



Building a Fiscally Sustainable Future

Five-Year Financial Projections, Fiscal Indicators, and Demand for Services Index

UNION COUNTY

NORTH CAROLINA

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Management would like to thank all the departments, Amanda Austin, Beverly Liles, Debbie Cox and Andrea Robinson for their dedicated efforts in the preparation of this report.

Cynthia Coto, County Manager

Jeffrey A. Yates, Executive Director of Administrative Services/Chief Financial Officer

January 21st, 2014



Goals for Today

- Review the Five-Year Projections
- Discuss the Findings
- Discuss the Staff Recommendation for Budget Focus Areas
- Receive Direction for Budget Focus Areas



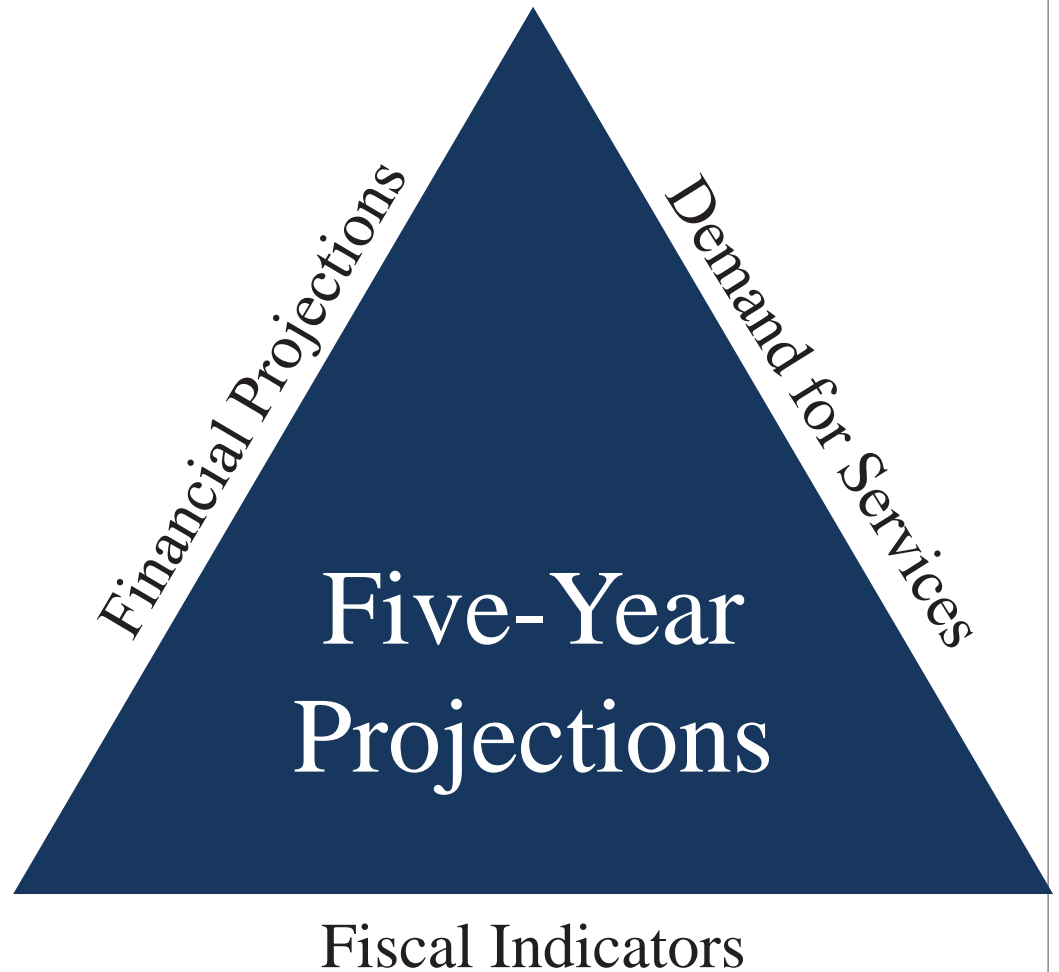
Five-Year Projections

- Overview
- Financial Projections
- Fiscal Indicators
- Demand for Service Indicators
- Findings
- Budget Focus Area Recommendations



Overview

- Three Pronged Approach
- Financial Projections
- Fiscal Indicators
- Demand for Services
- A Comprehensive Approach to Financial Planning



Draft 2020 Vision

Through continuity of leadership and direction and built upon consensus of the community, we identify and implement strategies, programs, and services necessary to promote and sustain the quality of life and lifestyles unique to Union County.



Plan of Work

- Public Safety
- Building Community Consensus
- Planning and Economic Development
- Fiscal Sustainability
- Efficient and Effective Government



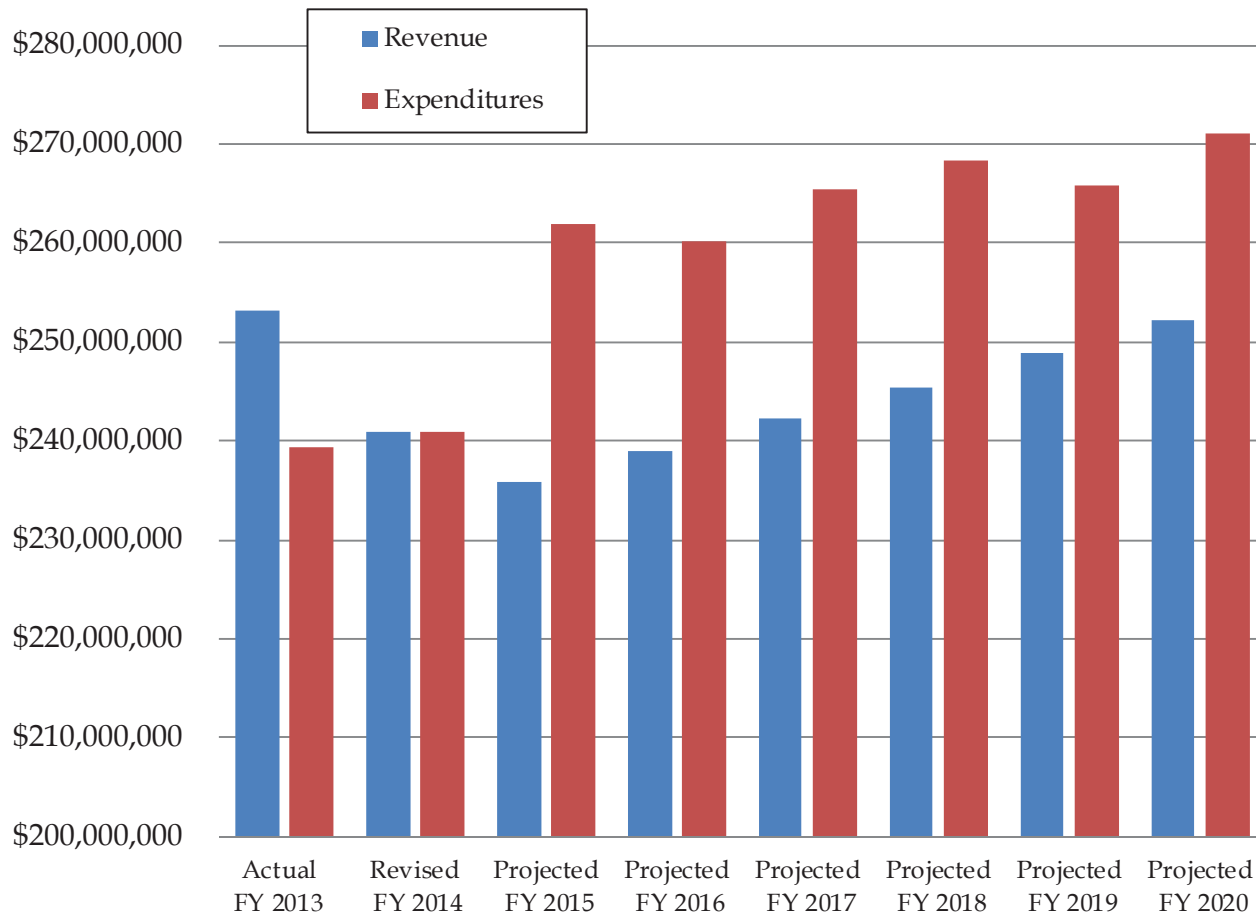
Financial Projections – General Fund

General Fund Financial Projection								
	Actual FY 2013	Revised FY 2014	Projected FY 2015	Projected FY 2016	Projected FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020
Funding Sources								
Ad Valorem Taxes	\$ (157,703,452)	(156,081,812)	(158,115,022)	(160,183,605)	(162,288,470)	(164,430,557)	(166,610,838)	(168,830,319)
Local Option Sales Tax	(26,834,776)	(26,948,400)	(28,895,729)	(29,618,122)	(30,358,575)	(31,117,539)	(31,895,478)	(32,692,865)
Other Taxes	(2,093,213)	(1,826,000)	(1,923,924)	(1,986,659)	(2,051,867)	(2,119,660)	(2,190,152)	(2,263,467)
Unrestricted Intergovernmental Revenue	(81,981)	(61,700)	(61,874)	(62,051)	(62,233)	(62,417)	(62,606)	(62,798)
Restricted Intergovernmental Revenue	(10,990,062)	(10,235,667)	(11,222,978)	(11,391,580)	(11,564,067)	(11,740,537)	(11,921,091)	(12,105,834)
Federal Grants	(15,859,114)	(11,503,437)	(11,503,437)	(11,503,437)	(11,503,437)	(11,503,437)	(11,503,437)	(11,503,437)
State Grants	(3,900,615)	(8,233,302)	(8,233,302)	(8,233,302)	(8,233,302)	(8,233,302)	(8,233,302)	(8,233,302)
Non-Enterprise Charges For Services	(8,451,001)	(8,775,563)	(8,681,423)	(8,808,053)	(8,937,766)	(9,070,644)	(9,206,772)	(9,346,235)
Debt Proceeds - Restricted Revenue	(80,474,253)	-	-	-	-	-	-	-
Investment Income	(116,820)	(500,000)	(505,000)	(510,050)	(515,151)	(520,302)	(525,505)	(530,760)
Other Revenue	(7,058,776)	(6,677,251)	(6,677,561)	(6,677,874)	(6,678,190)	(6,678,510)	(6,678,832)	(6,679,158)
Interfund Transfers	(20,023,787)	-	-	-	-	-	-	-
Planned Fund Balance Usage	-	(10,140,568)	-	-	-	-	-	-
Total Funding Sources	\$ (333,587,850)	(240,983,700)	(235,820,249)	(238,974,733)	(242,193,057)	(245,476,905)	(248,828,013)	(252,248,174)
Expenditures								
Employee Compensation	\$ 34,027,344	37,715,371	38,841,295	40,000,996	41,195,488	42,425,816	43,693,053	44,998,307
Employee Benefits	18,628,020	20,878,894	22,423,438	23,667,560	24,987,631	26,388,563	27,875,597	29,454,326
Operating Cost	27,620,869	31,932,285	31,633,914	32,449,433	33,289,601	34,155,299	35,047,448	35,967,004
Capital Outlay	946,691	1,880,296	1,911,277	1,985,473	2,062,952	2,143,868	2,228,386	2,316,676
Contracts, Grants, and Subsidies	8,992,335	9,947,486	10,146,436	10,349,364	10,556,352	10,767,479	10,982,828	11,202,485
UCPS Current Expense	81,504,155	83,021,859	86,068,396	87,195,524	88,342,265	89,509,124	90,696,622	91,905,298
General Debt Service	107,168,994	5,472,064	3,635,788	3,866,597	3,778,407	4,012,250	4,984,375	3,542,578
UCPS Related Debt Service	43,426,394	44,012,450	44,989,088	43,733,632	43,511,858	42,479,116	40,119,411	37,447,184
Interdepartmental Charges	(2,454,470)	(2,653,965)	(2,707,044)	(2,761,185)	(2,816,409)	(2,872,737)	(2,930,192)	(2,988,796)
Interfund Transfers	51,979	8,412	2,149,915	2,608,412	933,412	915,912	898,412	880,912
UCPS PayGo Capital Funding	-	8,357,859	22,454,431	16,589,630	19,214,687	17,908,448	11,770,116	16,000,000
Other Budgetary Accounts	-	410,689	414,796	418,944	423,133	427,365	431,638	435,955
Total Expenditures	\$ 319,912,311	240,983,700	261,961,728	260,104,380	265,479,376	268,260,502	265,797,695	271,161,929
Revenues (Over)/Under Expenditures	\$ (13,675,539)	-	26,141,479	21,129,647	23,286,319	22,783,597	16,969,682	18,913,755



General Fund Revenue v. Expenditures

General Fund Revenue and Expenditure Projection



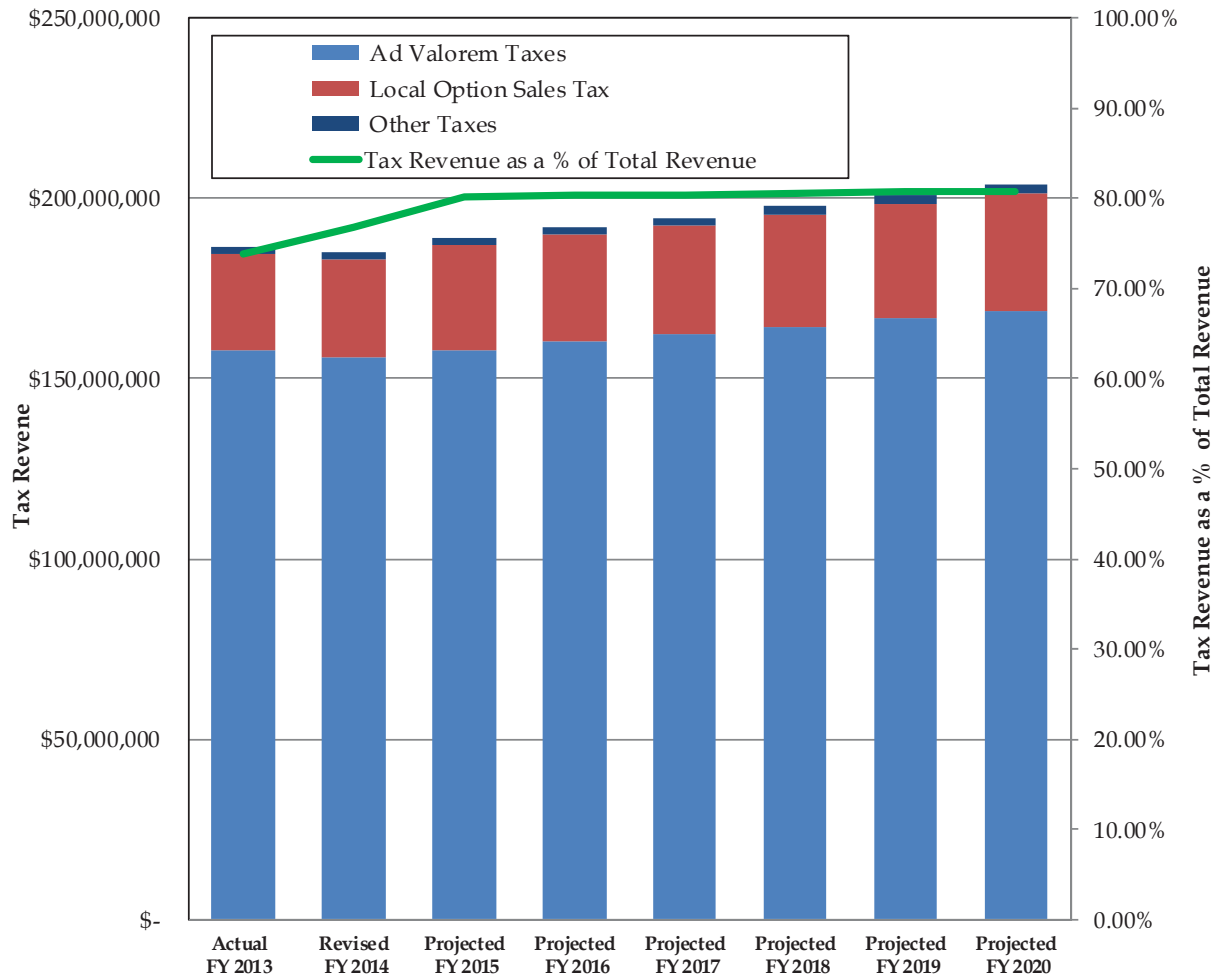
Note: FY 2014 Includes \$10.1 Million of Fund Balance Usage

Note: FY 2013 has been adjusted for debt proceeds from refundings.



Tax Revenue

Tax Revenue

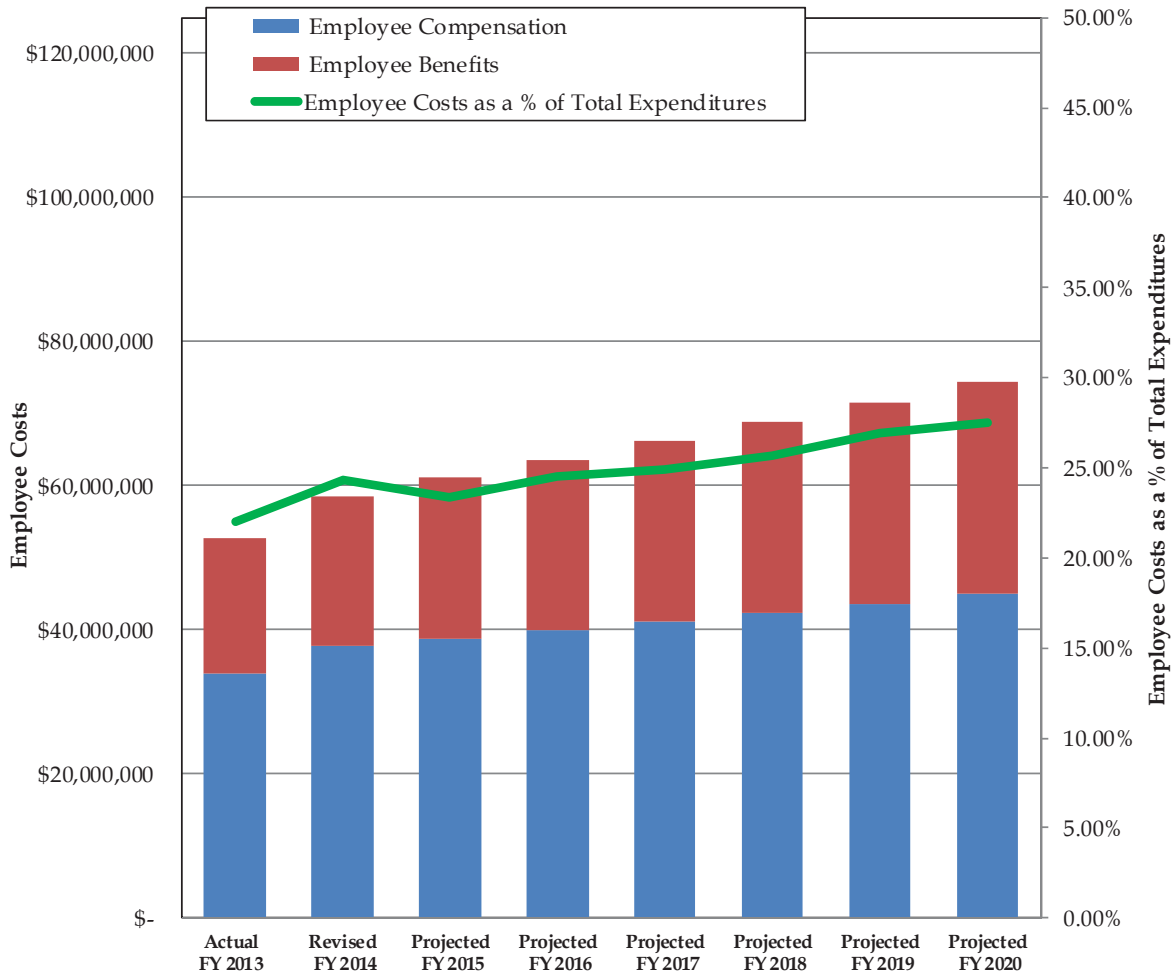


Note: FY 2013 has been adjusted for debt proceeds from refundings.



Employee Costs

Employee Costs

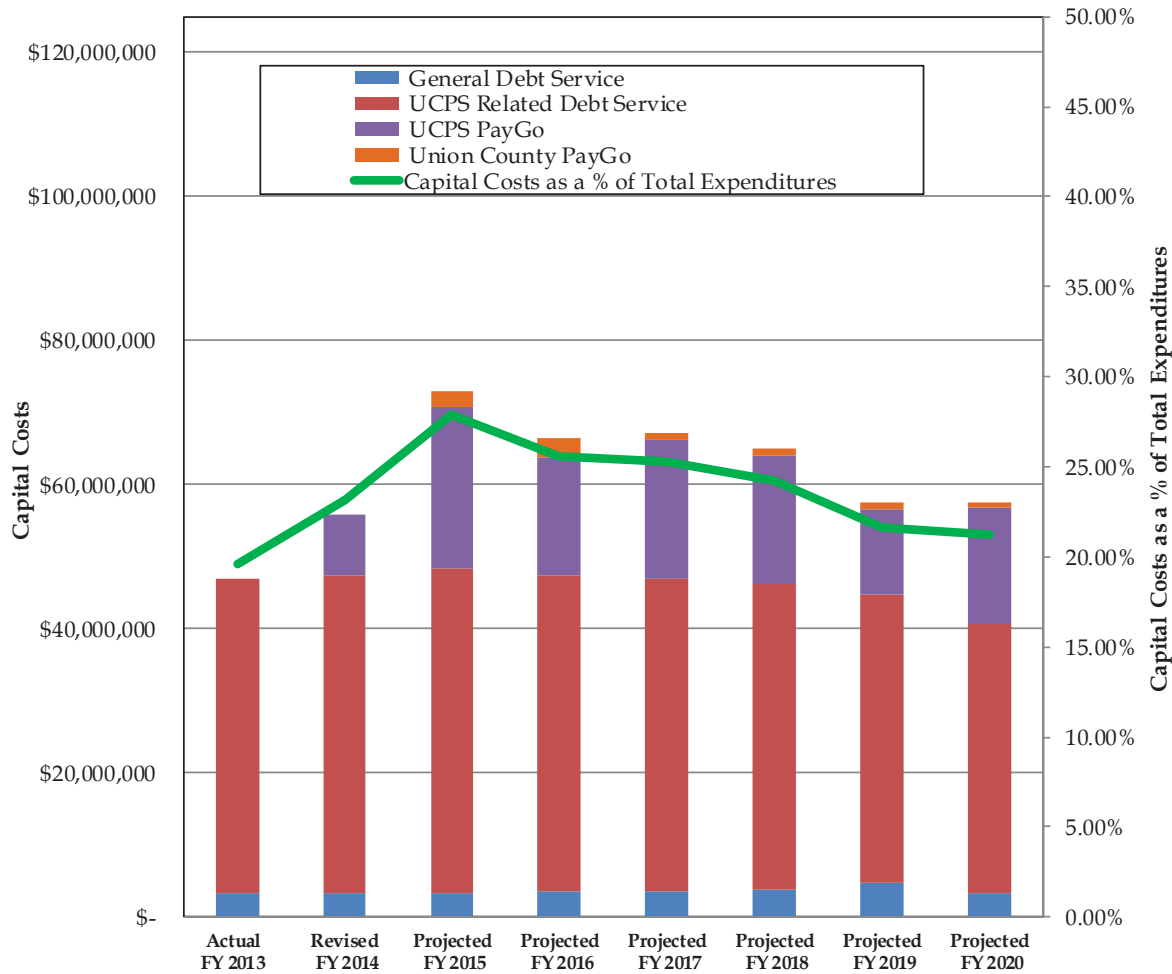


Note: FY 2013 has been adjusted for debt proceeds from refundings.



Capital Costs

Capital Costs (Debt Service & PayGo Capital)



Note: FY 2013 has been adjusted for debt proceeds from refundings.



General Fund Balance

FY 2014 General Fund Fund Balance Breakdown

General Fund Fund Balance 06/30/2013	\$	79,669,056
Less: Non-Spendable Fund Balance		(279,914)
Less: Restricted Fund Balance		(13,342,913)
Less: Unassigned 16% Reserve Policy		(35,366,994)
Less: Unassigned 4% Ratings Reserve		(8,841,749)
Less: Assigned for Schools Capital		(8,357,859)
Less: Assigned for School's True Up Payment		(761,450)
Less: Assigned for FY 2014 GF Budget		(1,021,259)
Total Unassigned Available	\$	<u>11,696,919</u>



General Fund Deficit in more Detail

General Fund Revenue and Expenditure Projection

		Revenue	Expenditures	Revenue Over/ (Under) Exp.
FY 2013	\$	253,113,597	239,438,058	13,675,539
FY 2014		240,983,700	240,983,700	-
FY 2015		235,820,249	261,961,728	(26,141,479)
FY 2016		238,974,733	260,104,380	(21,129,647)
FY 2017		242,193,057	265,479,376	(23,286,319)
FY 2018		245,476,905	268,260,502	(22,783,597)
FY 2019		248,828,013	265,797,695	(16,969,682)
FY 2020		252,248,174	271,161,929	(18,913,755)

*FY 2013 has been adjusted for debt proceeds from refundings.



PayGo Capital Program

PayGo Funding Breakdown

		UCPS PayGo	County Projects	Total PayGo Capital
FY 2015	\$	22,454,431	2,141,503	24,595,934
FY 2016		16,589,630	2,600,000	19,189,630
FY 2017		19,214,687	925,000	20,139,687
FY 2018		17,908,448	907,500	18,815,948
FY 2019		11,770,116	890,000	12,660,116
FY 2020		16,000,000	872,500	16,872,500
Total	\$	103,937,312	8,336,503	112,273,815



UCPS Funding

	Projected Current Expense Funding	Projected PayGo Capital Funding	UCPS Related Debt Service	Total UCPS Direct Expenditures	As a % of Total General Fund
FY 2013	\$ 81,504,155	-	43,426,394	124,930,549	52.18%
FY 2014	83,021,859	8,357,859	44,012,450	135,392,168	56.18%
FY 2015	86,068,396	22,454,431	44,989,088	153,511,915	58.60%
FY 2016	87,195,524	16,589,630	43,733,632	147,518,786	56.72%
FY 2017	88,342,265	19,214,687	43,511,858	151,068,810	56.90%
FY 2018	89,509,124	17,908,448	42,479,116	149,896,688	55.88%
FY 2019	90,696,622	11,770,116	40,119,411	142,586,149	53.64%
FY 2020	91,905,298	16,000,000	37,447,184	145,352,483	53.60%



General Fund Financial Projection Conclusions

- Revenues are growing at a minimal rate.
- Expenditures are growing at a minimal rate.
- PayGo Capital Program as projected is not sustainable.
- Deficits included in the projection are structural in nature and not related to economic conditions.
- Employee Costs will continue to grow as a percentage of total expenditures.
- Annual Debt Service is reducing annually and has an extremely positive trend in the projection period.



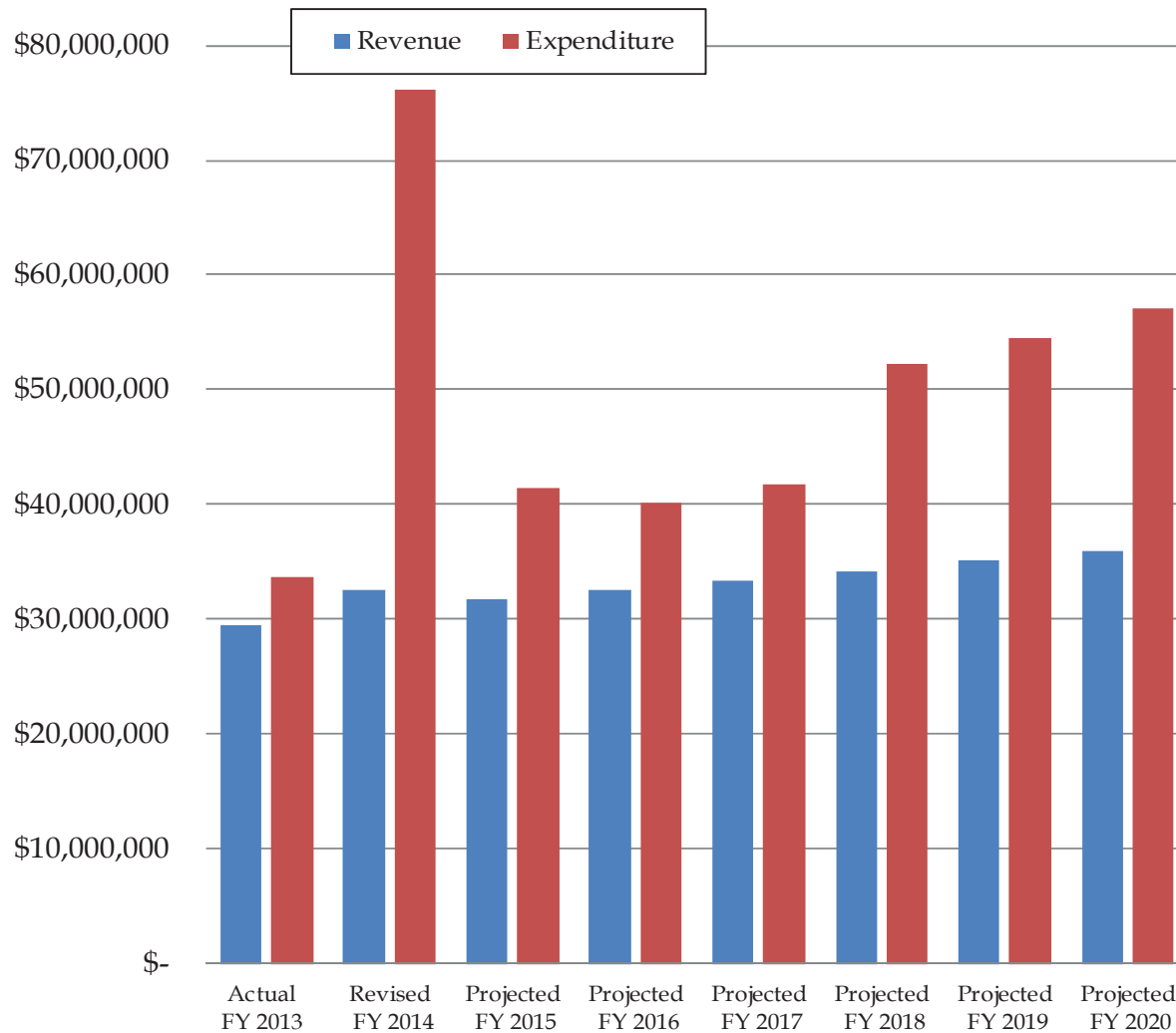
Financial Projections – Water and Sewer Utility Fund

Water and Sewer Fund Financial Projection								
	Actual FY 2013	Revised FY 2014	Projected FY 2015	Projected FY 2016	Projected FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020
Revenue								
Non-Enterprise Charges For Services	\$ (12,722)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Enterprise Charges for Services	(29,554,076)	(32,240,902)	(31,441,013)	(32,223,594)	(33,025,678)	(33,847,749)	(34,690,307)	(35,553,862)
Investment Income	135,666	(338,444)	(338,444)	(338,444)	(338,444)	(338,444)	(338,444)	(338,444)
Other Revenue	(90,370)	(24,481)	(24,481)	(24,481)	(24,481)	(24,481)	(24,481)	(24,481)
Total Revenue	\$ (29,521,501)	(32,608,827)	(31,808,938)	(32,591,519)	(33,393,603)	(34,215,674)	(35,058,232)	(35,921,787)
Expenditures								
Employee Compensation	\$ 3,909,853	4,611,299	4,749,523	4,891,893	5,038,535	5,189,576	5,345,148	5,505,387
Employee Benefits	2,123,308	2,419,385	2,550,847	2,690,193	2,837,928	2,994,587	3,160,744	3,337,008
Operating Costs	12,290,721	13,149,314	13,444,068	13,747,921	14,061,206	14,384,273	14,717,482	15,061,212
Capital Outlay	371,359	824,000	840,480	857,290	874,435	891,924	909,763	927,958
Contracts, Grants, and Subsidies	381,341	295,092	300,994	307,014	313,154	319,417	325,805	332,322
Debt Service	6,769,651	6,627,374	6,524,223	11,599,522	14,175,838	23,660,365	24,615,289	25,535,431
PayGo Capital Program	7,600,000	47,970,682	12,656,400	5,722,500	4,166,400	4,416,000	5,050,400	6,000,000
Interfund Transfer	208,944	319,893	319,893	319,893	319,893	319,893	319,893	319,893
Total Expenditures	\$ 33,655,177	76,217,039	41,386,427	40,136,225	41,787,390	52,176,035	54,444,524	57,019,210
Revenues (Over)/Under Expenditures	4,133,675	43,608,212	9,577,489	7,544,706	8,393,787	17,960,361	19,386,292	21,097,423
Unrestricted Fund Balance	\$ 84,931,611	41,323,399	31,745,910	24,201,204	15,807,417	(2,152,943)	(21,539,235)	(42,636,658)



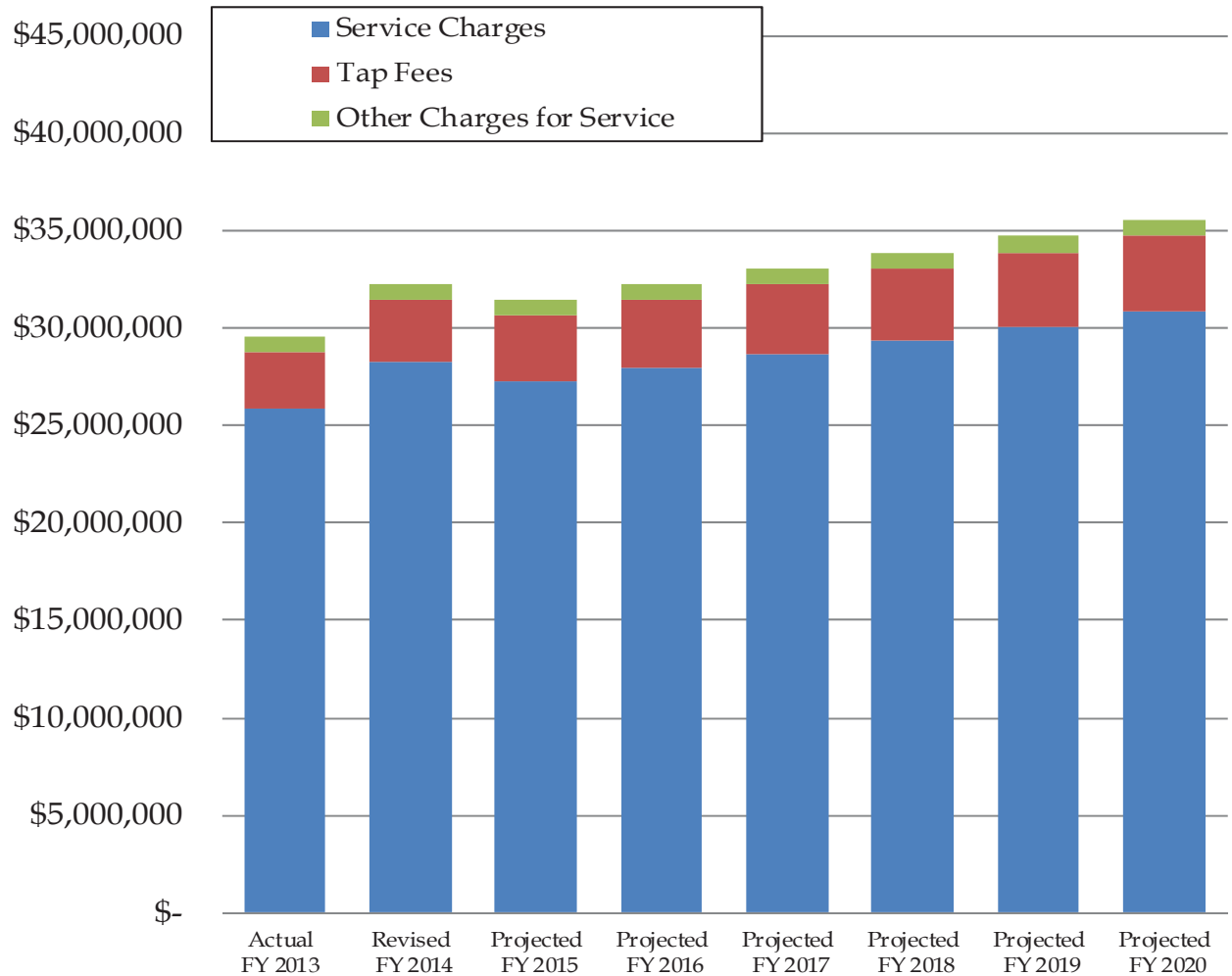
Utility Fund Revenue v. Expenditures

Water and Sewer Fund Revenue and Expenditures Projection



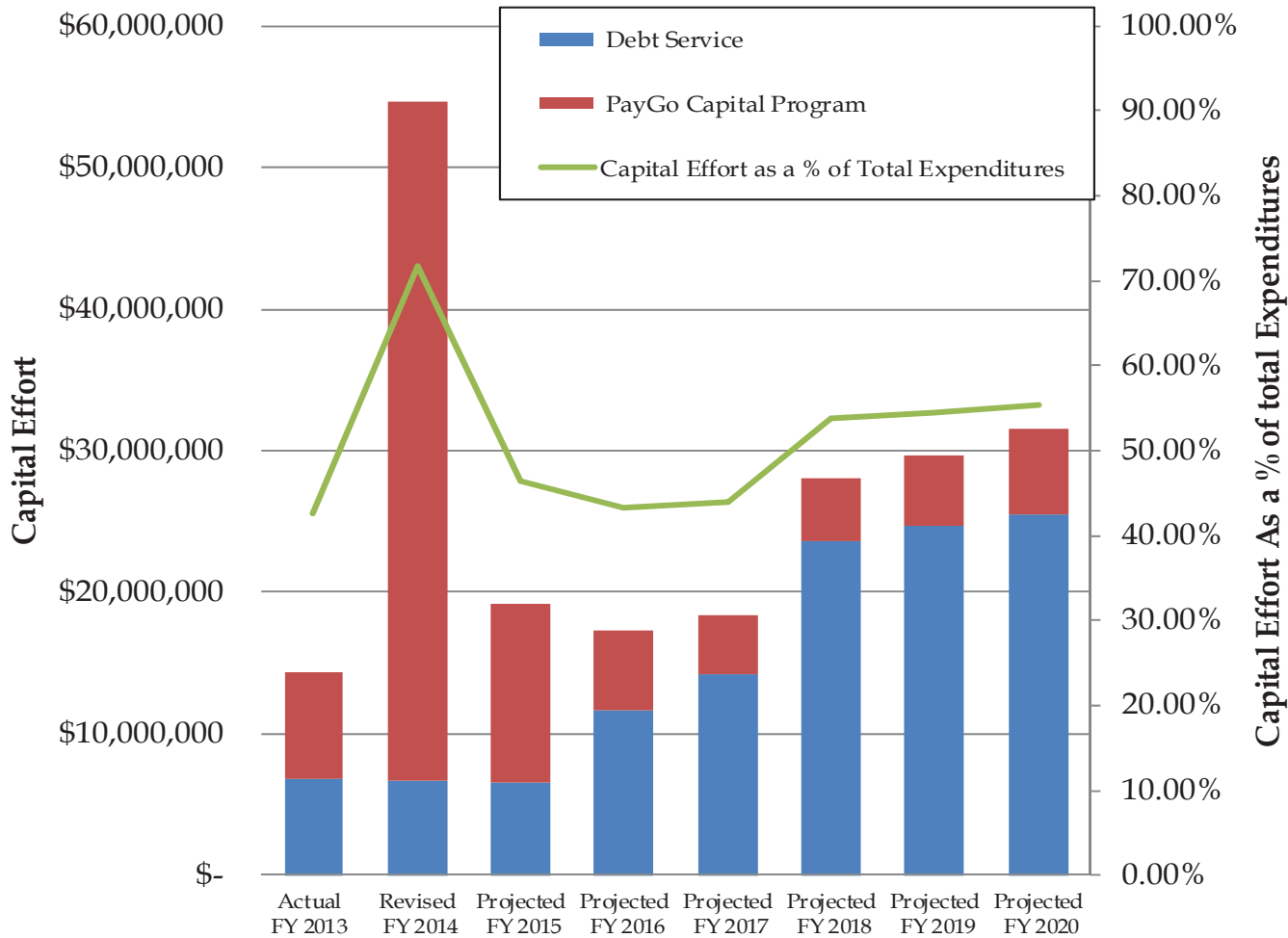
Service Charges

Water and Sewer Charges for Service



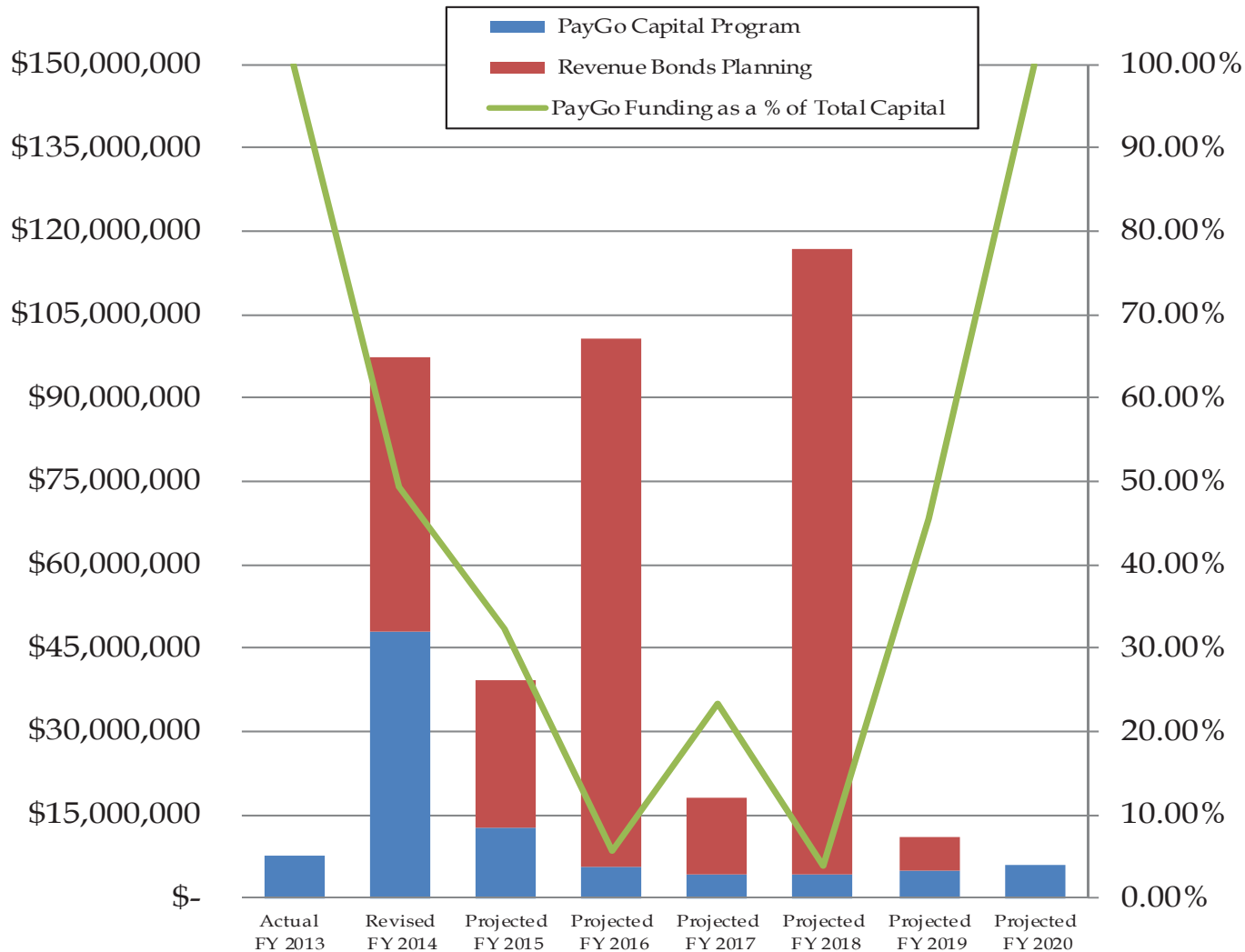
Debt Service & Capital Effort

Water and Sewer Fund Capital Effort



Water and Sewer Capital Funding Mix

Water and Sewer Capital Funding Mix



Water and Sewer Fund Balance

Water and Sewer Unrestricted Fund Balance

Unrestricted Fund Balance 06/30/2013	\$	84,931,611
Less: FY 2014 Assigned For Capital		(47,970,682)
Less: 365 Day Reserve Requirement		(31,823,456)
Total Available Unrestricted Fund Balance	\$	<u>5,137,473</u>

Note: Reserve Policy is 365 days of Operating Costs; Current Reserve Level is 424 days.



Water and Sewer Deficit in Detail

Water and Sewer Fund Revenue and Expenditures Projection

	Revenue	Expenditures	Revenue Over/ (Under) Exp.
FY 2013	\$ 29,521,501	33,655,177	(4,133,675)
FY 2014	32,608,827	76,217,039	(43,608,212)
FY 2015	31,808,938	41,386,427	(9,577,489)
FY 2016	32,591,519	40,136,225	(7,544,706)
FY 2017	33,393,603	41,787,390	(8,393,787)
FY 2018	34,215,674	52,176,035	(17,960,361)
FY 2019	35,058,232	54,444,524	(19,386,292)
FY 2020	35,921,787	57,019,210	(21,097,423)



Water and Sewer Capital Program

Water and Sewer Capital Program

	Revenue Bonds	PayGo Capital	Total Capital Funding
FY 2014	49,420,430	47,970,682	97,391,112
FY 2015	26,531,800	12,656,400	39,188,200
FY 2016	94,862,700	5,722,500	100,585,200
FY 2017	13,753,000	4,166,400	17,919,400
FY 2018	112,504,500	4,416,000	116,920,500
FY 2019	6,029,800	5,050,400	11,080,200
FY 2020	-	6,000,000	6,000,000
Total	\$ 303,102,230	85,982,382	389,084,612



Water and Sewer Capital Program

Water and Sewer Capital Effort

	Debt Service	PayGo Capital	Total Capital Effort
FY 2013	\$ 6,769,651	7,600,000	14,369,651
FY 2014	6,627,374	47,970,682	54,598,056
FY 2015	6,524,223	12,656,400	19,180,623
FY 2016	11,599,522	5,722,500	17,322,022
FY 2017	14,175,838	4,166,400	18,342,238
FY 2018	23,660,365	4,416,000	28,076,365
FY 2019	24,615,289	5,050,400	29,665,689
FY 2020	25,535,431	6,000,000	31,535,431
Total	\$ 119,507,693	93,582,382	213,090,075



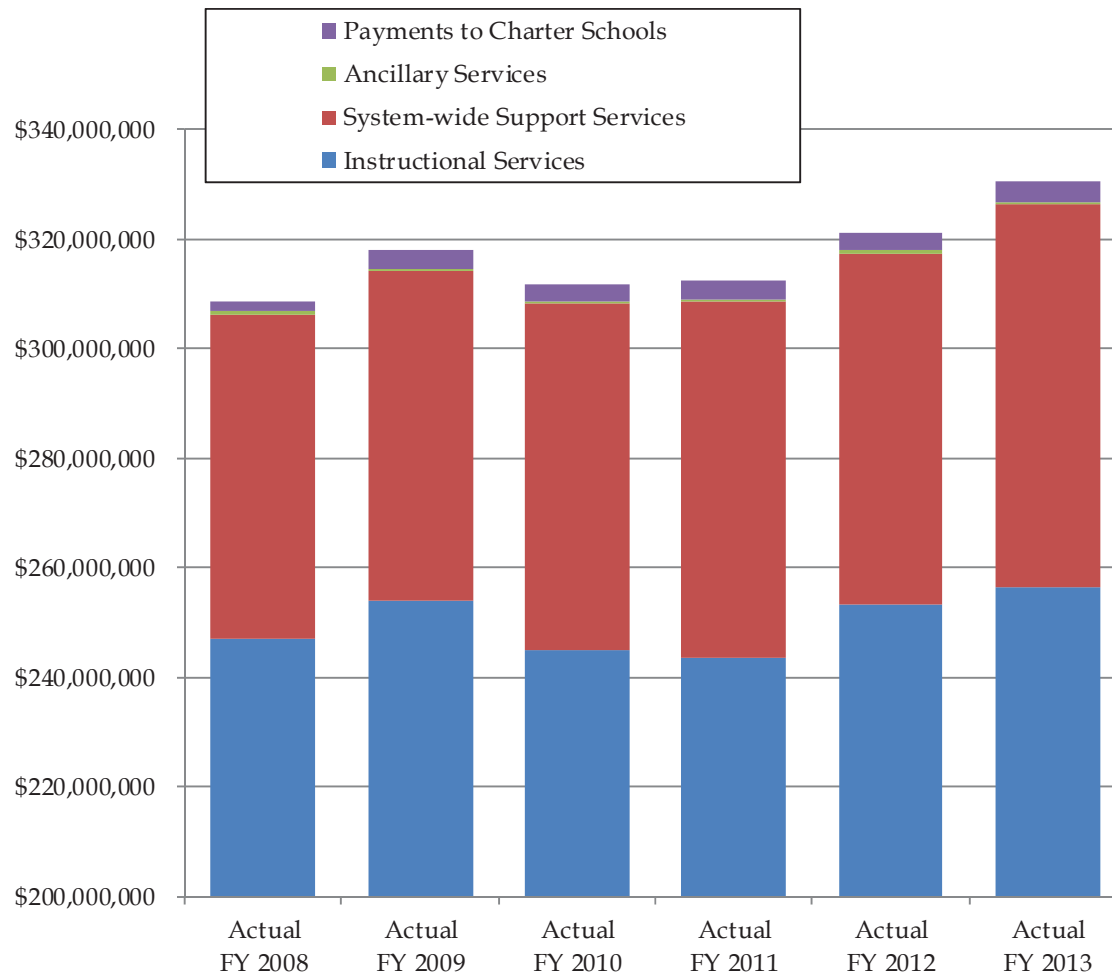
Water and Sewer Utility Fund Financial Projection Conclusions

- Future growth in the system and significant capital needs result in future rate increases.
- Efficient and effective project delivery will be the focus of the next few years.
- Water and sewer is an economic development tool.



UCPS

UCPS Governmental Activity Expenditures



Source: Exhibit 2, Union County Public Schools Comprehensive Annual Financial Report



County Funding of UCPS

	Projected Current Expense Funding	Projected PayGo Capital Funding	UCPS Related Debt Service	Total UCPS Direct Expenditures	As a % of Total General Fund
FY 2013	\$ 81,504,155	-	43,426,394	124,930,549	52.18%
FY 2014	83,021,859	8,357,859	44,012,450	135,392,168	56.18%
FY 2015	86,068,396	22,454,431	44,989,088	153,511,915	58.60%
FY 2016	87,195,524	16,589,630	43,733,632	147,518,786	56.72%
FY 2017	88,342,265	19,214,687	43,511,858	151,068,810	56.90%
FY 2018	89,509,124	17,908,448	42,479,116	149,896,688	55.88%
FY 2019	90,696,622	11,770,116	40,119,411	142,586,149	53.64%
FY 2020	91,905,298	16,000,000	37,447,184	145,352,483	53.60%



UCPS Capital

	Projected PayGo Capital Funding
FY 2014	\$ 8,357,859
FY 2015	22,454,431
FY 2016	16,589,630
FY 2017	19,214,687
FY 2018	17,908,448
FY 2019	11,770,116
FY 2020	16,000,000
Total	<u>\$ 112,295,171</u>



Initial Review of McKibben Report

McKibben Report Forecasted Enrollment

	Peak Year Enrollment 2013-2024	Current Capacity*	Peak (Over)/Under Capacity
Elementary Schools	19,144	21,085	1,941
Middle Schools	10,692	9,900	(792)
High Schools	13,044	12,300	(744)
CATA	823	850	27
Early College	293	400	107
Other Schools	187	201	14

*Note: Capacity as shown in Table 14, UCPS CAFR for FYE June 30, 2013.


















UCPS Conclusions

- UCPS continues to be the single largest expenditure of the County.
- Generally growth of school expenditures has followed student growth, however system-wide support has grown at higher rates.
- UCPS PayGo Capital and Formula Changes are largely driving the County's General Fund deficit.
- The County and UCPS must work together to mitigate the future fiscal challenges of both organizations.






Fiscal Indicators

Fiscal Indicators							
Indicator	Trend	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenue per Capita		\$ 467.38	489.93	470.62	447.94	572.54	429.94
Tax Revenue		\$ 78,100,083	91,194,580	88,288,359	86,696,379	87,152,990	87,047,193
Expenditures per Capita		\$ 888	809.53	635.74	576.46	552.54	535.20
Employees per Capita		0.0057	0.0051	0.0051	0.0049	0.0047	0.0048
Employee Benefits as a % of Employee Compensation		48.69%	51.46%	52.43%	54.10%	61.26%	56.01%
Water & Sewer Enterprise Fund Operating Position		\$ 11,581,401	11,474,533	12,176,728	12,470,131	12,162,388	12,280,048
Liquidity		259.02%	295.21%	298.11%	263.78%	349.82%	320.71%
Long-Term Debt as a % of Assessed Valuation		2.47%	2.12%	1.97%	1.85%	1.73%	1.62%
Population		182,360	191,514	196,322	201,292	205,717	210,410
Population Under 18 and Over 64		47.07%	45.41%	45.17%	44.93%	44.72%	43.07%
Personal Income (Note 1)		\$ 16,617	16,637	16,257	16,211	16,698	16,843
Public Assistance Recipients per 1,000 Population (Note 2)		142.07	160.99	177.45	187.82	195.27	220.78
Top Ten Tax Payers as a % of Assessed Valuation		3.60%	4.30%	3.54%	3.97%	3.48%	3.44%
Local Unemployment Rate		5.50%	11.00%	10.10%	9.60%	8.60%	8.00%
Gross Retail Sales (000s)		\$ 1,200,307	1,162,891	1,076,852	1,122,433	1,197,951	1,321,781

Note 1: Personal income reflects data from calendar year 2006 to calendar year 2011.

Note 2: Public assistance recipients reflects data from FY 2007 to FY 2012.

	Positive Trend
	Neutral Trend to be Monitored
	Negative Trend



Fiscal Indicators Conclusions

- Revenue Growth is Fragile
- Expenditure Growth has been Well Managed
- Benefits Cost Indicators are Negative
- Fiscal Health is Overall Strong



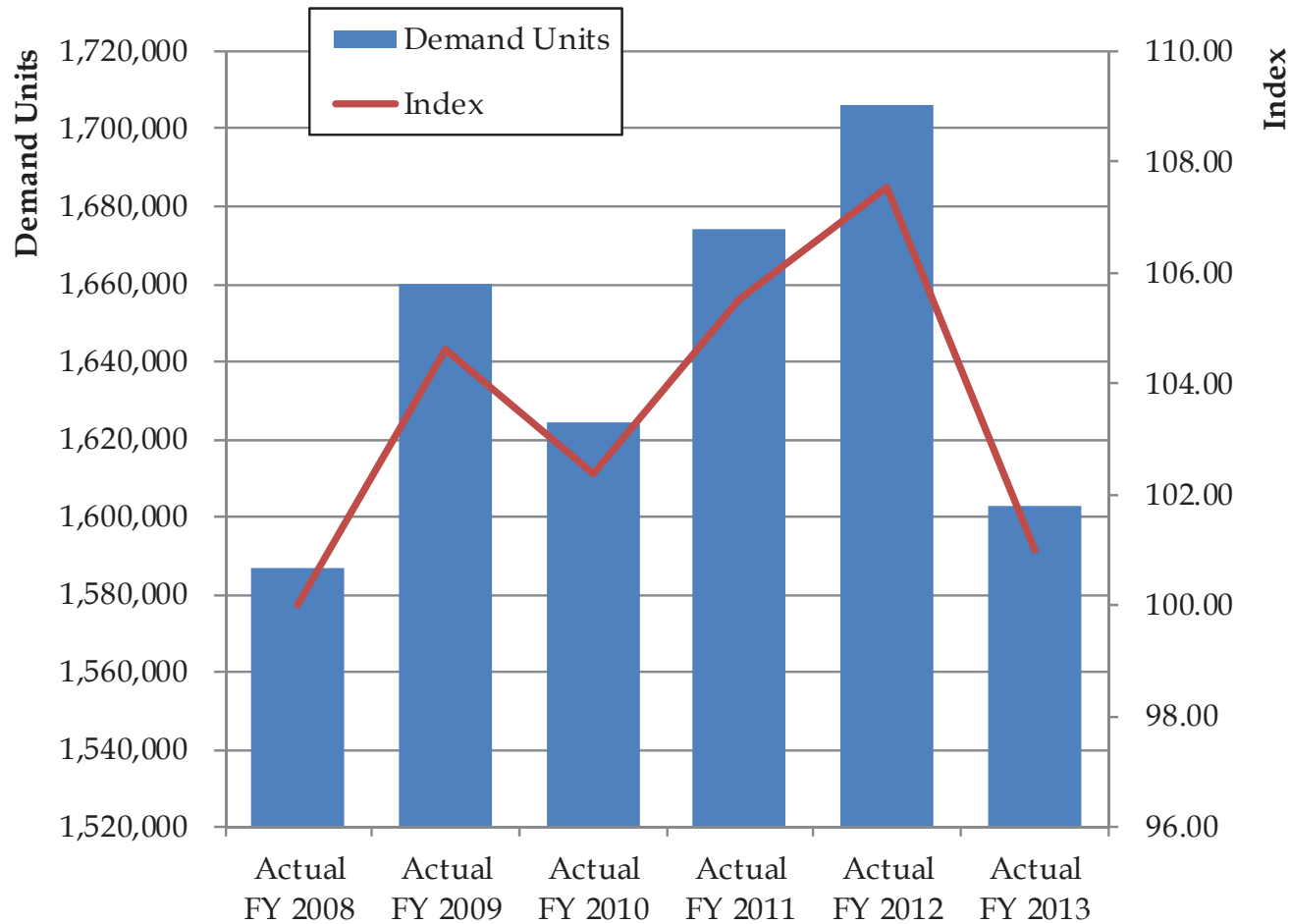
Demand for Service Index

Demand for Services Index						
	Actual FY 2008	Actual FY 2009	Actual FY 2010	Actual FY 2011	Actual FY 2012	Actual FY 2013
Library Circulation and Computer Use	1,308,140	1,338,621	1,281,028	1,330,357	1,357,848	1,248,013
Index	100.00	102.33	97.93	101.70	103.80	95.40
Average Daily Membership	36,952	38,554	39,366	39,900	40,359	40,958
Index	100.00	104.34	106.53	107.98	109.22	110.84
Social Services Client Visits (Calendar Year)	44,446	52,953	55,102	56,601	57,985	57,351
Index	100.00	119.14	123.98	127.35	130.46	129.04
Health Department Visits	29,026	31,745	36,857	25,907	23,869	23,650
Index	100.00	109.37	126.98	89.25	82.23	81.48
Average Daily Water Consumption (000's)	9,617	8,659	9,395	11,420	11,280	11,100
Index	100.00	90.04	97.69	118.75	117.29	115.42
Water and Sewer Connections	65,232	66,345	67,080	68,162	70,257	72,712
Index	100.00	101.71	102.83	104.49	107.70	111.47
EMS Calls	15,529	15,586	16,527	17,440	18,155	18,808
Index	100.00	100.37	106.43	112.31	116.91	121.12
EMS Transports	10,782	10,911	11,586	12,205	12,597	12,900
Index	100.00	101.20	107.46	113.20	116.83	119.64
Building Inspections	713	1,341	1,070	1,201	2,057	2,640
Index	100.00	188.08	150.07	168.44	288.50	370.27
Sheriff Calls For Service (Calendar Year)	66,343	95,172	106,230	111,038	111,865	114,653
Index	100.00	143.45	160.12	167.37	168.62	172.82
Demand Units	1,586,780	1,659,887	1,624,241	1,674,231	1,706,272	1,602,786
Index	100.00	104.61	102.36	105.51	107.53	101.01



Demand For Services Index

Demand for Services Index



Source: Union County Department of Administrative Services, FY 2008 =100.00



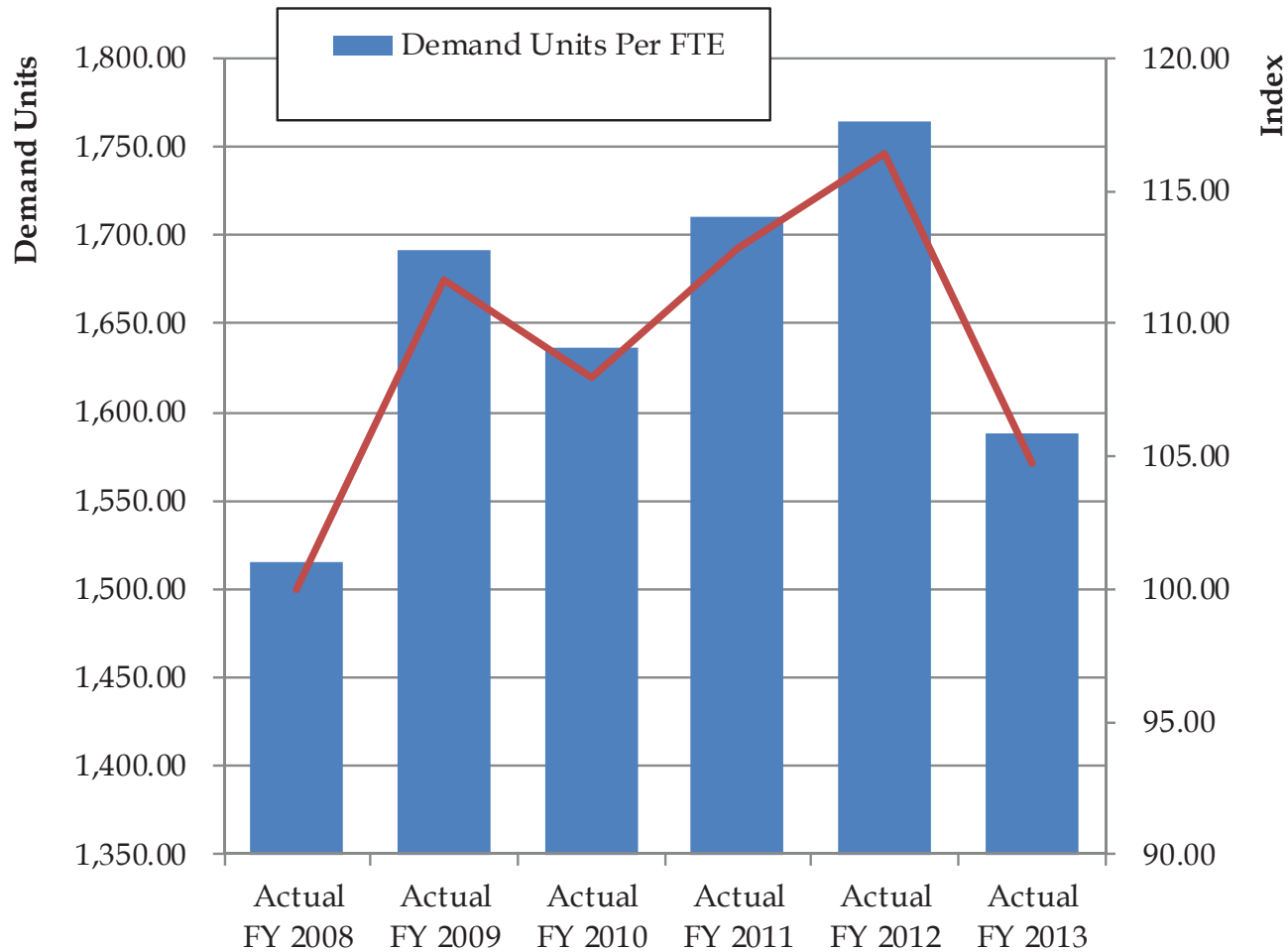
FTE Index

	Actual FY 2008	Actual FY 2009	Actual FY 2010	Actual FY 2011	Actual FY 2012	Actual FY 2013
FTE	1,046.70	980.90	992.50	979.10	966.80	1,009.18
FTE Index	100.00	93.71	94.82	93.54	92.37	96.42
Demand Units	100.00	104.61	102.36	105.51	107.53	101.01
Demand Units Per FTE	1,515.98	1,692.21	1,636.51	1,709.97	1,764.87	1,588.21
Demand Units Per FTE Index	100.00	111.62	107.95	112.80	116.42	104.76



FTE Index

Demand Per FTE

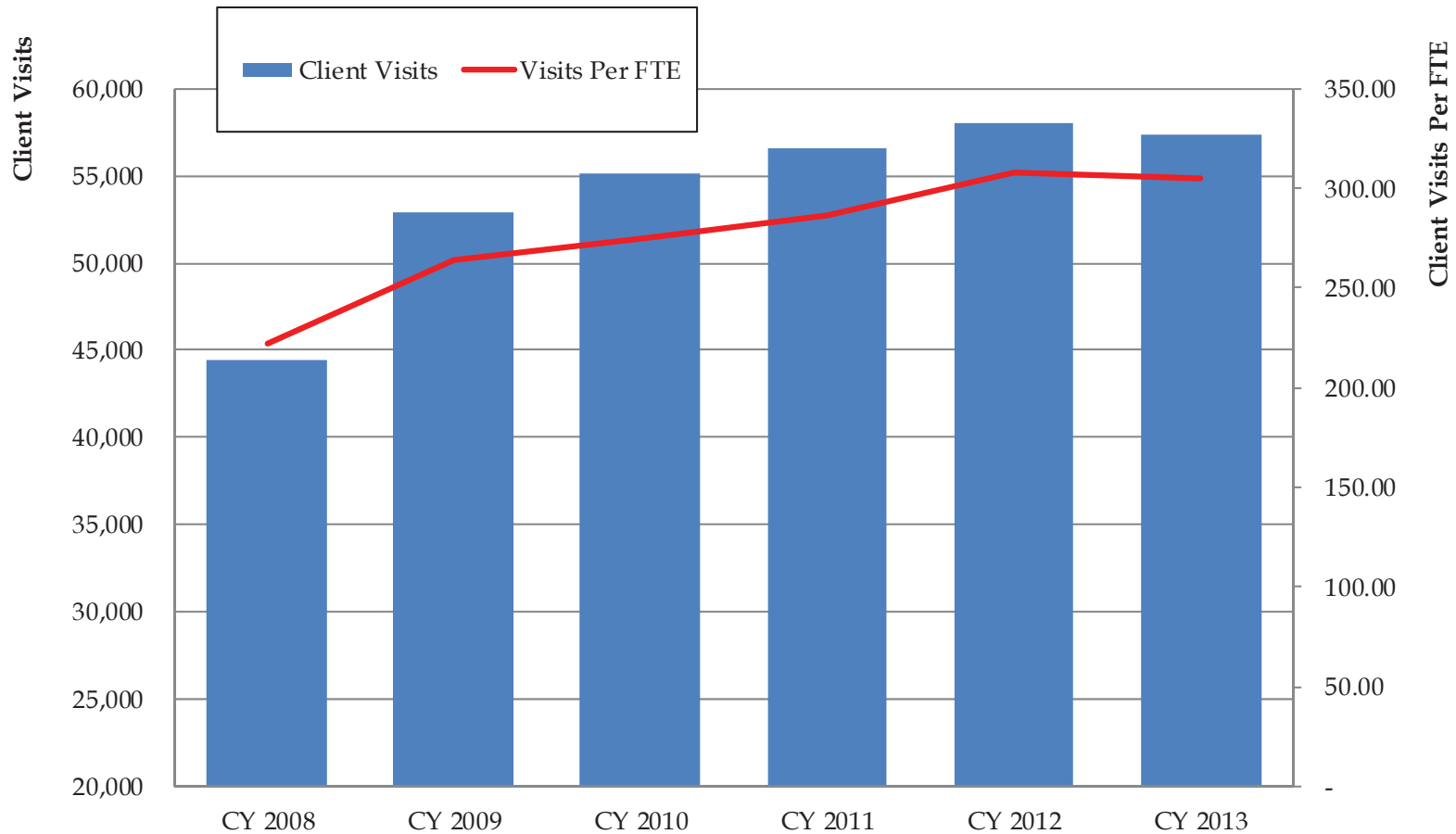


Source: Union County Department of Administrative Services, FY 2008 =100.00



Social Services Client Visits Per FTE

Client Visits Per FTE

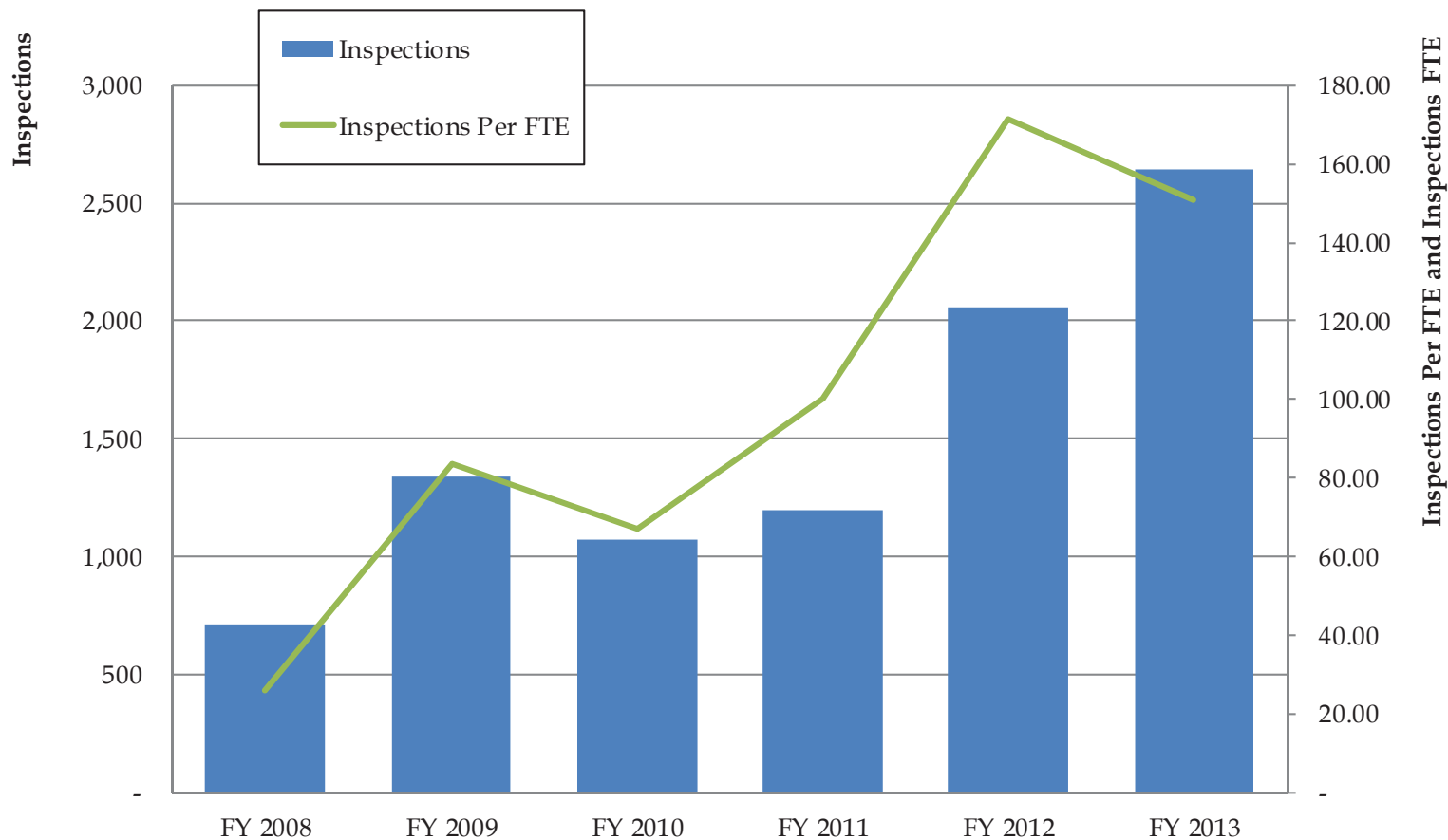


Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2013



Building Inspections per FTE

Inspections Per FTE



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2012



Demand for Services Index Conclusions

- Demand for Services index is 101.01
- Given the index number, the County is providing 1 percent more services than in FY 2008 with 37.52 fewer FTE.
- Staffing Levels are a Stress Area



Findings

- Current Projection is Unsustainable
- Dichotomy between Affordability and Service Expectations
- Critical Crossroads for the Future of Union County
- Focus on Maintenance and Current Services
- Period of Limited Growth



Recommended Budget Focus Areas

- Growth Management and Economic Development Planning
- Sustainable Volunteer Fire Department Funding
- Sustainable UCPS Funding Model
- Sustainable Water and Sewer Rate Plan



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Building a Fiscally Sustainable Future

Five-Year Financial Projections, Fiscal Indicators, and Demand for Services Index



Executive Summary

The “Five-Year Projection” provides a snapshot into the future regarding the County’s General Fund and Water and Sewer Utility Fund, debt issuance, and economic and demographic trends.

This report is intended to provide a decision-making base by providing a projection of the County’s fiscal health and what lies ahead. Historic trends provide a look at the impact of past decisions by the Board of County Commissioners and County Management; however, studying forward trends helps to estimate the future impact of current policies and financial decisions.

Traditionally, the financial projections have focused on strictly financial information, looking more at the cost drivers of services than the demand side. While this detailed cost side analysis has its merits, particularly during economic downturns, it fails to evaluate the financial health of the County or the underlying demand for County services.

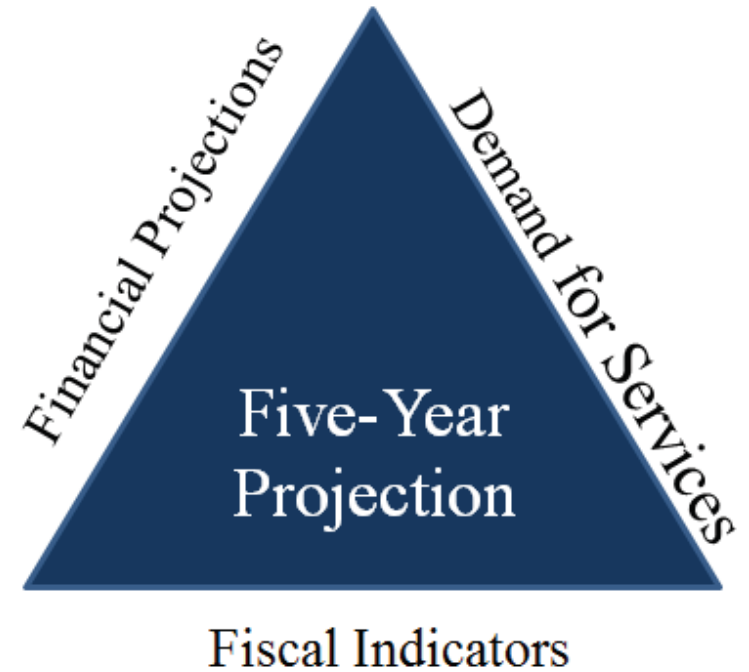
With this in mind, the FY 2015 five-year projection provides a three pronged approach.

Financial Projections provide a statistically valid projection of future costs and revenues. This core information provides a basis for decision making in the upcoming budget process as well as providing some general indications concerning the anticipated resource requirements for the future.

Fiscal indicators provide a more global look at the fiscal health of the County. The fiscal indicators use various economic, demographic, and financial indicators to establish trends. These trends in turn provide an indication of fiscal health and sustainability. Much like a thermometer provides a temperature reading, fiscal indicators provide a picture of the County’s financial health.

Demand for services indexing provides a service side analysis of demand. While not comprehensive, the selected demand indicators provide an indexed look at the past demand for services. With this look at demand trends there is indication of possible future demand. An index is indicative of underlying trends, and provides a directional look at service demands.

Using these three tools one can draw several conclusions or “Findings” concerning the future of finances and services in the County. It’s from these findings that staff can recommend focus areas for the upcoming budget process.



This five-year projection is intended to be the starting place for the budget discussions and prompt educated discourse concerning finances, services, and policy.

The report is broken into four parts:

- 1) The Executive Summary provides a dashboard look at the financial data and financial projections, Fiscal Indicators, and Demand for Services, as well as the report findings and recommendations.
- 2) The Financial Projections provide additional financial commentary.
- 3) The Fiscal Indicators section provides an overview and an indicator-by-indicator analysis and explanation.



- 4) The Demand for Services index provides an overview and an indicator-by-indicator explanation and analysis.

Setting the Stage for the Future

During the fall of 2013, the Board of County Commissioners discussed a Draft 2020 Vision statement.

Through continuity of leadership and direction and built upon consensus of the community, we identify and implement strategies, programs, and services necessary to promote and sustain the quality of life and lifestyles unique to Union County.

The vision statement provides a perspective for decision making that helps to guide the policy and decision making process. As the projections will indicate there are a number significant issues looming for the County.

The Board of County Commissioners, along with the County Manager, established several key strategic areas of focus.

**Public Safety
Building Community Consensus
Planning and Economic Development
Fiscal Sustainability
Efficient and Effective Service Delivery**

The five areas will drive the budget development conversation and it's with these areas in mind that the information contained in this document can be used to shape the future of Union County.

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General Fund Financial Projection

	Actual FY 2013	Revised FY 2014	Projected FY 2015	Projected FY 2016	Projected FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020
Funding Sources								
Ad Valorem Taxes	\$ (157,703,452)	(156,081,812)	(158,115,022)	(160,183,605)	(162,288,470)	(164,430,557)	(166,610,838)	(168,830,319)
Local Option Sales Tax	(26,834,776)	(26,948,400)	(28,895,729)	(29,618,122)	(30,358,575)	(31,117,539)	(31,895,478)	(32,692,865)
Other Taxes	(2,093,213)	(1,826,000)	(1,923,924)	(1,986,659)	(2,051,867)	(2,119,660)	(2,190,152)	(2,263,467)
Unrestricted Intergovernmental Revenue	(81,981)	(61,700)	(61,874)	(62,051)	(62,233)	(62,417)	(62,606)	(62,798)
Restricted Intergovernmental Revenue	(10,990,062)	(10,235,667)	(11,222,978)	(11,391,580)	(11,564,067)	(11,740,537)	(11,921,091)	(12,105,834)
Federal Grants	(15,859,114)	(11,503,437)	(11,503,437)	(11,503,437)	(11,503,437)	(11,503,437)	(11,503,437)	(11,503,437)
State Grants	(3,900,615)	(8,233,302)	(8,233,302)	(8,233,302)	(8,233,302)	(8,233,302)	(8,233,302)	(8,233,302)
Non-Enterprise Charges For Services	(8,451,001)	(8,775,563)	(8,681,423)	(8,808,053)	(8,937,766)	(9,070,644)	(9,206,772)	(9,346,235)
Debt Proceeds - Restricted Revenue	(80,474,253)	-	-	-	-	-	-	-
Investment Income	(116,820)	(500,000)	(505,000)	(510,050)	(515,151)	(520,302)	(525,505)	(530,760)
Other Revenue	(7,058,776)	(6,677,251)	(6,677,561)	(6,677,874)	(6,678,190)	(6,678,510)	(6,678,832)	(6,679,158)
Interfund Transfers	(20,023,787)	-	-	-	-	-	-	-
Planned Fund Balance Usage	-	(10,140,568)	-	-	-	-	-	-
Total Funding Sources	\$ (333,587,850)	(240,983,700)	(235,820,249)	(238,974,733)	(242,193,057)	(245,476,905)	(248,828,013)	(252,248,174)
Expenditures								
Employee Compensation	\$ 34,027,344	37,715,371	38,841,295	40,000,996	41,195,488	42,425,816	43,693,053	44,998,307
Employee Benefits	18,628,020	20,878,894	22,423,438	23,667,560	24,987,631	26,388,563	27,875,597	29,454,326
Operating Cost	27,620,869	31,932,285	31,633,914	32,449,433	33,289,601	34,155,299	35,047,448	35,967,004
Capital Outlay	946,691	1,880,296	1,911,277	1,985,473	2,062,952	2,143,868	2,228,386	2,316,676
Contracts, Grants, and Subsidies	8,992,335	9,947,486	10,146,436	10,349,364	10,556,352	10,767,479	10,982,828	11,202,485
UCPS Current Expense	81,504,155	83,021,859	86,068,396	87,195,524	88,342,265	89,509,124	90,696,622	91,905,298
General Debt Service	107,168,994	5,472,064	3,635,788	3,866,597	3,778,407	4,012,250	4,984,375	3,542,578
UCPS Related Debt Service	43,426,394	44,012,450	44,989,088	43,733,632	43,511,858	42,479,116	40,119,411	37,447,184
Interdepartmental Charges	(2,454,470)	(2,653,965)	(2,707,044)	(2,761,185)	(2,816,409)	(2,872,737)	(2,930,192)	(2,988,796)
Interfund Transfers	51,979	8,412	2,149,915	2,608,412	933,412	915,912	898,412	880,912
UCPS PayGo Capital Funding	-	8,357,859	22,454,431	16,589,630	19,214,687	17,908,448	11,770,116	16,000,000
Other Budgetary Accounts	-	410,689	414,796	418,944	423,133	427,365	431,638	435,955
Total Expenditures	\$ 319,912,311	240,983,700	261,961,728	260,104,380	265,479,376	268,260,502	265,797,695	271,161,929
Revenues (Over)/Under Expenditures	\$ (13,675,539)	-	26,141,479	21,129,647	23,286,319	22,783,597	16,969,682	18,913,755

General Fund Trend and Analysis

Based on the current projections, the General Fund expenditures are projected to significantly outpace the growth in revenues. As the dashboard table suggests, this “deficit” scenario continues through the projection window.

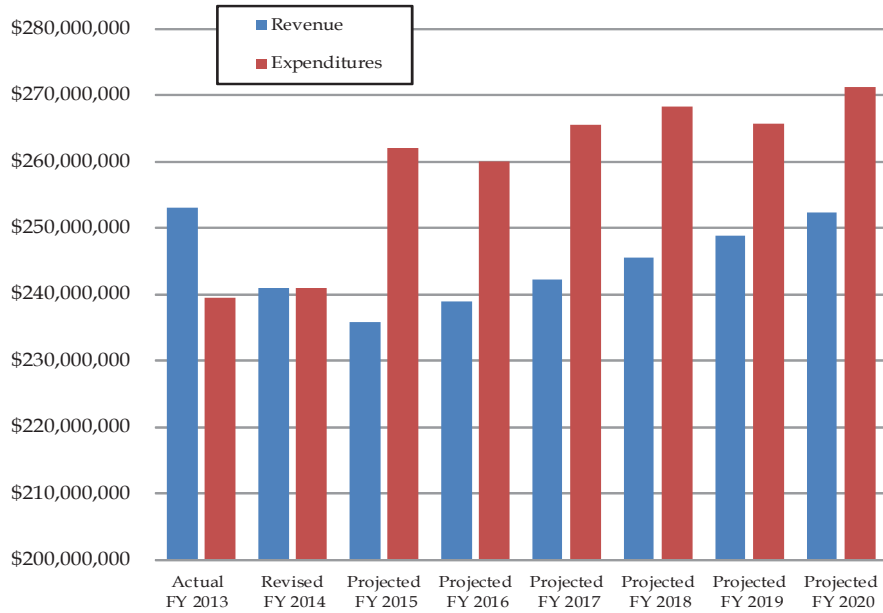
Revenues are anticipated to grow, on the whole by an annual average of about .76 percent through the projection window from FY 2014 through FY 2020. The projected growth reflects the one-time use in FY 2014 of fund

balance as revenue. From FY 2015 through FY 2020 revenues are anticipated to grow by only 1.36 percent on average annually.

Expenditures during the same period are anticipated to increase on average 1.99 percent annually. The projected growth reflects a declining debt service offset by the growth in expenditures. In addition the largest driver of the growth in cost is the UCPS PayGo Capital Funding fluctuating between \$22.45 million in FY 2015 to \$11.77 million in FY 2019. The projected UCPS PayGo is based on the UCPS FY 2014 Six-Year Capital Request.

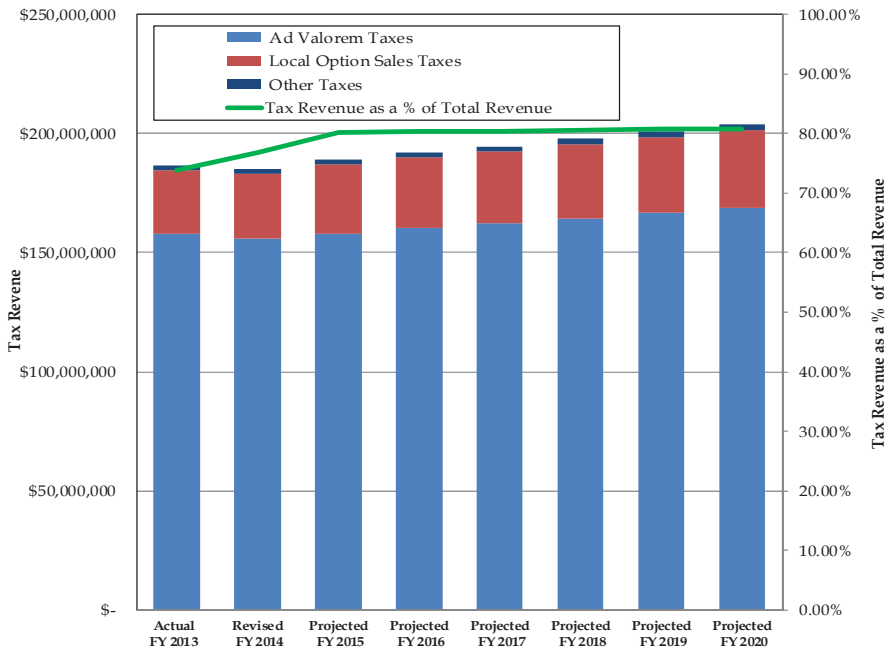


General Fund Revenue and Expenditure Projection



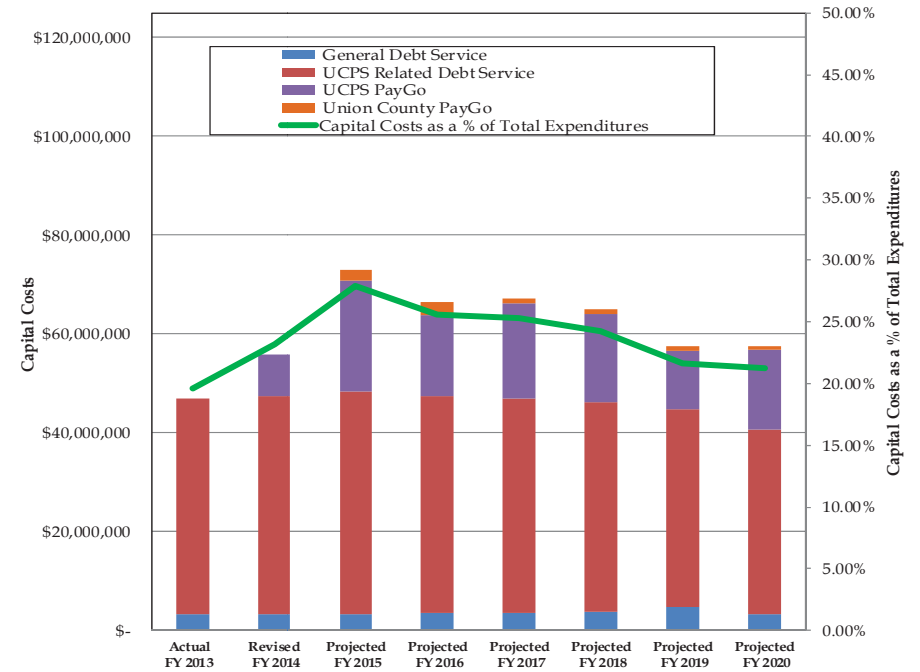
Note: FY 2013 Has been adjusted for debt proceeds from refundings.

Tax Revenue



Note: FY 2013 has been adjusted for debt proceeds from refundings.

Capital Costs (Debt Service & PayGo Capital)



Note: FY 2013 has been adjusted for debt proceeds from refundings.

FY 2014 General Fund Fund Balance Breakdown

General Fund Fund Balance 06/30/2013	\$	79,669,056
Less: Non-Spendable Fund Balance		(279,914)
Less: Restricted Fund Balance		(13,342,913)
Less: Unassigned 16% Reserve Policy		(35,366,994)
Less: Unassigned 4% Ratings Reserve		(8,841,749)
Less: Assigned for Schools Capital		(8,357,859)
Less: Assigned for School's True Up Paym		(761,450)
Less: Assigned for FY 2014 GF Budget		(1,021,259)
Total Unassigned Available	\$	11,696,919



While use of General Fund balance is a short-term option, the sustained use to balance the budget is cause for concern. **The projection indicates a structural imbalance, not an economic imbalance. Because of this structural imbalance policy changes will be necessary to negate or avoid future fiscal insolvency.**

The financial results for the fiscal year ended June 30, 2013, provided for growth in the General Fund Balance of about \$13.7 million to a total of \$79,669,056. This was due to better than anticipated revenue, debt refundings, and continued efficiencies. Pursuant to NC law, not all of the fund balance is available for appropriation. The table on the previous page illustrates the commitments and limitations on the availability of the fund balance.

Fund balance availability is dependent on cash and investments at fiscal year-end and excludes receivables - revenue that the County may have included in budget estimates but was not available at fiscal year-end. The unassigned available amount is about 4.8 percent of total General Fund expenditures, based on the calculation methods prescribed in the Board of County Commissioners' Financial Policies. This \$11.7 million of funding is above the adopted policy level of a 16 percent reserve and the recommended additional 4 percent reserve needed to maintain current ratings, assuming estimates and projections hold through the end of the year.

The addition to fund balance in FY 2013 was a result savings of \$8.37 million in expenditures, a variance of 3.65 percent and better than anticipated revenue of \$6.41 million, a variance of 2.83 percent. To put this into perspective a 2 percent variance in expenditures in the Revised FY 2014 Budget will result in a savings of \$4.8 million and a variance of just 2 percent in revenue in the Revised FY 2014 Budget would result in \$4.8 million of additional revenue. To restate, revenues and expenditures can be estimated to within 98 percent accuracy and the County would see an increase of \$9.6 million in fund balance. That is before any mid-year changes or intentional savings.

Additionally, Ad valorem taxes are estimated in accordance with *North Carolina General Statutes 159-13(b)-6*, which limits the estimate to the previous year's collection rate. Recent history indicates that this revenue will be greater than anticipated, however the County is required to use the mandated method.

Conclusions

Given this information, several conclusions can be drawn concerning the General Fund financial projections.

- The General Fund will see limited growth in both expenditures and revenue through the projection window; however, projected expenditures will continually outpace revenue.
 - The PayGo capital program, as it is included in the projection, is not sustainable without significant increases in revenue or changes in policy.
 - The deficits shown in the projection are structural in nature, not related to economic conditions.
- Employee costs will continue to grow as a percentage of total expenditures.
- The County's debt will continue to improve with both the annually required debt service and the outstanding principal seeing significant reductions annually.

The projection, while unfavorable, provides an opportunity to take corrective action, ahead of any long-term, irreversible events. The projection provides a basis for proactive decision making and reflects the need to be vigilant in the budget development process.

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Water and Sewer Fund Financial Projection

	Actual FY 2013	Revised FY 2014	Projected FY 2015	Projected FY 2016	Projected FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020
Revenue								
Non-Enterprise Charges For Services	\$ (12,722)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Enterprise Charges for Services	(29,554,076)	(32,240,902)	(31,441,013)	(32,223,594)	(33,025,678)	(33,847,749)	(34,690,307)	(35,553,862)
Investment Income	135,666	(338,444)	(338,444)	(338,444)	(338,444)	(338,444)	(338,444)	(338,444)
Other Revenue	(90,370)	(24,481)	(24,481)	(24,481)	(24,481)	(24,481)	(24,481)	(24,481)
Total Revenue	\$ (29,521,501)	(32,608,827)	(31,808,938)	(32,591,519)	(33,393,603)	(34,215,674)	(35,058,232)	(35,921,787)
Expenditures								
Employee Compensation	\$ 3,909,853	4,611,299	4,749,523	4,891,893	5,038,535	5,189,576	5,345,148	5,505,387
Employee Benefits	2,123,308	2,419,385	2,550,847	2,690,193	2,837,928	2,994,587	3,160,744	3,337,008
Operating Costs	12,290,721	13,149,314	13,444,068	13,747,921	14,061,206	14,384,273	14,717,482	15,061,212
Capital Outlay	371,359	824,000	840,480	857,290	874,435	891,924	909,763	927,958
Contracts, Grants, and Subsidies	381,341	295,092	300,994	307,014	313,154	319,417	325,805	332,322
Debt Service	6,769,651	6,627,374	6,524,223	11,599,522	14,175,838	23,660,365	24,615,289	25,535,431
PayGo Capital Program	7,600,000	47,970,682	12,656,400	5,722,500	4,166,400	4,416,000	5,050,400	6,000,000
Interfund Transfer	208,944	319,893	319,893	319,893	319,893	319,893	319,893	319,893
Total Expenditures	\$ 33,655,177	76,217,039	41,386,427	40,136,225	41,787,390	52,176,035	54,444,524	57,019,210
Revenues (Over)/Under Expenditures	4,133,675	43,608,212	9,577,489	7,544,706	8,393,787	17,960,361	19,386,292	21,097,423
Unrestricted Fund Balance	\$ 84,931,611	41,323,399	31,745,910	24,201,204	15,807,417	(2,152,943)	(21,539,235)	(42,636,658)

Water and Sewer Fund Trend and Analysis

During the projection period, from FY 2015 through FY 2020, the current projection indicates a significant operating deficit each year. As the graph indicates, the average annual deficit is \$14 million, beginning in FY 2015 at \$9.6 million and growing to \$21.1 million in FY 2020.

Keep in mind, the projection includes PayGo capital and additional debt service for the capital program, but does not include any future rate increases. Because of this, the annual deficits can be considered a projection of annual revenue needed to balance the fund and as such are an indicator of possible future rate increases.

During the projection period, the system is anticipated to grow, through increased customers and/or usage, on average at 2.5 percent. Combined with revenue, the total average revenue growth is projected at 2.46 percent.

In total, including all operating, capital, and debt costs, the Water and Sewer Fund costs will grow by an average of 6.62 percent annually through the projection period.

During the projection period, from FY 2015 through FY 2020, the largest driver of growth is the increase in debt service related to the capital program. The debt service is anticipated to increase by \$19 million, or about 31.4 percent annually.

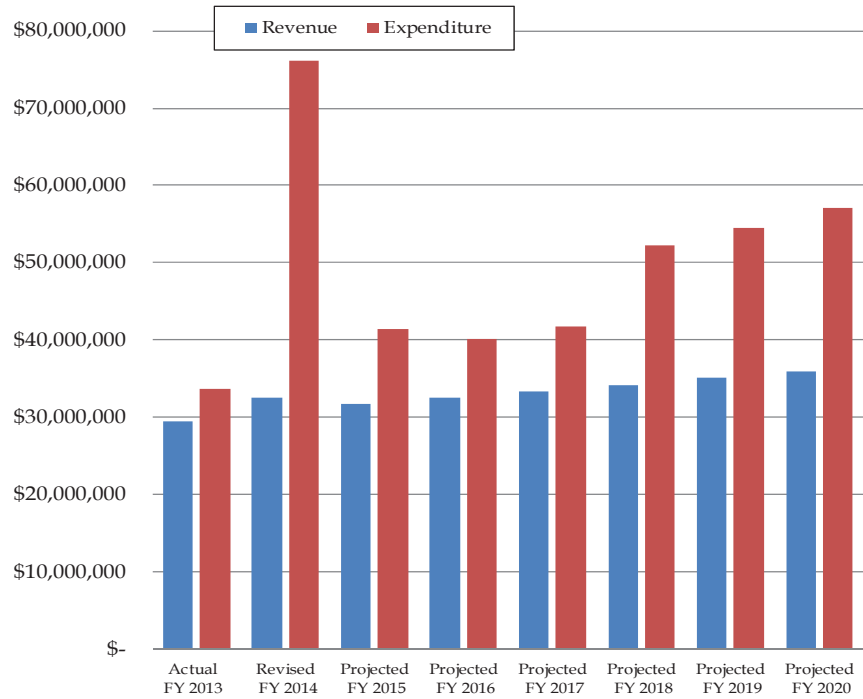
Excluding the capital effort (PayGo capital funding and debt service) the operating costs will grow an average of 2.8 percent annually or \$3.28 million by the end of the projection period. The growth in the operating costs is largely driven by the average 5.5 percent growth in benefits.

The financial results for the fiscal year ended June 30, 2013, resulted in a decrease of \$4.1 million in the Water and Sewer Fund Balance. This decline is the result of the planned usage of fund balance for capital as well as lower than anticipated user charge revenue.

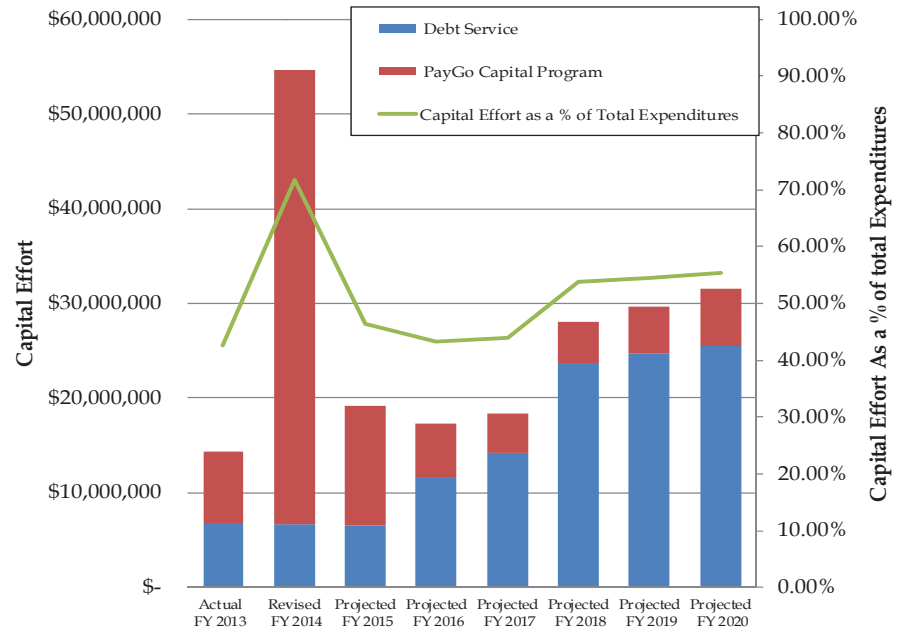
The total available unrestricted fund balance is based on the current policy of maintaining 365 days of operating costs. Based on the projected total available unrestricted fund balance, at the end of FY 2014 it is anticipated that there will be about 424 days of reserves.



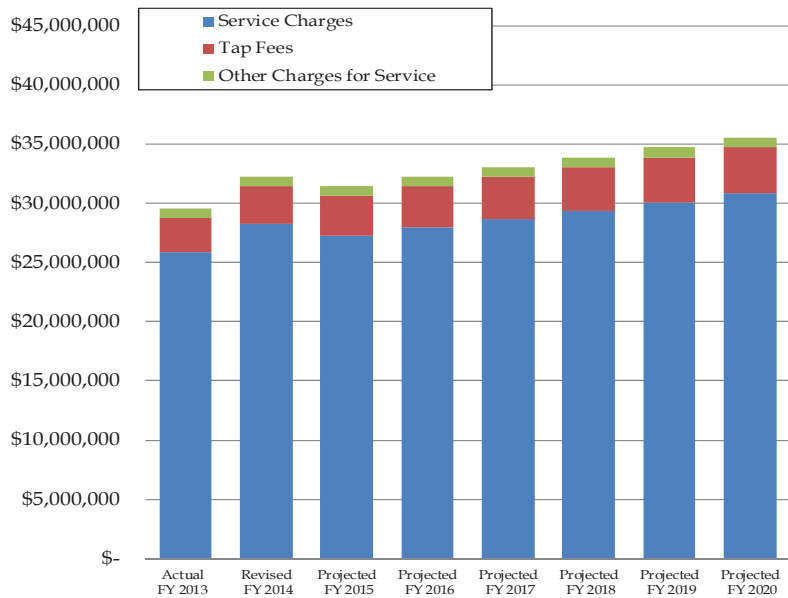
Water and Sewer Fund Revenue and Expenditures Projection



Water and Sewer Fund Capital Effort



Water and Sewer Charges for Service



Water and Sewer Unrestricted Fund Balance

Unrestricted Fund Balance 06/30/2013	\$	84,931,611
Less: FY 2014 Assigned For Capital		(47,970,682)
Less: 365 Day Reserve Requirement		(31,823,456)
Total Available Unrestricted Fund Balance	\$	5,137,473



The available unrestricted fund balance may be used as a short-term rate stabilization tool, however, the sustained use of the fund balance to balance the budget is cause for concern. **The projection indicates needed rate increase. The extent to which rates will need to be increased will be based on the revised capital plan.**

Conclusions

Through a thorough analysis of the data and plans, there are a few conclusions that can be drawn concerning the Water and Sewer Utility Fund:

- Future growth in the system and the intense capital needs will result in rate increases.
- Considering the size of the Capital Program the focus in FY 2015 and beyond will be efficient and effective project delivery.
- One factor, not indicated in this projection, is the impact that quality utility services have on economic development.

Generally speaking, while the projection indicates significant deficits, the absence of projected rate increases provides a reasonable explanation. The previous rate models and plans indicated the need for rate increases in the future and this projection is no different. Through refinement of the capital plan during the FY 2015 budget process, the extent of the possible rate increases will be known.

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Union County Public Schools Cost Analysis

	Projected Current Expense Funding	Projected PayGo Capital Funding	UCPS Related Debt Service	Total UCPS Direct Expenditures	As a % of Total General Fund
FY 2013	\$ 81,504,155	-	43,426,394	124,930,549	52.18%
FY 2014	83,021,859	8,357,859	44,012,450	135,392,168	56.18%
FY 2015	86,068,396	22,454,431	44,989,088	153,511,915	58.60%
FY 2016	87,195,524	16,589,630	43,733,632	147,518,786	56.72%
FY 2017	88,342,265	19,214,687	43,511,858	151,068,810	56.90%
FY 2018	89,509,124	17,908,448	42,479,116	149,896,688	55.88%
FY 2019	90,696,622	11,770,116	40,119,411	142,586,149	53.64%
FY 2020	91,905,298	16,000,000	37,447,184	145,352,483	53.60%

Through the projection period, assuming an amended UCPS funding formula is approved, the FY 2014-2019 UCPS Capital Request, and the current projected debt service remains the same, the direct funding for UCPS will remain on average 55.9 percent of the total General Fund expenditures during the projection period.

The projection amends the FY 2014 Funding Formula by increasing the penny allocation to 36.52, equivalent to the FY 2014 Current Expense request, and carries that allocation throughout the projection.

The value of the formula is anticipated to grow, on average by 1.32 percent annually from FY 2015 through FY 2020.

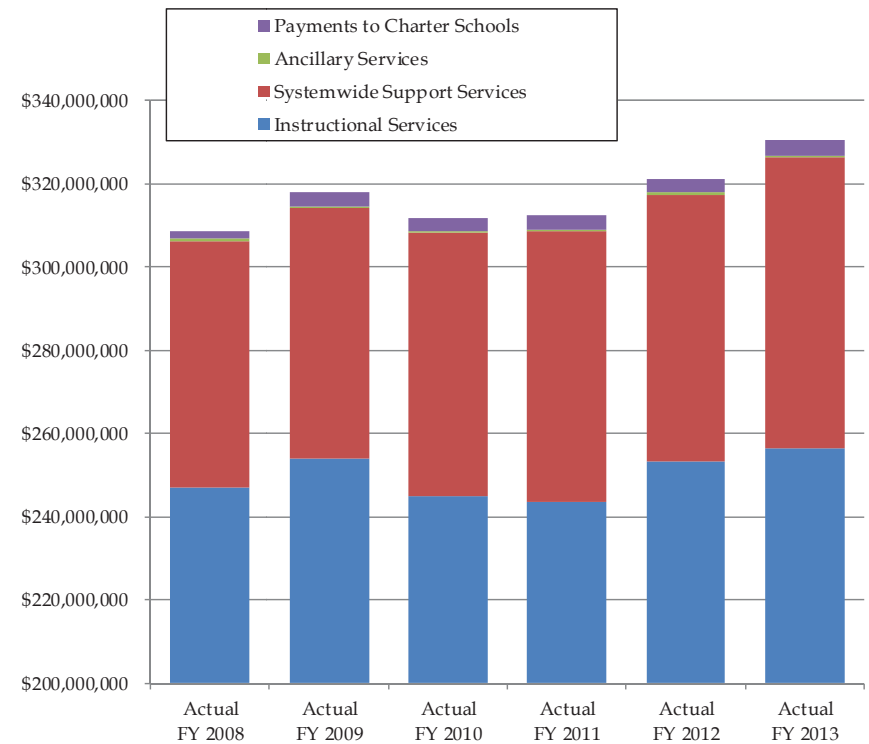
Looking back, through analysis of the UCPS Comprehensive Annual Financial Reports, several trends in expenditures become apparent. Overall, from FY 2008 through FY 2013, the total expenditures for Governmental Activities (excluding child nutrition services and child care programs) grew by an average of 1.37 percent annually.

From FY 2008 through FY 2013, expenditures for instructional services grew an average of .77 percent annually, or about \$1.92 million. The expectation would be the growth of instructional services would grow in proportion to the growth in students and/or inflation. However, this trend is counter intuitive, as student enrollment (as shown in the "McKibben Report" as presented in December 2013) has grown an average of 1.83 percent or about 700 students annually.

During the same analysis period, system-wide support services have grown by an average 3.38 percent or by an average \$2.14 million annually. The largest growth areas within the system-wide support services were technology services, growing an average of 34.7 percent or \$1.24 million

annually and the operational support area, growing an average 4.5 percent or \$2.09 million annually. The other areas included in the system-wide support area experienced reductions or minimal growth during the analysis period. These trends indicate an increased focus on technology within the school system as well as the growing cost of the operational support area.

UCPS Governmental Activity Expenditures



Source: Exhibit 2, Union County Public Schools Comprehensive Annual Financial Report

During the development of the FY 2014 Operating and Capital Budget process UCPS presented a six-year capital plan. Although the funding plan was received too late in the process to be incorporated into the FY 2014-2019 Capital Improvement Program, the request has now been included in the projections.



Based on the Board of County Commissioners adopted, "Union County Capital Improvement Program Management Policy" new facilities, or in this case new schools, will be voted by referendum and will ultimately be funded through the use of general obligation debt with the needed corresponding tax increases to provide for the annual debt service.

For the purposes of this projection, the new schools have been distilled from the FY 2014 six-year capital plan. The remaining projects have been included in the projections with PayGo capital program funding.

The FY 2020 projected amount is an average of the preceding years and in this case is used as a planning tool as UCPS has not requested its FY 2020 proposed capital program. The projection includes \$112.3 million of ongoing capital funding for UCPS.

Enrollment Analysis

McKibben Report Forecasted Enrollment			
	Peak Year Enrollment 2013-2024	Current Capacity*	Peak (Over)/Under Capacity
Elementary Schools	19,144	21,085	1,941
Middle Schools	10,692	9,900	(792)
High Schools	13,044	12,300	(744)
CATA	823	850	27
Early College	293	400	107
Other Schools	187	201	14

*Note: Capacity as shown in Table 14, UCPS CAFR for FYE June 30, 2013.

The table above indicates that throughout the system there is sufficient capacity in the elementary schools. However, there are peak years of 2021-22 for middle schools and 2023-24 for high schools, in which the system is beyond capacity.

A further analysis of the capacity within the middle schools indicates, that starting in 2014-15, the system is at 104.6 percent of its capacity, climbing to a the projected peak year of 108 percent of capacity in 2021-22. The indicator of stress within the system is when enrollment reaches 110 percent of capacity.

Additionally, the detailed analysis of the high schools forecast indicates that starting in 2016-17, the system is at 102.65 percent of high school capacity,

climbing to a projected peak of 106 percent in 2023-24. Again the indicator of stress within the system is 110 percent of capacity.

The data indicates that the system capacity is not necessarily the glaring issue, the geographic alignment of the students and the school assignments appear to be the challenge. The UCPS Board of Education has begun discussion of shifting school assignments to ensure that current facilities are maximized.

Conclusions

Based on the analysis and review of the information, several conclusions concerning UCPS funding can be drawn.

- UCPS continues to be the single largest expenditure in the County, consuming on average more than 55.9 percent of the annual budget.
- Generally the growth in expenditures has followed student growth; however, one of the largest growth areas from FY 2008 through FY 2013 has been in the system-wide support.
- As discussed at length during the General Fund financial projection, the PayGo funding program, largely driven by UCPS PayGo capital funding is not fiscally sustainable. \$112.3 million has been included in the projections for the UCPS PayGo capital program; however this has contributed to significant deficits in future years.

As with the General Fund Projection, this projection is not positive. However, the projections can serve as a starting place for future discussions related to growth, maintenance, and new facilities. The County and UCPS must work together to mitigate the future fiscal challenges of both organizations.

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Fiscal Indicators							
Indicator	Trend	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenue per Capita		\$ 467.38	489.93	470.62	447.94	572.54	429.94
Tax Revenue		\$ 78,100,083	91,194,580	88,288,359	86,696,379	87,152,990	87,047,193
Expenditures per Capita		\$ 888	809.53	635.74	576.46	552.54	535.20
Employees per Capita		0.0057	0.0051	0.0051	0.0049	0.0047	0.0048
Employee Benefits as a % of Employee Compensation		48.69%	51.46%	52.43%	54.10%	61.26%	56.01%
Water & Sewer Enterprise Fund Operating Position		\$ 11,581,401	11,474,533	12,176,728	12,470,131	12,162,388	12,280,048
Liquidity		259.02%	295.21%	298.11%	263.78%	349.82%	320.71%
Long-Term Debt as a % of Assessed Valuation		2.47%	2.12%	1.97%	1.85%	1.73%	1.62%
Population		182,360	191,514	196,322	201,292	205,717	210,410
Population Under 18 and Over 64		47.07%	45.41%	45.17%	44.93%	44.72%	43.07%
Personal Income (Note 1)		\$ 16,617	16,637	16,257	16,211	16,698	16,843
Public Assistance Recipients per 1,000 Population (Note 2)		142.07	160.99	177.45	187.82	195.27	220.78
Top Ten Tax Payers as a % of Assessed Valuation		3.60%	4.30%	3.54%	3.97%	3.48%	3.44%
Local Unemployment Rate		5.50%	11.00%	10.10%	9.60%	8.60%	8.00%
Gross Retail Sales (000s)		\$ 1,200,307	1,162,891	1,076,852	1,122,433	1,197,951	1,321,781

Note 1: Personal income reflects data from calendar year 2006 to calendar year 2011.

Note 2: Public assistance recipients reflects data from FY 2007 to FY 2012.

	Positive Trend
	Neutral Trend to be Monitored
	Negative Trend

Fiscal Indicators

The notion of financial condition, given the economic issues of the most recent economic downturn, has taken on a greater and varied meaning for local governments throughout the country. For the purposes of this report, financial condition refers to the County's ability to finance its services on a continuing basis. The use of fiscal indicators provides a concise indication of:

- The County's ability to maintain its existing service levels.
- The County's ability to withstand local and regional economic disruption.
- The County's ability to meet the changing demands of natural growth, decline, and demographic shifts.

Evaluating the County's financial condition can be a complex process, with a multitude of factors having significant impacts. The use of fiscal indicators provides an organized, indicative means to sort through these factors and hone in on representative indicators. These indicators provide a "snapshot" of financial condition and demographic changes. Each indicator provides meaningful information and areas for additional study.

The chosen indicators provide information concerning a number of financial and demographic factors. For the purpose of this report, the trend in each indicator is shown by an arrow. Green arrows indicate that the trend is moving in a positive direction, orange arrows indicate instability in recent years and the need to continue to monitor the trend, and finally, the red arrows indicate a negative trend.



When items have been adjusted to constant dollars, they have been adjusted to the base year of the Consumer Price Index (1982=100). The use of constant dollars provides an apples to apples comparison by adjusting for inflation.

As the dash board on the previous indicates, of the fifteen indicators, nine are trending positive, while four are indicating the need for continued monitoring, and two are negative.

The positive trends are indicating a positive trend in growth concerning income, debt, demographic, and local tax base. Additionally, governmental expenditures are showing positive trends. Essentially, the indicators show that there is limited economic growth with controlled government expenditures.

The neutral trends or trends to watch are indicating that tax revenues, liquidity, and population growth have, in recent years, been erratic. These trends are not necessarily showing negative trends, but are showing signs of concern.

Finally, the negative trends, growing employee benefit costs and growing public assistance recipients, are cause for concern.

Conclusions

Given the prior year's trends, with the addition of FY 2013 actual data, the trends remain similar to the FY 2012 analysis. Before delving into the individual indicators, it is important to pause and evaluate the overarching results. From the dashboard on the previous page several conclusions can be drawn:

- Revenue continue to be fragile. This is reflective of the national economic sentiment as well as the weak economic recovery as a whole. The indicators continue to support the Board of County Commissioners' desire to focus on fiscal sustainability and economic development. Given the trends, these focus areas should remain in place for the foreseeable future.
- Expenditures have been managed in the organization. Although revenue has been erratic at times, the expenditure indicators demonstrate efficient operations or the onset of service level stressors (as discussed later). Even though there is a lack of qualitative analysis, it appears the

County has continued, through the economic downturn, to maintain its services.

- Benefit costs continue to be a concern. The growing cost of employee benefits continues to be a negative trend. The trend is reflective of national trends and is not expected to change in the near future.

The fiscal health of the County continues to remain strong. The majority of the indicators show positive trends, meaning that during the latest economic downturn the County was able to weather the storm. Despite these positive trends, the need for fiscal vigilance continues.

With these factors in mind, the financial policy decisions made in the next several years will drive the long-term financial condition of the County.

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Demand for Services Index						
	Actual FY 2008	Actual FY 2009	Actual FY 2010	Actual FY 2011	Actual FY 2012	Actual FY 2013
Library Circulation and Computer Use	1,308,140	1,338,621	1,281,028	1,330,357	1,357,848	1,248,013
Index	100.00	102.33	97.93	101.70	103.80	95.40
Average Daily Membership	36,952	38,554	39,366	39,900	40,359	40,958
Index	100.00	104.34	106.53	107.98	109.22	110.84
Social Services Client Visits (Calendar Year)	44,446	52,953	55,102	56,601	57,985	57,351
Index	100.00	119.14	123.98	127.35	130.46	129.04
Public Health Division Client Visits	29,026	31,745	36,857	25,907	23,869	23,650
Index	100.00	109.37	126.98	89.25	82.23	81.48
Average Daily Water Consumption (000's)	9,617	8,659	9,395	11,420	11,280	11,100
Index	100.00	90.04	97.69	118.75	117.29	115.42
Water and Sewer Connections	65,232	66,345	67,080	68,162	70,257	72,712
Index	100.00	101.71	102.83	104.49	107.70	111.47
EMS Calls	15,529	15,586	16,527	17,440	18,155	18,808
Index	100.00	100.37	106.43	112.31	116.91	121.12
EMS Transports	10,782	10,911	11,586	12,205	12,597	12,900
Index	100.00	101.20	107.46	113.20	116.83	119.64
Building Inspections	713	1,341	1,070	1,201	2,057	2,640
Index	100.00	188.08	150.07	168.44	288.50	370.27
Sheriff Calls For Service (Calendar Year)	66,343	95,172	106,230	111,038	111,865	114,653
Index	100.00	143.45	160.12	167.37	168.62	172.82
Demand Units	1,586,780	1,659,887	1,624,241	1,674,231	1,706,272	1,602,786
Index	100.00	104.61	102.36	105.51	107.53	101.01

Demand for Service Index

The Demand for Services index provides the County with an understanding of the changing needs of the residents. This index looks at the growth in usage of ten specific categories that include library circulation and computer use, schools average daily membership, social services client visits, public health division client visits, average daily water consumption, water and sewer connections, EMS calls, EMS transports, building inspections, and Sheriff calls for service.

The demand index uses these statistics to establish "demand units". The base year of the index is FY 2008 and measures growth from FY 2008. For

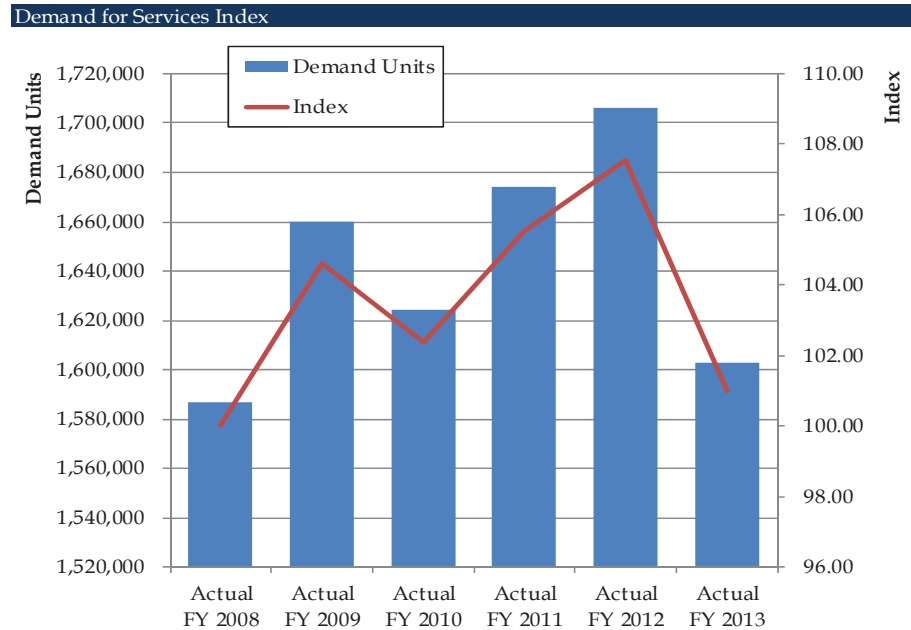
instance, if the index is 108.5 in FY 2013 then there is 8.5 percent more demand in FY 2013 than in FY 2008. Demand units are measured as their absolute unit values.

As the graph on the following page indicates, demand in FY 2009 grew by 4.61 to 104.61, which is reflective of the changing economic conditions at the time. In FY 2010, the index declined by 2.25 to 102.36. This reduction was partly driven by a 4.4 percent decline in library usage and a 38.0 percent decline in building inspections. By FY 2011, demand increased by 3.15, for an index total of 105.51; and increased by 2.02 from FY 2011 to FY 2012. By FY 2013 the index declined to 101.01. This reduction was partly driven by a 53.7



percent decline in registered users due to purging of inactive registered Library user accounts in FY 2013.

The largest growth in the demand for services, excluding building inspections, is in Sheriff's Department calls for service. In CY 2008 there were 66,343 and from CY 2012 to CY 2013 the number of calls increased by 2,788 to 114,653, a growth of 2.5 percent.



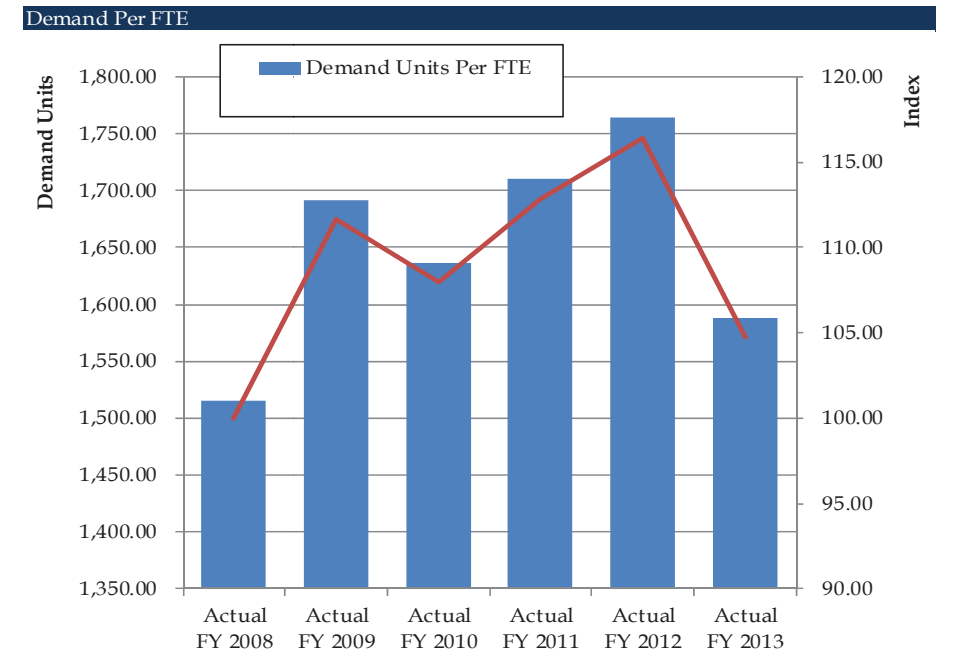
Source: Union County Department of Administrative Services, FY 2008 =100.00

Full-Time Equivalents (FTE) reflects the County's staffing levels; each FTE is the equivalent of one position. The FTE indicator is used to measure the County's capacity to provide services.

As the following graph indicates, in FY 2008 the County had 1,046.7 FTE, however by FY 2013 the County reduced its FTE to 1,009.18. This is a reduction of 37.5 FTE or 3.58 percent from FY 2008. The FTE Index is 96.42.

While there has been measured growth in the demand for services index, the demand units per FTE has grown at a greater rates. The largest jump came from FY 2008 to FY 2009, with an 11.62 jump. This is due to the increase in demand in conjunction with the County's reduction of 65.8 FTE. With the

increase in FTE and the decline in demand, the demand per FTE index in FY 2013 was 104.76; down from 116.42 in FY 2012.



Source: Union County Department of Administrative Services, FY 2008 =100.00

Conclusions

When considering the Demand for Services Index it is important to consider that the index is only indicative of the current trends and should be considered as a whole. The index provides a snap shot of the trends in demand.

With this caveat in mind, there are several conclusions that can be drawn:

- The demand index in FY 2013 was 101.01 indicating that the demand for services is growing, however, since the base year demand has grown annually by an average of .2 percent. This minimal growth reflects a steady increase in demand versus drastic increases as experienced early in the 2000s.
 - It is worth noting that the significant drop in computer usage and circulation at the Library is the



primary cause for the reduced demand index. This is perhaps indicative of the economic recovery and a reduced need for computer job searches.

- The FTE index in FY 2013 of 96.42 indicates that the County has reduced FTEs, however, the County continues to provide services. Staffing levels should be monitored to ensure sufficient staffing in the appropriate areas is maintained to deliver the needed services, as well as address possible areas of risk.
- The demand units per FTE index of 104.76 indicates that the County has experienced some stress on its service delivery capacity. While it is almost certain that efficiencies have eased the stress, a discussion of service levels, as well as area specific analysis should be undertaken to ensure that adequate service levels are maintained.

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Findings

For the purposes of this report, the findings answer the “so what?” question. All of the information included is informative and meaningful, but what does it mean for policy makers and management? Given the data provided in the projections, the fiscal indicators, and the demand indicators, there are some key findings that can be surmised:

- The most glaring component or realization emerging from the final projection is that the projected service levels are not fiscally sustainable. This is seen in the deficits in both the General Fund and the Water and Sewer Fund. The driver of the deficits in both funds is the heavy need for PayGo Capital and new debt funding. In the case of the General Fund, the PayGo Capital primarily focuses on UCPS funding. In the Water and Sewer Fund, the mix of PayGo Capital and new debt is driven by the ongoing maintenance of the system and the long-term water supply projects.
- The Demand for Services Index provides a glimpse into the needs of the community. In this case, the index indicates that the service demand is returning to FY 2008 levels. However, in reviewing the fiscal indicators, inflation adjusted personal income is only slightly higher than FY 2008 levels as well signaling a limited ability to afford expanding services. During this same period, inflation adjusted revenues per capita are down significantly, indicating that the County is providing the similar service level with lower revenue per capita.
- The County faces a critical juncture related to its service delivery model. While the County is fiscally healthy today, the changing service dynamics and community needs as well as the changing service level expectations create significant challenges in the future.
- The Capital funding included in the projections for the General Fund is largely focused on maintenance of existing assets. This focus on the assets is a “ramp-up” from the recent economic downturn, when Union County, like most counties in the country, reduced its PayGo Capital Funding as a means to not reduce services.
- Growth indicators are showing signs of growth, but on a limited basis. Economic conditions, utility capacity, and other issues will serve as limiters of growth. The projections indicate manageable growth,

however, the larger issue is the changing service demographics in the County.

While a number of conclusions can be drawn, these foundational findings provide an indication of the policy challenges in the upcoming budget process.

Recommended Budget Focus Areas

Based on the findings and the data provided, management recommends additional time is spent during the budget development process to focus on the following areas:

- Growth Management and Economic Development Planning – specifically how will the County assess the changing needs of growth as well as develop a sustainable plan to encourage economic development.
- Sustainable Funding for Volunteer Fire Departments – develop a long-term funding solution that assures adequate fire coverage throughout the County while maintaining the current character of the Volunteer Fire Department system.
- Sustainable Funding for UCPS – develop a long-term operating and capital funding strategy that provides for the needs, both operationally and for ongoing capital, of the school system while balancing the tax payers ability to pay.
- Sustainable Water and Sewer Rate Plan – develop a long-term water and sewer rate plan that provides for the systems operational and capital needs while balancing the short-term system needs and the long-term capital needs, ensuring inter-generational equity.

These items all have significant financial impacts and represent key risk areas for the County and its long-term fiscal sustainability. Because of this, it is management’s recommendation that these areas take the core focus during the public budget development and workshop process.



General Fund Financial Projection

	Actual FY 2013	Revised FY 2014	Projected FY 2015	Projected FY 2016	Projected FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020
Funding Sources								
Ad Valorem Taxes	\$ (157,703,452)	(156,081,812)	(158,115,022)	(160,183,605)	(162,288,470)	(164,430,557)	(166,610,838)	(168,830,319)
Local Option Sales Taxes	(26,834,776)	(26,948,400)	(28,895,729)	(29,618,122)	(30,358,575)	(31,117,539)	(31,895,478)	(32,692,865)
Other Taxes	(2,093,213)	(1,826,000)	(1,923,924)	(1,986,659)	(2,051,867)	(2,119,660)	(2,190,152)	(2,263,467)
Unrestricted Intergovernmental Revenue	(81,981)	(61,700)	(61,874)	(62,051)	(62,233)	(62,417)	(62,606)	(62,798)
Restricted Intergovernmental Revenue	(10,990,062)	(10,235,667)	(11,222,978)	(11,391,580)	(11,564,067)	(11,740,537)	(11,921,091)	(12,105,834)
Federal Grants	(15,859,114)	(11,503,437)	(11,503,437)	(11,503,437)	(11,503,437)	(11,503,437)	(11,503,437)	(11,503,437)
State Grants	(3,900,615)	(8,233,302)	(8,233,302)	(8,233,302)	(8,233,302)	(8,233,302)	(8,233,302)	(8,233,302)
Non-Enterprise Charges For Services	(8,451,001)	(8,775,563)	(8,681,423)	(8,808,053)	(8,937,766)	(9,070,644)	(9,206,772)	(9,346,235)
Debt Proceeds - Restricted Revenue	(80,474,253)	-	-	-	-	-	-	-
Investment Income	(116,820)	(500,000)	(505,000)	(510,050)	(515,151)	(520,302)	(525,505)	(530,760)
Other Revenue	(7,058,776)	(6,677,251)	(6,677,561)	(6,677,874)	(6,678,190)	(6,678,510)	(6,678,832)	(6,679,158)
Interfund Transfers	(20,023,787)	-	-	-	-	-	-	-
Planned Fund Balance Usage	-	(10,140,568)	-	-	-	-	-	-
Total Funding Sources	\$ (333,587,850)	(240,983,700)	(235,820,249)	(238,974,733)	(242,193,057)	(245,476,905)	(248,828,013)	(252,248,174)
Expenditures								
Employee Compensation	\$ 34,027,344	37,715,371	38,841,295	40,000,996	41,195,488	42,425,816	43,693,053	44,998,307
Employee Benefits	18,628,020	20,878,894	22,423,438	23,667,560	24,987,631	26,388,563	27,875,597	29,454,326
Operating Cost	27,620,869	31,932,285	31,633,914	32,449,433	33,289,601	34,155,299	35,047,448	35,967,004
Capital Outlay	946,691	1,880,296	1,911,277	1,985,473	2,062,952	2,143,868	2,228,386	2,316,676
Contracts, Grants, and Subsidies	8,992,335	9,947,486	10,146,436	10,349,364	10,556,352	10,767,479	10,982,828	11,202,485
UCPS Current Expense	81,504,155	83,021,859	86,068,396	87,195,524	88,342,265	89,509,124	90,696,622	91,905,298
General Debt Service	107,168,994	5,472,064	3,635,788	3,866,597	3,778,407	4,012,250	4,984,375	3,542,578
UCPS Related Debt Service	43,426,394	44,012,450	44,989,088	43,733,632	43,511,858	42,479,116	40,119,411	37,447,184
Interdepartmental Charges	(2,454,470)	(2,653,965)	(2,707,044)	(2,761,185)	(2,816,409)	(2,872,737)	(2,930,192)	(2,988,796)
Interfund Transfers	51,979	8,412	2,149,915	2,608,412	933,412	915,912	898,412	880,912
UCPS PayGo Capital Funding	-	8,357,859	22,454,431	16,589,630	19,214,687	17,908,448	11,770,116	16,000,000
Other Budgetary Accounts	-	410,689	414,796	418,944	423,133	427,365	431,638	435,955
Total Expenditures	\$ 319,912,311	240,983,700	261,961,728	260,104,380	265,479,376	268,260,502	265,797,695	271,161,929
Revenues (Over)/Under Expenditures	\$ (13,675,539)	-	26,141,479	21,129,647	23,286,319	22,783,597	16,969,682	18,913,755

General Fund Financial Projections

The General Fund is the chief operating fund of the County. The majority of County Services are funded by or through the General Fund. The General fund is funded through tax revenue; federal, state, and local government revenue; grants; charges for services; and other sources.

The General Fund Financial Projection is based on an analysis of historical trends, current trends and realities, and current cost drivers. The "Revised FY 2014" column reflects the amended budget through the end of November, 2013.



During the development of any projection a number of assumptions are made concerning the growth of revenues and expenditures. Assumptions and trends play heavily into the projection. With this in mind, following are some of the core assumptions made:

- The County continues to provide the same level of service currently provided throughout the projection period.
- The economic conditions remain similar to current levels; periods of sustained economic growth or sustained downturn will impact the projections. Given the uncertainty surrounding these possibilities, the projections are based on current conditions.
- Generally, expenditures are projected to maintain an inflationary pace, growing at about two percent annually. This varies on some line items, but holds true for the bulk of the projection.
- Revenue have been projected given recent history and collection patterns. There are two notable exceptions to this rule.
 - State and federal intergovernmental revenue are anticipated to remain flat through the projection period. This was done given the recent history of limited if any growth in these programs. Projecting these revenue without growth is a conservative approach which in this case is warranted.
 - Ad valorem taxes are estimated in accordance with *North Carolina General Statutes 159-13(b)-6*, which limits the estimate to the previous year's collection rate. Recent history indicates that this revenue will be greater than anticipated, however the County is required to use the mandated method.
- Employee compensation is anticipated to grow at roughly 3 percent annually. The projection makes no assumption concerning pay for performance or additional staffing, but instead uses a proxy growth assumption for employee compensation that reflects a normal growth.
- Employee benefits, specifically health benefits costs, are assumed to continue to grow at 7 percent through the projection window. This is reflective of current market conditions and anticipated future medical inflation costs. Additionally other costs, such as retirement contributions, unemployment insurance, separation allowances, and other benefits are projected to grow at 5 percent. This is reflective of the 3 percent compensation growth and the growing liabilities of these services.
- Debt service assumptions are based on current agreements and costs. They do not reflect additional refundings or restructurings. In

addition, new debt has been estimated based on prevailing market conditions at the time of this report.

Beyond these assumptions, projecting expenditures and revenue is more art than science. Given the information available, staff has made an educated projection. These projections should be used as indicators of general direction. The decisions made going forward, both by Board of County Commissioners, State and Federal Governments, and the County's other partners will have a direct impact on the projected outcomes.

General Fund Trends and Analysis

During the projection period, from FY 2015 through FY 2020, the current projection reflects a significant operating deficit each year. As the table below indicates, the average annual deficit is \$21.5 million.

General Fund Revenue and Expenditure Projection				
	Revenue	Expenditures	Revenue Over/ (Under) Exp.	
FY 2013	\$ 253,113,597	239,438,058	13,675,539	
FY 2014	240,983,700	240,983,700	-	
FY 2015	235,820,249	261,961,728	(26,141,479)	
FY 2016	238,974,733	260,104,380	(21,129,647)	
FY 2017	242,193,057	265,479,376	(23,286,319)	
FY 2018	245,476,905	268,260,502	(22,783,597)	
FY 2019	248,828,013	265,797,695	(16,969,682)	
FY 2020	252,248,174	271,161,929	(18,913,755)	

*FY 2013 has been adjusted for debt proceeds from refundings.

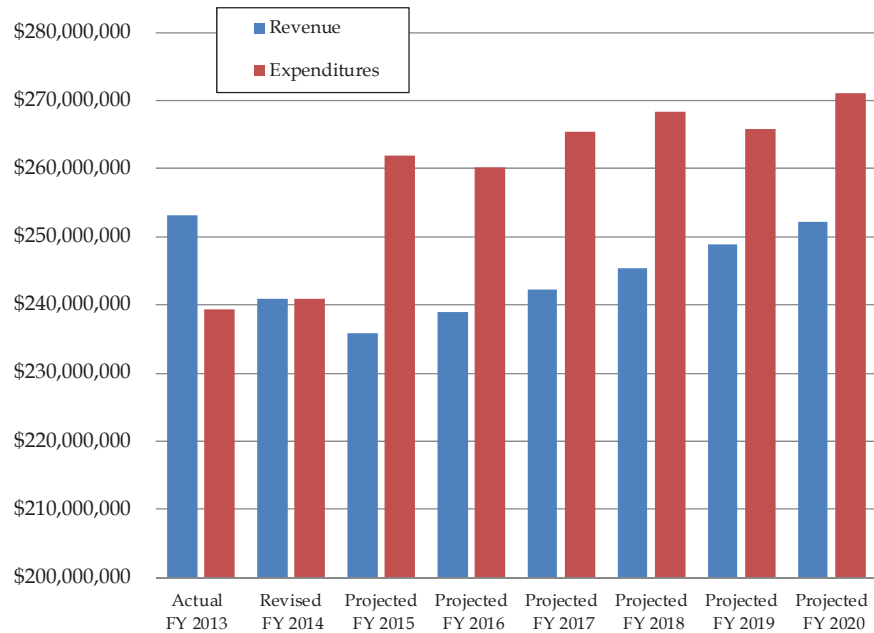
The largest driver of the deficit is the change in the PayGo funded capital program. On the following pages there is a more detailed discussion, however, the deficit is largely driven by the significant increase in PayGo capital funding.

During the projection period, adjusting out the Union County Public Schools (UCPS) current expense and UCPS PayGo capital funding, county expenses on average are anticipated to grow at 1.5 percent annually.



During the projection period, revenue are expected to grow modestly at an average of 1.5 percent annually. The aforementioned growth factors are offset by debt retirement, thereby restoring funding that had historically been moved from the County's operating budget to fund new debt service.

General Fund Revenue and Expenditure Projection



Note: FY 2013 has been adjusted for debt proceeds from refundings.

As the following graph and the previous table indicate, during the projection period, the current projected structure is not fiscally sustainable.

While use of General Fund balance is a short-term option, the sustained use to balance the budget is cause for concern. **The projection indicates a structural imbalance, not an economic imbalance. Because of this structural imbalance policy changes will be necessary to negate or avoid future fiscal insolvency.**

The financial results for the fiscal year ended June 30, 2013, provided for growth in the General Fund Balance of about \$13.7 million to a total of \$79,669,056. This was due to better than anticipated revenue, debt

refundings, and continued efficiencies. Pursuant to NC law, not all of the fund balance is available for appropriation. The following table illustrates the commitments and limitations on the availability of the fund balance.

FY 2014 General Fund Fund Balance Breakdown

General Fund Fund Balance 06/30/2013	\$	79,669,056
Less: Non-Spendable Fund Balance		(279,914)
Less: Restricted Fund Balance		(13,342,913)
Less: Unassigned 16% Reserve Policy		(35,366,994)
Less: Unassigned 4% Ratings Reserve		(8,841,749)
Less: Assigned for Schools Capital		(8,357,859)
Less: Assigned for School's True Up Paym		(761,450)
Less: Assigned for FY 2014 GF Budget		(1,021,259)
Total Unassigned Available	\$	11,696,919

Fund balance availability is dependent on cash and investments at fiscal year-end and excludes receivables - revenue that the County may have included in budget estimates but was not available at fiscal year-end. The unassigned available amount is about 4.8 percent of total general fund expenditures, based on the calculation methods prescribed in the Board of County Commissioner's County's Financial Policies. This \$11.7 million of funding is above the adopted policy level of a 16 percent reserve and the recommended additional 4 percent reserve needed to maintain current ratings, assuming estimates and projections hold through the end of the year.

Tax Revenue Trends and Analysis

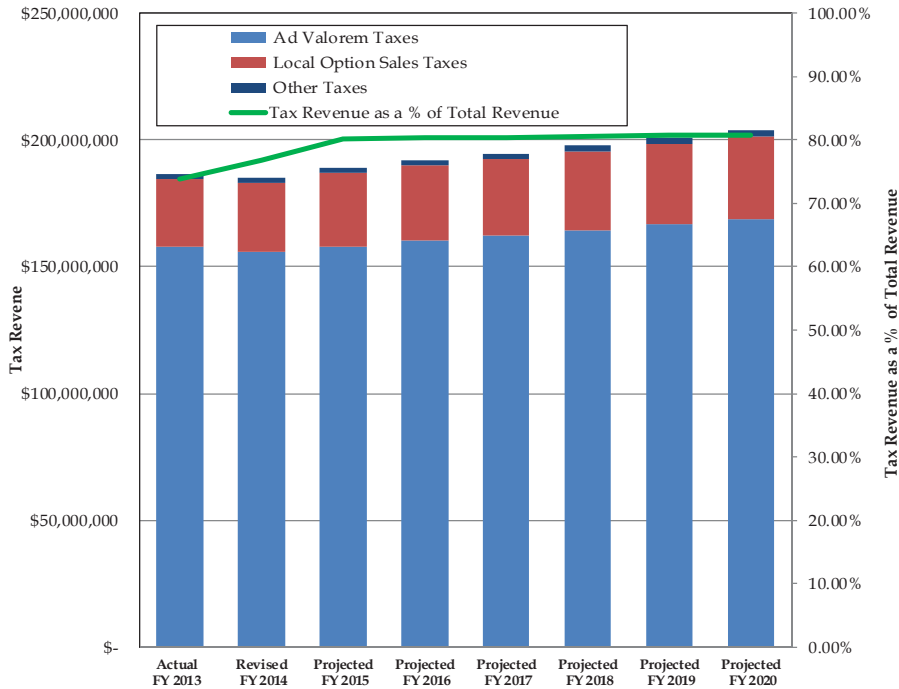
As with last year at this time, the national economic indicators are providing cause for cautious optimism in the near future. The real estate market appears to be recovering, with much of the housing stock surplus having been eliminated and interest rates for mortgages continuing to remain low; it appears that the real estate market is starting to recover. Additionally, stronger consumer sentiment suggests that retail driven taxes will continue to grow.

During the projection window, the ad valorem tax revenue is projected to grow at 1.3 percent annually. This projection assumes that following the



reevaluation process, the Board of County Commissioners will establish a revenue neutral tax rate.

Tax Revenue



Note: FY 2013 has been adjusted for debt proceeds from refundings.

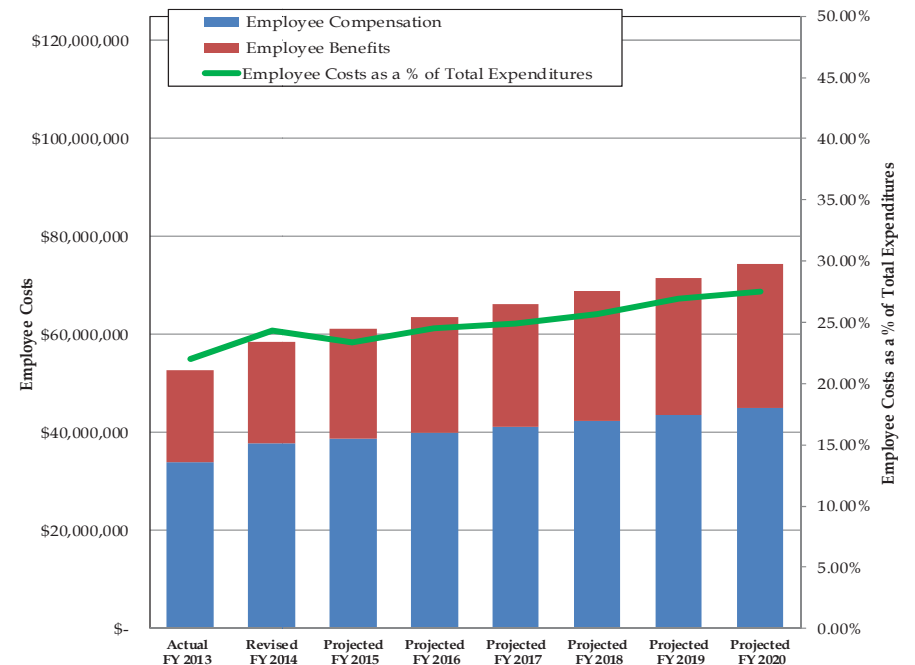
As the graph illustrates, the ad valorem taxes, local option sales taxes, and other taxes make up the bulk, about 80 percent, of the total General Fund revenue. The largest portion of the total tax revenue is the ad valorem component. Given the structure of the revaluation process, locking in values in FY 2008 and the timing of the revaluation impact in FY 2016, Union County was able to mitigate to a large degree the recent economic downturn. The sales taxes, in converse to the ad valorem taxes, are highly sensitive to the economic environment and the local employment climate. Sales taxes, a significant portion of which are used to fund UCPS related debt service, are showing positive signs of growth. Through the projection period sales taxes are projected to grow by about 2.5 percent annually.

The tax revenue will be particularly impacted by changing federal and state laws. Given the sensitivity of sales taxes to changes in personal income, increases in the state and federal income taxes or the lingering effects of the consumers' cost of the Affordable Care Act, continued monitoring is necessary to adjust for any possible reductions or impacts.

Employee Costs Trend and Analysis

Employee costs represent an average of 25.5 percent of the total cost in the General Fund during the projection period. Employee costs include not only the salaries and direct compensation, but also the ongoing benefits costs such as health insurance, retirement, separation allowance, and post-employment benefits among others.

Employee Costs



Note: FY 2013 has been adjusted for debt proceeds from refundings.

Total employee costs are budgeted in FY 2014 at \$58.6 million and are projected to climb to \$74.5 million by FY 2020. While salary costs are projected to grow by about 3 percent annually, the largest driver of this growth is the projected 7 percent growth in the cost of health benefits. As the



implementation of the Affordable Care Act continues there will be changing legislation and requirements for employers.

To begin to mitigate the projected 7 percent growth, the County is undertaking a number of health and wellness initiatives. These initiatives have not been included in this projection, however it is anticipated that these policy changes will begin to have a positive impact on health benefits costs. Once there is measureable change and trends available, the revised costs will be included in future projections.

As a benchmark, nationally, employee costs consume more than half of general operating funds in county and municipal governments. The growth in these cost reflect a national trend and will continue to grow as a percentage of total expenditures.

PayGo Capital Funding Trend and Analysis

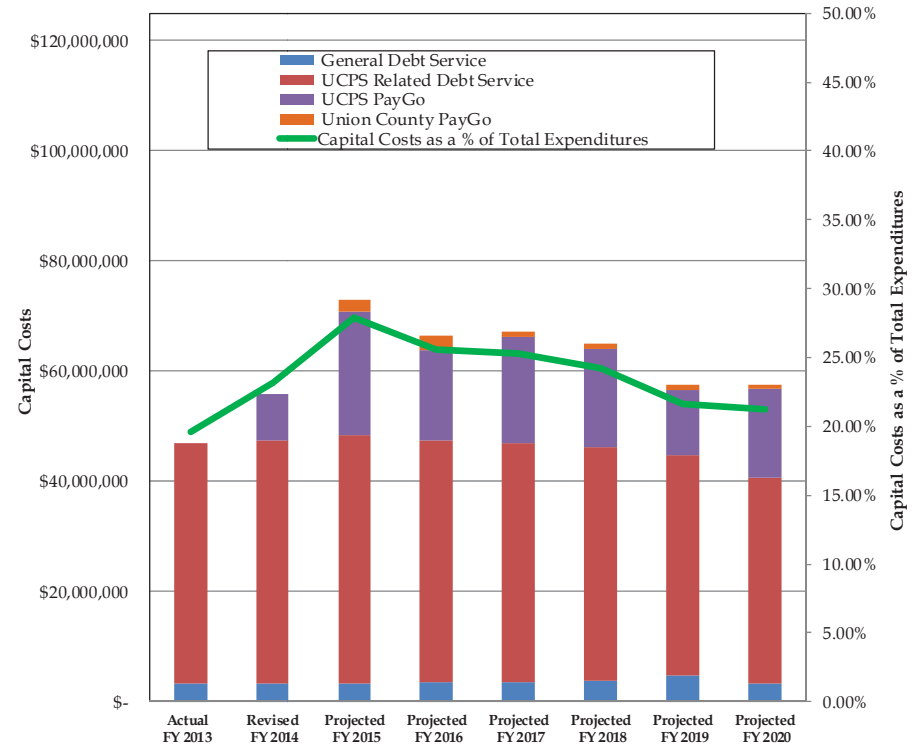
PayGo capital funding is the cash funded portion of the capital program, meaning that current revenues are used to fund projects, versus the use of debt instruments. PayGo capital funding is used for ongoing projects or projects that are not suitable for bond or debt funding.

PayGo Funding Breakdown				
	UCPS PayGo	County Projects	Total PayGo Capital	
FY 2015	\$ 22,454,431	2,141,503	24,595,934	
FY 2016	16,589,630	2,600,000	19,189,630	
FY 2017	19,214,687	925,000	20,139,687	
FY 2018	17,908,448	907,500	18,815,948	
FY 2019	11,770,116	890,000	12,660,116	
FY 2020	16,000,000	872,500	16,872,500	
Total	\$ 103,937,312	8,336,503	112,273,815	

During the recent economic downturn, the County reduced its ongoing or PayGo funding for capital projects. **This reduction was a short-term strategy to protect core County services; however it left a long-term challenge of “ramping” back up the capital funding.** The current projection includes a projected PayGo funding level. However, this funding level is not sustainable without additional revenue.

The UCPS PayGo capital funding plan is based on the six-year capital request made by the Union County Board of Education during the FY 2014 operating and capital budget development process. While that request went through FY 2019, an average of FY 2014 through FY 2019 has been used in FY 2020.

Capital Costs (Debt Service & PayGo Capital)



Note: FY 2013 has been adjusted for debt proceeds from refundings.

During the six years shown in the projection, 92.6 percent or \$103.9 million of the PayGo funding is projected for UCPS requested projects. The projection does not include funding for additional schools. Additional discussion of the UCPS PayGo program and other capital planning will be discussed later in the report.



The County's capital cost, debt service plus PayGo capital funding, is an indication of the maintenance efforts. The County benefits over time, from the ongoing payoff of existing debt. The capital cost averages 25.2 percent of the total General Fund expenditures.

The County projects included in this program are ongoing renewal and replacement projects. Included in the program is \$125,000 annually for Facility Maintenance and Renewal, \$150,000 for IT Infrastructure and Enhancement, and starting in FY 2016, \$125,000 for Park Development and Renewal.

The other projects currently planned for PayGo funding in accordance with the approved six-year capital plan include \$3 million additional funding for the Firearms Training and Qualifications Range, making the total appropriation \$7.56 million. The additional \$3 million is projected over two years, with an additional \$1.5 million in both FY 2015 and FY 2016.

Additionally, there is \$750,000 programmed, as previously approved, for other law enforcement facilities expansion and renewal.

Planning is underway for a Human Services Building; funding for this project has been previously appropriated. It is anticipated that the State of North Carolina will participate in the project funding. The projection includes additional financing of \$7,000,000 that will be ultimately paid back during a forty-year amortization period, this projection will be refined as additional detail is made available. With the additional funding the full anticipated cost of the Human Services Building is \$42 million.

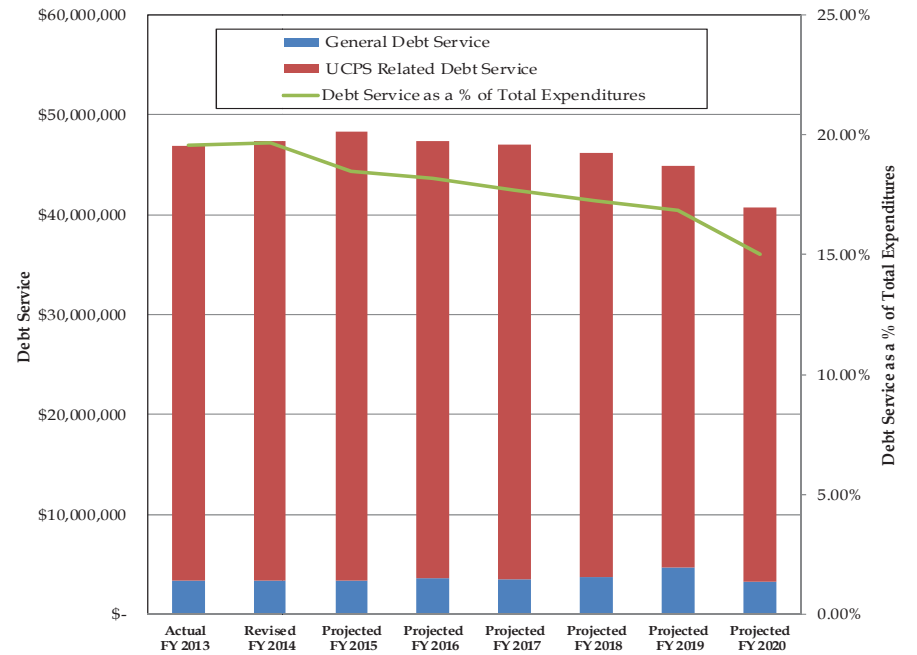
Debt Trend and Analysis

Union County has largely used debt to provide for the rapid growth in the County by funding new schools, facilities at South Piedmont Community College, court facilities, the Agriculture Center, and other law enforcement facilities.

General Fund Supported Debt Service Projections			
	UCPS Related Debt Service	General Debt Service	Total Debt Service
FY 2015	\$ 44,989,088	3,373,739	48,362,827
FY 2016	43,733,632	3,604,547	47,338,179
FY 2017	43,511,858	3,516,357	47,028,215
FY 2018	42,479,116	3,750,200	46,229,316
FY 2019	40,119,411	4,722,325	44,841,736
FY 2020	37,447,184	3,280,527	40,727,712
Total	\$ 252,280,290	22,247,695	274,527,985

These projects were built in the late 1990s and early 2000s and, as a result, the County is experiencing declining debt service now. As the following table indicates, through the projection window, the required annual debt service will decline from \$49.5 million in FY 2014 to \$41.0 million in FY 2020; about \$8.5 million.

Debt Service



Note: FY 2013 has been adjusted for debt proceeds from refundings.

As the graph indicates, debt service in FY 2014 represents 17.6 percent of the total General Fund expenditures. By the end of the projection period debt service becomes a manageable 15 percent.

While annual debt service, from a cash-flow perspective, is a key indicator of financial health, the total outstanding debt principal is another way to view debt.



As the declining debt service would indicate, as shown in the following table, the County will see significant reductions in debt principal, by the end of the projection period. By FY 2020, it is projected that the County's outstanding debt will be reduced by 37.68 percent and within the next ten years 62.5 percent. Inside of twenty years, by FY 2033 the County will fully pay off its existing General Fund tax-supported debt.

General Fund Supported Principal Paydown			
	UCPS Related Principal	General Debt Principal	Total Principal
FY 2015	\$ 418,299,654	22,857,293	441,156,947
FY 2016	387,589,893	20,198,653	407,788,546
FY 2017	356,957,300	17,539,099	374,496,399
FY 2018	326,362,983	14,882,252	341,245,234
FY 2019	295,570,555	12,473,078	308,043,633
FY 2020	265,959,454	8,980,547	274,940,000
FY 2021	237,853,503	6,811,498	244,665,000
FY 2022	212,709,706	5,420,295	218,130,000
FY 2023	187,727,587	4,007,414	191,735,000
FY 2024	162,834,658	2,530,343	165,365,000
FY 2025	139,937,295	2,242,705	142,180,000
FY 2026	118,990,462	504,538	119,495,000
FY 2027	97,635,303	364,697	98,000,000
FY 2028	78,226,122	233,878	78,460,000
FY 2029	59,562,919	112,081	59,675,000
FY 2030	42,075,000	-	42,075,000
FY 2031	25,835,000	-	25,835,000
FY 2032	13,100,000	-	13,100,000
FY 2033	5,000,000	-	5,000,000

While the debt projections include a number of debt funded capital projects as included in the adopted six-year capital plan, it does not include new long-term debt for new projects that have not been approved. Included in the debt projection are short-term, five-year notes for new voting machines and new tax assessment and valuation software. These projects will be necessary in the coming few years.

As part of the adopted six-year capital plan, new and replacement facilities are planned for possible future bond election projects. The following table provides a list of these projects.

Projects	Estimated Cost
Jail and Sheriff's Office Replacement	\$ 55,558,444
Jesse Helms Park Development	6,553,473
Library Expansion and Development	19,860,567
Southwest Union Library	12,936,567
Land Banking P&R	6,500,000
SPCC Multi-Purpose Building	22,704,651
SPCC Center for Technology	8,426,079
Total General Obligation Debt Projects	\$ 132,539,781

In the six-year capital plan, these projects are scheduled in FY 2017 and FY 2018, the actual issuance of any new debt will be made in accordance with applicable state law and Union County policies.

The Board of County Commissioner's adopted Capital Improvement Program Management Policy states, "it is anticipated that new general obligation debt funded projects shall be voted by referendum." Additionally, the policy goes on to state, "new general obligation debt will be funded through increased tax rate, and that voter approval of general obligation debt represents a tacit approval of the accompanying tax rate."

Conclusions

Given this information, several conclusions can be drawn concerning the General Fund financial projections.

- The General Fund will see limited growth in both expenditures and revenue through the projection window; however, projected expenditures will continually outpace revenue.
 - The PayGo capital program, as it is included in the projection, is not sustainable without significant increases in revenue or changes in policy.
 - The deficits shown in the projection are structural in nature, not related to economic conditions.



- Employee costs will continue to grow as a percentage of total expenditures.
- The County's debt will continue to improve with both the annually required debt service and the outstanding principal seeing significant reductions annually.

The projection, while unfavorable, provides an opportunity to take corrective action, ahead of any long-term, irreversible events. The projection provides a basis for proactive decision making and reflects the need to be vigilant in the budget development process.

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Water and Sewer Fund Financial Projection

	Actual FY 2013	Revised FY 2014	Projected FY 2015	Projected FY 2016	Projected FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020
Revenue								
Non-Enterprise Charges For Services	\$ (12,722)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Enterprise Charges for Services	(29,554,076)	(32,240,902)	(31,441,013)	(32,223,594)	(33,025,678)	(33,847,749)	(34,690,307)	(35,553,862)
Investment Income	135,666	(338,444)	(338,444)	(338,444)	(338,444)	(338,444)	(338,444)	(338,444)
Other Revenue	(90,370)	(24,481)	(24,481)	(24,481)	(24,481)	(24,481)	(24,481)	(24,481)
Total Revenue	\$ (29,521,501)	(32,608,827)	(31,808,938)	(32,591,519)	(33,393,603)	(34,215,674)	(35,058,232)	(35,921,787)
Expenditures								
Employee Compensation	\$ 3,909,853	4,611,299	4,749,523	4,891,893	5,038,535	5,189,576	5,345,148	5,505,387
Employee Benefits	2,123,308	2,419,385	2,550,847	2,690,193	2,837,928	2,994,587	3,160,744	3,337,008
Operating Costs	12,290,721	13,149,314	13,444,068	13,747,921	14,061,206	14,384,273	14,717,482	15,061,212
Capital Outlay	371,359	824,000	840,480	857,290	874,435	891,924	909,763	927,958
Contracts, Grants, and Subsidies	381,341	295,092	300,994	307,014	313,154	319,417	325,805	332,322
Debt Service	6,769,651	6,627,374	6,524,223	11,599,522	14,175,838	23,660,365	24,615,289	25,535,431
PayGo Capital Program	7,600,000	47,970,682	12,656,400	5,722,500	4,166,400	4,416,000	5,050,400	6,000,000
Interfund Transfer	208,944	319,893	319,893	319,893	319,893	319,893	319,893	319,893
Total Expenditures	\$ 33,655,177	76,217,039	41,386,427	40,136,225	41,787,390	52,176,035	54,444,524	57,019,210
Revenues (Over)/Under Expenditures	4,133,675	43,608,212	9,577,489	7,544,706	8,393,787	17,960,361	19,386,292	21,097,423
Unrestricted Fund Balance	\$ 84,931,611	41,323,399	31,745,910	24,201,204	15,807,417	(2,152,943)	(21,539,235)	(42,636,658)

Water and Sewer Utility Fund Financial Projections

The Water and Sewer Utility Fund is an enterprise fund that accounts for the operations of the County’s water and sewer utility. The concept of the “enterprise” fund is a business like activity, in this case, a utility that is fully funded through the user fees or charges for service. To this end the utility rates reflect the real cost of providing the services to the customers. Because not all tax payers are utility rate payers, the General Fund, or general tax dollars, are not used to subsidize the utility, in converse, the Water and Sewer Fund, or rate payers, are not subsidizing the General Fund.

Water and sewer rates and fees are set with the plan of funding operations and maintenance of the existing system and the future planned growth. The financial projections provide a starting point for the discussion of system needs and possible future rate increases.

The Water and Sewer Utility Fund financial projection is based on an analysis of historical expenditures and revenues, as well as current cost drivers. For the purposes of this projection, “Revised FY 2014” refers to the adopted operating and capital budget, including any amendments through

November 30, 2013 and an additional PayGo capital contribution of \$43.6 million.

In addition to using the revised budget information, to project future costs and revenues, there are a number of assumptions made. These assumptions include:

- Implementation of the approved “Comprehensive Water & Wastewater Master Plan,” that became effective with the adoption of the FY 2014-2019 Public Works Capital Improvement Program.
- Economic conditions remain similar to current levels. Periods of sustained economic growth or sustained downturn will impact the projections.
- Revenue is projected to grow, through system growth at 2.5 percent annually. In FY 2012, the Board of County Commissioners approved three 3.5 percent rate increases, implemented each March. The final increase approved in that ordinance will take effect in March of 2014. For projection purposes, no further rate increases have been included; however, given the results of the projection, a series of increases will be necessary. The extent of those increases and the related plans will be determined at a later date.



➤ Generally, there is an expectation that through the projection period, inflation will average 2 percent. Therefore, costs are assumed to grow at about 2 percent unless historical data indicated otherwise. There are some notable exceptions:

- Employee compensation is anticipated to grow at roughly 3 percent annually. The projection makes no assumption concerning pay for performance or additional staffing, but instead uses a proxy growth assumption for employee compensation that reflects a normal growth.
- Employee benefits, specifically health benefits costs are assumed to continue to grow at 7 percent through the projection window. This is reflective of current market conditions and anticipated future medical inflation costs. Additionally other costs, such as retirement contributions, unemployment insurance, separation allowances, and other benefit costs are projected to grow at 5 percent. This is reflective of the 3 percent compensation growth and the growing liabilities of these benefits.
- Debt service assumptions are based on current agreements and costs. They do not reflect additional refundings or restructurings. In addition new debt has been estimated based on prevailing market conditions at the time of this report.

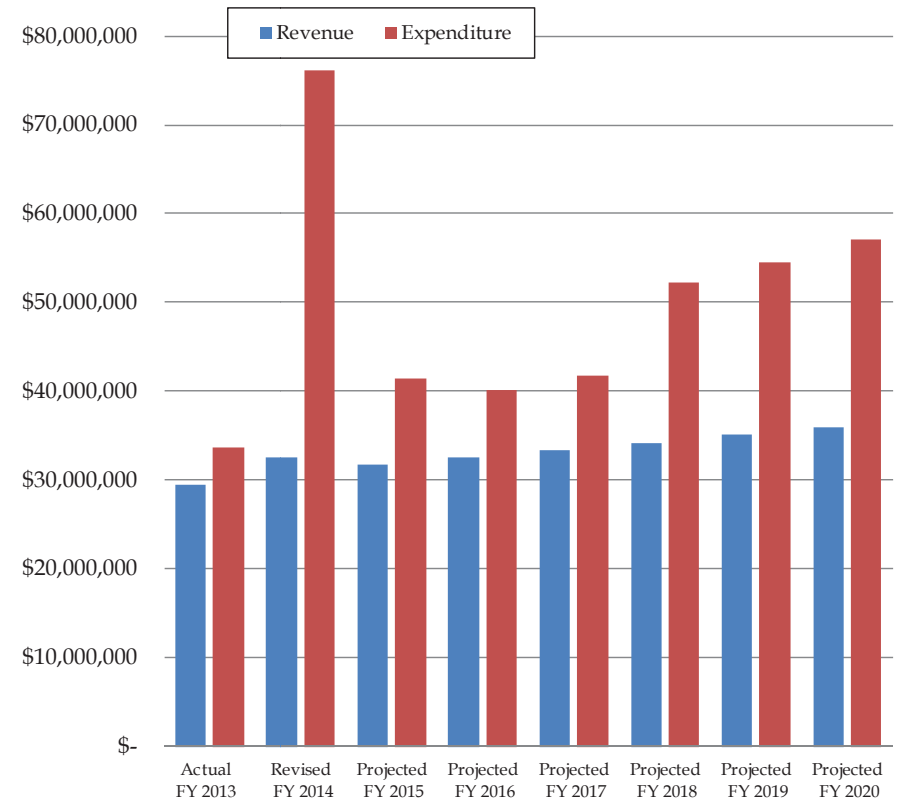
Beyond these assumptions, as mentioned earlier, projecting expenditures and revenue is more art than science. Given historical data and available information, staff made an educated projection. These projections should be used as indicators of general direction. The decisions made going forward by the Board of County Commissioners, state and federal governments, and other County partners will have a direct impact on the projected outcome.

Water and Sewer Utility Fund Trend and Analysis

During the projection period, from FY 2015 through FY 2020, the current projection indicates a significant operating deficit each year. As the graph indicates, the average annual deficit is \$14 million, beginning in FY 2015 at \$9.6 million and growing to \$21.1 million in FY 2020.

Keep in mind, the projection includes PayGo capital and additional debt service for the capital program, but does not include any future rate increases. Because of this, the annual deficits can be considered a projection of annual revenue needed to balance the fund and as such are an indicator of possible future rate increases.

Water and Sewer Fund Revenue and Expenditures Projection



During the projection period, the system is anticipated to grow, through increased customers and/or usage, on average at 2.5 percent. Combined with revenue, the total average revenue growth is projected at 2.46 percent.

In total, including all operating, capital, and debt costs, the Water and Sewer Fund costs will grow by an average of 6.62 percent annually through the projection period.

During the projection period, from FY 2015 through FY 2020, the largest driver of growth is the increase in debt service related to the capital program. The debt service is anticipated to increase by \$19 million, or about 31.4 percent annually.



Excluding the capital effort (PayGo capital funding and debt service) the operating costs will grow an average of 2.8 percent annually or \$3.28 million by the end of the projection period. The growth in the operating costs is largely driven by the average 5.5 percent growth in benefits.

The financial results for the fiscal year ended June 30, 2013, resulted in a decrease of \$4.1 million in the Water and Sewer Fund Balance. This decline is the result of the planned usage of fund balance for capital as well as lower than anticipated user charge revenue.

Water and Sewer Unrestricted Fund Balance

Unrestricted Fund Balance 06/30/2013	\$	84,931,611
Less: FY 2014 Assigned For Capital		(47,970,682)
Less: 365 Day Reserve Requirement		(31,823,456)
Total Available Unrestricted Fund Balance	\$	5,137,473

The total available unrestricted fund balance is based on the current policy of maintaining 365 days of operating costs. Based on the projected total available unrestricted fund balance, at the end of FY 2014 it is anticipated that there will be about 424 days of reserves.

The available unrestricted fund balance may be used as a short-term rate stabilization tool, however, the sustained use of the fund balance to balance the budget is cause for concern. **The projection indicates needed rate increase. The extent to which rates will need to be increased will be based on the revised capital plan.**

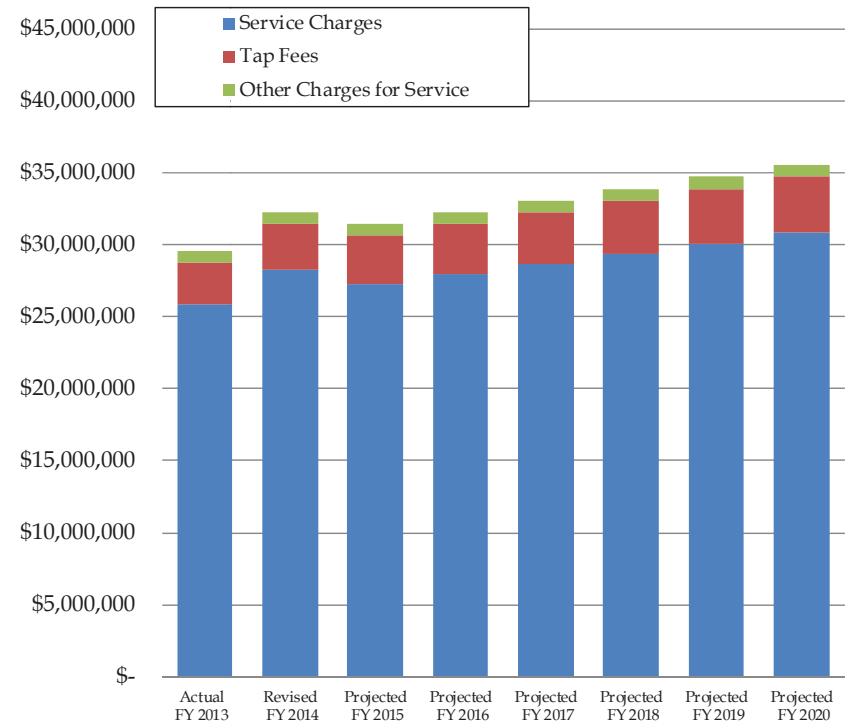
Service Charges Trend and Analysis

As mentioned earlier, total revenue for the Water and Sewer Fund is anticipated to grow an average of 2.46 percent annually during the projection period from FY 2015 through FY 2020. The revenue is projected based on the estimate of system growth and not rate increases.

As the following graph indicates, total charges for service are projected to grow by about 2.49 percent annually, or a total of \$4.1 million.

As with many revenue indicators, water usage is somewhat sensitive to economic and atmospheric conditions. As the graph indicates, projected

Water and Sewer Charges for Service



revenue reflects a reduction from FY 2014 to FY 2015. This is reflective of revised FY 2014 estimates, given the wetter than normal summer and fall.

Whether driven by economic pressures or conservation tendencies, usage is down, nationwide, water usage is down. There can be some expectation that as economic conditions improve, a more normal usage pattern may ensue, however, the impact of weather cannot be anticipated.

As an offset to reduced usage, there is limited savings generated from reduced production, but not enough to offset the revenue growth. There is not a proportional relationship between usage and cost, given the majority of the cost in the utility is fixed and will be necessary regardless of the amount of water produced.



Water and Sewer Fund Capital Effort

The largest cost driver during the projection period, from FY 2015 through FY 2020 is the capital effort. For the purposes of this analysis, capital effort is defined as PayGo capital funding and debt service.

From FY 2015 to FY 2020, this amount is projected to total \$144.1 million. If we look back and add FY 2013 and FY 2014, we can see the total climb to \$213.1 million. New debt has been projected based on capital project needs that were not anticipated to be funded through PayGo or cash flow planning.

Water and Sewer Capital Effort			
	Debt Service	PayGo Capital	Total Capital Effort
FY 2013	\$ 6,769,651	7,600,000	14,369,651
FY 2014	6,627,374	47,970,682	54,598,056
FY 2015	6,524,223	12,656,400	19,180,623
FY 2016	11,599,522	5,722,500	17,322,022
FY 2017	14,175,838	4,166,400	18,342,238
FY 2018	23,660,365	4,416,000	28,076,365
FY 2019	24,615,289	5,050,400	29,665,689
FY 2020	25,535,431	6,000,000	31,535,431
Total	\$ 119,507,693	93,582,382	213,090,075

The approved “Comprehensive Water & Wastewater Master Plan” outlines a number of necessary system improvements. The adopted FY 2014-2019 Union County Capital Improvement Program includes many of those improvements. The total projected Water and Sewer projects in the FY 2014-2019 program total more than \$426.2 million.

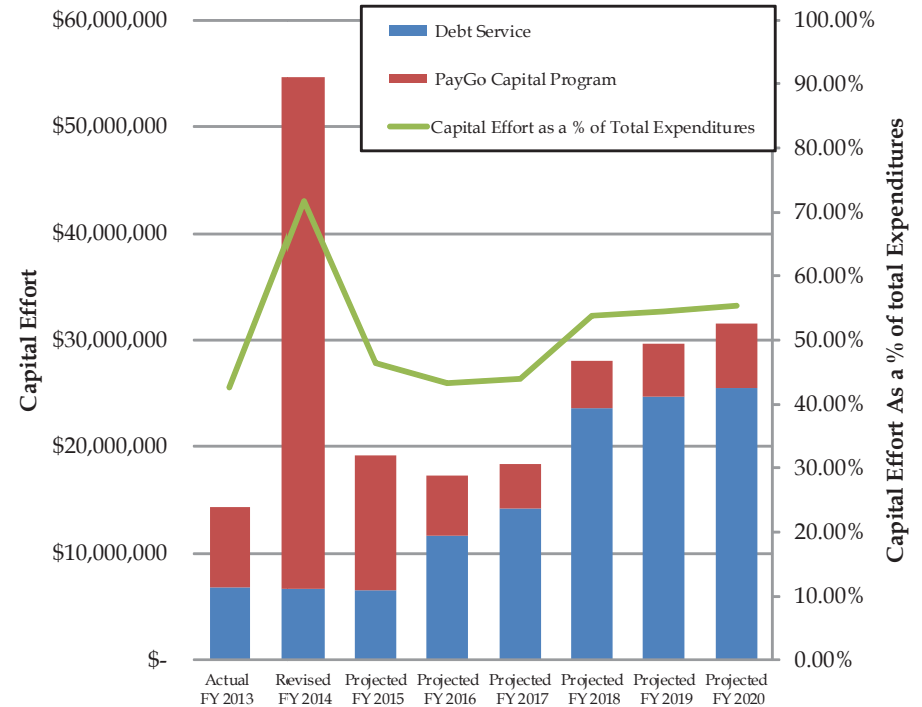
The projects included in the capital program range from water tanks, repair and replacement of water lines, treatment facilities, and other capacity projects.

The projection includes the projects that are outlined in the FY 2014-2019 plan and an additional \$6 million of PayGo funding in FY 2020. This will serve as a proxy while Public Works refines their capital program and works

to add an additional year, which will result in the Proposed FY 2015-2020 Capital Improvement Program.

The debt service outlined in the projection reflects a mix of existing and projected new debt. The new debt has been projected based on anticipated spending and cash flow planning. As the issuances become necessary, the most economical approach to issuance will be taken.

Water and Sewer Fund Capital Effort



The capital effort, during the projection period averages 50 percent of the total expenditures. This reflects a significant commitment on the part of the Board of Commissioners to provide a system needed to serve current and future rate payers.

While the maintenance of effort analysis is useful to determine the annual cost of the capital program and the possible rate impacts, it does not fully provide a full look at the anticipated capital expenditures.

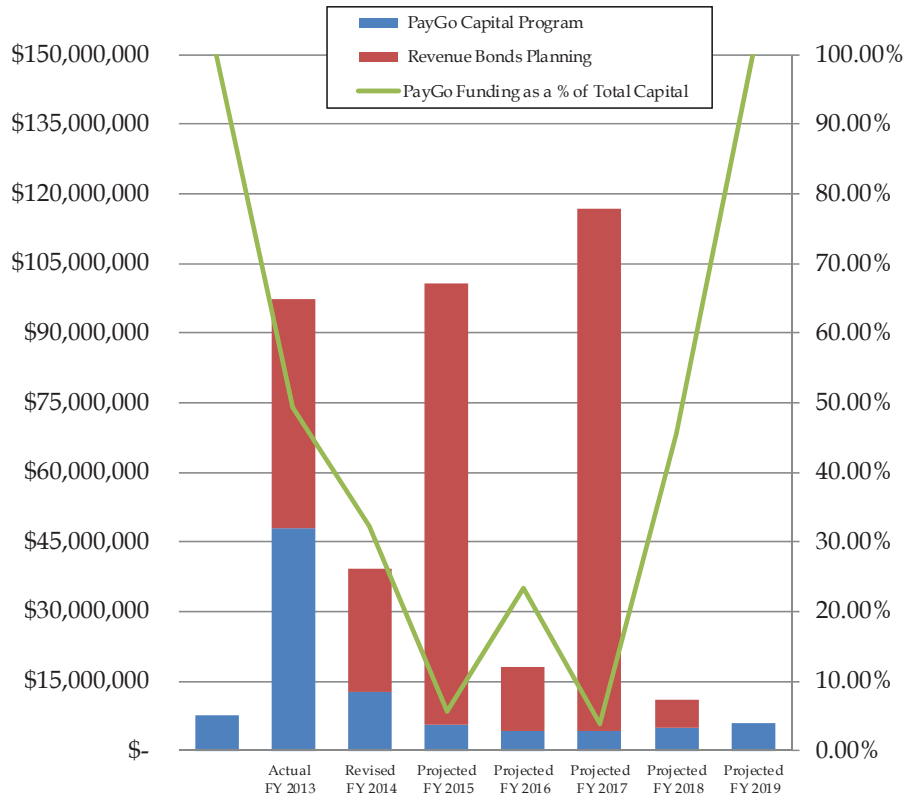


Water and Sewer Fund Capital Program

The projection is based on the FY 2014-2019 Capital Improvement Program and will be revised once the FY 2015-2020 program is developed and the revisions to project schedules are made. However, using the currently adopted plan, analysis can be developed and reviewed.

The current projection does not include developer funded projects, which in the FY 2014-2019 program totaled more than \$43.1 million. It is assumed that these projects will have no net impact at this time.

Water and Sewer Capital Funding Mix



The projected capital program totals \$389 million. The largest part of the Capital program will be funded through revenue bonds. Revenue bonds, unlike general obligation bonds, are not backed by the full faith and credit of Union County, but are backed by the revenues generated by the Utility.

Revenue bonds do represent a pledge by the County to maintain rates at a level necessary to fund the annual debt service and to maintain the system.

Water and Sewer Capital Program

	Revenue Bonds	PayGo Capital	Total Capital Funding
FY 2014	49,420,430	47,970,682	97,391,112
FY 2015	26,531,800	12,656,400	39,188,200
FY 2016	94,862,700	5,722,500	100,585,200
FY 2017	13,753,000	4,166,400	17,919,400
FY 2018	112,504,500	4,416,000	116,920,500
FY 2019	6,029,800	5,050,400	11,080,200
FY 2020	-	6,000,000	6,000,000
Total	\$ 303,102,230	85,982,382	389,084,612

Conclusions

Through a thorough analysis of the data and plans, there are a few conclusions that can be drawn concerning the Water and Sewer Utility Fund:

- Future growth in the system and the intense capital needs will result in rate increases.
- Considering the size of the Capital Program the focus in FY 2015 and beyond will be efficient and effective project delivery.
- One factor, not indicated in this projection, is the impact that quality utility services have on economic development.

Generally speaking, while the projection indicates significant deficits, the absence of projected rate increases provides a reasonable explanation. The previous rate models and plans indicated the need for rate increases in the future and this projection is no different. Through refinement of the capital plan during the FY 2015 budget process, the extent of the possible rate increases will be known.



Union County Public Schools Cost Analysis

Funding for Union County Public Schools (UCPS) is a significant part of the services provided by the County. Although UCPS receives the majority of its funding from the State of North Carolina, it accounts for an average of 55.9 percent of the County's General Fund expenditures during the projection period.

Specifically, the UCPS related expenses in the County's General Fund occur in three areas.

- Current Expense Funding - provides for the operating cost within UCPS, including the funding of support staff, facilities costs, and other local responsibilities.
- Capital Expense Funding - provides funding for the renewal and replacement of existing facilities, new facilities, information technology infrastructure, and other costs defined as "capital" by the General Statutes.
- UCPS related debt service - as required by General Statute, the County funds the construction of new facilities and at times incurs debt to do so. Upon completion, the facilities are conveyed to UCPS and become UCPS assets. However, the associated debt remains with the County and is paid for with County dollars. Funding for UCPS related debt service comes through property taxes, local option sales taxes, and lottery proceeds.

Beyond these three direct areas, the County also provides School Resource Officers (SRO) through the Union County Sheriff's Office. The current SRO program provides one deputy for each high school and middle school. In addition, the County provides maintenance and facility management services for the School Administration Building in Monroe.

Funding Trend and Analysis

Through the projection period, assuming an amended UCPS funding formula is approved, the FY 2014-2019 UCPS Capital Request, and the current projected debt service remains the same, the direct funding for UCPS will remain on average 55.9 percent of the total General Fund expenditures during the projection period.

The projection amends the FY 2014 Funding Formula by increasing the penny allocation to 36.52, equivalent to the FY 2014 Current Expense request, and carries that allocation throughout the projection.

	Projected Current Expense Funding	Projected PayGo Capital Funding	UCPS Related Debt Service	Total UCPS Direct Expenditures	As a % of Total General Fund
FY 2013	\$ 81,504,155	-	43,426,394	124,930,549	52.18%
FY 2014	83,021,859	8,357,859	44,012,450	135,392,168	56.18%
FY 2015	86,068,396	22,454,431	44,989,088	153,511,915	58.60%
FY 2016	87,195,524	16,589,630	43,733,632	147,518,786	56.72%
FY 2017	88,342,265	19,214,687	43,511,858	151,068,810	56.90%
FY 2018	89,509,124	17,908,448	42,479,116	149,896,688	55.88%
FY 2019	90,696,622	11,770,116	40,119,411	142,586,149	53.64%
FY 2020	91,905,298	16,000,000	37,447,184	145,352,483	53.60%

The value of the formula is anticipated to grow, on average by 1.32 percent annually from FY 2015 through FY 2020.

In addition to the annually budgeted funds, the adopted Funding Formula Policy dictates that there is an annual "true-up" payment made to UCPS, meaning that the difference between the originally budgeted revenue and the actually realized revenue are also appropriated to UCPS. For the fiscal year ended June 30, 2013, the "true-up" payment was \$761,450 in addition to the previously appropriated amounts.

UCPS Expenditure Analysis

Looking back, through analysis of the UCPS Comprehensive Annual Financial Reports, several trends in expenditures become apparent. Overall, from FY 2008 through FY 2013, the total expenditures for Governmental Activities (excluding child nutrition services and child care programs) grew by an average of 1.37 percent annually.

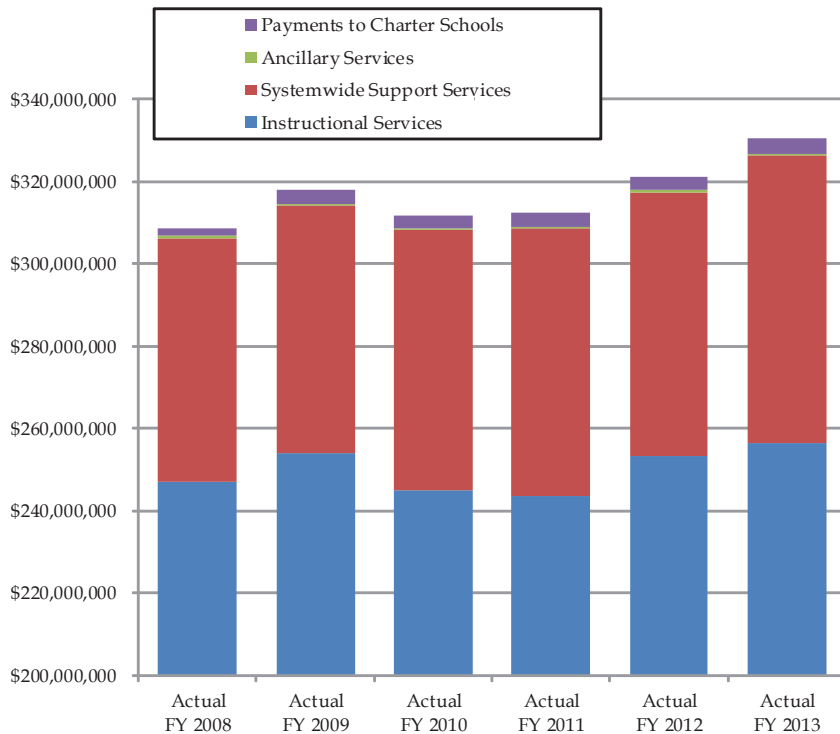
As the graph on the following page indicates, the lowest expenditure year came in FY 2008, with a reduction from FY 2009 to FY 2010. However, starting in FY 2011 through FY 2013, expenditures have continued to grow. With this in mind a closer look at the different expenditure categories is warranted.

From FY 2008 through FY 2013, expenditures for instructional services grew an average of .77 percent annually, or about \$1.92 million. The expectation would be the growth of instructional services would grow in proportion to the growth in students and/or inflation. However, this trend is counter intuitive, as student enrollment (as shown in the "McKibben Report" as presented in December 2013) has grown an average of 1.83 percent or about 700 students annually.



During the same analysis period, system-wide support services have grown by an average 3.38 percent or by an average \$2.14 million annually. The largest growth areas within the system-wide support services were technology services, growing an average of 34.7 percent or \$1.24 million annually and the operational support area, growing an average 4.5 percent or \$2.09 million annually. The other areas included in the system-wide support area experienced reductions or minimal growth during the analysis period. These trends indicate an increased focus on technology within the school system as well as the growing cost of the operational support area.

UCPS Governmental Activity Expenditures



Source: Exhibit 2, Union County Public Schools Comprehensive Annual Financial Report

Enrollment Analysis

During the December 10, 2013 regular Board of Education board meeting, Jerome N. McKibben, Ph.D. presented the "Union County Schools:

McKibben Report Forecasted Enrollment							
Year	Elementary Enrollment	Middle School Enrollment	High School Enrollment	CATA Enrollment	Early College Enrollment	Other Schools Enrollment	Total Enrollment
2013-14	18,590	10,112	11,140	823	295	187	41,147
2014-15	18,852	10,357	11,551	823	293	187	42,063
2015-16	19,065	10,268	12,208	823	293	187	42,844
2016-17	19,144	10,343	12,626	823	293	187	43,416
2017-18	19,137	10,380	12,862	823	293	187	43,682
2018-19	19,037	10,457	12,937	823	293	187	43,734
2019-20	18,764	10,571	12,802	823	293	187	43,440
2020-21	18,453	10,651	12,824	823	293	187	43,231
2021-22	18,205	10,692	12,831	823	293	187	43,031
2022-23	17,930	10,579	12,963	823	293	187	42,775
2023-24	17,688	10,449	13,044	823	293	187	42,484

Source: "Union County Schools: Population and Enrollment Forecasts, 2013-2023" by Jerome N. McKibben, Ph.D.

Population and Enrollment Forecasts, 2013-2023", commonly referred to as the "McKibben Report". This report provides a detailed look at various demographic data within the county and the possible impacts on the enrollment within UCPS. Using the data analysis and demographic analysis methods, Dr. McKibben provides a detailed forecast of student enrollment.

McKibben Report Forecasted Enrollment			
	Peak Year Enrollment 2013-2024	Current Capacity*	Peak (Over)/Under Capacity
Elementary Schools	19,144	21,085	1,941
Middle Schools	10,692	9,900	(792)
High Schools	13,044	12,300	(744)
CATA	823	850	27
Early College	293	400	107
Other Schools	187	201	14

*Note: Capacity as shown in Table 14, UCPS CAFR for FYE June 30, 2013.

Using the enrollment forecast, it is possible to begin a discussion of expanding UCPS facilities.



The tables on the previous page indicate that throughout the system there is sufficient capacity in the elementary schools. However, there are peak years of 2021-22 for middle schools and 2023-24 for high schools, in which the system is beyond capacity.

A further analysis of the capacity within the middle schools indicates, that starting in 2014-15, the system is at 104.6 percent of its capacity, climbing to a the projected peak year of 108 percent of capacity in 2021-22. The indicator of stress within the system is when enrollment reaches 110 percent of capacity.

Additionally, the detailed analysis of the high schools forecast indicates that starting in 2016-17, the system is at 102.65 percent of high school capacity, climbing to a projected peak of 106 percent in 2023-24. Again the indicator of stress within the system is 110 percent of capacity.

The data indicates that the system capacity is not necessarily the glaring issue, the geographic alignment of the students and the school assignments appear to be the challenge. The UCPS Board of Education has begun discussion of shifting school assignments to ensure that current facilities are maximized.

UCPS Capital Funding

During the development of the FY 2014 Operating and Capital Budget process UCPS presented a six-year capital plan. Although the funding plan was received too late in the process to be incorporated into the FY 2014-2019 Capital Improvement Program, the request has now been included in the projections.

	Projected PayGo Capital Funding
FY 2014	\$ 8,357,859
FY 2015	22,454,431
FY 2016	16,589,630
FY 2017	19,214,687
FY 2018	17,908,448
FY 2019	11,770,116
FY 2020	16,000,000
Total	\$ 112,295,171

Based on the Board of County Commissioners adopted, "Union County Capital Improvement Program Management Policy" new facilities, or in this case new schools, will be voted by referendum and will ultimately be funded through the use of general obligation debt with the needed corresponding tax increases to provide for the annual debt service.

For the purposes of this projection, the new schools have been distilled from the FY 2014 six-year capital plan. The remaining projects have been included in the projections with PayGo capital program funding.

The FY 2020 projected amount is an average of the preceding years and in this case is used as a planning tool as UCPS has not requested its FY 2020 proposed capital program. The projection includes \$112.3 million of ongoing capital funding for UCPS.

Conclusions

Based on the analysis and review of the information, several conclusions concerning UCPS funding can be drawn.

- UCPS continues to be the single largest expenditure in the County, consuming on average more than 55.9 percent of the annual budget.
- Generally the growth in expenditures has followed student growth; however the largest growth areas from FY 2008 through FY 2013 have been in the system-wide support and payments to charter schools.
- As discussed at length during the General Fund financial projection, the PayGo funding program, largely driven by UCPS PayGo capital funding is not fiscally sustainable. \$112.3 million has been included in the projections for the UCPS PayGo capital program; however this has contributed to significant deficits in future years as illustrated in the following table.

General Fund Revenue and Expenditure Projection			
	Revenue	Expenditures	Revenue Over/(Under) Exp.
FY 2013	\$ 253,113,597	239,438,058	13,675,539
FY 2014	240,983,700	240,983,700	-
FY 2015	235,820,249	261,961,728	(26,141,479)
FY 2016	238,974,733	260,104,380	(21,129,647)
FY 2017	242,193,057	265,479,376	(23,286,319)
FY 2018	245,476,905	268,260,502	(22,783,597)
FY 2019	248,828,013	265,797,695	(16,969,682)
FY 2020	252,248,174	271,161,929	(18,913,755)

*FY 2013 has been adjusted for debt proceeds from refundings.



As with the General Fund Projection, this projection is not positive. However, the projections can serve as a starting place for future discussions related to growth, maintenance, and new facilities. The County and UCPS must work together to mitigate the future fiscal challenges of both organizations.

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Building a Fiscally Sustainable Future

Five-Year Financial Projections, Fiscal Indicators, and Demand for Services Index






Fiscal Indicators

Indicator	Trend	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenue per Capita		\$ 467.38	489.93	470.62	447.94	572.54	429.94
Tax Revenue		\$ 78,100,083	91,194,580	88,288,359	86,696,379	87,152,990	87,047,193
Expenditures per Capita		\$ 888	809.53	635.74	576.46	552.54	535.20
Employees per Capita		0.0057	0.0051	0.0051	0.0049	0.0047	0.0048
Employee Benefits as a % of Employee Compensation		48.69%	51.46%	52.43%	54.10%	61.26%	56.01%
Water & Sewer Enterprise Fund Operating Position		\$ 11,581,401	11,474,533	12,176,728	12,470,131	12,162,388	12,280,048
Liquidity		259.02%	295.21%	298.11%	263.78%	349.82%	320.71%
Long-Term Debt as a % of Assessed Valuation		2.47%	2.12%	1.97%	1.85%	1.73%	1.62%
Population		182,360	191,514	196,322	201,292	205,717	210,410
Population Under 18 and Over 64		47.07%	45.41%	45.17%	44.93%	44.72%	43.07%
Personal Income (Note 1)		\$ 16,617	16,637	16,257	16,211	16,698	16,843
Public Assistance Recipients per 1,000 Population (Note 2)		142.07	160.99	177.45	187.82	195.27	220.78
Top Ten Tax Payers as a % of Assessed Valuation		3.60%	4.30%	3.54%	3.97%	3.48%	3.44%
Local Unemployment Rate		5.50%	11.00%	10.10%	9.60%	8.60%	8.00%
Gross Retail Sales (000s)		\$ 1,200,307	1,162,891	1,076,852	1,122,433	1,197,951	1,321,781

Note 1: Personal income reflects data from calendar year 2006 to calendar year 2011.

Note 2: Public assistance recipients reflects data from FY 2007 to FY 2012.

	Positive Trend
	Neutral Trend to be Monitored
	Negative Trend

Fiscal Indicators

The notion of financial condition, given the economic issues of the most recent economic downturn, has taken on a greater and varied meaning for local governments throughout the country. For the purposes of this report, financial condition refers to the County's ability to finance its services on a continuing basis. The use of fiscal indicators provides a concise indication of:

- The County's ability to maintain its existing service levels.
- The County's ability to withstand local and regional economic disruption.
- The County's ability to meet the changing demands of natural growth, decline, and demographic shifts.

Evaluating the County's financial condition can be a complex process, with a multitude of factors having significant impacts. The use of fiscal indicators provides an organized, indicative means to sort



through these factors and hone in on representative indicators. These indicators provide a “snapshot” of financial condition and demographic changes. Each indicator provides meaningful information and areas for additional study.

The chosen indicators provide information concerning a number of financial and demographic factors. For the purpose of this report, the trend in each indicator is shown by an arrow. Green arrows indicate that the trend is moving in a positive direction, orange arrows indicate instability in recent years and the need to continue to monitor the trend, and finally, the red arrows indicate a negative trend.

When items have been adjusted to constant dollars, they have been adjusted to the base year of the Consumer Price Index (1982=100). The use of constant dollars provides an apples to apples comparison by adjusting for inflation.

Trends and Analysis

As the dash board on the previous page indicates, of the fifteen indicators, nine are trending positive, while four are indicating the need for continued monitoring, and two are negative.

The positive trends are indicating a positive trend in growth concerning income, debt, demographic, and local tax base. Additionally, governmental expenditures are showing positive trends. Essentially, the indicators show that there is limited economic growth with controlled government expenditures.

The neutral trends or trends to watch are indicating that tax revenues, liquidity, and population growth have, in recent years, been erratic. These trends are not necessarily showing negative trends, but are showing signs of concern.

Finally, the negative trends, growing employee benefit costs and growing public assistance recipients, are cause for concern.

Conclusions

Given the prior year’s trends, with the addition of FY 2013 actual data, the trends remain similar to the FY 2012 analysis. Before delving into the

individual indicators, it is important to pause and evaluate the overarching results. From the dashboard on the previous page several conclusions can be drawn:

- Revenue continue to be fragile. This is reflective of the national economic sentiment as well as the weak economic recovery as a whole. The indicators continue to support the Board of County Commissioners’ desire to focus on fiscal sustainability and economic development. Given the trends, these focus areas should remain in place for the foreseeable future.
- Expenditures have been managed in the organization. Although revenue has been erratic at times, the expenditure indicators demonstrate efficient operations or the onset of service level stressors (as discussed later). Even though there is a lack of qualitative analysis, it appears the County has continued, through the economic downturn, to maintain its services.
- Benefit costs continue to be a concern. The growing cost of employee benefits continues to be a negative trend. The trend is reflective of national trends and is not expected to change in the near future.

The fiscal health of the County continues to remain strong. The majority of the indicators show positive trends, meaning that during the latest economic downturn the County was able to weather the storm. Despite these positive trends, the need for fiscal vigilance continues.

With these factors in mind, the financial policy decisions made in the next several years will drive the long-term financial condition of the County.

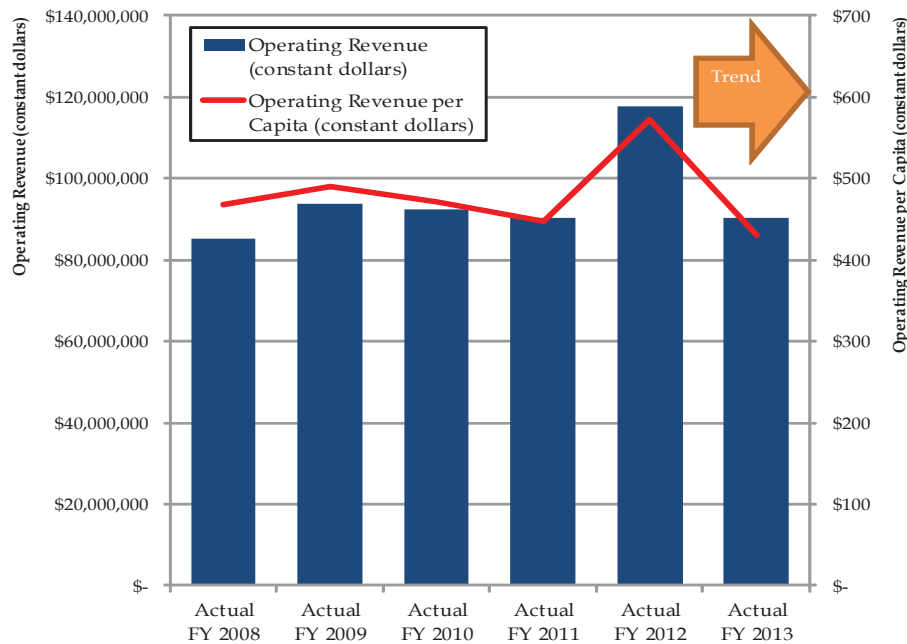


Indicator: Revenue Per Capita

Revenues per capita provide an indicator of the changes in revenue relative to the changes in population and inflation. Converting net operating revenues to a per capita indicator and adjusting for inflation provides a clear picture of the underlying fiscal trend. As population changes, it can be expected that absolute revenues and service demand will change proportionally. The level of revenue per capita, as an indicator is adjusted for population and represents a good indicator of revenue.

If the revenues per capita are decreasing, the County may be at risk of being unable to sustain current service levels.

Operating Revenue per Capita



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2013

Trend and Analysis

As the graph indicates, revenue per capita, in constant dollars, has declined. The spike in FY 2012 is reflective of onetime \$54 million lease revenue. Adjusting for the lease revenue, FY 2013 declined by \$20.10 per capita.

On the surface this indicator shows a significant reduction in revenue, however, the reduction is caused by two significant items. The first is the growing inflationary number. As the graph indicates, the year over year revenue, once adjusted for inflation, declined by about \$2 million (adjusted for the lease revenue). This decline, in conjunction with the growth in population, just less than 5,000, results in the declining per capita revenue.

With this trend in mind, this indicator is shown as neutral, requiring continued monitoring.

Indicator: Tax Revenue in Constant Dollars

Tax revenue for FY 2014 represents more than 75 percent of the General Fund revenue. Because of this, the County is particularly sensitive to changes in tax revenue. This is further complicated by the County's heavy reliance on ad valorem taxes, which make up 64.77 percent of the General Fund revenue in FY 2014.

Tax revenue, in constant dollars, provides an indicator of the County's ability to continue to fund services. This indicator, for the report purposes, has been adjusted for inflation.

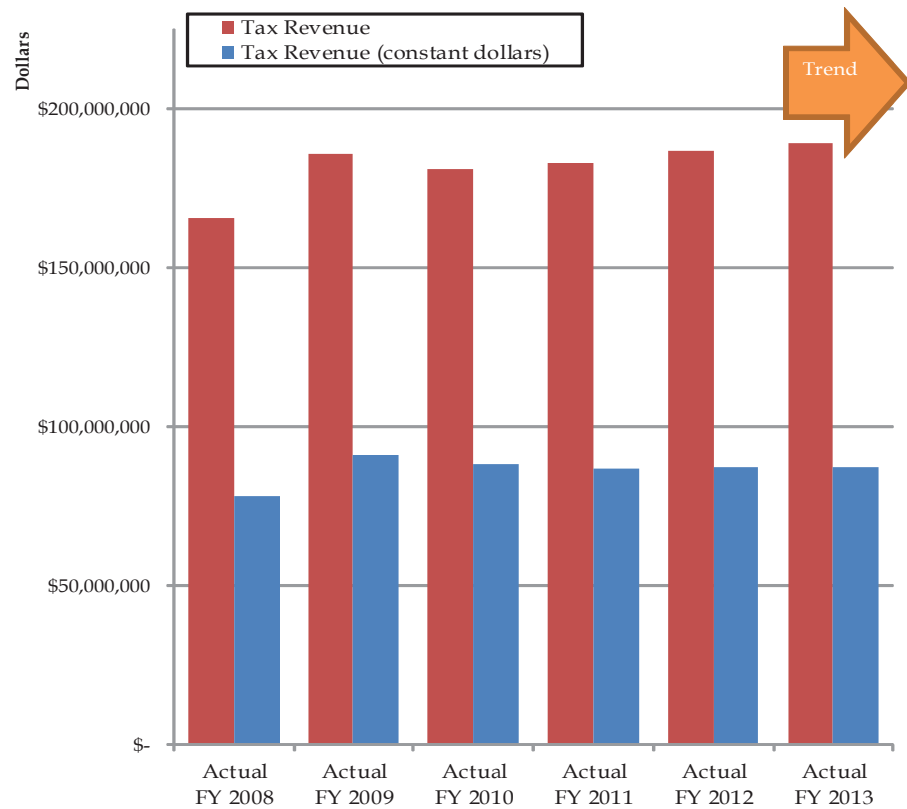
Note on Adjusting for Inflation:

The graph on the following page indicates a dichotomy between the inflation adjusted revenue against the absolute dollar revenue. This indicator provides a clear understanding of the impact of the inflation adjustment. As can be seen, the unadjusted tax revenue has shown some growth during the analysis period. However, the adjusted revenue have remained fairly stagnant. This indicates that there is a fairly proportional relationship between inflation and revenue, or simply that based on a cursory look at this data, the growth in unadjusted is more reflective of inflation than true economic expansion.

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Tax Revenue



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2013

Trend and Analysis

As the graph indicates, tax revenue in constant dollars has remained fairly level during the last three years, while in unadjusted dollars the revenue has grown. From FY 2011 to FY 2013 adjusted tax revenue saw an average growth of just .2 percent or a total growth of just \$350,813. This growth followed three years of decline from the high point in FY 2009 to the low in FY 2011. The inflation adjusted loss from FY 2009 to FY 2013 was \$4.1 million, although the real growth was \$3.5 million. This indicates that while there was increased revenue, those increases were less than inflation and represented a reduction in actual buying power.

Given the recent behavior of this indicator, the trend is neutral and indicates a continued level of monitoring. Additionally, the data suggests further focus on revenue or tax base diversification within the County is appropriate to ensure continued services.

Indicator: Expenditures Per Capita

Expenditures per capita, similar to revenue per capita, provide an inflation and population adjusted indicator of the cost of services. Expenditures per capita do not indicate a service demand, however, being adjusted for population, assumes that demand is proportional to population.

Increasing per capita expenditures could indicate that the cost of providing services is outpacing the County's ability to pay. This ability to pay is further exemplified when this indicator is taken in conjunction with the trend of personal income.

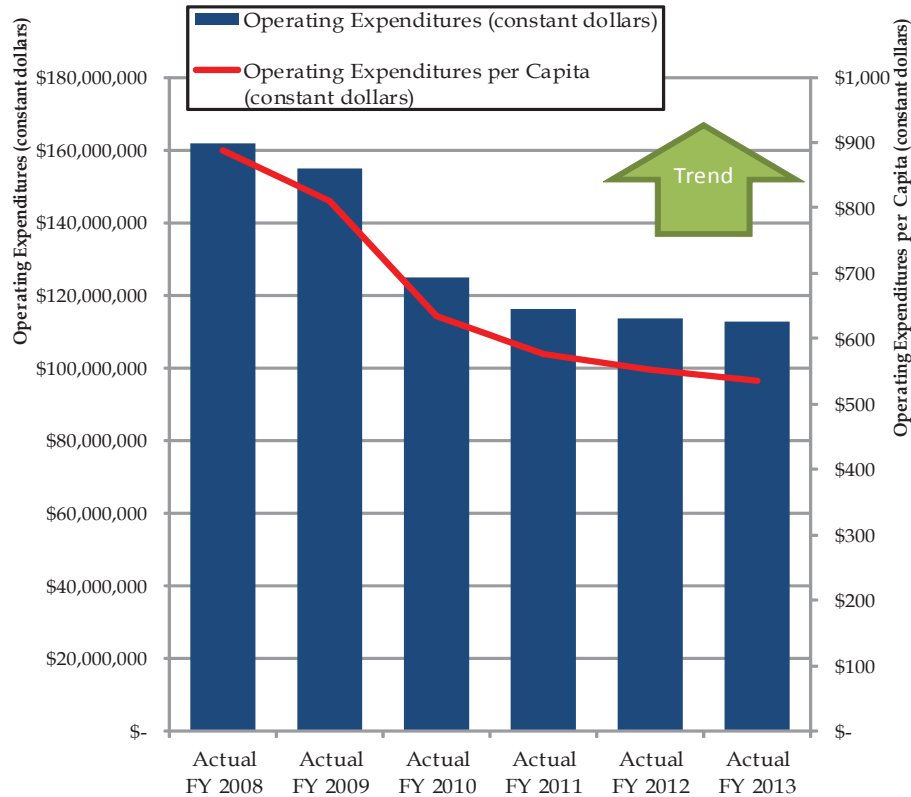
Decreasing per capita expenditures, assuming services are provided at consistent levels, could indicate increasing efficiencies.

Note About Population Increases and Per Capita:

Government costs are largely generated by the cost of readiness to serve and peak service demand capacity. Because of this, there is a certain level of population increase that can be served by current service capacity. For instance, increasing population by 1,000 people may not increase the need for library space, however, a 25,000 person increase in population may increase the demand for services and the need for library space. The goal of using population adjusted indicators is to evaluate when and if this capacity maximization is reached and when the need for expansion of service capacity is necessary.



Operating Expenditures per Capita



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2013

Trend and Analysis

Expenditures per capita, in constant dollars, have continued to decrease during the analysis period, from FY 2008 to FY 2013. The per capita expenditures have decreased by slightly less than 40 percent when population and inflation are taken into consideration. This trend is positive and demonstrates that the “real” cost of government has decreased during this time. Considering this trend, the indicator also suggests that the biggest drivers in the increasing cost of services are population and inflation.

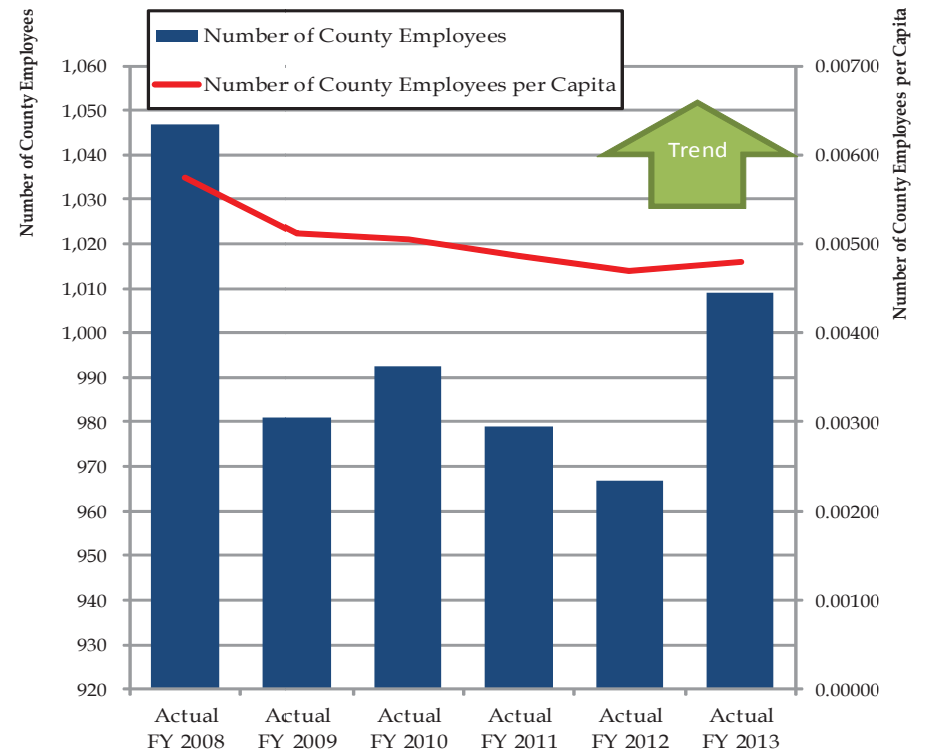
It should also be noted, in this indicator that debt and related debt refundings have been included. Because of this, early years of the analysis indicate a much larger expenditure per capita than the real cost to provide

services. In recent years, from FY 2011 to FY 2013, this trend has declined by a total of 7.2 percent, still indicating a decreasing cost of services.

Indicator: Employees Per Capita

Employee costs represent about 24 percent of the FY 2014 General Fund operating budget, costing \$58.6 million in FY 2014. Because employee costs are a significant part of the operating budget, monitoring the changes in the number employees per capita is a good way to measure changes in expenditures.

Employees per Capita



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2013



An increase in employees per capita could indicate that expenditures on the whole are growing faster than revenues. Or in cases where population is growing while the number of County employees remains constant or decreases, could indicate efficiency or a growing stress on the service delivery systems. A positive trend or decreases would indicate the aforementioned service stress or efficiencies.

Trend and Analysis

From FY 2008 to FY 2013, the County has reduced its total employees by 37.5, resulting in a 16.4 percent reduction in employees per capita. The largest portion of this reduction came from FY 2008 to FY 2009, when the County reduced its total number of employees by 65.8 and on a per capita basis by 10.8 percent.

On the surface this trend appears positive, however it may warrant continued monitoring. As the Demand for Services Index (discussed later in this report) will show, fewer employees to provide services will eventually have a service impact. As the indicator demonstrates and as the County returns to some level of growth, there will be some additional staffing to address those growing needs. The trend remains positive; but warrants cautious optimism. This indicator does not reflect service level desires of the Board of County Commissioners.

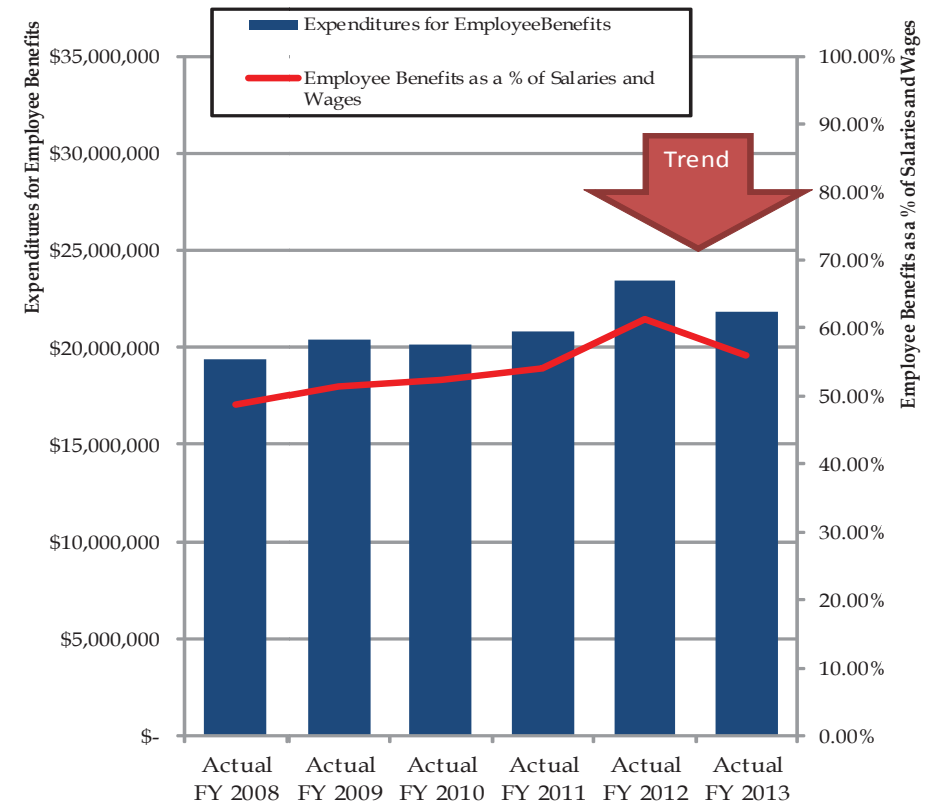
Indicator: Employee Benefits as a % of Employee Compensation

Employee benefits represent a significant cost to the County. Employee benefits include health insurance, retirement costs, payroll taxes, workers compensation insurance, among others. Given the number and types of benefits, it is best to review them as a group. The indicator to track employee benefits and their possible impact on services is to calculate employee benefits as a percentage of employee compensation. An increase in this indicator demonstrates a greater cost and a negative trend. A positive trend would be level or decreasing costs.

Note Concerning Other Post-Employment Benefits:

OPEB benefits are non-pension benefits provided to employees after employment ends. These benefits, for the County for the year ended June 30, 2013, represented a long-term liability of \$12.6 million, an increase of \$765,694 from FY 2012.

Employee Benefits as a % of Employee Compensation



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2013

Trend and Analysis

The cost of employee benefits declined from FY 2012 to FY 2013 in the General Fund. This decline can be attributed to a onetime payment for OPEB liability made in FY 2012. However, over the period, this trend is increasing due to the growing cost of health benefits. This trend is negative and warrants continued monitoring, and will be largely driven by the contributions to the OPEB liability and the growing cost of health benefits.

Staff continues to work with consultants to evaluate options to reduce these costs in the future.

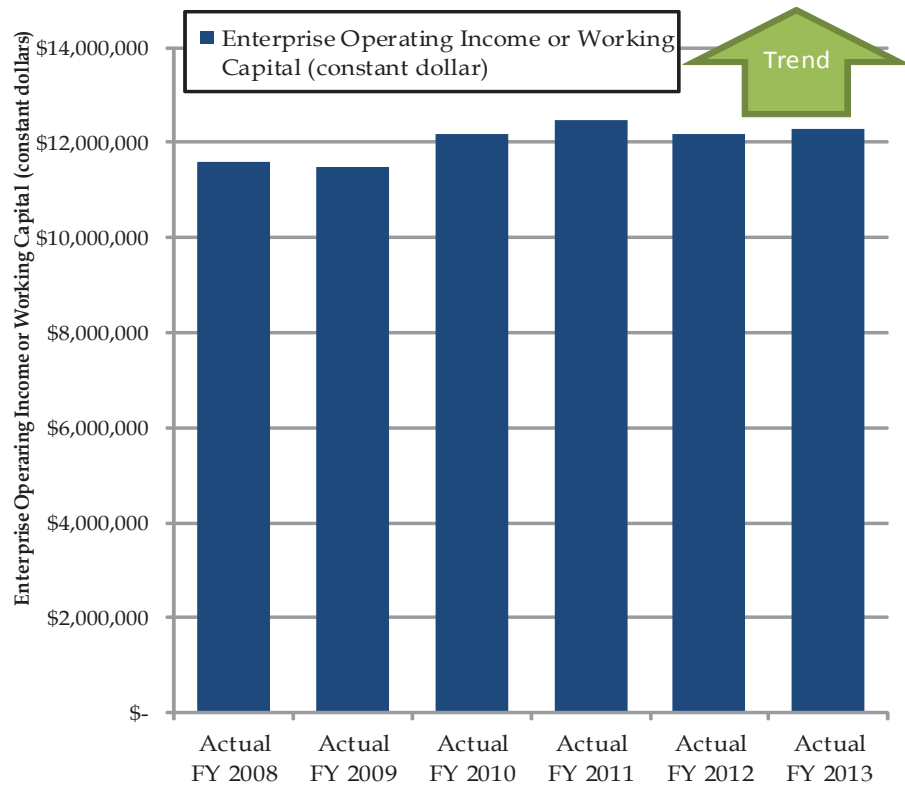


Indicator: Water and Sewer Enterprise Fund Operating Position

The operating position or working capital of the Water and Sewer Enterprise Fund provides an indicator of the utilities ability to fund capital and system projects.

To compare year to year, this indicator is adjusted for inflation and converted to constant dollars. A positive trend indicates a growing capacity within the utility to address system capital. However, it is important to note, that this ability to maintain the system is balanced with the notions of rate fairness and inter-generational equity. Rates must be set sufficient to cover the full cost of the system, including capital and system projects, but the full capital program should not be funded through current revenues, but through a balanced debt program.

Water and Sewer Enterprise Fund Operating Position



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2013

Trend and Analysis

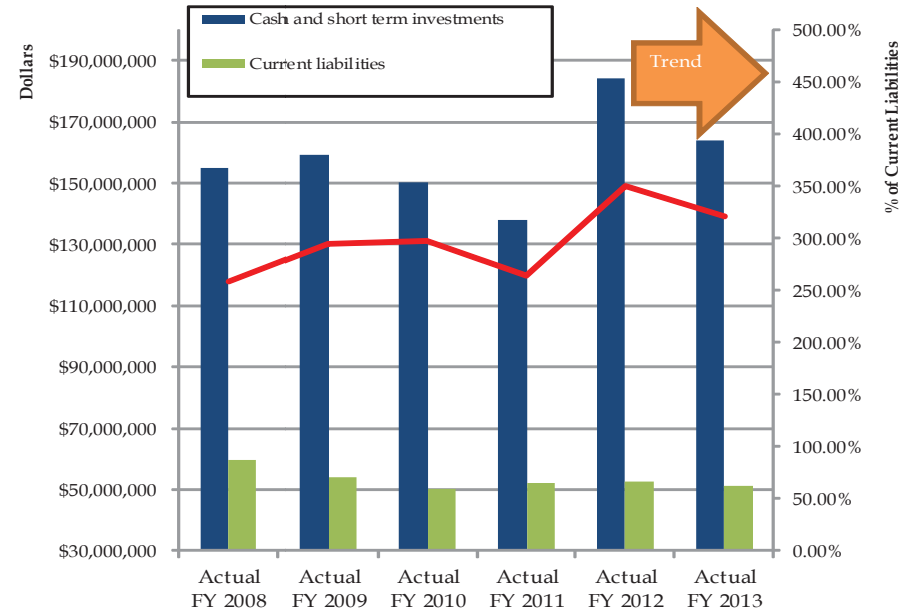
The adjusted net position of the Water and Sewer Enterprise Fund declined from FY 2011 to FY 2013, a reduction of 1.5 percent. However from FY 2008 through FY 2013, the indicator period, the net operating position increased by 6 percent and reflects the recent utility rate increases. This indicator is positive, reflecting this long-term growth.

As discussed in the financial projections portion of this report, there will be needed rate increases as the operating and capital improvement programs are implemented. This indicator will change in conjunction with those increases.

Indicator: Liquidity

An indicator of the County's short-term financial condition is its cash position or measure of liquidity. Cash, in this case refers to not only cash but other assets that could be converted to cash. Liquidity is a measure of the County's ability to pay its short-term obligations.

Liquidity



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2013

Low or declining liquidity can be an indicator that the County has over extended itself in the long-term; a cash shortage may be the first sign.



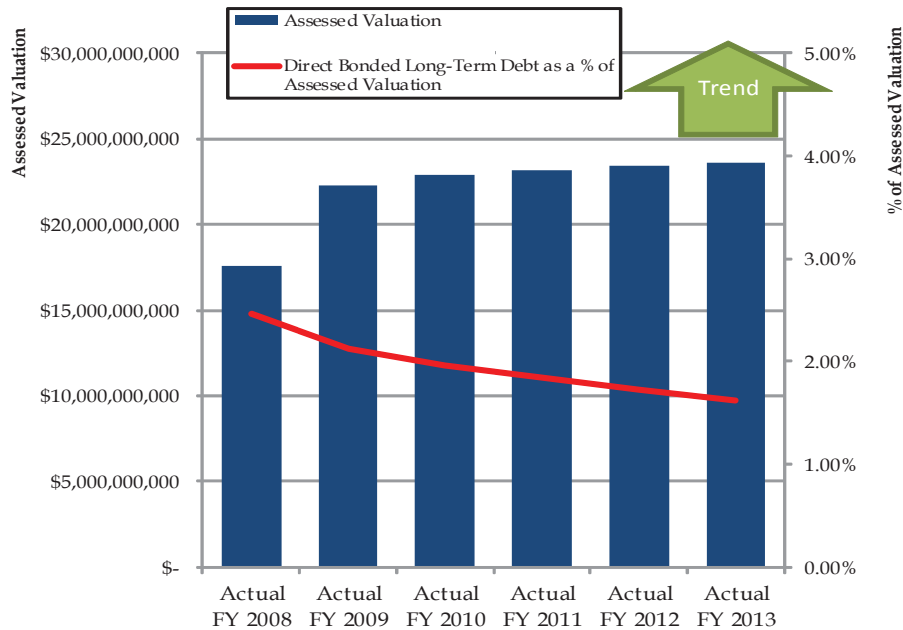
Trend and Analysis

The County has experienced a very strong financial position as it relates to liquidity. There was a decrease from FY 2012 to FY 2013, but the County cash and short-term investments remained at more than 300 percent of the current liabilities. The liquidity indicator yields a neutral trend to be monitored, however, the County's liquidity remains strong.

Indicator: Long-Term Debt as a % of Assessed Valuation

The County's long-term debt is a measure of the debt burden. Direct debt is the bonded debt for which the County has pledged its full faith and credit, while self-supporting debt, is generally supported by revenue other than taxes. The direct debt is then measured as a percentage of assessed valuation.

Long-Term Debt as a % of Assessed Valuation



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2013

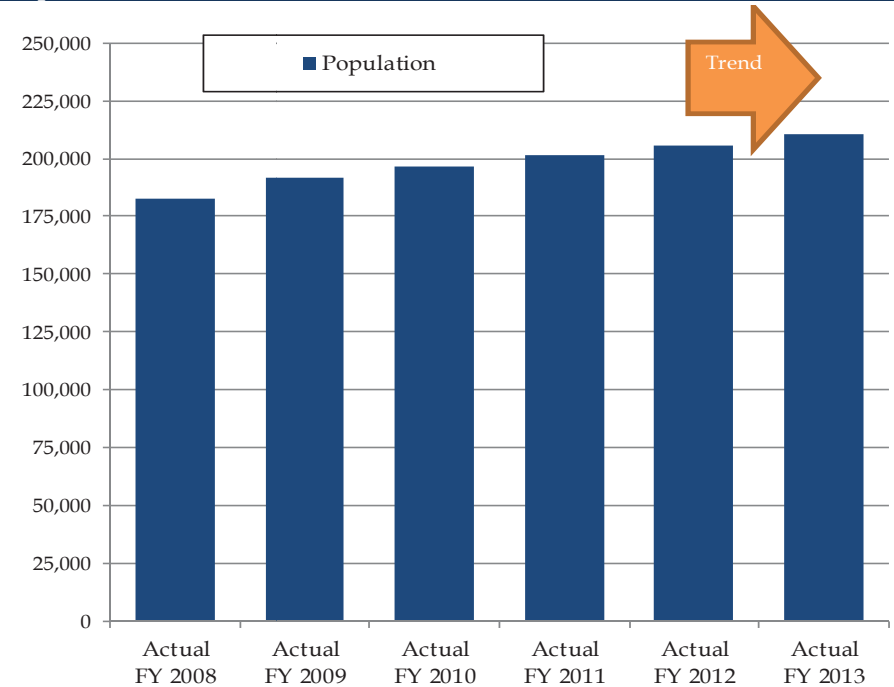
Trend and Analysis

The long-term debt indicator shows a positive trend since FY 2008. The positive trend is the result of two components. The assessed valuation has grown each year, growing from \$17.5 billion in FY 2008 to \$23.6 billion in FY 2013. During this same period, the County's direct debt has declined from \$433 million in FY 2008 to \$383.6 million in FY 2013.

This indicator continues to support the Board of County Commissioners' desire to focus on the County's debt policies. Through the adopted debt policies this trend will continue to have a positive impact on the County's ability to access the debt markets and ensure the lowest future cost of borrowing possible.

Indicator: Population

Population



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2013



Changes in population have a direct effect on the County's revenue and expenditures. As was experienced in the 2000s, a sudden increase in population can create immediate pressure for new capital outlay and higher levels of services.

Alternatively, a decline in population would, at first glance, appear to relieve the pressure for expenditures by reducing demand. In reality, a declining population does not necessarily equate to reduced costs.

Trend and Analysis

Union County's population has grown by 28,050 residents since FY 2008. This equates to average growth of just less than 3 percent annually. As mentioned earlier, simple population growth is not a positive or negative indicator. The average growth in this indicator makes this a trend to watch.

As discussed in the recommendations portion of this report, while this indicator is not trending toward a high growth cycle, there is a trend of growth. Additional steps and analysis are needed to understand the growth pattern and the changing service needs of the population.

Indicator: Population Under 18 and Over 64

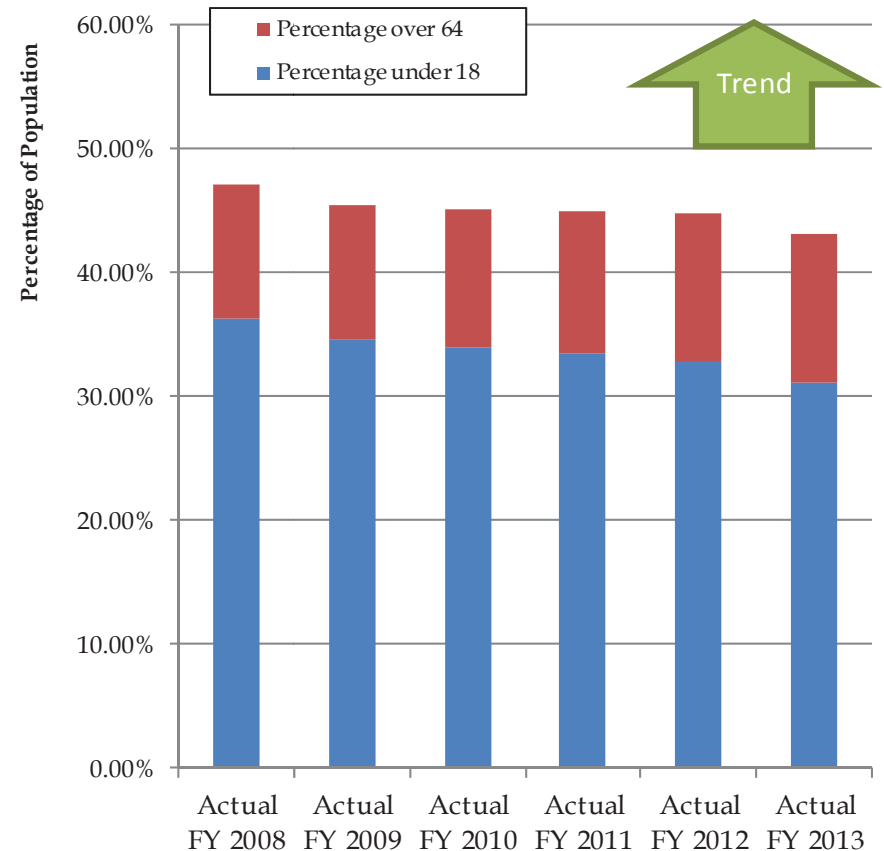
The percentage of individuals living in the County who are under 18 and over 64 is a measure of the County's needs. This indicator helps to measure the level of current and future needs and the level of liabilities in the County. This population subset typically requires more services than the remainder of the population. This indicator measures this group as a percentage of the total population.

Trend and Analysis

This indicator has shown continual decline going from 47.07 percent in FY 2008 to 43.07 percent in FY 2013. This trend is positive; but there are several demographic shifts that will have a significant impact in the near future.

As the "boomer" generation reaches 64, it can be expected that the upper end of this group will grow as a percentage of population. This trend will have an impact on the service demands of the County, particularly in the human services areas.

Population Under 18 and Over 64



Source: <http://www.osbm.state.nc.us/demog/prsage.html>

Note on Aging Population:

While this indicator is showing signs of decreasing, the intra-indicator shift is showing signs of an aging population and a reduced under 18 population. This indicator provides insight in the shifting program needs. The under 18 population has gone from 36.25 percent in FY 2008 to 31.04 percent in FY 2013, while the over 64 population has grown from 10.81 percent in FY 2008 to 12.03 percent in FY 2013.

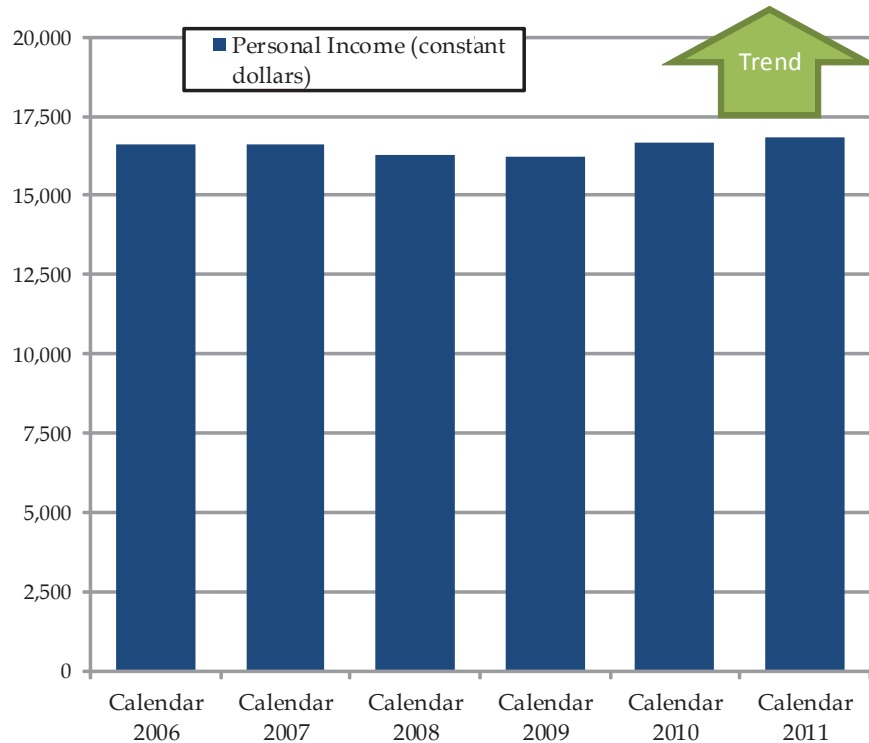


Indicator: Personal Income

Personal income is a measure that reflects the County's residents' ability to pay taxes. Simply stated, with higher personal income the more property taxes, sales taxes, and other taxes a county can generate.

As with Union County, changes in personal income are of particular importance to communities that have little commercial or industrial tax base, because personal income is the primary source from which taxes can be paid.

Personal Income



Source: BLS

For the purposes of this report, personal income has been converted to constant dollars to provide a year to year comparison. Data reflects calendar years 2006 to 2011.

Trend and Analysis

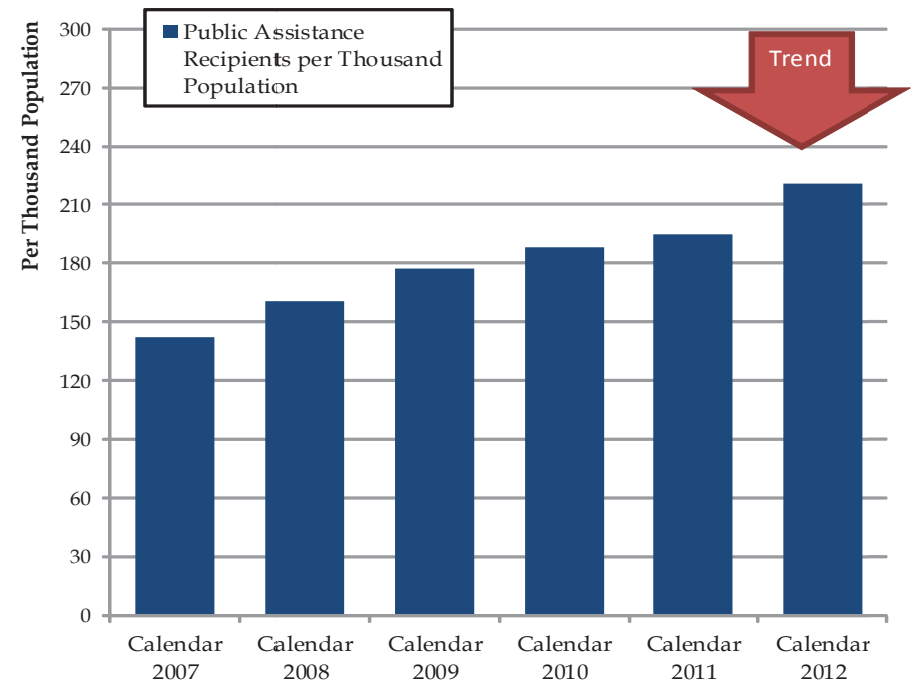
Personal income in total (constant dollars), has increased by .27 percent from CY 2006 to CY 2011. This growth reflects a minimally positive trend.

This time period reflects the worst years of the economic downturn. As would be expected personal income saw decreases during this time. With that in mind, it is expected that this indicator will continue to show some steady growth into the future.

Indicator: Public Assistance Recipients per 1,000 Population

The number of public assistance recipients provides an indicator of possible future increases in the level and unit cost of some services. Typically, lower income households tend to use a higher degree of county services.

Public Assistance Recipients per Thousand Population



Source: Union County Department of Human Services



Trends and Analysis

The indicator is showing a negative trend. It reflects a continual, annual increase. From CY 2007 to CY 2012, the number of public assistance recipients per thousand population increased by 55.4 percent, or an average of about 10 percent a year.

This growth is supported by similar data in the demand for services index, which follows. It is significant to note that this indicator is a reflection of need in the community. During an economic downturn it can be anticipated that there is an increased demand for public assistance services.

This indicator showed its greatest increase from CY 2011 to CY 2012. This trend requires monitoring and indicates that additional resources may be needed for County public assistance services.

Indicator: Top Ten Tax Payers as a % of Assessed Valuation

This indicator measures the concentration of a property values in the County and helps to analyze the vulnerability of the economic base to the fortunes of a few tax payers. Bond rating agencies use their indicator to determine the degree of concentration. If the County relied too heavily on just a few tax payers for property taxes, it will be vulnerable to any changes in these tax payers assessments and/or ability to pay taxes.

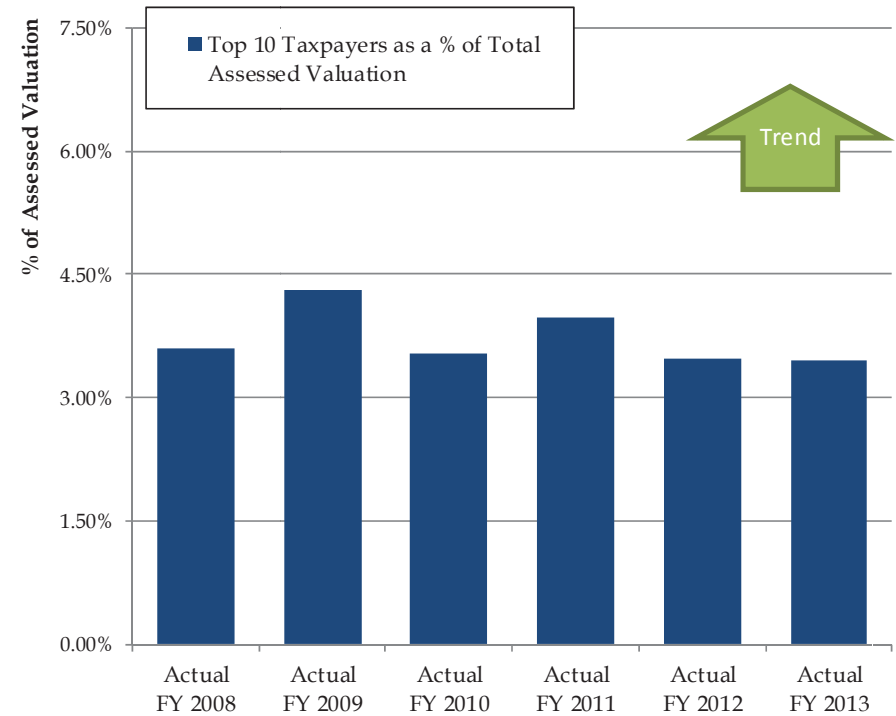
Trends and Analysis

The indicator shows a positive trend. The most meaningful indication shown is that during the indicator period, the top ten tax payers have not climbed above 4.3 percent.

Note Concerning Residential Values:

This indicator is not a complete picture. The indicator fails to demonstrate the exposure or sensitivity of the County to declining residential values. As the County heads toward a re-valuation year, the residential values could change significantly.

Top Ten Tax Payers as a % of Assessed Valuation



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2013

Indicator: Local Unemployment Rate

Changes in the unemployment rate are related to changes in personal income. This indicator measures the community's ability to support its local business sector.

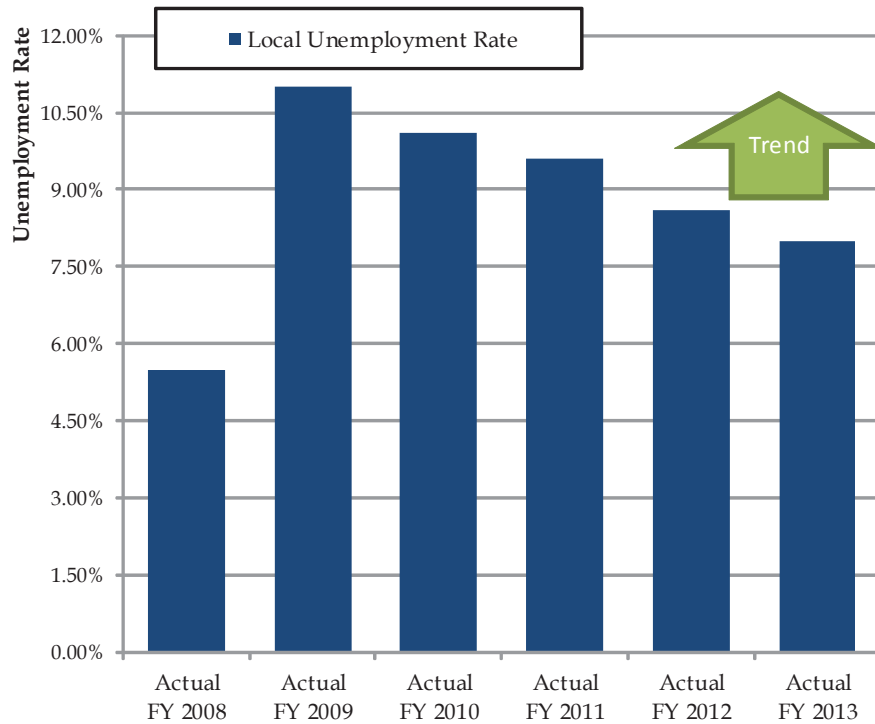
The unemployment rate reflects the employment status of residents who live within the County's geographic boundaries, regardless of whether their jobs are within or outside of the County.

Trend and Analysis

The unemployment rate hit a high of 11 percent in FY 2009, and has come down to 8 percent in FY 2013. This positive trend is expected to continue into FY 2014 and FY 2015. The 8 percent is reflective of the fragile improvement in the economic recovery.



Local Unemployment Rate



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2013

Indicator: Gross Retail Sales

Gross retail sales are an indicator of local business activity. Changes in business activity can affect the County's financial condition in two ways. First, it directly affects any revenue yields that are a product of business activities.

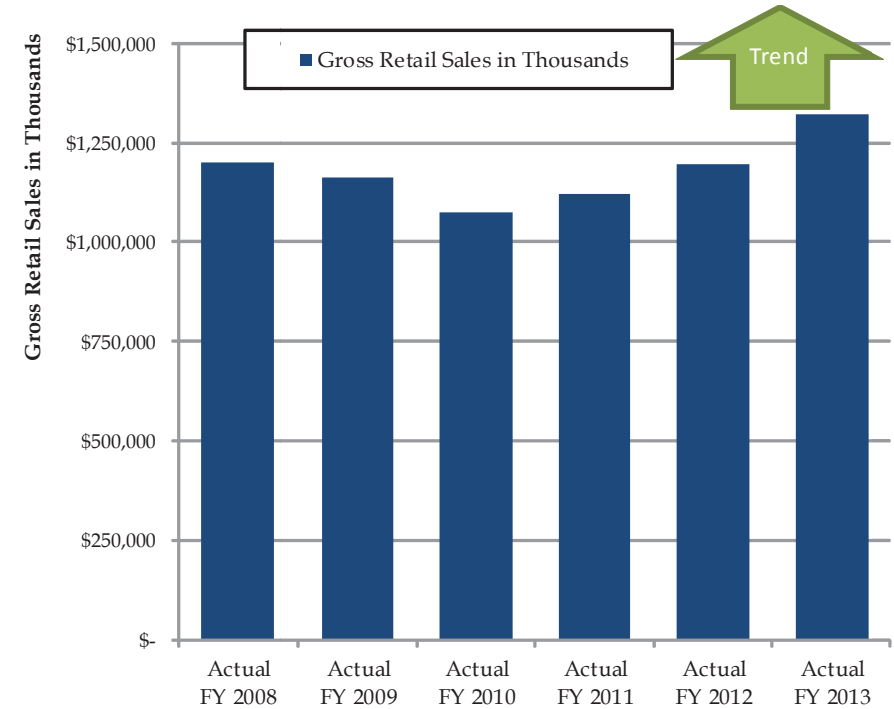
Secondly, and perhaps more important, changes in business activity affect demographic and economic areas such as personal income, property values, and employment rates.

Trends and Analysis

In FY 2013, the gross retail sales grew beyond where they were in FY 2008. This marks the first year that this is the case and signals a positive trend. This indicator shows growth in the local economy.

As the graph indicates, and as would be expected, the economic impacts of the downturn are evident in FY 2010.

Gross Retail Sales in Thousands



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2013

Note on Retail Sales:

Retail sales are largely dependent of disposable income. Meaning that as residents have more income, not committed to taxes or living expenses, the more that can be spent in the local economy and in local businesses.



Demand for Services Index						
	Actual FY 2008	Actual FY 2009	Actual FY 2010	Actual FY 2011	Actual FY 2012	Actual FY 2013
Library Circulation and Computer Use	1,308,140	1,338,621	1,281,028	1,330,357	1,357,848	1,248,013
Index	100.00	102.33	97.93	101.70	103.80	95.40
Average Daily Membership	36,952	38,554	39,366	39,900	40,359	40,958
Index	100.00	104.34	106.53	107.98	109.22	110.84
Social Services Client Visits (Calendar Year)	44,446	52,953	55,102	56,601	57,985	57,351
Index	100.00	119.14	123.98	127.35	130.46	129.04
Public Health Division Client Visits	29,026	31,745	36,857	25,907	23,869	23,650
Index	100.00	109.37	126.98	89.25	82.23	81.48
Average Daily Water Consumption (000's)	9,617	8,659	9,395	11,420	11,280	11,100
Index	100.00	90.04	97.69	118.75	117.29	115.42
Water and Sewer Connections	65,232	66,345	67,080	68,162	70,257	72,712
Index	100.00	101.71	102.83	104.49	107.70	111.47
EMS Calls	15,529	15,586	16,527	17,440	18,155	18,808
Index	100.00	100.37	106.43	112.31	116.91	121.12
EMS Transports	10,782	10,911	11,586	12,205	12,597	12,900
Index	100.00	101.20	107.46	113.20	116.83	119.64
Building Inspections	713	1,341	1,070	1,201	2,057	2,640
Index	100.00	188.08	150.07	168.44	288.50	370.27
Sheriff Calls For Service (Calendar Year)	66,343	95,172	106,230	111,038	111,865	114,653
Index	100.00	143.45	160.12	167.37	168.62	172.82
Demand Units	1,586,780	1,659,887	1,624,241	1,674,231	1,706,272	1,602,786
Index	100.00	104.61	102.36	105.51	107.53	101.01

Demand for Services Index

The Demand for Services index provides the County with an understanding of the changing needs of the residents. This index looks at the growth in usage of ten specific categories that include library circulation and computer use, schools average daily membership, social services client visits, public health division client visits, average daily water consumption, water and sewer connections, EMS calls, EMS transports, building inspections, and Sheriff calls for service.

The demand index uses these statistics to establish “demand units”. The base year of the index is FY 2008 and measures growth from FY 2008. For instance, if the index is 108.5 in FY 2013 then there is 8.5 percent more demand in FY 2013 than in FY 2008. Demand units are measured as their absolute unit values.

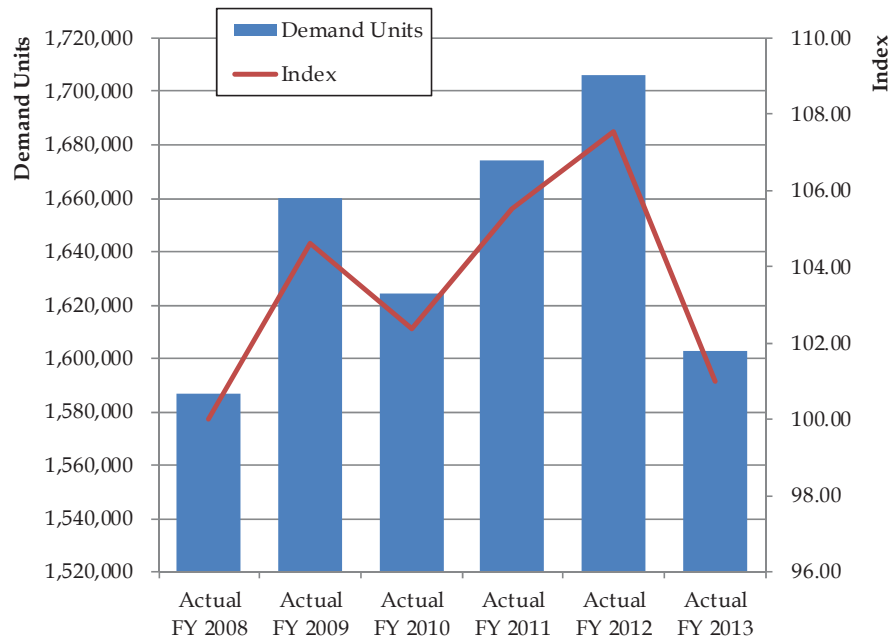


	Actual FY 2008	Actual FY 2009	Actual FY 2010	Actual FY 2011	Actual FY 2012	Actual FY 2013
FTE	1,046.70	980.90	992.50	979.10	966.80	1,009.18
FTE Index	100.00	93.71	94.82	93.54	92.37	96.42
Demand Units	100.00	104.61	102.36	105.51	107.53	101.01
Demand Units Per FTE	1,515.98	1,692.21	1,636.51	1,709.97	1,764.87	1,588.21
Demand Units Per FTE Index	100.00	111.62	107.95	112.80	116.42	104.76

Trends and Analysis

As the graph indicates, demand in FY 2009 grew by 4.61 to 104.61, which is reflective of the changing economic conditions at the time. In FY 2010, the index declined by 2.25 to 102.36. This reduction was partly driven by a 4.4 percent decline in library usage and a 38.0 percent decline in building inspections. By FY 2011, demand increased by 3.15, for an index total of 105.51; and increased by 2.02 from FY 2011 to FY 2012. By FY 2013 the index declined to 101.01. This reduction was partly driven by an 53.7 percent decline in registered users due to purging of inactive registered user accounts in FY 2013.

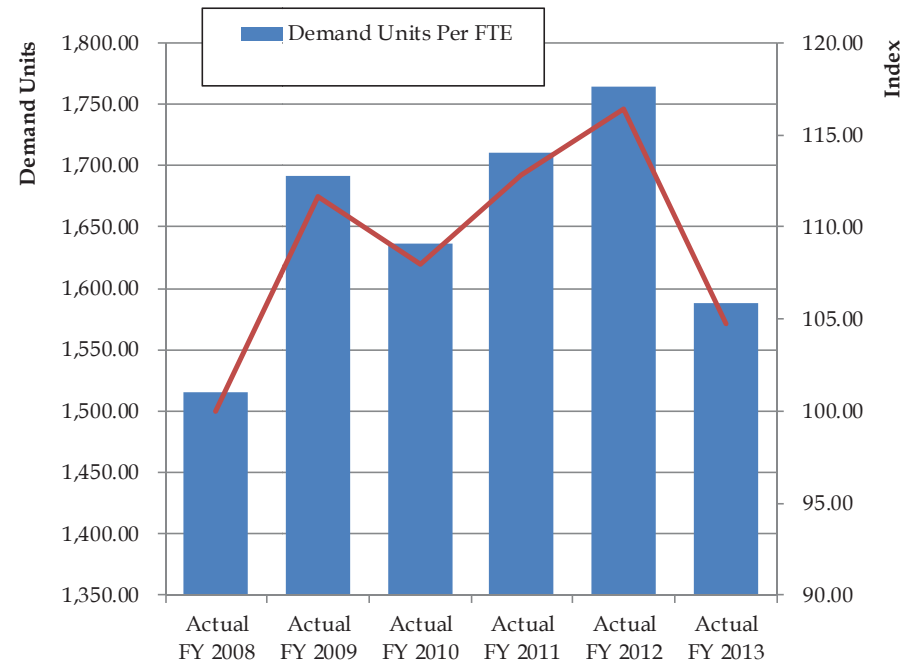
Demand for Services Index



Source: Union County Department of Administrative Services, FY 2008 =100.00

The largest growth in the demand for services, excluding building inspections, is in Sheriff's Department calls for service. In CY 2008 there were 66,343 and from CY 2012 to CY 2013 the number of calls increased by 2,788 to 114,653, a growth of 2.5 percent.

Demand Per FTE



Source: Union County Department of Administrative Services, FY 2008 =100.00

Full-Time Equivalents (FTE) reflects the County's staffing levels; each FTE is the equivalent of one position. The FTE indicator is used to measure the County's capacity to provide services.



As the table on the previous page indicates, in FY 2008 the County had 1,046.7 FTE, however by FY 2013 the County reduced its FTE to 1,009.18. This is a reduction of 37.5 FTE or 3.58 percent from FY 2008. The FTE Index is 96.42.

By comparing the demand units to the FTE units, a ratio of demand units per FTE can be established. This ratio in turn measures the service demand on each FTE. It is important to note that an index over 100 indicates that FTE is providing a greater level service. When that level of service increases, it indicates in some cases a greater stress, and in other cases can indicate an increase in efficiency. Additional study is necessary in specific areas, to determine the cause of the increase in the index.

While there has been measured growth in the demand for services index, the demand units per FTE has grown at a greater rates. The largest jump came from FY 2008 to FY 2009, with an 11.62 jump. This is due to the increase in demand in conjunction with the County's reduction of 65.8 FTE. With the increase in FTE and the decline in demand, the demand per FTE index in FY 2013 was 104.76; down from 116.42 in FY 2012.

Conclusions

When considering the Demand for Services Index it is important to consider that the index is only indicative of the current trends and should be considered as a whole. The index provides a snap shot of the trends in demand.

With this caveat in mind, there are several conclusions that can be drawn:

- The demand index in FY 2013 was 101.01 indicating that the demand for services is growing, however, since the base year demand has grown annually by an average of .2 percent. This minimal growth reflects a steady increase in demand versus drastic increases as experienced early in the 2000s.
 - It is worth noting that the significant drop in computer usage and circulation at the Library is the primary cause for the reduced demand index. This is perhaps indicative of the economic recovery and a reduced need for computer job searches.
- The FTE index in FY 2013 of 96.42 indicates that the County has reduced FTEs, however, the County continues to provide services. Staffing levels

should be monitored to ensure sufficient staffing in the appropriate areas is maintained to deliver the needed services, as well as address possible areas of risk.

- The demand units per FTE index of 104.76 indicates that the County has experienced some stress on its service delivery capacity. While it is almost certain that efficiencies have eased the stress, a discussion of service levels, as well as area specific analysis should be undertaken to ensure that adequate service levels are maintained.

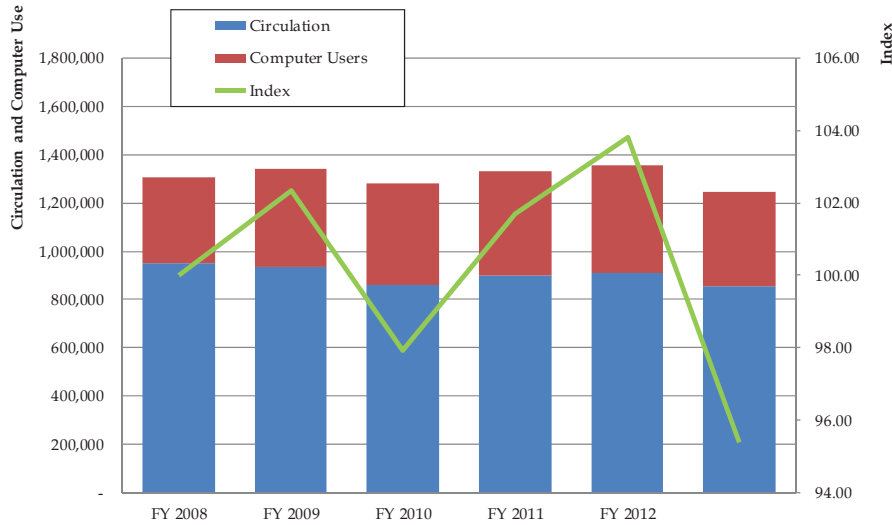
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Indicator: Library Circulation and Computer Users

Library Circulation and Computer usage demonstrates the demand on the library resources within the County. As a measure of usage it indicates the level to which the facilities are being used as well as, to a limited degree, the composition of the usage.

Library Circulation and Computer Use



Source: Library Reports

This index measures library circulation, the traditional lending activities at the library, and computer usage by visitors who used the library’s public computers.

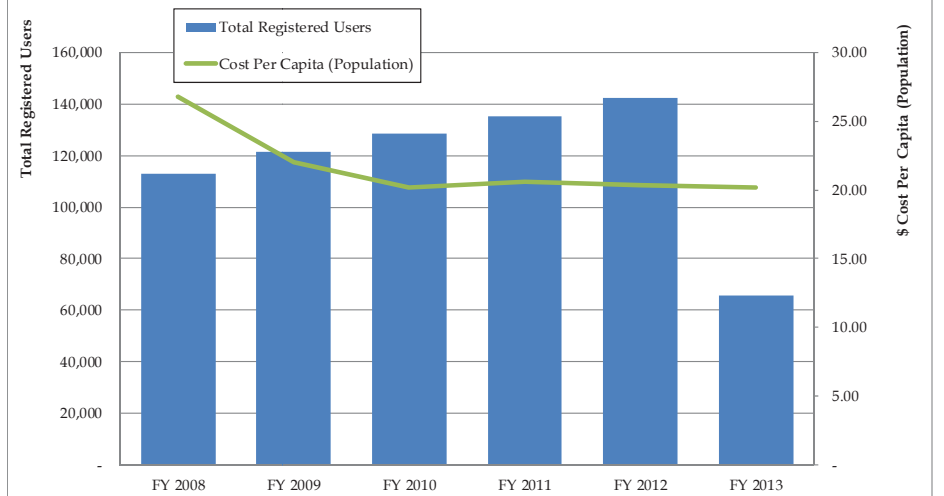
Trend and Analysis

The library circulation and computer use demand index is 95.40 for FY 2013. This is a decrease of 8.4 points from FY 2012. This decrease is largely driven by a significant drop in computer usage; a drop 12.89 percent from FY 2012 to FY 2013. Circulation also declined by 5.72 percent from FY 2012 to FY 2013.

Total circulation is down by 9.83 percent compared to FY 2008. Although it declined in FY 2013, computer usage is still up 9.3 percent from FY 2008.

As the service demands of the library are changing, there continues to be growth in the registered users (excluding the impact of the FY 2013 decline due to purging inactive registered user accounts). As a measure of efficiency, one can evaluate the expenditures per capita of the library system.

Registered Users and Cost Per Capita (Population)



Source: Library Reports

The graph above indicates that as registered users continue to grow, the cost per capita will decline. This phenomenon is due to the largely fixed cost of services for the library. In FY 2013 that cost is \$20.22, down from \$26.74 in FY 2008.

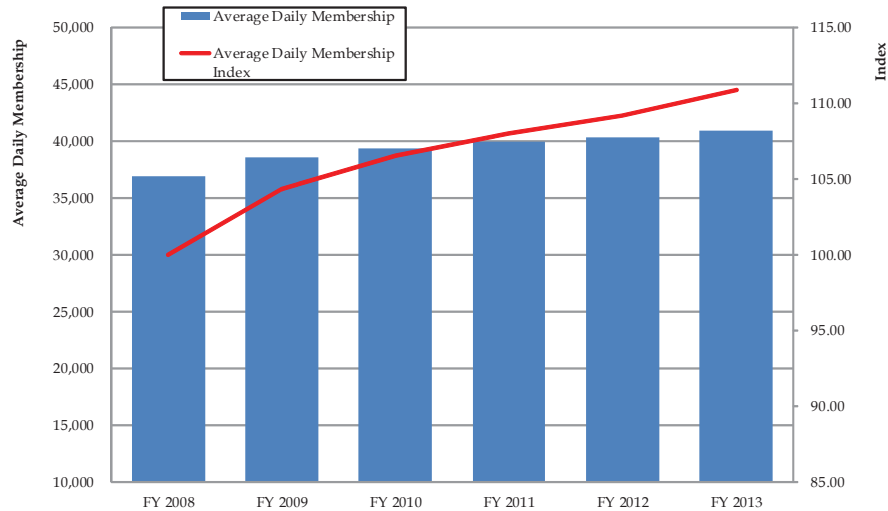
It should be noted that in FY 2013, the Library purged their system of inactive users. This is largely the cause of the decline in the registered users in FY 2013.



Indicator: Average Daily Membership

The Average Daily Membership (ADM) refers to the final average daily membership which is the total days in membership for all students during the school year, divided by the number of days the school was in session. The ADM represents a fairly accurate picture of the demand on the school system and is a better indicator, for this purpose, than using enrollment data.

Average Daily Membership and Index



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2013, index FY 2008=100

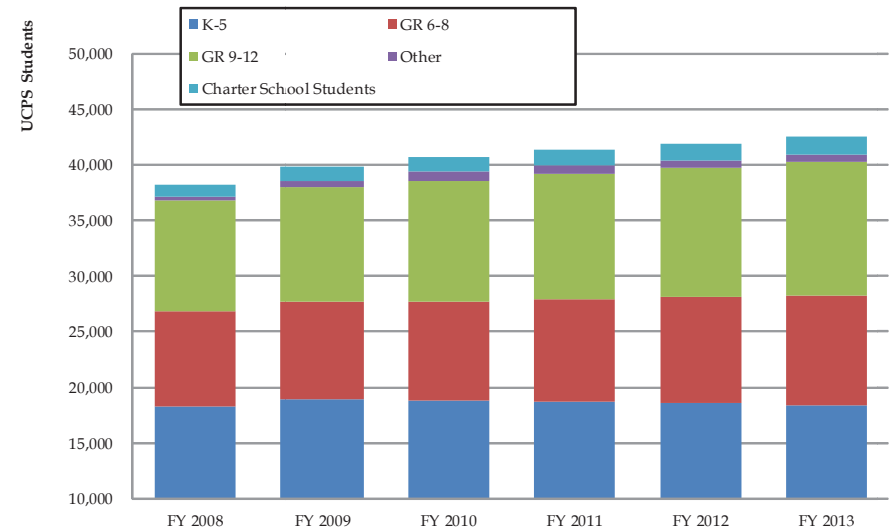
Trends and Analysis

As indicated in the graph above, ADM has grown by about 10.84 percent since FY 2008. The most significant portion of this growth occurred from FY 2008 to FY 2009, when ADM grew by 4.34 percent or 1,602 students. In a normal or average year, much like population, the ADM will grow by almost 2 percent.

This trend indicates that while there will be growth in the system, it is anticipated that it will be steady in the 2 percent range. This conclusion is further supported by the recent release of the McKibben Report which is fully discussed earlier in this document.

On the surface, this indicator would suggest a shift in focus from high growth to maintenance and renewal.

UCPS Student Composition



Source: 20th Day Report and UCPS Finance Department

As discussed earlier in the report and supported by the demand for service indicators, there is an additional factor for consideration. Schools are uniquely sensitive to the composition of their student population.

The data indicates a growing demand or stress on the middle and high school resources, while at the same time some relief on the demand for elementary school resources. This trend, as discussed earlier in the financial indicators, will factor into the long-term facility plans and will be reflected in the Capital Improvement Program.

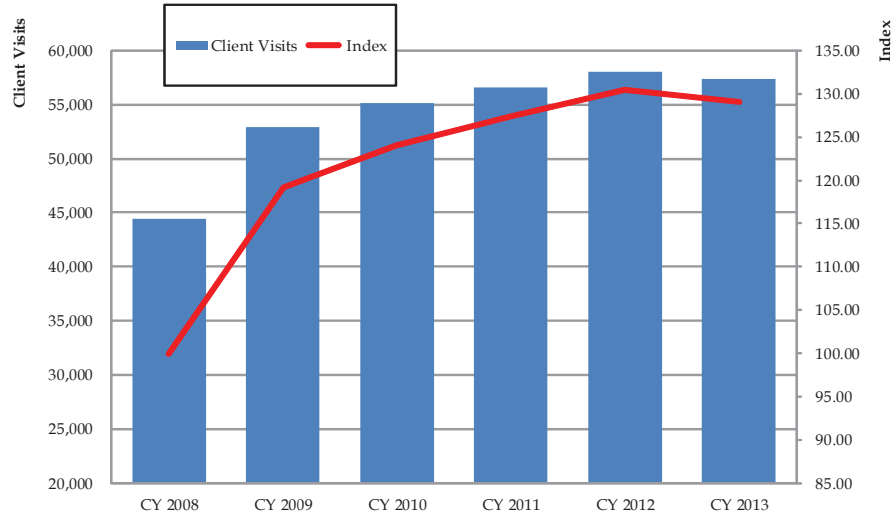
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Indicator: Social Services Client Visits

The demand for the Department of Human Services, Social Services Division can be evaluated by looking at client visits. Client visits encompass the totality of the interaction and demand for services.

Social Services Client Visits



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2013, Index FY2008 = 100

Note, for the purposes of this report, client visits are reported by calendar year.

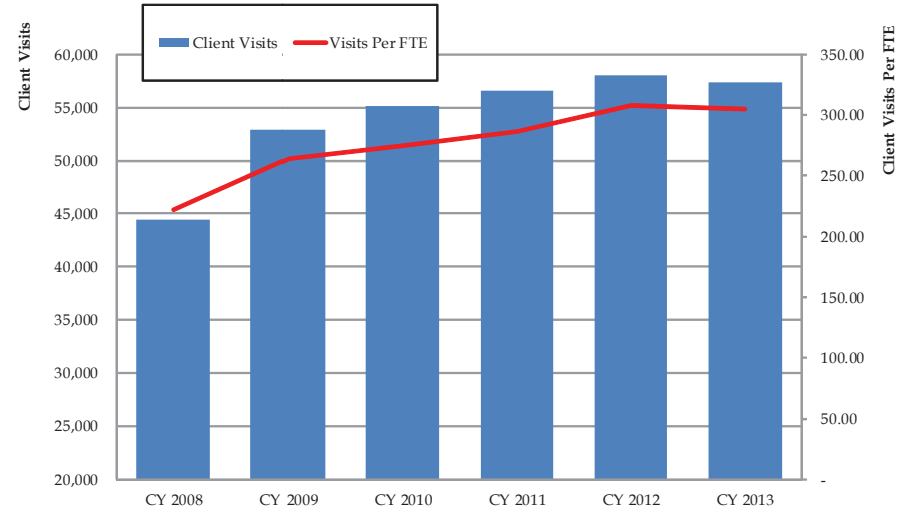
Trend and Analysis

As the graph above indicates, the demand index is 129.04 in FY 2013. There has been steady growth each year from FY 2008 to FY 2012, and only a slight decline in FY 2013. From FY 2008 to FY 2013, there were 12,905 additional annual client visits.

During the economic downturn, increasing client visits could be expected; and as the economic recovery takes hold, a decline in the number of visits could be expected.

Beyond the increasing demand, a more concerning trend has emerged. During the same time period that visits have increased, the number employees used to address those visits have decreased. There are 11.6 fewer full-time equivalent positions in FY 2013 than in FY 2008. To better understand this; in FY 2008 there were 222.56 visits per employee and by FY 2013 that number had grown by 82.33 to 304.90.

Client Visits Per FTE



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2013

Given the recent events within Social Services, and the high risk nature of the services provided, it may be appropriate to evaluate the staffing levels and ensure appropriate and manageable case loads and quality control.

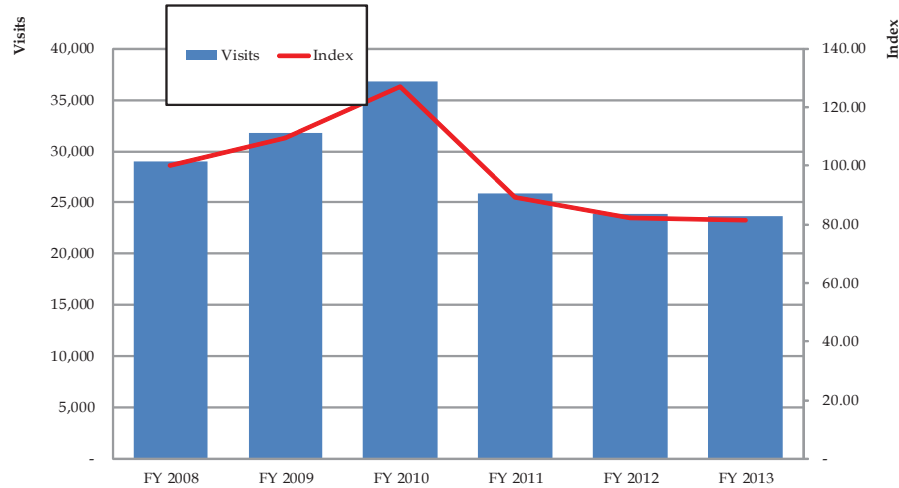
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Indicator: Public Health Division Client Visits

The demand for the Department of Human Services, Public Health Division can be evaluated by looking at client visits. Client visits encompass the totality of the interaction and demand for services.

Public Health Division Client Visits



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2013

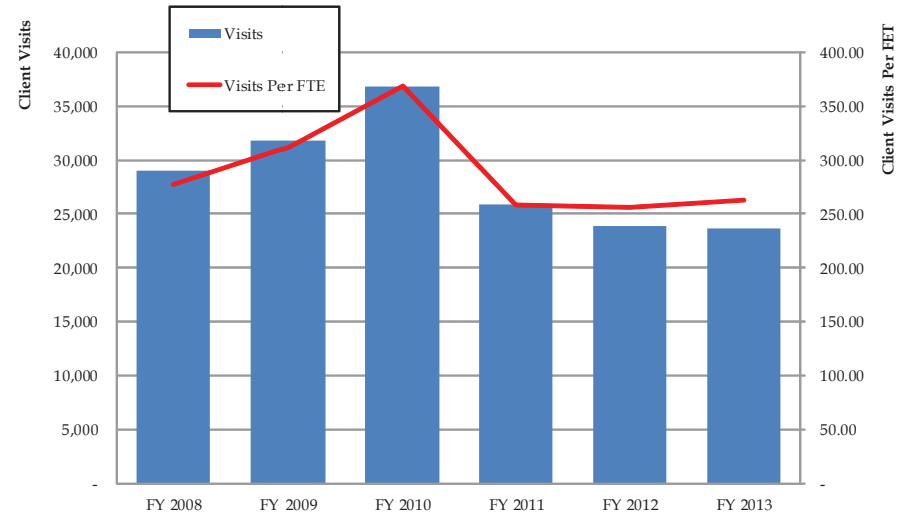
Trend and Analysis

As the graph indicates, the demand index for Public Health Division client visits in FY 2013 is 81.48. The height of the service demand occurred in FY 2010 at 126.98. Since that time, the number of visits has continually declined by 13,207.

During the height of the economic downturn, as would be expected, the client visits were at their height, however, during the recent recovery the declining trend can be seen.

In addition to this changing service demand dynamic, part of the reduction beginning in FY 2011 can be attributed to the implementation of the State's new Health Information System (HIS). This system allows for billing and cataloging of patients. To accommodate this implementation, the number of available appointments has been reduced.

Public Health Division Client Visits Per FTE



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2013

As the graph above indicates, the visits per FTE have followed the decline in total visits, leveling off in FY 2012 and in FY 2013.

With the consolidation of Human Services, it would appear appropriate to evaluate the level of services offered to the residents and the demand for those services to establish the appropriate level.

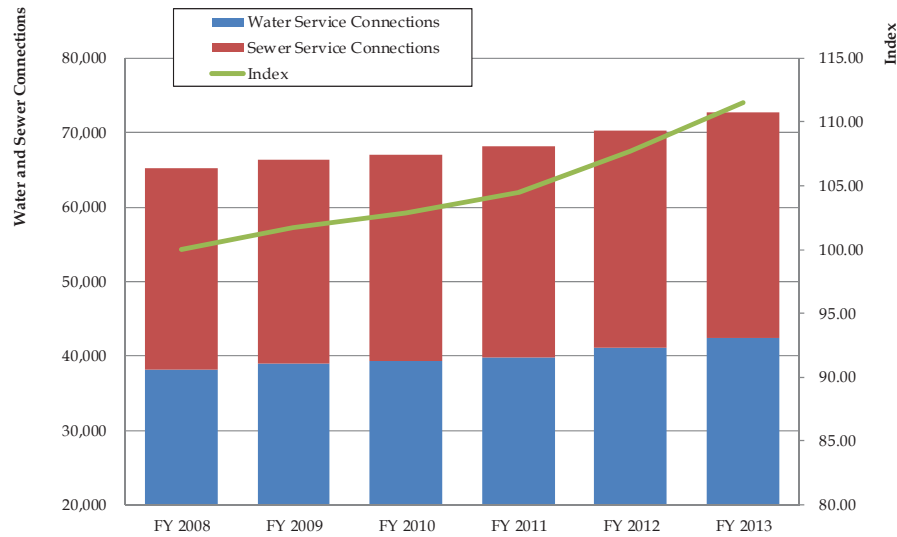
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Indicator: Water and Sewer Connections

Water and sewer connections provide a measurable means to evaluate growth in service demand, not only in water and sewer services, but demand in general for county services.

Water and Sewer Connections



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2013

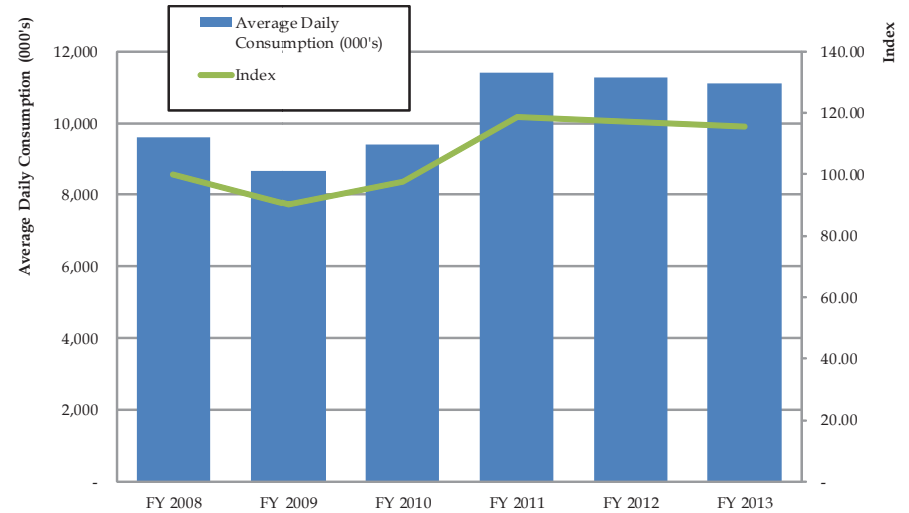
Trend and Analysis

The index for water and sewer connections for FY 2013 is 111.47. This annual growth of 3.76 percent demonstrates growth in service demand. The index supports the outlook that the ongoing focus should be on maintaining the current infrastructure, replacement and renewal, as well as long-term capacity planning, versus a rapid system expansion.

Indicator: Average Daily Consumption

Average daily consumption provides an indicator or supply demand for the Water and Sewer Utility System.

Average Daily Consumption



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2013

Trend and Analysis

The index for average daily consumption for FY 2013 is 115.42. This annual reduction indicates a reduction in demand. However, this decline may be more indicative of weather related reductions in service, versus real demand loss.

Although there is slight decline in demand, this index continues to support the outlook that ongoing focus should be on maintaining the current infrastructure, replacement and renewal, as well as long-term capacity planning, versus a rapid system expansion.

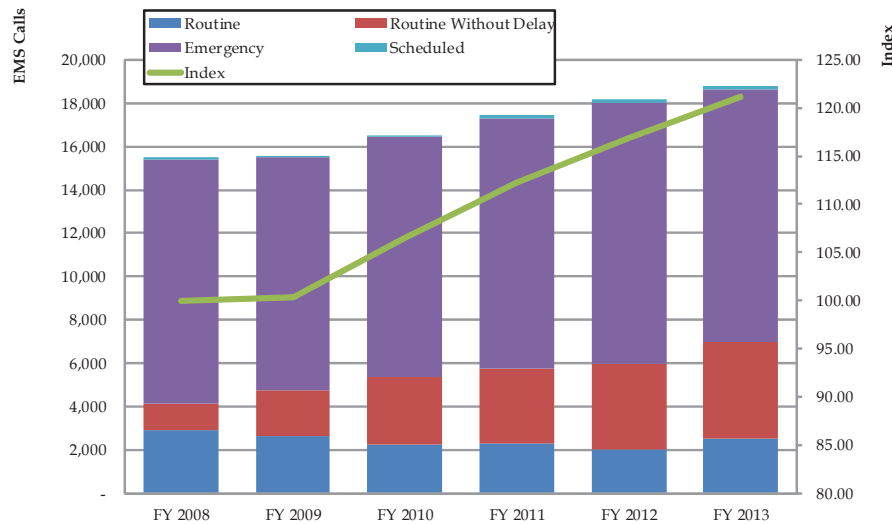


Indicator: EMS Calls

EMS calls, as an indicator, reflect the demand for EMS services. EMS calls can be broken into four groups, routine, routine without delay, emergency, and scheduled.

	Actual FY 2008	Actual FY 2009	Actual FY 2010	Actual FY 2011	Actual FY 2012	Actual FY 2013
Routine	2,902	2,630	2,269	2,325	2,009	2,516
Routine Without Delay	1,226	2,120	3,107	3,448	3,991	4,485
Emergency	11,291	10,741	11,067	11,527	12,009	11,642
Scheduled	110	95	84	140	146	165
Total EMS Calls	15,529	15,586	16,527	17,440	18,155	18,808

EMS Calls for Service By Type and Index



Source: Union County EMS

Trend and Analysis

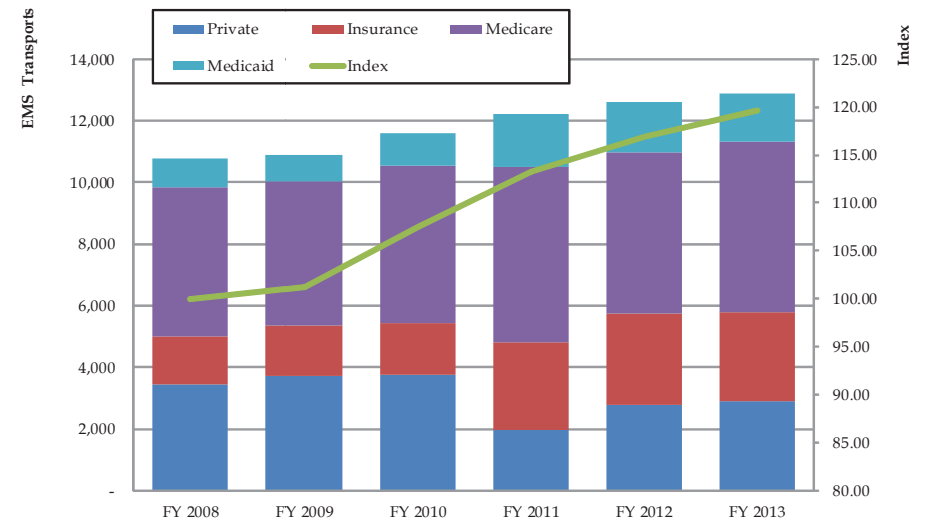
The EMS calls for Service Index for FY 2013 was 121.12. This is an increase of 3.6 percent from FY 2012 to FY 2013. As the graph indicates there continues to be an increasing demand, 21.12 percent since FY 2008, for EMS services.

Indicator: EMS Transports

EMS transports represent the number of times that the EMS actually transports a patient. Additionally, the information provided demonstrates the funding source for each of the transports.

	Actual FY 2008	Actual FY 2009	Actual FY 2010	Actual FY 2011	Actual FY 2012	Actual FY 2013
Private	3,455	3,714	3,758	1,971	2,767	2,888
Insurance	1,566	1,648	1,668	2,843	2,991	2,905
Medicare	4,807	4,656	5,123	5,678	5,200	5,524
Medicaid	954	893	1,037	1,713	1,639	1,583
Total Transports	10,782	10,911	11,586	12,205	12,597	12,900

EMS Transports by Type



Source: Union County EMS

Trend and Analysis

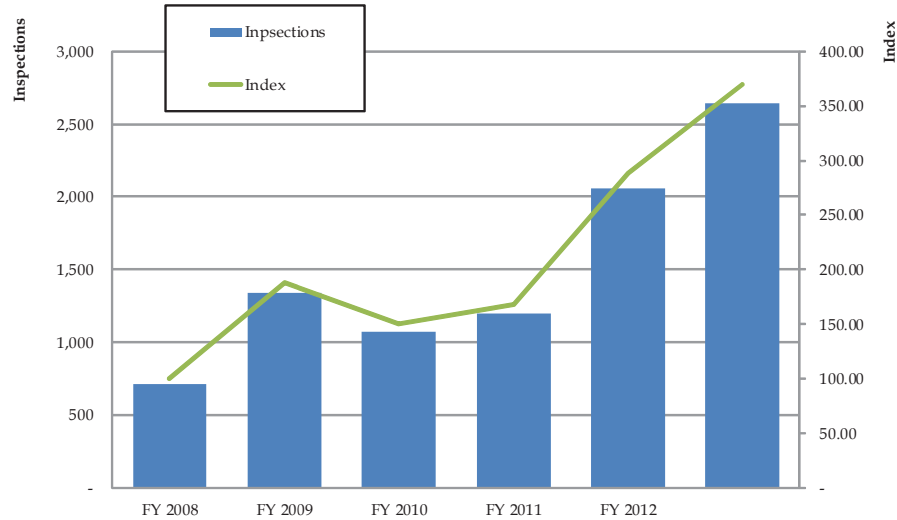
The EMS transports index for FY 2013 was 119.64. This is an increase of 2.41 percent from FY 2012 to FY 2013. As the graph indicates there continues to be an increasing demand, 19.64 percent since FY 2008, for EMS transports.



Indicator: Building Inspections

Building inspections provide an indicator of demand for Building Code Enforcement Division's inspection services, but also provide an indicator of possible growth in the demand for County services.

Building Inspections



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2012, Index FY 2008=100

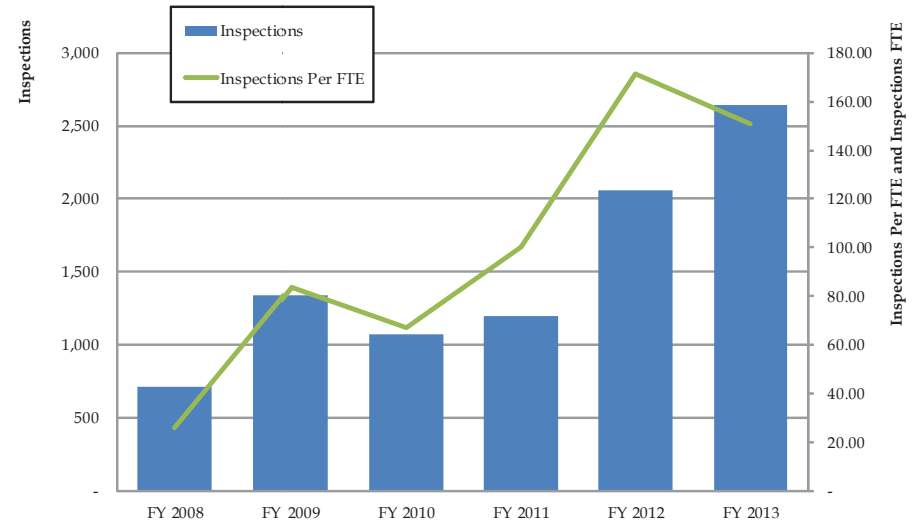
Trend and Analysis

As expected during the recent economic downturn, the number of inspections declined. The base year of the index was a particularly low year for inspections, with only 713 being conducted.

The Building Inspections index is 370.27 for FY 2013. This unusually high index indicates that there is a significant increase in the number of inspections based on growth.

To address the economic challenges in FY 2008 and FY 2009, and reflective of the demand, the County chose to reduce FTE by 15.5. Understandably, as construction activity has begun to increase, there has been a greater demand on the existing FTE to provide timely inspections.

Inspections Per FTE



Source: Union County Comprehensive Annual Financial Report for the Year Ended June 30, 2012

As the graph above indicates, the inspections per FTE has grown through FY 2012. With the addition of 6 FTE in FY 2013, the per FTE inspections declined. As the number of inspections continues to grow, there will be longer wait times for inspections. It may be necessary for the Board of County Commissioners to establish a level of service expectation to determine the benchmark FTE count.

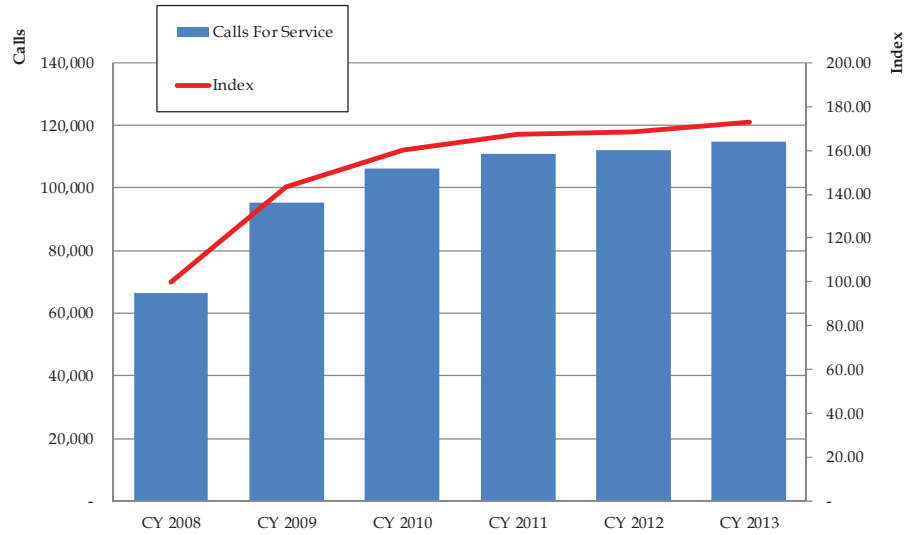
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Indicator: Sheriff's Department Calls for Service

One of the many indicators that can be used to evaluate the demand for law enforcement services is to evaluate the number of calls for service received.

Sheriff's Department Calls for Service



Source: Union County Sheriff's Department, Index FY 2008=100

Trend and Analysis

During an economic downturn, it is not uncommon for crime to increase. The demand index related to Sheriff's Department Calls for Services for CY 2013 is 172.82. This is the second largest growth area in the demand index. The number of calls has increased by 72.82 percent from CY 2008 to CY 2013.

With the economic recovery in its earliest stages, this indicator remains one to watch in the near future to determine the appropriate level of service provision.

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Building a Fiscally Sustainable Future

Five-Year Financial Projections, Fiscal Indicators, and Demand for Services Index

