

Strategic Planning, Focus Areas & Projections

The Strategic Planning, Focus Areas and Projections portion of this document provides a narrative discourse of the County's strategic planning process and provides the linkage of the policy making priorities and the operational implementation. There are a variety of planning efforts occurring in the organization. These efforts, where appropriate have been included in the Adopted FY 2016 Operating and Capital Budget.

The County, in recent years, has set its strategic priorities through the adoption of a "Plan of Work" process. In contrast to traditional strategic planning efforts, the plan of work process focuses on specific issues and is project oriented, versus the traditional planning model based on objectives or intended outcomes.

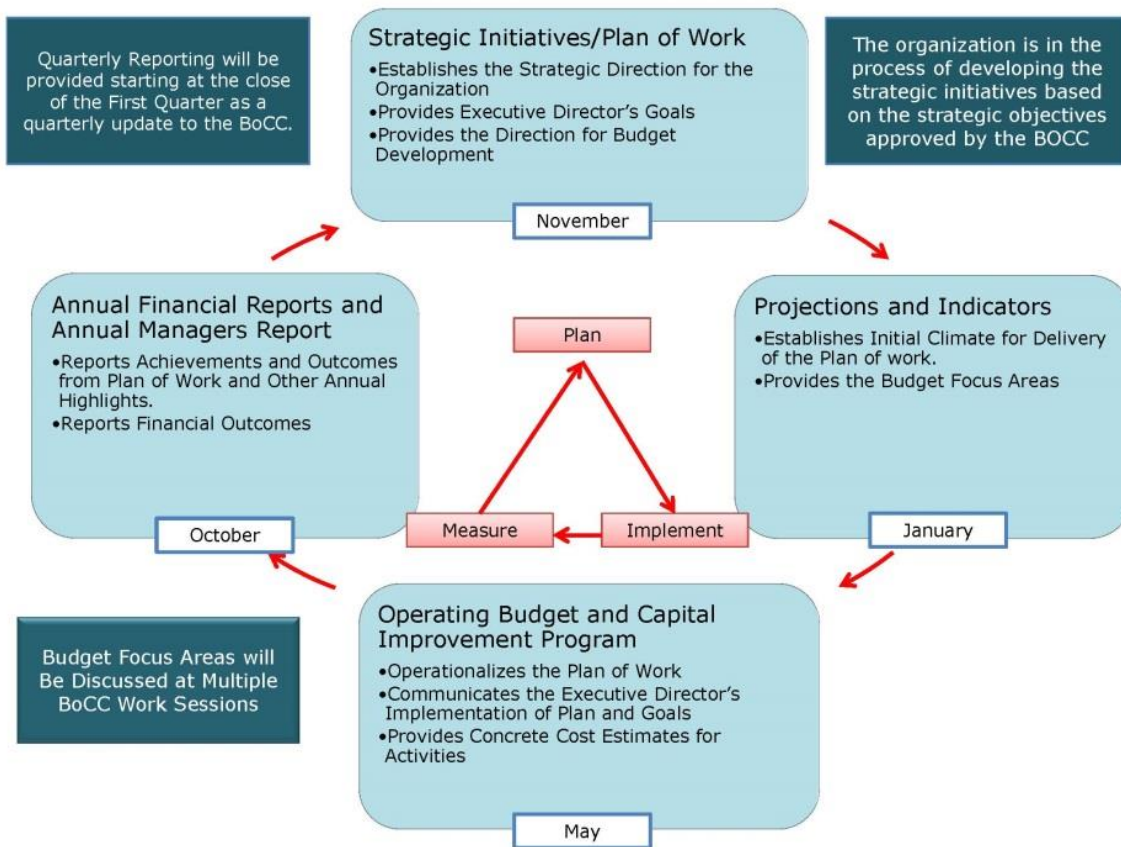
While this plan of work process has been extremely effective in achieving the desired tasks, the organization in 2014 and 2015 is undertaking a strategic planning process, which will shift the focus in the process to a longer term window of planning and decision making.

The Plan of Work, in recent years, has translated into the development of the operating and capital budgets, and has established the guiding basis for the organization.

It is anticipated that when the strategic planning process is complete that it will work in conjunction with the Plan of Work to establish the specific tasks and projects necessary to implement the strategic priorities.

As the flow chart indicates, the Plan of Work or Strategic Initiatives are the starting place for the annual cycle, establishing the foundation and priorities for the budget process and providing measurable and tangible goals.

Melding the use of the Plan of Work with the Strategic Initiatives will provide a means to establish clear objectives, determine deliverables, reporting mechanisms, and other needed feedback. In addition, this mixed process allows for continual adjustments and eventual celebration of the successes and achievements of the organization.



During the development of the strategic initiatives, the Plan of Work will be under revision and will ultimately be brought back with the strategic initiatives. This process will then form the foundation for the FY 2017 Operating and Capital Budget.

The Strategic Planning Initiative Process

What is a vision statement? The vision statement, as adopted by the Union County Board of County Commissioners, represents a description of what the organization would generally like to achieve or accomplish. It serves as guide for developing and evaluating all aspects of County government and service delivery.

Beginning in the fall of 2013, the County's executive management team began work on what was considered a "branding" project focused on establishing the County's brand in the community and unifying the County's message for the public.

During the initial branding development process the executive team quickly realized that while the County had a vision statement adopted in 2004, it did not reflect the changing values and services in the community. Additionally, given the organizational changes, the core values had evolved as well.

The management team worked through a different process and started with several fundamental questions:

- How did we get here, what is our history?
- What are our core values?
- What are the issues facing Union County and its residents?
- What does our environment look like, politically, economically, internally to the organization, externally in the community, and customer expectation?
- What do we want the future to look like?
- How do we get there?

The discussions focused in on the rapid growth of the County during the late 1990s and early 2000s. The growth was reflective of a community that was evolving; going from a period, in the 1980s and before, of fairly minimal growth in population as well as a fairly static county government. From 1990 to 2010 the population of the County more than doubled. This unique stressor significantly impacted the County and can be felt even today.

From the work done during multiple sessions, the management team established several key concepts that it believes should guide the vision statement.

- Consensus of the Community
- Continuity of Leadership and Direction
- Sustainability, both Economically and Institutionally, of Key Programs and Services
- Balance of Programs and Services that Address the Diverse Interests of our Residents

During the December 9, 2013, Board of County Commissioners' work session, the proposed vision statement was presented to the Board of County Commissioners.

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.

During the January 21, 2014, Board of County Commissioners' work session, the proposed vision statement was again discussed and presented, with the final adoption coming following a presentation during the February 17, 2014, Board of County Commissioners' regular board meeting.

From that the adopted vision state and the key concepts, the countywide management team set out to develop strategic objectives. During the November 3, 2014, Board of County Commissioners' meeting the BOCC received an update concerning the strategic objectives and approved the objectives allowing the staff to move forward with planning.

The approved objectives were as follows:

Public Safety - In concert with our community partners provide those essential services that protect the public's health, safety, and welfare.



Community Consensus - By developing relationships based upon mutual trust and understanding, engage appropriate stakeholders to identify and successfully implement programs and initiatives that reflect community priorities.

Economic Development - Through common vision and direction become a more business friendly, economically vibrant and sustainable community by fostering development of a qualified workforce and infrastructure capacity to support future/current economic sustainability and growth.

Sustainability - Through collaboration with community partners, foster an environment that promotes affordability of services, conservation of resources, and preservation of a high quality of life to support and enrich a diverse and productive population.

Organizational Strengthening - Develop and maintain a highly engaged workforce through shared values and clarity of purpose, with the tools, training and resources that support skills development, knowledge sharing and retention, and employee advancement.

These strategic objectives are now the framework in which the organization and each service area is to carry out its unique mission.

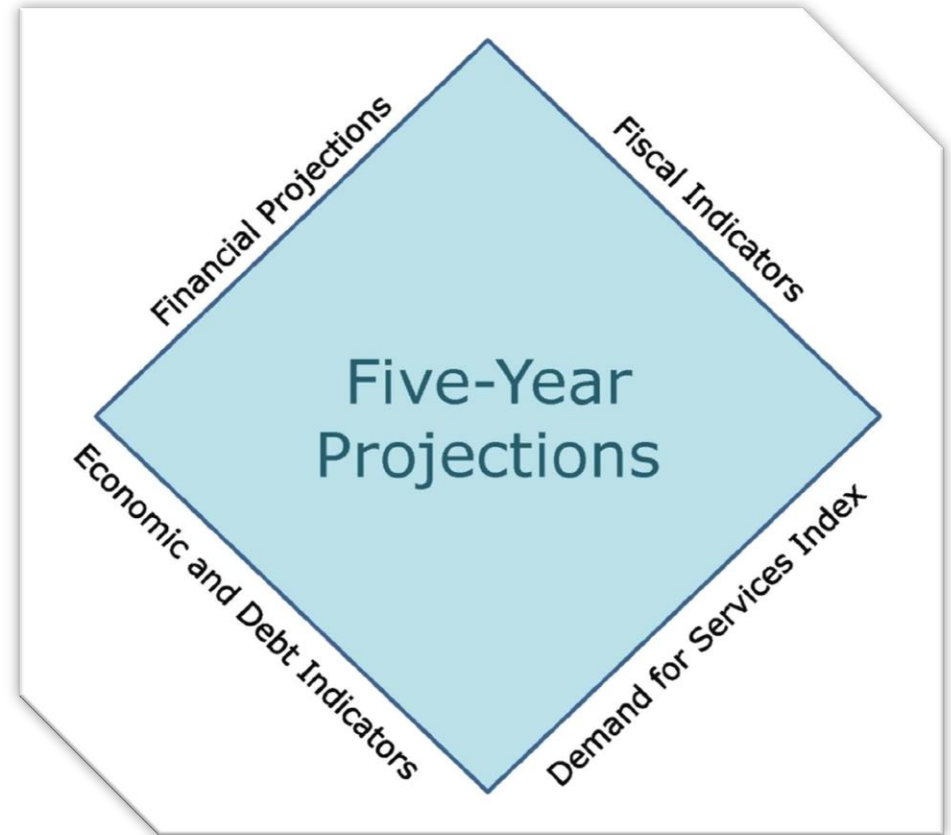
During the next four to six months, departments will be developing their specific action plans, deliverables, and means of measurement to achieve these objectives.

The Adopted FY 2016 Operating and Capital Budget includes some portions of the various action plans, however it is anticipated that during the development of the FY 2017 Operating and Capital Budget that these objectives will be the guiding principles and the proposed budget will be reflective of the resources necessary to achieve these objectives.

Budget Focus Areas

Each year, in late January or early February, as the kick off to the annual budget development process, the County staff prepares and updates the annual Five-Year Financial Projections, Fiscal Indicators, Economic and Debt Indicators, and Demand for

Services Index. The "Five-Year Projection" provides a snapshot into the future regarding the County's General Fund, future debt, and economic and demographic trends.



The County's *Five-Year Financial Projections, Fiscal Indicators, Economic and Debt Indicators, and Demand for Services Index* provides a four pronged approach to analyzing the County's needs.

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

The 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.

The Economic and Debt Indicators provide at the key economic data and debt trends that rating agencies consider. While economic and debt indicators together provide context for the County within the region and information concerning the external forces that will impact the County; the debt indicators alone provide a clear picture of the historical impact of debt on the community.

The demand for services index provides a services 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 four tools the County can draw conclusions concerning the future of finances and services in the County. It is from the vision statement, strategic objectives, and these conclusions, that the staff and the Board of County Commissioners can determine the needed budget focus areas.

In February of 2015, the Board of County Commissioners established the budget focus areas:

- Bond Elections and Economic Development Tools
- Sustainable Funding for Volunteer Fire Departments
- Revaluation and Revenue Neutral Tax Rates

These specific focus areas, combined with the strategic objectives and other direction received throughout the year formed the foundation for the Adopted FY 2016 Operating and Capital Budget.

New to the process for FY 2016 was the introduction of *Focus Area Working Papers*. The analysis and detail provided through this information provides a deeper discussion of the specific focus area. In addition, ancillary topics were covered through these papers that were slightly outside the specific topics, but may have had an impact on the issue at hand.

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Budget Focus Area: Bond Elections

During a work session on March 2, 2015, the Board of County Commissioners heard a presentation of the possible options for bond elections. Bond Elections were identified as a budget focus area.

The Bond Election Focus Area is a critical component of the long-term financial plan. The use of general obligation debt has a direct impact on the tax rate and determines new or replacement facilities that will serve the residents for the foreseeable future.

In addition to the long-term impact, the discussion of a possible bond election must occur in the context of the County's long-term plans for growth and service delivery as well as the consideration of the ability of the tax payers to fund the increased debt service.

The decision to hold a bond election and ultimately, if passed, issue new debt, is one that will impact the County and the tax payers for the next twenty years. In addition to the debt service, new facilities include additional operating cost and ongoing maintenance.

This Budget Focus Area Working Paper will provide an in-depth look at the bond election process, related debt instruments, and potential considerations; possible County bond election projects; and a brief discussion of possible bond funding for Union County Public Schools' projects.

Bond Election Concepts

The concept of a bond election centers on the North Carolina Constitutional requirement that Counties or other governmental units must first seek the voters' approval before obligating or pledging the government's full faith and credit.

"The General Assembly shall have no power to authorize any county, city or town, special district, or other unit of local government to contact debts secured by a pledge of its faith and credit, unless approved by a majority of the qualified voters of the unit who vote thereon. . ."

- North Carolina Constitution
Article V, Section 4(2)

Bond elections are a referendum, in this case, related to capital expenditures, that authorize the County to issue General Obligation Bonds.

A Note on General Obligation Bonds:

"The strongest form of security that a county or municipality can pledge for debt is the full faith and credit, making the debt a general obligation of the borrowing unit."

- Kara Millonzi, Coates' Canons Blog: Security for a Local Government Loan, UNC School of Government, January 27, 2014

The reason that the voters' approval is sought is due to the nature of the debt to be issued. The general obligation pledge is a full faith and credit pledge, meaning that all of the resources of the County are available for the debt service. In addition, this pledge is a commitment that the tax rates will be set sufficiently to cover the cost of that annual debt service.

Simply stated, when a county issues general obligation bonds, they agree to set the tax rate at whatever level is necessary to repay that debt. In addition, the Local Government Commission requires that the annual debt service be included in the annual operating budget and that it be one of the first items funded.

There are several specific instances where voter approval is not required, with the exception of two-thirds bonds; none of the exemptions apply in this discussion.

There has been discussion concerning the use of two-thirds bonds. Two-thirds bonds are general obligation bonds. Using the two-thirds method, the County is allowed if it chooses, to "recycle" the voted bond authority.

"for the purposes authorized by general laws uniformly applicable throughout the State, to the extent of two-thirds of the amount by which the unit's outstanding indebtedness shall have been reduced during the next preceding year."

- North Carolina Constitution
Article V, Section 4(2)(f)



The two-thirds authorization deals only with the authority to issue the debt, it has no impact on the commitment or the repayment. For the purposes of a financing discussion, two-thirds debt is general obligation debt and carries the same level of commitment as well as the same risks as newly authorized debt.

North Carolina General Statutes §159-49 provides a detailed listing of the types of projects that the County may issue bonds to fund. The general commonality of the authorized items is they tend to focus on long-term assets. In addition to this listing, the Local Government Commission will evaluate the request for bond funding to ensure that the life of the asset is comparable to the life of the debt.

A Note on Asset Life Matching:

Asset life matching is important from the perspective that if you borrow funds for an asset, the expectation is that the useful life of the asset will at least be through the end of the debt payments.

For example, to purchase a vehicle, the County would not use a twenty-year note. This is because the expected useful life of that vehicle is four to five years, not twenty. The County would still be paying for that vehicle for fifteen years after it has been sent to auction.

With this limitation in mind, general obligation debt should be used for the following:

- Land Acquisition,
- New or replacement facilities, including FF&E,
- Significant renovations of existing facilities, and
- Infrastructure with at least a twenty-year useful life.

While this list does not encompass all that the County may issue general obligation bonds for, it encompasses a list that the County should issue bonds for.

Items that do not typically fall into the "bond fundable" category are funded through the use of pay-as-you-go capital or through another short-term debt instrument. Those items do not require voter approval, but do require available funding.

Bond Election Process

The first consideration in the Bond Election process is analyzing when the County may hold a bond referendum. In accordance with G.S. § 163-287(a), the County may only hold the bond referendum when there is a county or State election, primary election in even numbered years, and any other election when all precincts in the County are open. In practicality, this limits the County to holding referendum in 2016 or 2018. In 2016, with the presidential primary, there will be three opportunities and in 2018 two.

The recommended process for establishing a possible bond election is as follows:

Step 1: Establish the preliminary projects to be included in the proposed referendum.

Step 2: Refine project estimates and the possible tax impacts related to the proposed general obligation bonds. In addition, preliminary estimates of operating impact on the proposed slate of projects.

Step 3: Approve the final list of projects to be included in the proposed referendum, including project estimates, and estimated tax rate impact.

Step 4: Adopt the "Notice of Intent" at a Board of County Commissioner's Meeting.

Step 5: Following the adoption of the "Notice of Intent", the publication of the "Notice of Public Hearing", at least ten days in advance of the public hearing. No less than ten days following publication, hold the public hearing.

Step 6: At the next meeting following the public hearing the Board of County Commissioners may adopt the referendum and appropriate language.

These steps must occur before the filing dates of the selected election date, which in most cases will be about ten weeks ahead of the election date. With this lead time in mind, the process from start to finish could take from



seven to ten months, including the lead time needed for refining project estimates and impact analysis.

Bond Election Consideration

When discussing future bond elections, there are a several specific considerations that should be highlighted and factored into the decision making process.

1. Given that the bond election deals with adding additional debt to the County and the related tax rate increase, the first and foremost factor is the affordability of the projects for the County's tax payers.

New Tax v. Growth in Tax Base:

During the early 2000s the focus was funding new debt with the growth in the tax base. While this short-term strategy worked early on, it was not a sustainable approach. As there is growth in the community and in the population, there will be an additional need for community services such as law enforcement, education, and human services. If the growth in tax base is used to fund new debt, then the service needs remain unfunded. In addition, as inflation continues to grow, the growth will be needed to maintain the current service levels.

2. Additionally, beyond the affordability, is the determination of project essentiality. Essentiality, particularly in the debt markets, focuses in on the nature of the proposed projects. Are the projects a function of government? Are they necessary? Does the project cost outweigh the benefits to the community? These are factors that must be looked at when considering the financing of projects in the debt market.
3. Because the County, possibly, will be entering the public debt market to borrow the money for the approved projects, the views of the bond rating agencies must be considered. The rating agencies have signaled concerns about the existing debt load of the County and the debt per capita. Union County's debt per capita remains one of the highest in the State. Once an amount, if any, is determined, regular detail discussions with the rating agencies are essential.

4. New and replacement facilities, when completed will add additional operating costs. When evaluating the possible projects, the ongoing operational impact must be considered. This is particularly evident in new facilities, where additional staffing and operating costs will be required. The final determination concerning the projects to be included should be considered in light of their operating impact.

Debt Sinking Fund

Assuming a referendum is successful; it is recommended that the County establish a debt sinking fund. The Debt Sinking Fund will accumulate the revenue from the 2016 General Obligation Debt Tax, if this is done in advance of an anticipated bond issuance, it will allow the County to smooth the tax rate and ultimately will result in a lower total tax rate for General Obligation Debt.

In addition, the sinking fund will provide an additional level of transparency to the process.

In addition, as the projects progress, the County will issue only the necessary debt to build the projects. This means that through the use of reimbursement resolutions, the County will issue the debt only after the cost of the project is locked in through the bid process. This ensures that the County borrows only what is necessary for the project and is not paying more debt service than needed.

Possible County Bond Election Projects

The following projects have been in various discussions, some dating back as far as 2006. It is important to note that this list does not represent a recommendation from County Management, but a listing of possible projects. This list is for consideration and may easily be added to or reduced. In addition, the selections from this list will require refinement and more detailed cost analysis. For the majority of these projects, there is not a current cost estimate. Many initial estimates are based on older estimates or initial project estimates, without the benefit of quality project planning.

The possible County projects include:



1. *Replacement and Expansion of Jail and Sheriff's Office* – The project is to replace and expand the existing office and detention facilities. This includes, but is not limited to, medical offices, office space, housing for female and juvenile detainees, housing for male detainees, related ancillary services, and other necessary services.

The current Union County Jail Facility opened in 1994 after the County settled a Federal Lawsuit regarding the conditions under which inmates were being housed. There were often more inmates than there are available beds and inmates are required to sleep on the floor. Several federal court cases (including in our U.S. 4th Circuit) have upheld that requiring inmates to sleep on the floor of a detention facility, for any reason, is cruel and unusual punishment and a violation of their Constitutional protections. The County may risk additional lawsuits given current conditions.

Inmate population issues are not the only concerns that make a new jail facility a necessity for the Sheriff's Office and the County. Over the past 18 years, the Union County Sheriff's Office has grown, not only in numbers, but in the way it conducts the County's business on a daily basis. Procedures within the jail have changed to meet the needs of a changing society and the process by which the jail operates is more involved. The current available space is not conducive to the daily operation of the jail. Many of the changes were made with the public's safety in mind, from ensuring the identity of a detainee to providing an accurate accounting of a person's criminal record so that an appropriate bond decision can be made.

Outside of the jail, changes in legislation have required operational modifications within the Sheriff's Office. Evidence and property storage laws dictate that the Sheriff's office to store more, longer. The current evidence room, a renovated training room, is not adequate to conform to the mandated changes.

The ever-changing world of law enforcement technology is yet another issue the Office has encountered. As they work to keep up with the automation of many of the processes, the Information Technology needs and equipment are constantly growing and changing. Unfortunately, the space to

accommodate this growth does not exist within the current structure. Overall, the Sheriff's Office is critically short of the office space needed to conduct business in an efficient and effective manner.

2. *Emergency Management Facility* – The project provides for the detailed design, necessary infrastructure and facilities development including power supply, land acquisition, building design to 911 required compliance, EMA/Fire Marshal/ES uses and related development needs. Estimated 40,000 square foot facility.

The Union County Emergency Communications Department was remodeled in September 2011 with the plan to move to a more permanent facility within 3-5 years.

3. *4H Pavilion* – This project would provide for a multi-use agricultural structure. The specific scope of the project is under development.

The Agriculture Center, when initially conceived, included a livestock pavilion to provide space for the exhibition of 4H livestock projects in a covered, non-temperature controlled environment. Due to the cost of the original project and getting the Ag Center operational, the project has been held in abeyance.

An RFP was let in 2013 to conduct a feasibility study which was initiated and eventually abandoned after preliminary findings in 2014. In November 2014, the Agricultural Advisory Board voted not to pursue the services of a second consultant to provide input into the project but rather to build a consensus of what the project needs to entail. The preliminary plans are currently being reviewed by the Ag. Board as are the options for the scope of the eventual project.

4. *Cane Creek Park Improvements* – This project will provide significant renovation and replacement of existing facilities at Cane Creek Park. The proposed improvements include a new Camp Ground Welcome Center and Camp Store, a Nature Center, expanding the water and sewer infrastructure in the campground, and an extensive paving project.



5. *Historic Courthouse Renovations* – This project will provide for the renovation and restoration of the County’s historic courthouse. A study of the facility is planned for FY 2015 that will provide a more detailed project description and possible future uses for the facility.
6. *Jesse Helms Park Development* – The project provides for the development of Jesse Helms Park as outlined in the various phases of the Jesse Helms Park Master Plan. Development includes completing the park’s passive areas, trail systems, pavilions and shelters, park maintenance facilities, and other enhancements to improve the recreational offerings at the park.
7. *Park Land Banking* – This project provides for a land banking program to acquire land to address future park demands as the County is developed.
8. *Southwest Union Library* - This project provides for the construction, furnishing, and opening day collection for a new 35,000-square-foot full-service regional library to serve the southwest side of the County.

One super-regional library to serve the entire southwestern quadrant of the County is part of the Library's master facilities plan and the recommendation of the Library Board of Trustees.

This 35,000-square-foot campus will be a full-service facility with 175 parking spaces; housing 87,500 pieces of material. It will also include public computers and wireless internet access, a community meeting room, a children’s library with a story time room, a teen room to house collections and provide space for programs and activities, as well as comfortable seating; newspaper and magazine display shelving, study tables with seating, study rooms, and a conference room.

9. *Expansion of the Union West Regional Library* – This project provides for the expansion of the existing Union West Regional Library by approximately 18,000 square feet.

Expansion of the Union West Regional Library to 30,000-square-foot is recommended in the Library Master Facilities Plan to accommodate current and future usage of the branch. Currently, as compared to the Main Library, the Union West

Regional Library circulates ten percent more items, and conducts 149 percent more children's programs attended by 154 percent more children.

Possible South Piedmont Community College Bond Election Projects

Based on the FY 2015 capital request from South Piedmont Community College, the following projects are provided for consideration.

1. *SPCC Multi-Purpose Building* - Project provides for the construction of a new three-story, 72,500-square-foot “multi-purpose” building on the Monroe Campus to house the business office, student services, and bookstore, as well as providing additional classroom and lab space.

In addition to the new facility the project includes a new parking area and a vehicular circulation route, a “green space” for pedestrian traffic, located in center campus, and renovation of an existing building on the Monroe Campus to accommodate a modern Conference Center and the Union County Public School Early College.

2. *SPCC Center For Technology and Allied Health* - This Project provides renovations to a 49,000 square-foot building to accommodate vocational/trades and technological programs as well as health and safety programs that lead to an Associate of Science degree using certificate and diploma programs.

The Union County Board of Commissioners approved the initial \$3,700,000 purchase and minor renovation of the Bealer Building. The completion of this renovation will alleviate the need for two additional companion buildings for the proposed Multi-Purpose Building.

3. *SPCC Building A Renovations* – This project provides for the renovation of Building A. The existing building was originally constructed in 1981 as a bank operations center. A 2005 renovation of the building replaced the roof and mechanical systems, and reconfigured approximately 11,000 square feet for use as a conference/instruction center; however, the remainder of the building has not been significantly upgraded or modified for its current function.



Additional renovations would bring the entire building into compliance with the current building, accessibility, and energy codes and to accommodate current College and Union County Early College programs.

4. *SPCC Building B Renovations* – This project provides for the renovation of Building B. The existing building currently includes approximately 41,500 square feet of useable space. The building was completed in 2003 as the first new building at the Old Charlotte Highway Campus, and has not been modified or renovated since that time.

As the new space is created at the Center for Technology and Allied Health and on the Old Charlotte Highway Campus, the renovations of Building B are required to repurpose existing spaces. These renovations will accommodate new College and Union County Early College Programs.

5. *SPCC New Classroom Building* – The Old Charlotte Highway Campus currently includes eleven modular classrooms that encompass approximately 10,000 square feet. These modular classrooms are a temporary solution to overcrowding. A general purpose classroom building would accommodate this immediate need, as well as planned growth of the College and Union County Early College.

The Campus Facilities Master APlan completed in 2007 and updated as part of the State Construction Office Facilities Master Plan document in 2008, indicated new single-story classroom buildings of approximately 30,000 square feet.

Possible Union County Public Schools Bond Election Projects

Union County Public Schools is currently completing the Community Construction and Equity Plan (CCEP). This plan, following final approval by the Board of Education will be referred to the Joint Working Group that is evaluating the long-term capital needs and possible sources of funding for UCPS' capital needs.

It is anticipated that the CCEP will include numerous projects. A significant portion will not be eligible for bond funding and will require a pay-as-you-go funding plan. The remaining projects will

be considered for inclusion in a possible bond referendum, using the recommended process and considerations.

Final Thoughts

Bond elections and the subsequent debt have a lasting impact on the community and the tax payers. Each project should be weighed carefully and thorough consideration given.

Given that for \$100 million borrowed, the taxpayer can expect a four to five cent tax increase, plus the additional taxes to fund the increased operating costs, the County has a fiscal responsibility to be judicious in its use of its General Obligation Bond authority.

With that being said, a voter referendum allows the taxpayers to provide direct input concerning the impact of the General Obligation Debt.

Board Direction

The Board of County Commissioners, during its March 2, 2015 work session directed staff to discuss the economic impact of a possible bond election with the Economic Development Corporation Board and report back.

Staff reported back to the Board on March 16, 2015. During the discussions with the EDC Board, the central focus was on the development of a skilled workforce and that the focus of the bond election should be projects that improve job readiness in the County.

In addition, the EDC Board felt that there should be a plan for the development of workforce training resources and that there was not a fully coordinated plan.

At the conclusion of the work session the BOCC determined that there would not be a 2016 bond election and that the concepts presented needed additional analysis and collaboration.



It is important to note, the Board of County Commissioners did not give direction concerning a possible bond election for Union County Public Schools.

During the Joint Working Group Meeting on April 15, 2015, the group decided to wait until the latest demographic reports were available to discuss a possible UCPS bond election and the specific projects that would be included from the UCPS Community Construction and Equity Plan.

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Budget Focus Area: Sustainable VFD Funding

Volunteer Fire Departments are a critical component of public safety. During the recent strategic planning process as well as the development of the County Manager's annual "Plan of Work", the Board of County Commissioners has continually ranked public safety as their highest priority. In addition, the goal of sustainability was highly ranked.

Traditionally, when considering public safety in Union County, the first thought is Union County Sheriff's Office. However, public safety is a much deeper issue than just law enforcement. It encompasses emergency medical services, fire protection, courts, inspections, and components of Human Services.

Although the focus area is Sustainable VFD Funding, the eighteen volunteer fire departments provide more than fire suppression, with the majority of their calls being medical, first response calls and non-structure fires. With that in mind, the VFDs provide a significant portion of the emergency medical services within the County and are part of the emergency medical system. It is probably not an overstatement to call them the back-bone of the current system.

The County Service Delivery Model

Generally, government services are provided on an as-needed basis and funded based on a readiness to serve. Core government services are funded through countywide taxes and sales taxes.

Consider for a moment the services provided by the County, such as Law Enforcement, EMS, or Education. If one calls 911 and requires a deputy or ambulance, the 911 operator does not ask for payment before dispatching services. But rather, when a resident pays their property taxes they are paying to ensure that service is available in their moment of need. When a student goes to register for classes, the school does not provide a bill, but rather that student is provided an education at no direct cost to the family.

This readiness to serve concept is foundational to the service delivery in Union County. The readiness to serve in turn is funded through a proportional burden to each taxpayer based, in large part, on the value of their property and other assets. This is done

through the property taxes paid on houses, businesses, vehicles, and other business property. The service level provided or response to service need is not based on the proportional taxes paid, but based on the necessary response.

The nature of property taxation is historically based in the North Carolina constitution, with the concept that all taxpayers will be taxed equally, at the same rate and not at the same dollar amount.

Because of the core concepts of service delivery and the nature of the tax system, each resident in Union County enjoys a basic level of service. This concept was reiterated by the Board of County Commissioners with the recent adoption of an overhauled EMS contract and service delivery model.

At the very heart of the EMS contract and model was the assurance that all residents in Union County enjoy an base level of service, in the EMS case, a 14:29 min response time.

In addition to EMS, the County funds the Sheriff's Office at a level sufficient to ensure adequate coverage throughout the County and not in specific areas.

Fees for Service:

If the County's service delivery model is funded based not on usage, but on a readiness to serve model, when would it be appropriate for government to charge based on usage?

There are a number of services that are partially funded through "user charges". These items tend to be more along the lines of amenities or specific business type activities, items such as Cane Creek Park, Water and Wastewater, Solid Waste, or the printing of maps.

These items are charged based on usage with the notion that while all residents may partake in these, not all will. These services are largely optional and not compulsory, so the use and the extent of use is determined by the user and therefore should be paid by the user.



The delivery of fire protection and suppression falls into the readiness to serve model versus the charges for service model. With this foundational concept, it is necessary to re-evaluate the Volunteer Fire Department model and the nature of its funding.

Core Principles for Providing Fire Protection and Suppression

Union County enjoys a rich heritage of Volunteer Fire Departments protecting the community. However, the VFDs of Union County have evolved and will continue to evolve to meet the changing demands of a dynamic County.

As the County sits poised to move into another growth cycle, the future of Fire Protection and Suppression in Union County must meet several core goals.

- *Uniformity of Base Level of Service Regardless of Density* – Every resident and business in Union County should expect a base level of service, regardless of where they reside geographically. Similar to the discussion related to EMS, the more rural portions of the County should enjoy and expect a comparable level of service to those in the more densely populated areas.
- *Uniformity of Base Level of Service Regardless of the Ability to Pay* – The level of Fire Protection and Suppression provided should be uniform throughout the County and not based on the economic factors or property values within a specific geographic portion of the County. The base level of service should be consistent throughout the County.
- *Fire Protection and Suppression is Part of the Total Public Safety Effort of Union County* – Fire Protection and Suppression is a critical component of the overall public safety model in Union County and, as such, the BOCC's responsibility is to ensure there is an adequate coverage throughout the County. The VFD model in North Carolina is based on a contract for services. The BOCC contracts with each VFD to provide Fire Protection and Suppression services, similar to the contract with Carolina's Medical System for EMS services.

The concept of Fire Protection and Suppression should be considered in conjunction with Emergency Medical Services,

Sheriff's Office Services, and Human Services as a comprehensive approach to Public Safety.

- *Funding Methods and Levels are Determined by the Board of County Commissioners* – The level of funding provided to each VFD, regardless of funding sources, is provided through the authority and at the discretion of the Board of County Commissioners. While some individual VFDs provide limited funding through fund raisers and contracts, the majority of funding is provided by the BOCC through setting rates, fees, or additional general tax contributions. Individual VFD Boards determine the level of the request, but the BOCC represents the taxpayers and fee payers in setting the rates.

In addition to tax rates and fees, the BOCC must consider the insurance rate impact on the taxpayers. Balancing the funding impacts against the requests of the individual VFDs will always be a trade-off, however an objective process with a countywide view ensures that this balance is achieved.

A sustainable funding model paired with a sustainable service model will ensure appropriate service levels. Any funding model that does not achieve sustainability is only short-term in nature and will require modification. Sustainability of the funding model is the only way to ensure a viable long-term solution.

- *Adequate Staffing, Equipment, and Facilities are Essential* – Although the term "adequate" is a determination for the BOCC, all VFDs should be adequately staffed, equipped, and have adequate facilities. The varying needs throughout the county should be evaluated and prioritized to address the highest risk areas. Then ultimate goal is to determine a long term countywide strategic plan.

With these five core principles, a "checklist" can be established. A successful and sustainable fire protection and suppression plan will meet the principles and subsequently address the Public Safety needs of the community.



Funding Models in North Carolina

There are approximately 978 fire districts in North Carolina. They are funded through a number of variations on three specific funding structures.

- *Fire Fees* – The most unique method of funding VFDs in the State is through the use of the fire fee. Union County and Brunswick County are the only two counties in the State that use this structure.

Through special legislation, both Union and Brunswick Counties use a fee for the readiness to serve model. In Union County, thirteen of the eighteen fire districts use a fire fee model, and the remaining five use a fire tax model. Indications are that Brunswick County is moving away from the fee model, in so doing, Union County would be the only county utilizing the fee model.

Fire fees differ from taxes in that the fee is based on the type of item. While the discussion is typically focused on the fire fee for a single family dwellings, the fees range from three cents per unimproved acre (with a minimum base fee) to two-hundred dollars for multi-family dwellings.

Under the fee model, the cost factored into the readiness to serve is, in theory, distributed amongst the fee payers based on their relative risk or possible use. The result is a fee payer who owns unimproved land funds fire services at a lesser rate than a single family dwelling. This is because the cost or use of resources, in theory, is greater for the single family dwelling.

- *Rural Fire Protection Districts* – NC General Statutes Chapter 69 Article 3A outlines the rules and specific process for the establishment of a Rural Fire Protection District. The defining factor in the rural fire protection district is the petition process and resulting localized referendum to establish the district. Union County has two such districts, Hemby Bridge Fire Protection District and Stallings Fire Protection District.

The referendum authorizes the BOCC to establish a district by statute, and to determine how the services are provided in the district. This has historically been done through contracting with

one or more volunteer fire departments or municipal fire departments.

It is important to note that the Rural Fire District is an authorizing mechanism and not a mandate to tax or select a specific volunteer fire department. The Board of County Commissioners has the discretion to establish the tax rate or select a VFD as it deems appropriate.

Funding derived from this localized tax must be used within the district to fund services. In addition to the tax revenue, the district receives a proportional share of the County sales tax revenues. Sales tax is allocated using the ad valorem tax method.

Statutory Right To Serve?

Kara Millonzi, in her Coates' Canons Blog post, "County Fire Tax Districts" clarifies the question, "do volunteer fire departments have a right to serve a district?"

She comments, "A volunteer or municipal fire department does not have a statutory right to continue to serve a particular district, even if the fire department has incurred significant expense (or even borrowed money) to fund operating or capital expense to serve the district."

In short, VFDs serve their specific district by contracted permission from the Board of County Commissioners.

- *County Fire Service Districts* – County Fire Service Districts are similar to Rural Fire Protection Districts. In Union County this represents three districts: Springs Fire Protection District, Waxhaw Fire Protection District, and the Wesley Chapel Fire Protection District.

While the process for establishment differs in that there is no petitioning process and the Board of County Commissioners must obtain permission from impacted municipalities, in



practicality there is little difference between County Fire Service Districts and Rural Fire Protection Districts.

The process for establishment, as laid out in NC General Statute Chapter 153A, Article 16, is centered around the recognition of need or special circumstances requiring the district. The limitation on rate is the general limitation, when combined with the County's general tax rate, at \$1.50 per \$100 of value.

Similarly, the BOCC, even after establishing the district, is not required to levy a special tax rate and may contract with any entity to provide services.

Again, similar to the Rural Fire Protection District, funding derived from this localized tax must be used within the district to fund services. In addition to the tax revenue, the district receives a proportional share of the County sales tax revenues. Sales tax is allocated using the ad valorem tax method.

Response Areas v. Insurance Districts V. Funding Districts:

When considering the nature of providing Fire Prevention and Suppression, it may be helpful to consider the layers like those of a cake.

Funding districts are for the purposes of providing resources or funding, but do not indicate response areas or insurance districts. It is possible to have multiple response areas and insurance districts within a funding district.

Insurance districts are established to designate portions of fire districts or entire fire districts for the purposes of insurance grading. This process is governed by the Office of the State Fire Marshal of the North Carolina Department of Insurance. The insurance district will dictate the rates paid for property insurance. These insurance districts may stretch beyond the specific funding districts.

Response areas are specified areas for which the VFDs provide services or areas under their contracts for which they are responsible to provide services. There can be multiple response areas within a funding district or insurance districts.

Modifying these three layers could require significant public process. Depending on the specific area, there could be a number of public hearings required as well as deep considerations of the possible funding impact.

It is worth noting and repeating that the 98 other counties in the State use some form of tax based funding structure to fund their fire districts. Union County and Brunswick County stand alone in the fire fee discussion.

It can be argued that Union County currently has a hybrid system of funding and, even in eleven of the thirteen fee districts, the County provides some form of general tax support. Only two fire fee districts are able to support themselves with their fee revenue. Those are Bakers Volunteer Fire Department and Jackson Volunteer Fire Department.

The General Fund supported funding level in FY 2012 was \$382,613 and the adopted FY 2015 funding level was \$1,535,396, four times greater than just four years ago. Based on early discussions and requests, this number will continue to climb in FY 2016.

County funding is used for all different types of items including operating costs, personnel, debt service, capital, and facilities. Each individual VFD is analyzed to establish its specific need before funding is recommended by the County Manager. Because of limited County resources, the full request is rarely funded.

The Current Challenges Faced by Union County

Armed with an understanding of the core principles and the funding tools, a brief discussion of the current challenges faced by Union County in providing fire prevention and suppression is a worthy undertaking.

It is possible to compartmentalize the specific areas for discussion purposes. The first area for consideration is that of service delivery. The fundamental Volunteer Fire Department Service model is changing and moving away from its historical nature:



- The traditional reliance on volunteers to provide staffing for the VFDs is no longer a viable staffing model. The majority of the VFDs financially compensate their volunteers, whereas other VFDs treat staffing as a professional fire force. Unfortunately, the ability to provide sufficient staffing through volunteerism is no longer there.
- The ability of VFDs to raise revenue through fund raisers has been significantly reduced, resulting in an inability to purchase the equipment needed for fighting fires. There is a significant culture of haves and have-nots in the County relating to equipment. In addition, the changing NFPA standards have rendered equipment obsolete, and left many districts without funds to replace these items.
- Capital equipment, similar to smaller equipment, the age, usability, and efficiency of apparatus varies significantly across the County. Often those VFDs without the necessary resources are unable to replace capital equipment in a timely manner.
- The VFD facilities across the County vary significantly. While some variance can be expected, several VFDs lack the basic level of facilities to operate out of, while others have State of the art facilities, the result being inconsistent services.

Under this current service delivery model there is no standard level of service to be had. The fire response, in both scale and timeliness, will depend on where you are in the County and what specific district you are in. There is not a standard level of service similar to EMS.

Beyond the service delivery model, the County is faced with a funding dilemma. Under the current funding model, the County is funding the inability of the fee districts to raise sufficient revenue. The result is a growing, un-sustainable commitment of the General Fund. In addition, under the current funding structure, the have and have-nots culture is further promulgated.

Simply stated, the current funding structure is not sustainable in its current form.

As mentioned earlier, the BOCC has the discretion as to whom they will contract with for fire services. While the current VFDs have contracts, those contracts have very little in the way of protections for the County.

Following the logic as established during the EMS process, the current contracts fail to specify service requirements, financial controls, or other standards, and subsequently require a significant rewrite.

VFD Service Contracts:

The current contracts date to the mid-1990s and were written at a time when the VFDs were transitioning from locally funded organizations. The contracts were written at that time without the expectation of the current level of service requirements.

The VFD service has changed and with that the contracts will now serve a new need, to ensure that a base level of service is provided throughout the County.

The final challenge is the disposition of the Weddington/Providence Fire Services. Based on the action from the Weddington Town Council, the County is evaluating the appropriate course of action. However, if the first four challenges are addressed, the appropriate solution to the Weddington/Providence Fire Services challenge will be evident.

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Tools to Solve the Challenges

There are many paths to solve the challenges presented earlier. To be able to digest the options, incremental decisions will help to clarify each component. Staff has prepared several options to consider for laying the ground work to solve the challenges.

- **Funding Options** – as mentioned, the current funding structure is not sustainable. With that in mind there are primarily four ways to proceed.

1. Status Quo – Maintaining the current funding structure will continue to exacerbate the funding challenges and continue to stress the resources of the General Fund. The current funding model will create a greater service disparity across the County. The status quo is not a sustainable option.
2. Eighteen Individual Fire Service Districts – As discussed early on, the BOCC can establish individual fire service districts and provide for localized tax for fire prevention and suppression. In reality this option is not practical as the tax rate in many areas, particularly the more rural areas, would be cost prohibitive for the taxpayer.

In FY 2015, under the individual tax district model, Lane’s Creek fire tax would be greater than fifteen cents and Stack Road greater than sixteen cents. The average rate would have been greater than six cents.

In addition to the significantly high tax rate some areas would see, this would not solve the service level disparity.

This model is used by the majority of the counties in the State. It is important to note that the average number of fire districts in the State is just over eleven, while Union County has 18. Under this model the average tax rate is 7.58 cents per \$100 of value, with the highest being 82.5 cents and the lowest being .19 cents.

3. A Hybrid County-Wide Tax Combined with Current Tax Districts – Establishing a countywide General tax for fire service in addition to the current tax districts would

allow for the funding of a base level of service throughout the County.

The Hybrid Version would move toward resolving the disparity of services experienced. The taxpayers in the existing districts would pay additional taxes for heightened levels of service.

In addition, this would be a short-term solution and not a permanent resolution to the sustainability concern as it would continue to foster a haves and have-nots culture amongst the various departments.

This model is used in three counties in the State. The average rate under this model is 4.4 cents per \$100 of value, with the highest being 8 cents and the lowest being .19 cents.

4. Countywide Tax Rate for Fire Services – The final option and perhaps, from an administrative perspective, the most direct implementation is the Countywide Tax Rate for Fire Services.

The Countywide Fire Tax provides for a uniform rate throughout the County and as a result would provide for standardized level of service throughout the County.

The Countywide Fire Tax would provide fire prevention and suppression services in the same way EMS and other public safety services are provided. This would also eliminate all fees and other fire related taxes throughout the County in favor of a single tax rate.

This model represents the most sustainable of the four possibilities as it provides the most flexibility to meet the changing services demands.

Across the State this model is used in three counties, with the highest rate at 7.9 cents per \$100 of value, an average of 4.63 cents, and the lowest at 2 cents. In addition, even at the average tax rate a homeowner of a \$200,000 home would see a savings over their current fire fee. The



estimated rate for Union County in FY 2015 would have been about 3.7 cents, which would put the breakeven home value at about \$265,000, well above the median home value in Union County.

- **Resource Allocation** – To ensure the uniformity of services throughout the County, it is necessary to take a proactive role in resource allocation.

Historically, the County has taken a more passive role in the process of allocating fire resources in the County. With the emergence and success of the modified-zero base budgeting process for the County, there is a need to expand those principles into the VFD funding process.

In addition, given the County is the only unifying organization with accountability for resources, it is incumbent upon the County to have a strategic vision and plan for fire prevention and suppression.

Simply stated, the County must take a more active role in setting standards throughout the County and, like EMS, establishing accountability for service delivery.

The level to which this can be achieved will be based on the funding model decision.

- **New Service Delivery Contracts** – Similar to the EMS contract, the current contracts for fire services are limited in their ability ensure fire protection and suppression.

With this in mind, it is recommended that new contracts be established with the FY 2016 Funding Levels. These contracts should include performance measures and standards, financial assurances, and service levels. Additionally, there should be uniformity across the County concerning the performance and service levels.

The impetus for change in these contracts will be directly related to the level of funding and the resource allocation process. The success of the contracting process will be directly related to the direction on the first two items.

- **Weddington/Providence Path Forward** – Based on the direction concerning the previous three items, staff will evaluate the various options to best protect the County and its residents.

Without knowing how the County will move forward otherwise, it is premature to recommend an appropriate course of action. In addition, it is recommended that the Weddington/Providence Fire Service issue not drive the discussion of County-wide services.

Final Thoughts

Fire Services in Union County are at a crossroads. The current service delivery model fails to ensure core foundational principles are met. The current service delivery model must change to ensure:

- *Uniformity of Base Level of Service Regardless of Density,*
- *Uniformity of Base Level of Service Regardless of the Ability to Pay,*
- *Fire Protection and Suppression is Part of the Total Public Safety Effort of Union County,*
- *Funding Methods and Levels are Determined by the Board of County Commissioners, and*
- *Adequate Staffing, Equipment, and Facilities.*

This change will be challenging and there are a number of specific details to work out. However, until specific direction is provided a full implementation plan cannot be developed.

Board Direction

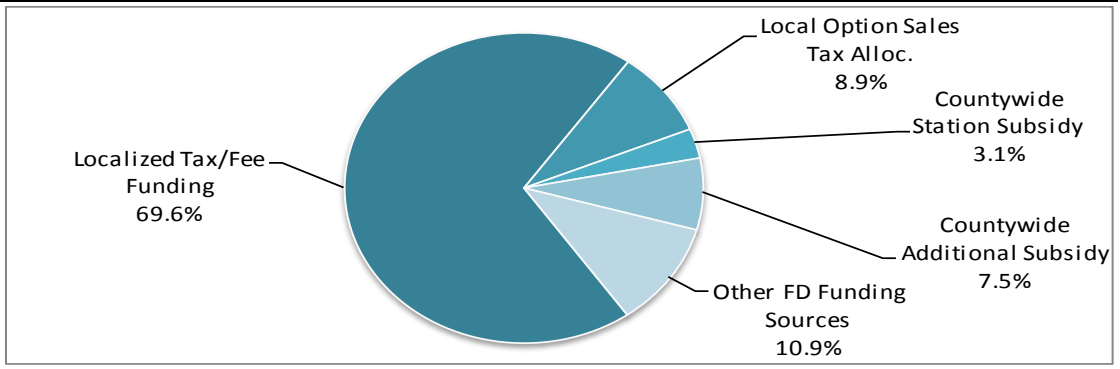
During the March 16, 2015, Board of County Commissioner's work session, the BOCC heard a presentation from staff concerning the development of a sustainable VFD funding model, including the various options discussed in the working paper.

At the conclusion of the March 16, 2015 work session the BOCC voted to direct staff to develop a Hybrid Funding Model as outlined in the presentation.



Volunteer Fire Departments (VFD's)	FY 2015 Tax/Fee Rate	FY 2016 Tax/Fee Rate	Proposed FY 2016	Localized Tax/Fee Funding	Sales Tax Allocation	Countywide Station Subsidy	Countywide Additional Subsidy	Other FD Funding Sources	FY 2016 Total Funding
FIRE TAX DISTRICTS									
Hemby Bridge	0.0526	0.0512	\$ 1,430,154	1,201,358	228,796	-	-	-	\$ 1,430,154
Springs	0.0483	0.0474	599,508	476,143	101,615	-	-	21,750	599,508
Stallings	0.0428	0.0509	1,316,928	1,100,915	180,013	-	-	36,000	1,316,928
Waxhaw	0.0386	0.0380	900,416	741,733	152,083	-	-	6,600	900,416
Wesley Chapel	0.0281	0.0282	1,776,258	1,336,670	266,604	-	-	172,984	1,776,258
COUNTYWIDE PROGRAMS									
Countywide	-	0.0048	181,000	-	-	-	181,000	-	181,000
FIRE FEE DISTRICTS									
Allens Crossroads	100.00	100.00	147,290	106,190	-	21,600	2,900	16,600	147,290
Bakers	89.57	86.49	566,200	544,600	-	21,600	-	-	566,200
Beaver Lane	100.00	100.00	441,400	249,400	-	21,600	126,900	43,500	441,400
Fairview	100.00	100.00	260,565	171,040	-	21,600	29,925	38,000	260,565
Griffith Road	100.00	62.01	106,040	43,550	-	21,600	-	40,890	106,040
Jackson	65.02	63.34	135,039	84,519	-	21,600	-	28,920	135,039
Lanes Creek	100.00	100.00	290,120	116,128	-	21,600	152,392	-	290,120
New Salem	100.00	85.60	311,152	217,352	-	68,400	-	25,400	311,152
Providence	100.00	100.00	693,106	15,110	-	-	24,165	653,831	693,106
Sandy Ridge	100.00	100.00	180,331	153,740	-	21,600	4,441	550	180,331
Stack Road	100.00	100.00	231,250	128,919	-	21,600	52,531	28,200	231,250
Unionville	100.00	100.00	518,620	351,370	-	37,200	129,935	115	518,620
Wingate	100.00	100.00	299,211	184,180	-	21,600	75,931	17,500	299,211
Total			\$ 10,384,588	7,222,917	929,111	321,600	780,120	1,130,840	\$ 10,384,588

Proposed Budget Summary	FY 2016
Localized Tax/Fee Funding	\$ 7,222,917
Local Option Sales Tax Alloc.	929,111
Countywide Station Subsidy	321,600
Countywide Additional Subsidy	780,120
Other FD Funding Sources	1,130,840
Total FY 2016 Funding	\$ 10,384,588



* Surplus revenue will go to fund balance for future needs.

During the April 20, 2015 work session staff presented the recommended Hybrid Funding Model. In addition, during this work session the BOCC heard comment from several fire chiefs, municipalities, and residents.

Funding Model and return to the current hybrid funding model. Additionally, the BOCC directed that the VFD funding levels be frozen at the FY 2015 amounts excluding capital. The exceptions to this freeze were Allen's Crossroads and Beaver Lane VFDs as they are currently on probation.

At the conclusion of this work session the Board of County Commissioners decided to not implement the proposed Hybrid



The table on the previous page reflects the resulting tax rates, VFD budgets, and the needed countywide tax rate for fire service of .00476. The FY 2016 funding includes a countywide radio program and a countywide data management system.

The BOCC, during the work session, determined that it would move forward with a group of 18-21 community members to study this issue and by January 15, 2016 make a recommendation to the BOCC concerning the appropriate funding model. This group is to include Commissioners, Fire Tax Districts, Fire Fee Districts, Municipalities, the Agriculture Community, Business Community, and Residents.

In addition, during this process it was suggested that the cost for Emergency Medical Services be included in the countywide tax rate creating a Fire and EMS Tax Rate. Based on the proposed EMS funding, combined with the fire service portion, the new proposed rate is .0297.

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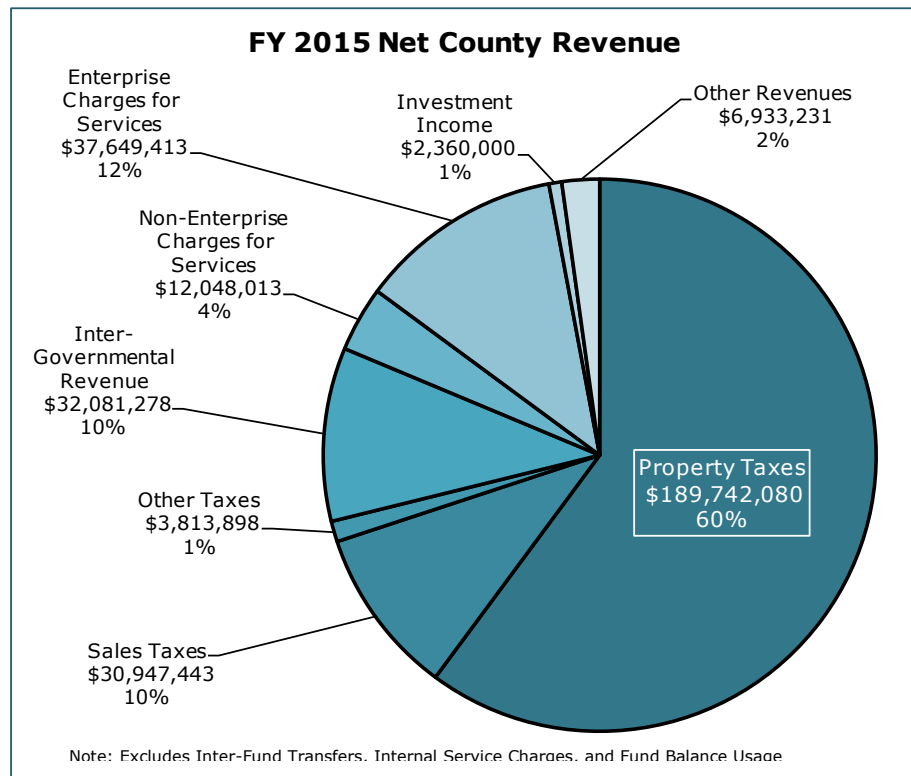
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Budget Focus Area: Revaluation and Revenue Neutral Tax Rates

When discussing the revaluation and revenue neutral tax rates, it is significant to take a step back and understand the foundational concepts that define the taxation system, the nature of Ad Valorem Taxes, and their relationship to the County. It is through this understanding, coupled with a technical explanation of the revaluation process and the revenue neutral calculation, the Board of County Commissioners can make an informed and educated decision concerning tax rates.

This budget focus area working paper examines the role of Ad Valorem Taxes in the County as the primary funding source, the valuation process and the revenue neutral concepts, the results of the 2015 revaluation process, the revenue neutral calculations, and then lastly some strategies to move forward with during the development of the FY 2016 Operating Budget.



The Role of Ad Valorem Taxes in the County

Ad Valorem Taxes are taxes that are charged in proportion to the estimated value of the item being taxed. In reference to Ad Valorem Taxes in Union County, this relates to the taxation of real property, business personal property, and motor vehicles. Ad Valorem Taxes are commonly referred to as property taxes.

The property tax is often expressed as cents or a "penny". A cent is value of 1/100 of a penny (.0001) multiplied by the assessed value, and is also referred as a penny per \$100 of assessed value.

In FY 2015, property taxes provide about sixty-percent of the County's total revenue (excluding inter-fund transfers, internal service charges, and fund balance usage). In FY 2015, the property taxes were allocated between Union County Public Schools (57 percent), the County General Operations (40 percent), and the specific Volunteer Fire Department Tax Districts (3 percent).

The table on the following page provides an analysis of the allocation of the County's General Operating Tax rate. This analysis is useful to understand the limitations on certain funding sources and understanding how the various sources the County collects are applied to service delivery. In addition, it provides a clear picture of where each penny of the tax rate is allocated.

The largest property tax expenditure in the County is the Union County Sheriff's Office; this is reflective of the Board of County Commissioner's prioritization of public safety.

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General Fund Allocation of Current Property Taxes

Service Area	General County Operating Tax	FY 2015 Original Budget	Current Ad Valorem Taxes	Non-Current Ad Valorem Taxes	Local Option Sales Tax	Other Taxes	Inter-Governmental	Non-Enterprise Charges for Services	Investment Income	Other Revenues
Administrative Services	0.60	\$ 1,435,519	(1,434,934)	-	-	-	-	(585)	-	-
Board of Elections	0.48	1,138,215	(1,137,315)	-	-	-	(400)	(500)	-	-
Community Partners	0.16	7,252,551	(381,123)	-	-	-	(657,255)	(30,270)	-	(6,183,903)
Community Services	2.93	8,079,765	(6,987,986)	-	-	-	(240,099)	(663,573)	-	(188,107)
Emergency Services	4.95	12,481,228	(11,777,828)	-	-	-	(62,500)	(488,900)	-	(152,000)
General County Administration	(0.06)	14,280,359	138,233	(3,410,400)	-	(2,383,000)	(5,997,492)	(700)	(500,000)	(2,127,000)
Growth Management	(0.22)	2,752,995	529,705	-	-	-	-	(3,282,700)	-	-
Human Services	6.96	39,958,089	(16,567,514)	-	-	-	(19,971,699)	(3,267,085)	-	(151,791)
Public Works	(0.19)	(447,617)	447,617	-	-	-	-	-	-	-
Register of Deeds	(0.07)	982,192	166,008	-	-	-	-	(1,148,200)	-	-
Sheriff's Office	9.88	26,363,100	(23,523,027)	-	-	-	(2,199,832)	(640,241)	-	-
UCPS Debt Service & Facilities Charges	5.23	45,306,578	(12,453,261)	-	(30,093,981)	-	(2,759,336)	-	-	-
Total	30.64	\$ 159,582,974	(72,981,425)	(3,410,400)	(30,093,981)	(2,383,000)	(31,888,613)	(9,522,754)	(500,000)	(8,802,801)

The second highest use of the property tax is the Department of Human Services, which provides for Social Services, Public Health, Veteran’s Services, and the Transportation and Nutrition Programs for the Elderly. It is important to note that the Department of Human Services is primarily funded through revenues from the state and federal governments and user fees. Fifty-nine percent of the funding for the Department of Human Services comes through non-local sources.

Looking beyond those two areas and including the dedicated Local Option Sales Taxes and the Lottery Proceeds, the funding for UCPS Debt Service and Maintenance of the Central Administration facility, comprises 5.23 cents or 17 percent of the General County Operating Tax. This is in addition to the 45.5 cents directly funded through the Schools Tax. When added together the total funding in FY 2015 for Schools and School Debt (excluding the school resource officer program) was 50.73 cents of the total 76.14 county-wide property taxes. This equates to 66.6 percent of the total.

With this understanding of the role of property taxes in Union County and their allocation, it is important to understand why the annual budget process centers on the property tax rates. The

property tax rates, as outlined by North Carolina General Statutes Chapter 153A, are the primary source of funding, whereas charges for services are the primary discretionary source of funding. Essentially, this means that if the Board of County Commissioners increase funding for any service in the County, the primary way this is done is through property taxes.

Charges for Services:

Charges for Services, whether in the General Fund or the Enterprise Funds, are the fees paid by the users of the services to offset or fully fund the cost of the service provided. This includes the recreation fees, Water and Sewer charges, permitting, and other sources. Generally, these charges are used to offset the cost of the programming. This offset ranges from 100 percent, in cases such as the Utility, to 8.2 percent for Community Services, which includes the Libraries, Parks and Recreation, Agricultural Extension, and Soil and Water Conservation.



The Bifurcated Tax Process

In FY 2015, the Board of County Commissioners established the “bifurcated” tax and budget process as a means to set the property tax rate. This process yields two property tax rates in the County; the first for General County Operations, as discussed previously, and the second being the School’s Tax Rate. The School’s Tax Rate funds current expense and capital funding for Union County Public Schools (UCPS). This rate in FY 2015 is 45.5 cents.

As discussed, the property tax is the only discretionary source of funding that the Board of County Commissioners has that is not tied in some form to the cost of service provision. Because of this limitation, the BOCC has focused on providing a greater transparency in the process and separated the UCPS’s funding from the County operations, allowing for a full consideration of both organizations needs versus a competitive funding environment.

UCPS Funding and BOCC:

The relationship between the Board of Education and the Board of County Commissioners is, to some degree, unique. While the Board of Education (BOE) is responsible for providing a free basic education, the Board of County Commissioners is responsible for providing the local portion of the funding for that education.

Historically, the funding from the County has been used for capital and operations, and the State has funded the instructional aspects. In recent years this segregation of funding has become opaque, to the extent that in FY 2015, the County funded \$47.8 million in instructional programming, or about 18.6 percent of the total instructional budget.

The Board of Education has very limited revenue raising abilities. As such, they are subject to appropriations from the State, the Federal Government, and the Board of County Commissioners. While the BOE and BOCC are often mentioned as “co-equal” boards, the fact is that the BOCC maintains, within certain limitations, the power of the purse related to local funding and debt issuances.

The BOCC’s discretionary authority over tax rates places the responsibility on the BOCC to represent the tax payer in the

determination of tax rates and local school funding. This process of checks and balances is well established in the NC General Statutes, and when the two boards cannot agree the judicial system is the arbiter.

The BOCC is responsible for providing funding, through tax rates and other sources for a full spectrum of services, ranging from public safety, human services, and parks and recreation. Education is only one of those services. The notion that any single service area has the “right” to all other funding sources or that any other service area should be reduced in favor of that single service is a disservice to the residents of Union County.

The Board of County Commissioners has the responsibility to allocate resources across the spectrum of services, including education. If this were not the case, then the General Assembly would have provided direct taxing authority to the Board of Education.

The Valuation Process

The revaluation process is a review of the value of all real property, meaning a review of the value of land and buildings in the County. The process of valuation excludes personal property, motor vehicles, and business personal property because these items are valued annually through various other processes.

The process of revaluation of real property is done to make the values more reflective of current market conditions. In a market where the values are climbing significantly, this revaluation process helps to adjust the tax rates to reflect this value growth and establish equity among property owners. This process works similarly in a declining market to ensure that there is equity and to essentially “true-up” the tax values against the current market values.

In many states, the process of revaluation occurs annually, however in North Carolina, in accordance with NC General Statute 105-286, this process occurs at a minimum of every eight years. There are specific reasons that this process can and does occur more frequently than every eight years.



The Board of County Commissioners may determine the need for a more frequent valuation cycle. In addition, North Carolina General Statutes will trigger revaluation if the sales to assessment ratio are greater than 115% or less than 85%. In Union County, exceeding 115% of sales to assessment ratio was the trigger for the 2015 revaluation.

As the chart below indicates, a regular revaluation is necessary to maintain accuracy in the valuation to sales ratios.

Sales to Assessment Ratio:

The sale to assessment ratio is a measure of the market values against the assessed valuation, specifically the ratio between the property's assessed value and its sales price. A sampling of transactions is used to compare the most recent sales compared to the most recent valuation. Based on the samples, when the valuation is greater than 15 percent above or below, then a revaluation, within three years, is necessary.

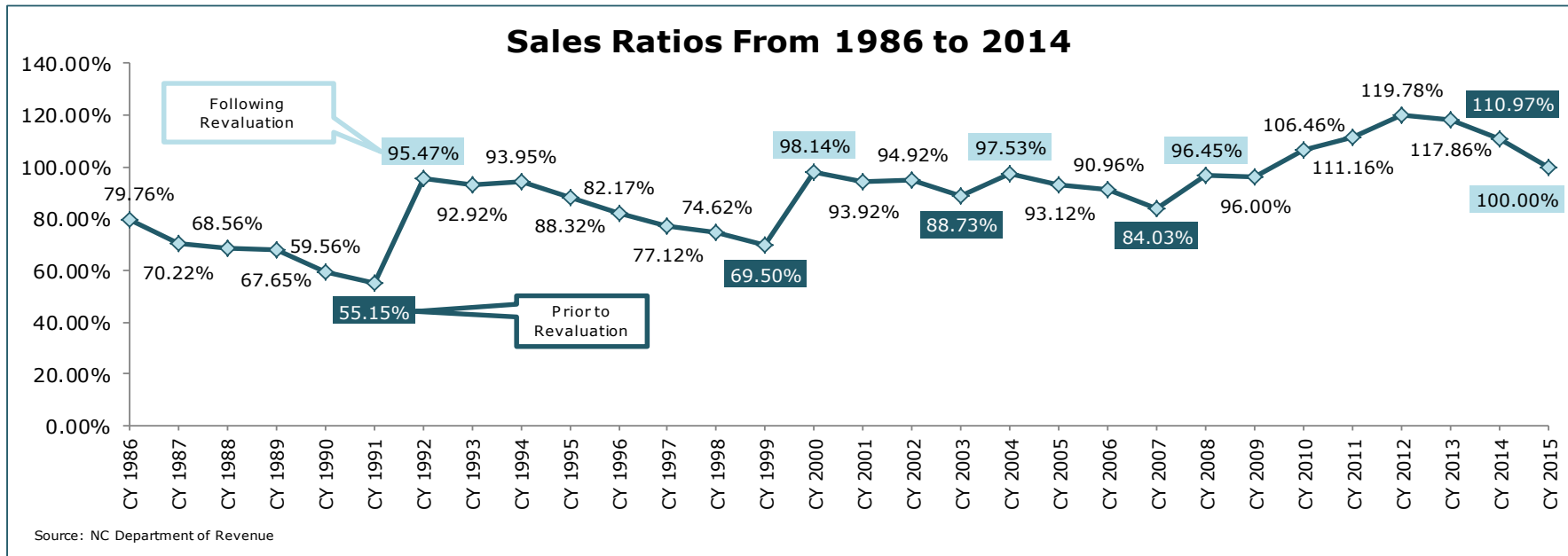
Conceptually, when the valuation is thought to reach 15 percent greater or less than the real value, then it is necessary to correct

the values and re-establish the valuation.

Property is valued based on what is considered to be the "Fair Market Value", based on the status of the property as of January 1, 2015. The common definition of Market Value is the price which a property should bring in a competitive and open market, all else being equal. The Tax Administrator's Office uses recent real estate transactions to analyze and establish a system of comparable pricing.

Having triggered the revaluation, there are six specific steps that are undertaken to conduct the process.

Step 1: The first step in the process is quality assurance. During the quality assurance process the Tax Administrator's Office reviews its available data and sources to ensure that the foundational information is correct. In Union County this includes the evaluation of 80,000 residential parcels, 4,000 commercial and industrial parcels, 5,000 agricultural parcels, 6,000 exempted and other parcels, for a total of about 95,000 parcels. Union County uses mass appraisal. Mass appraisal is the process of valuing a group of properties using common data, standardized methods, and statistical testing. The validity of the recent real estate



transactions is critical to the process of mass appraisal.

Step 2: The second step in the process is to establish appraisal neighborhoods. These neighborhoods provide the grouping of similar properties for the purpose of the mass appraisal process. In 2015, the County determined that there were about 800 appraisal neighborhoods.

Computer Assisted Mass Appraisal System (CAMA):

During the discussion of the County's assessment process the use of the CAMA system is often mentioned. CAMA refers to the computer software package used by the County to model the data necessary to provide appraisals.

The proper use and administration of a CAMA system will result in a valuation system that is characterized by accuracy, uniformity, equity, and reliability. Except for completely unique properties, individual analysis and appraisals of properties are not practical for ad valorem tax purposes.

- *International Association of Assessing Officers*

Step 3: The third step in the process is the development of the "Schedule of Values" (SOV). This schedule of values, as approved by the Board of County Commissioners, establish the base rates for different types of properties. The schedule of values is developed using standard appraisal methods.

The SOV is typically established through the cost approach for industrial property, the comparative sales approach for residential property, and the income approach for commercial property. Values typically established through these methods are the basis for the specific appraisal based on where the parcel falls in the schedule. This standardized approach provides for uniformity and fairness in the process.

Step 4: The fourth step in the process is to review and qualify the sales of real property. Using the data, the Tax Administrator's Office reviews all of the real property sales. This sales data is used to help determine the market values in the County.

Step 5: The fifth step in the process is to pull all the tools together and establish the final market values. Using the schedule of values, staff establishes an initial appraisal value for the parcel, then using the valid sales data in each of the 800 neighborhoods, localized adjustments are made. The result is the establishment of the final market value. This established market value becomes the new appraised value, and unless otherwise adjusted will become the value which is taxed.

Motor Vehicles and Business Personal Property:

The revaluation process is focused only on real property, meaning real estate and buildings. Motor vehicles and business personal property are valued annually using detailed schedules and depreciation methods. Because this type of property is valued annually, it is not included in the calculations for revenue neutral or the sales ratio calculation.

Step 6: The final step in the process, is the notice to the property owners. Notices were sent in late March and include the new appraised values. The purpose of the notice is to allow property owners the opportunity to request a more detailed review. The process for review and appeals can be found on the County's website.

The revaluation process is used to establish the valuation component for the tax calculation. The general statutes establish a structure of internal controls that segregate the responsibility for recommending tax rates from the responsibility for establishing the values.

In Union County the process for establishing values is done in the Tax Administrator's Office. The process for calculation of the revenue neutral tax rate is done in the Department of Administrative Services and the final process for recommendation of the tax rate is done by the County Manager. This segregation ensures the integrity of the valuation process and that the revenue neutral calculation occurs independently.



Revenue Neutral Tax Rates and Process

The Revenue Neutral Tax Rate, conceptually, is the tax rate that is estimated to produce revenue for the next fiscal year equal to the revenue that would have been produced for the next fiscal year by the current tax rate if no reappraisal had occurred. Simply stated, in isolation, if the revaluation had not occurred, establishing what the revenue to the County would be, excluding new construction, and then based on the new valuation, establish the necessary tax rate to yield the same amount of revenue.

NC GS §159-11(e):

In each year in which a general reappraisal of real property has been conducted, the budget officer shall include in the budget, for comparison purposes, a statement of the revenue-neutral property tax rate for the budget. The revenue-neutral property tax rate is the rate that is estimated to produce revenue for the next fiscal year equal to the revenue that would have been produced for the next fiscal year by the current tax rate if no reappraisal had occurred. To calculate the revenue-neutral tax rate, the budget officer shall first determine a rate that would produce revenues equal to those produced for the current fiscal year and then increase the rate by a growth factor equal to the average annual percentage increase in the tax base due to improvements since the last general reappraisal. This growth factor represents the expected percentage increase in the value of the tax base due to improvements during the next fiscal year. The budget officer shall further adjust the rate to account for any annexation, deannexation, merger, or similar event.

The theory behind this calculation is to normalize or smooth the revenue to the government and the impact to the tax payer. It is important to note that this type of legislation is designed to protect the tax payer during an increasing value environment. If the County left the tax rates unadjusted, and the value continued to grow, it would result in a real tax increase without a rate increase. Simply stated, in a growing value environment, rates left the same would yield more revenue to the government and increased tax bills.

Conversely, as we will see in 2015, in a declining value environment the unadjusted tax rate would result in a de facto tax rate reduction and result in lower tax bills.

Whether in a rising value environment or a decreasing value environment, the purpose of the revenue neutral calculation is to adjust the rate such that the average tax payer is paying a similar amount, regardless of the rate, and that the government is collecting a similar amount to provide services. The principle behind the Revenue Neutral Calculation is adjusting the rate so that the change in value does not negatively impact the tax payer or the County's ability to provide services.

The calculation based on NC General Statutes 159-11(e) is done in four steps.

Step 1: The first step in the process is to establish the levy for the current fiscal year. For the purposes of the calculation the staff uses the County Certification Form (TR1) for the preceding year, in this case 2014, to establish the tax levy. The TR1 is the report provided to the North Carolina Department of Revenue reflecting the certified values, including exemptions and other adjustments. It represents the most accurate base value for the calculation.

Using the value and the current tax rate, the revenue yield is calculated. This revenue yield becomes the "revenue neutral" amount, excluding growth.

Step 2: The second step in the process is to calculate the new tax rate that will yield the same amount of levy based on the new tax base. It is important to note that in this process, the collection rate is not taken into consideration. The collection rate changes from year to year, so the use of the levy establishes an apple to apples comparison for this process.

Step 3: The third step in the process is to determine an average growth factor. This average growth factor establishes the estimated new construction amount. This factor is calculated by using the average annual percentage growth in the tax base as a result of improvements since the last general revaluation, in this case 2008.



Step 4: The final step in the process is to establish the final revenue neutral tax rate. The final revenue neutral tax rate is calculated by using the rate established in step two, which is the tax rate on the current levy that yields the same revenue as the year before, and then adding to that the growth rate as determined in step three. This is done to give both the tax payer and the government the benefits of the growth in the community.

Revenue Neutral ≠ the Same Revenue

The revenue neutral tax rate will not result in exactly the same amount of revenue to the government, nor will it result in the same tax bill to the tax payer. The concept of revenue neutral is applied to the entire county on a macro basis, while individuals will be impacted based on a number of localized factors.

Conversely the County will not collect the same amount of revenue due to the changes in collection rates, business personal property, and changes in vehicle values.

The goal of the calculation is fairness to the tax payer by limiting the impact from a tax bill perspective, but limiting the service reductions that will result from a significant loss in revenue to the government.

Revenue neutral calculations balance the impact of revaluations to ensure tax payers are protected from significantly higher tax bills and a significant loss in services.

Based on this calculation, the new “revenue neutral” rate is established. It is important to note that conceptually, maintaining the same rate, particularly in 2016, will yield a reduction in revenue to the County and will result in service reductions.

FY 2016 Revaluation Results

As the sales ratio table indicated, since 1986, revaluations were typically undertaken to bring the sales ratio up to 100 percent. With the 2015 revaluation, this was not the case; the revaluation was triggered by the sales ratio being greater than 115 percent and was undertaken to bring the valuation down to 100 percent.

Across the entire County the taxable value declined by 4.64 percent. As the table below indicates, the largest loss came in agricultural parcels, with 91 percent seeing a decrease in value, with a median loss of 29.2 percent. The agricultural parcels represent about 5.26 percent of the total parcels in the County.

Changes in Taxable Values by Parcel Type

Parcel Type	Increased	Decreased	Median Change
Residential	31%	69%	-5.40%
Commercial	45%	55%	-2.30%
Industrial	35%	65%	-6.00%
Agricultural	9%	91%	-29.20%

The largest segment of parcels (residential) represents 84.21 percent of the total, and during the revaluation 69 percent saw reductions with a median loss of 5.4 percent.

Changes in Taxable Values by Municipality

Municipalities	2014 Taxable Total	2015 Taxable Total	Change In Valuation
Countywide	\$ 20,960,953,533	19,987,936,104	-4.64%
Fairview	369,144,372	342,895,340	-7.11%
Hemby Bridge	87,458,535	77,414,273	-11.48%
Indian Trail	3,167,132,792	3,155,022,794	-0.38%
Marshville	134,235,217	128,022,131	-4.63%
Marvin	1,026,037,078	998,034,632	-2.73%
Mineral Springs	244,711,398	220,396,353	-9.94%
Monroe	2,487,283,625	2,385,601,538	-4.09%
Stallings	1,426,598,400	1,432,834,887	0.44%
Unionville	448,931,642	427,270,679	-4.83%
V/O Lake Park	232,744,370	237,378,500	1.99%
Waxhaw	1,448,762,450.0	1,410,629,784.0	-2.63%
Weddington	1,976,543,814	1,863,429,586	-5.72%
Wesley Chapel	882,150,158	824,856,440	-6.49%
Wingate	110,084,607	108,035,089	-1.86%

*Excludes motor vehicle and personal property values.

Based on the latest numbers, and as illustrated in the table, the average loss of value in the municipalities was 4.73 percent. The municipality that lost the most value, on a percentage basis was Hemby Bridge, losing 11.48 percent of its taxable total. Stallings fared the best with a gain of .44 percent.

There are a number of reasons for the declining values. It is safe to say that there is a confluence of factors which include, but not limited to: reduced speculative value of vacant land, UCPS redistricting, recessionary devaluation, and



other factors. Pinpointing the exact factors impacting the changes will vary by neighborhood.

County General Tax Revenue Neutral Calculation

With the results of the 2015 revaluation, the revenue neutral calculation can be done, in accordance with NC GS §159-11(e).

The calculation is shown on the table below.

General County Operations Tax Revenue Neutral Tax Rate Calculation

(1) 2014 Tax Value	\$	20,950,609,921
(2) FY 2015 Tax Rate		0.3064
(3) Tax Revenue Yield	\$	64,192,669
(4) 2015 Tax Value	\$	19,983,124,713
(5) New Tax Rate Before Growth		0.3212
(6) Growth Factor		1.4%
(7) Revenue Neutral Tax Rate		0.3257

The calculation is broken into seven specific pieces:

- (1) Based on the 2014 County Certification Form provided to the North Carolina Department of Revenue the 2014 Tax Value was \$20,950,906,921.
- (2) The FY 2015 Tax rate, for the General County Tax was .3064.
- (3) The tax revenue yield, based on lines (1) and (2) is \$64,192,669. (this is not adjusted for collections and does not include motor vehicles, business personal property or public service companies).
- (4) Based on the 2015 revaluation, the Tax Value is \$19,983,124,713.
- (5) The tax rate needed based on the same revenue yield in step (3) is .3212.
- (6) The Growth factor based on history, 1.4 percent is calculated based on the following table:
- (7) Applying the growth factor to the new tax rate, the Revenue Neutral Tax rate is .3257 or 32.57 cents.

This revenue neutral tax rate, when combined with the estimated motor vehicle tax and the new growth, including the estimated collection rates result in a total increase of \$2 million in revenue for General County Operations. This increase is 1.45 percent in

Calendar Year	Taxable Value	Change
2008	19,290,938,252	
2009	19,703,707,725	2.1%
2010	19,860,204,041	0.8%
2011	20,012,708,795	0.8%
2012	20,192,945,312	0.9%
2013	20,456,546,253	1.3%
2014	20,950,609,921	2.4%
Average Change		1.4%

revenue from real property taxes, approximately the new growth. The new rate is meant to approximate a neutral tax bill for the average tax payer.

It is important to note that leaving the same rate as in 2015 will result in a decline in revenue of \$2.4 million or 3.26 percent loss, which will result in reduced services.

Schools Tax Revenue Neutral Calculation

The calculation is shown on the table below.

Schools Tax Revenue Neutral Tax Rate Calculation

(1) 2014 Tax Value	\$	20,950,609,921
(2) FY 2015 Tax Rate		0.4550
(3) Tax Revenue Yield	\$	95,325,275
(4) 2015 Tax Value	\$	19,983,124,713
(5) New Tax Rate Before Growth		0.4770
(6) Growth Factor		1.4%
(7) Revenue Neutral Tax Rate		0.4837

The calculation is broken into seven specific pieces:

- (1) Based on the 2014 County Certification Form provided to the North Carolina Department of Revenue the 2014 Tax Value was \$20,950,906,921.
- (2) The FY 2015 Tax rate, for the Schools Tax was .4550.
- (3) The tax revenue yield, based on lines (1) and (2) is \$95,325,275. (this is not adjusted for collections and does not include motor vehicles or business personal property).
- (4) Based on the 2015 revaluation, the Tax Value is \$19,983,124,713.



- (5) The tax rate needed based on the same revenue yield in step (3) is .4770.
- (6) The Growth factor based on history, 1.4 percent is calculated based growth table.
- (7) Applying the growth factor to the new tax rate, the Revenue Neutral Tax rate is .4837.

When considering the Schools Tax, there is an additional layer to be calculated. Based on Session Law 2014-9, applying the growth factor of 1.34 percent student population growth (based on DPI estimates) and 1.60 percent based on year over year CPI-U increases, the current expense funding is estimated at \$89.7 million. In addition, the specified capital funding is \$19.8 million.

With the legislation in mind, the revenue neutral rate is not the key to setting the tax rate. Based on the legislative direction, using the rate smoothing reserve, the tax rate needed to fund the Schools tax is .4674 or 46.74 cents.

<i>Legislation Based Calculation</i>	
FY 2016 Est. Current Exp.	\$ 89,658,562
FY 2016 Capital	19,786,024
Total Funding Needed	\$ 109,444,586
Use of Smoothing Reserve	(1,746,998)
Tax Funding Needed	\$ 107,697,588
Tax Rate Needed	0.4674

Funding in addition to the capital needed to satisfy the legislation would be outside of the required subsidy and would be at the discretion of the Board of County Commissioners.

Recommended Strategies Moving Forward

Changing the tax rates in any year is a challenge for an elected body. There are a number of factors to be considered including the service impacts and the impacts to economic development. The first inclination is to consider only the tax rate impact; however, the more meaningful consideration is the tax bill impact on the tax payer.

Based on the goals established by the Board of County Commissioners, staff is recommending two strategies moving forward.

1. While staff recognizes that the revenue neutral rate, based on the General Statutes, provides additional funding for County operations, it is important to note that the design of the revenue neutral tax rate may be flawed in its application during a declining value scenario.

The purpose of the calculation, particularly the growth factor, is to protect the tax payer by giving credit for average growth. However, in a declining value environment, this protection actually increases the effective tax impact, essentially causing a real tax increase under the notion of revenue neutral.

Because of this flaw in the design of the calculation and its application in this unique instance, staff is recommending that the growth portion of the equation be eliminated for the purposes of the budget. The impact on estimated revenue from this calculation change will provide an estimated year-over-year increase in budgeted real property tax revenue of \$35,711, or .05 percent, essentially revenue neutral to the County.

It is worth noting, that under this version the County is not afforded growth in revenue, but the tax payer is receiving the benefit of new growth by limiting the growth from real property. This is not the case as it relates to the motor vehicle portion of the tax, the growth in this revenue will follow it new value and the adjusted rate.

The recommended tax rate for County Operations is .3145 per \$100 of value. This rate excludes the countywide funding for Volunteer Fire Departments, which will be funded through a separate Countywide General Fire Tax.

2. Establish the Schools Tax Rate sufficient to meet the legislative requirements. While this is not the revenue neutral calculation it provides for an increase of just fewer than three percent for operations and provides for the existing capital needs.

In addition, the use of the rate smoothing reserve is recommended. During the FY 2015 budget process, the tax rate was increased



above the needed level to minimize the FY 2016 rate increase. Without this reserve, the increases would be .0076 more than the recommended level.

The recommended School's Tax Rate is .4674 per \$100 of value. This rate, including the rate smoothing reserve, provides for an increase of \$2.8 million from the FY 2015 funding or 2.64 percent.

With this change, excluding the conversion of the fire fee to a countywide Fire Tax, the combined rate of General County Tax Rate and the School's Tax Rate would be 78.19.

Based on the direction received from the Board of County Commissioners, concerning tax rates, the County Manager and staff will develop the proposed FY 2016 Operating and Capital Budget.

Board Direction

During the April 6, 2015 Board of County Commissioners work session, the BOCC heard a presentation from staff concerning the revaluation process, the revenue neutral tax rate, and the recommended tax rate for FY 2016.

During the work session the BOCC agreed with the staff recommendation and directed that, for the General County Operations Tax Rate, the revenue neutral rate, excluding growth should be used to develop and establish the FY 2016 budget.

In addition during the work session, the Board of County Commissioners directed that staff develop the School's Tax rate based on the current session law and the ADM growth factor should be based on actuals and not on the DPI projected growth.

The resulting tax rate, with the Fire and EMS Tax excluded, is 28.82 cents and the resulting School's Tax is approximately 46.45 cents.

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General Fund Financial Projection

	FY 2014 Actual	FY 2015 Revised	FY 2016 Adopted	FY 2017 Projected	FY 2018 Projected	FY 2019 Projected	FY 2020 Projected	FY 2021 Projected
Sources								
Ad Valorem Taxes	\$ (165,029,950)	(76,391,825)	(67,560,062)	(68,377,131)	(69,205,116)	(70,044,184)	(70,894,507)	(71,756,259)
Local Option Sales Taxes	(29,449,465)	(30,093,981)	(34,518,523)	(35,554,079)	(36,620,701)	(37,719,322)	(38,850,902)	(40,016,429)
Other Taxes	(2,410,251)	(2,383,000)	(2,458,900)	(2,496,873)	(2,535,614)	(2,575,145)	(2,615,483)	(2,656,649)
Unrestricted Intergovernmental Revenue	(75,773)	(82,500)	(79,200)	(80,545)	(81,917)	(83,316)	(84,744)	(86,199)
Restricted Intergovernmental Revenue	(10,195,143)	(10,931,560)	(10,736,920)	(10,883,051)	(11,031,608)	(11,182,640)	(11,336,196)	(11,492,326)
Federal Grants	(14,965,362)	(12,516,409)	(13,185,630)	(13,185,630)	(13,185,630)	(13,185,630)	(13,185,630)	(13,185,630)
State Grants	(4,194,339)	(8,593,064)	(8,714,277)	(8,714,277)	(8,714,277)	(8,714,277)	(8,714,277)	(8,714,277)
Non-Enterprise Charges for Services	(9,428,436)	(9,537,161)	(8,820,171)	(8,996,574)	(9,176,506)	(9,360,036)	(9,547,237)	(9,738,181)
Debt Proceeds	(5)	-	-	-	-	-	-	-
Investment Income	(391,543)	(500,000)	(602,400)	(602,400)	(602,400)	(602,400)	(602,400)	(602,400)
Other Revenue	(7,075,905)	(7,121,601)	(6,738,328)	(6,738,328)	(6,738,328)	(6,738,328)	(6,738,328)	(6,738,328)
Interfund Transfers	(1,576)	(220,000)	-	-	-	-	-	-
Total Sources	\$ (243,217,748)	(158,371,101)	(153,414,411)	(155,628,888)	(157,892,097)	(160,205,278)	(162,569,702)	(164,986,679)
Uses								
Employee Compensation	\$ 36,290,619	38,380,786	41,310,503	43,070,791	44,360,479	45,688,856	47,057,085	48,466,361
Employee Benefits	20,176,147	22,303,475	23,779,417	25,296,934	26,783,978	28,378,787	30,089,004	31,922,927
Operating Costs	31,944,327	33,805,622	34,803,732	35,601,793	36,431,315	37,054,031	37,692,099	38,345,934
Capital Outlay	1,847,328	1,831,517	1,632,450	1,660,715	1,689,545	1,718,952	1,748,947	1,779,542
Contracts, Grants, and Subsidies	6,082,858	5,882,977	5,796,254	5,912,179	6,030,423	6,151,031	6,274,052	6,399,533
UCPS Current Expense Funding	82,260,408	-	-	-	-	-	-	-
Volunteer Fire Department Funding	546,868	1,535,396	-	-	-	-	-	-
EMS Contract	4,332,073	5,279,955	-	-	-	-	-	-
General Fund Related Debt Debt Service	2,103,957	3,378,987	3,312,061	4,193,747	4,096,002	5,057,933	3,739,892	2,843,376
UCPS Related Debt Service	43,283,124	45,021,743	43,990,217	43,444,618	42,162,664	39,813,153	37,017,169	32,986,697
Interdepartmental Charges	(6,034,481)	(1,602,626)	(1,960,223)	(1,997,153)	(2,034,821)	(2,073,243)	(2,112,433)	(2,152,407)
Interfund Transfers	17,943,931	13,517,600	250,000	2,254,500	1,413,600	1,430,000	350,000	350,000
Contingency	-	860,143	500,000	525,000	551,250	578,813	607,753	638,141
Total Uses	\$ 240,777,159	170,195,575	153,414,411	159,963,126	161,484,435	163,798,313	162,463,569	161,580,104
Sources (Over)/Under Uses	\$ (2,440,589)	11,824,474	-	4,334,238	3,592,338	3,593,035	(106,133)	(3,406,575)
Over/(Under) %			0.00%	2.71%	2.22%	2.19%	-0.07%	-2.11%
Variance to Sensitivity % goal is +/- 3%			-3.00%	-0.29%	-0.78%	-0.81%	-3.07%	-5.11%

General Fund Financial Projection

The General Fund is the chief operating fund of the County. The majority of County services are funded through the General Fund. The primary funding sources for the General Fund are Ad Valorem Taxes (Property Taxes), Local Option Sales Taxes, and funding from other governments, such as the State and Federal government. Other sources of funding include charges for services, donations, rental income, and other miscellaneous sources.

The General Fund Financial Projection is based on an analysis of historical trends, current trends and realities, and known cost drivers.

The "Revised FY 2015" reflects the amended budget through March 31, 2015.

During the development of the projections staff has made a number of assumptions concerning the growth of revenues and expenditures. Assumptions, based on analysis, form the basis for the projection. With this in mind, following are several of the significant assumptions made concerning the General Fund:

- The County will continue to provide similar levels of services, countywide, that are currently provided. This assumption is made throughout the projection period.
- The economic conditions remain similar to current levels; periods of sustained economic growth or sustained economic downturn will impact the



projections. Given the uncertainty surrounding these possibilities, the projections are based on known factors.

- Generally, expenditures are projected to maintain an inflationary pace, growing about two percent annually. This varies on certain line-items that have specific known, or estimable growth, but otherwise holds relatively true for most expenditure line items.
- Revenues have been projected given recent history and collection patterns. There are several notable exceptions to this:
 - State and federal intergovernmental revenue is projected to remain flat through the projection period. This is done based on the recent history of limited to no growth in these programs, including a number of unfunded mandates. Projecting the revenue without growth is a highly conservative approach; however in this case, staff believes this is an appropriate method.
 - Ad Valorem Taxes are estimated in accordance with North Carolina General Statutes and the prescribed revaluation rules. The Adopted FY 2016 estimated revenue is based on the adopted tax rates.
 - Employee compensation is anticipated to grow at roughly three percent annually. This projection makes no assumption concerning future pay for performance or additional staffing, but instead uses a proxy growth assumption for employee compensation that reflects normal growth.
- The projections include the third year of the compensation increases to the Sheriff's Deputies to bring them more in line with the market.
- Employee benefits, specifically health benefits costs, are assumed to grow at eight percent through the projection window. This is reflective of the current market trends and anticipated future medical inflation. Other benefit costs have been adjusted to reflect inflation or growth in employee compensation as mentioned above.
- Debt service assumptions are based on current agreements and costs and do not reflect additional refundings or restructurings. In addition, any assumption of new debt is estimated based on the prevailing market conditions at the time of this report.
 - Installment financings have been included for voting machines and new tax assessment systems. Beyond these two specific projects, no new debt has been projected.

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 or general direction. The decisions made going forward, both by the Board of County Commissioners, State and Federal Governments, and the County's other partners will have a direct impact on the projected outcomes.

Projection Summary

As the table indicates, in FY 2017-2019 there is projected to be an annual deficit; however, additional analysis of the historical trends indicates that on a projection basis, that a surplus or deficit within two percent of the expenditure total is essentially within balance. In this case, based on the current set of assumptions, all the years shown are within the tolerance levels, except FY 2021 lying outside the tolerance, however FY 2021 reflects a surplus.

The Adopted FY 2016 Operating and Capital Budget, based on the projection, is sustainable.

Projected General Fund Revenue and Expenditures				
	Revenue	Expenditures	Revenue Over/Under Expenditures	Variance Sensitivity +/- 3%
FY 2014	\$ 243,217,748	240,777,159	2,440,589	
FY 2015	158,109,176	169,933,650	(11,824,474)	
FY 2016	153,414,411	153,414,411	-	0.00%
FY 2017	155,628,888	158,568,626	(2,939,738)	1.85%
FY 2018	157,892,097	160,089,585	(2,197,488)	1.37%
FY 2019	160,205,278	162,401,801	(2,196,523)	1.35%
FY 2020	162,569,702	161,064,016	1,505,687	-0.93%
FY 2021	164,986,679	160,176,063	4,810,616	-3.00%



General Fund Allocation of Current Property Taxes

Service Area	General County Operating Tax	Adopted FY 2016	Current Ad Valorem Taxes	Non-Current Ad Valorem Taxes	Local Option Sales Tax	Other Taxes	Inter-Governmental	Non-Enterprise Charges for Services	Investment Income	Other Revenues
Administrative Services	0.63	\$ 1,458,079	(1,457,650)	-	-	-	-	(429)	-	-
Board of Elections	0.55	1,408,968	(1,265,083)	-	-	-	(141,685)	(2,200)	-	-
Community Partners	0.27	7,500,752	(624,707)	-	-	-	(661,101)	(31,041)	-	(6,183,903)
Community Services	3.23	8,534,913	(7,450,301)	-	-	-	(244,901)	(638,051)	-	(201,660)
Emergency Services	2.40	5,629,631	(5,520,771)	-	-	-	(76,060)	(32,800)	-	-
General County Administration	0.01	10,701,359	(13,519)	(1,154,040)	-	(2,458,900)	(6,270,800)	(700)	(602,400)	(201,000)
Growth Management	(0.03)	2,846,504	67,296	-	-	-	-	(2,913,800)	-	-
Human Services	7.79	42,457,145	(17,942,764)	-	-	-	(20,965,945)	(3,401,132)	-	(147,305)
Public Works	(0.30)	(681,635)	681,635	-	-	-	-	-	-	-
Register of Deeds	0.01	1,221,095	(26,775)	-	-	-	-	(1,194,160)	-	(160)
Sheriff's Office	10.88	27,942,067	(25,076,364)	-	-	-	(2,255,385)	(606,018)	-	(4,300)
UCPS Debt Service & Facilities Charges	3.38	44,395,533	(7,776,860)	-	(34,518,523)	-	(2,100,150)	-	-	-
Total	28.82	\$ 153,414,411	(66,405,863)	(1,154,040)	(34,518,523)	(2,458,900)	(32,716,027)	(8,820,331)	(602,400)	(6,738,328)

General Fund Revenue Allocation

The purpose of the table above and the corresponding analysis, is to understand the exactly how each of the services are funded. This analysis is particularly focused on the use or allocation of property taxes to a specific function or service area.

The table above is generally referred to as the "Net Takers" table because it demonstrates, on an allocated basis, how much each service area costs in terms of Ad Valorem Tax. The "General County Operating Tax" column effectively provides insight into the tax impact of each service area, in several cases where that tax impact is negative, the service area provides additional funds in support of the total general fund and does not cost the tax payer or require Ad Valorem Tax support.

Before analysis can occur, it is important to understand what the General Fund is used for. Without belaboring the discussion of fund accounting, the General Fund is the principal operating fund which provides for the accounting of the most basic governmental services. Because of this, the General Fund has no specific nature, like a utility fund that focuses on utility operations, or the 911 communications fund that focuses on specific operations and revenues.

It should be noted that the table above is the allocation analysis for the General Fund only and excludes the Schools Tax and the funding for UCPS Current Expense and Capital Outlay, and starting with the FY 2016 Operating and Capital Budget funding for Volunteer Fire Departments and EMS are excluded, as well as the associated tax revenues.

As the table above indicates, the majority of the revenue in the General Fund, about sixty-seven percent, comes through the Ad Valorem Taxes and the Local Option Sales Taxes.

Ad Valorem Taxes, commonly referred to as "property taxes" are the largest revenue source in the county, making up forty-four percent of the total revenue.

Local option sales taxes are allocated to fund the Union County Public Schools debt service. Totaling just over \$34.5 million, sales taxes make up about 22.5 percent of the total General Fund revenue.

The remaining 33.5 percent of the revenue comes through the following:



Ad Valorem taxes, comprises one percent of total revenues.

- Inter-Governmental Revenues – Revenues derived through grants, mandated services, and agreements with other units of government. These funds are generally restricted in nature and can only be used for the programs they were intended for. This funding makes up twenty-one percent of the total.
- Non-Enterprise Charges for Services – Charges for Services are comprised of the various fees charges for specific services and are used to partially offset the cost of providing the service. For example, this would include Parks and Recreation, Library Fees, and Inspection Fees. Charges for Services make up about 5.75 percent of the total General Fund revenue.
- Investment Income – Revenue derived from the investment of the General Fund, fund balance. Investments are governed by the North Carolina General Statutes. This revenue, which comprises less than one percent of the total, and is largely dependent on market conditions and the cash balances in the General Fund.
- Other Revenue – Other revenue are various funding sources that do not specifically fit the other categories. The largest portion of the other sources, is revenue derived from the lease of the hospital. This lease provides about \$6.4 million annually. The total Other Revenues make up about 4.3 percent of the total revenue.

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Water and Sewer Fund Financial Projection

	Actual FY 2014	Revised FY 2015	Adopted FY 2016	Projected FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020	Projected FY 2021
Revenue								
Water and Sewer Rate Revenues	\$ (28,850,724)	(29,497,367)	(33,212,043)	(36,387,519)	(40,173,496)	(44,568,404)	(49,452,703)	(54,881,803)
Water Tap Fees	(2,921,188)	(1,230,000)	(1,334,730)	(1,724,085)	(1,380,621)	(1,415,488)	(1,451,235)	(1,487,885)
Sewer Tap Fees	(5,522,945)	(2,016,225)	(2,486,678)	(2,669,288)	(2,137,525)	(2,191,507)	(2,246,852)	(2,303,595)
Water Miscellaneous Revenue	(1,750,493)	(10,200)	(5,242)	(5,399)	(5,561)	(5,728)	(5,900)	(6,077)
General Miscellaneous Revenue	(1,048,613)	(1,823,617)	(1,111,105)	(1,144,438)	(1,178,771)	(1,214,134)	(1,250,558)	(1,288,075)
Interest Income	(168,066)	(325,000)	(312,932)	(729,743)	(717,152)	(689,531)	(613,321)	(518,021)
Total Revenue	\$ (40,262,029)	\$ (34,902,409)	\$ (38,462,730)	\$ (42,660,472)	\$ (45,593,126)	\$ (50,084,792)	\$ (55,020,569)	\$ (60,485,456)
Expenses								
Personnel	\$ 6,518,743	6,677,276	7,177,918	7,727,776	8,307,036	8,917,112	9,350,812	9,805,833
Utilities	1,412,798	1,421,018	1,578,393	1,711,281	1,842,223	1,983,185	2,134,932	2,298,291
Water Purchase for Resale	3,525,441	3,427,786	3,643,599	3,804,390	3,941,490	4,084,042	4,232,280	4,386,451
All Other Operating	7,120,883	8,995,228	8,797,825	9,061,760	9,333,613	9,613,621	9,902,030	10,199,090
Payments to Other Gov't Units	489,026	2,614,402	2,692,361	2,748,055	2,814,877	2,881,699	2,948,522	3,015,344
Debt Service	6,112,235	6,155,226	6,031,378	10,083,260	12,346,072	17,678,172	28,225,811	34,943,806
Capital Outlay	647,149	748,057	884,108	910,631	937,950	966,089	995,071	1,024,923
Interfund Transfer	319,893	287,282	214,829	221,274	227,912	234,749	241,792	249,046
PayGo Capital	10,589,089	21,696,400	4,763,600	8,477,160	6,274,960	8,817,360	7,140,000	3,472,000
Total Expenses	\$ 36,735,257	52,022,675	35,784,011	44,745,587	46,026,133	55,176,029	65,171,250	69,394,784
Revenue (Over)/Under Expenditures	\$ (3,526,772)	17,120,266	(2,678,719)	2,085,115	433,007	5,091,237	10,150,681	8,909,328
Projected % Rate Increases	3.50%	6.50%	6.50%	6.50%	7.00%	7.50%	7.50%	7.50%
Projected Fund Balance as of June 30, 2XXX	\$ 88,458,383	71,338,117	74,016,836	71,931,721	71,498,714	66,407,477	56,256,796	47,347,468
Less: Reserve Requirement	(31,492,098)	(36,323,751)	(38,230,468)	(40,434,110)	(42,475,448)	(47,195,510)	(49,086,641)	(51,519,463)
Appropriable Fund Balance	\$ 56,966,285	35,014,366	35,786,368	31,497,611	29,023,266	19,211,967	7,170,155	(4,171,995)

Note: Rate increases for FY 2015, FY 2016, and FY 2017 Approved in June 2014.

Water and Sewer Fund 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 Union County 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 objective of funding operations and maintenance of the existing system and the future planned growth. The financial projections and subsequent rate recommendations provide an annual 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, revenues, and consumption trends, as well as the current cost drivers. For the purposes of this projection, "Revised FY 2015" refers to the adopted operating and capital budget, including any amendments through March 2015.



In addition to using Revised FY 2015 and Adopted FY16 budget information to project future costs and revenues, assumptions have been made concerning growth, inflation, and demand. These assumptions are:

- Implementation of the approved "Comprehensive Water & Wastewater Master Plan," which has been implemented through the Adopted FY 2015-2020 Public Works Capital Improvement Program and the Adopted FY 2016-2021 Public Works Capital Improvement Program.
- System Growth:
 - The amount of annual growth in billed water consumption including population growth is projected to grow at 1.86 percent in FY 2016 , 1.97 percent in FY 2017 and 1.79 percent annually through FY 2021.
 - The amount of annual growth in the average daily sewer flows including population growth is projected to grow 3.86 percent in FY 2016, 3.76 percent in FY 2017 and 4.52 percent annually through FY 2021.
- Revenue and Cost Projections:
 - All other revenues, with the exception of the Water and Sewer Service Charges, Water and Sewer Tap Fees, and Interest Earnings, are projected based on annual growth of 3 percent starting in FY 2017.
 - Interest Earnings were projected in each year of the projection based on the average annual cash balance and an assumed interest earnings rate of 1 percent annually through FY 2021.
 - All expense figures, with the exception of debt service and cost incurred related to water purchased for resale from Catawba and Anson were based on budgeted figures and reflect an overall increase of 3.3 percent in FY 2016.
 - All expense figures, with the exception of debt service and costs incurred related to water purchased for resale from Catawba and Anson were classified as general, labor, or utilities and escalates accordingly beginning in FY 2017, based on the classification's corresponding growth rate. The annual growth rate for general, labor, and utilities classifications is 3 percent, 5 percent, and 8 percent respectively.
 - Costs incurred related to water purchased from Catawba and Anson in FY 2016 are based on the adopted budget and reflect an overall increase of 6.3 percent.

- Costs incurred related to water purchased for resale from Catawba are grown at an annual rate of 12.09 percent for FY 2016, 3.7 percent in FY 2017, 2.8 percent in FY 2018, and 2.9 percent for FY 2019through FY 2021.
 - Costs incurred related to water purchased for resale from Anson decreased at a rate of 3.68 percent for FY 2016 and are grown at an annual rate of 5.8 percent in FY 2017 and 5.1 percent annually through FY 2021.
 - Costs related to the CMUD operations agreement are included.
- Capital Projects:
 - Certain capital projects are funded through PayGo capital funding and others are funded through the use of revenue bonds. Based on this breakdown debt assumptions have been made including the issuance of revenue bonds in FY 2016, FY 2017, and FY 2019 to provide the needed proceeds for the debt funded capital projects. The projected debt service has been incorporated into the projections.
 - The projected revenue bonds are based on a 20 year amortization at 5.5 percent interest.
- Projected Target Reserve:
 - The minimum reserve target is based on the current policy of 365 days of operating and maintenance costs.
 - Debt service coverage related to the revenue bonds is assumed to be at least 1.5 times net revenues.
 - Debt service coverage related to all outstanding debt is assumed to be at least 1.0 times net revenues.
- Adopted Rate Increases - the recommended rate increases were assumed to become effective the first day of each of the fiscal years.

Water and Sewer Utility Projection

When setting a rate recommendation for the water and sewer utility fund, there are three main goals.

- Ensuring fiscal sustainability through sustainable operations, a sustainable system, and sustainable debt service.
- Ensuring rate fairness through the appropriate mix of base rates and volumetric rates, as well as



ensuring intergenerational equity when funding system expansion.

- Encouraging conservation through the rate structure.

As the table indicates, initial projections indicate the adopted 6.5 percent increase in FY 2015, FY 2016, and FY 2017 are needed to maintain the fund given its current level of capital investment and growing debt service. Based on the projections, the largest driver of cost is the investment in PayGo Capital and the increasing debt service. By the end of the projection period this cost of the capital effort is anticipated to be 50.36 percent of the total expenditures, more than \$34.9 million annually.

Water and Sewer Projection

	Revenues	Expenditures	Revenue Over/(Under) Expenditures	Projected Rate Increases
FY 2014	\$ 40,262,029	36,735,257	3,526,772	3.50%
FY 2015	34,902,409	52,022,675	(17,120,266)	6.50%
FY 2016	38,462,730	35,784,011	2,678,719	6.50%
FY 2017	42,660,472	44,745,587	(2,085,115)	6.50%
FY 2018	45,593,126	46,026,133	(433,007)	7.00%
FY 2019	50,084,792	55,176,029	(5,091,237)	7.50%
FY 2020	55,020,569	65,171,250	(10,150,681)	7.50%
FY 2021	60,485,456	69,394,784	(8,909,328)	7.50%

Note: Rate increases for FY 2015, FY 2016, and FY 2017 Approved in June 2014.

The annual projected deficits shown on the revenue and expenditure comparisons demonstrate that the fund balance that has been built over time is used as both a rate smoothing mechanism, to ensure rates are increased gently over years, versus significantly in a single year, and, as the source for the PayGo Capital funding. This strategy ensures that as the system builds out the rate payers are as minimally impacted as possible.

Given the recommended rate increases, the Water and Sewer Fund projections indicate that for the projection period the fund will remain sustainable while implementing its capital program and providing services to the rate payers

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