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I. Introduction

As the Manager and Budget Officer for Rowan County, it's a true honor to present the proposed operating budget of the General Fund for the Fiscal Year 2023 (FY 2023). The requested expenditures for the General Fund total \$214,188,610, a 23.66% increase of \$40,974,118 over last year's budget.

The requested \$40,974,118 includes a \$6,178,000 capital request for education.

The recommended FY 2023 budget is in the amount of \$187,778,660, an 8.41% increase of \$14,564,168 over last year's budget. The recommended budget is balanced and prepared in accordance with the Local Government Budget and Fiscal Control Act.

This budget message summarizes the attachments, budget workbook, and budget ordinance.

II. Revenue

This section is a general summary of the revenue recommended in Schedule 1.

Property Tax

The projected tax base for FY 2023 is \$14,200,000,000 and includes real property, personal property and vehicles, with a tax collection rate of 97.00%, an increase from last year's rate of 96.50%. This is a 2.08% increase over last year's \$13,900,000,000 tax base.

The recommended tax rate for FY 2023 remains the same at 65.75 cents.

Sales Tax

Of the seven cents of sales tax charged on purchases in the County, Rowan County Government receives 2½ cents. In addition, the County receives an allocation of Article 44.524(c) sales tax, which is restricted for education and economic development expenditures. The County shares proceeds with the municipalities in the amount of \$4,500,000 for the hold harmless provision in the Medicaid Relief Swap Project initiated by the State in FY 2008. The Article 46 ¼ cent sales tax, approved by the voters in the November 2010 referendum, is dedicated to public safety.

For FY 2023, the recommended budget includes projected sales tax revenue at \$33,700,000, an increase in sales tax of 13.57%, or \$4,027,000 over last year's budget. This projection makes up approximately 17.95% of the overall revenue.

Fiscal Year 2022's budget was conservative because of the unknown implications that COVID-19 would have on spending. COVID-19 and inflation are two major concerns for FY 2023 and their impact on spending and sales tax remains unclear. Rising prices increase the sales tax earned, but rising prices could decrease spending capacity. This projection, though large, is still less than the annualized FY 2022 projection of \$35,650,000 by \$1,950,000.

The FY 2023 recommended budget includes an increase of \$5,127,000, or 15.50%, net of the municipal hold harmless of the original projection in FY 2022. This is a \$1,539,207, or 4.79% increase of the 2021 actual.

As outlined in the North Carolina General Statutes, the local option ½ cent sales tax known as Article 40 (enacted in 1983) requires that 30% of the proceeds be restricted for public school capital outlay; the local option ½ cent sales tax known as Article 42 (enacted in 1988) restricts 60% of its proceeds for the same purpose. Staff estimates that these restricted revenues will provide \$7,500,000 to Rowan County for School Capital. The recommended debt service for schools far exceeds the restricted proceeds, and all but \$1,000,000 of the restricted proceeds will be allocated for the retirement of debt associated with school construction.

Lottery Revenues

In the past, State law required 40% of lottery proceeds to be set aside for school construction. In the 2013 North Carolina Legislative Session, this 40% earmark was eliminated. Now, 100% of the funds are paid to the State to be appropriated to the counties at its discretion. The recommended County budget includes \$1,300,000 in lottery funding to pay school debt payments as promised with the lottery approval in 2005.

Fees

This budget recommends increasing fees in the Inspections Department, the Fire Division, the Planning & Development Department and the Parks Department by a total of \$298,950. A detailed fee schedule adjustment can be found in Attachment 3.

Fund Balance

All local governments in North Carolina maintain a fund balance to provide cash flow, in part because property taxes, the largest revenue source for local governments, do not become due until January 5th of each fiscal year. The FY 2023 recommended fund balance appropriation to balance the budget is \$9,327,527.

This is \$3,107,235 less than last year's approved fund balance appropriation of \$12,434,762, or a 24.99% decrease. However, there is \$650,000 in contingency, which is \$500,000 more than last year.

Summary

As positive as this appears, please reference Section IV. Revaluation and Taxes for a possible scenario that is not positive.

III. Expenditures – (A) Departmental

This section is a general summary of the expenditures recommended in Schedule 2.

A - Capital

One-time Capital Expenditures

The recommended budget includes \$2,275,054 for large one-time capital items, as listed below:

<u>Item</u>	<u>Cost</u>	<u>Funding Source</u>
Animal Shelter Road	\$ 430,054	General Funds
Information Technology Storage	250,000	Article 46 Sales Tax
Foam Trailer / Fire Department	240,000	Article 46 Sales Tax
Tennis Court Renovations	155,000	General Funds
Library Roof	450,000	ARPA Funds
Facilities Roof	<u>750,000</u>	SCIF Grant and General Fund
Total	<u><u>\$2,275,054</u></u>	

West End Plaza

The debt service budget lines for DSS renovation principal and interest were \$536,060 in FY 2019. In FY 2019, the last debt service payment for this Project was paid in the amount of \$261,240. The reduction in those budget lines of \$274,820 was recommended in the FY 2019 budget to increase the transfer to the West End Plaza Capital Projects Fund (Fund 317) from \$615,000 to \$889,820.

The FY 2020 budget recommended that the remaining reduction for DSS renovation principal and interest, and Town Creek Water Project reduction, be transferred to Fund 317. This resulted in a transfer of \$1,299,820 in FY 2020. The FY 2021 budget recommended a transfer for \$1,440,160 to the West End Plaza Capital Projects Fund (Fund 317). The FY 2022 budget recommended a \$1,753,660 transfer to fund 317.

The FY 2023 budget *does not* recommend a transfer to fund 317.

FY 2019 Balance	\$ 1,532,998
FY 2020 Transfer	1,299,820
FY 2021 Transfer	1,440,160
FY 2022 Transfer	<u>1,753,660</u>
Total	<u>\$ 6,026,638</u>

Vehicles

The proposed budget includes 22 vehicle purchases, at a purchase cost of \$1,854,530 for the departments as follows:

<u>Department</u>	<u>Vehicles</u>	<u>Estimated Cost</u>
Emergency Services	4	\$ 1,052,000
Transit	3	217,831
Sheriff	15	<u>584,699</u>
Total	<u>22</u>	<u>\$ 1,854,530</u>

**The only vehicles purchased using current operating funds total \$21,783. Ninety percent of the transit vehicles' expense will be reimbursed to the County through the DOT CTP Capital Grant. The remainder will be paid for with Article 46 1/4 cent Sales Tax Restricted Fund Balance.*

B – Operational Expense Highlights

Health Insurance

The County's self-insured employee health plan is budgeted at \$1,000 per employee per month for all full-time employees. This recommendation is a \$90 increase per employee per month for FY 2023. The estimated overall increase to the budget is \$933,735.

Proposed Position Upgrades and Career Development

Human Resources examined ten (10) departments this year for reclassifications: Animal Services, Building Inspections, Environmental Management, Register of Deeds, Parks Part-Time, Library, Health Department, Emergency Services, County Manager's Office, Human Resources. The goal is to conduct such an examination on a third of the employees each year. As previously applied, the Cost of Living Adjustment will be made to the new recommended pay. The FY 2023 budget recommends approving these reclassifications as described in the budget details of each department listed below. The

total cost to the County for the reclassifications, including fringe benefits, is approximately \$1,261,648. Schedule 8 provides a list of each recommended change.

Below is the increase by department:

<u>Department</u>	<u>Salary</u>
Animal Services	\$ 105,810
Building Inspections	99,550
Environmental Management	205,110
Register of Deeds	84,400
Parks Part Time	43,920
Library	212,850
Health	152,150
Emergency Services	329,300
County Manager Office	26,038
Human Resources	2,520

Proposed New Full-time Positions

During this year's budget process, Department Directors and Elected Officials requested 58 new positions at a cost of \$2,750,889. Schedule 4 provides a list of requested positions and their estimated cost.

The FY 2023 budget recommends approving the following positions.

<u>Department</u>	<u>Title</u>	<u>Cost</u>
Inspections	Building Inspector	\$ 99,581
Planning	Long Range Planner	79,941
Animal Services	Animal Keepers (2)	87,558
Animal Services	Veterinary Assistant (4)	125,116
Animal Services	Part time Shelter (11)	<u>116,622</u>
Total Increase		<u>\$ 508,818</u>

Employee Cost-of-Living Adjustment (COLA)

The Cost-of-Living Adjustment (COLA) represents many months of research and analysis. I firmly believe this recommendation should be approved to continue to provide the County's important services to the citizens who pay taxes.

Consumer prices rose “8.3% in April from a year ago, remaining near 40-year highs”¹.

Between 1980 and 1984 the Rowan COLA for employees averaged 5% with 4.5% being the lowest and 7.5% being the highest. Over the last 40 years the Social Security COLA cumulative would equal 130%;

December of (Year)	CPI	Social Security		Rowan County	Effective
1980	12.5	14.3		4.5%	FY 81-82
1981	8.9	11.2		4.5%	FY 82-83
1982	3.8	7.4		4.5%	FY 83-84
1983	3.8	3.5		7.5%	FY 84-85
1984	3.9	3.5		5.0%	FY 85-86

during the same time frame, Rowan

County Employees COLA cumulative is equal to 100%. Interestingly the highest COLA in the last 40 years of 7.5% came in 1983 — three years after the annual Social Security COLA was 14.3% and Consumer Price Index (CPI) was 12.5%. In 1983, the COLA for Rowan County Employees was more than double Social Security’s 3.5% at 7.5%.

The county may have been trying to catch up with inflation in the early 80s. With unprecedented economic growth we must stay competitive with like communities. As of April 19, 2022, Rowan County Government had 89 vacancies of which 36 are public safety positions. In a report generated approximately 1 year ago there were only 38 vacancies county-wide, of which only 7 were public safety positions. Last year the Social Security COLA was 5.9% while Rowan County’s was 3%. Moreover, those on Social Security “could receive an 8.6%”² increase this year according to a policy analyst from the Senior Citizen League.

This budget recommends a 9.4% COLA effective July 1, 2022. Further, in November 2022, if the Consumer Price Index exceeds 9.99% over the past year, then an additional 1.6% COLA will be effective January 1, 2022.

If this budget is approved as presented, this shall apply to every County employee and official, including seasonal, part-time, temporary, elected and appointed. This shall include but is not limited to the Board of Commissioners, County Attorney, County Manager, Clerk to the Board, Sheriff, Register of Deeds, Health Board, Social Services Board, Board of Education and Elections Board.

In addition, this budget recommends a 14.2% adjustment to the Board of Education per their request as attached in Schedule 9. The passage of this budget authorizes the Board of Education to increase their stipend as requested from \$350 per month to \$437, with an

additional 9.4% COLA applied to equal \$478 per month. The recommended budget will also authorize the Board of Education to receive a monthly travel stipend of \$114 in lieu

¹ Cox, J. (2022, May 2011). *Inflation barreled ahead at 8.3% in April from a year ago, remaining near 40-year highs*. CNBC. Retrieved May 11, 2022, from <https://www.cnbc.com/2022/05/11/cpi-april-2022.html>

² Davidson, P. (2022, May 13). *Social Security cost-of-living raise could lift benefits 8.6% in 2023 as inflation spikes, most in 41 years*. USA Today. Retrieved May 13, 2022, from <https://www.usatoday.com/story/money/2022/05/13/cola-2023-social-security-cost-living-boost-inflation/9762924002/>

of the \$83 per month reimbursement. Further the budget will authorize the Board of Education's training allotment to increase from \$145 per month to \$166 per month with an additional 9.4% COLA applied to equal \$181 a month.

Longevity Plan

The FY 2023 budget recommends the continued implementation of an on-going Longevity Program with an appropriation of \$521,132. This will address current and on-going salary compression issues by recognizing and rewarding employees for their length of service. The program will run annually and independently from other types of increases that may be implemented in any given year, such as cost-of-living adjustments. The formula will be applied to pay after other increases. All eligible employees will receive between 0.5% and 2.0% longevity pay in FY 2023, to take effect in July 2022.

The Longevity Program increases an employee's salary base pay based on the following formula:

0.5% increase for benefitted employees with at least one (1), but less than five (5), continuous years of service as of June 30th

1.0% increase for benefitted employees with at least five (5), but less than ten (10), continuous years of service as of June 30th

1.5% increase for benefitted employees with at least ten (10), but less than fifteen (15), continuous years of service as of June 30th

2.0% increase for benefitted employees with at least fifteen (15) continuous years of service as of June 30th

The above formula for part-time benefitted employees will be pro-rated based upon average hours worked per week.

Special Appropriations to Non-County Agencies

Annually, many agencies and non-profit groups request funds from Rowan County to provide their services. These special grants and appropriations are made on an annual basis with consideration to continue the funding. A complete listing of the requests can be found in Attachment 5.

Article 46 Sales Tax Expenditures

The recommended budget includes expending \$5,910,379 million in Article 46 sales tax on public safety. This is based on a projected \$4,500,000 in revenue. With an estimated balance of \$1,714,531 the remaining fund balance for Article 46 is estimated to be approximately \$304,152.

ARPA Expenditures

The recommended budget includes expending \$14,666,477 in American Rescue Plan Act (ARPA) funds on combating COVID-19, infrastructure investments and economic impacts. The remaining available ARPA funds are estimated to be \$7,898,177. The projected expenditures are as follows:

Public health detection, prevention, safety	\$ 1,179,340
Broadband	1,987,137
Infrastructure (clean water)	1,500,000
Revenue replacement (economic impact)	<u>10,000,000</u>
 Total estimated expenditures	 <u>\$ 14,666,477</u>

III. Expenditures – (B) Education

Education

Rowan County Schools make up approximately 32.05%, or \$60,185,936, of the recommended County budget. This includes \$47,634,936 for operating, and \$12,551,000 for debt service. Operating costs consist of current expense and recurring capital.

	<u>FY 2022 Original Budget</u>	<u>FY 2023 Requested Budget</u>	<u>Difference in Requested and Original</u>	<u>% Increase</u>
RCCC	\$ 4,114,073	\$ 14,118,637	\$ 10,004,564	243.18%
Rowan-Salisbury Schools	36,729,614	41,744,303	5,014,689	13.65%
Kannapolis City Schools	2,604,726	7,728,000	5,123,274	196.69%
Charter Schools	<u>1,907,271</u>	<u>1,907,271</u>	<u>0.00</u>	0.00%
 Total	 <u>\$ 45,355,684</u>	 <u>\$ 65,498,211</u>	 <u>\$ 20,142,527</u>	44.41%

The total recommended amount to be paid directly to Rowan County Schools in the FY 2023 budget is \$47,634,937, a 5.03%, or \$2,279,253 increase.

	<u>FY 2022 Original Budget</u>	<u>FY 2023 Recommended Budget</u>	<u>Difference in Recommended and Original</u>	<u>% Increase</u>
RCCC	\$ 4,114,073	\$ 4,278,636	\$ 164,563	4.00%
Rowan-Salisbury Schools	36,729,614	38,227,414	1,497,800	4.08%
Kannapolis City Schools	2,604,726	2,890,538	285,812	10.97%
Charter Schools	<u>1,907,271</u>	<u>2,238,349</u>	<u>331,078</u>	17.36%
 Total	 <u>\$ 45,355,684</u>	 <u>\$ 47,634,937</u>	 <u>\$ 2,279,253</u>	5.03%

Rowan-Cabarrus Community College

For FY 2023, the College requested \$14,118,637. This request does not include a request for funding of the project approved by the bond that was approved by the voters in FY 2020. The budget does estimate paying one semi-annual debt payment for the bond referendum in FY 2023 which increases our debt service by \$2,105,725 without increasing taxes as approved by the referendum.

Public Schools (Elementary through High School)

Current Expense

The appropriations for public schools' current expense and capital outlay are made in accordance with the projected average daily membership (ADM) of each school unit. The State Department of Public Instruction provides these estimates. The estimated average daily membership percentages for school year 2022-23 are provided below:

School System	FY 2020		FY 2021		FY 2022		FY 2023	
	Students	%	Students	%	Students	%	Students	%
Rowan-Salisbury Schools	18,701	91.8	18,679	90.1	18,402	89.0	18,396	88.1
Kannapolis City Schools	1,290	6.3	1,289	6.2	1,305	6.3	1,391	6.6
Charter Schools	376	1.9	767	3.7	978	4.7	1,104	5.3
Totals	20,367	100.0	20,735	100.0	20,685	100.0	20,891	100.0

According to State and local estimates for the average daily memberships, it is projected that Rowan-Salisbury Schools will lose 6 students, Kannapolis City Schools will gain 86 students and Charter Schools will gain 126 students.

This budget recommends that per pupil funding for current operating expenses increase by 4% over FY 2022 to \$2,027.49. Proposed current operating and capital expense and new debt service for the School Systems is summarized below:

School System	FY 2022	Total Proposed Funding for FY 2023
Rowan-Salisbury Schools (Current Operating)	\$ 35,487,883	\$ 36,910,713
Rowan-Salisbury Schools (Current Capital)	854,731	929,701
Debt Service for \$55 Million	2,524,500	3,557,000 *
Architect fees	2,100,000	-
Total	\$ 40,967,114	\$ 41,397,414

* This is the estimated amount to pay the debt service on \$55 million dollars starting April 1, 2023. If the budget is adopted as presented, this shall be considered approval of \$55 million dollars in new debt, which will increase the debt in FY 2023 in the amount of approximately \$3,557,000, subject to interest rates.

School System	FY 2022	Total Proposed Funding for FY 2023
Kannapolis City Schools (Current Operating)	\$ 2,516,666	\$ 2,792,793
Kannapolis City Schools (Current Capital)	60,614	70,299
Debt Service	487,000	481,000
Total	\$ 3,010,280	\$ 3,344,092
Charter Schools	1,907,271	2,230,092

Important Note: The annual appropriation made to the School Systems for classroom teachers' supplies, or as a separate education appropriation, is not part of the current expense funding reflected above and has been continued in the Continuation Budget.

Schools Special Appropriation

Since FY 1999, the Board of County Commissioners has appropriated a sum of County funds for the purpose of providing supplies and materials to classroom teachers, or as a separate education appropriation. The appropriation made by the Board has been in the amount of \$375,000 to Rowan-Salisbury Schools, with a comparable amount to the other School Systems based upon average daily membership (ADM). I have included the funds for this appropriation in the Continuation Budget.

Schools Capital Outlay

The Board has routinely appropriated the proceeds from the restricted portions of the local option sales taxes for debt service to the public schools for use in capital outlay and technology. It is anticipated that the following amounts will be received and be eligible for distribution in FY 2023, detailed below:

	FY 2022	FY 2023	Difference
Estimated Revenue from Article 40 Restricted	\$ 2,000,000	\$ 2,500,000	\$ 500,000
Estimated Revenue from Article 42 Restricted	4,000,000	5,000,000	1,000,000
Estimated for Principal Payments for Debt	(8,239,000)	(9,165,000)	(926,000)

Appropriation of Expanded Sales Tax Base Revenue

The recommended budget includes \$1,000,000 of the expanded sales tax to be spent on education. The funds are allocated based on ADM percentages to Rowan-Salisbury Schools, Kannapolis City Schools, and Charter Schools in the amounts of \$880,571, \$66,584 and \$52,846, respectively.

IV. *Revaluation and Taxes*

Rowan County is scheduled for revaluation during the coming fiscal year, which will be effective for the 2024 Budget. The revaluation process started in November 2021 and is expected to be 98% complete by December 1, 2022. The notices will be mailed by February 1, 2023. Staff should have preliminary estimates before Thanksgiving. According to our County Tax Assessor, based on today's economic climate our value could increase by as much as 4 billion dollars, which would create over \$20 million additional dollars in revenue. However, this estimation is subject to current economy's variability which cannot be predicted with certainty.

This budget addresses inflation and increased debt service with two one-time funding sources, while also anticipating that the revaluation will increase our revenue without raising taxes in 2024.

The larger one-time funding sources are:

1. ARPA Funding \$10,000,000
2. Property Sale \$3,053,000

These one-time funding sources are allowing the following to proceed WITHOUT a tax increase, as detailed below:

1. Bond Issuance to build the RCCC facility	\$2,105,725
2. Principal Rowan Salisbury Schools \$55 Million	\$2,750,000
3. Interest Rowan Salisbury Schools \$55 Million	\$807,000
4. RCCC Operating Expense Increase	\$164,562
5. RSSS Operating Expense Increase	\$1,497,800
6. Kannapolis Operating Expense Increase	\$285,812
7. Charter Schools Operating Expense Increase	\$331,078
8. 5 New Positions (Planning, Inspection & Animal Control)	\$508,818
9. Cost of Living Expense	\$5,657,459
10. Fuel and Utility Increases	\$1,172,257
TOTAL	\$15,280,511

We are in a unique situation where the funding is needed due to inflation, however our new values have not been set. If the new values do not create at least \$15,280,511 in new revenue, taxes will need to be raised or across the board cuts will have to be made for the FY 2024 budget.

On May 24, 2022 Billionaire Pershing Square hedge fund manager Bill Ackman said, "There is no prospect for material reduction in inflation unless the Fed aggressively raises rates, or the stock market crashes, catalyzing an economic collapse and demand

destruction.³ If a version of Ackman's prediction materializes, it is possible that we could lose up to 50% of our sales tax which would equate to approximately \$16,850,000.

Such a large loss in sales tax is likely to require very deep cuts, including the elimination of approximately 100 plus full-time positions and reduced funding to schools for years to come. In this scenario the silver lining is we currently have approximately 80+ vacant positions due to the labor shortage. This is the quandary we are finding ourselves in.

V. CONCLUSIONS FROM THE PROPOSED FY 2023 BUDGET

Rowan County is fortunate to have a professional and solid Finance Department under the leadership of Finance Director Jim Howden. Much of the credit for this budget goes to Jim Howden, Siobhan Allen, and Teresa Sharpless.

The proposed budget for FY 2023 reflects growth in property tax revenue due to small incremental growth and a sales tax revenue increase.

If you have any questions regarding the proposed budget, please contact staff or myself.

Sincerely,

Aaron Church

³ Li, Y. (2022, May 24). *Bill Ackman says a more aggressive fed or market collapse are the only ways to stop this inflation*. CNBC. Retrieved May 25, 2022, from <https://www.cnbc.com/2022/05/24/bill-ackman-says-a-more-aggressive-fed-or-market-collapse-are-the-only-ways-to-stop-this-inflation.html?&qsearchterm=ackman>