



Cleveland County

NORTH CAROLINA

Cleveland County Manager's Budget Message Fiscal Year 2018-2019

County Commissioners

Eddie Holbrook, Chair

Susan Allen, Vice-Chair

Johnny Hutchins

Ronnie Whetstine

Doug Bridges

Prepared by:

County Manager

Brian Epley

Chief Finance Officer

Shane Fox

Assistant County Manager

Kerri Melton

TABLE OF CONTENTS

Introduction 3

Overview 5

Strategic Plan..... 7

Budgeted Expenses & Commissioners Strategic Goals 9

Staffing Plan 15

Conclusion.....17

Capital Improvement PlanAttached

INTRODUCTION

Long range financial planning in Cleveland County brings together the major components of the County budget: General Government, Health & Human Services, Solid Waste and the Capital Improvement Plan. It is a critical process for County's AA+ bond ratings and creates the framework for the annual budget development process. During the fiscal year 2017-2018, the County took a large step forward in comprehensive financial modeling by drafting a formal Five Year Financial Capital Improvement Plan which has been a valuable tool for taking a long- term look at the County's revenue and expenditure picture. The County believes it is beneficial to focus on balancing current year operations with out-year known capital and deferred maintenance. Expanding beyond the Annual Budget to include a multi-year outlook has provided a more helpful framework for decision making on major financial issues.

Long range financial planning and the adopted FY18 Operating and Capital Budget recognized that the cumulative impacts of community and Board aspirations along with managing inflated internal and external customer expectations and service obligations may outpace available resources. This pinned-up demand and inflated level of expectation was created as a result of the economic recession from 2008-2014 which resulted in a period of operational stagnation by the County. The FY18 budget acknowledged continued economic uncertainty at the state, national, and international levels by proposing responsible strategies that helped buffer the County from potential economic turbulence. It set a financial course for Cleveland County to advance strategic priorities, maximize transformation, sustain a quality organization, and make strategic investments that included a facilities master plan, an energy savings initiative, and implementation of a modern and sustainable employee pay plan.

The recommended FY 19 balanced budget focuses on delivering tangible results in an evolving landscape. With this recommended plan, we propose to remain focused on the path we set out on in FY 18, maintaining the momentum achieved towards advancing the strategic plan, and positioning ourselves to successfully address emerging community needs not yet captured in the strategic plan.

The decision framework was directed by the Board's adopted strategic goals and reflects our work in priority-based budgeting. The plan also reflects the strategic use of one-time money to advance priorities and avoid creating future obligations.

The County's initial five year capital improvement plan is attached as part of the comprehensive financial planning package. This package will be updated annually and presented to the Board of Commissioners to set the tone of the upcoming budget season. A brief summary and highlights of that plan is included in this rollout budget message summary.

DELIVERING RESULTS IN AN EVOLVING LANDSCAPE

- 1.) Strengthening revenues
 - Positive corporate tax base growth, both in existing assessment values and in new construction
 - Local economy remains strong, including sales tax, occupancy tax and other local sources
- 2.) Opportunities provided for strategic investment
 - Internal Focus
 - Savings/expenditure re-engineering
 - FTE Head Count Management
 - External Focus
 - Talent/Workforce Development
 - Housing Stock
- 3.) Building the framework to implement strategic priorities and respond to emerging needs
- 4.) Maintains current levels of service to our community
- 5.) Continue to face unmet needs

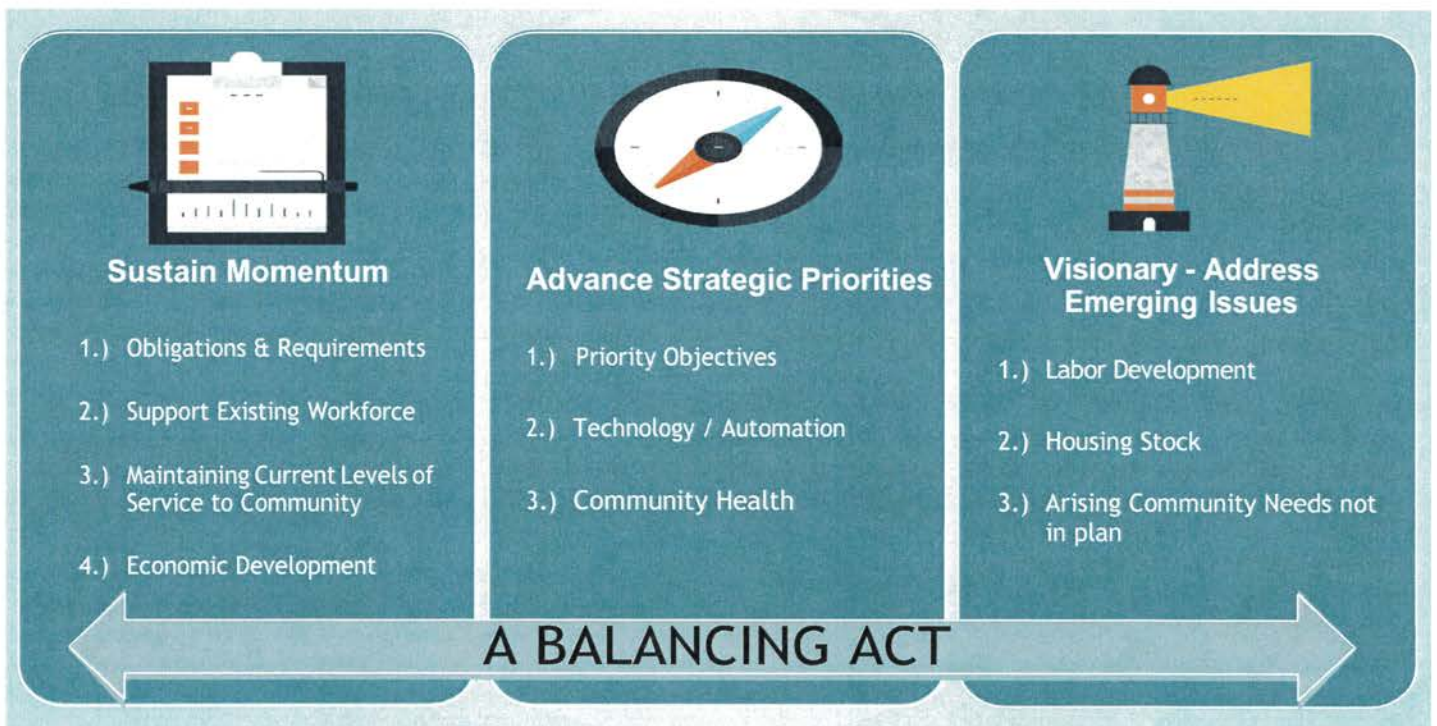
OUR OPTIMISM IS TEMPERED BY EXTERNAL REALITIES

While we are cautiously optimistic about some of the signs we are seeing in our local economy, that optimism remains tempered by a number of factors we are closely watching.

- 1.) Tax Base Concentration and other business exposures.
- 2.) State of North Carolina continues to shift costs to County government.
- 3.) There is always the possibility of economic slowdown based on historic trends/business cycles.

OVERVIEW

The County's Balanced Budget Plan is a basic foundation that is to be built upon based on Board of Commissioner 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 Board of Commissioners and community dialogue. The plan acknowledges the need to maintain the levels of service that our community expects while also responding to the changing landscape, recognizing that strategic priorities currently in development will move to implementation in the near future and that there are new issues on the horizon that are not part of current services or the current strategic plan.



As the budget was developed, staff was careful to balance across three areas:

1. Sustaining Momentum

- Obligations/Requirements
 - Support for education
 - Support for capital program (including debt service)
- Support Existing Workforce
 - Compensation and benefits

- Maintaining Current Levels of Service to Community
 - Public safety
 - Internal services
- Economic Development
 - Continue ongoing funding for Economic Opportunities Fund
 - Funding to support the Arts and Culture initiative

2. Advancing strategic priorities

- Priority Objectives
 - County Building Infrastructure Investment
 - Work Force / Talent Development
 - Improving broadband access across the county
 - County Clean-up Initiative
- Technology / Automation
 - Cleveland County Software Upgrade
 - Re-branding/Website Development
- Community Health
 - Support for transportation-related initiatives
 - Support for community prosperity

3. Addressing emerging issues

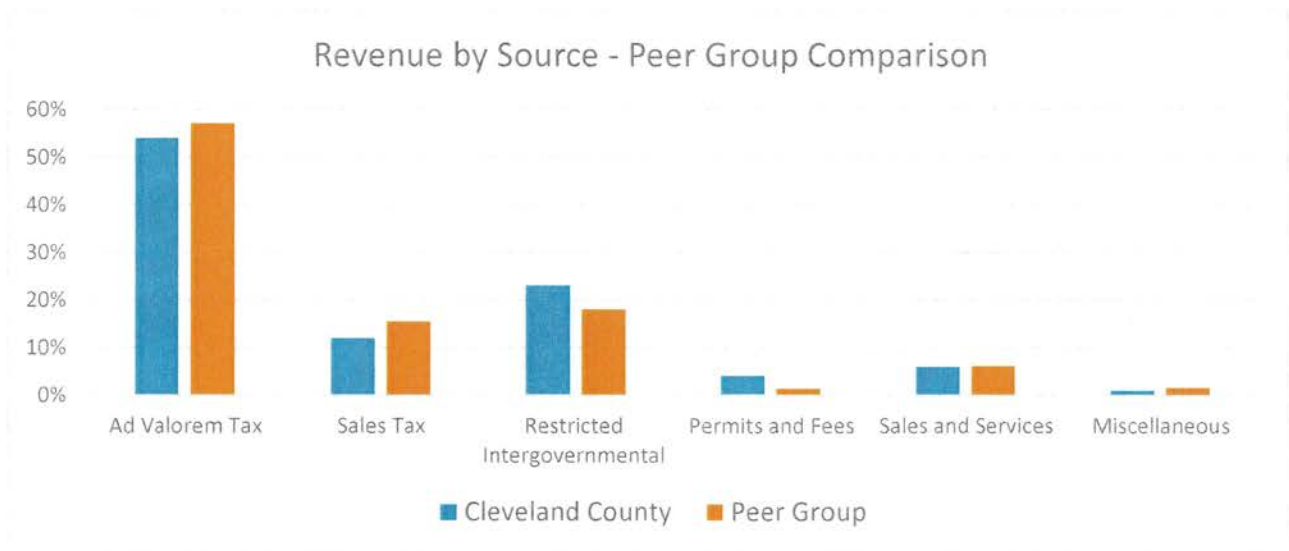
- Labor Development
 - Work Force Development / Talent Attraction
 - Aging/Changing workforce
- Housing Stock
 - Continued need for additional housing stock
- Arising community needs not captured in the strategic plan

SPOTLIGHT: FY 19 STRATEGIC PLAN

Strategic planning is used to set priorities and focus energy and resources to move an organization towards its vision. Cleveland County has used strategic planning for many years to inform policy development and financial decision-making and achieve the community desires and values articulated in the County’s Strategic Plan. The FY 19 Commissioner Strategic Plan is comprised of five (5) focus areas and then further defined with specific goals and objectives.

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

Budget Revenues



Real Property

Revenue in FY 18 is expected to come in very close to the budgeted level. The forecasted FY 19 amount is 3.20% greater. The total projected tax base for the FY 19 budget is \$8,759,857,335. This is a projected increase of \$275,764,002 in value when compared to the previous year. Essentially all of the property value growth is the development of NTE, a power generating company in Kings Mountain. This translates to a projected net new revenue amount of \$1,596,000 when calculated using a 57-cent tax rate and a 98% tax collection rate.

Sales Tax

Since 2015 Cleveland County has experienced substantial growth in sales tax. This is due to several reasons including legislation distribution changes as well as a more robust local economy. This time period has also experienced several economic development industry expansions which provides a “one time” sales tax revenue boost. For the FY 19 budget, the revenue team has recommended a 2.0% budgeted increase which equates to approximately \$185,000.

Occupancy Tax

This revenue reflects primarily the very strong growth that occurred in travel and tourism over the past 24 months. Since 2015 occupancy tax revenues have increased 40%. The FY 19 budgeted revenue projection for occupancy tax is \$350,000.

Inspection Fees

Inspection fee revenues increased in preceding years due to pent up demand after the recession. We anticipate fees will return to a more normalized rate in the coming years. As such, in FY 19, inspection fee revenue is projected to increase slightly. The FY 19 budget has a measured estimate of \$190,000.

Investment Income

Investment income is a barometer of strategic use of un-allocated resources. Staff are constantly evaluating 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 300% since 2014. The FY 19 budget reflects a budget increase of \$75,000 for a total revenue estimate of \$325,000.

Federal Revenues

In FY 18, Federal revenues are currently projected to be 21.5% over the amount included in the FY 18 Budget. Projected increase in FY 19 is reflective of the actual revenues received in FY 17, which came in substantially above the budgeted FY 17 amount, due to an increase in the Department of Social Services caseload and an increase in the Federal reimbursement rates. The performance of Federal Revenues in FY 17 is an indication that FY 18 Federal Revenues likely will come in well over the FY 18 budgeted amount, and the FY 19 forecasted amount reflects this expected FY 18 performance. Federal funding will continue to be closely monitored.

Budgeted Expenses & Commissioners Strategic Goals

Health & Human Services

The overall appropriation of local funding for the Department of Social Services will be \$7,732,622. This represents a decrease from the prior year of \$77,282 and a decrease in three of the last four years. Several key changes are reflected in the FY 19 budget including continuation of NC Fast implementation, State management of Medicaid Transportation and State management of Childcare Services. Cleveland County DSS employees approximately 220 FTEs which equates to approximately 25% of the County workforce.

The overall appropriation of local funding for the Department of Public Health will be \$3,511,276. This represents an increase from the prior year of \$345,276, but a cumulative decrease since 2014 of approximately \$500,000. The Public Health Department continues to lead the charge on improving the County health ranking and educating citizens on the importance of community wellness. The Public Health Department has approximately 160 FTEs.

Operational Highlights

The Cleveland County Register of Deeds (ROD), Betsy Harnage, will begin processing and administering passport applications during FY 19. This is only being done in a few Registers offices across the State and we applaud the team 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 the ROD. This new service required very minute capital improvements to the existing office, and a marginal increase in the operational and part time budget. Off-setting revenues were budgeted very conservatively due to the first year of implementation; however, we are very excited about this new opportunity.

The Human Resources Department continues to work to support an atmosphere that promotes work place engagement, employee wellness, and high performing culture. Included in the FY 19 budget is continued funding of \$30,000 to provided effective supervisory training, diversity training, and workplace harassment training. Also included in the Human Resources budget is funding to complete Phase II of the comprehensive pay and classification study. Our administrative leadership team is very appreciative to the Board of Commissioners for conducting and implementing the first pay and classification study for Cleveland County in over 25 years. The outcomes derived from the study indicated that Cleveland County was approximately 6% behind market, and the cost to get to market was \$2,000,000. The Board of Commissioner voted unanimously to implement the full study with an effective date of 1/1/18 – without increasing taxes. Phase II of this process is to implement more updated and formal policy including staffing classifications for departments that have rank and file.

Employee Benefits

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. Effective 1/1/18 as part of Phase I of the Pay and Classification study, each employee in the organization had their salary moved into market. We are very excited to include, as part of the FY 19 budget, a one percent (1%) cost of living adjustment at a total cost of \$400,000 to offset inflation since the market adjustment.

County Governments across the State are reporting average health care cost increases of 15-20% for Employee Health Insurance. Included in the FY 19 budget is a 9% employer increase in health care premiums. Monthly premiums per employee will be increased from \$735 - \$815, at no cost to the employee. This increase has an organization cost of \$600,000 which will be absorbed by the County General Fund. Our team is pleased with this continued momentum of managing our health costs with offsetting investments into our workforce. The FY 19 budget also includes improvements into the disease management programs, continuation of the YMCA benefits, improved long term disability, and for the eighth year in a row we have budgeted flat dependent and family rates.

Included as part of the FY 19 budget is minor modifications to the Pharmacy Formulary including the addition of a fourth tier as follows:

Tier	Cost	Criteria
1	\$3	Offered at competing pharmacies
2	\$5	Not offered at competing pharmacies, less than \$10
3	\$10	less than \$50
4	\$40	Greater than \$50

Focus Area – Economic Development

Cleveland County Commissioners continue to see the importance of Economic Development and the recruitment of industry. Work force development continues to be a primary focus for long range success. During the FY 19 fiscal year, the Board of Commissioners will continue to partner with Cleveland County Schools and Cleveland Community College to promote dual track with a focus on modern manufacturing.

The County has budgeted a 15% increase to the Cleveland County Economic Development Partnership and has begun discussions for the development of an apprenticeship and job training program with existing industries. Cleveland County makes up .08% of the total state population– Since 2008,

Cleveland County has recruited 17% of the total capital investment from new and expanding business in NC. The 2008 unemployment rate in Cleveland County was 13% compared to a current rate of 4.3%

The Board of Commissioners have also placed a high priority on assisting the Agricultural community in their efforts. Included in the FY 19 budget is the continued support for the small business incentive program, increased funding of NC. Cooperative Extension, and the continuation of grant support to assist local farmers.

The cleanup and development of Dover Mill has been a long-term vision of the County Commissioners for several years. Included in the FY 19 budget as part of the 5 Year CIP plan is an earmark of approximately \$1MM in one-time capital for the site development of Dover Mill.

Focus Area – Public Safety

The total public safety budget for Cleveland County in the FY 19 budget is \$22,759,494 and includes the Sheriff's Department, Detention Facility, EMS, Emergency Management, and E-911 communications. The County Commissioners commitment to public safety investment is most evident when analyzed over time. In 2014, this budget was \$19,608,050– the increase of \$3,150,444 has been more than any other function of County government and has supplanted in matching the funding levels of other similar North Carolina Counties.

Included in the FY 19 budget is continued momentum for public safety including five (5) new positions at the Detention Facility. Also included in the budget and in the 5 Year CIP plan is further allocation of one-time capital for the preliminary due diligence for a McBrayer Street Jail Expansion.

The Cleveland County Sheriff's Department reflects a total annual appropriation of \$14,800,000, which represents 12.91% of the County's General Fund. This reflects salaries, operations and capital for the Sheriff's Department, Detention Facilities, and School Resource Officers. Of that total, \$756,000 is dedicated to capital asset replacement in the Sheriff's Office and Detention Center. Capital funding for the Sheriff's Department is developed based on .72 cents of the total General Fund Tax Rate with 2% growth each year.

Also included in the FY19 budget is \$509,840 in Emergency Services (EMS, Emergency Management, 911) capital funding. Capital funding for Emergency Services is developed based on .60 cents of the total General Fund Tax Rate with 2% growth each year.

The Board of Commissioners continue to support the outstanding efforts of the County's Animal Control Services. During FY 18, 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. In 2012, the total number of annual euthanized animals was 4,500. In July-Dec 2017, that number was reduced to 300.

Included in this years budget will be a robust adoption program to include full vaccinations completed at intake, spay and neuter and micro-chipping for all animals eligible for adoption and several free adoption clinics throughout the year. Animal Services will continue to employ a full-time Vet-Tech position and continue to contract with a Veterinarian to ensure the proper care of all animals at the facility.

Focus Area – Community Wellness

During the February 3, 2018 work session, the Cleveland County Board of Commissioners updated their strategic plan to add Community Wellness as a fifth (5th) focus area. Community Wellness is an inclusive focus area that navigates based on improving the following:

- 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 including an intentional focus on actively engaging in the fight against the opioid epidemic, increasing County wide recycling, and continued momentum of the “*Partnering for Community Prosperity*” project.

Included in the FY 19 budget is an appropriation of \$50,000 to continue to fund the “*Partnering for Community Prosperity*” project. This funding will include year two of the West End Reach transportation project. Staff continues to see an increase in ridership on the transportation route that serves West Shelby. Funding also provides continuation of a full-time school nurse at Graham Elementary to provide telemedicine services and community development opportunities.

The Board of Commissioners have also sanctioned \$17,000 to provide a post occupancy and operational efficiency evaluation at the Cleveland County Public Health Department. The Public Health Department has been functional for approximately 24 months and the Board of Commissioners are focused on maximizing the community benefit moving forward.

In FY 18, the Public Health Center initiated a *Live Healthy Cleveland County* website designed to offer an array of exciting opportunities to become physically active in a variety of safe settings throughout Cleveland County. Two of those opportunities include the Kings Mountain Gateway Trail and the Broad River Greenway. With over 160,000 visitors per year and 20 miles of trail, included in this years budget is continued funding for both trails. Also included in this years budget is the continued partnership with the City of Shelby to examine the possibility of creating a Rail Trail which would run from the City of Shelby to the South Carolina line through many small Cleveland County municipalities.

Focus Area – Community Education / Customer Service

Included in the FY 19 budget, the County has re-classified a vacant position into a Public Information Officer. This position does not add to the County budget or create additional FTE headcount. This position will be leading the initial roll out of the County logo re-branding and website upgrade project as well as focus on communication to the internal organization as well as the community at large.

The Foothills Public Shooting Complex of Cleveland County budget reflects an appropriation of \$250,000. The Complex continues to perform at an outstanding level and is positioned to provide a long term regional travel/tourism draw for Cleveland County. The Complex hosted several tournaments during FY 18 and has plans of expanding those effort in FY 19. FY 18 exceeded expectations for revenue collections (+ \$190,000) and foot traffic (+25,000).

During FY 18 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 FY 19. It will include the involvement of local partners and a marketing campaign that engages the local school system. The FY 19 budget includes a budget appropriation of \$15,000 to provide resources for this project.

Cleveland County is home to fifteen (15) municipal governments, which is one of the highest numbers of any County in the State. Each of these municipal partners are vital to providing the highest level of government services to the citizens of Cleveland County. Since FY 16, the County has provided several one-time capital grants to municipalities to help facilitate recreational opportunities across Cleveland County.

The Board of Commissioners recognize the importance of supporting these local efforts while maintaining a balance with a multitude of other competing interests, social responsibilities and statutory duties. To help facilitate long-term sustainability, we have included a new municipal grant program as part of the FY 19 budget. The program will allocate \$60,000 on an annual basis that would be disseminated to Cleveland County municipalities through a competitive application that is analyzed based on competing interest and Strategic Plan alignment annually through the County's budget process.

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%. It has been a continued goal of the County Commissioners to increase the County's fund balance to between 18-20%. Primarily due to intentional budget management, service re-design, and expenditure re-engineering, the 6/30/2018 projected fund balance will be approximately 18.5%.

Cleveland County Government is committed to the fundamental principles of a *High Performing Organization* (HPO). One of the essential functions of an HPO organization is continuous self-reflection and rethinking of all activities and programs. One of our continued focuses is maintaining an innovative

mindset of public service entrepreneurship. Our rethinking initiatives have resulted in identifying those projects, services, and business relationships that needed strengthening and those that needed abolishing. 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 \$113,583,738 and the total appropriation for FY 19 is approximately \$114,667,935. Since that period, we have:

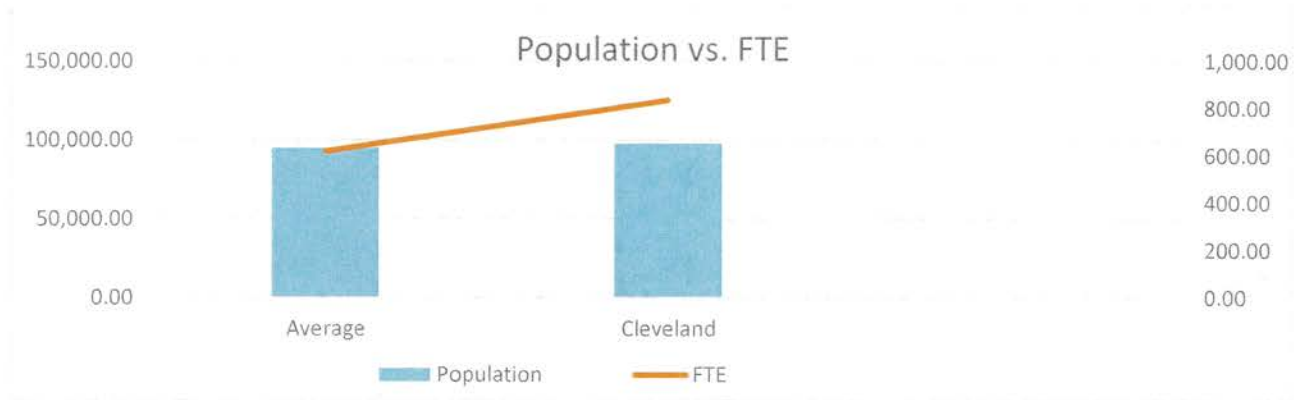
1. Increased staff salaries on average more than 20%
2. Improved all aspects of the employee health plan
3. Created employee tuition reimbursement plans
4. Developed a 20-year Master Facility Plan
5. Increased public school funding

Our team is also pleased with the success of our long term and prudent fiscal planning. Included as an attachment of the FY 19 budget is a formal 5-year Capital Improvement Plan. The plan is intended to identify with a future orientation, upcoming capital needs (which are conceived from our Facility Planning and Long Term Operational Strategies) and align those needs with proper funding resources. This type of policy direction and support from the Board of Commissioners is greatly appreciated by staff and recognized as true fiscal sustainability. The County recently received a bond rating upgrade from S&P/Moody's and is now AA+ - which ranks in the top 15% of all Counties in the State.

Debt service management is another vital part of long term planning and sustainability. The County has approximately \$60,000,000 in outstanding debt obligations; however, due to strategic management and innovative planning the County General Fund is only responsible for paying 37% of that amount. That represents approximately 3.29 cents of the County's 57 cent tax rate. The remaining 63% of the debt is serviced from other Federal, State, and Local funding sources. Currently over 75% of the County's debt will be completely liquidated over the next 10 years.

RECOMMENDED FY 2019 STAFFING PLAN

Cleveland County currently employs more employees than the average county based on population.



In an effort to manage the human capital, the County administrative leadership team has incorporated three points of emphasis 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.
- C.) Substantial 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 more nimble and effective when we are adaptable to local needs.

Included in the annual appropriation is the addition of five (5) additional FTEs at the Detention Center at an approximate cost of \$180,000. The additional FTEs are a product of a professional staffing analysis that is founded on standards from the “institute of corrections”. This staffing recommendation also considers the possibility of co-locating both of Cleveland County’s jails in the future

PUBLIC SCHOOLS AND VOLUNTEER FIRE DEPARTMENTS

Cleveland County Public Schools

The county allocation budget totals \$28,835,253 which equates to an increase of \$452,207 or \$56 per pupil. Capital outlay will be \$2,850,000 which is consistent with the prior year. Sales tax is budgeted at a 1.6% increase for County Schools. Projected local funding, at \$1,975 per pupil would be top 40 of 118 LEAs in NC

Property Tax Revenue	\$ 13,001,053
Sales Tax Revenue	\$ 3,700,000
Local Operational Appropriation	\$ 10,200,000
Local Capital Appropriation	\$ 1,400,000
Sales Tax Capital Appropriation	\$ 1,450,000
Total	\$ 29,751,053

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 all 12 fire districts in Cleveland County. The budget team has worked closely with the County Fire Commission to forecast future needs and ensure appropriate resources are distributed to ensure proper coverage limits for Cleveland County citizens.

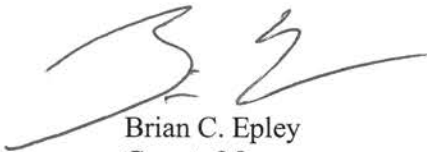
CONCLUSION

The 2018-2019 Fiscal Year Budget will continue to provide our residents, families, and guests with a full scope of high quality services. All signs in the community are continuing to trend in a very positive direction from both a macro-economic and community service perspective. It is truly a very exciting and transformational time for Cleveland County.

We are facing new challenges in the organization and in the community in 2018 that are very different than ten years ago. Our economic indicators such as unemployment, sales tax revenue and occupancy tax have maintained momentum, along with the growth of the national economy. These economic stabilizers have connected with the strategic economic development roots that were planted by Cleveland County Commissioners during the great recession and are beginning to provide unprecedented opportunity; however, it also creates very unique complexities and challenges. Our executive leadership team is aware and very cognizant of the responsibility that comes with opportunity and is excited about what the future offers for Cleveland County and its' citizens. Cleveland County Government experienced eight to ten years of economic suppression from, 2005 – 2014, which created pent up demand in most areas of County government including human capital, information technology/automation, and deferred building maintenance. Our executive leadership is indebted to the Board of Commissioners for recognizing these needs and allowing staff to develop action plans that address these areas. This again adds to the excitement and buzz in the organization.

Once again, I would like to say thank our Commissioners for their 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. This Budget will allow Cleveland County to continue its quality of life as a thriving and safe community that cherishes its location, maximizes and creates opportunity and evolves to meet the continuous challenges that success brings.

Respectfully submitted,



Brian C. Epley
County Manager