



CHEROKEE COUNTY

75 Peachtree Street
Murphy, NC 28906
828-837-5527

Randy Wiggins, County Manager
Maria Hass, Asst. County Manager/Clerk to the Board
Candy R. Anderson, Finance Officer
Darryl Brown, County Attorney

Board of Commissioners
Roy Dickey, Chairman
CB McKinnon, Vice-Chairman
Dan Eichenbaum, Member
Cal Stiles, Member
Gary Westmoreland, Member

May 18, 2020

CHEROKEE COUNTY BUDGET MESSAGE Fiscal Year 2020-2021

In accordance with North Carolina General Statute §159-11, the Cherokee County Fiscal Year (FY) 2020-2021 recommended budget is respectfully submitted for your review and consideration. The recommended budget sets forth a plan of operation for all county departments, programs, and capital projects for the coming fiscal year. This recommended budget is balanced in accordance with the Local Government Budget and Fiscal Control Act with total revenues and expenditures for all funds totaling \$42,405,057.

Introduction

Cherokee County's FY 2020-2021 recommended budget is designed to function as a plan in guiding departmental operations and funding partner agencies in an attempt to accomplish the goals and objectives communicated by the Board of Commissioners.

This recommended budget is presented with the following notable highlights:

- A decrease in budgeted sales tax proceeds of 25% or approximately \$1.7 Million due to the Coronavirus Pandemic
- A recommended property tax rate of 50 cents per \$100 of valuation. This recommended rate is 2 cents below the County's current tax rate of 52 cents and is 4 cents above the calculated revenue-neutral tax rate of 46 cents
- No increase in fee schedules
- Provides for acquisition and replacement of critical and essential vehicles and equipment across various departments
- A budgeted use of unrestricted and undesignated fund balance in the amount of \$294,428 to support an emergency communications infrastructure upgrade

Aside from expected Coronavirus Pandemic impacts to revenues, the most notable highlight is that the FY 2020-2021 operating budget follows the general reappraisal of real property for Cherokee County. The State of North Carolina requires counties to revalue property on at least an every eight year schedule. Our last revaluation was completed in 2012 and effective for FY2013. The Cherokee County Board of Commissioners voted to change the County's revaluation schedule from every four years to every eight years resulting in this most recent revaluation in 2020 and effective for FY2021. In FY2013, the Board adopted a property tax rate (52 cents) at one-half cent below the then revenue-neutral rate (52.5 cents) resulting in a reduction of property tax revenues of approximately \$150,000 each year over the eight year revaluation period for a total property tax revenue reduction impact of \$1.2 Million. Over that same period there has been an overall inflationary increase of 13.1%.

North Carolina General Statutes require counties to publish the revenue-neutral tax rate in the budget immediately following the completion of the general reappraisal of property. The revenue-neutral rate is defined as the rate that is estimated to produce revenue for the next fiscal year equal to the revenue that would have been produced for the next fiscal year by the current tax rate if no revaluation had occurred. The rate is calculated by determining a rate that will produce revenues equal to those produced for the current fiscal year and adjusting this rate by a growth factor equal to the average annual percentage increase in the tax base due to improvements since the last general revaluation.

The 2020 reappraisal produced a total tax base (before exemptions and deferrals) of \$3,874,925,201 for Cherokee County. The tax levy for the current fiscal year is \$18,517,580. The growth factor since the last general revaluation is 0.86%. Using the formula mandated by G.S §159-11(e), **the revenue-neutral tax rate for Cherokee County is 46 cents per \$100 of valuation**, which represents a decrease of 6 cents per \$100 of valuation from the current property tax rate of 52 cents per \$100 of valuation. Based on the last eight years of increased costs of providing services coupled with greater demand for those services, planned projects that will reduce the County's unrestricted Fund Balance and the expectation of a 25% sales tax revenue reduction impact due to the Coronavirus Pandemic, **the proposed property tax rate for FY 2020-2021 is recommended at 50 cents per \$100 of valuation**. This recommended rate is 2 cents below the County's current tax rate of 52 cents and is 4 cents above the calculated revenue-neutral tax rate.

We continue to monitor legislative changes, budgetary proposals and potential Coronavirus relief measures targeted to local governments coming out of both the Federal Government and our local State Legislature that could impact our local budgeted revenues and expenditures and will communicate such information to the Board to address any necessary changes to this recommended budget prior to their adoption of the FY2021 Budget Ordinance. It will be December 2020, well into FY2021, before data will begin to reflect the level of revenue impacts stemming from the Coronavirus Pandemic and the property tax rate may not be modified after the adoption of the Annual Budget Ordinance.

An expenditure schedule by function and department for the FY 2020-2021 recommended budget is provided at the end of this message as Attachment A.

Total County Funds

The FY 2020-2021 recommended budget for all Cherokee County Funds has an annual budget totaling \$42,405,057. The County has established an annual budget for six separate funds. These funds can be further paired into the following fund groupings:

**Cherokee County
Budget by Fund
Fiscal Year 2020-2021**

General Fund	<u>\$39,851,244</u>	94.0%
Special Revenue Funds:		
Revaluation Reserve Fund	79,613	0.2%
911 Fund	302,400	0.7%
Fire Districts	1,848,600	4.4%
Bear Paw Service District	<u>323,200</u>	0.7%
Total Special Revenue Funds	\$ 2,553,813	6.0%
County Total	<u><u>\$42,405,057</u></u>	100%

General Fund- The general fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, sales taxes, federal and state grants, and various other taxes and user fees. The primary expenditures are for general government services, public safety, human services, and education.

Special Revenue Funds- Special Revenue Funds are used to account for specific revenue sources that are legally restricted to expenditures for specific purposes. The County will maintain five Special Revenue Funds: Revaluation Reserve Fund, 911 Fund, Fire Districts Fund, Bear Paw Service District Fund and the Debt Service Fund.

Capital Projects Funds- Capital Projects Funds are used to account for the financial resources to be used for the acquisition and construction of major capital facilities. These funds have a project budget as opposed to an annual budget.

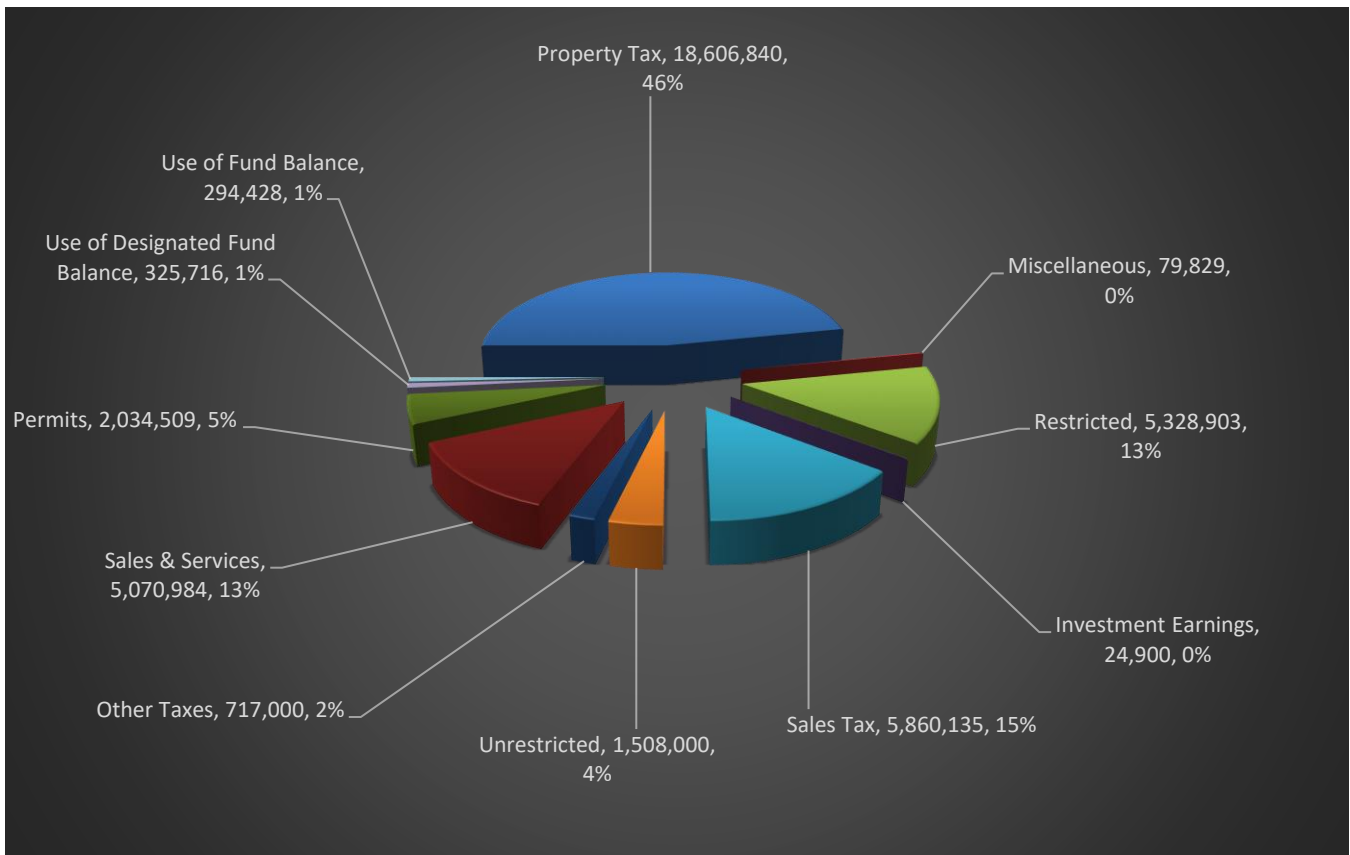
Enterprise Funds- Enterprise Funds are used to report any activity for which a fee is charged to external users for goods or services. Cherokee County does not currently have an active enterprise fund.

General Fund Revenues by Category

The General Fund with estimated revenues totaling \$39,851,244 derives its revenues from a variety of sources as shown below:

Cherokee County
Sources of County Revenue
FY 2020-2021

	Recommended	% of Total
Property Tax	18,606,840	46.7%
Miscellaneous	79,829	0.2%
Restricted	5,328,903	13.4%
Investment Earnings	24,900	0.1%
Sales Tax	5,860,135	14.7%
Unrestricted	1,508,000	3.8%
Other Taxes	717,000	1.8%
Sales & Services	5,070,984	12.7%
Permits	2,034,509	5.1%
Use of Designated Fund Balance	325,716	0.8%
Use of Fund Balance	294,428	0.7%
	\$39,851,244	100.0%



The County's largest revenue source is derived from ad valorem property taxes. For FY 2020-2021 it is recommended that Cherokee County establish a rate of **50 cents per \$100 of valuation** providing \$18,606,840, or 46.7%, of the total General Fund Budget, which includes current and prior years collections for both real and personal property, interest and penalties. This rate reflects a 4 cents increase over the revenue-neutral rate of 46 cents. To put this increase in perspective, every 1 cent of property tax rate equates to a \$1.00 cost to the taxpayer on every \$10,000 worth of taxable value. For a taxable value of \$200,000, each 1 cent of property tax rate equates to a property tax cost of \$20. Four cents on a value of \$200,000 equates to \$80 in property tax cost. The most recent information from the North Carolina Association of County Commissioners 2020 reports based on 2019 data shows Cherokee County at the 12th lowest of our State's 100 counties in property tax rate at 52 cents and 15th lowest of the 100 counties in the effective tax rate at 52 cents. Based on the 2019 data, Cherokee County's tax rate ranking would be 11th lowest of 100 counties at the recommended rate of 50 cents.

Our current undesignated and unrestricted fund balance available for appropriation after reserve for working capital is approximately \$1,692,624. For FY2021 we have two projects recently approved by the Board that will utilize these funds for the EMS Station 1 Project estimated at \$1 Million and the Armory Renovations Project estimated at \$385,000 for a total of \$1,385,000. We are additionally utilizing \$294,428 in support of our Emergency Communications Infrastructure project at \$549,000 that will provide for a much-needed update and improvements to our overall public safety communications county-wide and across all public safety agencies.

Our ad valorem collection rate has increased to 97.77% for FY2021. Our Tax Collection staff continues to work diligently toward improvements in our collection methods. As the property tax remains the only substantial revenue source controlled locally, it is imperative to maintain a high collection rate to provide an equitable distribution of taxes.

Sales tax revenues account for our second largest, unrestricted, revenue source. Over the last eight years Cherokee County's sales tax trend reflects a 39% increase in the most comprehensive article of the sales tax rate (Article 39). It is largely due to this revenue increase that Cherokee County has been able to avoid a property tax increase over the last eight year period. Due to the Coronavirus Pandemic it is estimated that we will experience a 25% reduction in sales tax revenues equating to an approximate \$1.7 Million revenue impact.

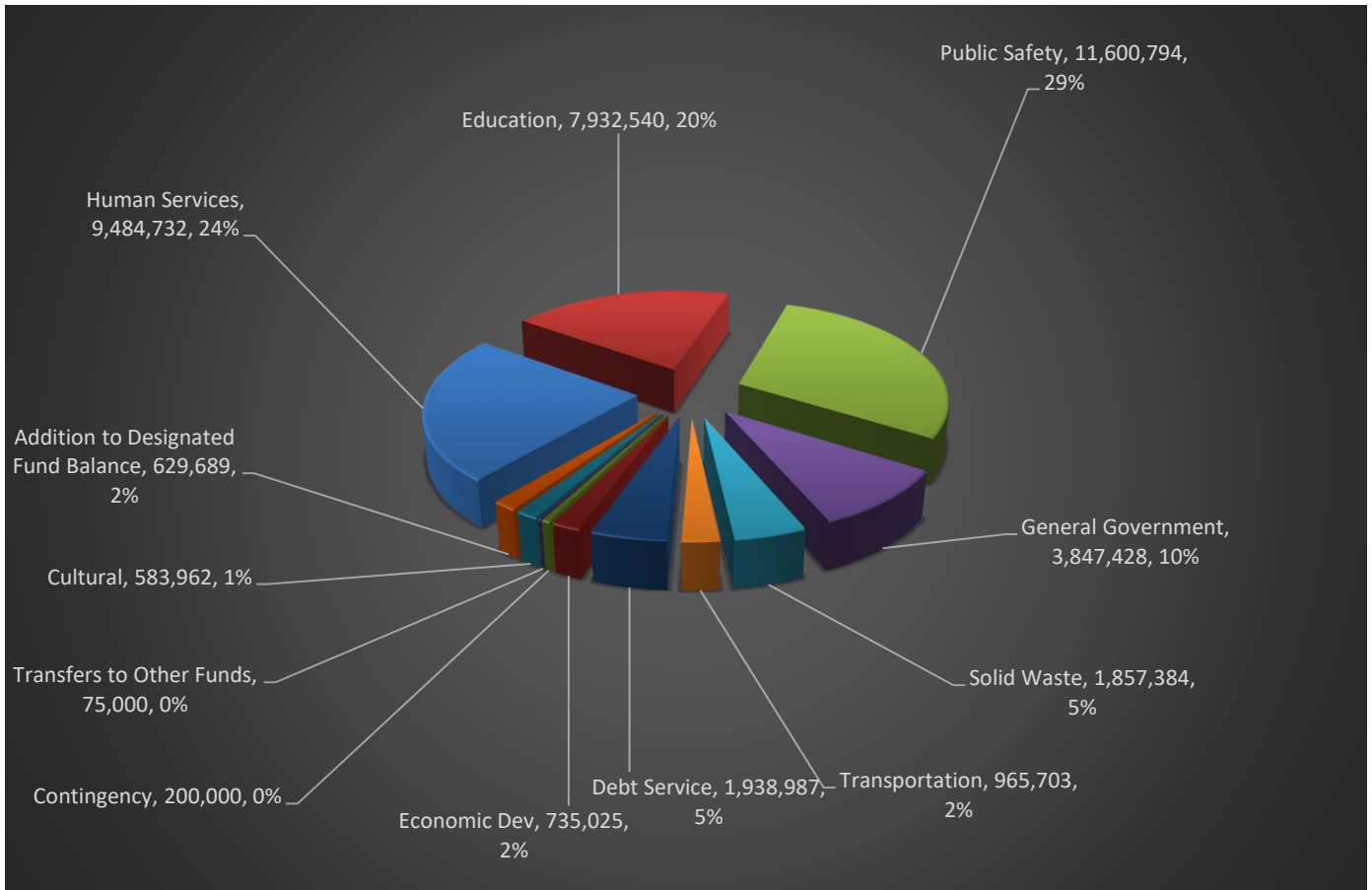
Most other revenue sources that provide funding for operating expenditures are expected to remain flat or experience slight decreases (inspection fees, etc.) for the coming fiscal year. We will continue to monitor all revenue sources and be prepared to act accordingly should additional significant impacts reveal themselves.

General Fund Expenditures by Category

The General Fund budget totaling \$39,851,244 is comprised of separate expenditure categories as shown below.

**Cherokee County
Expenditures by Function
FY 2020-2021**

	Recommend	% of Total
Human Services	9,484,732	23.8%
Education	7,932,540	19.9%
Public Safety	11,600,794	29.1%
General Government	3,847,428	9.7%
Solid Waste	1,857,384	4.6%
Transportation	965,703	2.4%
Debt Service	1,938,987	4.9%
Economic Dev	735,025	1.8%
Contingency	200,000	0.5%
Transfers to Other Funds	75,000	0.2%
Cultural	583,962	1.5%
Addition to Designated Fund Balance	629,689	1.6%
	39,851,244	



The following information details some of the more notable changes presented in the FY 2020-2021 recommended budget.

We are recommending \$200,000 appropriated as Contingency to address unexpected expenses. This amount of contingency appropriation is low based on the fact that contingency has historically been fully utilized well before the end of the fiscal year.

Cherokee County Schools –

Cherokee County Schools has never received their FY2020 State budget due to the failure of the State to approve such budget. No formal budget request has yet been submitted to Cherokee County and they are working to understand their own impacts from the Coronavirus Pandemic and what Federal and State assistance may be forthcoming. Our recommendation for FY2021 is to maintain their appropriation to the FY2020 level of \$7,075,540.

Tri-County Community College –

A formal funding agreement still does not exist as Graham County has not yet approved the three-county funding and board appointment memorandum of understanding. The plan contains a guaranteed annual adjustment based on the prior year core inflation rate. Due to expected impacts stemming from the Coronavirus Pandemic it is recommended to hold the TCCC FY2021 funding to the FY2020 approved amount of \$857,000. I have had discussions with Dr. Donna Tipton-Rogers, TCCC President, and she is graciously understanding and accepting of this recommendation.

Operations and Capital

Only those capital items felt to be critical are included in the FY2021 Recommended Budget. Critical being defined as those items necessary to maintain proper service levels, address pressing safety needs and those that would result in higher costs or decreased savings over time if delayed. Such critical capital items include:

Solid Waste –

- Tarp-O-Matic system for the Landfill that will save time and air space
- Methane Sump Project as a major safety item
- Mini-Excavator Rebuild necessary for continued Landfill operations

Sheriff/Detention –

- 4 Patrol cruisers and 1 Detention Transport vehicle to replace exhausted front-line fleet
- Replace obsolete and failing Jail plumbing system

911 Communications –

- Necessary upgrade and improvements to our emergency communications infrastructure

EMS –

- Final Med Unit module and new chassis – entire fleet now outfitted with Frazier Modules

Additionally, all approved capital items funded in the approved FY2021 Budget will be released on a case-by-case basis and will be held where possible until December-January when we should have a better understanding of what the Coronavirus Pandemic fiscal impacts will be.

Personnel –

Prior to the Coronavirus Pandemic, we were prepared to submit a plan to update the County’s antiquated and non-competitive pay plan. This was to be the year to provide the best opportunity to address a serious need to properly compensate our employees, recruit and retain the best talent and stop the high cost of turnover where our taxpayers pay to train good employees only to see them recruited by smaller, neighboring counties with much lighter workloads and higher compensation. The rate of inflation of the last twelve years comes in at 20.4% while our pay plan has only risen at an average of 6%. Likewise cost of living adjustments to our employees and not applied to our pay plan have only risen by 11% plus two flat dollar raises that total to \$3,125. Cherokee County is a service based industry and as such our highest costs are our personnel costs.

Cherokee County has been successful at maintaining a half-cent below revenue-neutral rate over the previous 8 years due not only to strong sales tax revenues and the responsible fiduciary work of our employees but also at the expense of our employees due to a stagnant county pay plan. Investigation into the updated pay plans of our neighbors, some much smaller than Cherokee County, also reveals the County is lagging behind. This is painfully evident as we lose talented staff to those counties for higher pay and lighter workloads.

It is our recommendation that we commit to implementing a crucial pay plan update and a process to maintain our competitiveness over time once we are back on strong financial footing. This should be a priority in order to avoid facing large investments in single fiscal years resulting from allowing the problem to build substantially over time. Our personnel costs are a cost of doing business and as such should be viewed through the lens of operational cost adjustments and not just seen as employee “raises”. A competitive plan that remains current with cost of living adjustments reflective of inflation is much easier to plan and less costly to fund over the long term.

Other Funds

Through the annual budget process, the Board of Commissioners also sets the tax rates for special tax districts set up as service districts. These districts include the 15 volunteer fire districts served by 13 Volunteer Fire Departments and the Bear Paw Service District.

Hiwassee Dam VFD has received majority support from the Board of Commissioners to increase their fire tax rate above their neutral rate by 1.7 cents for a total rate of 6.4 cents in order to support an expected annual debt service expense of \$68,000 for their fire station construction project. All other fire tax rates remain at their revenue-neutral rates.

Bear Paw Service District will notify us in June as to their Board’s approval of their FY 2020-2021 service district tax rate.

The table below does reflect revenue-neutral rates for all fire districts, with the exception of Hiwassee Dam as discussed above, for FY2021. Any increases in fire tax district rates should occur only after conversations between the Board of Commissioners and the respective Volunteer Fire Department after community meetings to educate and inform those taxpayers on the need and gauge community support.

**Cherokee County
Special Tax Districts
FY 2020-2021**

Fire Districts - Fund # 28	Tax Rates	Estimated
Rural Fire District	2020-21	Revenues
Fire District – Collection Fees	-	7,600
Bellview	0.049	102,000
Brasstown	0.041	16,000
Culberson	0.054	98,000
Grape Creek	0.060	42,000
Hanging Dog	0.059	76,500
Hiwassee Dam	0.064	262,000
Hot House	0.035	72,000
Martins Creek	0.034	87,000
Murphy Rural	0.092	335,000
Peachtree	0.055	185,000
Ranger	0.047	189,000
Tipton Creek	0.041	3,000
Unaka	0.038	38,500
Valleytown	0.054	315,500
Violet	0.064	19,500
Total Fire Districts		1,848,600
Bear Paw Service District - Fund # 29		
Bear Paw Service District	0.380	323,200

Conclusion

Thank you to the Board of Commissioners for their support and guidance over the current year and toward the FY2021 budget development process. This year was certainly a different exercise due to social distancing and other measures related to the Coronavirus Pandemic. I want to express my appreciation to our great County staff for their assistance in the preparation of the FY 2020-2021 recommended budget and for their constant dedication to the citizens and visitors we serve. Never more has this been evident than the great service our employees have continued to perform on behalf of our citizens and visitors during these unprecedented times. As always, a very special note of appreciation to our Finance Director for her sound counsel and the many hours spent gathering, maintaining and analyzing the data necessary to perform this task responsibly. This recommended budget is not what we were planning for when our process began in early January. We have included recommendations for critical and essential items that could not be delayed without greater impacts to our fiscal position over the long term but have held the line and delayed all capital expenditures that we believe we can responsibly postpone until we have a clear understanding of what the fiscal impacts will be to Cherokee County.

The Fiscal Year 2020-2021 recommended budget sets forth a plan of spending that supports effective service delivery, maintains our strong financial position and reflects sound management of the County's resources during a time of great uncertainty. We are pleased to present to you a recommended budget that will responsibly address our operational and capital needs in the coming fiscal year while protecting the fiscal health of Cherokee County for the future.

This budget message may be accessed on the internet at www.cherokeecounty-nc.gov, or at the office of the Clerk to the Cherokee County Board of Commissioners.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Randy Wiggins". The signature is fluid and cursive, with a prominent loop at the end.

Randy Wiggins
Cherokee County Manager

Attachment A

Cherokee County
Budget by Department
Fiscal Year 2020-2021

<u>General Fund</u>	<u>FY 2020-2021 Budget</u>
PARKS & RECREATION	343,622
MUSEUM	47,695
LIBRARY	192,645
TOTAL CULTURAL & RECREATION	583,962
LONG TERM DEBT SERVICE	1,938,987
TOTAL DEBT SERVICE	1,938,987
COOPERATIVE EXTENSION	187,952
ECONOMIC DEVELOPMENT	40,750
SOIL & WATER	92,189
SPECIAL APPROPRIATIONS	414,134
TOTAL ECONOMIC DEVELOPMENT	735,025
SCHOOLS	7,075,540
COMMUNITY COLLEGE	857,000
TOTAL EDUCATION	7,932,540
GOVERNING BOARD	257,152
ADMINISTRATION	207,088
INFORMATION TECHNOLOGY	485,417
FINANCE	443,363
TAX ASSESSOR	520,624
LAND RECORDS	167,440
TAX COLLECTOR	279,979
COURT FACILITIES	36,000
BOARD OF ELECTIONS	300,141
REGISTER OF DEEDS	433,974
PUBLIC BUILDINGS/MAINTENANCE	468,250
CENTRAL SERVICE	248,000
TOTAL GOVERNMENTAL	3,847,428

MENTAL HEALTH	75,000
HEALTH DEPARTMENT	2,698,511
SOCIAL SERVICES	5,920,554
VETERANS SERVICES	100,020
SENIOR CENTER	480,445
SPECIAL APPROPRIATIONS	210,202
TOTAL HEALTH & HUMAN SERVICES	9,484,732
CONTRIBUTIONS TO OTHER FUNDS -	75,000
TOTAL TRANSFERS TO OTHER FUNDS	75,000
SHERIFF	3,021,953
JAIL	2,656,970
911 ADDRESSING	69,046
CENTRAL DISPATCH	1,311,815
EMERGENCY MANAGEMENT	140,087
AMBULANCE SERVICE	3,766,792
ANIMAL CONTROL	104,750
CODE ENFORCEMENT	427,061
MEDICAL EXAMINER	35,000
SPECIAL APPROPRIATIONS	67,320
TOTAL PUBLIC SAFETY	11,600,794
TOTAL SOLID WASTE	1,857,384
TRANSPORTATION	712,213
AIRPORT OPERATIONS	253,490
TOTAL TRANSPORTATION	965,703
CONTINGENCY	200,000
ADDITION TO DESIGNATED FUND BALANCE	629,689
TOTAL ADDITION TO FUND BALANCE	629,689
TOTAL GENERAL FUND	39,851,244