14/15 Local Budget Request on April 24, 2014. The School's budget request is $2,324,567 over last year's. This total requested increase has not been added into the FY 14/15 Manager's Recommended Budget in total due to the county's low annual growth rate this year in the ad valorem tax base (.86%), coupled with a fiscal year overall county budget that is characterized by a high percentage of non-discretionary funding requirements. In the event the Board of Commissioners decide to approve funding the School's request in full, an ad valorem tax increase of approximately 3.74 cents per $100 of assessed value would be required in addition to the current tax rate of .5120 (1 cent now raises $622,016). In addition, the Board of Commissioners were informed at their March 17, 2014 regular meeting by Pender County's Financial Advisers (Davenport & Co.) of potential increased tax rate scenarios applicable to a future School Bond Referendum in amounts between $60 million to $80 million dollars. If passed by the Pender County Voters, ad valorem tax rate increases in the very near outlying years to fund school renovation and new construction could potentially be between 6 to 11 cents additional to the current tax rate of .5120.

The overages in the School's Budget Request this year are primarily attributable to supplemental salary increases for all school personnel ($1,877,567) and $447,000 additional requests to the capital outlay budget (currently funded at $1,110,000). Due to the slow fragile economic recovery in Pender County, this proposed budget attempts to partially address the many challenges faced by our school system. As a result, no funding for salary increases, COLA's, or bonuses are included in this year's recommended budget for school or county employee's. The budget does appropriate money to the schools for mobile classrooms, chiller repairs, and an activity bus (which is an additional $332,000 to the schools capital outlay funding over last year). Also the FY 14/15 budget appropriates one additional school nurse (estimated at $51,733) and one additional maintenance worker (estimated at $51,000) for a total of $102,000 additional to the schools operational/salary costs over the last fiscal year. This 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 14/15 fiscal year. The proposed FY 14/15 Budget does slightly increase last year's capital outlay funding level from $1,110,000 (FY 13/14) to $1,442,000 (FY 14/15), and total county contribution to the schools operational costs from $13,366,694 (FY 13/14) to $13,469,427 (FY 14/15).

*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, 2014 (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. 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 to each become 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 14/15 budget for the Rocky Point/Topsail *Water* System is $3,057,000, a 12% overall decrease under FY 13/14. This decrease in the overall budget was attributable to the savings realized from the FY 12/13 LOBs refinancing of the Districts. However, in order to remain self-sufficient and to offset the increase cost of Bulk Water to the District from the Water Treatment Plant now that the debt service payments have started, staff is recommending a 4.9% Usage Rate increase per 1,000 gallons of water. Every effort has been made to hold the line on operating expenditures; however, there are programmed increases for fuel, utilities (electricity), and the new annual "Take or Pay" bulk rate from the Town of Wallace. The Residential fixed Availability Fee will continue to be $25 per month while the Usage Rate will increase by $0.21 per 1,000 gallons to $4.50 per 1,000 gallons. The Commercial fixed Availability Fee will continue to be $27 per month, while the Usage Rate will also increase by $0.21 per 1,000 gallons to $5.00 per 1,000 gallons.

Rocky Point/Topsail Water & Sewer District – Sewer: The recommended budget for the RPT *Sewer* System is $100,000, an 11.05% decrease under FY 13/14 primarily due to the continued loss of revenue and expenditures from the closed Del Labs (COTY). 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 $143,892, a 2.78% increase over FY 13/14. 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 $52,593, an 11.72% decrease under FY 13/14. 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 $244,100, a 3.95% increase over FY 13/14. To offset the increased cost of Bulk Water to the District from the Water Treatment Plant now that the Debt Service on the Plant has started, staff is recommending a 4.9% Usage Rate increase per 1,000 gallons of water. The Residential fixed Availability Fee will continue to be $27.50 per month while the Usage Rate will increase $0.21 per 1,000 gallons to $4.53 per 1,000 gallons. The Commercial fixed Availability Fee will continue to be $29.50 per month while the Usage Rate will increase $0.21 per 1,000 gallons to $5.03 per 1,000 gallons.

Surface Water Treatment Plant: The recommended budget for the Pender County Surface Water Treatment Plant is $1,576,475, a 43% increase over FY 13/14. This increase is directly attributable to a $478,000 increase in Debt Service interest payments beginning this fiscal year. 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 $5.61 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 $4,993,296 reflecting a 7.78% increase to offset the estimated 4.5% annual contract rate increase from Waste Industries. The Transfer Station Tipping Fee will increase by $1.00/ton to $75.00 per ton; the User Fee for MSW and recycling will increase by $6.00 a year ($0.50/month) to $179.00 per year, and the Availability Fee for recycling only will increase by $3.00 a year to $89.00 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 nine 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 post economic recession fragile recovery period. The FY 14/15 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 Assistant County Manager/Finance Officer, Mr. Butch Watson, Human Resources Assistant, Mrs. Sandi McIntyre, 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 14/15 Budget. Deputy Clerk to the Board, Mrs. Glenda Pridgen, with over 24 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,

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