

Fiscal Year 2022 - 2023



BUDGET MESSAGE



Cleveland County
NORTH CAROLINA

Delivering High Performance

DELIVERING HIGH PERFORMANCE

INTRODUCTION

May 17, 2022

The Honorable Members
Cleveland County Board of Commissioners

Dear County Commissioners,

The last two (2) budget cycles have been extraordinary and tough. These challenges required resiliency to ensure that we remained focused on our purpose. The resiliency demonstrated by our employees confirmed their dedication to Cleveland County Government's purpose and values. As we trek forward into a new operational budget year, it is clearer to me now more than ever that our organization is driven by an organizational culture of **one team and one purpose** – very simply communicated as ***Making Our Community Better.***

Fiscal year 2021 and 2022 have been dominated by the un-knowns surrounding COVID-19. These unknowns required pause, planning and proactive re-engagement that measured and forecasted many exposures. Our leadership team mitigated many of the unknowns by drafting and communicating a three (3) phase crisis management plan. As a team, we are now accustomed to referring to our plan as **ReAct, ReBuild, ReThink**. This plan has presented an unexpected opportunity to reflect on our priorities and re-think our strategies to ensure they're still relevant, offering value, and able to achieve effective impact on our organizational purpose. Where we are now is very different than where we were pre-COVID 19. As an organization, we are delivering high performance through a shared purpose and values, committed investment to our employees, measured and engaged capital program, and improving technology. As a community we are growing, our economic indicators are stable, and the future is filled with opportunity.

I am pleased that the 2023 fiscal year plan is drafted in an environment that offers more predictability than the prior two (2) years and was drafted with total re-engagement of our long-term goals which captures the most robust operational and capital plan that our organization has ever experienced. The synchronization of the upcoming fiscal plan, with these critical long-term priorities, is vital to continued momentum over the next twelve (12) months. The financial planning process for FY 2023 presents an opportunity to turn hard-earned lessons from the pandemic, including total re-evaluation of previously accepted truths and policies, into an enduring exercise in linking strategy to organizational values.

The foundation of our performance is the process of constant reinvention (*Re-Thinking*) to meet the needs of our citizens. The relationship between the County, its employees, and the assessment of community needs is being redefined in real time. That is why clarity, connection, and communication specific to the Board of Commissioner's strategic plan and budget priorities is more important than ever. It has never been more essential to have a consistent voice, clear purpose, coherent strategy, and a long-term view.

The FY 2023 budget is a foundationally drafted zero-based budget. This type of budget avoids the inefficiencies of budget inertia, which are often a product of incremental budgeting. **Re-Thinking** is about evaluation and innovation. Evaluation of the new operating environment and how business will most certainly be conducted differently over the next decade. **High performance** is about policy research and

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implementation, process re-design, data driven decision making, measurement and follow up, and lessons learned during the crisis like agility and fluidity. **Each of these make us better.**

The recommended FY 2023 budget is balanced with a general fund tax rate of 54.75 cents – which is accompanied by a 14-cent public school tax rate. This budget does not include any funding associated with the American Rescue Plan Act (ARPA). The County has a drafted spending plan, which has been approved by the North Carolina Pandemic Recovery Office and our External Auditors, to account for these one-time dollars. These funds, however, are not part of the original budget ordinance. Highlights of the FY 2023 budget are focused on pursuit of being an employer of choice, prospective funding for future capital, and assigning resources to Commissioner identified strategic goals – all funded through a lens of LEAN principals, zero based budgeting and balancing competing priorities with pace.

This budget fundamentally recognizes our most valued asset- Cleveland County's human employees. Our Board of Commissioners have continued to provide policy support and resources that allow our organization to maintain competitive wage packages. All local governments in North Carolina and nationally are seeing a decrease in labor supply primarily due to current labor market conditions in which public sector employment interest is declining, total labor force participation is down, and minimum qualifications for jobs is increasing. Ultimately, our ability to recruit and retain is the single most important component to sustained long-term high performance. In the budget, I am very pleased to include a phased human capital investment:

1. **Phase one** (1) is a living wage adjustment. This adjustment is specific to the 46 full-time employees and 70 part time employees that earn an hourly rate that is captured in the 150% mark of federal poverty (annualized \$31,200). This adjustment provides a progressive increase, using a designed multiplier to avoid wage compression. The average increase is 4.8%. Post adjustment only six (6) employees will earn below our threshold.
2. **Phase two** (2) is a recommended 3.0% cost of living adjustment (effective 7/1/2022)
3. **Phase three** (3) continuation of the performance bonus program. This year, full-time employees will have the ability to earn up to 3.0%. Also included in the budget is the potential for a mid-year CPI adjustment.

Since I became the manager in 2018, our leadership team has worked to lower our organizational head count by approximately 100 full time positions (through organic attrition)– from over 850 to around 750 (a decrease of approximately 12%). That's been accomplished by challenging traditional norms, applying data driven and evidence based best practices, leaning into automation and technology and a general adoption of LEAN principally based operations. A pull service delivery model versus push. This philosophical approach allows for the engineering of budget flexibility that has permitted the County to have adequate resources to fully pursue becoming an employer of choice. Our efficiency measures now benchmark well against our peers, our compensatory packages are competitive, and our talent retention metrics are stable. The FY 2023 budget recognizes community growth, stimulated economy, and needed resource allocation to items like community health and public safety. There are a total of 10 new positions in the upcoming recommended budget that have a total annual funding responsibility of \$702,000.

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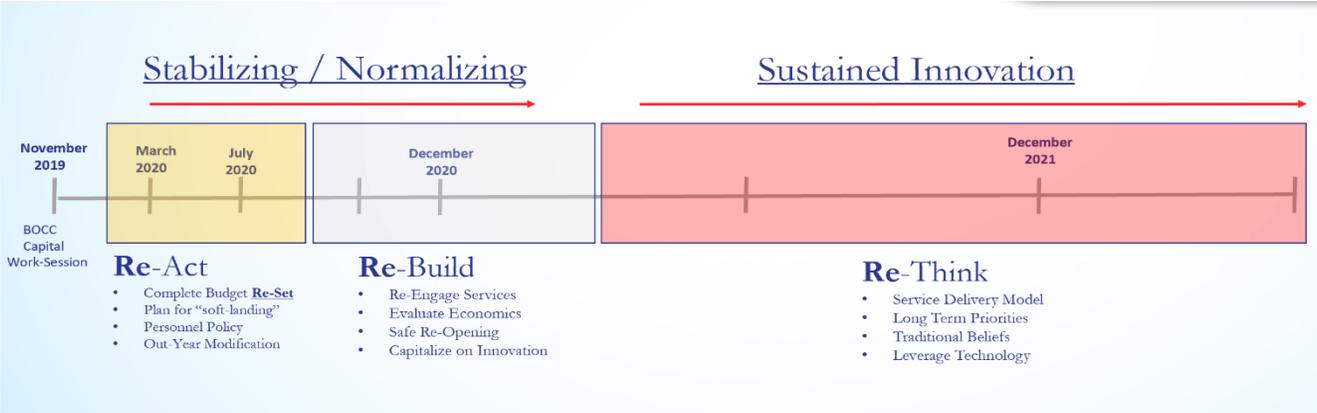
Also included in the 2023 fiscal year budget is further commitment and funding to public safety operational enhancement and stage II of the justice center campus (which is an additional \$750,000 toward future debt service). The upcoming fiscal year will experience a net increase of approximately 8.5% to our public safety functions that will encompass the completion of our public safety strategic plan, the full transition to centrally administered emergency medical services, and additional investments into law enforcement, emergency management and E-911 communications.

In closing, the upcoming budget will continue to position Cleveland County Government as a leader in the market. I believe is a philosophical change for our organization. We are an organization that prioritizes high performance and evidence based optimal outcomes. Contrary to popular belief, the County does not have access to unlimited resources that provide a pathway for the accomplishment of all competing priorities, projects, or goals. Long term fiscal discipline that provides a comprehensive strategy is required. Strategy development has allowed our team to consistently develop plans that manage Commissioner priorities to a “yes”. ***Fiscal discipline*** is actionizing those developed strategies with little deviation. In order to maximize our available resource impact, the County’s financial commitments are typically 3-4 budget cycles out. Often as new priorities and requests emerge, our team must analyze how they may impact our long-term plan. Most often, those priorities (if of a material nature) must await future resource allocation. In practice, no absolute or eternal financial priorities exist; they change as the economic and competitive environments change. A culture of higher performance will not create itself. High performance culture, we believe, is the capacity to influence the beliefs, behaviors, and purposeful actions of others for a common good. It is people-centric.

Our Board of Commissioners community vision is driving higher performance. Cleveland County Government is strong and prepared to deliver on the visionary and ambitious policies included in the Commissioner’s strategic plan. Department leaders and employees identify with our organizations purpose. There is collaborative momentum with strategies that are well positioned to adapt over time in an evolving and complex landscape. Because of this, I am convinced that the future of Cleveland County is bright.



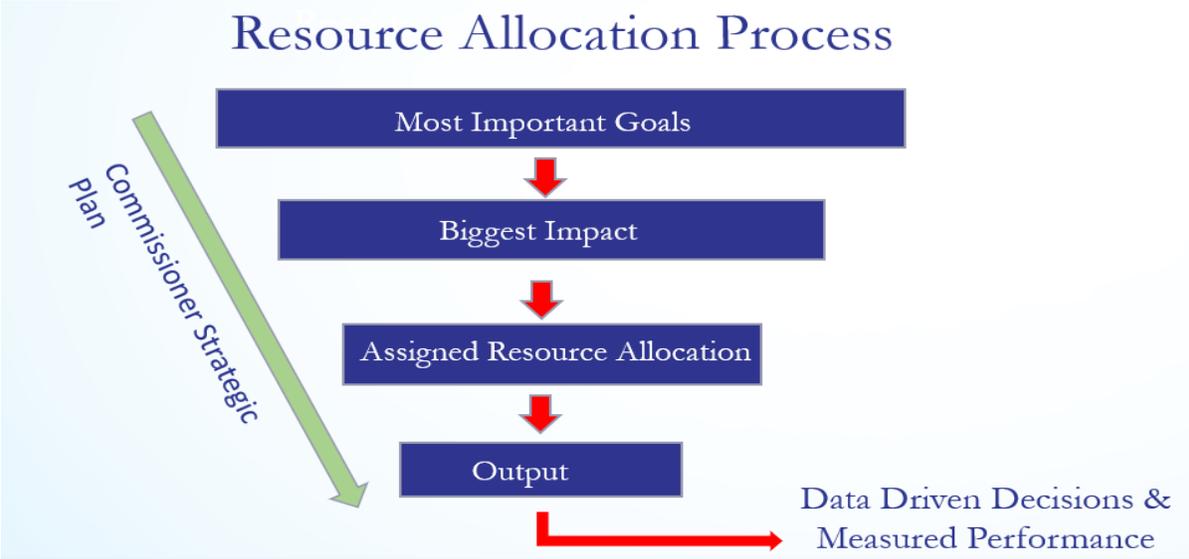
Brian C. Epley, County Manager



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FISCAL PLAN

The County's Balanced Budget Plan is a foundation that is to be built based on Board of Commissioner's direction. The foundation focuses on continuing to anticipate emerging issues and identifying available resources that can deliver tangible results. It is shaped by priority driven budgeting with a clear focus on strategic priorities that were developed through the Board of Commissioners and community dialogue.



The plan acknowledges the need to maintain day to day county operations while prioritizing the Commissioner's strategic plan and evaluating and understanding new issues on the horizon that are not part of current services or the current strategic plan.



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REVENUE PORTFOLIO

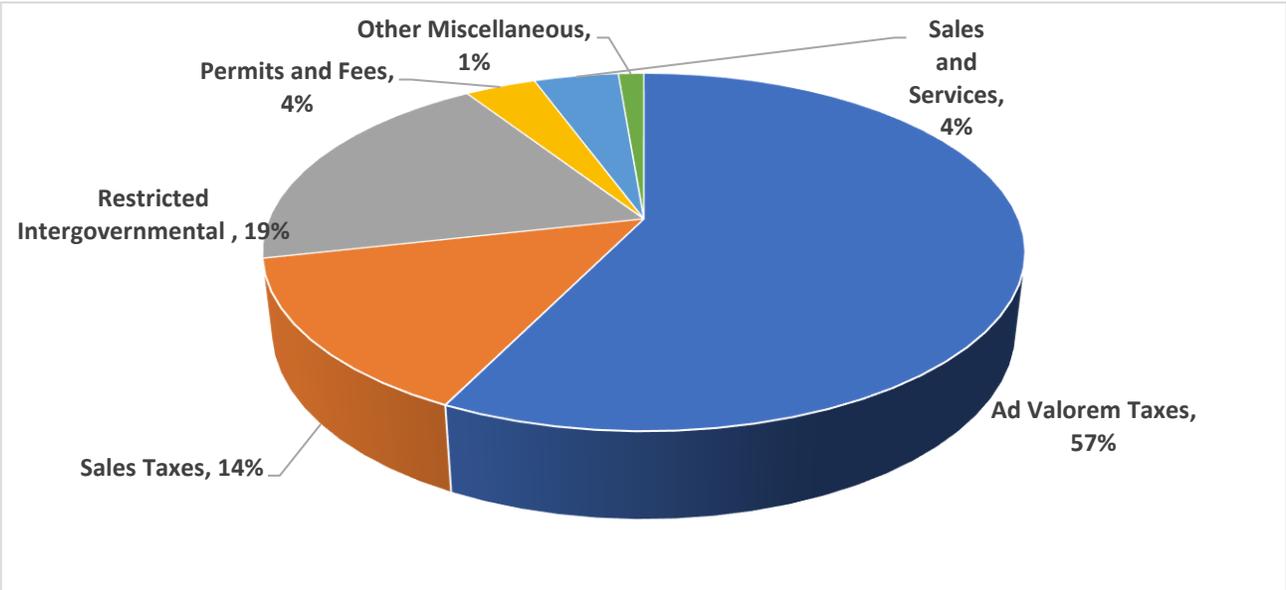
Cleveland County has used strategic planning for many years to develop policy and financial decision-making. The FY 2022-2023 Strategic Plan is comprised of five (5) focus areas and then further defined with specific goals and objectives under each one.

- 1.) Economic Development
- 2.) Community Education
- 3.) Public Safety
- 4.) Community Wellness
- 5.) Fiscal Sustainability

The County’s financial planning projections for the upcoming fiscal year begin with economic forecasts that are required to establish perceived portfolio performance for the upcoming twelve (12) months. The County’s FY 2022 year-end revenues are expected to perform at more than budgeted amounts specifically due to surging sales tax collection, stimulated construction market, and higher than expected property tax collections.

The post-COVID budget modeling effort began with a careful review of the most recent revenue estimates expected to be received in FY 22. This exercise primarily included sales and use tax, occupancy tax, permitting and investment income revenues.

Total revenue in the General Fund is budgeted at \$126,587,508 – which is a 5% or \$6 million increase from the prior fiscal year. It is important to note that the County’s consolidated general fund includes both County operations as well as Cleveland County Public Schools property tax and sales tax collections – this comprehensive change represents the reconciled 5% change.



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Property Tax Administration

As noted, revenue in the 2021-2022 fiscal year is expected to come in higher than the budgeted level. As of April 2022, collections were at 98.13% or approximately \$56,411,142.

The 2022 fiscal year property tax base was adjusted based on a January 1, 2021, real property reappraisal and resulted in an average net value increase of 12%. Prior to the 2021 reappraisal, the last County wide reappraisal was conducted in 2016 and resulted in a net value decrease of 3.6% - which equated to two (2) cents or \$1.6MM in revenue.

Total projected tax base for the upcoming budget is \$10.615 billion. This is a projected increase of approximately \$281,288,936 in value when compared to the previous year. Unlike previous experiences, the highest percentage growth in the tax base for FY 2023 is in motor vehicles which we expect to grow approximately \$149MM (18.6%). This growth is attributable to supply demand shortage and vehicle cost escalation (see below). Personal property and state boards only experienced a moderate increase of \$132,288,936, which equates to a very modest 1.39%. This budget includes a collection rate of 98.0% which translates to a projected net new revenue amount of approximately \$1.7MM when calculated using a 54.75-cent tax rate.

Used car prices are up nearly 40% during the pandemic
Change in prices since March 1, 2020

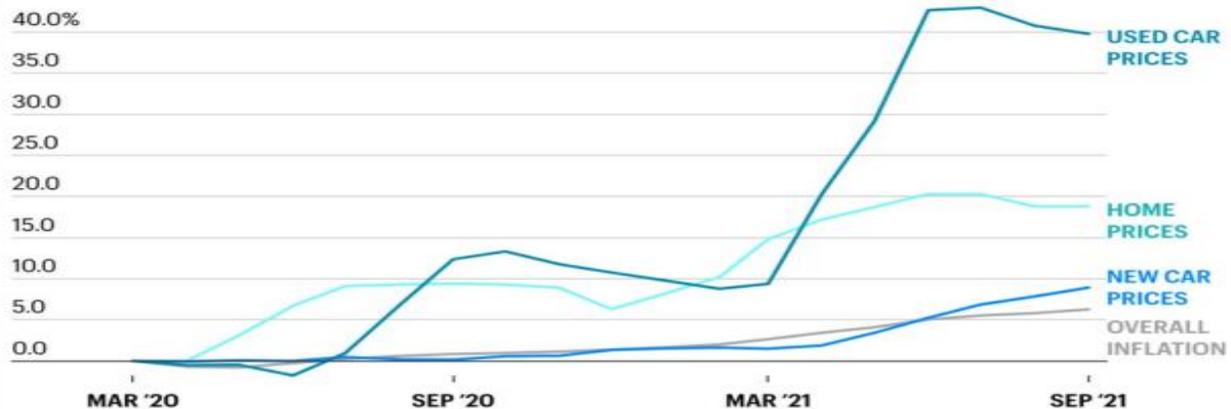
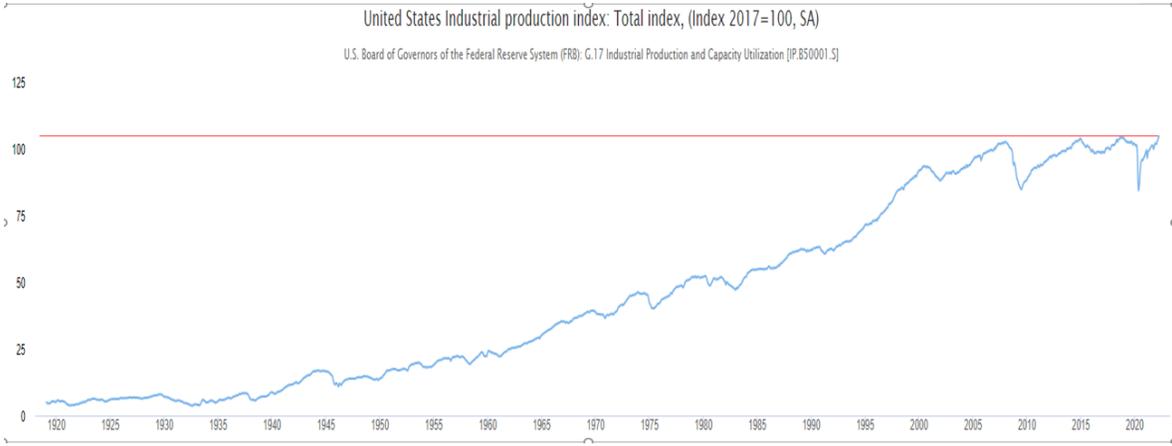


CHART: LANCE LAMBERT • SOURCE: U.S. BUREAU OF LABOR STATISTICS, REALTOR.COM

FORTUNE

Industrial manufacturers make up more than 20% of the County's total labor force and account for more than \$407,836,000 in annual wages. This industry also represents a significant portion of Cleveland County's tax base specific to personal property machinery and equipment. This concentration risk is something that the budget continues to monitor closely. The proposed budget contains a more optimistic and sustainable outlook related to industrial manufacturing. According to the Institute of Supply Chain Management, as you can see below, the industry is currently in an expansion period which serves our labor force and tax base well.

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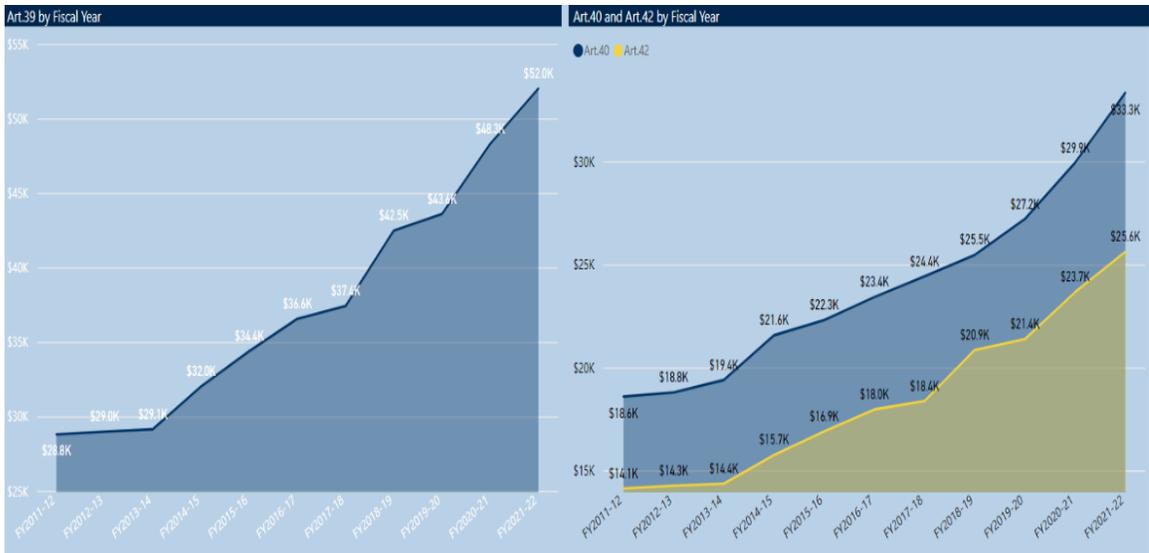
Sales Tax & Other NCDOR Collected Revenues

Sales tax continues to be the County’s second largest revenue source. Cleveland County has experienced significant growth in sales tax revenue. Included in this year’s budget is sales tax revenue of \$13,500,000. This is an increase of approximately thirteen percent (13%) compared to 2022 budgeted revenue estimates. This number, however, remains conservative at seven percent (7%) lower than our anticipated actual experience for FY 2022.

Between 2014 and 2018, Cleveland County experienced substantial growth in sales tax due to legislation distribution changes as well as a more robust local economy. This same time period also experienced several economic development industry expansions, specifically in municipalities. Industry expansions provide a “one time” sales tax revenue boost during construction.

Aside from municipal growth, of the major state-wide sales tax articles (39,40 & 42), there is a very clear and identifiable trend. Articles 40 & 42 (per capita) have seen a steady increase, demonstrating strong statewide sales (see **Exhibit A**), while Article 39 (point-of-sale) has also grown, indicating similarly strong sales locally. (see **Exhibit B**).

Exhibit A



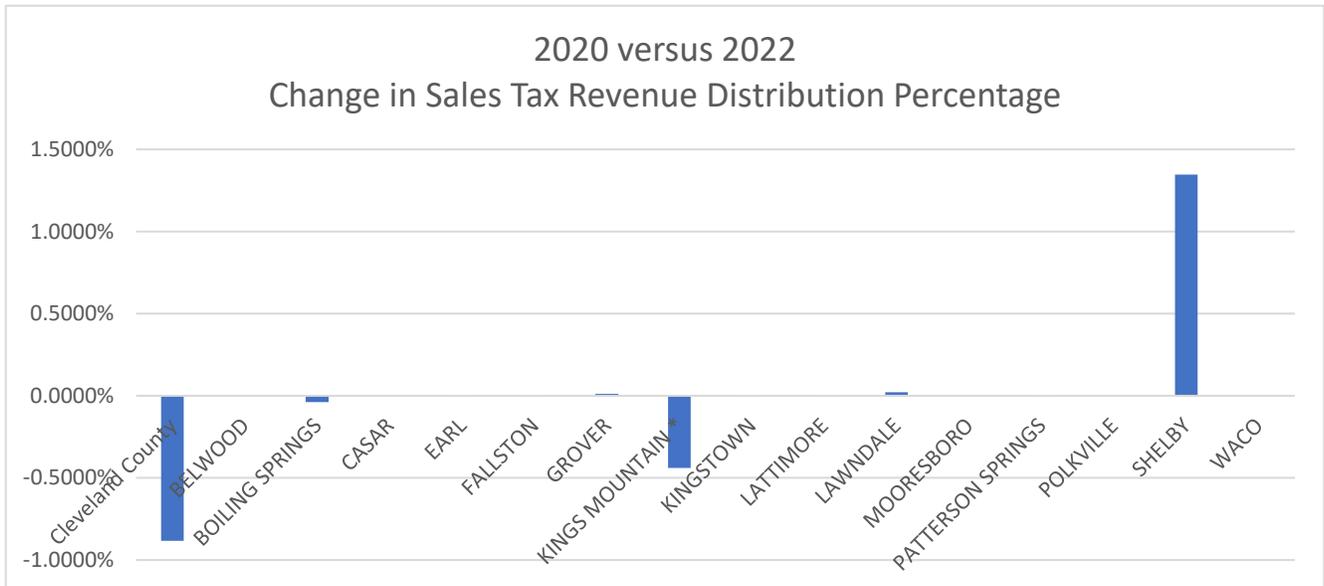
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Exhibit B



Sales tax in Cleveland County is distributed through the Ad Valorem Method. Growth in municipalities led to an erosion of the sales tax distribution percentage for Cleveland County Government which, in turn, equated to a decline in sales tax revenue for the County’s general fund. Although the sales tax percentage has declined (see **Exhibit C**), due to growth in sales tax revenue, the decline in revenue has since recovered. Cleveland County’s portion of these county wide collections for FY 22 is 77.29%.

Exhibit C



Other revenues impacted by distribution percentages from the North Carolina Department of Revenue are:

- Scrap Tire Disposal
- White Goods
- Beer & Wine
- Telecommunications

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Occupancy Tax

Occupancy tax represents the six percent (6%) revenue share that the County receives from our hospitality partners. Over recent years, we have seen a substantial growth in this revenue area. There are many drivers behind this increase including construction of the bypass, travel/tourism growth, and additional hotel beds. For the 2018-2019 fiscal year, the County received slightly over \$430,000. During 2019-2020 that amount fell to \$375,000 – primarily due to the fourth quarter shut down. Fiscal year 2020-2021 saw a rebound comparable to pre-COVID with a total of \$416,000 in occupancy tax revenue. The forecast for 2022-2023 will be budgeted at \$425,000.

Inspection Fees

Inspection fee revenues increased in preceding years due to pent up demand after the recession. We anticipate activity to continue in the coming years with prospective housing projects and continued economic development activity. The budget has a measured estimate of \$300,000. The operational subsidy percentage for the building inspection department is 24% which is lower than last year.

Investment Income

Investment income is a barometer of strategic use of un-allocated resources. Staff are constantly in evaluation of 60, 90, & 120-day cash flow needs in order to maximize the investment portfolio. As a result of strategic management and increasing rates, investment income has grown approximately **1000%** between 2014-2021 (\$84,000 - \$1,000,000).

Investment income rates have shifted down significantly. The projected investment income for year-end 2022 is expected to be \$359,000. We are conservatively budgeting the FY23 investment income at \$250,000. Although we have seen significant growth in this area in the past, we have practiced responsible fiscal discipline of not overbudgeting or over relying on this volatile revenue source.

Looking at interest rates in 2022, we've continued to see a compression of short term (3 year) and under interest rates. As short-term rates start to rise, you will have a slower time as there is only one portfolio adjusting at a slower pace.

We have kept the portfolio on the shorter side as we anticipate continued inflation. This is being monitored and compared to what Federal Treasury Chairman Powell has been saying- rates will continue to be raised multiple times during 2022. Following a Q1 rate increase, the first in some time, most forecasts are looking at additional increases in Q3 and Q4 of 2022. Our portfolio for most of the prior year and until recently had 1% and over still in it as we had a longer timeline to work with which really helped on interest earnings. As rates remain fluid, we will invest in shorter term commercial paper and treasury instruments that provide maturities positioned every month and will be ready to take advantage faster and more efficient.

As always, we will keep funds in cash for those needs and use the longer portfolio to gain interest when it makes sense. We will always operate under the premise of conservative investing- Safety-Liquidity-Yield in that order.

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Many of the revenue sources that Cleveland County Government is reliant on are very dependent on economic energy. That being said, the recovery post pandemic is critically important to our strategy of managing through the uncertainty.

Federal Revenues

Federal revenues are predominantly located in the health and human services portion of the budget and are often based from prescribed expenditure reimbursement rates. The federal revenue that is budgeted as part of the 2023 fiscal year budget is approximately \$24.4MM. Due to the reimbursement nature of DHHS funding and matching requirements, the prime structural component of DHHS funding is the County's contribution requirement. For the 2023 fiscal year, that amount is only a moderate \$59,000 more than the previous year at approximately \$10.1MM. Cumulatively local funding for DHHS has decreased approximately 2.2MM over the past two budgets with no reduction in services or client related interactions.

Comprehensive Revenue Compared to Peer Counties

Lastly, as part of the revenue portfolio, I have included a high-level picture look of Cleveland County compared to several of our peer counties. These type of analytical forecasting ratios are critical to a comprehensive outlook of the County's financial position and particularly its' revenue source dependency. The County's lack of reliance on property tax revenue (54.86%) removes pressure from the tax rate to act as a budget balancing contingency and allows for other revenue sources to facilitate cost burdens of new services and expected cost outcomes. The lack of dependency on sales tax revenue allows the county to remain recession ready by not over relying on vibrant economic environments to balance the budget.

County	Operating Ratios	Revenues Per Capita	Surplus (Deficit) per Capita	Property Tax Dependency	Sales Tax Dependency	Revenue Generation	Property Tax Revenue
						Capacity	Per Capita
Cleveland	106.30%	\$ 1,273.09	\$ 77.22	54.86%	14.66%	70,252,392	713.22
Lincoln	113.76%	1,424.28	341.04	53.81%	26.31%	70,317,645	784.18
Gaston	132.57%	1,105.50	271.59	67.41%	11.45%	170,535,013	738.71
Rutherford	112.72%	1,165.96	131.54	64.23%	13.08%	47,863,143	741.08
Burke	104.35%	989.55	133.44	59.71%	12.45%	51,630,426	589.31
Moore	116.96%	1,261.64	375.10	55.73%	21.70%	72,555,185	706.04
Nash	105.95%	1,025.49	120.78	56.50%	19.64%	54,534,423	466.79
Henderson	111.66%	1,410.45	343.11	56.20%	24.93%	93,858,922	803.39

Operating Ratio- Ratio of Total Revenue to Total Expenditures

Revenues per capita- Ratio of Total Revenue to Population

Surplus per Capita- Revenue minus total expenditures to population (operating/population)

Total Property Tax Dependency- Ratio of Total Tax Revenue to Total Revenue

Total Sales Tax Dependency- Ratio of Total Sales Tax Revenue to Total Revenue

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FY 2023 Revenue Summary

<u>Description</u>	<u>Amount</u>	<u>2019-2020</u>	<u>2020-2021</u>	<u>2021-2022</u>	<u>2022-2023</u>
Ad Valorem Taxes	57%	\$ 63,822,841	\$ 67,750,354	\$ 71,471,419	\$ 72,495,459
Sales Taxes	14%	16,669,805	13,901,250	15,293,750	18,000,000
Restricted Intergovernmental	19%	21,516,935	22,212,353	22,822,790	24,483,197
Permits and Fees	4%	4,699,153	4,730,302	4,606,350	4,555,960
Sales and Services	4%	7,212,000	6,943,906	5,274,592	5,414,942
Other Miscellaneous	1%	1,637,360	1,398,353	1,087,771	1,637,950
		<u>\$ 115,558,094</u>	<u>\$ 116,936,518</u>	<u>\$ 120,556,672</u>	<u>\$ 126,587,508</u>

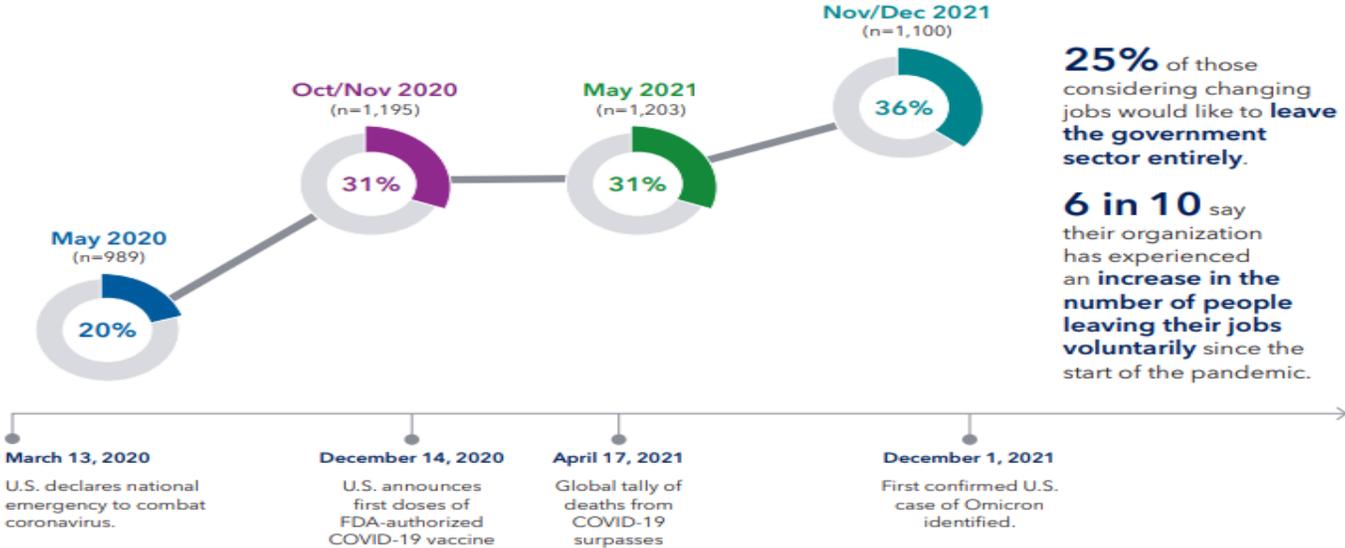
EXPENDITURE PORTFOLIO

Budgeted Expense & Commissioner Goals:

Human Capital

There is and has been a looming government workforce crisis and it has not been on the radar for many organizations. Like the housing market, the great recession created a supply and demand shortage for local government talent. Tenured employees were hesitant to retire, preventing the natural escalation of the generation behind them and further preventing the hiring of newer incoming talents. Many college and university curriculums have removed local government policy and administration pathways. As a general rule, local government has been resistant to the necessary recruitment techniques required to attract a millennial and generation Z work force. Further, the historic norm of lower salary/wage earnings that are supplanted by end of career benefit packages have also made recruitment in local government more difficult. Lastly, many of the services we provide require specialized training and advanced degrees to perform the critical services.

Trend in Considering Changing Jobs

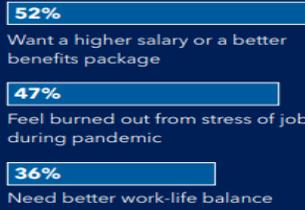


Those traditional challenges associated with recruiting public sector talent, while still present, have been exacerbated by the labor market shifts created by COVID-19. For local government employees, the lack of ability to provide remote services, the relentless stress associated with community population health management and increased pressures associated with higher-than-normal turn-over rates have created a local government workforce availability crisis that I expect to continue for some time.

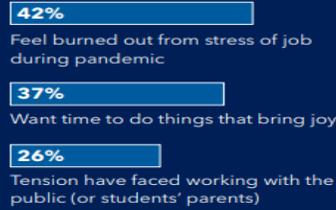
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Why Employees Are Leaving

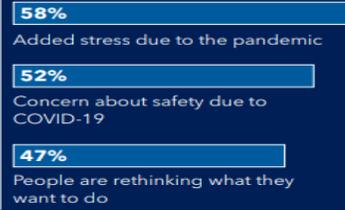
Top 3 Reasons Employees Are Considering Changing Jobs



Top 3 Reasons Considering Retiring and/or Leaving the Workforce Entirely



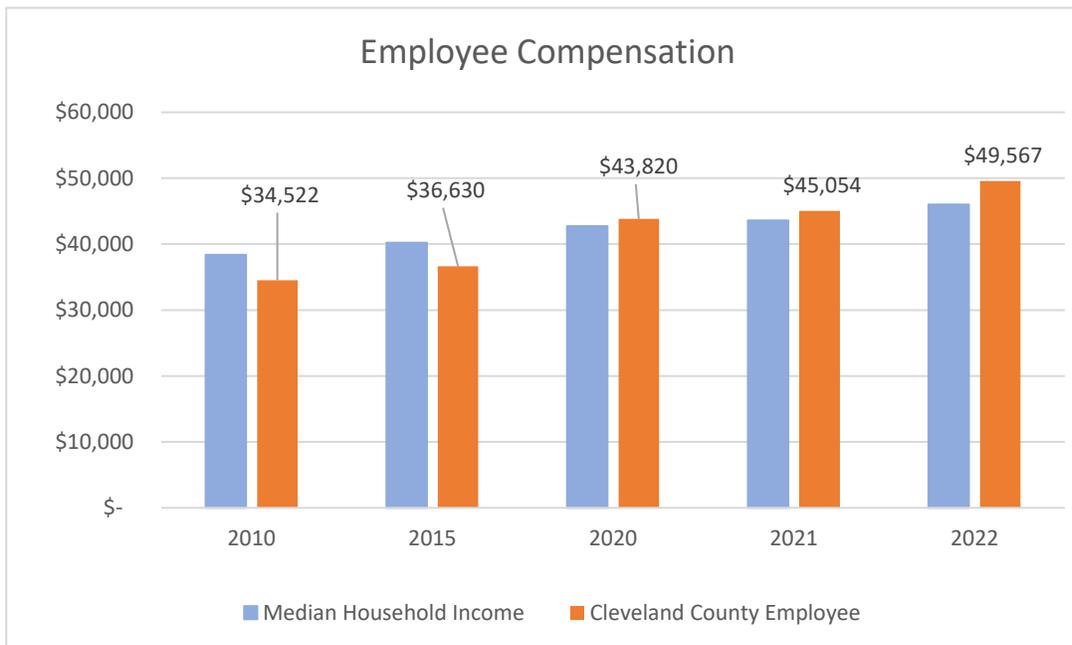
Top 3 Reasons Causing Increase In People Leaving Their Jobs Voluntarily



8 in 10 say the increase in number of people leaving voluntarily has put a strain on their workload.

Over the next five (5) years there simply will not be enough incoming talent to fill the ranks of those who are retiring or transitioning to other markets – this is true at all levels, but especially in leadership and

executive roles. North Carolina cities and counties will continue to face challenges finding qualified candidates, particularly for specialized, highly skilled jobs such as positions in executive management, finance, IT, skilled trades, public health, and public safety.



Cleveland County strives to be an employer of choice. On average, employees receive a benefit package that represents 25-35% of their total annual salary. The total budgeted salary and

wage expense for FY 2023 is \$41,239,338 which equates to an average wage of \$49,567. As with all parts of our budget, the Board of Commissioners and our organization, with respect to employee compensation, have also adopted a mindset of LEAN performance. This means doing more with less – recognizing that in order to compete for and retain a high talent work force that our wages must be competitive. Although showing more appreciation and recognition rank high on employee views on how public employers can curb the great resignation, salary increases still rank at the top.

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Employee Views on How Public Employers Can Curb the Great Resignation

To Reduce Stress

24%

Provide salary increases

15%

Hire more staff or reduce workload

13%

Provide emotional support

To Retain More Employees

62%

Improve salaries

50%

Offer/increase bonuses

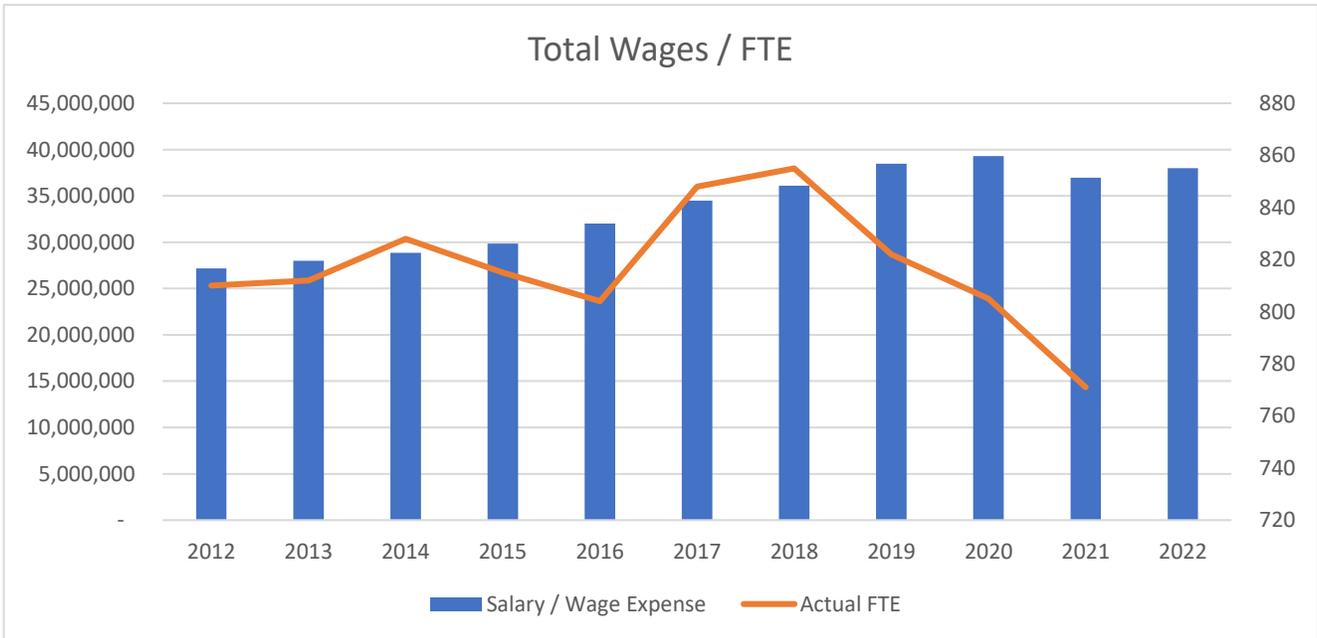
38%

Show more appreciation and recognition of employees and the work they do

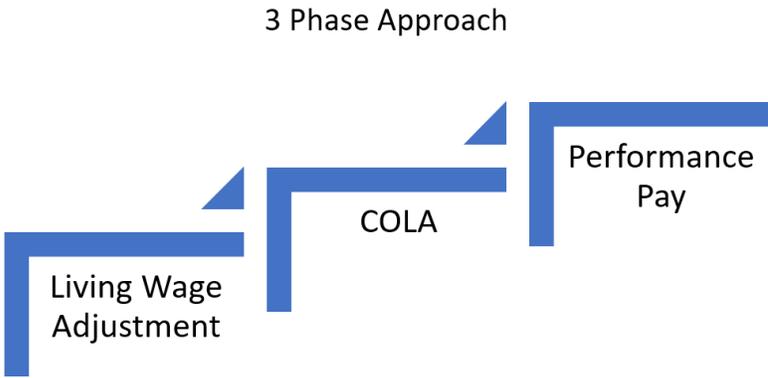


Showing **more appreciation** and **recognition** of employees **outranked actions** including improving benefits, increasing amount of leave allowed, offering more flexible scheduling, and offering more opportunities for remote work.

From a budget balancing perspective, I am thankful that the Board has reinvested savings that were manufactured through FTE reduction and reinvested those resources into the County’s existing pay plan. This is a visionary approach to ensure long term sustainability of service delivery to our citizens.



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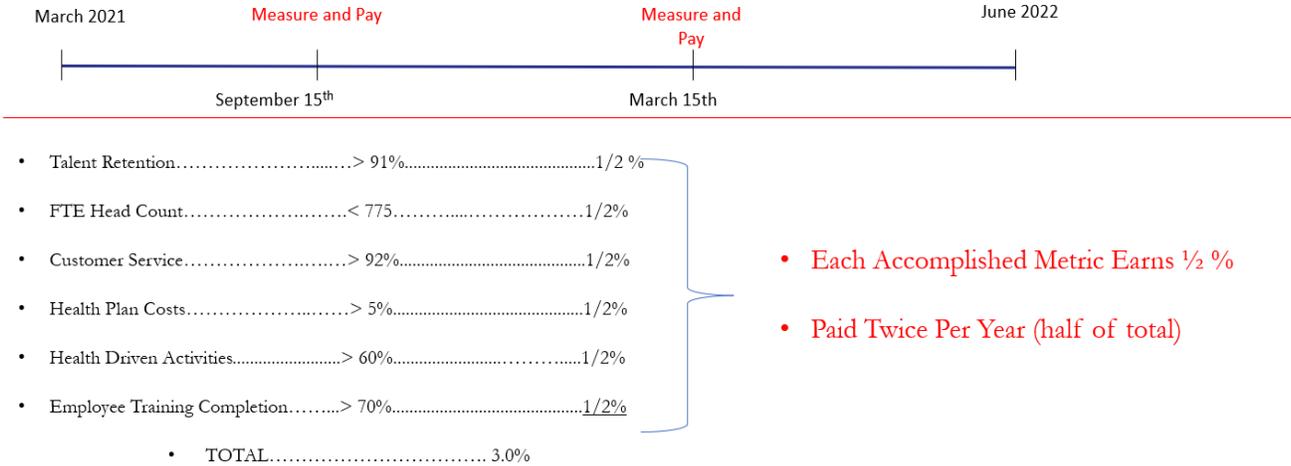
Included in the 2023 fiscal year budget is a recommended three-phase approach to employee pay that is inclusive of a living wage adjustment, a 4 % COLA and continued performance-based pay.

The FY 2023 budget will also include year three of our performance-based pay program. The model is very similar to the previous year and allows a collective organizational wide performance model. If accomplished, this model creates fiscal savings for the organization that is then re-invested through a performance bonus to the employees – the target for 2023 is three percent (3%). The bonus would be measured twice during the year on September 15th and March 15th.

Performance based pay is an innovative strategy that aims to create budget flexibility that lessens the wage gap between our public competitors and the private market. The County, with the support of our County Commissioner’s, are also exploring alternative value add propositions that create distinctive differentiation between Cleveland County Government and other employers. One example of a developing strategy is employer provided pre-K childcare. The FY 2023 budget provides for the potential of a \$2MM one-time capital expenditure to provide a centrally located facility. We believe this facility can be operated annually for a cost of less than \$350,000 (which is equivalent to a 1% COLA), but certainly adds more recruitment and retention value.

The mechanics of the performance bonus model is as follows:

The upcoming fiscal year will also be the County’s second year operating with approved state substantial



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equivalency. Substantial equivalency is the process of converting State defined staffing classifications into a local classification. This is a developing trend across the State and recognizes that County government is much nimbler and more effective when we are adaptable to local needs.

Focus Area – Fiscal Sustainability

I began serving Cleveland County as Finance Director in 2014. At that time, the County's fund balance was 14.6% - which was lagging when compared to similarly situated counties in North Carolina. Since that point, it has been a continued goal of the County Commissioners to increase the County's fund balance to exceed 18%. Due to intentional budget management, service re-design, and expenditure re-engineering, the FY 2021 ended with a fund balance of 19.28%. As part of the 2023 budget philosophy, Commissioners have responsibly increased their fund balance goal to 20%.

Fund Balance projections for the FY 2022 year-end are still in process, however, we are confident that effective navigation of our fiscal strategies will provide the platform to close the year by adding to fund balance. The FY 2022 budget included a strategic fund balance drawdown of \$1.0MM in order to obtain a sub-revenue neutral tax rate and balance the budget. That dependency has been removed for the 2023 fiscal year plan.

Cleveland County Government is committed to the fundamental principles of a High Performing Organization (HPO). One of the essential functions of an HPO is continuous self-reflection and **re-thinking** of all activities and programs. One of our continued focuses is maintaining an innovative mindset of entrepreneurship in public service. Through our **re-thinking** initiative we have been critical of projects, services, and business relationships that needed strengthened and those that needed abolished. Our team of department leaders and budget managers have exceeded expectations over the past 4 budgets. In 2014, the County had an overall General Fund Budget of \$113.5MM and the total appropriation for the 2022 fiscal year budget is approximately \$126.5MM. Since that period, we have:

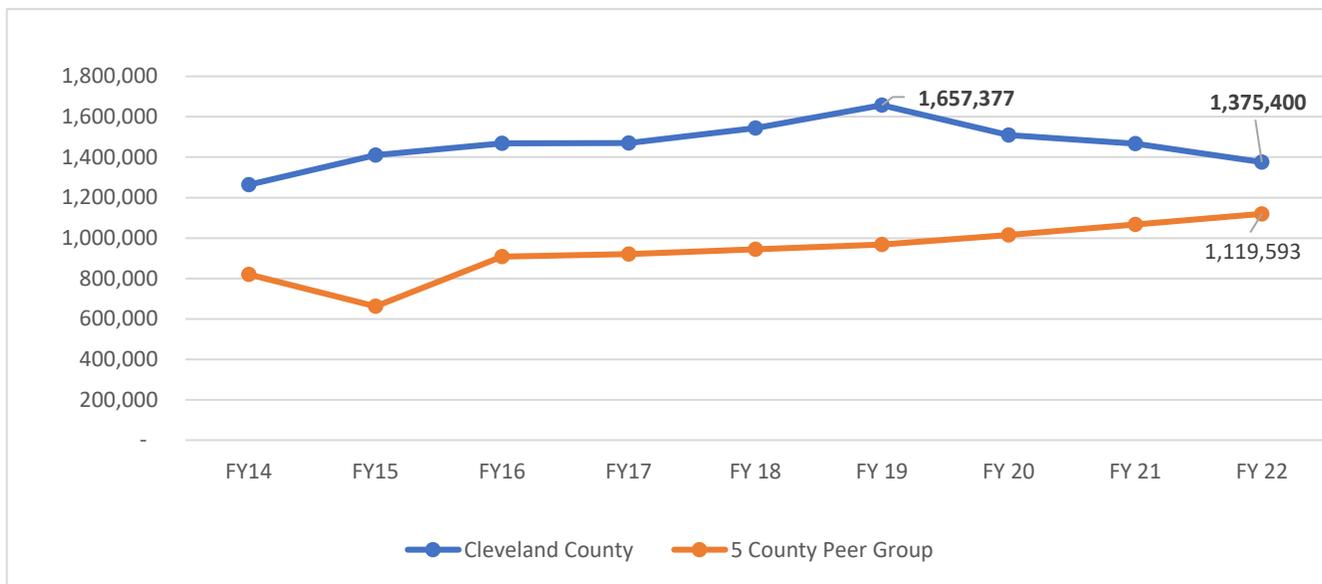
1. Increased staff salaries on average > 30%
 - a. This included a \$2.1MM human capital investment during 2021 & introduction to performance-based pay.
2. Improved all aspects of the employee health plan
3. Increased public safety funding by more than **\$10MM annually** (34.3%)
 - a. Added 40+ public safety employees
4. Created employee tuition reimbursement plans
5. Developed a 20-year Master Facility Plan
6. System-Wide Enterprise Resource Planning (ERP Technology)
7. Increased public school funding (prior to FY 22)
8. Strategic Land Acquisition
9. Doran Property Clean-Up
10. Opened & Expanded the Public Shooting Complex

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Budget re-engineering continues to be a cornerstone of Cleveland County's budget development. Re-engineering is a cultural investment and buy in by County employees is critical to adopt LEAN principles. These principles encourage us to focus on continuous improvement, refinement, and eliminating waste. This principle-based approach starts with identifying priorities and consideration of only what is actually needed. This allows for internal reprioritization of existing County resources.

The County is entering the fourth year of an energy optimization program that is, centrally targeted intelligent commissioning and consumption reduction. Over the past few budget cycles, this intentional investment has created annual savings of over \$300,00 and a reduction of 18%.

ENERGY OPTIMIZATION



These collective re-engineering strategies have created cost savings or cost avoidance of over \$15MM over the past five years. These savings have created the capacity for much of the accomplishments above. Several key strategies that continue to be a part of the 2023 fiscal year budget include:

- a. Revenue Maximization
- b. Early Retirement Incentive Program (ERIP)
- c. Energy Optimization Program
- d. Position Justification
- e. In source / Outsource Framework
- f. Capital Cost Avoidance

Health & Human Services

The overall appropriation of local funding for the Department of Social Services (DSS) will be \$8,315,841 – this represents approximately 37.1% of DSS total \$22,405,187 budget with the remaining budget being state funds. This local allotment is comparable with our LGC peer counties. This represents a moderate increase

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from the prior year of \$768,040. The department has experienced actual cost decreases in four of the last six years. This comes independent and does not reflect any decrease in service delivery. The driver for the 2023 fiscal year increase is almost totally related to personnel costs, however, there is also anticipatory cost references associated with full migration to tailored Medicaid plans, the re-engagement of client interaction and back logs of economic services certifications, and recognition that a growing portion of our community is reliant upon these services. These key changes have been navigated by the County's Social Services Director, Ms. Katie Swanson, and her leadership team. This team has created a culture of high performance and continues to implement evidence-based policies that are proving to be transformational to the department.

Historically, Cleveland County DSS employed 220 FTEs which equated to 25% of the County workforce. The department has been continually performing at a high level with an FTE headcount below 200. The team believes this is sustainable. Although there is no targeted "count", the leadership team remains focused on the most critical goals of service delivery while balancing key metrics as well as peer comparisons.

The overall appropriation of local funding for the Public Health Department will be \$2,493,258 – this represents approximately 22.4% of the total \$11,088,501 operating budget. This represents an increase from the prior year of \$13,462. The Public Health Department continues to lead the charge on improving the County's health ranking and educating citizens on the importance of community wellness. The Public Health Department has approximately 110 FTEs.

Potentially the biggest impact on the Human Services budget for the upcoming fiscal year is not associated with any particular program or policy. The co-location of these two critical departments will be a daily reminder and testament to the cultural change in our organization. This performance based, non-siloed, ODI (Organization/Department/Individual) cultural mindset is the single most important and measurable deliverable that our leadership team is responsible for. The co-location project is founded in capital cost avoidance (>\$15MM), reduction of administrative overhead costs (+/- \$500k annually), and further leveraging State reimbursement opportunities (+/- \$300k annually).

Capital Planning and Debt Service

In the upcoming budget year, we will continue to examine opportunities to gain efficiencies and implement the County's master facility plan. As mentioned above, a top priority is fully completing the co-location of social services and public health. Social services continues to operate in a sub-standard and end of life building (1965). It is important to note that the co-location is very different than operational consolidation. Co-location is a simple calculation that creates capital cost avoidance while maximizing on a shared client population but doesn't require major changes to service delivery that have proven to be unfruitful across the state. The total budgeted cost of the re-location is \$3.25MM. This cost was approved through installment financing as part of the Commissioner's \$36.6MM debt refunding during 2021.

Included as an attachment of the budget is an updated formal 5-year Capital Improvement Plan. The plan is intended to identify, with a future orientation, upcoming capital needs. These needs are conceived from our Facility Planning and Long-Term Operational Strategies. They are then aligned with proper funding

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resources. This type of policy direction and support from the Board of Commissioners is greatly appreciated by staff and recognized as true fiscal sustainability.

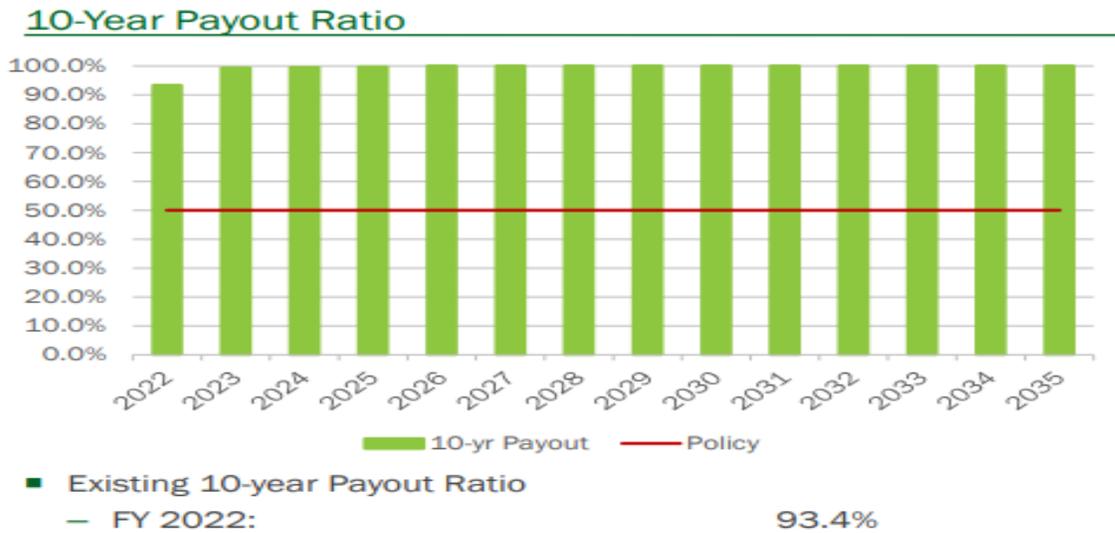
FY 22-23 Capital Projects

Project	Description	Cost	Funding
Doran Mill	Site prep, environmental, geo-tech, schematic grading plan	\$150,000	Pay as you go City of Shelby to pay 1/2 of cost
Roof Replacement	Roof Repairs at current DSS Building	\$50,000	Pay as you go
Public Defenders Office	Minor renovations in preparation for occupancy	\$50,000	Pay as you go
Major Rolling Stock	Vehicles- EMS and Sheriff's Office	\$1,130,000	Pay as you go
Board of Elections	New Board of Elections Building	\$1,250,000	Capital Reserve Fund
Public Safety Radios/Deferred Maintenance Plan	Public Safety mobile radio replacement plan	\$250,000	Capital Reserve Fund
Dedicated Fiber Loop	Creation of an exclusive and dedicated fiber loop	\$400,000	Capital Reserve Fund
Information Technology Strategic Plan	IT Strategic Plan focused on advancing synchronization and developing a clear IT vision	\$350,000	Capital Reserve Fund
911 Communications Center	911 Communications Center to be housed on Red Cross Campus	\$6,000,000	Capital Reserve Fund (\$1,140,000) Future Capital Reserve- \$860,000 Applying for remaining in grant funding. PSAP Fund Balance \$1M
Randolph Road Shell Building	Shell Building IV new construction	\$8,500,000	Debt Funding City of Shelby to pay 1/2 of cost
Artee Road Property	40 Acres property for Economic Development	\$220,000	Pay as you go Split cost with City of Shelby
Health/DSS Co-location	Renovations at Health Department to co-locate Health and DSS	\$3,500,000	Debt Funding \$1.2 in reimbursement from State ROI- 3 years
Justice Center Campus	Jail, Courthouse, Sheriff's Office New Construction	\$140,000,000	State Grant \$59,000,000 Pay as you go \$18,000,000 Debt Proceeds \$63,000,000
Total Capital Expenses		\$161,850,000	

As recently as 2017, Cleveland County received a bond rating upgrade from S&P/Moody's and is now AA+. This ranks in the top 15% of all counties in the State. This has proven critically important as we have remained aggressive in economic development with shell building financing and with Master Facility Plan improvements.

Debt service management is another vital part of long-term planning and sustainability. As of June 30, 2022, the County will have approximately \$50,088,555 in outstanding debt obligations. Of this \$50M, due to strategic management and innovative planning, the County General Fund is only responsible for 45.6% of that amount. Cleveland County Schools debt responsibility accounts for \$19,352,205, or 38.6% of the total outstanding and the City of Shelby and Cleveland Community College account for the remaining 15.8%. This debt percentage represents approximately 2.94 cents of the County's tax rate. At this time, 93.4% of the County's debt will be completely liquidated over the next 10 years.

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Focus Area – Economic Development

Cleveland County Commissioners continue to see the importance of Economic Development and the recruitment of industry. Workforce development along with product development continues to be the primary focus for long range success. In the upcoming fiscal year, the Board of Commissioners will continue to partner with Cleveland County Schools and Cleveland Community College to promote dual tract with a focus on modern manufacturing.

Cleveland Community College will be opening the new advanced manufacturing center during the upcoming budget year. This new community asset will provide critical job training infrastructure that will continue to promote a business-friendly environment that makes Cleveland County an attractive place for industry expansion and location. Included in the FY 23 budget is an additional \$250,000 in funding to support the community college along with the title transfer of approximately 25 acres of land located on Highway 18 – that is being used for skill trades training.

The County has budgeted \$164,500 to the Cleveland County Economic Development Partnership. Over the past several years, the county has increased funding for Economic Development by investing and moving forward with projects such as Shell Buildings. This year’s budget is equal to the FY 22 funding allocation.

The Board of Commissioners have also placed a high priority on assisting the agricultural community in their efforts. Included in this budget is the continued support for the small business incentive program, increased funding of Cooperative Extension, and the continuation of grant support for our local farmers.

Other economic development areas include the Commissioner’s top priority of FY 2023:

1. Successful Recruitment and execution of a National Shooting Competition hosted by the Foothills Public Shooting Complex
2. Development of Shell Building IV and V

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3. Sustainable Partnership with the Cleveland County Fair Association
4. Engagement of the Travel Tourism Strategic Plan – which includes year 2 of economic impact studies

Focus Area – Community Education / Customer Service

The Foothills Public Shooting Complex continues to see increases in the number of visitors. This facility is positioned to provide a long-term regional travel/tourism draw for Cleveland County. The Complex hosted several tournaments during this past year and has plans of expanding those efforts. The 2023 fiscal year will be our second (2nd) year of the expanded skeet/trap range. This range includes an additional 85 acres dedicated to shotgun shooting sports.

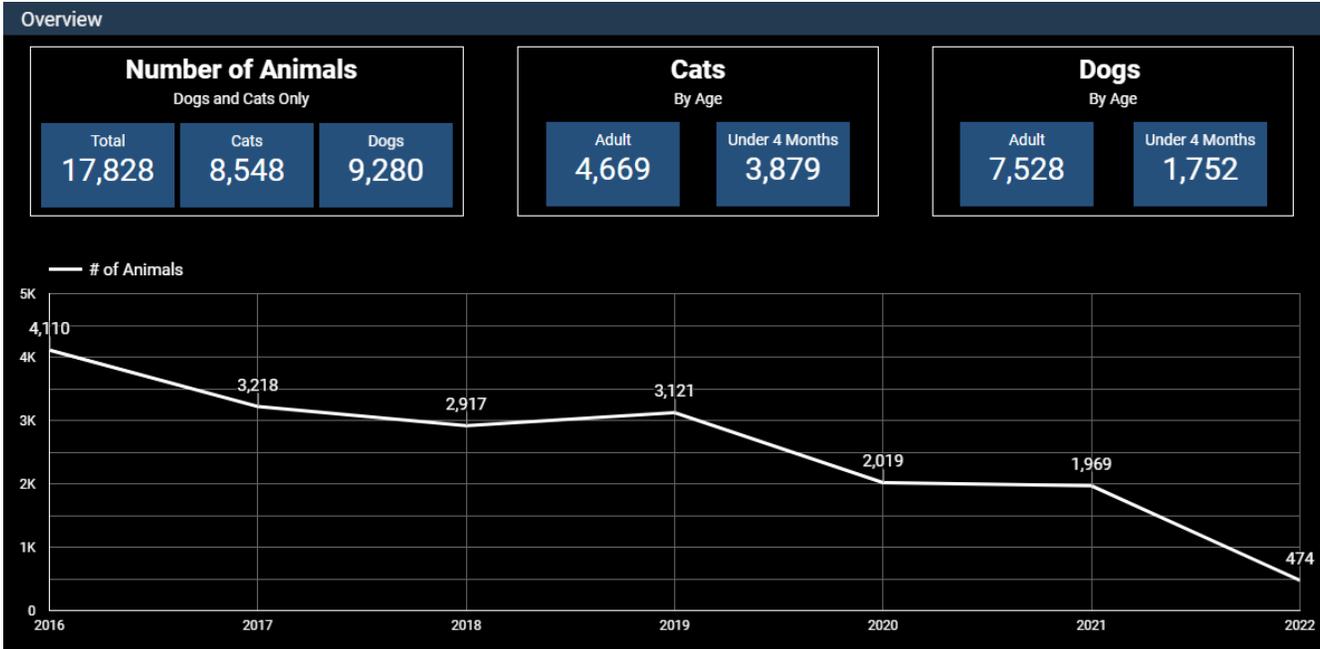
County Commissioners have sustained support for a ***County Citizens Academy***. Commissioners have maintained a goal of communication, transparency, and accessibility and see the academy as a way to promote a positive partnership between the community and County Government through education. We are focused on launching the initial 6-week class of this program during Q2 of the 2023 fiscal year.

During FY 2018 the Board of Commissioners began a community cleanup initiative that was aimed at reducing litter in Cleveland County. The program was highly successful and will be continued in the current budget. It has included the involvement of local partners and a marketing campaign that engages the local school system. The 2023 fiscal year budget includes a budget appropriation of \$40,000 to provide resources for this project.

The importance of the County's trail systems to the community has never more been more obvious. The County has seen a tremendous influx of tourism focused on visiting many of our natural resources. Our recent economic impact analysis indicated a more than \$750,000 annual impact provided by the BRGW and KMGT. These outdoor experiences are the perfect evolution to a post-covid tourism environment. Included in the 2023 budget is continued ongoing support for trail operations.

The Board of Commissioners continues to support the outstanding efforts of our Animal Services department. During the past year, Cleveland County Animal Services made great strides in executing on a long-term strategic plan aimed at lowering the number of unwanted animals in Cleveland County and a goal of a "No Kill" animal shelter. Under the new structural umbrella and central administration leadership model, the total number of annual euthanized animals has continued to decrease. The Animal Services Community Advisory Board was created in 2020. This board was vital in making recommendations to the Board of Commissioners on the 2021-2022 ordinance review/re-write. Beginning in 2020, with the onset of covid, Cleveland County transitioned to a managed intake system. The team worked to better understand owner surrenders and applied strategies of diverting intake. With lower intake and more positive outcomes, the shelter is working towards achieving its mission. (See chart on page 22)

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Included in the 2023 budget is funding to allow for dedicated marketing of the new ordinance (\$25,000) which becomes law on 1/1/2023. We’ve also evaluated staffing and identified the need for 2nd shift and weekend coverage in Animal Services. For the 4th consecutive year, we will provide full intake vaccinations, spay/neuter, and micro-chipping for all animals that are cared for by Cleveland County Animal Services. We have also included in the budget, the appropriate allocations to maintain low-cost adoptions and several free adoption clinics throughout the year.

This Board continues to make a commitment to citizen engagement and transparency. Live streaming of commissioner meetings is a newly added service that will continue in the 2023 budget. This requires technological infrastructure and staffing costs. The County, through the hiring of a Marketing and Communications Director is also committed to keeping the citizens educated about the services we provide.

Another exciting customer service enhancement as part of the 2023 fiscal year budget is a multi-year engagement to provide advanced GIS imaging including street level images. This software also integrates with our tax software to help notify of discrepancies between tax details and structural changes. The budget allocation for FY 2023 is \$81,933.

Focus Area – Community Wellness

The community wellness focus area has never been more critical than over the past year. I am thankful for the Commissioner’s support of our public health, emergency management and COVID-19 vaccination administration teams. These local heroes have consistently answered the call to an inherently self-sacrificing call to action. More specifically, I am grateful for the leadership of our Emergency Preparedness Coordinator

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Jordan Beason and School Health Nurse Supervisor, Heather Voyles. Both of these leaders have demonstrated all the values that define our organization.

During the 2018 work session, the Cleveland County Board of Commissioners updated their strategic plan to add Community Wellness as a fifth (5) focus area. Community Wellness is an inclusive focus area that is based on improving:

- 1.) County Health Rankings
- 2.) Social Determinants of Health
- 3.) Access to Physical Activity and Health Promotions

The Commissioners have identified several key initiatives specific to promoting and improving community wellness with the top being an intentional focus on actively engaging in the fight against the opioid epidemic.

Our team is excited about the opportunity to re-engage our focus on community health and re-focus on improving our metrics. Cleveland County still remains outside the top 80 in County population health. The primary driver to that ranking remains premature death. Chronic disease such as diabetes, cardiovascular disease, and substance abuse are amongst the leaders in the premature death category. Almost one-third of our county residents are diabetic or pre-diabetic, our County's stroke rate is 80 per 100,000 (which is double the state average) and our overdose rankings are unproportionally high. With a renewed energy surrounding the stabilization of COVID-19, our team is eager to begin implementing programs to address these issues which are at the core of ***Making Our Community Better***.

One of the biggest obstacles to disease management is access to primary care. Kintegra Health has recently launched a multidisciplinary FQHC program in the county which will immediately begin to provide access. The FY 2023 budget also includes a \$50,000 grant to Mt. Calvary Baptist Church to support the partnership of a virtual health clinic (ran by Atrium Health).

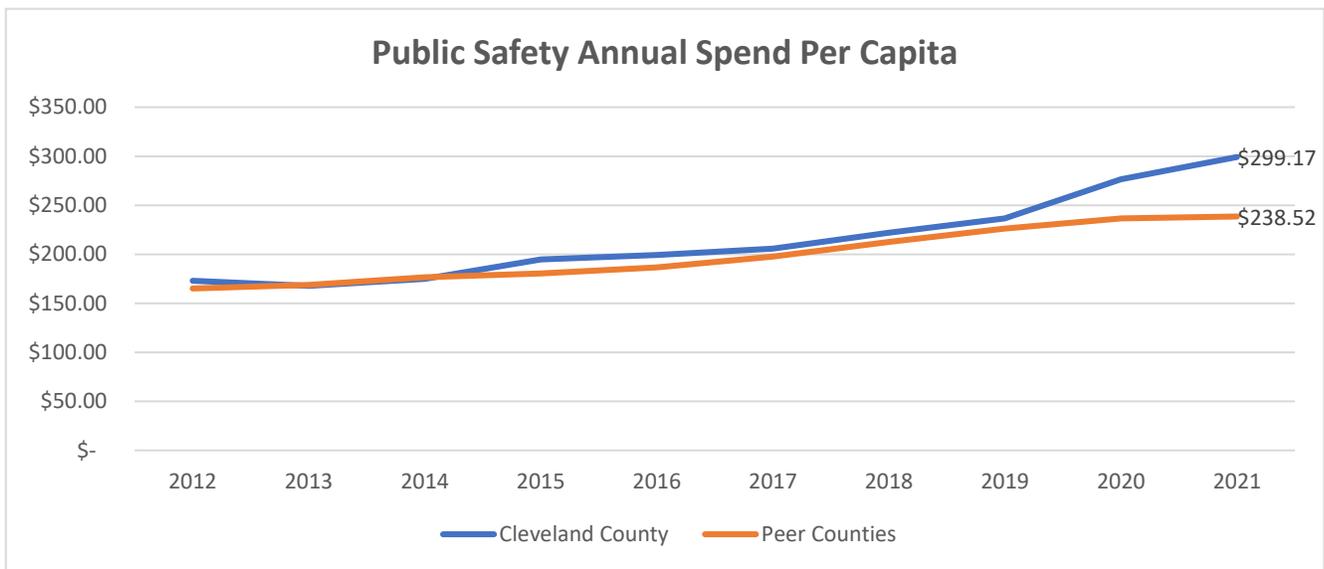
The most exciting and opportunistic impact in the budget comes from a North Carolina General Assembly grant in the amount \$5,000,000. Our public health team is working hard on strategies to maximize the impact of this funding including additional access points for indigent primary care, mobilized primary care, and community outreach programs such as onsite A1C and oncology screenings.

Included in the 2022 budget is an additional appropriation of \$50,000 from Atrium Health to assist with continued funding of telemedicine services and a \$50,000 allotment to assist with maternal health. We have seen dramatic improvements in community health over the past four years, amongst our younger population, with the implementation of telemedicine coupled with a total of 20 school nurse's county-wide. Cleveland County Schools provides funding for approximately 40% of the cost of school nurses in Cleveland County.

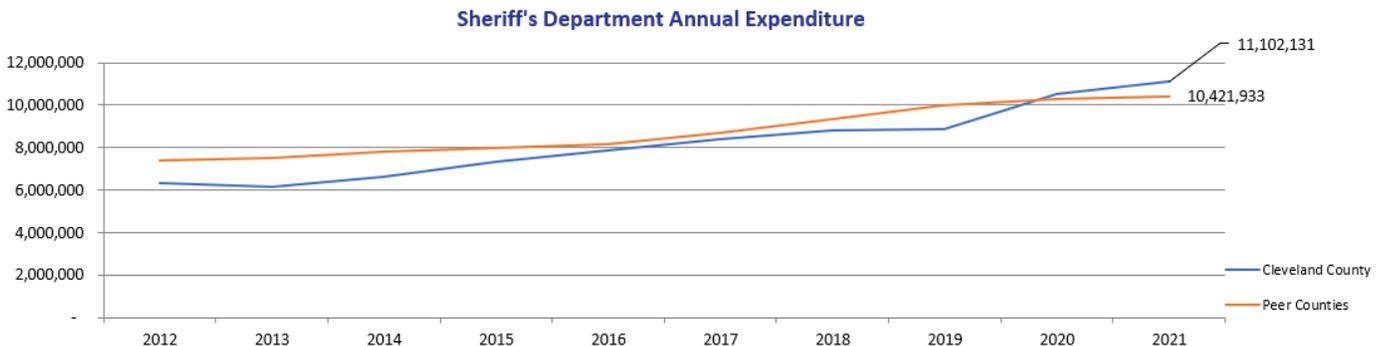
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Focus Area – Public Safety

The total public safety budget for Cleveland County in the 2022-2023 budget is \$29,839,264 and includes the Sheriff's Department, Detention, EMS, Emergency Management, and E-911 communications. The County Commissioners commitment to public safety investment is most evident when analyzed over time. In 2015, this budget was \$19,608,050. The increase of \$10,231,214 (52.2%) has been significantly more than any other function of County government and has supplanted in matching the funding levels of other similarly situated North Carolina counties. Public safety capital replacement is a major component of the 2023 budget. This includes mandatory system wide radio replacement and 800 mhz software upgrades totaling in excess of \$600,000.

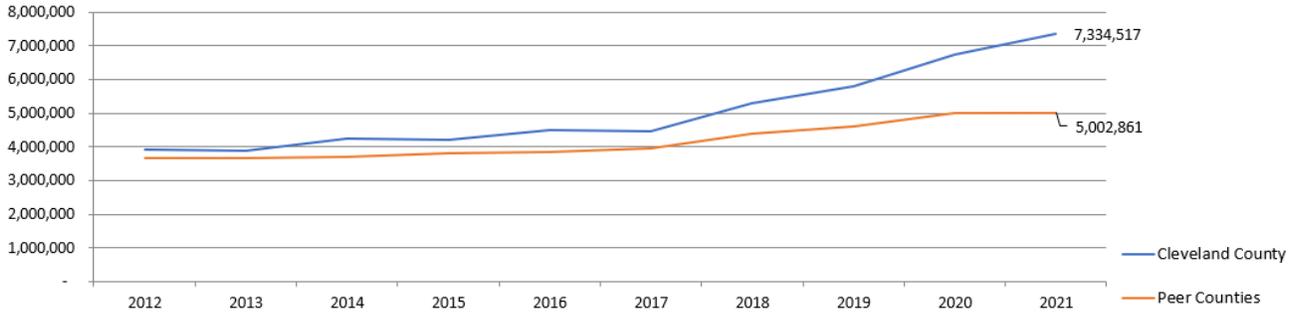


The Cleveland County Sheriff's Department reflects a total annual appropriation of \$20,419,999, which represents 16.1% of the County's General Fund. This reflects salaries, operations and capital for the Sheriff's Department, Detention Facilities, and School Resource Officers. The general fund direct support of the Sheriff's Department budget is \$19,066,404 or 93.3% of the net of collected revenue. The capital amount budgeted totals \$955,675.



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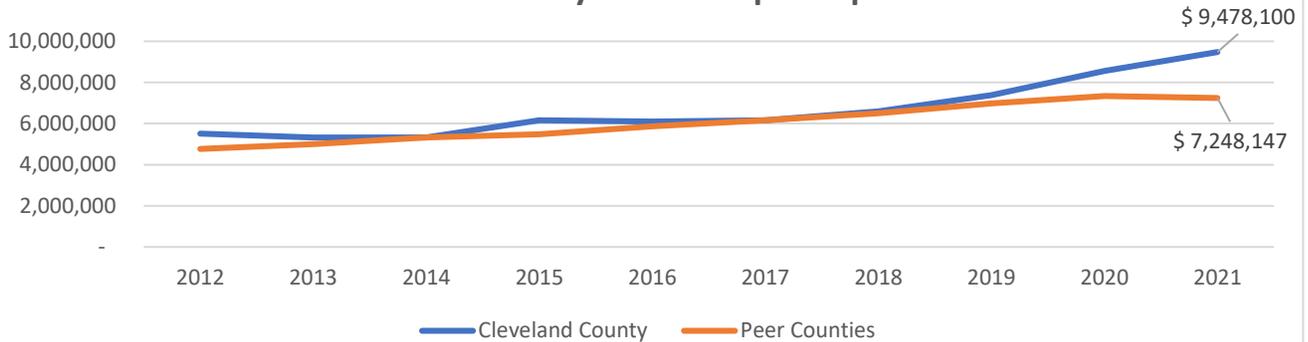
Detention Center Annual Expenditures



The FY 2023 budget will be the final year of payment for an EMS fleet full replacement of nine (9) ambulances. Ambulances were received in FY 2020-2021. This strategic methodology of full replacement lease is a first for Cleveland County Government and will provide the needed confidence in rolling stock assets. The 2023 capital lease cost is slightly over \$500,000.

The original budget proposal doesn't include the system alignment with the three (3) rescue squads. The anticipated costs and associated revenue will off-set without material budget impact and that proposal will be presented to the Board for consideration outside of the original budget ordinance.

**EMS Department Annual Expenditure
Cleveland County Peer Group Comparison**



Operational Highlights

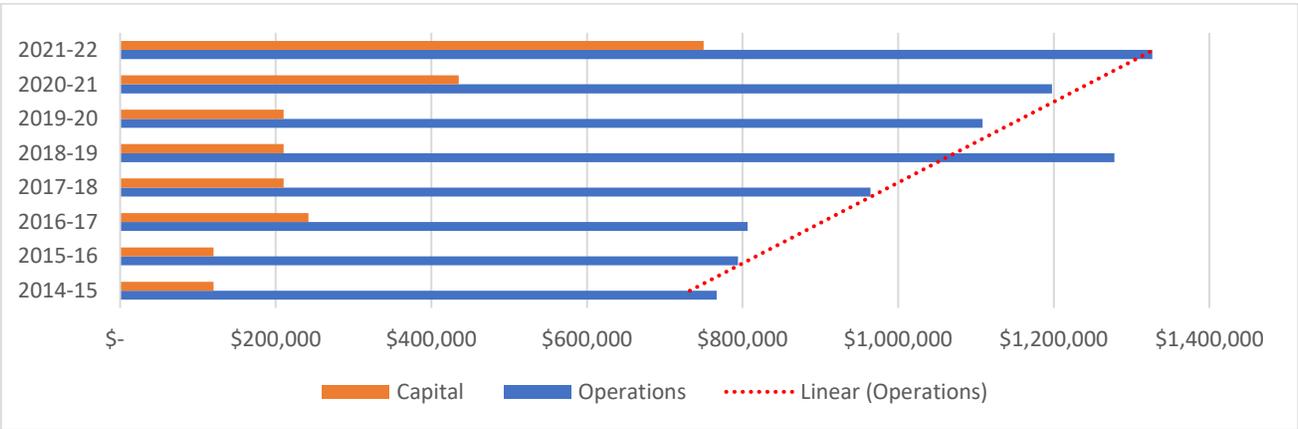
The Cleveland County Register of Deeds, Betsy Harnage is working on her fifth-year processing and administering passport applications with overwhelming success. This is only being done in a few Registers offices across the State and we applaud this office for offering a new service to the citizens of Cleveland County. This service is being offered as a result of the hard work and innovative ideas of that office. This new service required minimal capital improvements and a marginal increase in the operational and part-time

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budget. The office has also begun scanning and digitalizing vital records that will be preserved and available electronically and indexed for the citizens of Cleveland County.

The Human Resources Department continues to work to support an atmosphere that promotes workplace engagement, employee wellness, and high performing culture. Included in the 2023 budget is continued funding of \$101,000 to launch an organization-wide employee training and development function. This includes \$50,000 for a learning management system (LMS) and an additional \$25,000 for Co-Hort based trainings.

Technology will continue to be a focus for our organization. Our 2025 technology plan captures three (3) primary components: Automation, Data Security, & Customer Interface.



Included in the budget for FY 2023 is \$825,000 for Information Technology (IT) planning and capital accompanied by an allocation of \$50,000 to begin a comprehensive Technology Strategic Plan. The operational budget for I.T. totals \$2,267,760.

County Wellness

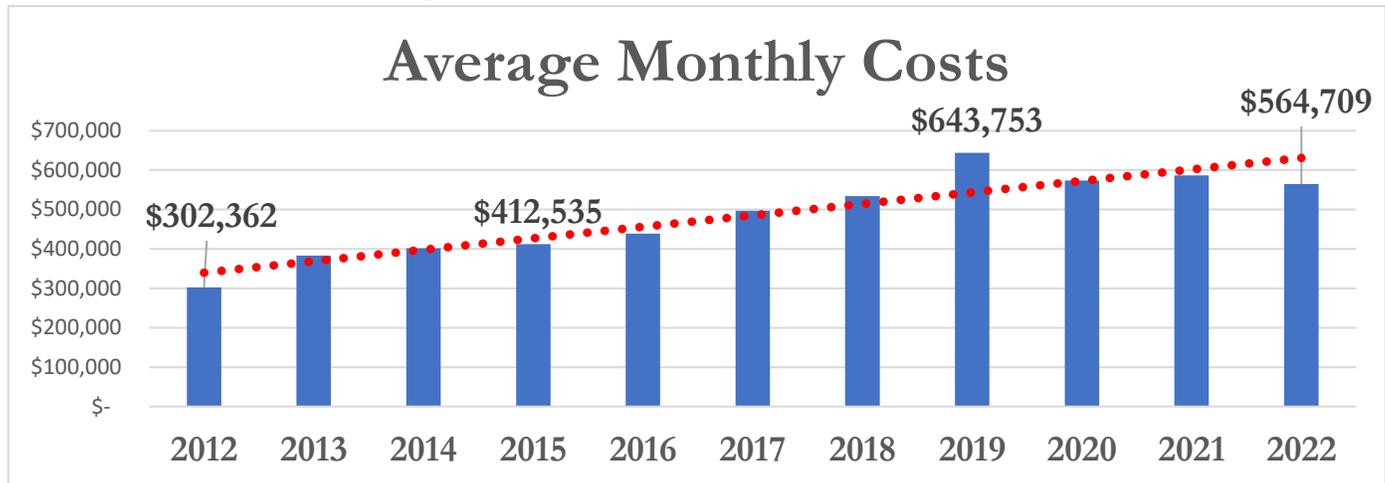
Governments across the State are reporting average health care cost increases of 10-15% for Employee Health Insurance. Included in the 2023 budget, Cleveland County is expecting a 3.0% employer increase in health care premiums. Employee healthcare is paid by Cleveland County at 100%. Spouse and dependent coverage will remain flat for the 13th consecutive year.

Monthly premiums for employees covered under the plan will increase from \$1,000 to \$1,030 which has an organizational cost of \$306,000. This increase will be absorbed by the County General Fund. Our team is pleased with the continued momentum of managing our health costs with offsetting investments into our workforce. The FY 23 budget includes continuation of disease management programs, YMCA benefits, and improved long-term disability. The low increase in healthcare premiums compared to governments across the state is indicative of our employee’s commitment to wellness and the steps they are taking to be healthier. Below, please find a chart outlining the county’s cost savings in monthly claims costs.

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Monthly Employee Wellness Claims Costs

Recommended Staffing Plan



The County Executive Leadership team will remain committed to two points of emphasis in managing the staffing plan for the upcoming fiscal year.

- A.) Position Justification – A formal and data driven review of each vacant position in the organization as it is vacated. The review includes analyzing the potential for cross departmental sharing, technology savings and attrition.
- B.) Position Re-Classification - This represents an intentional effort to maximize each FTE position within County government. Our team recognizes that business and service delivery expectations change and that our team should look for opportunities to align current resources with the most appropriate need.

Position justification is a culturally developed process that encompasses our commitment to the HPO model. Similar to zero based budgeting, that avoids incremental re-creation of prior perceived habits and norms, our team analyzes FTE positions as they become available with a focus on process redesign and critical evaluation of asset resource allocation. This process was most impactful during phase I and II of the County’s Early Incentive Retirement Program (ERIP). As you can see below (Exhibit 1), position justification has allowed the County to reduce FTE head count, through attrition, by more than 100 positions. This has organically created the needed budget flexibility to afford market driven and based pay in a more efficient operational organization (Exhibit 2).

For the first time as manager, the recommended budget does include the addition of several FTEs. As our community is growing, the Commissioner’s strategies change and become more robust. As market conditions change we have to be prepared to make equitable adjustments to our staffing plan. In instances in which position re-classification is not available, we have to add additional human capital resources. See below for a summary (Exhibit 3).

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Exhibit 1

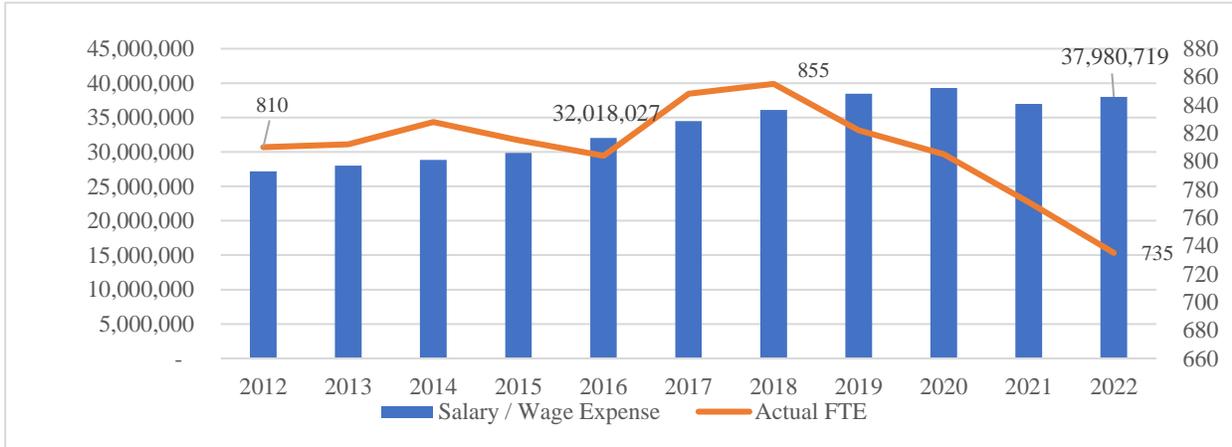


Exhibit 2

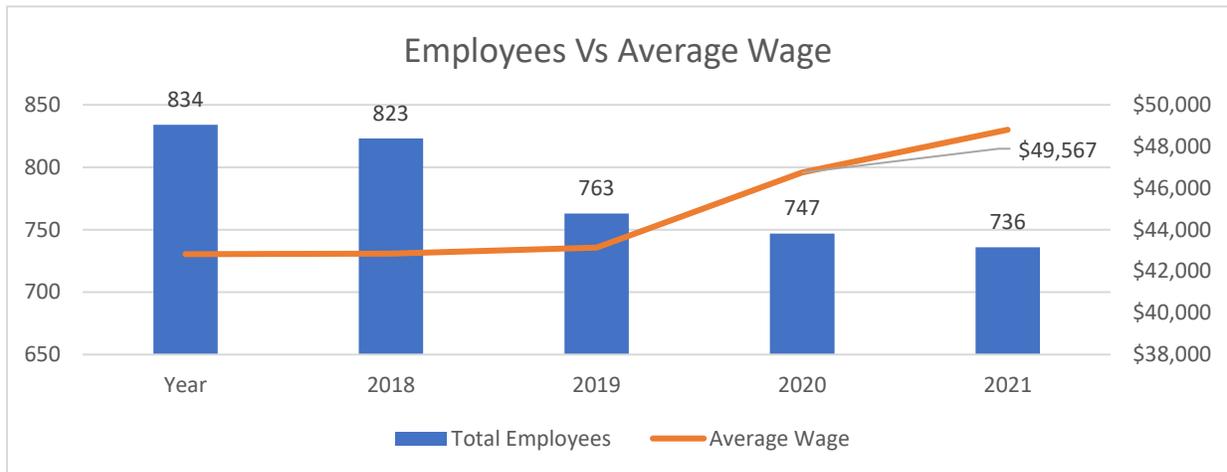


Exhibit 3

Department	Request	Recommended	Annual Cost
Social Services	12	0	\$0
Public Health	2	2 (temp)	\$160,000
Sheriff's Department	6	4	\$280,000
Emergency Management	1	1	\$60,000
Communications	1	1	\$62,000
Animal Services	<u>1</u>	<u>1</u>	\$55,000
I.T.	<u>1</u>	<u>1</u>	<u>\$85,000</u>
Total	23	10	\$702,000

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- 1.) Public Health – 2 Environmental Health Inspectors with a focus on market driven activity and demand – along with succession planning. These will be temporary positions. Qualification for these positions often takes multiple years to become certified and licensed by the State Department of Health and Human Services.
- 2.) Sheriff's Office – 4 Deputy Sheriffs with a focus on warrant service and dedicated resources to mental health transports.
- 3.) Emergency Management – 1 Fire Code Inspector. This position will help support existing structure fire inspections. This was identified as a critical need during our current public safety strategic planning process.
- 4.) Communications – 1 E-911 communicator. This position is intended to support the growth in call volume and system delivery. Also a recommendation from the public safety strategic plan.
- 5.) Animal Services – 1 Animal Control Officer- This will expand our team to provide dedicated 2nd shift coverage as well as weekends.
- 6.) I.T. – This position is the next step in a dedicated effort to prioritize technology. The particular position will help with end user support, data security and A.V needs.

Cleveland County Public Schools

The 2022 county allocation budget totaled \$30,330,849 which, per Commissioner direction, will change for the upcoming 2023 budget to \$29,630,849 (a reduction of \$700,000 in pay as you go capital). The other mechanical changes are that the appropriation to be sent to the school system will total \$28,180,849 – with the anticipation that \$1,450,000 be kept in a separate CCS escrow account to be released to the school system at a later date. The \$1,450,000 is comprised of \$700,000 of unrestricted pay as you go capital and \$750,000 of restricted Article 42 sales tax (also historically funded as pay as you capital). The recommend tax rate for the school system will remain at fourteen cents.

Cleveland County VFD

The County Fire Service Districts tax rate will remain the same with a consistent rate of 8.75 cents per \$100 of property valuation for all County Fire Districts. The tax rate provides all funding, including part-time personnel, operations and capital for the 12 fire districts in Cleveland County. The budget team has worked closely with the County Fire Commission to forecast future needs and provide appropriate resources to ensure proper coverage limits for Cleveland County citizens. The allocation will allow for an increase of 40 hours per week in coverage (includes weekends), increasing the hourly rate to \$15 and the per call stipend to \$12. The total allocation is approximately \$5.1MM.

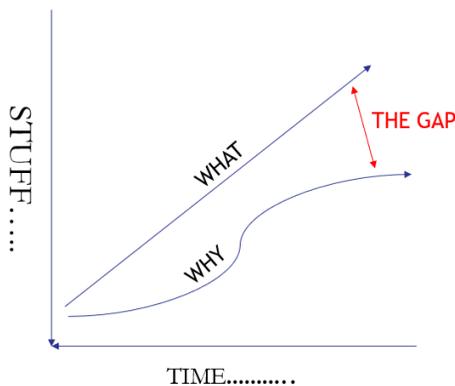
DELIVERING HIGH PERFORMANCE

Conclusion – Delivering High Performance

In closing, we must stay committed to our purpose. Constant reflection and intent of synchronizing “what” we do with “why” we do it will ensure that Cleveland County Government prospers. We must make sure, as an organization, that the gap between what we do and why we do it remains closely aligned.

We are delivering high performance. The past five (5) years have been a time of planning, analyzing and setting course. We are now in a period of delivering transformational results. We will continue to face new challenges in the organization and in the community in 2023 that are very different than ever before. The success and momentum that has been built over the past five (5) years has brought new challenges of sustainability and constant excitement of “what could be” – that simply did not exist ten years ago.

As we are now out of the “peak” of the global pandemic, we are again fully engaged in the optimism and hope that we enjoyed prior to February 2020. No one could have imagined that only months into the 2020 year we would be confronted with an invisible enemy that challenged our normalcy.



I am confident, that as a result of the Board of Commissioner’s leadership and the resiliency of the operational staff through 2020-2021 and COVID, Cleveland County Government was able to stand our post and meet the demand that is our purpose – ***Making our Community Better***.

Moving into 2023, we will continue to **ReThink & Deliver High Performance**:

- The **ReAct** phase of our Crisis Management Plan was critical to the County’s long-term success. Stabilizing meant understanding our environment and commitment to **high performance & teamwork** – focused on adaptation and nimbleness. This concluded with no layoffs or furloughs, adding to fund balance, and re-engagement with the County’s full CIP plan.
- The **ReBuild** phase included obtaining a comprehensive understanding of the new landscape. The **courage** to admit we are entering a “new normal” and asking hard questions that sought re-engagement and the **integrity** to act.
- Finally, **ReThink** has presented an unexpected opportunity to continue to reflect on our priorities and continuously re-think our strategies to ensure they are still relevant and have an impact on our organizational purpose. ReThink is no longer a phase but rather a part of our business model. It starts with openness to change and allowing **innovation** to prosper, in the hierarchy alignment of ODI (Organization/Department/Individual).

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Once again, I would like to thank you, our Commissioners for your vision and direction through this process and all the hard work of our Department Heads and staff. With the effective work of our Finance Department and that of each Department, the County is operating with a clear plan of maintaining fiscal strength and stability.