



Fiscal Year 2020-2021 Budget Message

May 19, 2020

To the Iredell County Board of Commissioners and Citizens:

On February 21, 2020 the Board of Commissioners held a Budget Planning Retreat where staff received direction regarding priorities for the upcoming year. Those priorities, along with the County's adopted strategic plan and departmental goals, normally become the framework for what is recommended in the 2021 Fiscal Year Budget. However, in the matter of a few weeks, our budget projections, financial viability and life as we knew it changed dramatically.

On March 3, 2020 North Carolina identified its first COVID-19 case and on March 10th the Governor Declared a State of Emergency. On March 11th COVID-19 was declared a pandemic by the World Health Organization. On March 16th Iredell County reported the first case of COVID-19 and declared a State of Emergency on March 17th. The weeks following included incremental increases of local positive cases, a State mandated Stay at Home order and an abrupt shift from a growing and prosperous economy to a virtual standstill in the blink of an eye.

Economic Forecasting and Revenue Projections

The County's budgeting process began in late December, early January, and included the analysis of several factors including departmental needs, economic trends and anticipated growth. Departmental budget requests were received in late February and revenue projections were conservative but promising with a projected increase of 2% in ad valorem revenue and 4% in sales tax revenue. Unfortunately, with the impact of COVID-19 in March, we began to closely track the negative impact of this global pandemic on our economy. Sales tax, our second largest revenue source, was the first projected decline due to the State-wide Stay at Home Order and mandated closure of certain businesses. While the full effect will not be known until June or July due to the three month lag in revenue receipts as exhibited in Figure 1, we know the decline will be sharp.

Figure 1



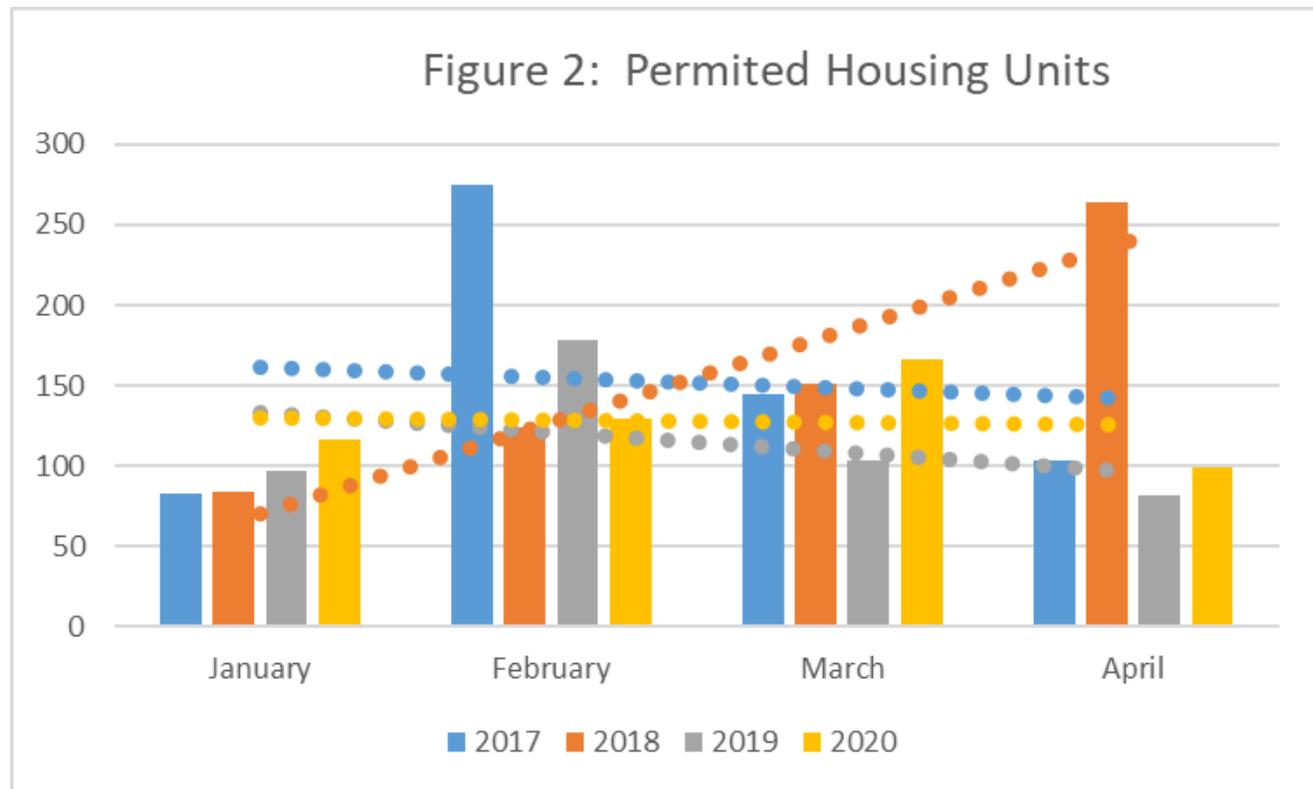
What we don't know is the duration of the deficit. We are projecting an overall 2.63% decline in sales tax revenues over the next fiscal year with the largest dip in the months of June-December and hopes of a moderate rebound beginning in January. This is compared to Morgan Stanley's overall 2020 economic contraction projections of a 3% decline. Historically Iredell County has fared better than State-wide averages due to the stability of our community and less dependency on tourism.

Ad valorem tax revenues have also been adjusted downward to indicate a 5.85% increase as opposed to 6.03%. We have modified our projected collection rate back to the FY 2018-2019 actual collection rate of 98.91% due to future market uncertainty.

Several unknown variables exist, which makes it difficult to accurately project revenues for the year ahead of us. For this reason, we have prepared a scaled back budget in anticipation of a worst case scenario. Our hope is revenues will improve over the first half of the new fiscal year and allow us to revisit the budget mid-year. If improvement occurs and revenue picks up, eliminated items for the initial budget may be added back if funds are available to support them.

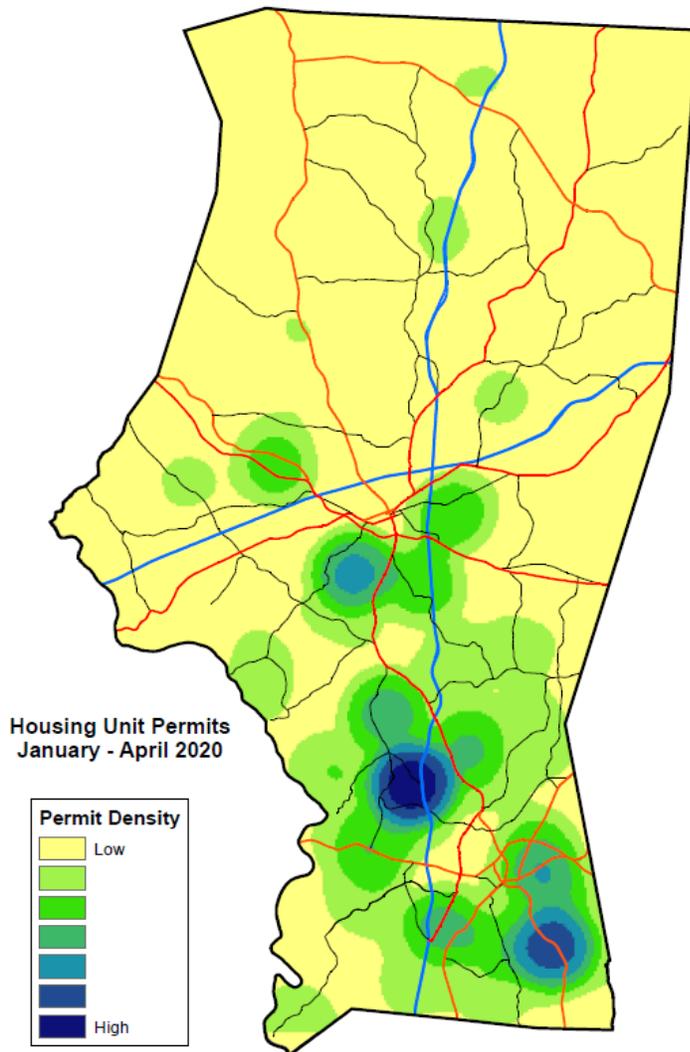
Iredell County has two major challenges, managing cash flow and balancing the budget as required in the midst of so much uncertainty. In order to estimate anticipated revenues as accurately as possible for the next fiscal year, we analyze building trends, population growth, State and Federal policy decisions, unemployment rates and personal income, just to name a few.

New construction starts are a key indicator to an economic future and show builder confidence in the market. Permitted housing units are trending fairly flat when comparing the permitted housing units for the months of January – April for 2020 as exhibited in Figure 2.



A comparison of the same months for the past three years has shown a trended decline in two years with an increase in 2018. This is a promising pattern leading into the months impacted by COVID-19 and indicates our recovery may be a little easier if the phased reopening is successful.

Figure 3



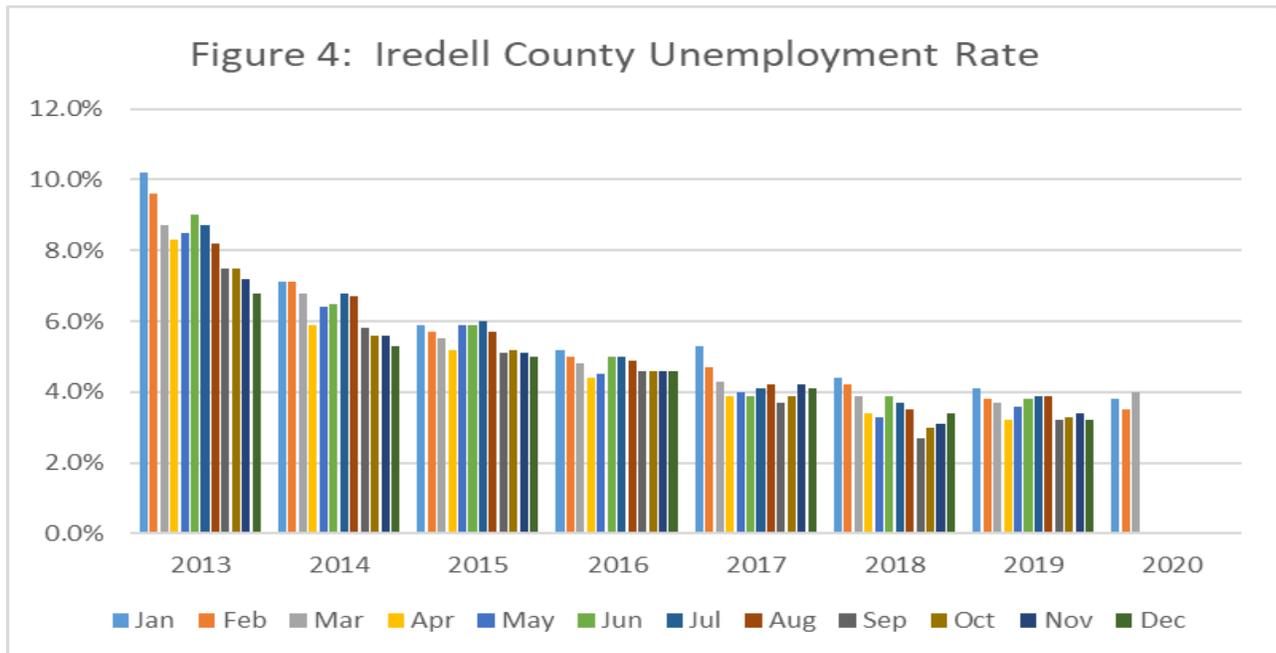
Most of that housing growth is seen in the southern portion of the county but is beginning to move north as indicated in Figure 3.

Iredell County continues to grow at a relatively high rate. State projections for Iredell County's 2020 population indicate 184,023 residents and we are projected to reach 194,595 residents by 2024. This indicates a 5.74% increase in population over this next four year budget cycle. Our current 2020 estimated population of 184,023 makes us the 14th largest county in the State. More importantly, out of all 100 counties in the State of North Carolina, there are only 12 that have a lower 2019-2020 tax rate.

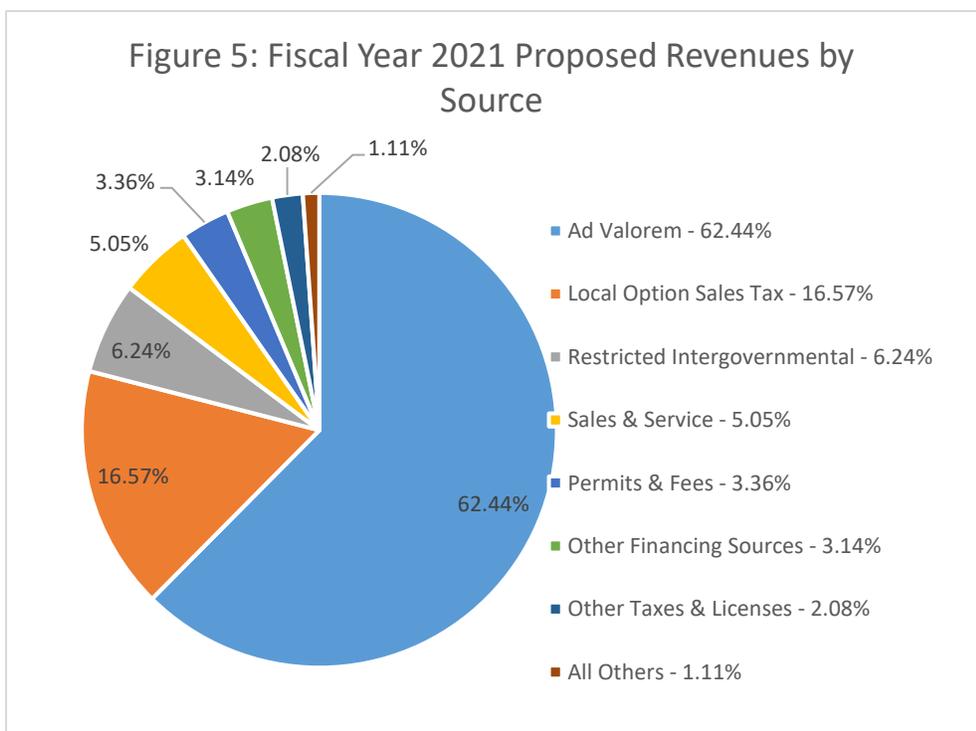
A low tax rate is a double edge sword in many respects. It assists in business recruitment/retention and is appealing to new residents but limits the County's ability to offer the same level of services as other similar size counties. It is a delicate

balance of adequate service delivery and fiscal conservancy. However, in a time of economic decline as a result of COVID-19, our low tax rate is a blessing to our already struggling residents and businesses. One key way to sustain a lower tax rate is through strong, conservative fiscal management and diversification of our tax base through economic development. We continue to work hard in supporting our existing business and industry by fostering retention and expansion as well as encouraging new business and industry recruitment. Job retention is key in our current state of affairs and we rely heavily on our teammates in this battle. With the partnership of the Iredell County Economic Development Corporation, we strive to foster an environment that creates a premier community to live, work and raise a family.

Our unemployment rate began to tick upwards beginning in January 2020 but collectively has decreased overall since 2013. As of March 2020 it was 4% as indicated in Figure 4, which is below both the State and National Level at 4.4%.



This indicates that Iredell County is fairing slightly better than our State and Nation as we entered this global pandemic. We know the impact of COVID-19 hit our job market in late March, early April and the state projects a sharp increase in unemployment numbers beginning with the month of April. The U.S. Bureau of Labor Statistics reported the U.S. unemployment rate climbed from 4.4% in March to 14.7% in April. Economists have projected a state jobless rate between 12% and 15% for April, which



would be higher than the 33-year unemployment peak of 10.9% experienced in 2010 during the slow recovery from the Great Recession.

The two largest sources of the County’s revenue comes from ad valorem tax at 62.44% and local option sales tax at 16.57% as depicted in Figure 5.

When looking at all of the economic indicators, ad valorem

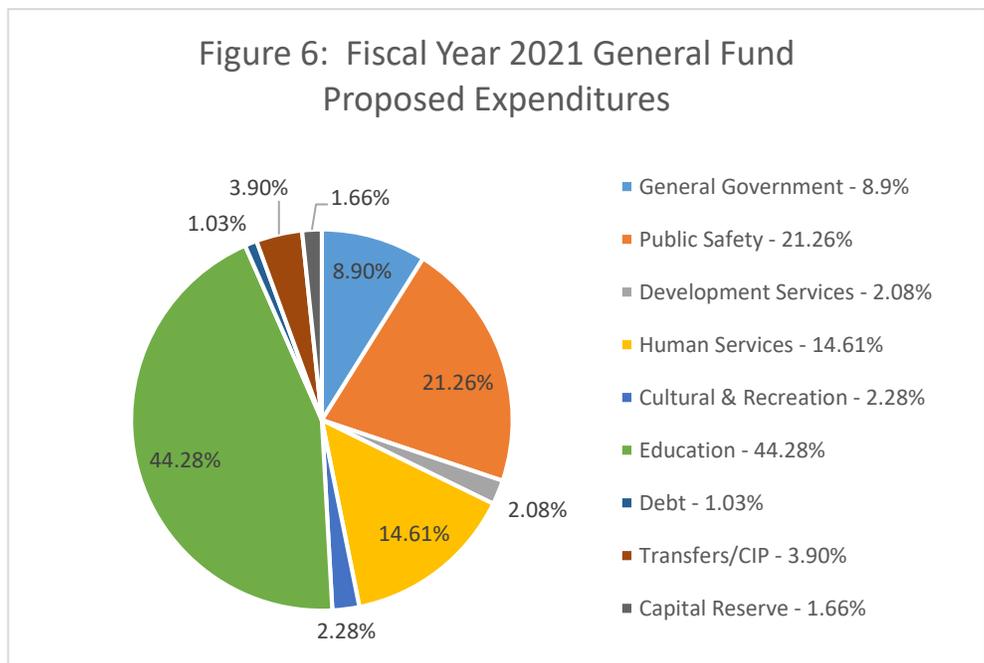
tax revenues are expected to increase 5.85%, which equates to 1.97% in the additional penny approved by the voters for school capacity bonds and 3.88% in valuation growth. Taking into consideration the ebbs and flows of all additional revenue sources, several of which are down, the 2021 Fiscal Year Budget Recommendation is predicated on an overall growth of 3.46% or \$7,701,308. Of this new revenue, \$2,638,397 is attributed to the newly approved 1 cent tax increase for the school capacity bonds and will go towards retiring the debt.

Fund Balance

Our fund balance has fluctuated over the past several years as we have saved up funds to pay for large capital projects. One of the largest projects funded out of fund balance is the new Iredell County Detention Center that just recently came on line this year. The Board established a minimum threshold of 18% of operating expenses and we have worked tirelessly to not just maintain but slowly build back our fund balance through the diligent savings of our departments and fiscally conservative policies established by the Board of Commissioners. Our fund balance is estimated to be at 18.9% of the recommended budget and for that I am extremely grateful going into a very uncertain year ahead. The County’s commitment to live within our means and prepare for financial uncertainty will pay off in the year ahead. This recommended budget does not anticipate the use of fund balance for normal operational funding. We are recommending the appropriation two one-time expenditures for planning purposes, which include \$30,000 for the Transportation Plan matching grant and \$250,000 for the fairgrounds master plan study. If revenues take a sharper decline or the recovery takes longer than projected, the County will have some reserves to fall back on if needed. The County’s Fund Balance Policy and healthy debt profile will serve us well through the COVID-19 financial impact to our economy.

Expenditures

We made every effort to satisfy the priorities of the Board of Commissioners while working within the confines of our available revenues as a result of our current economic condition. The majority of the requests are needs but must be prioritized, delayed and in some cases eliminated due to limits in revenues. We modified each department’s line item



requests to reflect actual spending over a four year historical perspective. We will also roll forward unspent funds in the FY20 budget to help cover some FY21 expenses. This is possible through the spending limitations enacted in the last quarter of the FY20 budget as a result of COVID-19. Figure 6 shows the breakdown of expenditures by category. These percentages are very similar to years past, with the top three areas being in education (44.28%), public safety (21.26%) and human services (14.61%).

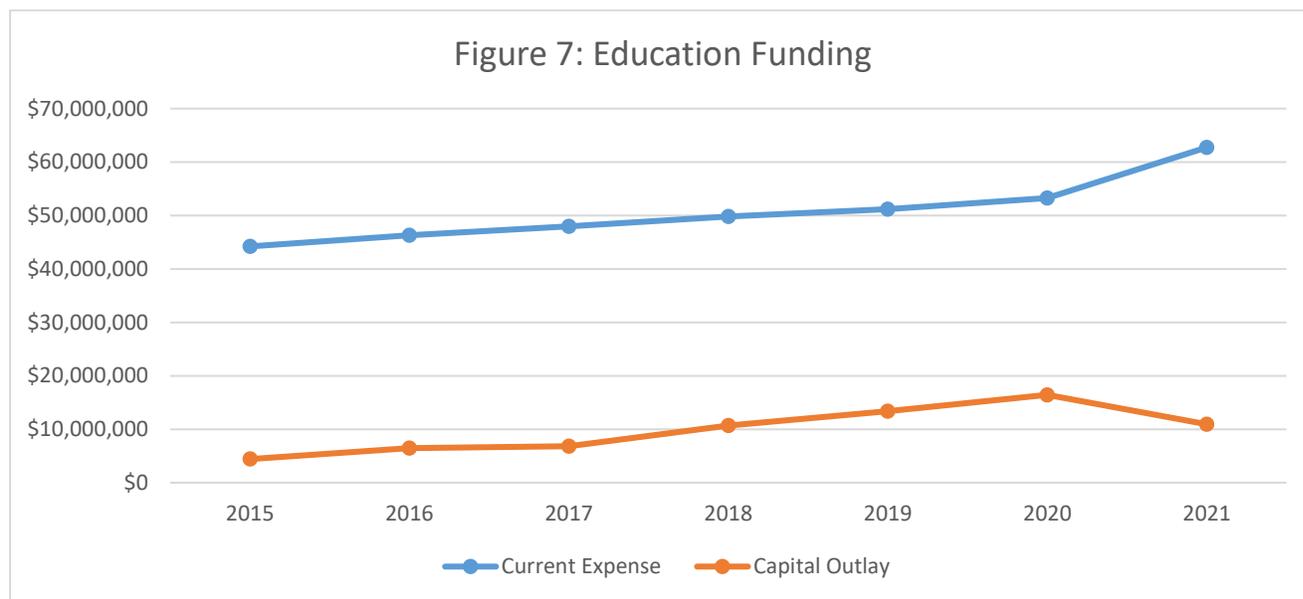
Education

This year we made a concerted effort to revisit the educational funding formula primarily in response to the request of the schools to shift our focus towards current expense funding. In years past the County funded education four different ways: current expense, capital, debt service and safety & security. In an effort to streamline the funding process and fall in line with the funding methodology utilized by other Counties in the State of NC, we made the following modifications:

- Current Expense will be funded on a per pupil basis and will be calculated by getting an average of the counties in NC with average daily membership (ADM) that falls within twenty percent, above and below, Iredell County according to the NC Association of County Commissioner (NCACC) Budget and Tax Survey. This average will be obtained each reappraisal year and Iredell County's funding level will be set at the new average or at the current funding level, whichever is higher. Each year thereafter, the per pupil allocation will be increased by the December US Department of Labor Un-Adjusted Total Consumer Price Index (CPI), excluding any one-time adjustments from the prior year and not to exceed the estimated property tax revenue growth for the upcoming fiscal year.
- Capital Funding would be equal to Chapter 105 of the NC General Statutes, Article 40 and 42 Local Governmental Sales and Use Taxes, distributed based on the average daily membership between the Iredell-Statesville and Mooresville Graded system systems. Large capital needs (outside normal maintenance, repair, replacement and renovation) will be vetted as part of the County's Capital Improvement Plan.
- Debt Service would be covered by the County's ad valorem tax collections to cover principal and interest amounts equal to the county's borrowings for the educational facilities. This amount will be adjusted annually in accordance with the retirement of principal and interest related to the debt service of capital projects.
- School Safety & Security, a new budget created in the FY20 budget with the hopes of the passage of the quarter cent sales tax, would be funded through the County's allocation of ½ cent of Ad Valorem taxes to its Public Safety Function for school safety and security as a temporary funding source to be used to complete the remaining capital needs for school safety and security identified for ISS, MGSD & MCC. Once these previously identified one time capital needs are satisfied that funding source will expire.

To date, both Mooresville Graded Schools and Mitchell Community College have signed the new funding agreement which shifted the focus to current expense funding as opposed to capital funding. Financial allocations for the three education systems comprises 44.28% of the proposed General Fund Budget. In FY21, there is a total increase in Current Expense and Capital Outlay funding in the amount

of \$3,942,221 as depicted in Figure 7. This will increase the per pupil amount to \$1,940, up from \$1,675 in FY20, and will be uniform between Iredell-Statesville Schools (I-SS) and Mooresville Graded School District (MGSD). I-SS will see an increase of 18%, or \$6,818,810, in current expense and a decrease of 44%, or \$5,687,080, in capital outlay. MGSD will see an increase of 18%, or \$1,984,725, in current expense and a decrease of 22%, or \$574,198 in capital outlay. Mitchell Community College (MCC) will receive 18%, or \$639,794, more in current expense and 80%, or \$760,170, in capital outlay in the upcoming year.



Personnel

As a service organization our greatest strength are our employees. It is only through them we are successful and can serve the citizens of Iredell County. The Board recognizes this and has taken proactive steps over the past several years to ensure that Iredell County is an employer of choice. We have and will continue to focus on turnover reduction, which is currently trending at 5.46% from January-April, 2020. This is a key factor in any successful and thriving organization because employee retention is more efficient than employee replacement. Staff retention is achieved through creating positive and safe work environments, engaging your staff and letting them know their voice is heard, showing appreciation and support, encouraging positive morale and rewarding exemplary service.

During a global pandemic it would be assumed this would be an impossible task but we are fortunate to have dedicated and loyal staff that have a true servant's heart. Our staff have been called on more now than ever as a result of COVID-19 and the vast majority have answered the call unselfishly. Our Health Department and EMS agencies are dealing directly with COVID-19 patients and do so with compassion and self-sacrifice around the clock.

Our Emergency Communications Department has taken great steps to screen calls with the new COVID-19 protocols to send appropriate resources in order to protect the citizen and the responder. Our Emergency Management Agency coordinates supply requests for the County and works tirelessly to address the demand for Personal Protective Equipment (PPE) for our medical providers and first

responders. Our Sheriff's Office, who are already in a high risk profession, have to exercise an extra layer of diplomacy as they are the enforcement arm of the Governor's Stay at Home Order.

Our Social Services Department has seen a sharp increase in Medicaid applications and food and nutrition services and work tirelessly to ensure assistance is on the way. Our Information Technology Department adapted overnight to provide virtual solutions to allow uninterrupted service delivery. Our Development Service Departments work creatively to adjust their normal practices to ensure that essential construction and development continue safely. Marriages, deaths and property transactions still occur even with a stay at home order in place and the Register of Deeds office has responded. ICATS modified their transportation services to assist in meal delivery to those that were in need while our Vehicle Services Department works continually to keep our fleet of 465 vehicles maintained and operable.

The Library repurposed their facilities to assist students that don't have internet access to complete their required on-line learning as the result of school facility closures. Facility Services shifted their focus and began elevated sanitizing, cleaning and maintenance of all 63 county properties to keep citizens and employees safe. Parks and Recreation recognized the increased demand on Facility Services and took advantage of the Recreation Center closure and began to perform required maintenance themselves including repainting the facility, performing parks and trail maintenance and facility updates. Cooperative Extension helped coordinate a drive-in discounted food sale at the fairgrounds and works tirelessly to provide advice and assistance to our agricultural community that was already struggling to make ends meet.

Solid Waste has seen a large spike in utilization as the result of residents being home for extended periods of time tackling their spring cleaning. Animal Services continue to provide services and respond to assist our population that has no voice. Human Resources quickly shifted to interpret and apply the new Families First Coronavirus Response Act Federal Legislation in a matter of days and works to assist County Employees impacted by the virus. Veteran's Services continue to serve our soldiers and their families because the needs don't disappear even when our mobility is limited. Finance added to their busiest time, budget season, the minute by minute tracking of revenue loss and necessary expenditures as a result of COVID-19. Elections and Tax continue to follow mandated requirements as safely as possible and be an information resource for citizens that call frequently asking how this pandemic will impact the upcoming election, tax listing and required payments.

The calls for help continue and County employees answer without fail day and night. For these reasons I struggle to not recommend a pay increase for these loyal public servants; however, in a time where our community is struggling and we are facing historical unemployment numbers, the revenues simply are not available. I am, however, recommending once revenues begin to recover and our economy rebounds, a salary scale adjustment be the first item the Board contemplates adding to the budget if a mid-year review is possible.

We received 27 full time and 4 part time new position requests this year and were only able to recommend 8 full time and 3 part time, which are detailed below.

- Transitioning a part time position to a full time GIS Mapping Tech simply due to the size of the county and the need to ensure that our GIS data is as accurate as possible. With the shift now to on-line service delivery the dependence on this information is critical.
- Converting previously contracted janitorial services into two full time and one part time day porter at the Health Department and Animal Services/Cooperative Extension Facilities. The level of cleaning required in these facilities is great and in order to ensure it is more frequent and on demand, we can provide better service for virtually the same amount of money in-house.
- Adding three telecommunicators in our Emergency Communications Department so we can begin monitoring tactical channels for departmental interoperability and to help with the growth in call volume. We are also recommending a Technical Support Specialist to assist in Computer Aided Dispatch (CAD) updates and programming and to assist with performing required quality assurance checks.
- Adding an Administrative Support Assistant in the Building Standards Department to assist in ensuring our on-line offerings are up-to-date and services do not suffer. Funding for the first year for this position will be realized through a mid-year delay in filling an inspector position, which we feel confident we can do with the slowing economy.
- Adding a part time Planner position to assist in ensuring plans are reviewed in a timely and thorough manner to help expedite the turnaround time to jump start our anticipated recovery.
- Adding a part time EMS Operations Officer to assist in the growing regulatory requirements and demands on our service.

Capital Projects

As the County grows and the demand for services shift, we must ensure we are maintaining our facilities and expanding where necessary. Within this budget, there is \$605,000 proposed in facility improvements and \$2,667,500 to fund identified projects in the Capital Improvement Plan (CIP). We are also hoping to roll unspent contingency funds from the Detention Center and Public Safety Center construction projects into this fund upon project close out.

We have taken a hard look at capital projects for this fiscal year and trimmed them back substantially from what was reviewed and discussed at the Winter Retreat. Our focus was on necessary projects resulting in the delay of several less critical projects. Included in this budget are funds to make necessary ADA accessibility improvements at several county facilities and grounds. We propose this to be a multi-year project with funds allocated each year. A parking lot extension at Government Center South, which is part of our lease agreement with the NC Department of Environment Natural Resources (DENR). New carpet at Government Center South in the new Probations and Parole and DENR spaces. The final year of the VoIP phone system project and a portable generator that could be used at critical facilities during the loss of power. Funds are set aside for necessary ambulance replacements due to wear and tear of the current fleet. Repayment of borrowed funds to the Future Park Fund and funds for a partnered sewer line extension at the Recreation Center with the Town of

Troutman and Children's Hope Alliance. We also have funds earmarked as a set aside for the future match to the ICATS facility grant, which we anticipate having a revenue offset.

Fire Funding & Rescue Funding

With the newly approved 9 cent All-County Fire Tax, we have been successful in establishing a sustainable funding mechanism for the 19 contracted volunteer fire departments. Fire protection is a vital service Iredell County provides to the citizens, through the assistance of the volunteer fire departments. The newly created fire funding formula allows for an increase in funding to the fire departments to help them address their most pressing need, personnel. It also establishes an apparatus replacement program based on age, mileage and need. This helps the County plan several years down the road for necessary apparatus replacements that are rather large ticket items.

With the success of the fire funding formula, we have modified the rescue funding, which is funded from the general fund, to address similar needs in the rescue service. The base funding formula is calculated on square miles and population in the various rescue districts with additional funding set aside for apparatus and equipment replacement. This new funding mechanism will allow for an increase in funding to our rescue providers and allow for a rotation for apparatus replacement. It will also provide opportunities for the rescue providers to participate in bulk purchasing of similar equipment which in turn would save tax payers dollars.

Recommendation

This message fulfills my obligation under North Carolina General Statute 159-11 to present the recommended Fiscal Year 2020-2021 budget of \$230,357,300. This will set the county tax rate at 53.75 cents per \$100 valuation, which includes the newly approved 1 cent for the School Capacity Bond, which equates to \$2,638,397. This budget is based on a tax base of \$26,674,720,000 with a collection rate of 98.91%. The fund balance on June 30, 2020 is estimated to be \$43,528,311, which is 18.9% of the recommended budget.

Respectfully Submitted,



Beth M. Jones

Iredell County Manager