

CUMBERLAND COUNTY BOARD OF COMMISSIONERS
APRIL 24, 2017 – 5:30 PM
117 DICK STREET, 5TH FLOOR, ROOM 564
SPECIAL MEETING – FY18 BUDGET WORK SESSION
MINUTES

PRESENT: Commissioner Glenn Adams, Chairman
Commissioner Charles Evans, Vice Chairman
Commissioner Michael Boose
Commissioner Jeannette Council
Commissioner Marshall Faircloth
Commissioner Jimmy Keefe
Commissioner Larry Lancaster
Amy Cannon, County Manager
Melissa Cardinali, Assistant County Manager
Tracy Jackson, Assistant County Manager
Sally Shutt, Assistant County Manager
Rick Moorefield, County Attorney
Vicki Evans, Finance Director
Deborah Shaw, Budget Analyst
Heather Harris, Budget Analyst
Jeffrey Brown, Engineering and Infrastructure Director
Brenda Jackson, Social Services Director
Keith Todd, Information Services Director
Julean Self, Human Resources Assistant Director
Geneve Mankel, PIO Communications & Outreach Coordinator
Candice H. White, Clerk to the Board
Kellie Beam, Deputy Clerk to the Board
Press

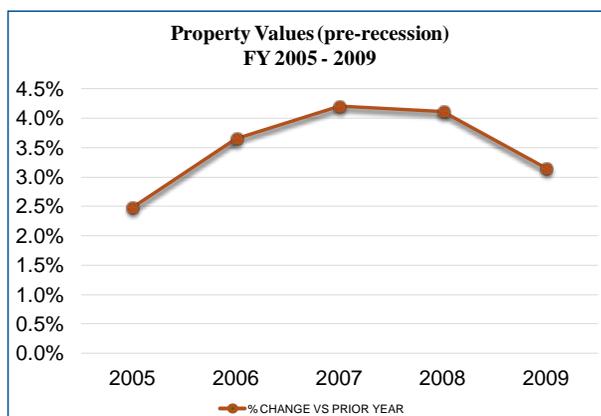
Chairman Adams called the meeting to order.

Amy Cannon, County Manager, thanked the Board for allowing her to share some of the budget challenges and strategies staff are attempting to develop. Ms. Cannon stated due to the unique challenges, she felt it prudent to provide a snapshot of where things are at this point in time. Ms. Cannon stated this is not the recommended budget because staff are still considering options to balance the budget.

Ms. Cannon provided an overview of the objectives for the budget work session:

- Historical review of significant challenges
- Update on the FY18 budget/projected deficit (all numbers presented are projected or preliminary)
- Share preliminary revenue-neutral tax rate, but not seeking any decision on tax rate
- Share strategies being considered to balance and sustain the budget

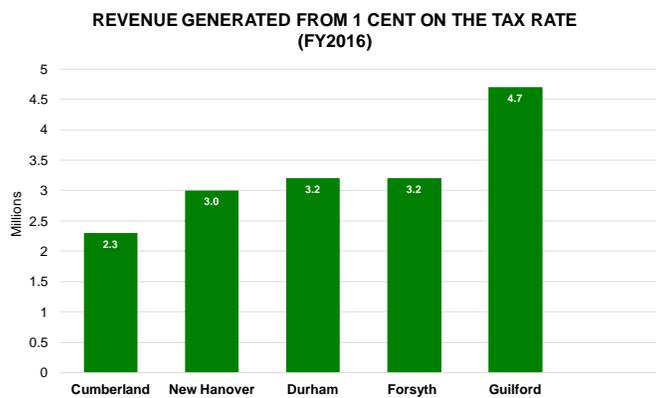
Ms. Cannon reviewed the Pre-Recession Natural Growth graph for real property values below. Ms. Cannon stated real property growth for FY2005-2009 was strong at above 2.5% and there was 4% growth at the highest point in 2007 and 2008 which resulted in a significant amount of revenue for those years.



Ms. Cannon reviewed the Post-Recession Natural Growth graph for real property values below and stated with the significant drop in values, the County is currently under 2% average growth which is not bringing in enough money to cover inflationary increases.



Ms. Cannon stated in addition to the natural challenges in the tax base, another challenge being faced is the limited dollars that one penny generates. Ms. Cannon stated based on FY2016, one penny on the County's tax rate brings in about \$2.3 million. Ms. Cannon reviewed the tax rate comparisons depicted in the graph below and stated Durham and Forsyth counties bring in almost \$1 million more per penny than Cumberland County.

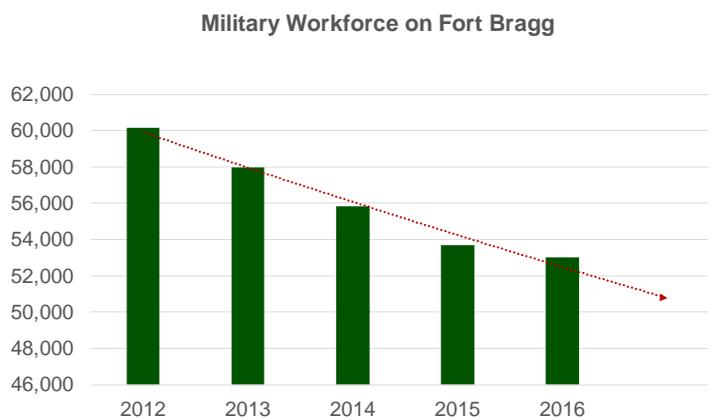


Ms. Cannon stated another area that is extremely difficult to predict is in the area of sales tax. Ms. Cannon reviewed the chart below stating sales tax plummeted in 2010 at an almost 20% decrease. Ms. Cannon stated the County has rebounded since then, but not fully, because there was another drop in the growth of sales tax in 2016.

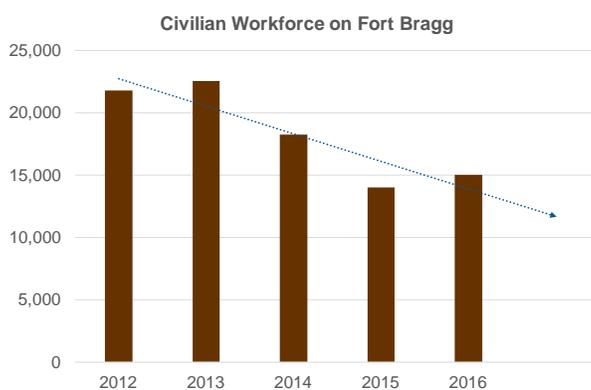


Ms. Cannon stated her purposes for providing these graphs is to show the County's local economy continues in a weak pattern and is really very stagnant.

Ms. Cannon stated the impact of the military workforce and civilian workforce at Fort Bragg are contributing to the County's weak economy. Ms. Cannon reviewed the graph depicting the military workforce or troop strength from 2012-2016 and noted the loss of 7,000 military personnel at Fort Bragg.



Ms. Cannon reviewed the graph depicting the civilian workforce over the same time period of time and noted the loss of 7,000 civilian personnel at Fort Bragg. Ms. Cannon stated this is a total loss of 14,000 jobs at Fort Bragg or 14,000 individuals that contribute to the local economy through sales tax and the housing market.



Ms. Cannon stated in addition to revenue challenges, the County has one-time expenditure challenges. Ms. Cannon stated the \$15 million expansion of the Detention Center was paid for through a drawdown of the County’s cash reserves and prior to that, there was a commitment of \$6 million from the County’s cash reserves for the Hope VI project. Ms. Cannon stated the \$21 million in cash reserves has limited the County’s ability to respond to some of its ongoing and overdue infrastructure, repairs and maintenance.

Ms. Cannon stated there are also challenges in recurring annual expenditures. Ms. Cannon stated the jail expansion had to be staffed not only from the Detention Center side but also for jail health. Ms. Cannon stated over the last five years, this has included the following positions/expenditures in addition to recurring operating expenditures.

- 77 new positions/operational \$ 3.30 million
- 8 new Jail Health positions \$.53 million

Ms. Cannon provided highlights of Health and Human Service mandates and additional County costs over the past couple of years:

- Foster care board expenses – \$1.3 million
- 17 Child Protective Services positions - \$144,000
- 13 Income Maintenance Workers - \$131,000
- Time-limited positions - \$350,000

Ms. Cannon stated these annual recurring costs to the County total \$1.925 million which does not include other cost drivers such as inflation and health insurance. Ms. Cannon stated over the last three years, the County has had to add over \$1 million annually to health insurance.

Ms. Cannon stated the projected deficit today is approximately \$27.3 million. Ms. Cannon stated in late February and March the preliminary deficit figure only included the known increases management was aware of; it did not include departmental requests of \$6.8 million above today’s budget that only became known in late March or early April. Ms. Cannon stated it also did not include the full loss from revaluation.

Ms. Cannon provided highlights of recurring funds in the requested budget that contribute to the \$27.3 million gap (in millions):

- \$ 4.6 Mental Health Services
- 0.5 FTCC additional request
- 1.0 Repairs & maintenance
- 1.9 2% COLA
- 1.3 Jail Health increase
- 1.1 Health insurance
- 6.8 Departmental requests
- 9.7 Tax revenue loss due to revaluation
- 0.4 Other

Ms. Cannon reviewed the following information as it relates to calculating revenue neutral:
 NCGS 159-11(e) defines calculation

- *What is a revenue-neutral tax rate?*
 - The rate that is estimated to produce revenue for the next FY equal to the revenue for the current FY *if no reappraisal had occurred.*
- Two components of revenue-neutral tax rate
 - What rate would produce same amount of revenue as current year (FY17)?
 - Calculate the average growth rate from the last 7 years

Ms. Cannon reviewed the following information as it relates to projected revenue neutral:

- Current tax rate = 74 cents per \$100 valuation
- Projected revenue-neutral tax rate = 78.4 cents per \$100 valuation
- 1 cent would generate \$2.3 million in revenue at revenue-neutral tax rate of 78.4 cents

Ms. Cannon reviewed the table recorded below stating the first column contains components of the tax rate and all figures are projections. Ms. Cannon stated the total projected revenue loss due to revaluation is \$9.7 million.

<i>amounts shown in millions</i>	FY17 before revaluation .74	FY18 after revaluation .74	Variance
Real Property	\$142.7	\$ 138.3	(\$4.4)
Personal/Public Service	14.3	13.6	(.7)
Motor Vehicles	16.9	16.9	
Appeals Factor		(1.5)	(1.5)
Loss due to revaluation	173.9	167.3	(\$6.6)
Loss of natural growth at 1.89%			(\$3.3)
Total levy loss due to revaluation			(\$9.9)
Collection rate			98.65%
Total revenue loss due to revaluation			(\$9.7)

Ms. Cannon outlined how the Board of Education funding agreement correlates with revaluation and stated per the agreement, the Board of Education is held harmless to any losses from revaluation, which means the \$9.7 million loss in revenue due to revaluation is shared with the Board of Education. Ms. Cannon stated roughly \$1.5 million will be an increase to the Board of Education as their share of the natural growth.

- Existing agreement through June 30, 2018
- 46.04% of tax rate is designated for the Board of Education
- Of the dollars generated by revenue neutral, \$4.5 million will go to the school system, regardless of whether the tax rate is set at revenue neutral

Ms. Cannon reviewed initial strategies for closing the gap as outlined below and stated this is not a one-year issue because there are other challenges that lie ahead next year.

- First Pass Through: Manager’s cut \$3 million of \$6.8 million of new FY18 requests
- Second Pass Through: Departments were asked to submit 3 levels of cuts for remaining \$3.8 million
 - Level 1: Back to core and mandated services
 - Level 2: Identify permanent reductions
 - Level 3: Continue creating efficiencies

Ms. Cannon stated in 2002, 200 positions were eliminated countywide: 100 were filled and 100 were vacant. Ms. Cannon stated this was approached with across the board cuts but over a period of time, some of the original reductions were added back because the approach was not to look at how to do things differently and live with the reductions. Ms. Cannon stated the actions being faced this year have to be strategic and reductions that the County can live with going forward. Ms. Cannon reviewed additional initial strategies for closing the gap as outlined below.

- Hiring freeze enacted for nonessential positions
- Community organizations notified about potential reductions in the coming year

Ms. Cannon outlined savings realized to date and stated going forward, these are the new processes and reviews the County needs to continue to look at.

- Business Intelligence by looking at departmental business processes and identifying efficiencies
- Information Services measures to reduce operating budget: Voice Over IP telephone system; software maintenance or fiber costs; savings from simple procurement
- Finance Department restructuring – voluntarily reduced vacant position last year; implementation of new software enabled the achievement of new efficiencies and reduction of positions
- Human Resources restructuring – voluntarily reduced vacant position last year; implementation of new software enabled the achievement of new efficiencies and reduction of positions

Ms. Cannon stated to better understand how departments approached their proposed reduction, it is helpful to understand how County dollars are allocated. Ms. Cannon reviewed 2016 funding dollars and percentages for the following departments that receive federal/state/County dollars as outlined below:

Agency	Federal/State	%	County	%	Total
Health	\$4,822,736	23%	\$15,874,755	77%	\$20,697,491
Mental Health	367,110	7%	4,961,381	93%	5,328,492
Social Services	48,059,270	71%	19,949,283	29%	68,008,553
Child Support	4,126,733	87%	611,518	13%	4,738,251
Library	632,524	6%	10,325,021	94%	10,957,545

Ms. Cannon explained the \$367,110 for Mental Health represents funding to the Sheriff’s Office at the Roxie Center for Cape Fear Valley stabilization and court-ordered assessments. Ms. Cannon also noted in order to achieve a dollar of County savings, departments such as Social Services and Child Support have to cut two dollars because of nuances associated with federal and state funding.

Ms. Cannon explained how the remaining County dollars are allocated as outlined below:

Agency	Description	County Funds
General Government	IS, Admin, Finance, Elections, Register of Deeds, Tax Admin, Public Bldgs, Landscaping, Central Maintenance	\$26,250,791
Public Safety	Emergency Svs, Sheriff, Animal Control	54,941,286
Economic & Physical Development	Planning, Engineering, Coop Extension, Soil Conservation, Public Utilities	5,098,407
Human Services	Veteran Services, Spring Lake Resource	378,533
Cultural & Recreation	Stadium Maintenance, other Cultural Recreation	404,137
Education	Current Expense, Capital Outlay, FTCC	89,610,246
Debt Service		24,660,550

Ms. Cannon stated before presenting department head proposed reductions, it needs to be remembered that the County’s mission is to provide services and in order to do that, it takes

people. Ms. Cannon stated therefore a large portion of the County's expenditures are for salaries and fringe benefits, and the cuts do not have to be deep to impact personnel and the level of services provided.

Ms. Cannon provided an overview of Level 1 reductions submitted by departments. Ms. Cannon emphasized this is not the recommended budget but reductions management is considering.

Level 1 Strategy - \$1.3 Million Reduction

- Operational cuts
- Community funding
 - New requests eliminated
 - 4 current recipients eliminated
- Consolidate group homes (DSS recommendation)
- Close Law Library at courthouse location (goals is to incorporate into another library location)
- Positions – 33 total across 8 departments
 - 28 full-time positions
 - 5 part-time positions
 - 11 are filled
 - 22 vacant
 - 20 time-limited positions (in DSS)

Ms. Cannon provided an overview of Level 2 reductions as submitted by department heads.

Level 2 Strategy - \$1.2 Million Reduction

- Operational cuts
- Community funding cut across the board 25% from 2017
- Eliminate Health Department Dental Clinic (volume in Dental Clinic steadily declined over the past two years; difficulty with recruiting and retaining dentist)
- Reduce hours (23 total per week) at 3 libraries
- Positions – 26 total across 9 departments
 - 16 full-time positions
 - 10 part-time positions
 - 21 are filled
 - 5 are vacant

Ms. Cannon provided an overview of Level 3 reductions as submitted by department heads.

Level 3 Strategy - \$3.1 Million Reduction

- Operational cuts
- Eliminate 1% 401-K contribution
- Community funding cut across the board 50%
- Eliminate Animal Control 7 p.m.-7 a.m. shift
- Close a branch library
- Close the domestic violence Care Center and Shelter (reason put on the table is that it is not mandated and there are a significant amount of county dollars allocated for the center/shelter)
- Eliminate Health Department Adult Health Clinic (volume has decreased and provider will provide adult health care services on a sliding fee schedule basis)
- Positions – 40 total across 10 departments
 - 36 full-time positions
 - 4 part-time positions
 - 34 are filled
 - 6 are vacant

Ms. Cannon provided a summary of Level 1 – Level 3 potential reductions as outlined below:

- 99 positions – 66 filled and 33 vacant
- Community Funding –
 - Eliminate 4 recipients
 - No new requests
 - Reduce across the board
- Animal Control – eliminate evening shift
- Library services –
 - Reduce service hours
 - Close one facility and Law Library at courthouse

- Health and Human Services
 - Close two public health clinics
 - Consolidate group homes
 - Close Care Center and Shelter
- Eliminate 1% 401-K contribution

Ms. Cannon stated the total for the potential reductions equals approximately \$5.6 million. Ms. Cannon emphasized these are just options submitted by department heads for management's consideration and only represent reductions that impact citizens. Ms. Cannon stated internal service departments such as Administration, Finance, Human Resources and Tax Administration eliminated positions, and several positions were eliminated across building maintenance functions.

Ms. Cannon provided a summary of potential reductions in millions as outlined below:

▪ Projected initial deficit/gap	\$27.3
▪ Revenue neutral tax rate	(9.7)
▪ Manager's cuts	(3.0)
▪ Level 1 reductions	(1.3)
▪ Level 2 reductions	(1.2)
▪ <u>Level 3 reductions</u>	<u>(3.1)</u>
Remaining budget gap	\$9.0

Ms. Cannon stated remaining in the \$9 million budget gap the 2% cost of living adjustment for County employees, \$1 million for repairs and maintenance and departmental requests of \$3 million.

Ms. Cannon stated although this process is not finished, it will not be a short term fix. Ms. Cannon stated the County has to accomplish this budget from a long term perspective of sustainable reductions and sustainable decisions. Ms. Cannon stated next year there will be significant changes in the area of federal grants which will go from entitlement grants to block grants. Ms. Cannon stated when this happens, it will push the financial responsibility down to local government so next year, the County will face those challenges. Ms. Cannon emphasized that the County's budget challenges will not be resolved when the FY18 budget is adopted and stated it will take a significant period of time to turn the organization around.

Ms. Cannon stated after the FY18 budget is adopted, additional long term strategies for sustainability include:

- Divest county property
- Consolidate functions (IS, PIO, HR, facilities maintenance)
- Review outsourcing options
- Prioritize funding for business process improvements
- Look at capital or debt-financing model

Ms. Cannon stated in order for the FY18 recommended budget to balance, it will take a combination of additional new revenue and substantial cuts in non-mandated services. Ms. Cannon stated it is clear that recurring dollars are not available even to sustain the County's current level of services. Ms. Cannon stated the County needs to focus on core services and mandated services.

As a reminder, Ms. Cannon reviewed the County's mandates services/mandated responsibilities under North Carolina General Statutes:

Law enforcement
Jails
Medical examiner
Courts
Building code enforcement
Public schools
Social services
Public health
Deed registration
Election administration
Tax assessment

Child support
Community college – capital outlay

Ms. Cannon stated moving forward, the County’s perspective has to create resiliency and stabilization throughout the organization by:

- Long-term approach
- Strategic, sustainable reductions
- Implement strategies to stabilize operations/budget
- Position ourselves to better respond to future mandates/changes

Ms. Cannon stated the key is the continued investment in technology and business process improvements.

Ms. Cannon reviewed the upcoming FY18 budget meeting schedule:

Budget Meeting Schedule			
May 25	7:00 p.m.	Budget Presentation	Room 118
May 30	5:30 p.m.	Work session	Room 564
June 5	7:00 p.m.	Public Hearing/ work session	Room 118/564
June 8	5:30 p.m.	Work session/Department Appeals	Room 564
June 13	5:30 p.m.	Work session	Room 564
June 14	5:30 p.m.	Work session if needed/Adopt Budget	Room 564

Questions and discussion followed. Commissioner Council stated although she is ready to look at sustainability, she is not ready to eliminate filled positions. Chairman Adams stated he has an issue with a 2% COLA and laying off employees, and asked the Board to perhaps consider cutting it in half or to a fifth or perhaps going back to a stipend. Commissioner Boose stated he would like to know how the 2% COLA equates to dollars as it relates to the reduction of 66 filled positions. Ms. Cannon stated it would not be much but it can be calculated and provided. Chairman Adams thanked staff for the time and effort they put into the budget presentation.

MOTION: Commissioner Lancaster moved to adjourn.
SECOND: Commissioner Council
VOTE: UNANIMOUS (7-0)

There being no further business, the meeting adjourned at 6:40 p.m.

Approved with/without revision:

Respectfully submitted,

Candice H. White
Clerk to the Board