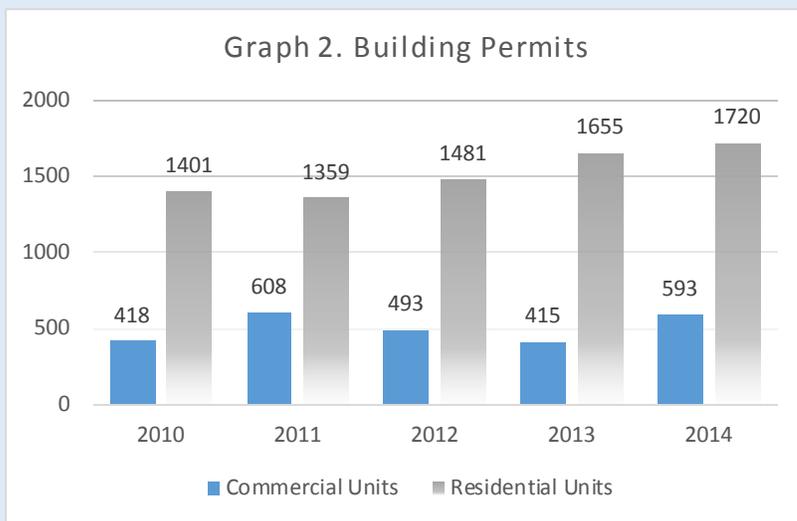
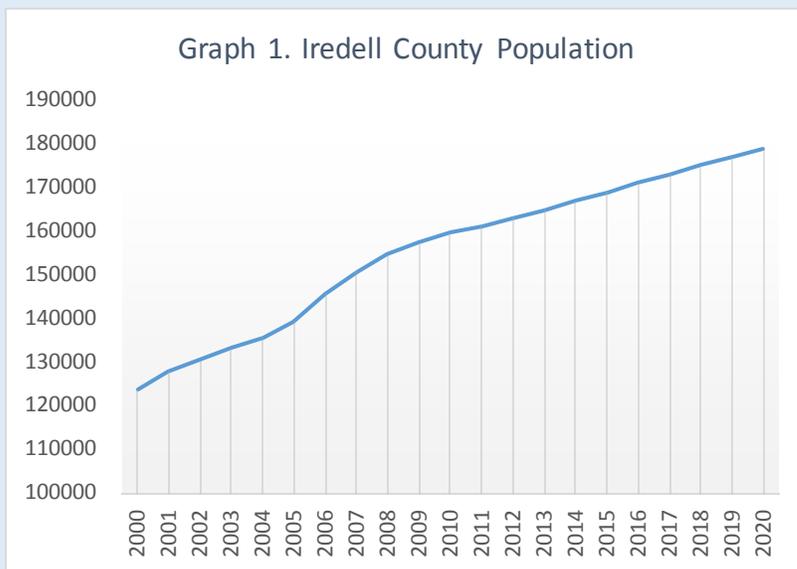


In this year of revaluation I found the results to be a good indicator of where we are overall as a County. Mooresville and South Iredell have generally seen a resurgence in development and are experiencing the associated increases in property values. Statesville and North Iredell continue to see slow-to-no development with very little overall growth in the tax base. Although our 1.63% increase in overall county tax base is less than stellar, we fared better than many NC counties whose reappraised valuations decreased. The end result is development in South Iredell is continuing to buoy the rest of the County and keep our overall growth steady.

Even through the recession Iredell County continued to grow at a fairly high rate. The steady growth identifies an important point, with new people comes an increase in the need for county services. From 2000-2015 Iredell County grew by 45,412 people. Between 2000 and 2007, assuming 2007 was the beginning of the recession, the County grew by 27,061. Since that time we have seen an increase of 18,351. This shows that although the rate slowed with the economy, it has not slowed by a significant amount.

We have transitioned over the last fifteen years from a smaller-but-growing mainly rural county to a larger-and-still-growing urbanizing county. According to the NC Office of State Budget and Management, Iredell is the 15<sup>th</sup> largest county in the State. We are firmly within the second tier of larger counties, with the first tier including the likes of Mecklenburg, Guilford, Forsyth, and Wake. This growth and transition is having an effect on the County's infrastructure and demands for services, and with what I consider conservative projections showing that Iredell will grow by another 10,000 people in the next five years those impacts will continue (graph 1).

Development activity in the southern end continues to flourish. Building permit activity has continued to grow over the last four years. Graph 2 shows the yearly increases in the number of



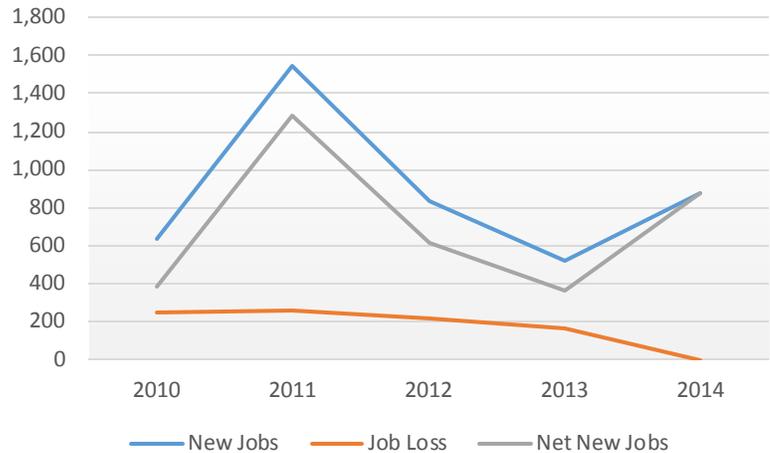
permits since 2010. The majority of this construction is residential and occurs in the Mooresville area.

Commercial and industrial development has also been on the upswing. As Mooresville continues to expand its utility infrastructure the County will continue to benefit from strong development activity. However, with growth comes more demand for public services.

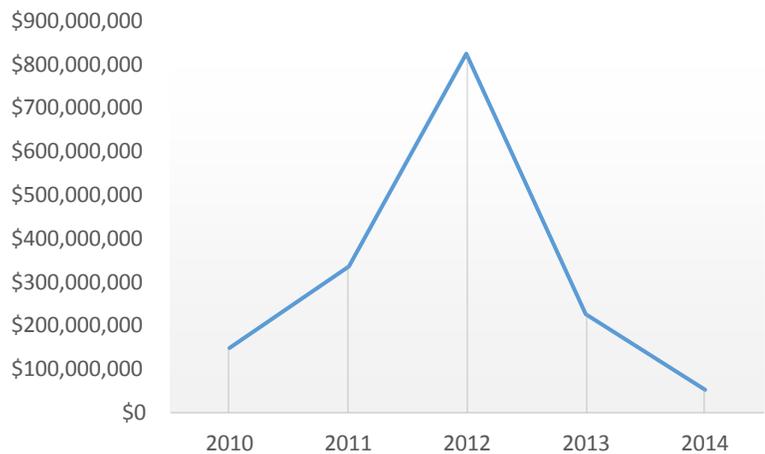
The two economic development corporations continue to be successful, adding 880 net new jobs in calendar year 2014, with an investment of over \$54,000,000 (graphs 3 & 4). Although the job creation is good news, we continue to see sporadic industrial closings, which take away from the overall impact of the new job creation. However, through it all job growth has been positive and the unemployment rate has continued to drop (graph 5).

This development has contributed to the passage of \$131,500,000 in school construction bonds in 2014. The corresponding tax increase to service this debt will be associated with the FY2016 budget. The tax rate will increase by 4.25 cents this year, with no additional increases over subsequent years as a result of the referendum. The projects will be completed in phases and the debt structure and tax rate increase have been structured to need only

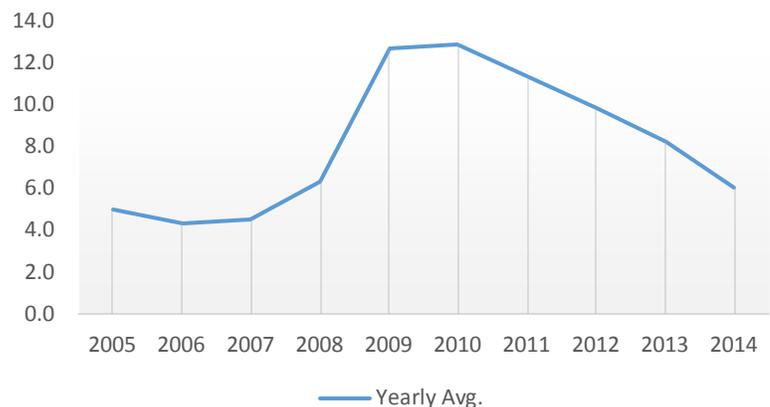
Graph 3. Net New Jobs Created



Graph 4. New Investment



Graph 5. Local Unemployment Rate



one increase in this first year. Over \$8,400,000 of the FY2016 budget is dedicated to these projects.

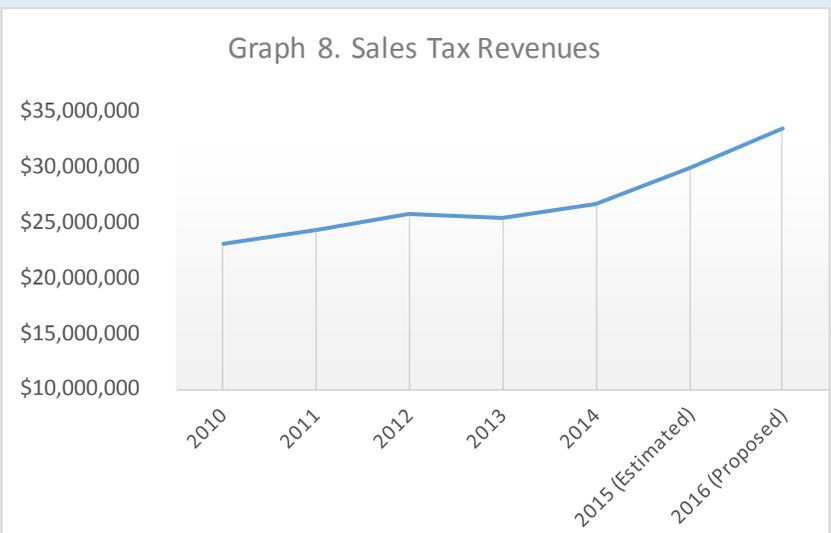
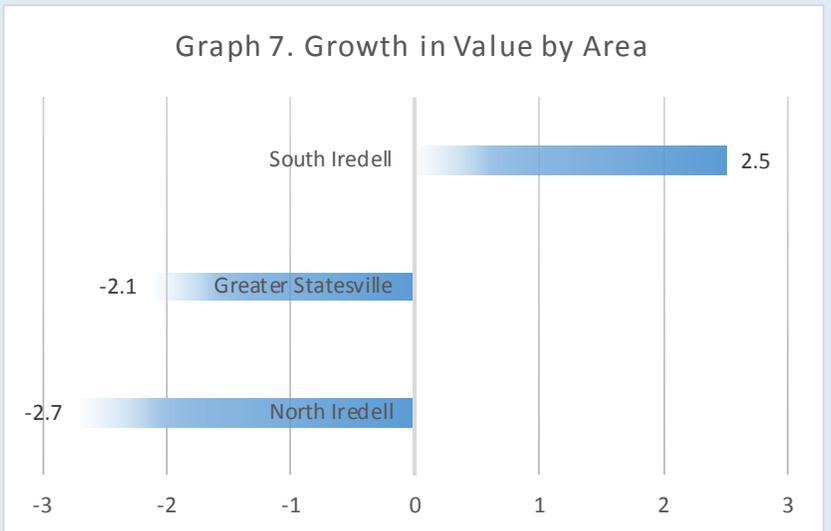
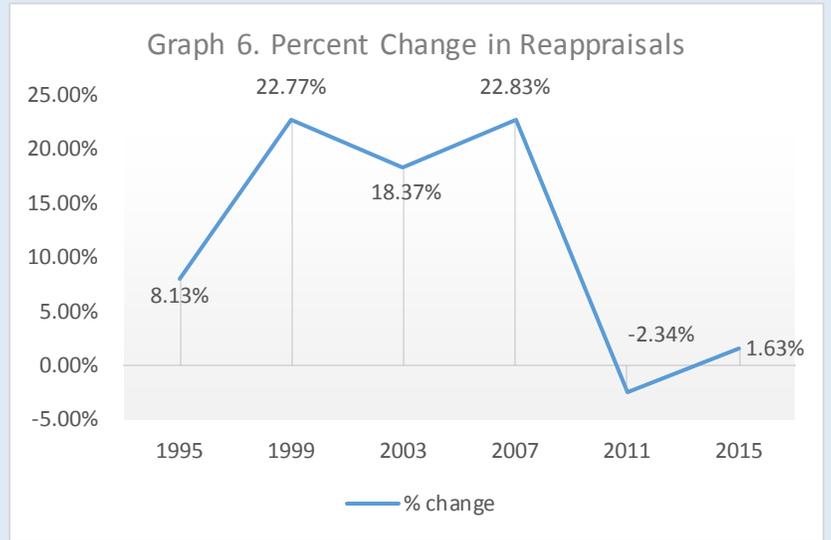
**Revenues**

As was previously stated, this year’s revaluation did not bring a major increase in overall tax values. As compared with the last five revaluations, the 1.63% realized this year is the lowest growth year since 1995 other than in 2011 when Iredell saw a loss in value of 2.34% (graph 6). However, it is important to note that the tax base has grown by 291% since 1995, from \$5.7 billion to \$21.2 billion.

Most of the growth in value was seen in South Iredell. As a percentage it was the only area of the County that saw positive results. Because the bulk of the tax base is in this area even the small percentage increase equates to a net positive result county-wide (graph 7).

Over the last year sales tax revenue was up more than 12% over the previous year. Retail sales are trending higher and have been a balancing factor to the lower growth in revenues generated from the property tax. Although this is welcome we generally do not rely on significant increases in the sales tax due to its unpredictability. We have budgeted for an 11% increase in FY2016 (graph 8).

Another significant source of income in FY2015 has been revenue generated through fees and permits

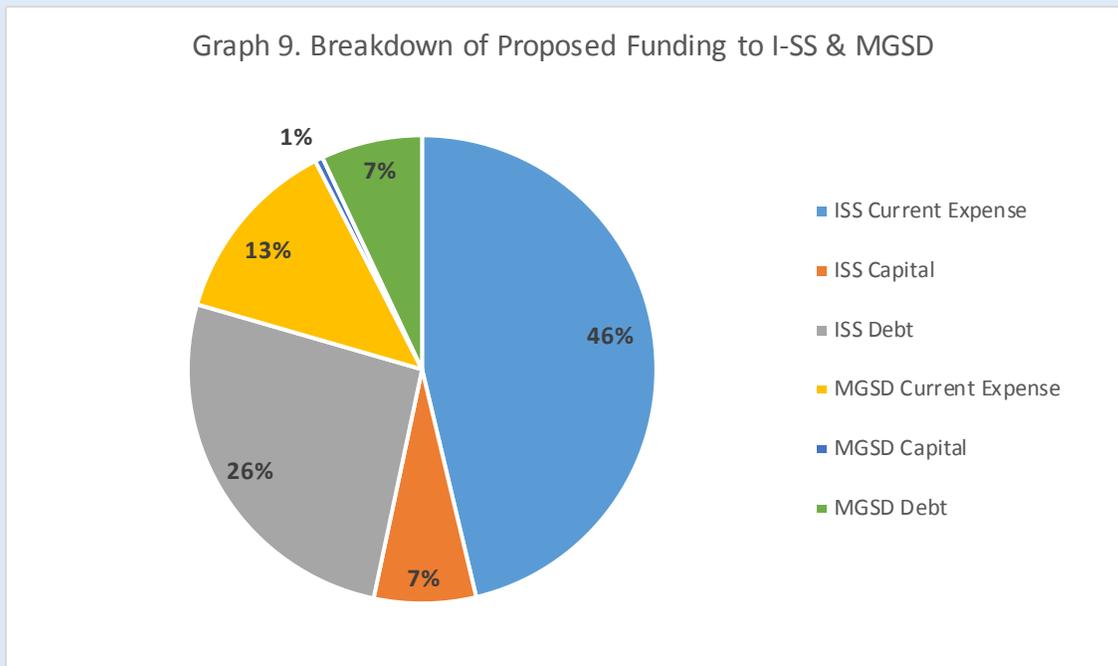


associated with new development. Overall, this source of income was up by 29% and we anticipate the extension of a sewer trunk line by the Town of Mooresville and the development of several significant projects in the upcoming year will drive that number higher yet again.

**Expenditures**

I am proposing an overall 10.51% increase over last year’s budget. The largest driver of this increase is the school construction projects associated with the 2014 bond referendum. This, in addition to a sizable increase to the capital and operating budgets of the three school systems; efforts to address employee compression, retention and recruitment; and an overall increase in the demand for county services have all been major influences in the FY2016 budget development.

Iredell County’s budget is dominated by contributions to the three education systems. Five percent of the overall increase in the budget is due to the bonds. When combined with the growth in the “normal” school contributions (current expense, recurring capital, and debt) proposed for the three systems, that increase goes to 6.5% of the overall growth. Overall, education will comprise 46.62% of the FY2016 budget. The per pupil funding for both I-SS and MGSD will increase from \$1,433 to \$1,495, growing by 4.2%. This equates to a current expense increase of \$1,538,534 for I-SS and \$486,790 for MGSD. Overall, I-SS will receive an increase of 5.13%, MGSD will see growth of 4.21%, and MCC will receive an increase of 3.76%. The total education budget is categorized below in graph 9.



In February 2015 the Board of Commissioners made the wise decision to assign \$6,107,500 of fund balance to build a facility to house all of the non-law enforcement public safety departments. At that same time the Board also assigned an additional \$6,765,725 to the future jail construction fund, bringing the total to \$11,016,655. These two actions are significant steps toward addressing the two primary County facility needs. In the FY2016 budget I propose assigning \$1,800,000 toward future capital facility needs to assist the Board in continuing to fund these, and other, future facility needs.

Over the last two years the County employee turnover rate has exceeded 12% per year. Increased turnover has tracked with an improved economy and the availability of jobs. It is our goal to keep turnover near 8% and retain experienced county employees. Notwithstanding the fact that employees are our most valuable resource, the average cost to replace one position is almost \$10,000. With a workforce of almost 1,000 and turnover at 12% this translates to an extremely high cost.

In an effort to lessen the impact of a significant compression issue, I am proposing a 2% salary scale adjustment. This adjustment is recommended after studying counties, municipalities, and private industry within the region that tend to lure our employees away. To remain competitive and keep our most valuable resources I recommend increasing the entire pay scale, which would help us to remain competitive and provide some relief to compressed salaries. The cost of this adjustment is \$895,000.

In addition, I propose we keep our current practice of providing merit increases to employees based on performance. This is another key factor in addressing our compression problem by rewarding high performers by moving them up on the pay scale.

An increase in population, activity, and development has also caused the need for new employees. Although not all of the requested positions have been recommended to the Board I believe there is strong justification for those that are included in the proposed budget. Key departments requesting new positions include Administration, Finance, Social Services, Sheriff, Building Standards, ECOM, and EMS. These requests are a direct result of growth and activity.

Of particular importance is a proposed change in EMS. Two years ago we changed the Statesville EMS Base from 24 to 12 hour shifts to offer a better service to the public at our busiest base. The next step was to look at the Mooresville Base. All of the surrounding counties are going to, or currently operate under 12 hour shifts. Our staff feels certain we will lose paramedics to those counties, as this provides a desirable work schedule for most medics. I propose that we move to 12 hours this year in all bases except Trinity and Harmony and in FY2017 transition the remaining two bases if the call volume is there. This would allow us to remain competitive with surrounding counties, while providing a better service to the public. The overall impact would be the addition of three paramedics.

Three of the four voted-in fire districts; East Alexander, Mt. Mourne, and B&F are requesting increases to the tax rate in their districts. East Alexander is proposing the increase to address equipment needs, Mt. Mourne for additional paid staff, and B&F for the purchase of a heavy rescue crash truck.

### **Fund Balance**

There are three fund balance assignments I would recommend making in the upcoming fiscal year. At June 30, 2015 we expect the unassigned fund balance to be \$8,626,831 or 20.89% of the recommended budget. Through this budget I propose that the Board assign \$492,885 to begin preparing for the 2019 reappraisal, \$100,000 for economic development, and \$959,370 for future year jail operations. The last recommendation is based on unspent funds in both the Sheriff and Jail FY2015 budgets. This money would generally go directly into the unassigned fund balance. However, if a jail expansion is constructed, at whatever size and scope, operational funds will be needed and I suggest we begin building that into the budget this year. If approved, the fund balance will be adjusted as shown in the final recommendation.

### **Keeping an Eye on the Horizon**

As a result of the bond referendum there will be a 4.25 cent tax increase. The debt associated with the construction projects will be felt most over the next five years. In FY2020 our debt load will reach its maximum as a result of those projects, at approximately 23% of the County's operating budget. After 2020 the rate drops significantly due to other debt retirement and expected increases in the tax base. The needs of the County do not stop when the debt load is high. Therefore, I feel it is imperative to continue to contribute to future capital projects and begin planning for increased operational costs associated with new facilities in the event they are realized. That way it will be possible to move forward with addressing needs without the need to borrow money while also keeping our unassigned fund balance at 20%.

### **Revenue Neutral**

The revenue-neutral property tax rate is the rate that is estimated to produce revenue for the next fiscal year equal to the revenue that would have been produced for that year by the current tax rate if no reappraisal had occurred. To calculate the revenue-neutral tax rate we first determined a rate that would produce revenues equal to those produced for the current fiscal year and then increased the rate by a growth factor equal to the average annual percentage increase in the tax base since the last general reappraisal.

Based on this analysis the revenue neutral tax rate, excluding debt for the bond related projects, would be 48.75 cents per \$100 in valuation. However, I have not recommended to increase the rate to that amount. Because of the tax increase due to the bonds, the fact that we have been able to balance the budget while meeting the primary goals of the Board set forth in the Winter Retreat, and the requested tax increases in three of the four voted-in fire districts, I do not think an additional increase is warranted.

**Recommendation**

Based on the information in the preceding message and to complete my obligation under G.S. 195-11, I recommend that the Board of Commissioners approve the proposed FY2016 budget of \$184,928,590. This will increase the tax rate from 48.5 cents to 52.75 cents per \$100 valuation. It is based on a tax base of \$21,288,600,000 with a collection rate of 98.25%. The fund balance on June 30, 2015 is estimated to be \$36,974,576 which is 20% of the recommended budget.

Respectfully Submitted,

Ron Smith

County Manager