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

Fund balance is generally defined as the difference between a fund's assets and liabilities. Adequate fund balance is necessary for numerous reasons, such as the availability of funds in an emergency or unexpected event, to maintain or enhance the County's financial position and bond rating, to provide cash for operations prior to receipt of property tax revenues, and to maximize investment earnings. Not all fund balance is available for appropriation. State statutes define the available amount as "cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts" in Chapter 159-8. Fund balance may be reserved for specific uses, such as special revenue funds, where fund balance may only be used for a designated purpose.

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.” The County staff plans to request that the County Board return to their policy of transferring “excess” fund balance to the capital reserve fund in FY 2014, however the definition of “excess” may change.

Calculation

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

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.”

Estimated General Fund fund-balance on June 30, 2014 is expected to be 39.22% of General Fund expenditures. The County operates under an annual balanced budget where the sum of estimated net revenues and appropriated fund balances is equal to appropriations for the fiscal year. The following chart shows estimated FY 2014 fund balance information for all annual funds.

Five Year Financial Plan

Fund	Estimated Fund Balance 6/30/2013	Revenue	Transfers In	Transfers Out	Expenditures	Projected Fund Balance 6/30/2014	Changes in Fund Balance
General	83,721,751	205,649,724	7,811,288	2,520,050	210,940,962	83,721,751	-
Landfill	3,748,739	926,000	-	-	926,000	3,748,739	-
Arena & Events Center	655,003	823,000	692,830	-	1,515,830	655,003	-
911 Emergency Telephone System	688,062	755,724	-	217,664	538,060	688,062	-
Health Insurance	2,209,399	9,385,229	-	-	9,385,229	2,209,399	-

FY 2014 inter-fund transfers are proposed as follows:

From Capital Projects Fund to General Fund transferring lottery proceeds for debt service	$4,911,790
From Certificate of Participation (COPS) 2009 Fund to General Fund transferring COPs proceeds for debt service, COPS 2008C fund to GF	2,188,834 493,000
From 911 Fund to General Fund for debt service payment of 911 equipment	136,623
From 911 Fund to General Fund for 911 Address Coordinator salary.	81,041
From General Fund to Arena & Events Center Fund for the operation of the Cabarrus Arena and Events Center	692,830
From General Fund to Pension Trust Fund for the Separation Allowance Pension	457,220
From General Fund to the Capital Projects Fund	1,370,000

FY 2014 Proposed General Fund Balance Uses and Assignments

Category	Amount	Explanation
Non Spendable	200,000	Estimate of inventories and prepaid expenses
Restricted	13,000,000	Estimate for Stabilization by State Statute
Committed	10,000	Estimate of Amount Committed for Re-Valuation expenses
Assigned	20,839,328	Amount reserved for future anticipated expenditures
Unassigned	32,019,152	15% board fund balance policy
Unassigned	17,653,271	Estimate of funds available for appropriation
TOTAL	**$83,721,751**	

Five Year Financial Plan

The Five Year Financial Plan indicates the "Estimated *Unassigned* Fund Balance" for each of the five years and associated percentage of General Fund expenditures this represents.

The Estimated Unassigned Fund Balance represents the 15% board policy and the amount of fund balance available for appropriation. This amount does not include non-spendable, restricted or assigned expenditures.

While the entire Estimated Unassigned Fund Balance is available for appropriation, caution must be exercised in spending it. If **all** the unassigned fund balance were used, then no funds would be available for emergencies other than those "assigned". Using assigned 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.

REVENUES

Property Taxes

Ad valorem (property) taxes provide 62.8% of the revenue of the General Fund. Projections are based on a tax rate of $0.70 per $100 of assessed value for 2014. The total taxable property value is estimated at $18,928,458,292. Total revenues in this category are projected at $133,692,292 which represents a 4.93% increase from the FY 2013 budget.

The revaluation of the property values in 2012 decreased the tax base in FY 2013 by 12.3%, the equivalent of $14.9 million in tax proceeds. Fortunately the economy is slowly improving and small increases are projected each year over the next five years. For real property, growth of 1.5% was used for FY 2015 and 2% for each of the fiscal years 2016-2018. In addition a growth factor of 6% was used in estimating the effect of revaluation in FY 2017. Personal property valuations were projected to grow 1% each year. Public Service property was estimated to grow 2% each year and motor vehicles were estimated to experience a 3% annual growth rate.

The change in the collection process for motor vehicles is expected to increase the collection percentage for this tax. We have included an increase in the collection percentage of 5% beginning in FY 2015.

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 began in FY2012 in these areas and improved greatly in FY 2013. We anticipate Register of Deeds fees to increase 30% in FY 2014 and 4% thereafter and Building Inspector fees to increase 46% per year in FY 2014 and 6% per year thereafter. We have added personnel to accommodate the increased services demands in these two areas.

The ambulance fee schedules were revised in FY 2013 and this resulted in a large increase in fees this year. We anticipate the fees to continue to grow 3.3% in FY 2014 but estimated only 2% increases in the later four years due to the possibility of Medicaid rate reductions from Federal healthcare changes.

Sales Taxes

Fiscal Year 2014 sales tax revenue is budgeted at a 17.22% increase from FY 2013. Some of this increase (approximately $ 1.8 million or 33%) relates to the under-budgeted ¼ cent sales tax for school

debt service which began in FY 2012 and should have been annualized in the FY 2013 budget. Growth in this area has occurred and is projected to increase, however, due to the lingering unemployment rates and considerable sales tax refunds to nonprofits and governments, future projections remain conservative at a 1.5% increase for years after FY 2014.

County staff members continue to work with the NC Department of Revenue to research this matter more thoroughly.

A referendum establishing a ¼ percent sales tax to support public school capital projects was passed on May 17, 2011. This new sales tax is coming in even better than projected. Collections will be used to pay school debt service.

Lottery Proceeds

Statutory changes 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; however, receipts of at least $2.0 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 $10.9 million in lottery proceeds from previous years allowed appropriations to exceed receipts in fiscal years 2013 and 2014. The expected revenues return to $2 million per year for years after FY 2015.

Other Revenues

QSCB subsidy payments were reduced $ 67,070 based on the federal sequestration funding reductions. We have included this in the five year plan as if this reduction is permanent.

One-Time Revenue Sources

Capitalized interest proceeds from certificates of participation (COPS) issued in 2008 and 2009 were realized in FY 2012, 2013 and 2014 to offset interest payments of new school debt service and the jail housing unit. The FY 2014 projection contains $ 2,467,049 of one-time revenues that will be generated from the conversion of the DMV system from delayed billings to tax and tag billing together. This provides an additional four months of motor vehicle taxes in FY 2014. These one-time revenues have been used for one-time expenses as noted in the Capital Improvement Plan.

EXPENDITURES

FY 2014 was adopted at $213,461,012, based on a tax rate of $0.70. This is a $ 5,825,471 (2.81%) increase over FY 2013.

Overall spending for the five years of the planning period shows slight increases. The major increases in costs relate to health insurance which was projected to increase 7.5% in FY 2014, experience a slight increase in FY 2015 and 7% per year thereafter. We will be adding part-time employees who average over 30 hours per week to our health insurance in FY 2014 (a year before the required timeframe per new federal regulations.) This is only expected to impact three employees and cost $ 23,946.

We will continue to seek guidance from the Board at the annual retreat regarding cost of living increases and merits for the staff of the County, Health Alliance and Schools locally funded personnel in future years of the plan. Personnel increases in the proposed FY 2014 budget include a net realignment of 26.5 FTE's at a cost of $1,967,134. The personnel section of the budget document includes a listing of each

position and the $ 724,747 in additional revenues that are included in the budget which offset the county costs and also delineates $304,225 in reduced expenses related to the positions as well.

FY 2015 adds $ 411,500 for library personnel and equipment for the new library in Midland built as part of the Town Hall and $ 374,374 for the EMS co-Station at Concord Mills for staff, capital and operating expenses. These are reflected as $468,299 in personnel additions and $313,575 in additions to Operating Miscellaneous Not Captured in Other Categories in FY 2015.

The most volatile of the expenses are the Economic Development incentives previously awarded. They are on a schedule based on when capital projects of various businesses will be completed and refund requests submitted and therefore vary widely from year to year.

Debt Service

Servicing the county's debt continues to command a significant portion of annual spending and is estimated at 20.26% percent of general fund spending in FY2014.

During FY 2013, the County was able to refund a large portion of the Series 2005 and 2006 general obligation bonds. The net present value of the savings over the course of the terms of the bonds was $5,522,531.

Principal payments on the Qualified School Construction Bonds will begin in fiscal FY2016. A federal subsidy reimburses nearly the entire interest cost on the debt, as indicated in the revenue projections, however the sequestration did reduce payments by 8.7% ($67,070). The principal payments on this debt issue were deferred for five 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.

The budget process brings to light the many capital needs of the County, the schools and the Community College. Should the Board desire to issue general obligation bonds to fund $100,000,000 of these needs in FY 2017, current estimates of the debt service on that amount are $8,433,430 and would fit into the plan in FY 2017 without requiring an increase in the property tax rate.

Kannapolis Obligation (TIF)

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 North Carolina 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). The County's share will not exceed $1.6 million annually.

Proceeds from the COPs are being used to fund public improvements in and around North Carolina Research Park in downtown Kannapolis, as well as for the construction of a 60,000 square foot building for the Cabarrus Health Alliance near the Rowan County line, also in downtown Kannapolis.

School Funding

The FY 2014 proposed budget includes an increase of $1,433,094 in current expense funding to the schools for technology needs and building maintenance. $138,891 is also included to provide a 1.5% increase to the locally funded supplements for staff. $679,330 was provided to fund the growth in ADM expected by the systems. The ADM calculation was changed to exclude funding for school health nurses

provided by the Cabarrus Health Alliance with funding from the county and this required $ 25,450 in additional funding to Kannapolis City Schools in order to maintain ADM equity.

Cabarrus Health Alliance Funding

The Board approved $ 658,756 in additional funds for the Cabarrus Health Alliance (CHA) in FY 2014. This was composed of recurring funds for school health nurses to increase their days of service by nine days and their hours of service from 6.5 to 7.5 hours per day. Health insurance costs for these staff were also included in the projection. An environmental health inspector was also added to the recurring funding for the Alliance.

$300,000 was also funded on a one-time basis to assist the CHA in adjusting to recently announced State cuts. This is reduced from the expenditures in the FY2015 projection.

Operating Expenses Miscellaneous

The forecast for "Miscellaneous Operating Expenditures Not Captured in Other Categories" includes operational costs of the new library in Midland of $ 131,300 and $ 181,875 in operating expenses and start up for the EMS co-station at Concord Mills.

Contributions to the Arena Fund

The contributions to the Arena Fund declined by $91,554 due to a reduction in operating costs anticipated for FY2014.

Contributions to Other Agencies

The Board approved the addition of $ 20,000 to the Economic Development Commission and a decrease of $26,000 to the Cabarrus Arts Council in its deliberations. These are reflected in the FY 2014 projection.

Capital Projects/ One-Time Expenditures

The Five Year Financial Plan also includes funding for a number of capital improvement projects with funding from the General Fund. A detailed schedule and description of these projects as well as other projects funded through other Funds is found in the Capital Improvement Plan (CIP).

The State revamped the unemployment system and required funding of 1% of taxable wages (up to a cap of $214 per person) into a state fund for these expenses in FY 2014 in addition to Counties paying their direct costs for that year. This affects FY 2014 with an estimated additional one-time cost of $ 222,911.

Conclusion

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

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.

Five Year Financial Plan

GENERAL FUND

				Revaluation Year	
Budgeted Revenues for:	**2014**	**2015**	**2016**	**2017**	**2018**
Amended Budget less one time revenues from the previous fiscal year	**191,835,332**	**203,400,339**	**206,710,357**	**210,144,532**	**220,391,089**
Ad valorem					
Change resulting from Revaluation	-	-	-	6,737,639	
Growth/Decline in tax base	2,780,813	2,017,698	2,591,597	2,645,357	2,835,022
Improvement in DMV collections rate 5%		470,000			
Other Taxes					
Growth in Sales taxes	3,350,847	443,951	450,610	457,369	464,230
New 1/4 cent sales tax/education capital projects	1,957,211	89,103	90,439	91,796	93,173
Permits & Fees					
Ambulance Fees	145,805	92,206	94,050	95,931	97,850
Building Inspection Fees	671,804	126,780	134,387	142,450	150,997
Register of Deeds Fees	405,800	70,280	73,091	76,015	79,055
Other					
QSCB Subsidy Payments	(67,070)	-	-	-	
Increase (Decrease) in other Revenues	2,319,797	-	-	-	-
Total Re-occurring Revenues	203,400,339	206,710,357	210,144,532	220,391,089	224,111,417
One Time Revenue Sources					
Proceeds from DMV change (4 months add revenues)	2,467,049				
COPs Proceeds - School Debt/Housing Unit	2,681,834	-	-	-	
Lottery Proceeds	4,911,790	2,200,000	2,000,000	2,000,000	2,000,000
	-		-	-	
Fund Balance Appropriated	-	1,197,050	-	-	
Total One-time Revenues	10,060,673	3,397,050	2,000,000	2,000,000	2,000,000
Total Revenues	213,461,012	210,107,407	212,144,532	222,391,089	226,111,417
Budgeted Expenditures for:					
Amended Budget less one time expenditures from the previous fiscal year	**200,226,468**	**209,035,101**	**208,887,407**	**210,214,519**	**216,455,184**
County Services					
Personnel increases due to service expansion/realignments	1,967,134	468,299		-	
Increases in Health Insurance	907,698	300,000	511,000	546,770	585,044
Benefits for part-time employees (Health Care Reform)	23,946		-	-	
Increase in Merits/Salary Adjustments/COLA/Outside Ag.	1,013,852		-	-	-
Operating (misc., not captured in other categories)*	687,130	339,175	1,500,000		
Debt					
Retirement of Debt Service	(246,921)	(262,333)	(275,216)	(395,621)	(283,942)
Schools	(777,256)	(786,818)	(1,067,522)	(1,093,139)	(1,123,669)
Qualified School Construction Bonds	-	-	1,330,000	-	
New Debt Service for Capital Needs				8,433,430	(88,113)
Other					
Fulfilled/Added Econ Dev Incentive Grants	1,151,217	50,283	(674,450)	(1,249,400)	(167,000)
Obligation to Kannapolis (TIF)	44,000	43,700	3,300	(1,375)	1,625
Increase in Current Expense Funding for Schools (tech lease)	1,433,094				
Increase in current expense for supplements (1.5%)	138,891				
Increase in current expense for growth in ADM	679,330				
Increase to KCS if pull school nurses out of ADM calc	25,450				
Special Olympics Salary increase FY 2013	930				
Increase in Contribution to Health Alliance	658,756	(300,000)	-	-	-
Decrease in Contribution to Arena Fund	(91,554)	-	-	-	
Increase to EDC	20,000				
Increase (Decrease) in Contingency	1,198,936			-	
Decrease to Arts Council	(26,000)				
Total Re-occuring Expenditures	209,035,101	208,887,407	210,214,519	216,455,184	215,379,129
Capital Projects/ One-time Expenditures					
Capital Improvement Plan - General Fund Monies	4,203,000	1,220,000	1,220,000	1,220,000	1,220,000
Contribution to State Unemployment Fund	222,911				
Total Capital/One-time Expenditures	4,425,911	1,220,000	1,220,000	1,220,000	1,220,000
Total Expenditures	213,461,012	210,107,407	211,434,519	217,675,184	216,599,129
Revenues over (under) Expenditures	0	0	710,013	4,715,906	9,512,288
Estimated Unassigned Fund Balance	**49,672,423**	**48,475,373**	**49,185,386**	**53,901,292**	**63,413,580**
as percentage of General Fund Budget	23.27%	23.07%	23.26%	24.76%	29.28%
Property Tax Rate	**.70/ 100**	**.70/ 100**	**.70/ 100**	**.70/100**	**.70/100**
Total Debt Service Payments	42,359,335	41,310,184	41,297,446	48,242,116	46,746,392
as a % of Current Budget	20.26%	19.78%	19.65%	22.29%	21.70%