Five-Year Financial Plan

The Five-Year Financial Plan is a forecast of revenues and expenditures that begins with the adopted annual budget for the upcoming fiscal year (FY16) and continues for four additional years (through FY20). Using a five-year planning window helps ensure that staff meets commitments, obligations and anticipated needs in a strategic, fiscally sound manner. The plan encompasses both operating and capital budgets for the General Fund.

The budget forecast within the plan assumes the Board of Commissioners will maintain current levels of service and will remain as such unless the Board takes action to indicate otherwise. Staff also factored economic trends and conditions 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 of the North Carolina General Statutes. 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 maintains a minimum 15% assigned Fund Balance for working capital needs. 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." Fortunately, the Board never had to use fund balance for this reason. The County Board returned to their policy of transferring "excess" fund balance to the Capital Reserve Fund in FY 14. The amount of the fund balance transfer to the Capital Reserve fund is calculated by taking total fund balance per the audit and reducing it for the Board's working capital policy of keeping 15% of the general fund budget amount for working capital use, and further reductions for management assignments related to various known issues such as litigation, tax appeals, landfill costs and statutorily required assignments (reserved by state statute, inventories, prepaid items) and $ 5,000,000 for unknown or emergent contingencies that may arise.

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, 2016 is expected to be 3% 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 2016 fund balance information for all annual funds.

Fund	Estimated Fund Balance 6/30/2015	Revenue	Transfers In	Transfers Out	Expenditures	Projected Fund Balance 6/30/2016	Changes in Fund Balance
General	76,028,386	218,374,077	2,217,664	2,515,175	218,076,566	76,028,386	-
Landfill	3,743,972	934,000		-	934,000	3,743,972	-
Arena & Events Center	814,705	846,275	593,989	-	1,440,264	814,705	-
911 Emergency Telephone System	700,478	691,355	-	217,665	473,690	700,478	-
Health Insurance	1,773,314	9,632,793	-	-	9,632,793	1,773,314	-

FY 2016 inter-fund transfers are proposed as follows:

From Public School Building Fund for debt service payments

For school projects	2,000,000
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 and benefits.	81,041
From General Fund to Arena & Events Center Fund for the operation of the Cabarrus Arena and Events Center	593,989
From General Fund to Pension Trust Fund for the Separation Allowance Pension for Law Enforcement Officers	535,823
From General Fund to the Capital Projects Fund for School maintenance and repairs	1,385,363

FY 16 Estimated General Fund Balance Uses and Assignments

Category	Amount	Explanation
Non Spendable	231,522	Estimate of inventories and prepaid expenses
Restricted	14,863,874	Estimate for Stabilization by State Statute
Assigned	5,155,000	Amount reserved for future anticipated expenditures
Unassigned	33,088,761	15% board fund balance policy
Unassigned	22,689,228	Estimate of funds available for appropriation
TOTAL	**$76,028,385**	

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, committed or assigned expenditures.

Assignment	FY14	Est FY15	Change
General Government	9,581,987	5,155,000	(4,426,987)
Education	1,039,015		(1,039,015)
Working Capital 15%	31,446,513	33,088,761	1,642,248
Total assignments and BOC policy	$42,067,515	$38,243,761	($3,823,754)
Fund Balance available for appropriation	9,057,268	22,689,228	13,631,960
Reserved by State Statute/Inventories/Prepaid items	11,783,178	14,863,874	3,080,696
Re-appropriations for Uncompleted Projects	-	-	-
Totals	$62,907,961	$75,796,863	$12,888,902

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

Property taxes provide 62% of the revenue of the General Fund. Staff is basing projections on an ad valorem tax rate of $0.70 per $100 of the FY16 assessed value. The County's total taxable property value is estimated at $20,008,671,688. Total revenues in this category are projected at $137,394,980, which represents a 2.30% increase from the FY15 budget.

For real property, the budget staff used 1.5% growth for FY16 through FY20. In addition, they used a growth factor of 6% to estimate the effect of revaluation in FY17. Personal property valuations are projected to grow 1% each year. Public service property is estimated to grow 3% each year and motor vehicles is estimated to experience a 4% annual growth rate. To calculate the DMV collection rate and all other collection rates for FY16, staff used the previous years' actual collection percentage of 96.97% and 96.25%, respectively.

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.

Staff anticipates Register of Deeds fees to increase an additional 5% each year for FY17 through FY20 and Building Inspection fees to increase an additional 10% each year for FY17 through FY20. Like the FY15 budget, we added personnel to accommodate the increased service demands in construction standards in the FY16 budget.

Staff projects a revision in the ambulance fee schedules in FY16, but with the privatization of non-emergency transportation an overall increase is not expected. We anticipate the fees to grow only 1% in FY17 and thereafter.

Sales Taxes

Staff budgeted the FY16 sales tax revenue at $43,581,765, a 16.40% increase over the FY15 budget, compared to a 3% increase over FY15 estimated actual. This area has grown and experts project it to increase even more, primarily due to the recovery of the economy and the states sales tax reform efforts, effective January 1, 2014, which expanded the base for sales tax collections. However, in future years, unpredictable sales tax refunds to nonprofits and other governments mean conservative sales tax growth projections. County staff continue to work with the N.C. Department of Revenue to research this matter more thoroughly for years beyond FY16. However, until the State makes changes in their reporting capabilities, regulations and policies, sales tax budgeting will remain quite a challenge for all North Carolina counties.

One-Time Revenue Sources:

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%. The General Assembly may consider changing the distribution formula in the future; however, until then, receipts of at least $2 million annually are expected. Even though we continue to budget this revenue on an ongoing basis, until the State settles on a permanent formula for distribution, we regard lottery proceeds as a one-time revenue source.

Furthermore, the State limits how counties can use lottery proceeds. Within the State's available options, our local school districts and the County agree to apply lottery proceeds toward the repayment of school construction debt over the entire five-year planning period. We expect lottery revenues to remain at $2 million for FY16 through FY20.

EXPENDITURES

The Manager recommends a General Fund budget for FY16 at $220,591,741, based on an ad valorem tax rate of $0.70. This is a $10,948,322 (4.3%) increase from FY15 adopted budget. Overall spending for the five years of the planning period reflect changes in the following areas:

1. The County conducted a salary study in early 2014, which included a section on salary compression. Salary compression occurs when the market-rate for a given job outpaces the increase historically given by the organization to more tenured employees. Salary compression results in only a small difference in pay between employees, regardless of their skills or experience. When the market dictates the organization recruit newcomers by offering them as much or more than senior professionals, it creates inequity within the organization's pay structure. The FY16 budget includes the salary compression study projected to cost $831,400 for the implementation of adjusted salary increases and benefits.

2. The Board approved health insurance costs of $7,692 per employee for FY16, an approximate increase of $1,300,000 for all eligible County employees and retirees. This was an increase of $892 per employee over FY15, but a $248 reduction from FY14. The large decrease in premium per employees occurred in FY15 when the County reduced the premium per employee to match the State's teacher's rate of the state health plan and closed the Employee Health Clinic.

3. At the approval of the Board in early 2015, the County is performing a public safety study. The results of the study are unknown at this time; however, staff has appropriated $250,000 of the FY16 budget to aid in the

implementation of the study. If the results indicate the implementation will require additional funds, staff will propose a partial implementation until adequate funds are available.

4. The County will begin making regular payments to our Internal Service Fund for this cost through our regular payroll process. In FY16, the County will fully fund the workers compensation fund at a level of $783,444 per year. The County is self-insured in this area and has not made contributions to the fund on a regular basis since 2006. The County contributed approximately $300,000 to the fund in FY15 and an additional $483,444 in FY16. After that, these expenses will move commensurately with salaries and wages. Of course, we will continue to monitor this fund to ensure adequate, but not excessive, reserves are available to fund the claims.

5. The FY16 budget includes a cost-of-living adjustment (COLA) of 0.5% and merit pay of up to 2.5% for County staff. The projected budgets for FY17-FY20 include merit increases ranging from 0-2.5% and COLA of 1.5%. Staff Estimates the FY16 cost of the merit structure as $631,000 and the COLA as $251,000. At the annual planning retreat, we will continue to seek Board guidance regarding COLAs and merit increases for County staff.

6. The adopted FY16 budget includes 35 new positions—three in ITS, two in the Sheriff's Office, one in the jail, four in construction standards (due to increases in building permits and plan reviews), 15 in EMS (due to the conversion from 24-hour to 12-hour shifts at 75% conversion in FY16 and the balance in FY17), five positions in economic services (due to the Affordable Care Act and Medicaid), and five in the libraries (to restore Friday hours at the libraries). The budget eliminates seven EMS positions, approved in April when the Board moved to privatize non-emergency transportation through a franchise, as documented in the County's code ordinances. This change will be effective July 1, 2015. The total cost of these changes is approximately $1,800,252.

7. There is one position re-class and seven positions increasing their hours-per-week. The personnel section of the budget document includes a listing of each position. In FY17, the plan adds four positions for the opening of the Midland Library facility, located in Town Hall. Staff originally recommended the four positions beginning in the FY15 budget, but the delay in construction has moved the funding to FY17.

8. The County will begin making principal payments of $1,330,000 on the Qualified School Construction until FY26.

9. The County Manager recommends to issue debt early in FY16 to fund the construction phase of Mt. Pleasant Middle School. We estimate the amount of the debt at $32,000,000, which the County will finance over a 20-year period. The request of $1,000,000 is will cover one interest payment in FY16. Full funding of the debt will begin in FY17.

10. The County has also made an effort to increase the current expense allocation to the Cabarrus and Kannapolis public education systems. Over the next five years, this includes operations, such as utility cost, employee benefit changes, and state salary matches for local positions. The County will fund the driver education program, which the State has indicated it will no longer fund. We placed additional emphasis on funding technology, teacher supplements and salary increases for non-certified staff. In addition, the County also addresses additional funding for the opening of Odell 3-5 and Kannapolis Middle School. The other two schools are replacement schools and will have minimal changes in their operational needs.

11. In December 2014, the Board restored several programs and staff, effective January of 2015. The five-year plan includes the annualized cost of these reinstatements.

12. Economic development incentives are on a schedule based on estimates of when the businesses will complete their capital projects, taxes paid and grant requests submitted and, therefore, vary widely from year to year.

13. The final highlighted area of the five-year plan is funding for capital projects. The plan funds the local school districts and Rowan-Cabarrus Community College at the same level as last year, $1,220,000. The County also has $1,501,956 which was allocated between Cabarrus County Schools ($1,127,956), Kannapolis City Schools

    ($367,000) and the County ($7,000). The County has several of its own projects, which total $1,360,363. A detailed description of these projects is located in the Capital Improvements Section of the budget.

Debt Service

Servicing the County's debt is estimated at 19.14% percent of General Fund spending in FY16.

During FY14, Cabarrus County Schools, Kannapolis City Schools (KCS) and Rowan-Cabarrus Community College all submitted Resolutions for Issuance of General Obligation Bonds. The Board offered to fund $23 million in Kannapolis City School needs for a middle school via other financing sources should they resolve to pull out of the referendum. The deadline to do that was May 31, 2014. KCS pulled their request from the referendum. The Board approved $20 million for two projects for General Obligation Bonds — $11 million for a replacement for Royal Oaks Elementary School and $9 million for the Advanced Technology Center for Rowan-Cabarrus Community College. The voters approved to issue all $20,000,000 on the November 2014 ballot.

The Bond, with a projected issue date of March 2016, will include Royal Oaks, Advanced Technology Building and Kannapolis Middle School. The debt service for these project will begin in FY 17. The County has advanced architect and engineering fees so that systems can obtain them in time for the selling of the debt, as required by the Local Government Commission. This should handle the current round of schools.

Conclusion

The spending levels specified in the Five-Year Financial Plan are growing, as is the community they serve. The plan provides for the opening of five new educational facilities at all levels and strives to meet the growing needs of the County, the school systems and the community college, while maintaining adequate General Fund reserves and a reasonable tax rate.

The County and the schools have many capital and deferred maintenance needs. The FY17 budget will begin to address these needs by identifying them, establishing an estimate for them and determining a funding source to pay for them. The presented five-year plan addresses many operational needs of all the County facilities, but falls short on the capital side. As we continue to work together and develop a plan, we can begin to address the substantial needs of our fast growing community.

As a final note, it is important to mention that revenue projections in these plans assume continuing improvement in the economy. In the absence of such improvement, considerable adjustments will be required.

Final Five Year Financial Plan

GENERAL FUND

Budgeted Revenues for:	2016	2017 (Revaluation Year)	2018	2019	2020
Amended Budget less one time revenues from the previous fiscal year	**$ 206,806,765**	**$ 218,591,741**	**$ 229,420,900**	**$ 233,366,026**	**$ 237,414,163**
Ad valorem					
Change resulting from Revaluation (6% growth)	-	6,661,494	-	-	-
Growth in tax base (1.7%FY16) (1.5% FY17-FY20)	4,412,991	2,246,401	2,391,467	2,439,251	2,488,233
Other Taxes					
Growth in Sales taxes (16.9 % in FY 16, 2-3% FY17-20)	6,170,547	1,283,207	881,136	898,758	916,734
Permits & Fees					
Ambulance Fees (0% FY16) (1% growth FY17-FY20)	-	44,625	45,072	45,522	45,978
Building Inspection Fees (10% growth)	419,996	286,947	315,642	347,206	381,927
Register of Deeds Fees (5% growth)	283,200	106,485	111,809	117,400	123,270
Other	498,242	200,000	200,000	200,000	200,000
Increase (Decrease) in other Revenues	-	-	-	-	-
Total Re-occurring Revenues	218,591,741	229,420,900	233,366,026	237,414,163	241,570,305
One Time Revenue Sources					
Lottery Proceeds	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Fund Balance Appropriated	-	-	-	-	-
Total One-time Revenues	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total Revenues	**220,591,741**	**231,420,900**	**235,366,026**	**239,414,163**	**243,570,305**
Budgeted Expenditures for:					
Amended Budget less one time expenditures from the previous fiscal year	**$ 206,365,834**	**$ 216,509,422**	**$ 228,413,352**	**$ 232,528,750**	**$ 234,647,831**
County Services					
Compression Study Implementation	831,400		-	-	-
New Position Request	1,327,188				
EMS transition of 75% staff 24 hours/12 hour shift	473,064	474,913			
Staffing Increases - Midland Library		72,135			
Merit increase - 1.25% average Increase	631,000	648,058	666,014	684,455	703,405
Cost of Living Adjustment - FY 2016 is .5, 1.5 thereafter	251,000	766,177	787,433	809,207	831,612
Restore Health Insurance Funding to FY14 level	1,300,000				
Workers Compensation	483,444				
Public Safety Study Implementation (estimate)	250,000				
Operating (misc., not captured in other categories)	237,100		-	-	-
Debt					
Retirement of Debt Service	(1,967,948)	(1,492,783)	(1,412,649)	(1,947,581)	(2,624,069)
Qualified School Construction Bonds	1,330,000				
New Debt for Education (estimate)	1,000,000	8,000,000			
Schools					
Additional Current Expense Funding	2,403,100	4,900,000	4,000,000	2,575,000	2,800,000
Other					
Annualized cost of restored funding, Dec 2014	571,253				
CHA Funding request	297,956				
Increases/Decreases in Incentive Payments	(896,380)	(1,464,570)	74,600	(2,000)	(3,000)
Increase (Decrease) in Contingency	1,621,411	-	-	-	-
Total Re-occurring Expenditures	216,509,422	228,413,352	232,528,750	234,647,831	236,355,779
Funding for Capital Projects/ One-time Expenditures					
Capital Improvement Plan - Education - General Fund	1,220,000	1,220,000	1,220,000	1,220,000	1,220,000
Capital Improvement Plan - County - General Fund	1,360,363	-	-	-	-
Capital Improvement Plan - Schools - FMD	1,501,956				
Total Capital/One-time Expenditures	4,082,319	1,220,000	1,220,000	1,220,000	1,220,000
Total Expenditures	**$ 220,591,741**	**$ 229,633,352**	**$ 233,748,750**	**$ 235,867,831**	**$ 237,575,779**
Revenues over (under) Expenditures	**$ (0)**	**$ 1,787,548**	**$ 1,617,276**	**$ 3,546,332**	**$ 5,994,526**
Estimated Unassigned Fund Balance (changes)	**$ -**	**$ 1,787,548**	**$ 3,404,823**	**$ 6,951,155**	**$ 12,945,680**
Property Tax Rate	**$0.70/ 100**	**$0.70/ 100**	**$0.70/ 100**	**$0.70/ 100**	**$0.70/ 100**
Total Debt Service Payments	$ 42,592,236	$ 49,099,453	$ 47,686,804	$ 45,739,223	$ 43,115,154
as a % of Current Budget	19.67%	21.50%	20.51%	19.49%	18.24%