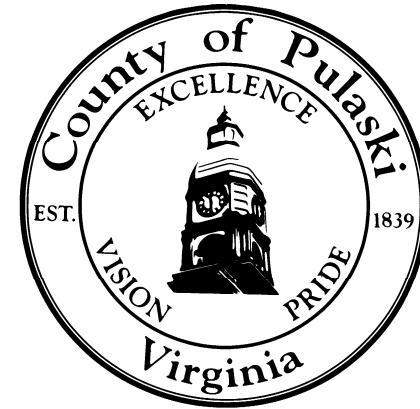


TO: Board of Supervisors

FROM: Peter M. Huber, County Administrator

DATE: April 18, 2008

SUBJECT: **FY 2008-2009 BUDGET RECOMMENDATION**



### **PURPOSE**

The purpose of the Pulaski County General Fund budget is to educate our children, care for the less fortunate, protect the environment, keep the public records, account for public finances, maintain the peace, enhance the quality of life and promote the economy of the County. Thus, this budget must balance a variety of community interests while anticipating economic conditions and citizen concerns over the next 15 months. Recognizing the need to look beyond the next 15 months, the proposed budget also projects revenue and expenditure needs for the next five years, with emphasis on the 2009-10 and 2010-11 fiscal years.

It is the responsibility of the County Administrator to make recommendations regarding needed programs and services; to present options for funding those services; and finally, to implement the desires of the citizens as understood by and voted on by the Board of Supervisors. The decision of how to allocate funds requires difficult choices which the community, as represented by its elected officials, must ultimately make.

The recommendations contained in this budget represent what I believe to be the best course of action at this time. I pledge my full support and that of the staff in the evaluation of budget alternatives as may be desired by the Board. Total expenditures purposefully remain less than total revenues in order to give the Board flexibility in addressing citizen and/or departmental concerns.

## **PREAMBLE**

The goal of the proposed FY 2008-09 budget is to increase the efficiency and effectiveness of our service to the citizens of Pulaski County while also protecting essential services from state budget cuts. The focus of the budget recommendations is to make progress on office space needs, personnel compensation and various maintenance and construction projects while reducing on-going operating costs and providing for increased debt load resulting from the construction of a new elementary school serving the eastern portion of Pulaski County.

The development of this budget has been timed to allow an accurate projection of state transfers for schools, social services, and constitutional officers while allowing the earliest possible adoption so that the School Board can sign teacher employment contracts and that departments and agencies can plan for the upcoming fiscal year.

## **EXECUTIVE SUMMARY**

The budget process this year was made difficult by \$335,722 in budget cuts by the Commonwealth. While \$49,729 in reductions could be and were passed on to locally funded agencies, the remaining \$285,993 could not be passed on due to mandated programs such as Comprehensive Service Act costs and critical functions performed by the Constitutional Officers. Added to this challenge are increasing utility and fuel costs, a 15% increase in health insurance costs, and the need to fairly compensate employees while sustaining a viable vehicle replacement program.

The proposed Pulaski County budget is structured around the following goals:

1. Reducing recurring operational costs, as much as possible, in order to be able to improve employee working conditions, fund Board goals, and meet other community needs on a pay-as-we-go basis;
2. Living within other current local revenues while being able to fund critically needed capital improvements;
3. Investing to reduce future costs by maintaining roofs and improving energy efficiency as well as reducing ongoing cost of data lines and internet access by installing fiber optic and wireless services owned by the community, rather than leased on a month-to-month basis;
4. Adjusting building permit fees to reflect more closely the true cost of state mandated inspections and related permits;
5. Encouraging new approaches to operational problems; and

6. Encouraging continued collaboration and coordination among various organizations which may not be directly accountable to each other but are all paid for by the citizens of Pulaski County.

**Table R** summarizes anticipated local, state and federal revenue sources while **Table E** summarizes recommended expenditures by department. Specific line item details for both revenues and expenditures are provided to the Board in the budget notebooks and are available to the public upon request and via posting on the County's web site ([www.pulaskicounty.org](http://www.pulaskicounty.org)). County revenues by source and expenditures by department or agency for the next five years will be projected in **Tables R1 and E1** as the budget is reviewed by the Board of Supervisors. **Charts R2 and E2** illustrate general fund revenues and expenditures by category. **Tables R3 and E3** provide a ten-year history of audited revenues and expenditures, while **Charts R4 and E4** graphically describe these historic trends.

## **MAJOR BUDGET DECISIONS**

**Operational Expenses** – The biggest challenge to any budget, whether it is a household account or the County budget, is to avoid the pitfall of paying for a recurring expense with one-time revenues. In order to maintain the fiscal health of the County and maintain integrity in the budget process, recurring revenues establish a limit to total recurring expenditures. As described in the expenditure portion of this budget, funding requests exceed available funds by \$2.8 million, not counting additional funding described in the assessment of school needs. Recommended expenditures have been reduced to fit within available revenue, including a contingency line item the purpose of which is to give the Board of Supervisors flexibility in addressing budget concerns, and to address funding needs which will invariably arise over the next 15 months.

**Employee Compensation** – The most recent comprehensive evaluation of staff pay was more than 27 years ago. Since the last study, there have been significant changes in the expertise required in the performance of various jobs and in salaries paid in adjacent and comparable localities. The key to the efficient operation of any organization lies with the competency and dedication of its employees. While there are a number of factors which affect the productivity and dedication of a staff, pay remains a key factor. In addition, paying people fairly can be viewed as a moral issue as well as a factor in attracting, retaining, and encouraging quality work by existing employees. For these reasons, a comprehensive compensation study was begun in May, 2007. The study is now completed and its partial implementation is included in the recommended budget. The implementation of the study will involve specific market pay corrections to properly compensate individual positions.

In order to prevent the future need for continued market corrections, such as has been discovered as part of the compensation study, a modest cost of living adjustment of \$500 per employee and a 1½ percent pay increase is recommended. While the combination of a fixed amount and percentage increase is somewhat unusual, this approach is recommended since all employees are impacted by increased fuel costs and health insurance changes; thus, some fixed fee increase is needed to protect those working in the least paid positions.

### **State Budget Cuts**

State funding not already earmarked for social services or education has declined by \$1.2 million from a high of \$4.7 million in FY 1996-97 to \$3.5 million in FY 2006-07. During this same period, state-mandated local portion of Comprehensive Service Act costs increased by \$942,782 from \$53,930 in the 1996-97 fiscal year to \$996,712 in the 2006-07 fiscal year. The net effect of these changes is to have placed \$2.1 million in additional burden on local revenue sources over the past 10 years.

These changes force cities and counties to place an increasing burden on the two remaining major sources of revenue (real estate and personal property taxes). In addition to this historic trend, Pulaski County has been affected by a further reduction of \$335,722 in state funding for the 2008-09 fiscal year. Of this amount, \$49,729 is recommended to be passed on to locally funded agencies. In order to prevent a decline in citizen service and to protect the financial standing of the County, the remaining \$285,933 is recommended for funding through a 7% adjustment of 14 cents in the personal property tax rate. This funding recommendation is based on the following factors:

1. The State funded reduction in personal property taxes cannot be considered as relief to the taxpayer when localities are forced to make up for other state cuts.
2. Personal Property taxes have less of an impact than real estate taxes on those least able to pay for an increase.
3. Pulaski County cannot pass the \$90,869 in reduced state funding of Comprehensive Services Act costs since funding of this program by cities and counties is mandated by state law.
4. It is not practical for the County to pass the state cuts on to constitutional officers based on the following concerns:

**Sheriff** - While any reductions would be cause for concern, the amount of reductions listed by the state would be cause for alarm and a serious concern that services would have to be reduced. With an initial reduction of \$131,360.00, training, police equipment and supplies and even required items such as ammunition and vehicles would be affected. The budget

reductions this year, even if the cuts can be made, will have a long term effect on the operation of the Sheriff's Office and public safety for a number of years to come.

**Commonwealth Attorney** - The initial \$52,878 in funding cuts amount to the salary of a senior level prosecutor or two mid-level support positions. Such a cut would have a significantly negative effect on the Commonwealth Attorney's Office, requiring the termination of an attorney or two secretarial positions. As a result, the ability to successfully prosecute all of the criminal cases that arise in the County would be limited.

State law requires that the Commonwealth Attorney prosecute all felony cases in the courts of Pulaski County which has always been and will continue to be done. However, the prosecution of misdemeanor cases is not required. Nonetheless, the Pulaski County Commonwealth Attorney has always prosecuted all Class 1 misdemeanors and many other misdemeanors in General District, Juvenile and Domestic and Circuit Court. If required to cut staffing, it is possible that this office would no longer be in a position to prosecute matters other than required felony cases. Several Commonwealth's Attorney's offices across the state eliminated the prosecution of misdemeanor cases during a previous budget cut. The practical effect was that police officers and victims were required to present the cases themselves without the assistance of a prosecutor. The Pulaski Office has managed to continue to prosecute misdemeanor cases during previous budget cuts. However, there is no guarantee that we will be able to do so in the future in the event that our staff is cut.

**Commissioner of Revenue** - The Commissioner of Revenue's office is proposed to be cut in the amount of \$12,380. This amounts to half of the salary of a full time employee. According to the state work load measures this office is already 1.18 people short. The Commissioner's Office is the biggest revenue generator of the county; it would be next to impossible to provide the services now provided to the citizens of Pulaski County with fewer people, or to cut out the necessary supplies that are needed to perform the of this office.

Printing of forms, postage, and maintenance agreements are the biggest expenses of this office, other than the salaries. The generation of revenue-supporting local government operations would not be possible without being able to print and mail the 762-B forms. Furthermore, this office would have citizens of the community having to wait in line to fill out for tax relief and to have their state income taxes prepared for them without the current staffing level. Neither would this office be able to provide the services now provided to the realtors from not only Pulaski, but also the surrounding areas when they call in and request information.

**Treasurer** - The Treasurer would have to reduce salaries in order to achieve any significant cost reduction. Salaries are already of concern in that they are below levels recommended in the Compensation Study. There are no funds set aside for furniture or fixtures, and the office is using 15-year-old chairs. The small amount of equipment money in the Treasurer's budget has been set aside to replace calculators used for the past 20 years.

**Circuit Court Clerk** – The proposed budget cut for the Circuit Court Clerk's Office of \$25,402 would force the elimination of one full-time employee in the public contact area. As a result, there would be an increase in the workload for the remaining employees and customer service and satisfaction would be substantially compromised.

According to the State Compensation Board's workload measures, the full-time equivalent employee shortage is presently 2.79 for this office. This measure means the present workload far exceeds the number of employees required for the office to operate with the maximum efficiency. Considering that customer service and citizen satisfaction are the main concern and goal of all county offices, finding an alternate way to fund the proposed budget cuts is recommended

**Juvenile Home Confinement and Community** – The combined county and state reduction in these programs total 100% of the non-payroll cost of these programs. As a result, they could not continue to operate using a full-time staff person. The Service Home Confinement program served 4 juveniles in FY 2007 in lieu of their spending time in the juvenile detention center at a cost savings to the County of \$9,090. In addition home confinement was used by the court for 258 days. In FY 2007, 1,432 hours of community service were successfully completed by 46 youths. If those hours were valued at minimum wage, the value of this service to non-profits in Pulaski County would be \$8,377. The combined value/savings to Pulaski County of these two programs was \$17,467.

## **REVENUE SOURCES**

Revenue projections were based on recent trends, anticipated state or federal payments and known grant revenues. The review of local revenue was jointly conducted by the Treasurer, Commissioner of Revenue, Finance Director, School Superintendent and County Administrator. Using a team approach balances various perceptions, makes best use of operational knowledge, and ensures the accountability of this critical portion of the budget process.

As described in **Table R5**, state law limits Pulaski County's options in being able to meet community needs to increasing real estate taxes, increasing personal property taxes, and increasing machinery and tools taxes.

A comparison of tax rates in adjacent localities is provided in **Table R7**. Furthermore, **Table R3** separates revenues growing at higher than a 2% rate of inflation from those growing at slower rates or declining. It is recommended that the County continue to support lobbying by the Virginia Association of Counties for returning a portion of state income taxes to the localities as a way of reducing a growing reliance on real estate and personal property taxes. **Table R1** provides a projection of anticipated revenues over the next five years. The following summarizes the potential use of each source.

**Real Estate Tax Rate** – **Table R7** and **Chart R8** describe the history of tax rates in Pulaski County over the past 10 years. While it is recommended that the real estate rate remain unchanged at this time, the Board of Supervisors has the ability to modify the rate by April of each year. Based on the 2006-07 audit report, each penny of the real estate rate results generates \$186,662 per year. Due to semi-annual collection of real estate taxes, the tax rate should be divisible by two to avoid problems in the six-month collection of half-cent amounts. In addition, any rate increase results in collection of half the increase in the current fiscal year since first half collections are due prior to June 30<sup>th</sup>.

**Motor Vehicle Licenses Decals and Personal Property Taxes** – Replacement of vehicle decals with the use of DMV registration stops in cooperation with the towns of Dublin and Pulaski was implemented this year. The use of DMV stops should result in a fairer and more consistent collection of personal property taxes. No further administrative changes are recommended in the coming fiscal year. A modest 7% adjustment in the personal property tax rate is recommended as a way of addressing \$285,993 in state funding reductions. The proposed increase would add \$0.14 per \$100 of assessed value to personal property taxes already being paid. **Table R11** describes the source of existing personal property tax revenues.

Extreme care was taken by staff to ensure that the proposed increase in the personal property tax rate only reflected the amount of state cuts not recommended to be passed through to specific programs or constitutional officers. Thus, the proposed tax increase reflects only the state cuts which the County cannot feasibly or legally make. The proposed increase is not applied in any way to other revenue needs such as cost-of-living raises, fuel cost increases and other financial challenges facing the County. As a result of the proposed increase, citizens owning a vehicle valued at \$5,000 would pay \$7 more, a person owning a vehicle valued at \$10,000 would pay \$14 more and a person owning a \$20,000 vehicle would pay \$28 more in personal property taxes. The proposed tax increase adds \$1.40 annually for every \$1,000 assessed value.

These offices and programs supported by the proposed increase serve the entire county and not just the unincorporated areas. Likewise, the County's personal property tax rate is applied to residents of both the incorporated and unincorporated portions of the County. Therefore, the slight increase in tax burden is equitably being spread equitably to those benefiting from unreduced community services. Furthermore, the personal property tax is paid by all residents driving vehicles valued at \$1,000 or more. As a result, any change to the personal property tax would be distributed over a broader cross-section of the community than would an increase in the real estate tax.

**Business, Professional and Occupational License (BPOL) Tax** – Pulaski County took a progressive step last year through the implementation of a Business and Professional Occupancy License (BPOL) tax. The result was that large national corporations began bearing a much larger proportion of the local tax burden than had previously been the case with the use of the Merchant's Capital tax. As a result, total revenue from BPOL taxes is projected to be \$530,000 in FY 2008-09 as compared with the FY 2007-08 projection of \$228,500 in Merchants Capital revenue. While all businesses were affected by this change, it is important to note that national retailers and fast food restaurants paid \$178,968 or 60% of this increase. This revenue from the implementation of the BPOL tax was one of the factors that allowed the County budget to absorb the increased debt service from the construction of the Riverlawn Elementary school without a corresponding increase in real estate taxes.

**Increasing Building Permit, Zoning and Public Hearing Fees** – Currently, application fees for zoning related public hearings (conditional use permits, rezoning requests, uses not provided for, etc.) are set at \$25 while the actual cost of placing ads is approximately \$140, not counting staff time, copying, etc. In addition, fees charged by Pulaski County are less than those of surrounding localities. Well over ten years ago, a subsidized rate structure was used to minimize the impact of a newly adopted zoning ordinance and as a tool to encourage development. It is recommended that the Board implement an increase in commercial and industrial permitting fees to cover increasing state requirements involved with changing building codes and most recently, the increased emphasis on inspection of state erosion and sediment control standards. **Chart R10** provides a comparison of permit fees for adjacent and various comparable counties in Virginia.

**Machinery and Tools** – This tax could be increased slightly, but is near to its practical maximum limit, generating approximately \$2,500,000 in local revenue. Direct comparison with other localities is difficult, due to the lack of consistency in the way in which machinery and tools taxes are assessed. Increasing this tax rate may also serve as a disincentive for the expansion of existing employers and the attraction of new firms to the County. To avoid an increase in the machinery and tools tax rate from becoming a disincentive for the expansion and/or location of local manufacturing firms, any increase should be earmarked for educational or other programs targeted to the needs of local employers.

Changes implemented by the General Assembly last year changed the definition of qualifying equipment as well as the calculations used in assessing this tax. The changes are likely to result in the need to reevaluate both the assessment standards and the tax rate in order to avoid a corresponding loss of revenue.

**State Revenues** - State revenues are one of the most critical factors in balancing the County budget. Currently, state funding is projected to account for 47.9% of the County budget, or approximately \$37.1 million, while local real estate taxes account for 14.9% of total County revenue. Thus, a 10% change in state revenue results in a \$3.7 million change in the County budget, or the equivalent of a 20 cent change in real estate tax rates. State revenues are projected to increase by \$1,580,269 in the coming fiscal year, primarily as a result of increased funding for school instructional needs including both the Pulaski County School system as well as the Southwest Virginia Governor's School. However, state educational funding is based directly on the number of children served by the school system and can fluctuate significantly with enrollment changes. Since the County is responsible for funding the majority of fringe benefits for employees of constitutional officers, salary adjustments for constitutional officers also have an impact on the County budget.

## **EXPENDITURE RECOMMENDATIONS**

**Table E3** separates expenditures growing at a higher than a 2% rate of inflation from those growing at slower rates or declining. Departmental or agency expenditures or revenues exceeding the rate of inflation are the result of increases in administrative restructuring, increased regional jail and juvenile detention sentencing, implementation of roadside cleanups, successful grant applications, social services and comprehensive service act costs, growth in Randolph Park utilization, funding of community festivals, and various community and economic development initiatives. Expenditure requests continue to increase to compensate for the impact of inflation, increasing citizen needs, and reduced spending by the state. Constitutional officers, departmental managers, regional executive directors and agency heads are to be commended for limiting operational increases. As with anticipated revenue growth, expenditure estimates are projected in **Table E1** over a period of five years in order to appropriately plan for major needs.

To assist in evaluating areas of possible cost reduction, all expenses have been categorized as follows:

**Mandates** – Expenditures required by state or federal law account for \$1,476,472 or 1.9% of the recommended budget;

**Pass Through** – Expenditures governed by receipt of targeted taxes, or state and federal grants, account for \$45,450,557 or 58.7% of the recommended budget;

**Debt Service** – Repayment of existing financial obligations accounts for \$3,896,729, or 5.0% of the recommended budget;

**Semi-Discretionary** – Expenditures which are mandated by the state, but which have been augmented by additional discretionary funding where a reduction in discretionary funding would also result in a reduction in state or federal support account for \$19,390,698, or 25.0% of the recommended budget;

**Regional Partnerships** – Expenditures affecting the regional organizations account for \$2,518,402, or 3.3% of the recommended budget; and

**Discretionary** – Expenditures made at the discretion of the Board of Supervisors account for \$4,688,498, or 6.1% of the recommended budget.

Costs resulting from local commitments, such as debt service and most mandates or partnerships, are generally predictable and can be appropriately budgeted. However, the expenditure of local funds for Comprehensive Service Act and the operation of the regional jail are directly related to court decisions responding to behavioral issues.

**Expenditure Recommendations** - The recommended budget is the result of the following expenditure reductions:

1. Departmental and constitutional officer line item amounts were adjusted where expenses did not seem warranted, based on prior or current year expenses.
2. Salary costs for Board of Supervisors employees were adjusted to reflect a \$500 per employee and a 1½ percent cost-of-living increase, existing salary supplements for constitutional officers, and adjustments to health insurance and other fringe benefit costs.
3. Pay increases for the constitutional officers and their employees were budgeted at a 2% increase effective December 1, 2008 as funded by the State.
4. "Pass through" expenses are balanced by incoming revenue designated for specific purposes.
5. Unless mandated by the Commonwealth or required through a formula-based agreement, regional budget requests were increased slightly in situations where the percent of service to county residents is consistently more than the percent of costs paid by the County.
6. Recurring vehicle purchases were significantly reduced from previous years with the understanding that additional funding will need to be applied in future years if the present vehicle replacement program is to be maintained.
7. Recommendations for capital expenses were reduced to less than half of the amount funded last year. This approach allowed for some budgetary savings while giving staff the opportunity to complete outstanding projects.

**Fuel Costs** – Increasing fuel costs are a growing concern for County operations. \$350,000 in fuel purchases was budgeted in the current fiscal year. This amount has been surpassed with three months remaining in the budget year and untaxed fuel purchased by the tanker load is most recently costing \$3.29 for diesel and \$2.99 for unleaded gas. The proposed budget allocates \$500,000 for fuel costs. In addition, the County staff will be taking proactive steps to reduce usage.

**Joint Operations** – There is a continuing need to increase efficiencies by working with other publicly funded organizations, including other localities, to improve the efficiency of services provided to the public. Examples implemented to date include the following:

1. Regional initiatives in the areas of economic development (airport, marketing, and land development); higher education; human services; emergency management; solid waste; sewage treatment; and corrections (community sentencing, juvenile detention and adult detention).
2. Mutual use by the Board of Supervisors and School Board of legal services from the same attorney;
3. Joint oversight of the County, Public Service Authority and School Board garage and transportation functions;
4. Joint utilization of financial accounting software by the Public Service Authority, School Board, Social Services and Board of Supervisors with common oversight of financial accounting functions;
5. Joint use of the same cell phone provider by the County, the Town of Pulaski and others to allow for “radio” type direct communications;
6. Implementation of a joint town/county recreation program;
7. Utilization of the Visitor Center (open 8 hours per day 7 days a week) for recreation program sign-ups and Randolph Park reservations;
8. Collection of solid waste in the Town of Pulaski by the Pulaski County Public Service Authority;
9. Joint enforcement of litter and junk car ordinances by the Sheriff and Community Development staffs; and most recently
10. mowing and landscaping of school and county properties.

Examples of how future collaboration can result in improved local services include the following:

1. Expansion of the joint supervisory skills training to include all public service employees in the County;
2. Joint purchasing of materials at the national, state, regional or community levels;

3. Sharing of data, backup capabilities, internet access, and computer equipment through continued merging of local government computer networks; and
4. Sharing of staff, facilities, vehicles, equipment, vehicle fueling, repair facilities and other resources with other localities, the School Board and regional agencies.

In summary, improving the efficiency of the existing staff and facilities is the key to addressing inflationary increases while providing better service to the citizens of the County. While cooperation among departments and agencies serving Pulaski County citizens is exemplary, continuation of these efforts requires an ongoing investment in how local governments approach opportunities, where their employees work, and how they communicate with each other.

**Reductions in Current Spending** – The proposed budget was balanced through significant reductions in requested expenditures. The recommended budget includes \$1.8 million in cuts to requested budgets not including the statement of school needs. Since most of the recommended reductions were in the operational budget, a minimum contingency of \$160,164 is recommended in order to give the Board the ability to address operational shortfalls, equipment failures, unexpected opportunities and other unforeseeable financial changes which may take place throughout the year.

**Maintenance of Reserves – Chart B1** illustrates monthly cash balance and reserve requirement. As of July 1, 2007, the unobligated fund balance was \$15.8 million. The County auditors strongly recommend a minimum reserve of at least 10% of total expenditures, or approximately \$7.7 million. The remaining \$8.1 million provides the County with the financial ability to undertake new initiatives, take advantage of growth opportunities, respond to changes in state law, economic changes and address emergency situations. The County is not able to directly borrow funds for long-term general needs. This inability to borrow for long-term operational purposes makes the maintenance of a strong fund balance critical to the financial stability of the County. Most importantly, like the wise use of a household savings account, these reserves should be limited to use for one-time projects which reduce recurring expenditures.

**Personnel** - The most important asset of any organization is the quality of the people dedicated to its success. The proposed budget preserves a cost-of-living increase, despite significant operational cuts. Specifically, a pay increase of \$500 plus 1½ percent is recommended. It is anticipated the Public Service Authority (PSA) will adopt the same personnel salary and benefit changes as adopted by the Board of Supervisors. A revised organizational chart is included as **Figure O1** and a listing of job positions and the current salary of each general fund and PSA employee is provided with this document.

**Health Insurance** – Health insurance rates for County employees are increasing by 15%, effective July 1, 2007. Following major increases in health insurance costs approximately three years ago, employees were given additional options and a walking program was implemented, flu shots were provided free to employees, and a health fair was organized to include individual basic clinical evaluations. While rates have been level over the past two years, this most recent increase indicated that additional work is needed to prevent health insurance rate increases from undermining employee pay increases. As a result, the following steps are proposed for implementation effective July 1, 2008:

1. Elimination of the 100% coverage option – The increase in this coverage was going to cost over \$900 per single employee insurance premiums per year. In addition, persons on the 100% plan do not have any direct economic incentive to exercise care in the use of medical services.
2. County to fund 100% of the difference between the existing 100% plan and the 90% plan – The increased funding by the Board amounts to slightly more than half of the increase in the 90% plan.
3. Conversion of the existing 80% Health Reimbursement Account (HRA) to an 80% Health Savings Account (HSA)– This change will involve increased deductible and prescription drug costs. However, the impact of these changes should be more than made up by the establishment of \$1,260 for a single and \$2,508 for other plans per employee in a Health Savings Account. Unlike the HRA, the HSA becomes the property of the employee and can be taken with him or her for use in paying health care costs in retirement and/or future employment opportunities. In effect, employees on the 80% plan would have 100% of their health care costs paid for up to \$1,260 per year for an individual or \$2,508 for other coverages. Any amount saved would be to the benefit of the employee. Furthermore, the employee would be protected by a \$3,000 maximum out-of-pocket cost for an individual plan and \$6,000 for other coverages. An HSA implements the concept of a consumer-driven health care system. As individuals take more ownership in their health related expenses, they are more likely to shop for best prices on prescriptions and ask financial questions related to the treatment options.

These steps should increase employee involvement in addressing and controlling what otherwise will be inevitable future rate increases. Additional steps to be taken in reducing health care costs include periodic employee meetings, increased emphasis on the employee health fair and flu shot programs in conjunction with the School Board, the Town of Pulaski and other partners.

**Educational Funding** – Determination as to appropriate educational funding is one of the most difficult issues faced by boards of supervisors and city councils.

State revenue figures indicate the School Board will receive an additional \$1,580,269. However, since state funding is directly affected by school enrollment, it is anticipated that the School Board may adjust the state enrollment estimate and corresponding revenue figures to avoid the potential overstatement of revenues should enrollments not meet state estimates.

Considering the increased debt service for the Riverlawn Elementary School combined with decreasing state revenue for general county operations and declining enrollment, no additional local funding is recommended. The Board of Supervisors continues to work with the School Board in reducing operational costs through the continued practice of carrying over unspent funding for specifically designated non-recurring purposes. The work both boards have and continue to do in increasing the areas of jointly operated services continues to be of significant help in improving the efficiency of services provided to Pulaski County taxpayers.

**Human Services** - As a whole, health and human service agencies are proposed to receive \$10,706,814 in combined federal, state and local funding. The County is addressing behavioral problems impacting detention and corrections costs through a strong recreation program, the provision of outdoor recreation opportunities at Randolph Park, the formation of the Commission on Children and Families Coordination Team and ongoing coordination with the Pulaski Community Partners Coalition.

**Capital Expenses - Table C1** describes capital needs in the County over the next ten years.

**Departmental and Agency Requests** - All agencies and departments funded by the Board were invited to submit a program statement, which was provided to the Board, if submitted. All agencies and departments will be advised of this recommended budget, so any desired presentation to the Board was scheduled for the April 7<sup>th</sup>, 2007 budget work session. While no new human service agencies were recommended for funding this year, the proposed budget does not appear to adversely impact the operation of those providing services to County citizens.

## **FINANCIAL STABILITY, CASH FLOW, FUND BALANCE, and 5-YEAR OUTLOOK**

The financial stability of the Pulaski County government was confirmed last year through receipt of an A bond rating by Standard and Poor. As part of the financing for the expansion of the Regional Jail, the financial health of the County was reaffirmed by an A1 rating by Moody's.

Pulaski County, like most local jurisdictions, experiences fluctuations in cash flow over the course of the fiscal year. This fluctuation results from periodic income with twice per-year property tax, and once-per-year collection of most other revenues, including personal property, BPOL, and machinery and tools taxes. Due to these fluctuations, the County auditor recommends maintaining a cash reserve equal to 10% of the total County budget. **Table B1- Cash Balance and Reserves** illustrates these fluctuations and the minimum 10% reserve amount.

Projecting revenues and expenditures for the next five years involves a variety of assumptions and should only be considered as a general guide. Maintaining a reasonably balanced budget over the next five years, while addressing long-term facility needs, will require that general fund expenditure increases be limited to 1.5% per year, or less. The control of operational revenues through joint operations and regional initiatives is the key to being able to undertake needed capital investments such as Randolph Park or new elementary schools.

## **BUDGET TABLES, CHARTS and GRAPHS**

### **Revenue Tables and Charts**

- ◆ Table R Revenue Summary
- ◆ Table R1 Revenue and Five-Year Projections – to be provided as the budget is reviewed and revised
- ◆ Chart R2 Total Revenues
- ◆ Table R3 Revenue History
- ◆ Chart R4 Revenue History by Category
- ◆ Table R5 Revenue Options
- ◆ Table R6 Statewide Comparison of Effective Personal Property Tax Rates
- ◆ Table R7 Comparison of Local Tax Rates
- ◆ Chart R8 Comparison of Nominal Real Estate Rates
- ◆ Chart R9 Comparison of Effective Real Estate Rates
- ◆ Chart R10 Comparison of Building Permit Fees
- ◆ Table R11 Distribution of Personal Property Tax Revenues

### **Expenditure Tables and Charts**

- ◆ Table E Expenditure Summary

- ◆ Table E1 Expenditures and Five-Year Projections – to be provided as the budget is reviewed and revised
- ◆ Chart E2 Total Expenditure
- ◆ Table E3 Expenditure History
- ◆ Chart E4 Expenditure History by Category
- ◆ Table E5 Regional Human Service Agency Funding Requests

### **Other Exhibits**

- ◆ Chart B1 Cash Balance and Required Reserves
- ◆ Table C1 Capital Improvements Listing
- ◆ Table D1 County Debt Service Schedule
- ◆ Figure O1 Current Organizational Chart

### **CREDITS**

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