



April 19, 2010

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

Dear Members of Council:

I am pleased to submit for your consideration the Recommended Fiscal Year FY 2010/11 Operating Budget. The attached budget document continues our efforts to present financial information to you and the public in a clear and concise manner. As was done last year to assist you in your deliberations, the proposed budget aligns expenditures and revenues according to programmatic effort. This arrangement will permit you to efficiently view all resources committed to service efforts. The Recommended Operating Budget, along with the Capital Improvement Plan (CIP), reflect our best efforts to continue providing essential and efficient public services and contribute to fund balance while maintaining financial stability through the ongoing economic recession.

The principal factors driving budgetary decision making are the negative impacts on our general fund revenues brought about by the recession. We are projecting no growth in our tax base and significant reductions in fees and fines due to the ongoing slow down to development activity. Once again, the most notable revenue change is the reduction in state aid. These impacts to our revenue necessitate a significantly smaller general fund.

Given the uncertainty regarding the pace and timing of economic recovery and the weakened state of the County resources held in reserve, it is imperative that we approach FY 2010/11 budget decisions with a cautious eye on FY 2011/12 and beyond. To that end, this budget seeks to restore and strengthen the county's reserves, preserve the county's credit rating, and maximize the flexibility available to County Council in future years.

We are very pleased to report that, through remarkable cooperation from county department heads and excellent work of the County budget office, we have addressed the above concerns and produced a balanced budget that avoids layoffs and responsibly provides for stability and flexibility going forward.

The FY 2010/11 Recommended Operating Budget sets aside for the second year our priority to attract and retain talented and capable staff able to perform a high level of public service. Given the current state of the economy, there is no cost of living adjustment included in the budget. Vacant positions "frozen" in the current fiscal year are to remain frozen, and positions vacated during the new budget year will be thoughtfully considered before filling. However, neither furlough days nor workforce reductions are included in the Recommended Operating Budget. The County's workforce is stabilized and only a few

new positions have become vacant in the past eighteen months. We do recommend the establishment of incentives for retirement of those eligible employees under the provisions of the plan outlined during the Council budget work session. It would be our intent to leave those vacated position unfilled to the extent that they do not directly impact service delivery. Despite this, potential savings from this program have not yet been incorporated into the recommended budget. Health care costs are not increased this year, though there may be some required adjustments to the benefit package and/or the required financial participation of each employee. Workers' compensation costs continue their downward trend. State imposed employer contributions to the State Retirement System have been increased for public safety employees. As you recall, the state deferred this increase to this fiscal year.

The County's current and future costs for retiree health care benefits continue to be an important and fiscally significant issue. As you are aware, the County is required by the Governmental Accounting Standards Board (GASB) to define and account for future costs associated with retiree benefits in the Comprehensive Annual Financial Report (CAFR). An actuarial study estimated our liability on June 30, 2008 at \$75 million, and this amount continues to grow. A new actuarial study will be conducted, and a new liability estimated by the conclusion of the fiscal year.

State Act 388 and Act 402 continue to present the County with a new set of challenges for managing our organization. The constraint on the County's ability to raise revenue for operating needs is more acute as the County grapples with the reductions in the Local Government Fund that occurred the past two fiscal years and those planned for next fiscal year. As you are aware, State Act 388 virtually insists local governments take steps necessary to insure we preserve the financial flexibility the Act allows. Failure to adjust annually as permitted by law only serves to further diminish our latitude to address future matters requiring resource-based solutions. To that end, and as permitted by law, my recommendation includes an adjustment in County operating millage rate for population growth. Because the Consumer Price Index (CPI) was negative at the end of the calendar year, there will be no increase proposed associated with this indicator as allowed under the Act. The debt service millage will be increased this year to meet all bonded debt obligations.

State Act 402, in addition to imposing a 15% valuation increase limitation at the time of reappraisal, outlines tax base changes when property changes hands known as Assessable Transfers of Interest (ATI). We have been conservative in our estimate of tax revenue by assuming no tax base growth. Understanding that changes to the ATI may negatively impact our total revenue, we continue to work on tax revenue estimates and to refine our understanding of this pending legislative change. Staff continues to diligently study shifting market values occurring in commercial property.

As you know, this budgeting process also includes the establishment of funding levels for a number of other tax district entities. Their requests are contained herein including several entities seeking an Act 388 based millage rate adjustment.

I offer the FY 2010/11 Operating Budget Recommendation to you for your consideration, review and endorsement as appropriate. I suggest that the recommendations contained in this document reflect, to the extent possible, Council's direction for cost efficient and highly effective public service delivery. I also suggest that these budget recommendations offer a fiscal equilibrium which is alternately conscious of our economic uncertainties, our tax payer's burden and our community's need to grow and develop responsibly.

Executive Summary

The FY 2010/11 Operating Budget total from all sources is \$152,613,624, a 3.2% increase from FY 2009/2010. The overall budget amount reflects a \$2.76 million reduction (-3.2%) in the tax-supported General Fund portion of the budget; and, as stated earlier, includes the Act 388 millage cap formula (0%

CPI + 1.5% population growth) which will be added to fund balance. The tax base growth is estimated at 0%. Additional requests for Act 388 millage cap formulas include Spartanburg Parks Commission increasing their budget by \$604,155, including a transfer from Hospitality Tax to fund Tyger River Regional Park operating expenditures. Spartanburg County Community College is requesting an increase in their budget by \$1,378,000 (25%), including the use of \$1.3 million in fund balance to renovate the Evans Building. The Library is also requesting a millage adjustment. Their proposed budget is \$11,582,316, and represents a 0.88% decrease. Charles Lea is not requesting a millage adjustment, and their budget remains at \$1,278,000 to fund the Adult Day Care Program.

The Road Maintenance Fund Revenues decrease 27% to \$5,035,000 and include a contribution of \$875,000 to fund balance. The Storm Water Management Fund revenue increases 28.3%. Last fiscal year there was a contribution to fund balance, effectively lowering revenues, and appropriations to the City of Spartanburg and the City of Greer for providing storm water management services within their municipal boundaries. The Solid Waste Fund increases 28% because approximately \$950,000 in equipment expenditures will be funded with reserved funds and proceeds from the sale of existing equipment. SADAC's revenues decrease 0.2% related to outside funding sources, even with the addition of \$738,000 use of fund balance to fund current programs. Much work will be done in the coming year to identify additional revenue sources and to reduce services. The Special Revenue Fund is decreased 7.0% mainly attributable to shifting the home detention program to the General Fund budget. A new fund, created by Council in the current fiscal year, appears in the budget for the 7th Circuit Public Defender. Revenues for the new Fund are \$1.9 million, and include an \$898,035 contribution from the General Fund. By law, these funds must be reported in a separate fund, and the activity for Spartanburg County and Cherokee County are reported in two distinct departments.

The Debt Fund millage increases 1.2 mils, collected to retire previous obligations as well as those issued in FY2009/10. Community Development is requesting a 2.5% increase in its revenues related to Federal funding and the second year of modest reductions in General Fund support. The Capital Project Reserve Fund will be closed at the end of the fiscal year. The 9-1-1 Fund is projecting a decrease of 8.1% reflecting their projected revenues for the current fiscal year. The Palmetto Landfill Fund was closed on June 30, 2009. The Hospitality Tax Fund is projecting a 44.5% increase in revenues based on actual collection activity, and the use of \$861,000 from fund balance for pay-go capital projects. Also included is the funding for the Arts Partnership and the Spartanburg Regional Museum previously funded from General Fund.

There are a few housekeeping items in the FY 2010/11 budget. The General Fund contribution to the Spartanburg Humane Society is now reported in its own department. The cost, formerly reported in program area Public Safety has been moved to the Community Outreach and Health Services program area. In Fund 19, 9-1-1 Communications, GIS activities related to this program were previously reported in Community Infrastructure and can now be found in the Public Safety program area. General Fund's Registration and Elections activity was moved from Quality Customer Service to Enhancing our Quality of Life. Fund 14, Community Development, has moved from Community Infrastructure to Enhancing our Quality of Life. We believe these shifts between program areas more properly align these important service areas.

Creating a Safe and Secure Community – Program Services

For FY 2010/11, the Recommended Operating Budget includes a total of \$56,471,820 to provide for the safety and security of our community. Monies derived from the tax supported General Fund provides 94% of the revenue necessary to support these services. The remaining \$3.4 million in proceeds for this program are primarily received from grants and dollars collected from telephone surcharges.

As in years past, major departmental expenditures in this program occur in the Sheriff's Office, Detention Facility, Emergency Communications Department, EMS, Clerk of Court, Circuit Solicitor, Magisterial Court,

and Probate Court. Although funding for Detention is significantly increased, a staffing solution has been incorporated that is expected to lower utilization of overtime, decreasing personnel costs from historical levels. The State required an increased contribution to retirement program for all public safety officers. This increase was deferred from FY 2009/10. Again this year, based on current year spending for Sheriff overtime, we believe there is no need for additional funding in the new fiscal year, always mindful that extra-ordinary events may dictate a higher level of resources. One new clerical support position is proposed for the Coroner's Department. The use of cash to purchase four new ambulances for EMS is deferred. Currently, Spartanburg Regional Hospital takes ownership of the ambulances and other capital equipment after the purchase is made by the County. Alternative funding options will be studied in the upcoming year. As previously noted, the 7th Circuit Public Defender costs are now reported in Fund 12, and include operating dollars for both Cherokee and Spartanburg operations.

Excelling at Customer Service – Program Services

The FY 2010/11 Recommended Operating Budget includes a total of \$17,843,022 to provide for the administrative infrastructure required for our government's service operations. The proposed funding level reflects a decrease of \$2.16 million or -10.82%. Operational savings were identified by each department as budgets were submitted for review. Property and other insurance costs are reduced. Monies derived from the tax supported General Fund provide 100% of the revenue necessary to support operations. In FY 2007/08, an overhead allocation program was put into place to recover available dollars from funds using services provided by General Fund. The \$1.6 million allocation is budgeted this fiscal year, and has been expanded to share in the costs of retiree health care and unemployment claims.

Major departmental expenditures in this program occur in the County Administration, County Attorney, Assessor, Treasurer, Auditor, Delinquent Tax, Register of Deeds, Finance, Information Technologies, and Facilities Maintenance departments. In addition to departmental expenditures included under this effort, non-departmental monies are part of the total program recommendation. Non-departmental monies are for general government purposes and it is not appropriate for them to be included as part of any specific department budget. For example, fleet-related charges are now budgeted in Non-departmental; also the savings from "frozen" vacant positions and estimated workers' compensations savings are budgeted here until the new rates are confirmed. The County will be opting for higher deductible workers' compensation insurance resulting in \$1.2 million in savings; however, reserves must be budgeted to cover new claim costs estimated not to exceed \$600,000 County wide. Liability and property insurance premiums are also budgeted in Non-Departmental (\$1.1 million), as are County payments for retiree health plan benefits \$1.12 million—over \$500,000 in savings brought about by policy changes.

Preserving the Community Infrastructure – Program Services

The FY 2010/11 Recommended Operating Budget includes a total of \$22,699,285 to provide for the maintenance, preservation, and improvement of the county's infrastructure. The proposed funding level reflects an increase of \$613,679 (2.8%) from the prior fiscal year. Monies derived from the tax supported General Fund and tax supported Storm Water Fund provide \$6.97 million (31%) of the revenue necessary to support this operation. The remaining \$15.7 million in revenue for this program is received from fees, State "C" fund contributions, and federal grant proceeds.

Major departmental expenditures in this program occur in the Public Works, Solid Waste, Storm Water Management, and Planning Departments. A total of \$4,036,683 is transferred from these service areas to the Capital Projects Fund to support efforts identified in the Capital Improvement Plan. The overall commitment to the maintenance and improvement of our infrastructure remains high. Investment in road resurfacing and transportation safety improvements made possible by the Road Maintenance Fee easing the burden on General Fund tax dollars. Program services for the elimination of dirt roads, bridge

maintenance, storm water outfall mapping, and routine maintenance of our road network are decreased from FY 2010/11 and reflect a contribution to reserves to provide resources for capital projects planned in future fiscal years.

Efforts to further explore and develop the County's next generation land use planning models continue. Land use planning and likely revisions to how the community's infrastructure is conceptualized and developed will impact future operating and capital budgets significantly.

Enhancing the Quality of Life in Our Community – Program Services

For FY 2010/11, Quality of Life program services which provide for education, recreation and care of County citizens constitute a total of \$45,352,762, an 8.56% increase from the current budget. Monies derived from the tax supported General Fund provide \$3,533,166 (8%) of the revenue necessary to support operations. Other tax supported monies include proceeds from the Hospitality Tax Fund, Parks and Recreation Fund, Community College Fund, Charles Lea Fund, and Public Library Fund. Collectively these sources of monies, along with federal and state grants, and State Aid to Local Subdivisions provide \$41.8 million (92%) of the program resources.

Major departmental expenditures in this program occur in the Spartanburg Parks Commission, Spartanburg Alcohol and Drug Abuse Commission (SADAC), Community Development, Indigent Care, Workforce Investment Board, Spartanburg Community College, Charles Lea Center, and the Spartanburg County Public Library System. For FY2010/11, those departments and agencies included in this program derive their monies from special purpose tax or tax district levies. SADAC is requesting a substantial contribution from fund balance to continue operations at current service levels.

Spartanburg Community College is requesting that their millage be increased by the Act 388 cap to help offset state cuts. Spartanburg Community College will be using the \$1.3 million contribution from its fund balance for renovations at the Evans Building as they begin the process of converting this building into a downtown campus.

Spartanburg Parks Commission is also requesting that their millage be adjusted by the Act 388 cap to begin preparing for the financial impact of operating new park facilities. Included in the FY 2011-15 Capital Improvement Plan is a list of Parks and Recreation capital projects, funded by the County's Hospitality Tax. These projects, while revolutionizing our Parks infrastructure and ability to attract tourists, will have a significant impact on operational costs. By preparing for those impacts now, the Parks and Recreation Commission will be able to ensure that all new facilities are operated in a manner that meets public approval, preserves substantial public investment, and minimizes the long-term financial impact on tax payers. To that end, the recommended budget for the Hospitality Tax funds includes a transfer to the Parks Commission fund to help offset operational costs associated with Tyger River Regional Park. Also included is a transfer to the debt service fund to offset principle and interest payments associated with the Certificates of Participation issue authorized in FY 2009/10.

The County's efforts to attract and retain quality business to our community continue to receive support for economic development in this recommendation, including funding for the Economic Futures Group at \$209,520. Medical services for the indigent are provided at a total cost of \$752,393, a 13.6% reduction from the current fiscal year. County funding to a broad array of non-profit organizations that support the health and human services of our population and protect our most at-risk citizens is recommended to be reduced by 10% for a total of \$1,097,020 including an unchanged \$675,000 for the Humane Society. The Arts Partnership and Regional Museum are recommended to be funded at their current level of \$266,150, but funding has been shifted from General Fund to Hospitality Tax Fund. Hospitality Tax expenditures are recommended at \$3,766,000 and include \$3,298,513 for repayment of debt, the new Tyger River Regional Park, and capital projects related to enhanced recreational infrastructure. Funding for job training and

employment services through the federally funded Workforce Investment Board is included in this program at a total appropriation of \$5,899,798 which reflects a 4.7% increase from the current fiscal year. The Community development program which utilizes federal Community Development Block Grant and HOME funds for assistance to low and moderate income families is recommended at \$2,000,296 and reflects an increase in federal funding and a modest reduction in General Fund dollars.

Debt Service and Other Transfers

The Debt Service Fund collectively represents the County's principal and interest payments required to retire debt obligations. These include General Obligation Bonds, Special Revenue Bonds, Refunding Bonds, Certificates of Participation, Voter-Approved Bonds and lease obligations. The FY 2010/11 Recommended Operating Budget observes the County policy of adjusting the annual millage levy for debt according to debt service requirements. The portion of the Debt Fund supported by tax dollars is recommended to be increased from 2.0 mills to 3.2 mills, an increase of 1.2 mills. The increase in debt service millage, though significantly less than the FY 2008/09 level, is directly related to the repayment of the General Obligation Bond authorized in FY 2009/10, repayment of the Brownfields Revolving Loan for the clean-up of Victor Mill and a reduction in alternate revenue streams that previously helped to decrease reliance on tax revenues for repayment of existing debt.

Principle and Interest payments associated with the Solid Waste Revenue Bonds and Hospitality Tax Certificates of Participation are also included in the recommended Debt Service budget. These payments are directly offset by transfers from the Solid Waste Fund and Hospitality Tax fund, respectively. The Recommended FY 2011-15 Capital Improvement Plan includes a capital lease for the acquisition of vehicles for the Sheriff's Office and for technology components that support County systems. This capital lease will not impact the recommended debt service millage for FY 2010/11.

Fund Balance (Reserves)

For Fiscal Year 2010/11 I am recommending that an appropriation of \$3 million be deposited into our General Fund available reserves to restore our fund balance to the policy level of 10% of budgeted operating costs. As previously noted, the importance of fund balance given the revenue constraints imposed upon us cannot be overstated as we work our way through federal, State and local economic downturns. As noted in the FY 2006/07, FY 2007/08 and FY 2008/09 Audit Report to Council, the past few years has seen the County's increased reliance on the use of fund balance to provide for routine operational expenses. The projections estimating an impact on fund balance from the current fiscal year are analyzed constantly. The cost savings programs instituted this year, include deferring capital expenditures, shifting programming to relieve the burden on General Fund, freezing vacant positions and freezing spending.

Future Outlook

While we remain optimistic for a rapid and robust recovery in the state and local economies, many believe it may be quite some time before economic growth returns to prior levels. However, it is important for us to recognize that even with the most rapid recovery, due to the nature and timing of our major revenue streams, it may be FY 2012/13 or beyond before general fund revenues return to prior levels. Therefore we approach FY 2010/11 as a year of preparation. When the recession comes to an end, Spartanburg County will be well positioned to pursue prosperity. Nevertheless, the limitations placed upon the County will require creativity if we are to provide effective services that keep pace with growing citizen demand and support the creation of a prosperous community.

At the writing of the transmittal letters for the FY 2007/08, FY 2008/09 and FY 2009/10 Operating Budget Recommendations, I noted that the "specific affect on the County revenue stream that results from State Act 388 and the voter approved limitation on property tax assessments is not entirely known...". Three

years later, the impact of this legislation becomes clearer. The proposed budget continues to position the County to meet the requirements of the law and maximizes the means to ensure fiscal flexibility in these uncertain times. As stated last year, the implications of Act 402, however, remain unclear as we step further away from the first reappraisal year under this new legislation and realize the losses that can never be recaptured from the 15% assessment cap. Legislative changes to the statutory language regarding Assessable Transfers of Interest (ATI) have the potential to have a significant negative impact on the growth of our tax base. The commercial real estate market is being monitored closely. Yet, the County continues to meet these challenges, as well as the challenges for ever increasing public demands for service, responsiveness and accountability even in the face of historic economic constraints.

With the FY 2010/11 Operating Budget Recommendation, I am proud to present this complex financial information in a way that makes priorities and objectives clear. I welcome discussion on both the form and content of this presentation. I envision future changes to the document which will have us speak with even greater clarity of the programs provided by County government, the relative effectiveness of those programs, and the resources necessary to yield for our citizens the services they seek. The staff of Spartanburg County Government continues to work as a team on all fronts, and I thank them for their continued service and dedication to our community.

In conclusion, Section 4-9-630(4) of the 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 Fiscal Year 2010/11 budget to you for your consideration. I look forward to working with you and our public on its adoption.

Sincerely,



D. Glenn Breed
County Administrator