



County Manager's Budget Message:

FY2017-2018

Compliance:

Please find attached the Montgomery County Budget Ordinance and Fee Schedule prepared in accordance with the North Carolina Local Government Budget and Fiscal Control Act and General Statute 153A-82. The proposed budget is balanced with a property tax rate of sixty-two (62) cents per one hundred (100) dollars of property value.

Revenue Reductions:

This year's budget was not without its challenges. The opening of the Randolph County landfill in February 2017 resulted in the loss of approximately \$670,000 dollars in revenue for Montgomery County. This will be a recurring loss for the County as the waste product from Randolph and Guilford counties will, more than likely, not be returning in subsequent years to the Montgomery landfill.

In and of itself, this loss could have resulted in an increase of almost two and one-half cents on the tax base in order for the County to remain revenue neutral. Fortunately, sales tax receipts remain strong and the revenue received from the 2016 legislatively brokered sales tax profit-sharing distribution will help offset the loss of landfill revenue.

While the landfill revenue loss was not unexpected, being aware for the last two years of the permitting and construction of the Randolph facility, it is always of concern to see any revenue stream trend downward. Having only a limited number of revenue sources, and legislatively prohibited from creating new revenue sources, the reduction in one always causes apprehension.

Budgetary Practices:

Of the County's three main revenue sources, typically sales tax and landfill revenues are correlated with the overall health of the economy. Neither revenue source is desirable upon which to fund core services as they are more subject to short term fluctuation, as opposed to the third revenue source of ad valorem taxes. Budgetarily, it is always prudent to underestimate revenues from cyclical sources, to book gains toward non-recurring expenditures like infrastructure, and to be prepared for cycles where these revenues are decreased. This having been the budgetary practice over the last several years the County was not dependent on all of the collections and will be able to shift over to those resources.

Expenditure Reductions:

Coupled with aggressively budgeting sales tax revenue for the upcoming fiscal year, significant infrastructure cuts have been implemented for FY18 in order to balance the budget without a tax rate increase. Most notably is the reduction of about two hundred thousand dollars in the I.T. budget. On the positive side, over the last five years significant investments have been made in critical technology areas. With the goals of keeping technology secure, compliant with federal and state guidelines, and implemented toward better service features for both residents and employees, the improvements over the last several years have helped the County gain efficiency. While undesirable from a strategic standpoint, a short term curtailing of capital I.T. projects will not jeopardize governmental operations.

Commitment to Facilities and Economic Development:

Remaining in the budget for the FY18 year are the allocations for facility improvements and economic development funds. The combined \$950,000 is essential to repairing and renovating County owned facilities and for fostering economic development by preparing and controlling project ready sites. County facilities were neglected for many years after the local economic downturn (the demise of the textile industry in the 1990's and early 2000's) and the national recession of the late 2000's. Combined with funds allocated and held in reserve from the last couple of fiscal years, the County will proceed with much needed facility capital improvements and with strategic economic development plans and will not have to stunt these efforts because of the revenue loss from the landfill. Of paramount interest to the County is the desire to have the funds necessary to enlarge the natural gas line in the southwestern part of the County. As this remains the only natural gas supply for the County, and understanding the vital importance of natural gas to industrial manufacturers, this improvement is essential for job creation and growth.

Rainy Day Allocations:

Realizing that history will, to some extent, repeat itself and that the economy will falter at some point, in order not to be once again in a position to cut funding for facility needs, it is recommended that the County restrict a portion of its current fund balance to prepare for the eventuality of an economic downturn. The manager's recommendation is to restrict \$5 million of the projected FY17 year-end unrestricted fund balance of \$11 million toward County capital needs. The remaining fund balance would be in line with the Board's adopted goal of maintaining a 20% unrestricted balance, and the funds would allow scheduled repairs to continue for several years.

Another consideration for making the allocation to capital reserve now is that the County will be facing a heavy new debt load in the coming years. The debt service for the new central high school will be approximately \$3 million annually, starting in 2020, and there will not be significant debt reduction from the current outstanding loans until 2025 (mostly Greenridge Elementary). The Board of Commissioners passed a 5 cent tax increase for education in 2015 and contributed \$5 million from fund balance toward the eventual new debt service, but these allocations are considerably less than what will be needed to fund the project. The combination of those two debts may force the County to dip into the allocations it has been

making towards facility improvements in order to cover the additional debt. Having the funds restricted now for County capital needs will ensure that the progress that has been made over the last several years toward facility improvements will continue.

Education Funding:

On the positive side, the new high school consolidation will, according to figures compiled by Montgomery County Schools during the feasibility studies for the new central high school, afford a cost savings estimated into the millions of dollars. This savings must be utilized by the school system to meet the need for increased teacher salary stipends and other County funded educational obligations. The County will not be able to, with the new debt service in 2020, provide annual increases to their operational budget for several years henceforth. Starting in 2020 with the additional debt service, approximately 35% of the County's total budget will be allocated toward education.

Realizing the consolidation savings will not begin until after 2019, the County has appropriated additional funds for the school system for the FY18 fiscal year. An allocation of an additional \$100,000 was necessary to help offset the costs associated with the pending state mandate for smaller class sizes. Similarly, the annual allocation to the Community College was also increased for the upcoming year.

It is the County's hope that the construction of the single high school beside the College will also afford the College with an opportunity to realize economy of scale savings by partnering with the school system for facility maintenance and housekeeping services. The largest portion of the County's budget to the College is spent on maintenance and facility staff. Having comparable staff, and maintenance equipment, next door should lead to some resource sharing.

County Employees:

Two other notable increases are addressed in the budget for the upcoming fiscal year. County employees will receive, for the first time in a decade, an across the board cost of living increase. The COLA is a 2.5% base salary increase. For the past several years the County has realigned employee compensation in order to bring pay parity for employees performing comparable duties within County government. Having now reached that goal of equity amongst peers, the County is now working to keep all salary ranges market competitive.

Unfortunately, the State Health Plan is also considering implementing a monthly premium to all employees for the base medical plan starting in January 2018. This monthly cost may offset a good portion of employees' salary increases. The County will continue to monitor employee compensation and will consider an additional 1.5% COLA increase for the FY19 fiscal year, dependent upon out of pocket costs to employees, overall economic conditions, and increases to the ad valorem tax base through growth.

Services for the Aged:

Services for older adults will also receive a budget increase for FY18. The Board of Commissioners has prioritized senior services and will strive to offset federal block grant cuts for older adults by increasing the County's contributions. The budget for these programs is increased 58% over the current fiscal year. The County will also be providing professional support from the Department of Social Services and County Finance to aid in the performance of operations from the non-profit Council on Aging. The Council provides core senior services including in-home delivered meals, congregate meal site, transportation, in-home aid, family caregiver support, and facilitates food pantry operations in the County.

Public Utilities:

The public utility system will continue to operate as an enterprise fund for the next fiscal year and will not receive or contribute any funds to the County's general fund budget. There will be no increases in charges to County customers, either rural residential, rural commercial, or bulk buyers (e.g. the five towns in Montgomery County and the Town of Robbins in Moore County).

The water system has several critical infrastructure projects planned for the coming year. Grant applications have been submitted for all the planned projects. In lieu of being awarded grant funds, it may be necessary to seek state revolving fund loans or other 0% to low interest rate funds. Preliminary conversations have received approval from the Local Government Commission for any necessary debt issuance.

Another priority for the public utilities department is to work with the municipalities to better integrate water systems and to work collaboratively to ensure that adequate capacities are available in areas most suited for industrial development. Coupled with this effort is the County's desire to integrate municipal sewer systems so that east, west and center of Montgomery County has disposal capacity capable of handling large industrial users.

Summary:

County government strives to perform its three-prong mission: (1) provide core governmental services to residents in a professional, efficient, and serving manner; (2) to position the County for economic growth by utilizing existing assets and by developing the infrastructure components (labor force, water, sewer, gas, connectivity) necessary for growth; and (3) to partner with municipalities to develop and implement cohesive, supportive, and tactical strategies for enriching the lives of Montgomery County residents.

As County Manager, I am proud to work with very capable and dedicated leaders. These leaders are not limited to the Board of Commissioners, but also extend to the department, office, and unit supervisors within County government. Holistically, I feel County residents should be very proud of their elected leaders and the employees who serve them in County government.

Signed,
Matthew Montgomery Woodard
County Manager