Five Year Financial Plan

The Five Year Financial Plan is a forecast of revenues and expenditures beginning with the proposed annual budget for the upcoming fiscal year. Using a five-year planning window helps ensure that commitments, obligations and anticipated needs are met in a fiscally sound manner. The Plan encompasses both operating and capital budgets for the General Fund.

The forecast assumes maintaining current levels of service unless the Board took action to indicate otherwise. Economic trends and conditions are also factored into assumptions used in developing expenditure and revenue projections. Forecasts for subsequent years rely on previous year expenditures and revenues as a starting point. Increases and decreases are itemized.

Fund Balance Policy

The Board of Commissioners approved a fund balance policy on June 14, 2005 that requires a minimum unreserved fund balance equal to 15% of general fund expenses. This financial plan adheres to that policy. The policy also calls for excess fund balance above 15% to be transferred to the capital reserve fund for pay-as-you-go projects to reduce the reliance on debt financing.

Beginning in FY2009, the Board waived the transfer of excess fund balance to the capital reserve fund to better position the county to weather the fiscal storm brought about by the Great Recession. On March 15, 2010 the Board amended its fund balance policy so that "fund balance may be appropriated for any use in the general fund to overcome revenue shortfalls related to significant downturns in the economy."

Fund Balance Calculation

Five Year Financial Plans from previous years indicated the Estimated Unreserved Fund Balance for each of the five years, along with the percentage of general fund expenditures they each represented. This method of presentation showed the extent to which the minimum requirement of the fund balance policy (15%) was exceeded.

Beginning on June 30, 2011, Governmental Accounting Standards Board (GASB) Statement 54, which requires a more detailed presentation of the components of fund balance, will be implemented. Funds that have been restricted by Board action will be presented as "committed," and funds restricted by management policy actions will be presented as "assigned."

The following illustration depicts the change in fund balance presentation for FY 2012:

<u>Previous fund balance reporting model</u>:

Unreserved, undesignated FB $54,436,158

<u>New fund balance reporting model:</u>

Committed $31,510,780 (15% FB Board Policy)

Assigned 8,124,848 (Budget amendments and amount reserved for future anticipated expenditures)

Unassigned 14,800,530

Total $54,436,158

Beginning this year, the Five Year Financial Plan will indicate the "Estimated *Unassigned* Fund Balance" for each of the five years, rather than the "Estimated *Unreserved* Fund Balance" and associated percentage of general fund expenditures represented.

The Estimated Unassigned Fund Balance represents the amount of fund balance available for appropriation, over and above the amount *committed* by the Board's 15% fund balance policy and *assigned* for future expenditures by the county management.

While the entire Estimated Unassigned Fund Balance is available for appropriation, caution must be exercised in spending it. If <u>**all**</u> the unassigned fund balance were used, then no funds would be available for emergencies other than those "committed" or "assigned". Using committed fund balance for a purpose other than that originally intended could jeopardize the County's AA+ general obligation bond rating and cause cash flow interruptions.

<u>**The General Fund**</u>

The five year plan has been revised this year to reflect a new ¼ cent sales tax. A referendum on whether to establish a ¼ percent sales tax to support public school capital projects was passed on May 17, 2011. This new sales tax, effective October 2011, is projected to generate $3 million in FY 2012 and an additional $1.6 million in FY 2013, its first full fiscal year of enactment. Collections will be used to pay school debt service.

Property Taxes

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 value for 2012. The total taxable property value is estimated at $20,976,971,895. Total revenues in this category are projected at $131,042,744, which represents a .84% increase above the FY 2011 budget.

A revaluation of the property values in 2012 is anticipated to decrease the tax base in FY 2013 by 12%, the equivalent of $13.6 million in tax proceeds. This reduction in value results primarily from the impact of the Great Recession. To offset the reduction in value of the tax base, a revenue neutral tax rate of $0.705 is proposed for FY 2013. "Revenue neutral" means the adjusted tax rate produces the same amount of revenue as the previous rate; further adjustments are made to account for growth that has occurred since the last appraisal year.

Fees for Service

Register of Deeds fees include payments related to the recording of documents, primarily from the transfer of property. Building Inspection fees are collected on improvements made to real property.

Since they are associated with new construction and real estate sales, revenue from these fees declined considerably as a result of the Great Recession. However, moderate increases in revenues are anticipated in FY 2013 and beyond in these areas.

Sales Taxes

Fiscal Year 2012 sales tax revenue is conservatively budgeted at $25,241,215, a 6.08% decrease from FY 2011 estimates. While the Great Recession is over, its effects are not. Lingering unemployment rates above 9% continue to dampen local spending.

Additionally, considerable sales tax refunds to nonprofits and governments have begun affecting the county's sales tax proceeds. County staff members are working with the NC Department of Revenue to research this matter more thoroughly.

Despite these current issues, sales tax revenues are projected to return to pre-recessionary levels by FY 2016. This seems to be a reasonable expectation, as many economists anticipate the labor market will recover from the Great Recession within the next 4 to 5 years.

Lottery Proceeds

Statutory changes last year governing the method in which the state distributes lottery proceeds to counties (for use in public school capital projects) reduced receipts in Cabarrus County by about 50 percent. The General Assembly might change the distribution formula again this year, however, receipts of at least $2.2 million annually are expected.

Lottery proceeds are used toward the repayment of school construction debt over the entire five-year planning period. The accumulation of $8.2 million in lottery proceeds from previous years allows appropriations to exceed receipts in years 2013 and 2014.

Other Revenues

Non-recurring revenues were itemized for the first time in FY 2011. Money from the Capital Reserve Fund is used to pay for $750,000 of capital improvement projects in the General Fund. Capitalized interest proceeds from certificates of participation (COPS) issued in 2009 are realized in 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.

Expenditures

In February 2011, the Board of Commissioners voted to provide county staff direction for preparing the annual budget for FY 2012 and the associated five-year financial plan. By a 3 to 2 vote, the staff was asked to prepare the FY 2012 annual budget consistent with the projection for that year from the FY 2011 five-year financial plan, and to freeze spending at that level for the remaining four years of the new five year plan.

Accordingly, spending in FY 2012 is budgeted within about $400,000 of last year's projection. New spending is driven primarily by increased funding for the public school systems, new school construction debt, cost-of-living raises for employees, personnel and operating costs for the new detention center (which opens in July), general increases in operational costs, and previously planned capital projects.

Overall spending for the remaining four years of the planning period remains flat.

Debt Service

Servicing the county's debt continues to command a significant portion of annual spending – nearly 23 percent in FY2012.

While no new debt issues are anticipated during the five-year planning period, additional debt service is added in fiscal years 2012, 2013 and FY2016.

In FY2012, the first full year of interest payments on Qualified School Construction Bonds (issued in 2011) appear, with a small increase in the interest cost in the following year. However, a Federal subsidy reimburses nearly the entire interest cost on the debt, as indicated in the revenue projections.

The principal payments on this debt issue are deferred for 5 years. In FY 2016, the first principal payment enters the plan and will remain constant at $1.33 million for a period of 10 years.

Kannapolis Obligation

The Board of Commissioners entered into an obligation in 2011 requiring it to give the City of Kannapolis county property tax receipts from improvements made within a special tax district around Castle and Cooke's research park. This contribution will be used by the city to service 50 percent of the debt requirements of a $35 million certificates of participation (COPs) issue from 2010 (note: the county's actual obligation is the amount of property taxes collected from the improvements in the district, or 50 percent of the debt service, whichever is less, for the 17 year term of the debt).

Proceeds from the COPs are being used to fund public improvements in and around Castle and Cooke's research park in downtown Kannapolis, as well as to construct a 60,000 square foot building for the Cabarrus Health Alliance near the Rowan County line, also in downtown Kannapolis.

Undesignated Expenditures

Beginning in FY2014, $1.5 million is added each year to pay for increases in the costs of materials and supplies, fuel, utilities, or other operating expenses.

Capital Projects

The Five Year Financial Plan also includes funding for a number of capital improvement projects. A detailed schedule and description of these projects is found in the Capital Improvement Plan (CIP) located on page 85.

Conclusion

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.

Additionally, with the new ¼ percent sales tax the county will be in a position to replenish the capital reserve fund with revenues in excess of expenditures by FY2016.

It is important to note, however, that revenue projections in these plans assume continuing improvement in the economy. In the absence of such improvement, considerable adjustments will be required.