

# **The FY 06 Recommended Budget**

## **A Few Words and Even Fewer numbers**

### **Department of Management and Budget**

After more than a decade of squeezing budgets, services and facilities, the Commissioners have an unusual opportunity. Driven, at least in part, by a hot housing market the County's largest revenues are simultaneously growing at strong rates. The County hasn't experienced a similar occurrence since the late 1980s. The almost 20% growth projected for FY 06 is the largest growth since the FY 88 budget.

This Board of Commissioners has spoken frequently about the need to catch up so we can keep up. This is the opportunity to do some catching up. Some of this revenue shift could be used to support on-going commitments, but there are compelling reasons to focus the opportunity on one-time uses. First, our history tells us that the revenue picture will change. Second, the State continues to face a structural budget deficit. Among the possible solutions to the State's difficulties is passing the costs of retirement benefits for school, community college and library employees to the counties. The cost to Carroll County would approach \$15 million annually. And finally, Governmental Accounting Standards Board (GASB) changes on accounting for the cost of benefits to retirees could lead to millions of dollars of annual appropriations.

This opportunity should not be confused with an ability to address all needs or an expectation that the county could ever meet all needs. School and road needs alone are far greater than this change can address, but this is an opportunity to attack the list of needs and take a few things off the list – one big step in trying to catch up so we can keep up.

## A Really Quick Guide to the FY 06 Recommended Budget Department of Management and Budget

- We have experienced a fundamental shift in revenues.
- This change has created an unusual opportunity.
- The Commissioners need to carefully consider their choices, because we are likely to experience further change.

Where is the money going?

Total New \$	\$51.9
Public Schools	7.8
Transfer to the Pension Fund	4.9
Debt Service	3.3
Community College	1.1
Library	0.7
Detention Center	0.6
Facilities	0.6
Roads	0.5
Sheriff	0.4
BOE Debt Service	0.4
Unallocated Revenue	28.6
	\$48.9

As they develop their Proposed Budget the Commissioners will consider the use of the \$28.6 million that is unallocated in the Recommended Budget with a focus on one-time uses to attack the long list of facility and infrastructure needs.

# **A Quick Guide to the FY 06 Recommended Budget**

## **Department of Management and Budget**

### **Introduction**

The combined Recommended Operating and Capital Budget books are nearly six hundred pages long and contain a great deal of information. This Quick Guide is intended to serve as a summary of important information and changes, as well as a tool for understanding and locating information in the budget books.

The Recommended Budget is the Department of Management and Budget recommendation to the Commissioners including expenditure recommendations that are consistent with the Commissioners' goals and fundable within projected revenues. The recommendation does not fully allocate projected revenues. The Commissioners will further allocate funds and make changes to Management and Budget's recommendation after considering agency appeals and public input.

Management and Budget will meet with the Commissioners again in April to develop the Commissioners' Proposed Budget. The Proposed Budget will be available for public review and comment around the third week of April. The Public Hearing on the Budget will be held in the Scott Center of Carroll Community College at 7:30 on May 10, 2005. Budget adoption is scheduled for 10:00 on May 24, 2005 in Room 300A of the County Office Building.

### **Core Messages**

- We have experienced a fundamental shift in revenues.
- This change has created an unusual opportunity.
- The Commissioners need to carefully consider their choices, because we are likely to experience further change.

### **The Operating Budget**

#### **Revenues (19-29)**

We have not experienced strong simultaneous growth in our three largest revenues, real property, local income and recordation taxes, since the late 1980s. Just as it was in the late 1980s, revenue growth now is associated with rapidly rising home prices.

As signs of this revenue shift emerged in the last couple of years we reacted cautiously, not wanting to commit to on-going changes before it was clear that the revenue changes would be sustainable. Management and Budget will continue to recommend caution in on-going commitments.

- The FY 06 Recommended Budget grows \$51.9 million or 19.8% from the FY 05 Budget.
- This is the largest growth we have seen since nearly 21% growth in FY 88.
- Approximately \$21 million of the change is a result of stronger than expected growth in the current year and in late FY 04 creating a higher base to begin FY 06.
- Approximately \$31 million of the change is a result of expected growth in FY 06.
- More than half of the growth in FY 06 is attributable to prior year surpluses, also a result of revenue growth.

Expected Growth in FY 06

Total Change	\$31.1
Surplus	17.3
Real Property	10.5
Income Tax	4.0
	\$31.8

Available revenue information leads us to believe that the revenue changes are sustainable; that we are at a new higher level. Why then is Management and Budget urging caution on on-going commitments?

- The revenue picture will change.
- Potential impacts of State budget decisions.
- Accounting changes for retiree benefits.

The Revenue Picture Will Change

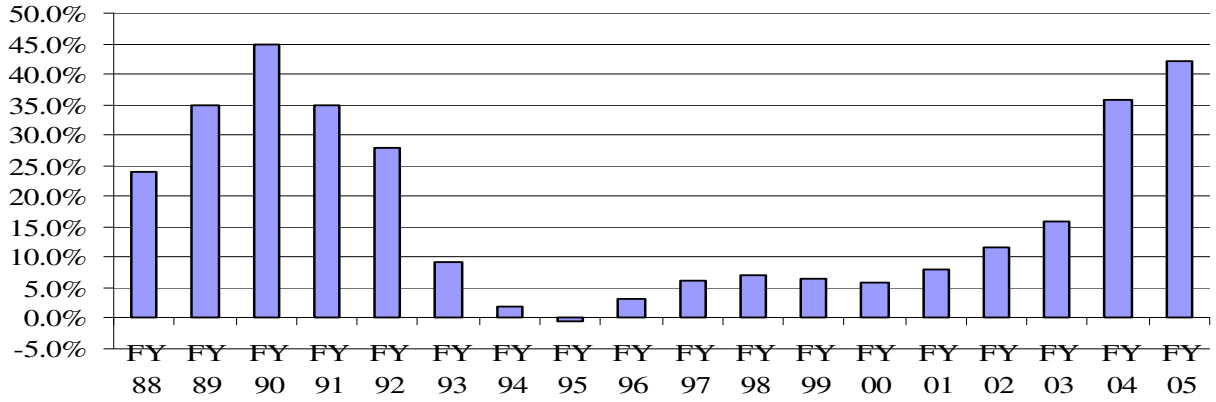
It appears that our strong revenue growth is closely tied to the hot housing market and rapidly rising prices. It is a near certainty that that will change. A worst case, but not impossible to imagine, scenario could dramatically affect revenues. What if:

- A lot of homes have been purchased with very low adjustable rate mortgages and
- Buyers stretched their incomes to afford expensive homes and
- Interest rates rise and
- Many new homeowners find that they can no longer afford their mortgages?

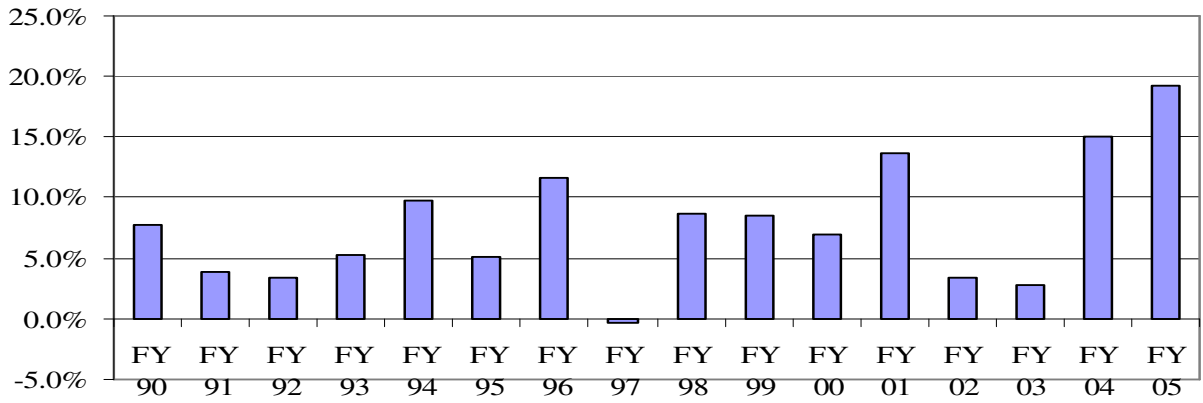
If this happened, we could experience foreclosures, difficulty selling homes, slowed building, flat or declining assessments and significant impact to property, income and recordation taxes, building permits and impact fees.

Even if we don't experience this dramatic change, we will experience slowed growth or declining revenue. In the last fifteen years we have experienced significant changes in each of our three largest revenues as illustrated in the following graphs.

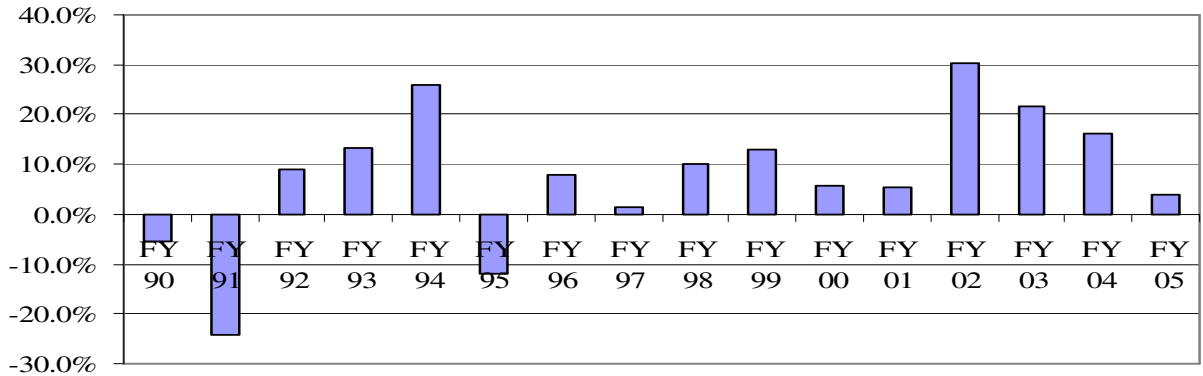
### Reassessment History



### Income Tax Growth History



### Recordation Tax Growth History



### Potential Impacts of State Budget Decisions

- Highway User Revenue, the last significant State revenue to the County Operating Budget remains vulnerable. For several years the State has diverted revenue intended for counties to the State's operating budget. For FY 06, the Governor's budget included a return to formula funding for the counties, but the General Assembly seems likely to cut it again. There is no reason to feel confident that this won't continue to be a concern for counties.
- The State currently pays for the retirement costs for employees of school systems, libraries and community colleges. Though it is not included in the Governor's budget, there has been discussion of passing those costs to the counties. If that were to happen, Carroll County would take on new costs approaching \$15 million per year.

### Accounting Changes

- Governmental Accounting Standards Board (GASB) changes may lead to the need for the County to budget millions of new dollars annually to account for health costs for retired employees.

### Expenditures (39-237)

Where is the money going?

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The Recommended Budget only allocates \$23.3 million of the \$51.9 million to expenditures. Because a third of the increase is due to an unusually large surplus that won't be repeated on an annual basis, and because of concerns about future revenue changes, uncertainty about the local impact of State budget decisions and potential impact of changed governmental accounting standards, Management and Budget recommends using all or most of the unallocated \$28.6 million in one-time ways to attack the long list of facility and infrastructure needs. Though this is an opportunity to take a big step toward catching up, up to \$11 million could be used to support on-going changes. The Commissioners will consider how to use the \$28.6 million of projected revenue that is unallocated in the Recommended Budget as they develop their Proposed Budget.

**General Fund Appropriations (39)** – Summary of appropriations by major categories.

- The largest percent change, 27.04%, is in the Miscellaneous category, which includes Debt Service, the Reserve for Contingencies, Intergovernmental Transfers and Interfund Transfers. The change is primarily due to a \$3.3 million increase in Debt Service.
- Other significant increases are for Public Safety at 7.07%, Public Works at 6.68% and Public Schools at 6.08%.
- The largest dollar change, \$8.2 million, is for Public Schools. The \$8.2 million increase includes an increase of \$7.8 million for the Public schools operating budget and a \$0.4 million increase in debt service on school construction.

**General Government Summary (43-44)** – Summary of appropriations by department and bureau.

- General Government increases \$1.6 million or 4.03%.
- Economic Development Administration increases 19.65%, Economic and Tourism Marketing decreases 100.00% and Tourism increases 15.02%. These changes are primarily a result of an administrative change eliminating the Marketing budget and moving the funds into the Administration and Tourism budgets.
- Facilities increases \$0.6 million or 10.33% primarily due to rising utilities costs and two new recommended positions toward the building of an additional crew.
- Production and Distribution increases 19.07% primarily due to the cost of voter registration mailings in connection with the change to five commissioners.
- The increase in Management and Budget Administration and the decrease in Budget are primarily due to the move of a position between those two budgets.
- Risk Management increases 8.66% primarily due to the cost of insurances.
- The Board of Elections increases 32.58% primarily due to costs related to the new Federal and State mandated voting system and a new position. The new position will in part be devoted to the new system.

**Public Safety Summary (117)** – Summary of appropriations by agency.

- Public Safety increases \$1.9 million or 7.07%.
- The Circuit Court increases \$0.1 million or 8.64% primarily due to two (2) new recommended positions to allow the Administrative Judge to manage hearing and case assignment.
- The Detention Center increases \$0.6 million or 11.18%. Includes three (3) new recommended correctional officers for Work Release, one (1) correctional officer for court security, and an administrative position for Security Services. Inmate driven costs such as medical exams, drug testing and prescriptions are rising rapidly.
- The Sheriff increases \$0.4 million or 11.87% primarily due to the addition of six (6) deputies to maintain the ratio of 1.3 officers per 1,000 citizens.
- The Volunteer Emergency Services Association (VESA) is funded through two budgets. The EMS 24/7 budget increases \$0.3 million or 13.81% primarily due to the addition of another paid EMS crew to continue the effort to ensure the availability of ambulance service around the clock. VESA increases \$0.1 million or 2.06%. Because the County recently created a self-funding Length of Service Awards Program (LOSAP) making an annual appropriation unnecessary, actual budget growth was 8.87%.

**Public Works Summary (155)** – Summary of appropriations by bureau.

- Public Works increases \$0.6 million or 6.68%
- Roads increases \$0.5 million or 7.76% primarily due to the rapidly rising cost of road maintenance materials.
- Storm Emergencies increases \$0.1 million primarily due to the cost of salt.

**Citizen Services Summary (167)** – Summary of appropriations by agency.

- The increase in the Citizen Service Administration budget is primarily due to the elimination of the Housing and Community Development budget and moving the two associated positions to the Administration budget where they will continue to perform their housing functions.
- Aging increases \$0.1 million or 16.23% primarily due to
- Human Services Programs (HSP) increases 10.24% primarily due to overnight staffing for the Intact Family Shelter.

**Public Schools Summary (195)** – Summary of appropriations for the School operating budget and debt service on school construction.

- The School operating appropriation increases \$7.8 million or 6.21%.
- School debt service increases \$0.4 million or 4.16% primarily due to the construction of Parr's Ridge Elementary School in Mt. Airy.

**Education Other Summary (201)** – Summary of appropriations to the Community College, Library and Cable Regulatory Commission/Community Media Center.

- The Cable Regulatory Commission increase is directly tied to the projected increase in cable franchise revenue.
- The Community College increases \$1.1 million or 24.96% primarily due to a changed funding relationship with the County. The Commissioners intend to fund one-third of the College's total budget.
- The Library increases \$0.7 million primarily due to a new salary plan to address recruitment and retention problems.

**Culture and Recreation Summary (207)** – Summary of appropriations by agency and bureau.

- Hashawha increases 7.37% primarily due to increases costs of electricity and the beginning of a three-year plan to replace all of the cabin mattresses.
- Piney Run increases 7.01% primarily due to replacing the patrol boat and a four-year plan to replace revenue-generating boats.

**Conservation and Natural Resources (225)** – Summary of appropriations by agency and bureau.

- Resource Management increases \$0.1 million or 16.19% primarily due to a floodplain management position to address Federal regulations and a hydrologist position.

**Miscellaneous Summary (233)** – Summary of appropriations to Debt Service, Intergovernmental Transfers, Interfund Transfers and the Reserve for Contingencies.

- Debt Service increases \$3.3 million or 23.36% due bonds issued for capital projects and refunding of previous bond issues that increased debt service in the short-term, but will lead to savings over the life of the debt.
- Intergovernmental Transfers increases \$0.35 million or 16.55%. Intergovernmental Transfers includes some pass through funding, but is primarily the County's revenue sharing program with the municipalities.
- Interfund Transfers increases \$5.2 million primarily due to a transfer to the Pension Fund to fully fund the liability.

**Solid Waste Enterprise Fund (243)** – Summary of appropriations by function.

- Solid Waste Enterprise Fund decreases \$0.1 million or (1.27%) primarily because of a recalculation of post-closure liability.

**Water and Sewer Enterprise Fund (253)** – Summary of appropriations by function.

- Water and Sewer Enterprise Fund increases \$0.8 million or 13.46% primarily because of an increase in the contract to run the Freedom Wastewater Treatment Plant, a maintenance position at the Hampstead Wastewater Treatment Plant and two operator positions for the Freedom Water system.

**Other Enterprise Funds Summary (263)** – Summary of appropriations by enterprise fund.

- The Airport Enterprise Fund increases \$0.8 million or 76.85% primarily due to the increased cost of fuel sales. Increased revenues for fuel sales offset the increase.
- The Firearms Enterprise Fund increases 15.69% primarily due to a position and costs related to the opening of the pistol range.

**Grant Fund Summary (269)** – Summary of anticipated grant funding.

**Pension Trust Fund (315)**

- The Pension Trust Fund increases \$4.9 million due to fully funding the pension liability.

**Special Revenue Fund (316)**

- Agricultural Transfer Tax decreases \$300,000. Appropriations to the Agricultural Preservation capital project are based in part on revenues generated by sales of agricultural land.
- Impact Fees decrease \$3.0 million due to reduced impact fee collections and focusing the use of impact fees on paygo.