

**SPARTANBURG COUNTY, SOUTH CAROLINA
FY 08 ADOPTED OPERATING BUDGET**



July 1, 2007

Honorable Jeff Horton, Chairman
Members, Spartanburg County Council
County Administrative Building
366 North Church Street
Spartanburg, South Carolina 29303

Dear Members of Council:

I am pleased to present the Fiscal Year 2007-08 Adopted Operating Budget. For Fiscal Year 2007-08, you will notice the budget document has been streamlined to provide for a more concise display of County revenues, expenditures and departmental activities. You will also notice that several new funds appear in the budget document this year. We have included these funds to provide for the necessary appropriation to the companion Capital Budget.

The FY 2007-08 Adopted Operating Budget is fiscally sound, efficient in its use of resources, and practical given our public service demands. I have crafted this budget with a long-term view toward ensuring our County will be a desirable home for future families and a competitive destination for future business investment. This budget takes into account the presumed effect of recent State actions to constrain revenue from local property taxes. It similarly recognizes the implications of a constitutionally mandated limitation on property tax assessments. The budget utilizes the provisions of South Carolina Act 388 and adjusts millage rates for growth in population and change in the Consumer Price Index (CPI).

High priority is placed on ensuring the County is able to attract and retain talented and capable staff in the years to come so that we are able to perform a high level of public service. This budget makes significant improvements regarding market competitive employee compensation, including implementation the first phase of a staged adjustment to employee compensation based on the results of the County's recently undertaken classification and compensation assessment. The budget also provides increases in Sheriff's Office and Solicitor's Office staffing levels where the quality of service delivery is threatened by insufficient numbers of employees available to provide the necessary and fundamental tasks of government.

Operational infrastructure needs of the County which directly relate to the ability of our employees to carry out their service mission are addressed in this budget. The budget provides funds necessary to insure employees have safe, reliable equipment to use that does not unnecessarily or inappropriately hinder their work.

This budget provides for those business costs that escalate each year as a matter of course. Employee health insurance, retirement benefits, worker's compensation insurance, and fuel costs are notable examples of how simply maintaining the status quo is increasingly expensive. Wherever possible, we are taking actions to minimize the effect of these increases and position the County for

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future cost containment. The following description of budgetary initiatives provides additional information on our efforts to improve efficiency and minimize the impact of these increases.

Highlights are noted in the following sections of this transmittal letter.

- I. Executive Summary
- II. General Fund Revenue
- III. General Fund Expenditures
- IV. Other Funds
- V. Debt and Debt Service
- VI. Fund Balance (Reserves)
- VII. Other Council Approved Millages
- VIII. Future Outlook

I. Executive Summary

For FY 2007-08, the adopted spending total for all funds is \$153,194,822, a \$24.54 million dollar (19.1%) increase from the prior fiscal year. Approximately \$7.3 million of the total spending increase is related to the tax-payer supported portion of the General Fund budget. However, the majority of increase in total spending has no effect on local revenues. It results from technical changes in our budgeting of funds to reflect the requirements of the Capital Budget and recognition of budgeted grant funds. Existing monies in the CIP Jail Maintenance Fund (\$418,000) and the Capital Project Reserve Fund (\$3.2 million), for example, will be transferred and appropriated in the Capital Budget thus increasing the total spending of the County in the upcoming fiscal year. The Solid Waste Enterprise Fund is increased \$4.4 million as a result of the expansion of Cell VI at the Wellford Landfill and Convenience Center 16 expansion. The Special Revenue Fund is increased nearly \$2.6 million to accurately capture those grant monies received and expended by the County on an annual basis. Spartanburg County is the fiscally responsible party for receipt and appropriation of federal Workforce Investment grant monies. For Fiscal Year 2007-2008, these funds are increased \$2.1 million dollars. State and federal funding received by the Spartanburg Alcohol and Drug Abuse Commission is increased nearly \$250,000 from the prior year and federal funding supporting the County's Community and Economic Development Department are increased more than \$200,000. Spartanburg Community College will receive an additional \$1.0 million dollars for one-time capital improvement needs.

The adopted budget includes a 3% increase in compensation for County employees, funding to begin implementation of the wage and classification study, monies to provide for an approximate 14.5% increase in employee health insurance costs, rising expenses related to worker's compensation, and an additional 1.1% State pension system contribution requirement. My recommendation for the tax-supported General Fund totals \$84,806,323, which is 9.4% more than the current fiscal year.

II. General Fund Revenue

A significant issue in the FY 2007-08 Adopted Operating Budget is the fiscal implications of State initiated tax legislation and voter approved amendments to constrain growth in the taxable base. At a minimum, it is understood these revisions to our tax system carry significant consequences for the ability of the County to address its long term revenue needs. Revenue enhancement options to meet increased demands for service previously available to the County are no longer viable. Instead, the County is generally constrained in its operating revenue growth by annual increases in the Consumer Price Index (CPI) and the percentage of population growth. Such restrictions on revenue growth unnecessarily limit the County's fiscal options when addressing future needs. Additionally, the mechanisms of the State legislation strongly encourage Counties of the State to

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take full advantage of CPI and population growth options to offset the negative and compounding effect of a status quo millage assessment.

As a result of new State legislation, the budget provides an increase of 3.5% in general operating millage to State permitted levels. This recommended increase is estimated to add approximately 1.6 mills to our existing millage base and raise approximately \$1.4 million in additional, tax supported revenue. While this recommendation is a difficult choice, I strongly believe it is the most appropriate and fiscally responsible course of action the County can pursue. Failing to take this action would result in the County operating revenue stream being constricted for the foreseeable future, causing reserves to diminish and virtually assuring the County is poorly positioned to address the inevitable needs of our future citizenry.

With the exception of an increase in the fees charged by emergency medical services (EMS), the fee structure of the County operating budget is remains unchanged. EMS related fees are proposed to increase to approved Medicaid reimbursement levels.

A particularly positive revenue note is continued growth in revenue from interest income. These funds, derived from earnings on our investments, are conservatively estimated to reach \$2.2 million during FY 2007-08, \$800,000 more than the projected revenue in fiscal year 2006-07. Proceeds from State Aid to Local Subdivisions are also significantly higher in FY 2007-08 with the General Fund portion of this revenue source increasing slightly more than \$1.6 million from the prior fiscal year.

The Palmetto Landfill Fund's transfer of proceeds to General Fund is reduced from \$800,000 to approximately \$27,000. As this facility reaches capacity, expected decreases in revenue generated by our host fee agreement are being realized. In recognition of this declining revenue source, available monies from the Palmetto Landfill Fund have been earmarked for one-time projects and are recognized in the CIP project budgets.

III. General Fund Expenditures

Personnel

At the direction of Council, the County has been engaged in an assessment of our classification and compensation system. The purpose of this assessment is two fold: to identify significant variations between the marketplace and the County's compensation schedule and to insure a degree of equity in pay amongst the numerous job classifications utilized by the County. The results of this study will soon be complete. Funding equivalent to approximately 1% of the County's salary base (\$365,000) is included in the Fiscal Year 2007-08 budget as the first stage of a multi-stage implementation schedule. The funds allocated for FY 2007-08 will be utilized to address those areas where significant differences between County compensation and market level compensation impede our ability to attract and retain high quality employees. Funds will also be used to address egregious inequities in pay between job classifications and to create new incentive for job classifications which are historically difficult to recruit.

As has been practice, this budget also includes a 3% compensation adjustment for County staff at a cost of \$1,095,000. Noted costs include the corresponding required increase for FICA, employee retirement contributions and worker's compensation. The addition of a 3% compensation addition for all employees helps protect our overall compensation schedule from the eroding effects of inflation. It also insures all employees with satisfactory job performance reviews are insulated from real dollar declines in income.

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Upward spiraling health insurance costs continue to challenge the County and its resource streams. For the upcoming year, the County has been assessed a 14.5% increase in employee health care premiums which will require an additional \$836,000 in County funding. As a matter of policy, the employee's contribution to their health plan benefit be increased in comparable measure. Employees of the County possess the greatest ability to affect the long term cost of health care. Healthy lifestyles and proactive disease management are two examples where employees can significantly impact health care expenses. I trust that by asking employees to share in rising expenses for unchanged levels of health care services we provide them with an appropriate degree of incentive to better manage their own utilization of the system. The County, however, must also proactively facilitate and support their efforts on this issue. This budget includes approximately \$230,000 for two contract nurse practitioner positions to provide employee health assessments, triage for on job related injuries and monitoring of employees with special medical needs. By utilizing contract nurse practitioners, we will lessen demand on more costly occupational medical and primary care services. The County continues to study opportunities to work collaboratively with other public and perhaps private sector entities to jointly address issues of rising employee benefit costs in either a fully insured or self-insured arrangement.

In order to address select public service needs, funding was provided for five (5) new positions in the Solicitor's Office to address their growing case loads, and three (3) new Deputy positions were approved in the Sheriff's Office, which will enhance our public safety services.

For FY 2007-08, personnel expenses in the General Fund total \$59.5 million (excluding EMS personnel expenses), an increase of 7.9% percent from the current fiscal year.

Operating

Operating expenses for departments and agencies of the County have increased a modest 5.8% over last fiscal year reflecting the inflationary costs of goods and services purchased. County staff continues to be exceptionally diligent in constraining operational costs and they are to be applauded for their efforts to keep these expenses to an absolute minimum. Similarly, while fuel costs have risen dramatically during the last eighteen (18) months placing an increased financial burden on County operations, the acquisition of new vehicles in the Sheriff's Department and the proposed capital purchase of vehicles and equipment for other departments of government permits us to offset increased fuel expense with maintenance cost reductions. Increasing costs of other utilities such as gas, electricity and water are being addressed through a cooperative assessment of our usage patterns with utility providers.

General Fund operating expenses total \$17.88 million, an increase of \$973,468 from the current budget.

Capital

Recommended General Fund capital outlay expenditures for FY 2007-08 total \$1.27 million, a decrease of 30% from the prior fiscal year. Funding for capital projects previously budgeted in General Fund are now included in the Capital Improvement Program (CIP). Capital outlay expenditures such as basic office equipment, copiers, computers and similar expenses continue to be reflected in the operating budget.

Departmental Notes

A summary of departmental expenditures and major changes in program efforts are included in your Adopted Operating Budget document. Several noteworthy departmental items are described below.

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Expenses related to the **Detention Center** continue to rise as jail populations remain in excess of rated capacity. A direct consequence of excessive jail populations is high staff turnover. During FY 2007-08, the Detention Facility has averaged in excess of twenty (20) vacant staff positions. In order to provide appropriate staffing levels and insure safety and security, required staff overtime is common practice. The FY 2008 budget includes \$1.35 million for overtime expense. The County continues to review options for decreasing staff vacancies and minimizing the use of overtime compensation.

Circuit Solicitor staff increases by five (5) new positions in order to reduce staff caseloads and address new demands for service. The numbers of cases related to driving under the influence (DUI), criminal domestic violence, and child abuse continue to rise demanding additional attention of prosecutorial staff. Currently, 7th Circuit attorney caseloads are among the highest in the State.

The **Sheriff's Office** staff increases by three (3) new Deputy positions, at a total costs including personnel services expenditures, operating expenditure and capital items of \$214,000.

Included in the **Non-Departmental** budget is the appropriation of funds to begin planning and construction of improvements to the Spartanburg Downtown Airport. Revenue for this effort results, in part, from increased plane registrations in the County subsequent to the Council supported lowering of aircraft assessments from 10.5% to 4%. Also included in the Non-Departmental account is funding to support the Community Services Building lease agreement with Spartanburg Community College and funding for the contract services of two nurse practitioners.

The implementation of a State Case Management System software system, an initiative of State Court Administration to improve the efficiency of operations, is scheduled for completion in the Fall of 2007. County funding for this effort is included in the **Information Technology** Department.

IV. Other Funds

Expenditures in the **Solid Waste Fund** increase \$4.4 million in FY 2007-08 to reflect capital project improvements at the Wellford landfill and public disposal sites. The increased funding provides for multiple projects including a Phase VI Cell 1 Liner, improvements to Convenience Center 16 designed to separate public traffic from main operations of the landfill, and routine equipment and vehicle replacements. Specific details for each of these projects are included in the Capital Improvement Plan (CIP).

County funding support for the **Spartanburg Community College** increases by \$1.06 million over the prior fiscal year. Of the increase, \$1.0 million is for one-time capital items associated with the accelerated business center at the Tyger River campus.

This budget includes funding requested by the **Spartanburg County Public Libraries** to provide for new facilities and services in the Boiling Springs area. In order to provide these additional funds, a one time one-half mil increase (0.5) (estimated) is expected to yield approximately \$500,000 for branch library construction.

The FY 2007-08 budget includes appropriation of approximately \$3.6 million in monies previously reserved in the **Capital Projects Reserve and Jail Maintenance Funds**. These monies have been reserved for improvements to detention facility operations. The proposed Capital Improvement Plan (CIP) includes expansion of the existing California Avenue Detention Facility as well as repairs and upgrades to existing detention facilities. These reserve funds are appropriated in the operating budget and transferred to the capital budget to support the proposed detention facility improvements.

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As previously noted, revenues expected from the host agreement with the **Palmetto Landfill** are expected to decline in FY 2007-08. A reduction of approximately \$350,000 in revenue to the Palmetto Landfill Fund is expected. Available monies will be used to support one-time Capital projects as detailed in the recommended Capital Improvement Plan (CIP).

Federal funding for **Workforce Investment** is expected to increase dramatically in Fiscal Year 2008, adding approximately \$2.1 million more in federal funding support to this effort. Spartanburg County is the designated agency for receipt of these funds and therefore maintains fiduciary responsibility for expenditure and reporting on the use of these monies. Operational decisions regarding the use of these monies are made by the County Council appointed Workforce Investment Board.

V. Debt Service

The Adopted Operating Budget implements Council direction from the prior year to set debt millage levels annually and according to debt service requirements. Consequently, a General Fund transfer of money to support the debt service budget is not included in this year's budget. For FY 2007-08, Debt Service is budgeted at \$7,864,736, approximately \$1.27 million more than the prior year. This increase results from the addition to the debt service fund of principal and interest payments for year one of Sheriff's Department vehicles and the expenses for year two implementation of the vehicle equipment replacement schedule. Currently, I am estimating the effect on debt service millage to be approximately 1.2 mills. However, this figure is likely to change and is dependent on County receipt of Sheriff seized asset monies to be used to offset County expenses.

Additionally for FY 2007-08, the County will issue approximately \$2.8 million in bonded indebtedness to permit the University of South Carolina Upstate funding to acquire property within their identified campus borders. USC Upstate has committed to providing offsetting revenue for this bond issuance during the initial four years of the bond obligation and until current bond indebtedness incurred for the University is satisfied. Subsequently, the County is asked to assume this financial responsibility.

VI. Fund Balance (Reserves)

For Fiscal Year 2008 an appropriation of \$468,000 is allocated to undesignated reserves in order to increase our fund balance. It is exceptionally important given the revenue restrictions placed on local government by State tax revisions that the County proactively increases its reserve to the fiscal policy objective of fifteen percent (15%). These monies will serve us well when future, unanticipated needs arise that require immediate financial support. Increasing our fund balance reserves also has the corresponding benefit of positioning the County to seek improvement in its financial ratings, an important factor in the long term cost of our enhanced capital programming efforts.

I am currently projecting that revenue will exceed expenditures in the current year budget by \$1.8 million dollars. The adopted budget presumes using this surplus to fund FY 2007-08 activities.

VII. Other Council Approved Millages

Consistent with prior practice, the **Fire Service Area (FSA)** millage rates will be increased by the Consumer Price Index (CPI) which for the preceding year is 3.2%.

VIII. Future Outlook

The specific effect on the County revenue stream that results from State Act 388 and the voter approved limitation on property tax assessments is not entirely known and will not be known for some time. What is clear, however, is that these legislative revisions have limited the options available to present and future County Councils in addressing issues of funding public services. The

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County is now subject to a prescribed limitation on millage which permits little leeway barring a specific emergency condition. The few financial choices which remain at the discretion of the County include annually increasing general operating millage by the Consumer Price Index (CPI) and the percentage growth in population of the County. It is incumbent on the County to exercise this option as a matter of fiscal policy and to insure a degree of protection to the County's overall financial structure. Failure to make these small, incremental changes on an annual basis will likely result in a financially difficult future.

Similarly, it is critically important that the County take a more aggressive approach toward increasing its financial reserves to fiscal policy limits. The cost of delivering public services inevitably rises and our ability to rapidly increase our revenue streams to compensate is now constrained. Fiscal reserves and fund balance provide us a hedge against the inherent risk associated with legislatively mandated revenue restriction.

The need to plan for future needs of the County is a reality today. Making difficult financial decisions which position us to accommodate the demands of a growing and increasingly vibrant community is one facet of that planning. Your approval of a Capital Improvement Program (CIP) which substantially improves our ability to project our capital needs is another facet. Working closely with the stakeholders of our community to develop sound, reasoned, and practical policy solutions to complex growth issues is yet a third facet. The staff of Spartanburg County Government is working diligently on all of these fronts.

In conclusion, Section 4-9-630(4) of the 1976 Code of Laws of the State of South Carolina, as amended, requires the County Administrator to prepare this document for Council's review and consideration. I am pleased and honored to present the Adopted Fiscal Year 2007-2008 Operating Budget to you and I look forward to working with you on its implementation.

Sincerely,

D. Glenn Breed
County Administrator