

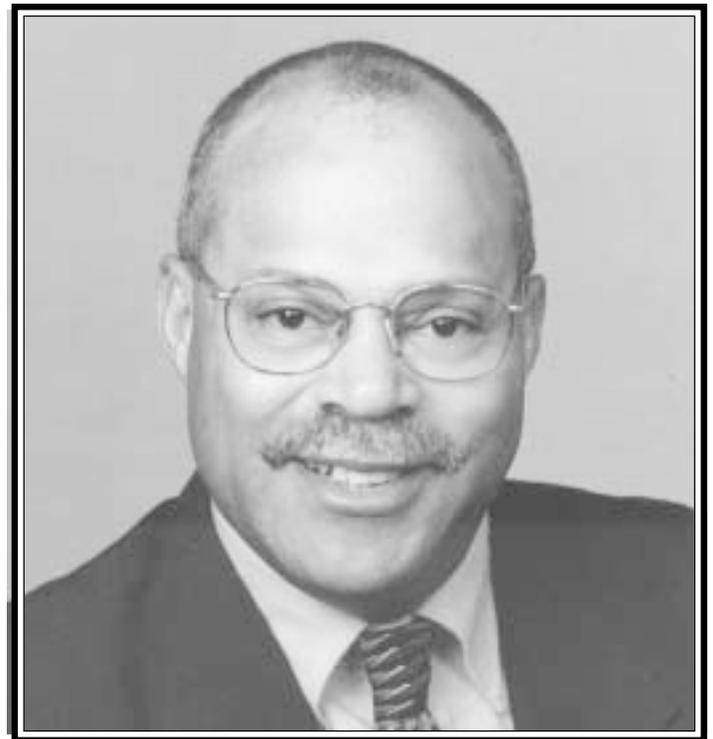
Carroll County Commissioners



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Board of Commissioners
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Dear Citizen:

We, the 57th Carroll County Board of Commissioners are pleased to present this Adopted Fiscal Year 2004 Budget, as well as the Fiscal Years 2004-2009 Operating and Capital Improvement Plans. Though the discussions leading to this Adopted Budget focused on the provision of services by the County and the projected availability of revenues to fund those services, we found that the state of the economy and the State's fiscal situation frequently forced themselves into our conversations. We have little or no influence over changes in the economy, or State and Federal decisions, but those same changes affect the decisions we make on our budget. The Adopted Fiscal Year 2004 Budget was developed in an environment that included a difficult State budget situation, a faltering economy, a loss of revenues and ever increasing pressure to raise the level of services provided.

A common thread through our budget deliberations was the desire of this Board to make growth pay for itself. We recently approved a twelve-month deferral of residential development to allow time to determine how we can more meaningfully match the costs and revenues created by development, and to assess our ability to provide the necessary services and facilities. We are continuing to evaluate our impact fees and the fees charged in connection with the development review and permitting processes.

The Economy

After several relatively comfortable years, we are emerging from or have just emerged from a recession. Though not particularly severe as recessions go, full recovery appears to be coming later rather than sooner. Changes in the economy have absolutely had an impact on our local fiscal situation, but we have fared better than some jurisdictions. Though we haven't been hit as hard by layoffs and manufacturing declines as some other areas, we still share the pain through the ripples generated from State budget difficulties. Changes in the economy and the stock market have affected Carroll most directly through declining interest rates and the loss of unearned income including, capital gains, bonuses, dividends and interest.

The State Fiscal Problem

The State faced significant deficits in their Fiscal Year 2003 and 2004 budgets. After a difficult General Assembly session the Senate and House approved a budget, but the Governor was unwilling to approve it as passed. The Governor's veto of tax increase legislation eliminated \$135 million in projected revenues, leaving their budget still to be balanced. Though additional State cuts are almost certain to have an impact on Carroll's Budget, we were forced by time

constraints to adopt our budget on May 22nd still unsure of the impact of further State actions. Looking beyond Fiscal Year 2004, the State faces a structural budget deficit that will clearly impact our Fiscal Years 2004-2009 Operating Plan, but it is difficult to quantify or even define what the impact will be.

Revenue Pressures

There are four primary areas of change in our County revenues impacting our ability to continue funding existing levels of service.

- The State budget situation has directly affected our revenues. Our share of Highway User funds from the Transportation Fund have been cut \$3.1 million for Fiscal Year 2004 from the approximately \$9 million that was expected. The State is charging local jurisdictions one-third the cost of the property tax assessment process in Fiscal Year 2004. The loss to Carroll in Fiscal Year 2004 is nearly \$350,000.
- In most years, the budget ends with some revenue collected in excess of budget and some budgeted appropriations not fully spent. These surpluses must be used in a future budget. Based on history, we plan for approximately \$4 million or 2% of budget to be available each year. We don't expect Fiscal Year 2003 to generate a typical surplus, leaving the Fiscal Year 2005 budget approximately \$3 million short of plans.
- After several years of strong growth, income tax, our second largest revenue, came in below budget in Fiscal Year 2002. Even though the rate of growth is recovering, income tax revenue is now growing on a smaller base than we had planned.
- The County gets a large part of its revenue early in the year as property tax is collected, but expenditures are spread throughout the year, allowing us the opportunity to generate additional revenue by investing the funds until they are needed. Even with the conservative investments local governments are allowed to use, not too long ago we were earning 5% on our investments. Recently, we have been earning just over 1%, significantly reducing interest as a source of income.

The Pressure to Provide Services

The need or desire for services always exceeds the revenue available to provide them. The list of services not receiving desired funding is a long one. We must make many choices to balance the budget and we leave many dissatisfied with levels of funding. Following is a short list of our greatest expenditure concerns:

- What will be the impact of further State cuts? We are concerned not only about direct cuts to the County, but also cuts to agencies we jointly fund with the State like Carroll County Public Schools, Carroll Community College, Carroll County Public Libraries and the Carroll County Health Department.
- Can we keep pace with the growing costs of the public school system? What will be the impact of State mandated all day kindergarten and Federal "No Child Left Behind" legislation?
- Can we keep pace with the rising cost of providing emergency services?
- The number of law enforcement officers needs to keep pace with population growth.
- Our detention center will soon be out of room.
- A difficult winter has accelerated road deterioration.
- Though it is already built into the budget, a new State-mandated voting system will cost the County approximately \$1 million.

In early March the Department of Management and Budget presented their Recommended Operating Plan. Although Fiscal Year 2004 was balanced, the next three years were projected to be in a deficit position. Typically, Management and Budget would not present a recommendation for an unbalanced Operating Plan. They did so to illustrate that the choices we faced this year would be more challenging than in most years. Perhaps the most important piece of this picture was that the County would not be able to continue funding existing levels of service after Fiscal Year 2004. We want to emphasize this point – we were not going to be able to continue funding existing services.

Recommended Fiscal Year 2004-09 Operating Plan

Millions of \$	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
Revenues	239.7	241.9	259.2	273.6	289.7	305.9
Expenditures	238.3	248.5	260.5	273.8	287.3	301.4
Balance	1.4	(6.6)	(1.3)	(0.2)	2.4	4.5

Service Improvement

The focus of the Management and Budget recommendation was maintaining existing services with very little funding included for improvement. The few improvements included:

- A prosecution assistant was added to the State’s Attorney’s budget to help with the increasing administrative load, freeing attorneys to focus on prosecution.
- An administrative position was added in Sheriff’s Services to allow deputies to focus on their core duties.
- A public safety liaison position was added to work with the service providers and to coordinate Homeland Security activities.
- Approximately \$250,000 was added to the Community College budget in connection with the Nursing and Allied Health program.

Even recognizing the difficulty of our fiscal situation, we felt strongly about improving the level of service in several other areas.

- The Fiscal Year 2004 Budget and the Fiscal Years 2004-2009 Operating Plan assume that new costs associated with newly opened schools will be accompanied by new funding to Public Schools in addition to any other planned funding. In the past, the operating impact of new schools has been absorbed in general funding increases.
- We added \$800,000 to the Public Schools’ operating budget for Fiscal Year 2004. This is part of their base and will grow over time.
- We added \$200,000 of on-going funding to the Volunteer Firemen’s Association budget. This is part of their base and will grow over time.
- We added approximately \$750,000 to be used in conjunction with existing appropriations of approximately \$500,000 to ensure the availability of emergency medical services at strategic locations around the County twenty-four hours per day, seven days per week. County staff will work with the Volunteer Firemen’s Association to develop a plan.
- Approximately \$200,000 over three years was added to buy three smaller snowplows to work in subdivisions. Sometimes smaller streets, parked cars and cul-de-sacs hamper the snow removal efforts of larger vehicles. The Bureau of Roads believes these vehicles will allow them to speed the snow removal process.

- We added a one-time appropriation of \$38,800 to the Fiscal Year 2004 Public Library budget to purchase books. The increase will replace part of the \$80,000 of State funding they have lost in the last two years.

Balancing the Budget and Operating Plan

Given that we started with an unbalanced Operating Plan and added funding in the areas listed above, other changes were needed to balance the Fiscal Year 2004 Budget and the Operating Plan. We had two basic choices – make offsetting expenditure cuts or raise revenues. Our eventual decisions were the result of a series of intense discussions during our budget work sessions.

As is often the case in situations like this, we first considered an across-the-board cut to balance Fiscal Year 2005. Approximately three percent would need to be cut from all budgets. We eventually rejected this approach for several reasons.

- First, across-the-board cuts ignore priorities by assuming that every service should equally share the cuts.
- Second, across-the-board cuts assume the existence of “fat” in the budget. We don’t believe our budget is burdened by unnecessary expenditures. In the last decade we have had to adjust to the loss of State revenue and the need to provide County funding for services previously funded by the State. Since Fiscal Year 1997, most County agencies have grown at a rate that generally falls short of covering cost and population increases. These pressures have already forced County government to become more efficient.
- Finally, even if we believe that across-the-board cuts are appropriate, there are practical problems that get in the way of full implementation. Some budgets can’t be cut. For example, once we have committed to debt service, we can’t choose to reduce it. Unless we reduce the number of Resident Troopers, we can’t reduce the size of our contract with the State. Other services like public safety and public schools are high priorities for additional funding. We were unable to convince ourselves that it would be a responsible act to cut such budgets. If we pull just public schools and debt service out of the mix, all other services would need to be cut almost seven percent. If we pull out all of the budgets that we face significant constraints in cutting or that we believe it would be irresponsible to cut, we would face cuts of ten to twenty percent on what remains. At that point, it clearly becomes preferable to eliminate programs than to hurt a wide variety of services.

We understand that not all citizens agree on the role of county government and the services that should be offered. We do believe we are offering an appropriate mix of services. Based on that belief, we chose to maintain existing services rather than cut programs or reduce levels of service.

Given the existing fiscal situation and our desire to maintain services we needed to increase the revenues available to support the services. An effort was made to avoid putting the impact all on properties or incomes, and to minimize the impact on those least able to bear the burden. We are proposing three changes.

- Make the Solid Waste Enterprise Fund self-supporting. Enterprise funds are intended to operate more or less like businesses, creating enough revenue to cover expenses. The

Solid Waste Enterprise Fund currently does not. We have asked for alternative means of creating sufficient revenue. The Plan assumes that the Fund will be self-sufficient in Fiscal Year 2005 freeing \$2.645 million annually that is currently being transferred from the Operating Budget to the Enterprise Fund.

- Increase recordation tax from \$3.50/\$500 to \$5.00/\$500. Recordation is a transaction-oriented tax that is in large part targeted on growth. Some homes are purchased by people moving into the County, but even current Carroll citizens moving within the County are opening opportunities for others to move in. This change is projected to generate \$3 million in Fiscal Year 2004. Based on an average Carroll County house sale of \$220,000 this change will add \$660 to the cost of the transaction.
- Increase income tax from 2.85% to 3.05%. Among the various taxes, income tax is generally regarded as a progressive tax, that is, those who are best able to handle the increase bear a larger share of the burden. This change is projected to generate approximately \$2.5 million in Fiscal Year 2004 and \$5.3 in Fiscal Year 2005. Because the change is made on the tax or calendar year, the County only realizes half of the benefit in the first year of the change. The effect of this change on the average tax return in Carroll will be approximately \$90.

Fiscal Years 2004-2009 Adopted Operating Plan

The result of the expenditure and revenue changes is a balanced Operating Plan, but a Plan that only allows the County to continue to provide the levels of service that are already being provided. It is important to understand that the Plan is just barely balanced, which leaves some reason for concern. The largest balance as a percent of budget is 1.9% in FY 08. There are too many variables, too many unknowns to deal with to say that we can confidently project revenues and expenditures six years from now within 2%. We would like to see a balance of at least 5% in the last year of the plan. The small balances leave little room for change in revenues, newly mandated expenditures, or any of the many changes that will come to the County that we can't predict. We want to emphasize again – the small balances leave little or no room for improvements in service that we may believe need to be made.

Adopted Fiscal Years 2004-2009 Operating Plan

Millions of \$	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
Revenues	244.7	251.8	268.2	283.3	300.0	316.8
Expenditures	244.7	251.2	266.0	279.6	294.3	312.0
Balance	0.0	0.6	2.2	3.7	5.7	4.9
% Balance	0.0	0.2	0.8	1.3	1.9	1.5

The Fiscal Years 2004-2009 Capital Improvement Plan(CIP)

We would like to highlight a few capital projects.

- The Board of Education CIP includes funding the new Parr's Ridge Elementary School in Mt. Airy, a new south Carroll middle school and increased funding for paving and technology
- We added one-time funding of \$1 million to the Community College for technology in an effort to continue providing the training their students need to succeed in the workplace.
- Funding is included for a new paging system dedicated to emergency services. We added \$60,000 to a planned \$500,000 to increase the number of pagers that will be available.

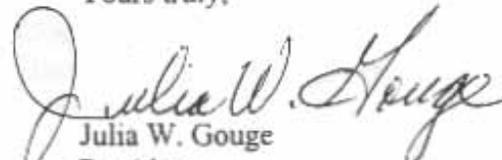
- Recognizing the effect of a hard winter on our road system, we added \$2 million in Fiscal Year 2004 and \$1.7 million in Fiscal Year 2005 to help repair deteriorated roads.
- \$3 million is included for a new south Carroll senior to replace the existing facility on Johnsville Road.
- In the face of our own fiscal difficulties and declining agricultural preservation funding from the State, we have kept our commitment to our agricultural preservation program.

The Cost of Growth

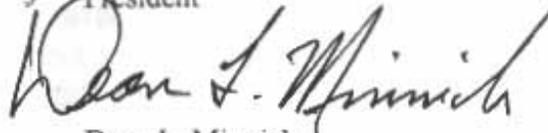
Though there maybe disagreement about exactly what costs are created by growth, most would agree that development does create costs. We are committed to making growth pay for itself. Toward that end, we are reviewing impact fees and the fees associated with development review and permitting activities. The missing piece in the cost of growth picture is a transfer tax. Most of our neighbors already have a transfer tax. A 1% transfer tax in Carroll would generate an estimated \$5 million annually. Though limited, this is our opportunity for improvement. We don't have the authority to impose a transfer tax, but we intend to begin working now with our delegation to get legislative authority. We hope you will support our efforts on a transfer tax and, to the extent possible, offset the costs of growth with associated revenue

We thank you for your interest in the Budget and look forward to working with you to implement this plan and to continue providing services to the citizens of Carroll County.

Yours truly,



Julia W. Gouge
President



Dean L. Minnich
Vice President



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