May 19, 2003

Cabarrus County Board of Commissioners
65 Church Street, South
Concord, North Carolina 28025

Honorable Chairman and Board Members:

Presented herewith is the proposed 2004 budget for Cabarrus County. Totaling $129,611,154, it seeks to achieve the goals and commits to the priorities that you- the county's elected leaders- established following my appointment as your chief executive.

At your work session in January you identified several goals; some short and others longer-term in nature. Since then, the county staff and I have presented you with a great deal of information that you then discussed and analyzed. As a board, you formulated strategies for some goals, and for others, more work remains.

Most of the goals you established have a direct effect on the budget in that they either cost money to achieve or have a bearing on how much money may be spent. A brief description of those goals follows, along with pertinent information regarding their budgetary implications.

Goal No. 1: Retain the current property tax rate of 56 cents per $100 of value

You agreed the current property tax rate is fair and reasonable and that county expenditures and levels of service should be based on the amount of revenue such a rate produces.

The weak economy's affects on property tax and other revenues (e.g., sales tax receipts) make this a challenging goal, particularly when considering the cost of achieving the additional goals which follow.

However, the proposed general fund budget of $126,055,500 for fiscal year 2004 meets that challenge by relying on four key elements:

- Reducing expenditures by $1.8 million
- Appropriating $5.3 million from the capital reserve fund
- Appropriating $6.3 million from fund balance
- New revenue of $4 million from the third half-cent sales tax

The third half-cent local option sales tax, which was approved in March, becomes effective in July 2003. The revenue this new tax will produce offsets a similar loss first suffered in fiscal year 2003. That is when the General Assembly eliminated reimbursements to local governments for lost revenues that resulted from changes in tax laws in the late 1980s. As you know, the loss of these revenues in 2003 was balanced only after cutting the budget significantly and appropriating additional fund balance.

Goal No. 2: Maintain the county's sound fiscal condition

Good management practices and the county's conservative financial and budgetary policies (see page 27) are the foundation of its long-standing sound fiscal condition. Chief among those policies is one that establishes a goal of retaining a fund balance equal to at least 15 percent of general fund expenditures. Such a fund balance assures adequate cash-flow, generates interest income, assists in maintaining an investment-grade bond rating and sustains operations during emergencies and disasters.

Achieving goals 1 and 2 year after year requires planning and discipline. Accordingly, this proposed 2004 budget introduces a **Five Year Financial Plan** created specifically for that purpose (page 49). This plan addresses your stated priorities and goals, including providing adequate resources for education, opening three new schools, constructing a new jail and maintaining a property tax rate of 56 cents.

It also anticipates continuing all existing county programs at current service levels. The Five Year Financial Plan includes projections for the General Fund as well as the Solid Waste Enterprise Fund and Arena and Events Center Special Revenue Fund. Capital spending, shown in the Five Year Financial Plan as a lump sum, is described in the Capital Improvements Plan (CIP) beginning on page 257.

Please note capital spending is meager through 2006. However, by 2007, nearly $6 million is available for capital projects, including long-delayed park improvements (see the CIP, page 258). By 2008, $7.5 million is projected to be available for capital projects.

Spending levels specified in the Five Year Financial Plan also maintain adequate general fund reserves. As shown in the table below, the fund balance dips below the county's target number of 15 percent only in 2005 and 2006.

Fiscal Year	2004	2005	2006	2007	2008
Revenues	114,394,673	131,230,553	136,878,353	142,499,433	148,424,621
Expenditures	126,055,500	133,980,081	138,083,605	139,457,689	145,793,392
Unreserved Fund Balance	19,000,000	19,250,472	20,045,220	23,086,964	25,718,193
As a % of Expenditures	15.07%	14.37%	14.52%	16.55%	17.64%

It should be noted that the Five Year Financial Plan does not assume any new debt beyond that to which you have already committed (i.e., certificates of participation for the three new schools already mentioned and a new jail). Additional projects requiring debt service will require an increase in the property tax rate or further postponement of already delayed capital projects scheduled for 2007 and 2008.

Goal 3: Fund construction of the next projects scheduled in the school systems' capital building plans – the replacement for Bethel Elementary, a new elementary school on Pitts School Road, a new middle school in Kannapolis, additions to two elementary schools in Kannapolis and school-park athletic facilities at each

As previously mentioned, the Five Year Financial Plan includes construction of these projects. Certificates of participation totaling about $45 million will be sold in July 2003. The budgetary impact of the debt service will be delayed one year by capitalizing the interest. The new Bethel Elementary School will open in August 2004. The additional two schools will open one year later.

Goal 4: Review county employee compensation program

The county's employee compensation program consists of several elements. Among them are annual cost-of-living pay raises based on the consumer price index (rounded down to the nearest 1/2 %), annual merit and development pay raises based on performance and biannual adjustments to the salary schedule based on labor market studies.

The proposed budget for fiscal year 2004 includes a cost of living pay raise of 2 percent in accordance with the policy described above. Based on an ordinance you adopted in January, the proposed 2004 budget does not include funding for merit and development pay raises or for a labor market study and potential compensation adjustments that might result. Those compensation plan elements were suspended for fiscal year 2004 due to economic conditions.

The county staff will assist you in your anticipated review of the employee compensation plan in fiscal year 2004. Any changes could then be implemented in 2005.

Goal 5: Plan and construct a jail and justice center to meet the county's current and future needs

This goal resulted from a study completed in May 2002 that projected space requirements for the sheriff's office and jail for a 15-year period. The existing jail, designed to house 142 inmates, now often has at least 200 occupants.

Because of continuing steep growth trends, current site constraints and the sizable public investment to construct a new facility, you agreed it would be more prudent to consider jail space requirements for a 40 to 50 year period. You also agreed that court facility needs should be considered along with jail space.

You approved a phased planning and construction process, beginning with the immediate need of an expandable jail (and perhaps sheriff's office). The expanded court facilities would likely follow in 5 to 10 years.

Selection of an architectural firm for the project is expected by June and construction of the jail should begin in 2004. Certificates of participation will be sold that same year, but the budgetary impact of the debt service will be delayed until fiscal year 2006 by capitalizing the interest.

Goal 6: Generate sufficient revenue at the Cabarrus Arena and Events Center to pay its own expenses

According to *County Government in North Carolina* (1998, Institute of Government, UNC Chapel Hill, pp. 983), facilities like the Arena and Events Center are rarely "…fully self supporting from the revenues of the activities and events presented in them. A facility is usually considered financially successful if it produces enough revenue to cover operation and maintenance costs."

Not surprisingly, the Arena and Events Center budget for fiscal year 2004 is balanced using a contribution of $892,714 from the general fund. This contribution marks a considerable improvement over fiscal year 2003, which required a general fund contribution of more than $1.5 million. The proposed 2004 budget drops the contribution by 43 percent compared to 2003.

The Five Year Financial Plan (page 49) shows continued improvement in the Center's revenues with a diminishing general fund contribution each year through 2007. In 2008, the Arena and Events Center is expected to generate its first operating surplus, totaling about $162,000.

It would be prudent to allow surplus revenue to accumulate in the Arena and Events Center special revenue fund, rather than to transfer it back to the general fund for payment of debt service or repayment of previous transfers. Those accumulated revenues could be used later for large future expenses such as replacement of mechanical systems, roofs and building improvements.

The projection of an operating surplus by 2008 is based on the Arena and Events Center staff working diligently to increase sales. A study intended to assist in that effort was recently completed by KPMG. The author of that study will present her findings to you and the staff soon.

Goal 7: Develop new economic development strategies

In February, you voted unanimously to develop a multiyear contract with the Cabarrus Economic Development Corporation (EDC). The contract will set forth agreements for creating new, targeted marketing strategies, for generating private sources of revenue, and for implementing performance measures. I expect to present a draft of the contract in a few weeks for discussion.

The proposed budget for 2004 includes a contribution to the EDC of $438,835, matching the contributions from 2002 and 2003. The Five Year Financial Plan assumes the same contribution will be made each year.

Also, you have identified the development of tourism as a significant economic development strategy. Accordingly, the county staff, particularly that of the Arena and Events Center, has been working closely with the Cabarrus County Convention and Visitors Bureau (CVB) in an effort to bring more tourists and visitors into the county.

Clearly, you recognize that the Arena and Events Center is itself an investment in economic development and tourism. The CVB agreed and in April its Board of Directors voted to contribute $750,000 to help the county fund improvements there.

The proposed budget for the CVB is on page 143. While the CVB is separate from the county organizational structure, the enabling legislation for its creation requires that you review and approve its budget. Funding for the CVB is generated by a 5 percent hotel occupancy tax that you levy.

The CVB Board has requested that you increase the occupancy tax from 5 percent to 6 percent to help pay for the construction of a convention center. As a step toward your goal of developing new economic development strategies, I recommend honoring that request. My recommendation is with the condition, however, that the CVB contribute at least $100,000 a year to the Arena and Events Center. Given its impact on the local economy, sharing this tax revenue to help operate and improve the Arena is appropriate and is a valuable investment.

The seven goals described above are developed to a sufficient extent that budgetary implications may be projected with a reasonable degree of certainty. You have also identified several additional goals for which that is not the case. The impact of some will likely be minimal. Others, however, could be several million dollars, depending on the directions you choose. The county staff will continue to assist you by providing more information and options as you work through them over the next several months.

Following is a list of those additional goals:

- Explore opportunities for consolidation of services with other local governments.
- Identify and address transportation issues.
- Develop a countywide utility policy.
- Adopt the Eastern Area (land use) Plan.
- Assist the Town of Harrisburg and Harrisburg Volunteer Fire Department and Rescue as they pursue the creation of a municipal fire department.
- Identify and address solid waste issues.

Beyond the goals already mentioned and discussed, more issues emerged from your April 30th work session. They include growth management (particularly as related to school population increases), air quality and regional planning efforts.

The county's continued rapid population growth, even in the midst of a weak economy, requires action to address these many issues. The consequences of when and how thoroughly they are addressed will reach well into the future.

I hope you have found helpful my decision to align the preceding budget summary to your stated goals. More detailed descriptions and comparisons of spending and revenues for fiscal year 2004 are available in the Budget Summary section beginning on page 23. You will also find thorough explanations of county programs and services throughout the budget document.

As mentioned earlier, I have added a new and important feature to the budget this year – a Five Year Financial Plan. As the demand on the county's resources becomes greater and greater, it is critical that we plan how we will allocate those resources for several years into the future. The Five Year Financial Plan illustrates how each year's spending affects the next and is compounded over several years. I think the plan will become a valuable tool to guide you in making well-informed and reasoned decisions as you lead Cabarrus County to an exciting and prosperous future.

I know you join me in recognizing the high degree of dedication and expertise exhibited by county employees. My heartfelt thanks goes out to them; they have made an extraordinary effort to assist me during the last four and a half months since I began serving as your county manager. I tremendously appreciate their support.

I also appreciate the efforts of the many people who contributed to the preparation of this document. You should know that I asked the department directors to develop budgets that reduce spending while still achieving their missions. They did, and I thank them.

As usual, the budget staff has performed excellent work. I offer my gratitude to Cathie Straub, budget officer, and Becky Crabtree, budget analyst. Special thanks go to Pam Dubois, finance director, Susan Fearrington, assistant finance director and Shelley Farris, accounting operations supervisor for their efforts in preparing the Five Year Financial Plan.

Finally, I wish to thank you for the opportunity and the guidance you have given me. I am proud to serve as your chief executive, and humbled by the confidence you have placed in me. I look forward to reviewing this very important planning document with you.

Respectfully submitted,

John D. Day
Interim County Manager