

Macon County



May 13, 2014

Macon County Board of Commissioners

Chairman: Kevin Corbin

Vice Chair: Ronnie Beale

Commissioner: Ron Haven

Commissioner: Paul Higdon

Commissioner: Jimmy Tate

Gentlemen,

In accordance with the North Carolina Local Government Budget and Fiscal Control Act, I am honored to present to you, the proposed budget for Fiscal Year 2014/2015. The budget identifies revenue and expenditure estimates for FY 14'-15' and attempts to maintain Macon County's tradition of high quality services in a recessed economy. The proposed budget while addressing many needs was developed with the purposeful attempt of stabilizing the county's fund balance position and preparing for the forthcoming revaluation which will become effective on January 1, 2015. The budget as proposed is **\$45,521,122** with revenues and expenditures being balanced. This is 3.4% less than the FY 13'-14' original budget (47,145,470) and 2.9% less than projected expenditures in 2014 (46,857,615).

The county currently has the lowest ad-valorem property tax rate among all 100 counties in North Carolina (27.9 cents per 100). An estimated fund balance available as a percentage of expenditures and transfers out at **29%**, continues to provide our county with a high degree of financial security in terms of being prepared for unexpected emergencies, shortfalls in revenue, and the ability to achieve favorable interest rates when financing capital projects. Our solid financial position, combined with a conservative approach to budgeting and a consistent tax collection rate are direct contributors to Macon County's A+ Bond Rating.

While our current financial position is something to celebrate, I feel we should acknowledge that FY 14'-15' is a turning point for Macon County. In the coming year, we are faced with challenges, internally and externally that will directly impact this organization. It is crucial that we begin addressing these challenges now, while continuing to provide public service to our citizens at the highest level possible. The proposed budget for FY 14'-15' accomplishes each of the aforementioned tasks, and as directed by the Macon County Board of Commissioners on January 25, 2014, no tax increase has been included.

FY 14'-15' Proposed Budget Highlights

Maintaining a Healthy Fund Balance

Fund balance "available" is the statutory concept that describes the amount of funds local governments legally have available to be appropriated in the coming fiscal year. It is essential for us to maintain an adequate amount of fund balance especially during these uncertain economic times. County Commissioners, past and present have indicated an available fund balance of 25% of expenditures and transfers out to be acceptable. In viewing the latest information provided by the North Carolina Association of County Commissioners (NCACC) the state average for available fund balance in North Carolina counties was 25.2% in fiscal year 11'-12'. During the same time period the population group average for counties similar in size to Macon County was 27.2%. At the close of FY 13'-14' Macon County's available fund balance is projected to be at 29% of expenditures and transfers out.

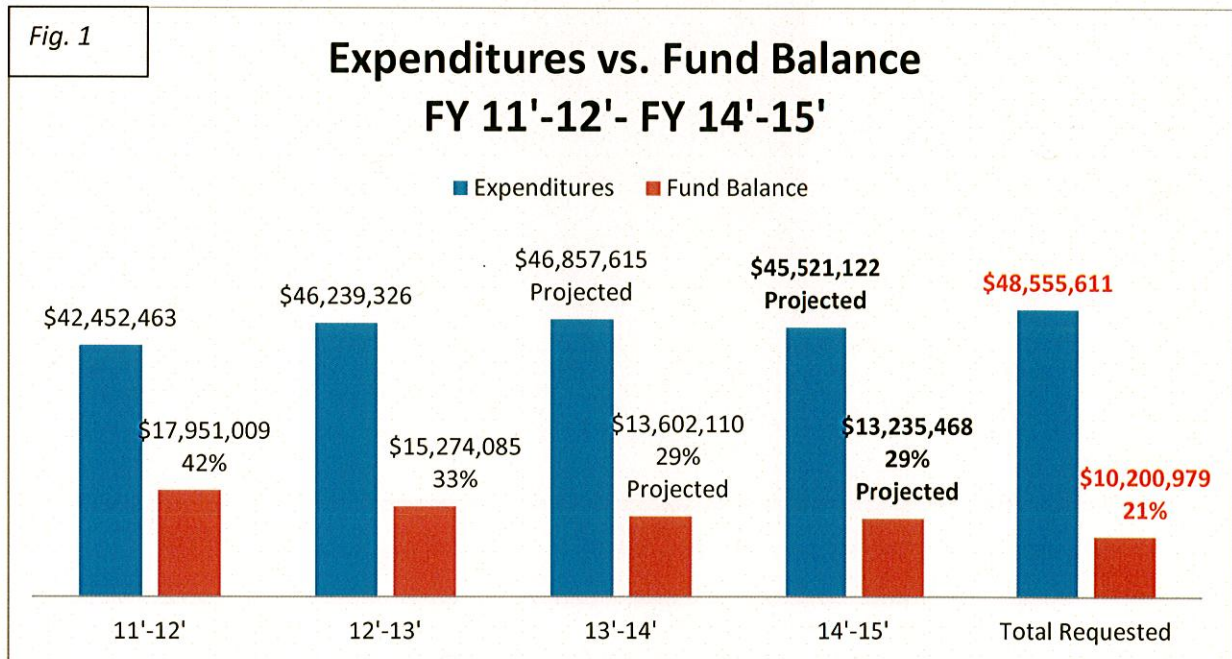
The projected budget for FY 14'-15' allocates only \$366,642 from fund balance available for appropriation to balance the budget. This allocation comes at the direction of the Board of Commissioners to appropriate \$500,000 from fund balance available for appropriation in FY 14'-15' towards project costs associated with the \$3,300,000 Parker Meadows Recreation Park project. The retirement of debt, increased sales tax revenue and a reduction in expenditures has enabled us to absorb an additional \$133,458 of the board approved \$500,000 Parker Meadows allocation in the operating budget. **As a result, Macon County should maintain its available fund balance of 29% of expenditures and transfers out in FY 14'-15'.**

Accomplishments/Trends

I will take this opportunity to commend the County Commissioners who have sat on the board through some of the worst economic times in history yet have managed to retain a fund balance level well above the state average and the average of our peers. Furthermore, I commend the County Commissioners for accomplishing many notable capital projects during these economic times, as they will continue to foster economic development, the development of our children and a high quality of life now and in the future for all Macon County residents. While accomplishing these projects, our financial position remains strong and Macon County continues to be a leader in our region.

In FY 11'-12' actual expenditures totaled \$42,452,463. At this time Macon County's fund balance available for appropriation was \$17,951,009 or 42% of total expenditures. A lingering economic recession, increasing needs from outside agencies (often resulting from declining state contributions), and capital projects focused towards improving the quality of life for all Maconians, resulted in a \$3,786,863 or 9% increase in actual expenditures during FY 12'-13' (\$46,239,326). Notable capital projects in this fiscal year included the ***purchase of the Parker Meadows property*** (\$593,797), ***renovations to the Macon County pool facility*** (\$655,398) and a \$1,500,000 ***construction renovation on the Highlands K-12 School*** using (QZAB) Qualified Zone Academy Bonds. During this time period

revenue streams remained constant as no ad-valorem tax increase was realized and growth in sales tax revenue was minimal. Thus, the fund balance available for appropriation decreased by 9% during FY 12'-13' leaving it at \$15,274,085 or 33% of actual expenditures. FY 13'-14' brought similar funding obligations from county departments and outside agencies, as well as many notable capital improvements. In this fiscal year, notable capital projects include: \$500,000 to cover **project costs at Parker Meadows**, \$150,617 towards the **purchase of the Zachary Park property in Highlands**, \$225,000 for **improvements to the Highlands Pool Facility** and \$290,556 in local match funding towards **improving the Macon County Airport**. As a result, expenditures for FY 13'-14' are projected to increase by 1.3% over prior fiscal year totaling \$46,857,615. The aforementioned increase in expenditures combined with minimal revenue growth will contribute to a projected decrease in available fund balance of 4% from FY 12'-13' leaving \$13,602,110 in fund balance available for appropriation. *Figure 1* shows the increase in expenditures as well as the % decrease in fund balance available for appropriation from FY 11'-12' through FY 14'-15' as proposed. The last column in the chart (numbers in red) illustrates the effect that would have resulted if all departmental and outside agency requests were funded in full. In this hypothetical situation our expenditures would have exceeded projected revenues by \$3,401,131 resulting in an 8% decline in available fund balance from FY 13'-14' or a tax increase of 3.7 cents per \$100 of assessed value.



As shown in Figure 1, the FY 14'-15' proposed budget maintains our fund balance position from prior fiscal year. We were able to accomplish this through a conservative budget approach by department heads and administrative staff, combined with an increase in sales tax revenue of 2.32% over projected revenues for FY 13'-14' and a net reduction of \$1,136,125 from debt service obligations. Most importantly, I feel this budget is representative of county departments willing to work with administration to answer the question; "What's Important Now?" in terms of their immediate and

future needs. In answering this question the proposed FY 14'-15' budget for county departments is \$1,173,575 (3.3%) less than the FY 13'-14' original budget. This amount is inclusive of "transfers out" to the following funds: Debt service fund, housing fund and capital projects fund.

The majority of outside agencies requested a budget increase over prior fiscal year. With the exception of two agencies, all outside agencies that submitted a budget request were funded at current year levels. Administration (absent the aforementioned exceptions) has not asked any outside agency to reduce their operating or capital requests under current year levels. It does not go unrecognized that even at current funding levels outside agencies will be forced to make sacrifices in the coming fiscal year. Like county departments however, I would respectfully request that these agencies answer the question of "What's Important Now?" in terms of immediate and future needs as we head into FY 14'-15'.

Parker Meadows Recreation Park

In FY 13'-14' the county voted to proceed with the construction of the Parker Meadows Recreation Park. This \$3,300,000 project will increase the quality of life for Macon County residents as it provides increased recreation and economic development opportunities. The county will take \$1,000,000 from fund balance (\$500,000 in FY 13'-14' / \$500,000 in FY 14'-15') and finance the remaining \$1,800,000. Currently, interest rates have been quoted as low as 2.29% for a 10 year term. The ability to receive favorable financing on this project is directly attributable to the county's healthy financial position. The facility is expected to open in summer of 2015. Amenities at the park will include:

- **4 Lighted Tournament grade youth fields with a central bathroom/concession/scoring building**
- **4 Lighted Tournament grade Adult fields with central bathroom/concession/scoring building**
- **Regulation Soccer field**
- **7,000 square foot Multi Use Court**
- **10,500 square foot Multi Use Field**
- **Over a Mile of hard surface walking trails**
- **Shelter w/ restrooms**
- **Playground**
- **2 river access points**
- **Maintenance Building**
- **Picnic area**
- **Pond**
- **Open space**
- **Paved access road**
- **4 paved parking lots and a gravel overflow parking lot**

Capital Expenditures

The FY 14'-15' Budget as recommended contains **\$1,182,471** in capital items. It is important to note that these items were absorbed in the operating budget and will require no appropriation from fund balance other than **\$366,642** to cover project costs associated with Parker Meadows. Capital Items are shown in the chart below. As you can see, the majority of the capital items funded lie in the areas of Health and Human Services and Public Safety. Historically these two areas have accounted for approximately 50% of total expenditures from the general fund, indicating the high level of priority placed on public safety and the well-being of our citizens by the Board of Commissioners.

The Capital Expenses related to Transit (Operating) are for the replacement of two lift equipped vans. These vehicles will be purchased originally by county funds. Following purchase a reimbursement in the amount of 90% will be given to the county from the NCDOT. The VTCLI (Veterans Transportation Living Initiative) Grant is a cooperative effort between transit providers in Macon, Clay, Cherokee, Swain and Jackson Counties. This \$93,656 will be reimbursed at 80% from the Federal Government. The remaining 20% is shared among all partners participating in the grant.

Soil and Water Conservation has not received a vehicle in 27 years. The new 4 wheel drive truck will be used for surveying, hauling farm equipment, day to day operations and out of county travel.

Capital Equipment for Recreation Parks in the amount of \$22,500 will be used to purchase half of the equipment needed to maintain the new recreation facility at Parker Meadows. In voting to approve this \$3,300,000 project the board recognized that operational costs for the Parks and Recreation Department would increase. Although the park is not scheduled to open in the coming fiscal year purchasing half of the equipment now enables us to distribute this \$45,000 over a two year period.

Department	Amount	Description
Sheriff	\$5,000	Firing range allotment
Sheriff	\$85,280	2 Patrol SUV's; 1 Patrol Sedan
EMS	\$20,000	Nantahala EMS base roof and gutter system
EMS	\$125,000	Ambulance
Emer. Mgmt.	\$28,000	Replace Radio Communications Service Vehicle
Transit (operating)	\$109,000	2 Lift equipped Vans
Transit- VTCLI Grant	\$93,656	Grant funded vehicles
Soil and Water Conservation	\$27,000	4-wheel drive truck
Child Dental Health	\$68,000	Refurbishment of Molar Roller Vehicle
Recreation Parks Parker Meadows Project	\$22,500 \$500,000	½ of requested equipment Project Costs
Macon County Schools	\$99,035	Capital Expenses
Total	\$1,182,471	

Full time positions

The FY 14'-15' proposed budget includes the addition of two full time positions:

Garage- Mechanic (\$40,248 salary and benefits)

Currently the County Garage has a total of four mechanics. As our fleet has grown to approximately 300 vehicles (total), the workload on county mechanics has grown substantially. I feel this workload will continue to increase in FY 14'-15' as many departmental requests for new vehicles were postponed. As a result I am projecting maintenance needs on these vehicles to increase. This projected increase in maintenance, combined with an already increased workload, will justify the need for an additional mechanic in the county garage.

Parks and Recreation- Grounds Keeper (\$5,699 salary and benefits 2/12 yr. pending opening of Parker Meadows Recreation Park. Total cost for full year \$34,191 FY 15'-16'.)

In voting to approve the Parker Meadows Recreation Park, the Commissioners have acknowledged that operating costs in Parks and Recreation would increase. The additional employee will work at the new facility performing duties including mowing and maintenance. With the opening date of the new facility being set for the summer of 2015, only 2/12 yr. or \$5,699 has been budgeted for FY 14'-15'.

Planning for the future

Prioritization of recurring capital expenditures

- In the coming fiscal year administration working with county departments will establish a prioritization system for annually recurring capital expenditures such as vehicles and equipment. In these uncertain financial times, prioritization systems are being used in a growing number of cities and counties. In applying this system only those expenditures illustrating the highest urgency of need are funded in current year. Urgency of need is established through a set of ranking criteria. This systematic approach to budgeting will ensure that we are funding only our most urgent needs in the current fiscal year. Furthermore, it will enable the board to identify needs that will become "urgent" in both the near and distant future.

Update Policies

- Many of the policies within our organization need to be changed/updated. These policies include:
 - Computer Usage Policies
 - Financial Policies
 - Personnel Policy

A Policy review committee will be selected to review each of the aforementioned policies. Following review, all suggested changes will be brought before the Board of Commissioners for consideration.

Performance Measurement

- Administration will work with each department to collect data illustrative of workload, efficiency and effectiveness. The performance measures once collected will be used in future budget discussions as they will answer questions of *how busy?* (# of cases cleared, # permits issued, # of service calls, etc.) *How efficient?* (\$ per unit of service, avg. time per case cleared, avg. # of cases/service units per worker, etc.) and most importantly *how effective each department is in fulfilling their mission* (satisfaction ratings, number of complaints received, etc.). As you can see, attaining this data will be time consuming and much cooperation will be needed between departments and administration. Once established however, performance measurement will allow us to identify trends, point out strengths and weaknesses in each department, and ensure that every dollar spent is going towards increasing the efficiency and effectiveness of the services we provide.

Challenges

“Gearing down” for Tax Revaluation

In January of the coming Fiscal Year property owners in Macon County will receive revaluation notices based on the value of their real and personal property as of January 1, 2015. In “normal” economic times, the real property tax base increases after a reappraisal, usually between 20% and 40% depending on how long it’s been since the county’s last reappraisal. These are not normal economic times, sadly, and for the first time ever multiple counties (including Macon) are experiencing decreases in their tax bases after reappraisals. The substantial decline in property values brought about by the revaluation will result in an estimated \$2,000,000,000 loss in tax base for Macon County.

Currently the total value of all real and personal property in Macon County is estimated to be \$9,360,000,000. At a tax rate of **.279 per \$100** of assessed value this equates to \$26,114,400. In applying our collection rate of 96.51% to the aforementioned assessed value, the county gains \$25,203,007 in revenue. In sum, a tax base of \$9,360,000,000 @ .279 = \$25,203,007 in revenue.

According to the latest conservative projections from the Macon County Tax Department the total value of all real and personal property is estimated to decline by \$2,000,000,000(21%) following the revaluation. This decrease will yield a new tax base of approximately \$7,360,000,000. Thus, a new tax rate of **.355 per \$100** of assessed value is representative of a *RNTR (Revenue Neutral Tax Rate)* for Macon County based on the new tax base. In sum, a tax base of \$7,360,000,000 @ .355 = \$25,216,133 in revenue.

NCGS 159-11(e) requires that a *revenue neutral* tax rate be included in the proposed budget submitted to the governing board “for comparison purposes” in reappraisal years. The *RNTR* is intended to show the tax rate that would keep the local government revenue neutral given its new tax base. A revenue neutral tax rate must be calculated for each separate levy included in its budget ordinance. For Macon County this means a new tax rate will be calculated for real and personal property as well as individual fire districts in FY 15’-16’.

Projected decreases in value for individual fire districts are not available at this time. We can safely assume however, that fire districts containing large amounts of vacant properties and/or large amounts of high end housing are more volatile to tax rate increases, which will offset the decline in tax base.

The “revenue-neutral” aspect of the RNTR refers to the *aggregate tax burden* for the entire jurisdiction, not the tax burden for individual taxpayers. If a taxpayer’s real property depreciated in value less than did the local government’s real property in the aggregate, then that taxpayer’s tax bill will increase if the RNTR is adopted. The charts below use actual cases from the 2015 reappraisal to illustrate this example.

Year	Home 1 Appraisals	Tax Rate	Taxes
2007	\$235,000	.279	\$655.65
2015	\$218,000	.355	\$773.9/ +\$118.25

Home 1 experienced a decrease in value of \$17,000 or 7% following the reappraisal. Although the value of the home depreciated its residents will still experience a tax increase of \$118.25 at the RNTR due to the fact that the home’s decrease was 14% less than the 21% decrease experienced by Macon County’s real property in the aggregate.

Year	Home 1 Appraisals	Tax Rate	Taxes
2007	\$1,500,000	.279	\$4,185
2015	\$860,000	.355	\$3,053/ (\$1,132)

Home 2 experienced a decrease in value of \$640,000 or 42% following the reappraisal. The value of the home depreciated by 21% more than that experienced by Macon County’s real property in the aggregate (21%). As a result, application of the RNTR will yield a tax decrease of \$1,132 to the residents of this home.

As you can see from the preceding, expensive properties such as vacation homes lost much more value than did more modest properties. Many modest homes depreciated much less, maintained or even gained tax value after the reappraisal—meaning that an increased tax rate would dramatically shift the property tax burden from more expensive homes to more modest homes. According to the Franklin Board of Realtors the average home sale price in 2013 was \$118,608. Furthermore, the latest statistics from the United States Census Bureau indicate the median household income for owner-occupied dwelling units in Macon County to be \$43,771. I feel each of these statistics can be used to illustrate the fact that the majority of Macon County residents are living in modest homes, thus are more likely to experience a tax increase following the revaluation and application of the RNTR.

For budgetary purposes, Macon County will not experience the effects of the revaluation until FY 15'-16' (*in this FY the new tax base and RNTR will be used for revenue projections*). In FY 14'-15' however, as the results of the revaluation are finalized, the Board of Commissioners has acknowledged the overall impact it will have on our taxpaying citizens is uncertain. In light of the aforementioned uncertainty, county departmental budgets as well as the budgets of outside agencies have been placed at levels indicative of a service level for Macon County that can be supported solely by revenues. **In “gearing down” for tax revaluation, we have stabilized our fund balance position while ensuring our high quality services are delivered as efficiently as possible.**

Health Insurance Fund

FY 14'-15' could be the final year that Macon County will retain the structure of our Health Benefit Plan. It is likely that substantial changes will be made to the plan during the coming fiscal year with a new or revised plan ready to be put in place by FY 15'-16'. This need for substantial change has been brought about by steadily increasing claims, combined with steadily decreasing county contribution into the fund.

The health insurance fund is an internal service fund. As defined by our Comprehensive Annual Financial Report, an internal service fund is a *fund used to account for the County's activities which are similar to those often found in the private sector*. In the private sector focus is almost solely directed towards profit or the "bottom line". Thus, our health insurance fund by design should turn a profit. Unfortunately for Macon County, this has not been the case for some time. The explanation below will explain the dramatic decline of this fund. In doing this I hope to answer the question for the Board of Commissioners and County Employees as to why we will be making changes to this plan in FY 14'-15' potentially having a new plan in place by FY 15'-16'.

Revenues in the health insurance fund come from two sources (1) County contribution (2) Employee contribution.

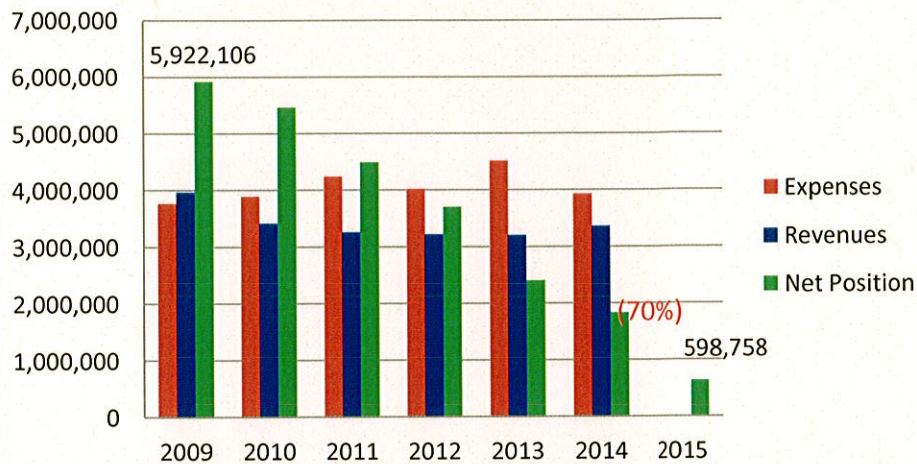
Expenses in the health insurance fund include all medical, Rx, dental claims, reinsurance premiums and administrative fees – reinsurance costs.

For the health insurance fund, **net position** is the amount by which assets exceed liabilities. Net position acts similar to fund balance in the general fund. All profit made in the health insurance fund increases net position. Conversely, when expenses exceed revenues, net position decreases to fund this loss.

Since 2009 the net position has declined by 70% as our expenses have constantly exceeded revenues. Since FY 07'-08' employee contributions to the fund have remained constant. County contributions however have declined substantially. **In FY 07'-08' the county contributed the following amounts monthly to each category: Employee Only-\$850, Parent/Child- \$1,027, Emp/Spouse- \$1,220, Emp/Children-\$1,220, Family- \$1,251.** In FY 08'-09' the county decreased contribution in each category by \$200. In FY 09'-10' the county again decreased contribution in each category by \$150. **Since FY 09'-10' county contribution has remained constant at the following levels: Employee Only-\$500, Parent/Child- \$677, Emp/Spouse-\$870, Emp/Children- \$870, Family- \$901.** This substantial decline in revenues combined with increasing expenses has resulted in a net position that will have a limited life span in terms of supporting our current plan structure. Please see *figure 3* which is illustrative of the aforementioned trends in our health insurance fund.

Fig. 3

Health Insurance Fund



From 2009-2014 an average of \$818,223 was taken annually from net position to cover the difference between expenses and revenues. At the close of FY 13'-14' net position is projected to be \$1,830,991. In FY 14'-15' however, \$1,232,233 will be appropriated from net position to cover the projected deficit. In the event all appropriated funds are used only \$598,758 or 13% will remain in net position heading into FY 15'-16'. As you can see this amount is not capable of supporting the annual average needed from this fund. Although the scenario discussed above is a "worst case scenario" we must keep in mind that in changing our plan structure we will come under the provisions of the ACA (Affordable Care Act) as proposed and implemented by President Obama. The average rate of annual increase for most public sector entities coming under these provisions is approximately 9-10%. Some municipalities in North Carolina such as Bessemer City and the City of Roxboro have experienced increases as high as 31% and 17% respectively. Thus, it remains crucial that when changing our plan structure we have the healthiest net position possible which will allow us to adapt to any unforeseen expenses.

During FY 14'-15' Macon County will work closely with our insurance broker in exploring **all** available health insurance options to ensure that our employees retain high quality and affordable health benefits. As a five year employee of Macon County I understand the value placed on these benefits by all employees. For this reason I assure you that employees will be made aware of all options we are considering and will have a chance to provide input and voice their opinions throughout this process.

Maintaining Quality Public Education

***Macon County Schools**

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 Macon County citizens. Excellence in education has always been and will continue to be a top priority for Macon County. The proposed budget for FY 14'-15' indicates that around 21% of Macon County's general fund budget will go to current expense, supplements, solid waste fees, capital outlay, and debt service funding for the Macon County School System. The Macon County Board of Commissioners works in partnership with the Board of Education to make sure education and school facility priorities are funded. From 2009-2014 county funding for school operating expenses has increased by 9.4%. This includes full funding for 37 teaching positions as well as 63 non-instructional positions. During the aforementioned time period (2009-2014), increased capital funding has led to the accomplishment of many notable projects including the construction of the Iotla Valley Elementary School and Mountain View Intermediate School.

North Carolina schools receive funding from federal, state and local governments. In North Carolina, counties are responsible for providing and maintaining school buildings, 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. A lingering recession which has yielded no growth in tax base and minimal growth in sales tax revenue combined with increasing operating and capital needs within Macon County government will force us to pursue alternative options for providing the schools with any additional funding above what has been included in the proposed FY 14'-15' budget.

The Macon County School's budget request for FY 14'-15' is \$1,534,017 or 19% over last year's due to the increases listed below in **bold**:

	FY 13'-14' Approved	FY 14'-15' Requested	% increase
Operating Expense	\$7,338,330	\$7,839,090	6.8%
S/W Fees	\$72,000	\$73,842	2.5%
Capital Outlay (including technology)	\$99,035	\$1,130,450	1041%
Timber	\$150,000	\$150,000	0%
Supplement	\$430,621	\$430,621	0%
Total	\$8,089,986	\$9,624,003	19%

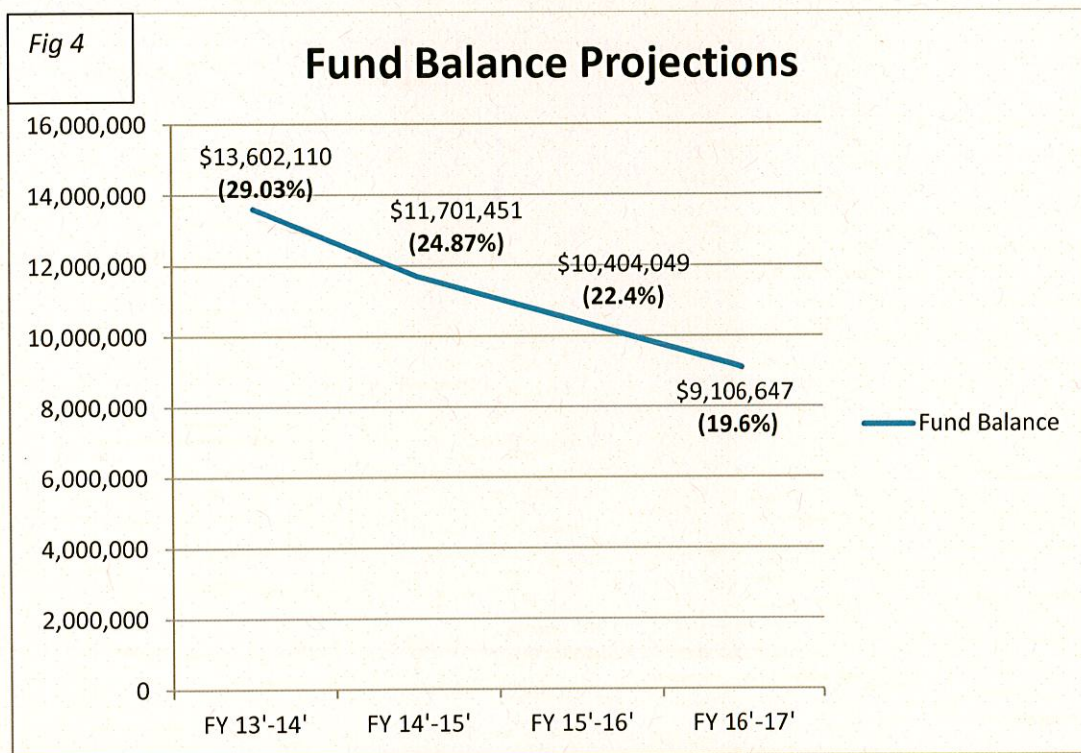
***In his FY 13'-14' budget message, when discussing Macon County Schools County Funding For Current Expense and Debt Service, former County Manager Jack Horton highlighted the fact that "without a reduction in current expenses, a revenue shortfall of \$1,355,539 will occur next year. A property tax increase of 1.5 cents per hundred would be required to generate this amount of revenue."*

In choosing to fund the entire additional amount requested, a property tax increase of 1.7 cents per hundred would be required. A second option would be to appropriate the funds from available fund balance. The first approach goes directly against the priority of no tax increase in FY 14'-15' which has

been set by the Macon County Board of Commissioners. The second option goes against a long standing priority for Macon County of maintaining a fund balance at or above 25% (**appropriating an additional \$1,534,017 from fund balance would decrease fund balance to 24.87% in FY 14'-15'**). Furthermore, and more importantly appropriating the funds from available fund balance is not a sustainable option (See Fig. 4)

The assumptions built into Fig. 4 below, are as follows:

- FY 14'-15' school budget increase of \$1,534,017 is honored in full (capital and operating)
- FY 15'-16'- FY 16'-17' County expenditures and expenditures of all outside agencies other than Macon County Schools are consistent with FY 14'-15' proposed budget.
- FY 15'-16'-FY 16'-17' County decreases school capital outlay contribution to FY 13'-14' level (\$99,035) and continues to fund FY 14'-15' increase in operating costs of \$430,000 (technology) and \$500,760 (current expense)



The graph above, under the aforementioned assumptions, illustrates a decline in fund balance available for appropriation of 10% during the next three fiscal years. While the estimated decline is substantial, I feel it is a conservative estimate, as county departments will continue to experience capital and operating needs during this three year period. Furthermore, as 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 Macon County School System could lose additional state and federal revenue in the coming years. As a result, increased financial pressure for funding operating expenses will continue to be redirected to the Macon County Government. 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.

The overages in the School's Budget Request this year are primarily attributable to supplemental salary increases for all school personnel (\$314,552) in operating expenses, and a \$1,031,415 increase in capital outlay (currently funded at \$99,035). It is important to note that \$430,000 of the capital outlay expense will be recurring as this amount is felt by the school system to be the annual amount needed for keeping technology up to date. In FY 12'-13', \$1,500,000 was provided by the county to the schools for the purpose of updating all technology. Currently Macon County pays \$309,777 annually on this loan amount with payoff occurring in FY 16'-17'. As this amount (\$309,777) will be freed from debt service in FY 17'-18' it is recommended that the county at this time (FY 17'-18') begin providing an annual amount of \$309,777 to the school system for technology updates. Concerning operating expenses, it is suggested that the school system look to areas such as the \$430,621 in supplement pay currently provided by Macon County which goes toward a 2% annual bonus for teachers, instructors etc. \$215,311 or half of this amount would be sufficient and sustainable for funding the projected \$197,070 state mandated increases in salary and benefits for locally paid teachers. As a result teachers and instructors would receive a 1% annual bonus, which is equivalent to the annual bonus given to county employees. \$117,482 or the remainder of the \$314,552 in requested salary increases remains uncertain at the time of this budget message as this amount is representative of a projected 3% salary increase for all state employees. This will be a topic of discussion at the state legislature prior to adoption of the FY 14'-15' State Budget. Due to fragile economic recovery in Macon County, the desire to sustain a healthy fund balance and much uncertainty surrounding the forthcoming revaluation, this proposed budget recommends that the Macon County School System is funded at FY 13'-14' levels. It is noteworthy that these levels include the additional \$200,000 in operating expenses which the Board of Commissioners approved on top of the managers recommended 3% increase in FY 13'-14'. I feel these levels while less than requested, will continue to ensure that all children in Macon County receive a quality education in FY 14'-15'.

	FY 13'-14' Approved	FY 14'-15' Admin Recommended
Operating Expense	\$7,338,330	\$7,338,330
S/W Fees	\$72,000	\$73,842
Capital Outlay (including technology)	\$99,035	\$99,035
Timber	\$150,000	\$150,000
Supplement	\$430,621	\$430,621
Total	\$8,089,986	\$8,091,828

Southwestern Community College

Southwestern Community College is a tremendous asset not only to our youth but to our entire community. In recognizing that SCC will continue to be an asset for years to come, the Macon County Board of Commissioners has begun working with the institution in FY 13'-14'to assist them in carrying out long term planning efforts.

The FY 14'-15' proposed budget holds funding levels for the Jerry Sutton Public Safety Training Center as well as the Groves Center constant at FY 13'-14' levels. The proposed budget however, does not contain the requested \$200,000 for the continued support of the Sylva Campus. In conversations with SCC Board Members and administrative staff, it was brought to my attention that support for the Sylva Campus was initiated prior to the construction of the Macon County Campus. As the campus in Macon County has continued to expand so have the needs. We can only assume as planning efforts for the Macon campus come to fruition and our local economy continues to recover, the financial needs for this institution will increase as well. In acknowledging the increasing needs at the SCC Macon Campus as well as the increasing needs of county departments and outside agencies located in Macon County, I do not find the continual financial support of the Jackson County Campus to be feasible.

Pay Plan/ COLA

As you will recall, a portion of the Springsted Pay Plan was put into effect in May of 2013. The portion implemented brought all entry level salaries up to the minimum recruitment levels based on the market rate. Furthermore, all other employees not classified as "entry level" received a 2% salary increase. The cost of implementing this portion of the pay plan was \$814,549.88. Employees continue to be extremely grateful to the board for approving these increases, and I can assure you they are well deserved.

It is with great regret, I am unable in this years proposed budget to include the final portion of the Springsted Pay Plan. This portion rewards employees for longevity in their current position and recognizes the value of length of service and the development of skills and abilities in regards to performing the tasks of the position. Cost estimates for implementing this portion of the pay study are approximately \$500,000 and currently cannot be absorbed in our operating budget. Our inability to implement this portion of the Pay Plan will result in our long serving employees continuing to fall behind suggested compensation levels as the remaining portion to be implemented recommends a 4% increase for those employees serving eight years in their current position, and a .5% increase for years served beyond the eight year minimum threshold. Furthermore, as no COLA has been included in this proposed budget, those entry level employees who were brought up to minimum recruitment levels last year will begin to fall behind established salary levels as well. As our economy continues to improve and we address the uncertainties of the coming year, I remain optimistic that we will be able to revisit pay plan implementation in the near future.

The 1% annual bonus has been included in this year's budget. I am further requesting for the Board of Commissioners to approve an additional 16 hours of annual leave for all Macon County Employees in FY 14'-15'.

Summary

Since 2009 Macon County, like all counties in the state and nation has operated in a fragile and recessed economy. These economic conditions have forced county departments and outside agencies to constantly "do more with less". With this demand however, the high quality of services we provide to our citizens has not been compromised. Furthermore, our leaders have continued to move forward with improvements to infrastructure and county facilities that will foster economic development along with the well-being of our children and residents for years to come. As our economy is beginning to show signs of improvement, I feel we should celebrate the strong financial position we have been able to retain.

While our financial position remains strong, I hope this message has illustrated the many uncertainties that lie ahead for us in the future. In light of the aforementioned, I am proposing to you a budget that preserves our financial position without compromising the high quality level of services we provide to the citizens. **This could not have been accomplished without the hard work and dedication of the county employees. Many of these men and women have dedicated their entire adult lives to serving Macon County and as a lifelong resident of this county, I cannot thank them enough.**

This proposed budget for fiscal year 2014'-2015' continues to fund essential county services and places a high level of priority on education, public safety, and health and human services. As required by state statute the budget is balanced with revenues and expenditures of **\$45,521,122** and is hereby submitted for your review and consideration.

Respectfully,

A handwritten signature in dark ink, appearing to read 'Derek C. Roland', written in a cursive style.

Derek C. Roland

Macon County Manager