Five Year Financial Plan

The Five Year Financial Plan is a forecast of revenues and expenditures spanning a five year period beginning with the adopted annual budget for the upcoming fiscal year. By using a five year planning window, the County ensures that commitments, obligations and anticipated needs are met in a fiscally sound manner. The five year plan encompasses both operating and capital budgets.

The forecast uses the FY 2010 budget as a starting point for both revenues and expenditures in 2011. Similarly, forecasts for subsequent years rely on the previous year's operating revenues and expenditures for their starting points. Increases and decreases in revenues and expenditures are itemized for each year.

The General Fund

Proceeds from ad valorem (property) taxes provide over half the revenue in the general fund. Projections are based on a tax rate of $0.63 per $100 of assessed valuation for 2010. The total taxable property value is estimated at $21,329,688,137. Total revenues in this category are projected at $129,945,566, which represents a 1.40% decrease below the FY 2010 budget. The closure of Phillip Morris and removal of personal property within the facility, decline of the collection rate, and affects of the current economy are anticipated in FY 2011.

Four five-year plan options are provided to address the shortfall in revenues. The differences between the plans are the use of fund balance and property tax increases.

Revaluation, based on tax year 2012, is anticipated to decrease the value of property in FY 2013 of Plans A and B by $7.9 million. To offset the revaluation loss primarily tied to economic conditions, a tax rate increase is delayed and fund balance is used in FY 2013. As a result of this delay, FY 2014 requires a 4.5 cent tax rate increase. Plan B raises the property tax rate in FY 2013 to the revenue neutral rate of 67.25 cents, a 4.25 cent tax rate increase, in FY 2013. Additionally, uses of fund balance in Plan B total approximately $1.4 million over one year versus $8.6 million in Plan A over two years.

Register of Deeds fees, the largest collection in recording of documents revolves around the sale of property or the refinancing of a mortgage. For Building Inspection fees (fees collected on the construction of a new house/facility or an addition to the like), historical trends are kept to evaluate this revenue source but is also estimated based on the number of building permits issued each year. Register of Deeds fees have been less than expected in the previous two years related to the slowing economy and are not projected to grow in FY 2011. Likewise, Construction Standards building inspection fees are projected to decrease by $391,000 from the estimated FY 2010 revenue. Beginning in FY 2012 and subsequent years, moderate increases in the building industry and Register of Deeds and Construction Standards revenues are anticipated.

To further assess available revenue resources, student population growth, and core capacity levels of each school, necessary to determine future school construction need. The five year plan issued debt for four new schools, (two elementary, two middle, and a wing addition and vocational building renovation for A.L. Brown High School) July 2009, totaling $85,170,000, in debt service.

Revenue for the North Carolina Research Campus (excluding personal property values) are projected and included in the plan based on valuation estimates found in the Tax Increment Projection Study. The anticipated payment for the County's share of the obligation is also included in the plan. Debt service contributions of $1.3 million for the NC Research Campus are anticipated to begin in FY 2013

Fiscal Year 2011 sales tax is budgeted at $26,874,341, a 2.76% decrease from FY 2010 estimates. Changes in sales tax can be effected annually by two primary factors. The first is growth in retail sales. The second is the method of distribution. The County has selected the ad valorem method for sales tax distribution in Cabarrus County. Sales tax revenues are distributed among the local governments and fire districts based on their respective property tax levies as a proportion of the whole. In addition to these two factors, the State assumed the remaining half of the Article 44 one-half cent sales tax in exchange for Medicaid relief to counties October 2009. As the result, loss of $1.07

million is anticipated in the upcoming fiscal year. In subsequent years, growth in sales tax is projected between 2% and 3%.

The addition of a ¼ cent sales tax for educational cost is anticipated to pass in FY 2012 in Plans A and B. This tax is projected to generate $3.5 million in FY 2012, based on 8 months; $1.8 million in FY 2013 based on additional fourth months; and growth of 2% in fiscal years 2014 and 2015.

In the event the ¼ cent sales tax is not approved, Plans C and D eliminate the tax option. As a result a 2 cent tax increase is required in FY 2012. To offset the anticipated decrease in property value in FY 2013 as a result of revaluation, a tax increase in Plan C is delayed and fund balance is used in FY 2013. As a result of this delay, FY 2014 requires a 5.5 cent tax increase to 70.5 cents. Plan D raises the property tax rate in FY 2013 to 70 cents, a 5 cent increase. Both plans anticipate a subsequent 25 cent decrease in FY 2015 due to growth in revenue spawned from revaluation. Additionally, uses of fund balance in Plan D total approximately $916,000 over two years versus $9.5 million in Plan C over two years.

The adoption of the State budget has statutory changed lottery proceeds to counties for school construction. The statutory formula changed from 40% disbursed to Counties to 25.8% in FY 2011 on a per pupil basis with the elimination of the special provision for Counties receiving additional funds whose average tax rate is above the state average. Each five-year plan utilizes $19.4 million in proceeds over four years for the repayment of school debt. All new growth in lottery monies for FY 2011 will be allocated to classroom teachers and scholarships.

Overall a decrease in other General Fund revenues is anticipated of $2.9 million in the upcoming fiscal year.

Non-recurring revenues were itemized for the first time in FY 2011. Funding from the Capital Reserve Fund and Library grant are used to fund $1,190,000, of capital improvement projects in the General Fund. Capitalized interest proceeds from the COPS 2009 issue are realized in FY 2011 and FY 2012 to offset interest payments of new school debt service. In fiscal years 2012 through 2015, Lottery proceeds are used for debt service on allowable school construction projects incurred on or after January 1, 2003.

From an expenditure perspective, increases are driven primarily by increased school current expense funding, new debt service in the operation of the Housing Unit, cost-of-living and merit raises for employees, new personnel for the Housing Unit, and capital projects.

Current expense is increasing due to start up and increased operational costs for newly constructed schools. The County's contribution to annual operating expenses will increase as a result of new school openings. Increases such as utilities, building and grounds maintenance and other current operations will be handled through annual adjustments in current expense funding from the County.

The financial structure of the five-year plan takes into account debt issues, cost of the projects, and interest rates in the market at the time the debt sales, and the overall effect on the County's tax rate. Additional debt service is added in all years of the five year plan. In FY 2011, the first full year of principal debt service payments on the Housing Unit appears. The County issued Certificates of Participation (COPS) for several school projects which funding had been invested previously for either a land purchase, architect, and/or engineering. The July 2009 issue funded construction of the Patriots Elementary School, Hickory Ridge Middle School, AT Allen School replacement, Harold E. Winkler Middle School, and a wing addition and vocational building renovation for A.L. Brown High School. Principal payments will begin in FY 2012.

Other annual expenditure increases are attributed to salary and benefit costs, increased operational costs for the Housing Unit, and other expenditures.

The Five Year Plan calls for capital improvement funding for necessary and long-overdue projects. A detailed schedule and description of these projects is found in the CIP located behind the Capital Improvement Plan tab of this document.

The spending levels specified in the Five Year Financial Plan are prudent and meet the needs of the County and the school systems while still maintaining adequate general fund reserves.

Five Year Financial Plan

The plan anticipates tax rate increases to meet the demands of the debt service on new school construction, operational costs of the Housing Unit, and the anticipated loss in revenue due to revaluation

Board policy (approved June 14, 2005) calls for a minimum unreserved fund balance equal to 15% of general fund expenses. This financial plan adheres to that policy. (Board policy also calls for excess fund balance above 15% to be transferred to the capital reserve fund to aid in more pay-as-you-go projects and reduce the reliance on debt financing). On March 15, 2010 the Board of Commissioners approved the use of fund balance due to fiscal pressures to allow greater flexibility in such circumstances for operating expenses.

The Solid Waste Fund

Landfill and Household Hazardous Waste Reduction programs constitute the Solid Waste Fund. Information presented in the five year plan is based on calculations of the December 2008 airspace analysis survey. Based on these estimates and the anticipated closure of the Landfill in FY 2015, operating revenues are projected to increase by $114,118 in FY 2011. In an effort to remain conservative, operating revenues are projected with no growth for fiscal years 2012 through 2015. Revenues within this fund include intergovernmental revenues such as whitegoods and tire disposal tax in addition to fees collected for recycling sales. Tonnage is estimated at 35,000 and 2.5% increases are applied in subsequent years. A $1 fee increase per ton will be assessed every other year, beginning in FY 2011. Operating expenses are projected to increase approximately 3% in each year within the plan. The second expansion of the Landfill will occur in FY 2011 and the use of fund balance will offset costs associated with the expansion and purchase of a new mini-dozer. Closure and post-closure liability contribution is an expense transferred to a liability account for future use. This transfer does not affect cash and therefore is not a budgeted expense.

The Arena and Events Center Fund

This fund accounts for revenues and expenditures related to the Arena and Events Center and the Cabarrus County Fair. In FY 2011, the Arena and Events Center Fund budget is expected to decrease by 28.53%. This fund accounts for revenues and expenditures related to the Arena and Events Center and the County Fair.

The General Fund contribution amount is $188,373 lower than in FY 2010 due to a delay of building improvement projects and current economic conditions. The excess revenue over operations generated from the County Fair reduces the annual contribution required from the General Fund for the Arena. The County Fair is estimated to produce $41,615 in revenue over their expenses for 2011.

In subsequent years for the Arena and Events Center, the General Fund contribution to the Arena decreases by an estimated $25,000 per year, as the operating deficit for the Arena is anticipated to decrease.

In May 2005, the County signed a contract with SMG, a management company, to oversee and manage the Arena and Events Center (not including the County Fair). An on-site general manager was hired and in FY 2009, all cost related to the Arena and Events Center was consolidated into one cost center. For FY 2011, the County Finance Department financial operations of the Fair will transition to SMG.

The Arena and Events Center receives a contribution of $100,000 from the Cabarrus County Tourism Authority, and a proposed contribution of $620,548, which includes an annual management fee of $95,000, from the General Fund, and $41,615 County Fair support. Non-event expenses and revenue growth are anticipated to remain flat in the upcoming fiscal year.

In the County Fair cost center, spending is projected to decrease by .36% to $637,200. Revenue from gate passes and carnival rides are the primary support for this fund. The current economic conditions caused an increase on free admission days resulting in ticket sales decreasing; and entries for concerts, exhibits, and livestock declined due to travel and material/supply costs. Further emphasis is placed on creating new partnerships and concert sponsorships to allow small local businesses to benefit from the Fair in the FY 2011 budget. A new concert revenue stream was added to increase fair participation and attendance while offering variety of entertainment choices for all citizens. Revenues for the County Fair are projected to increase by approximately 2% each year from FY 2011 until FY

2014, resulting in a surplus of revenues over expenditures.

Expenditures in the Arena and Events Center Fund are expected to decrease by approximately 28.53% below the amended budget, to $1,399,363. For FY 2011, expenses include the County Fair, the contract with SMG for $720,548, and building improvements to be made by the County's General Services Department.