

TREND ANALYSIS

Trend Analysis allows Spartanburg County to monitor changes and anticipate future opportunities and challenges. This section identifies several factors that affect financial condition and presents them in a manner that facilitates analysis and measurement. This information serves as a management tool to gather information from the County's budgetary and financial documents and combines it with relevant economic and demographic data. This data creates a series of financial indicators that, when plotted over time, can be used to monitor changes in financial condition and alert the County to future problems.

A sound financial condition allows the County to withstand local, state and national economic disruptions. These disruptions include recession, lowered interest rates and geographic industrial movements. Financial trend monitoring is a comprehensive and practical method to evaluate financial condition.

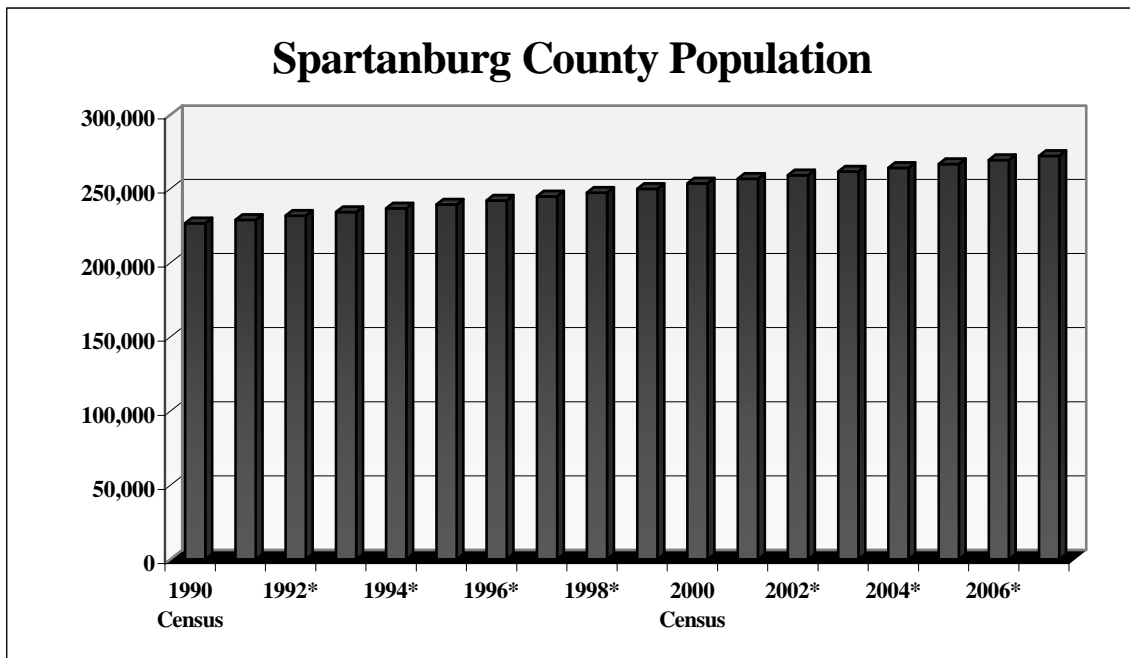
The following indicators should be used to:

- Develop a better understanding of the County's financial condition
- Identify hidden and emerging problems before they reach serious proportions
- Present a straightforward picture of the government's financial strengths and weaknesses
- Introduce long-range considerations into the annual budgeting process
- Establish new and reviewing current financial policies

This budget section is based on the indicators presented in the International City/County Management Association's "Evaluating Financial Condition." Additional data will be collected and analyzed during the year, and new financial indicators to expand on management practices and legislative policies will be presented.

Assessing the County's financial condition involves studying cash solvency—the ability to generate enough cash over thirty or sixty days to pay its bills; budgetary solvency—the ability to generate enough revenues over the budgetary period to meet its expenditures without incurring deficits; long-term solvency—the ability to balance revenues and costs for the long run; and service level solvency—the ability to provide services at the level and quality required to protect the residents' health, safety and welfare.

As this process continues during the year, close attention will be given to identifying unfavorable trends, determining when the unfavorable trend began, considering mitigating circumstances, identifying the underlying causes, duplicating favorable trends, and comparing trends to comparable counties.



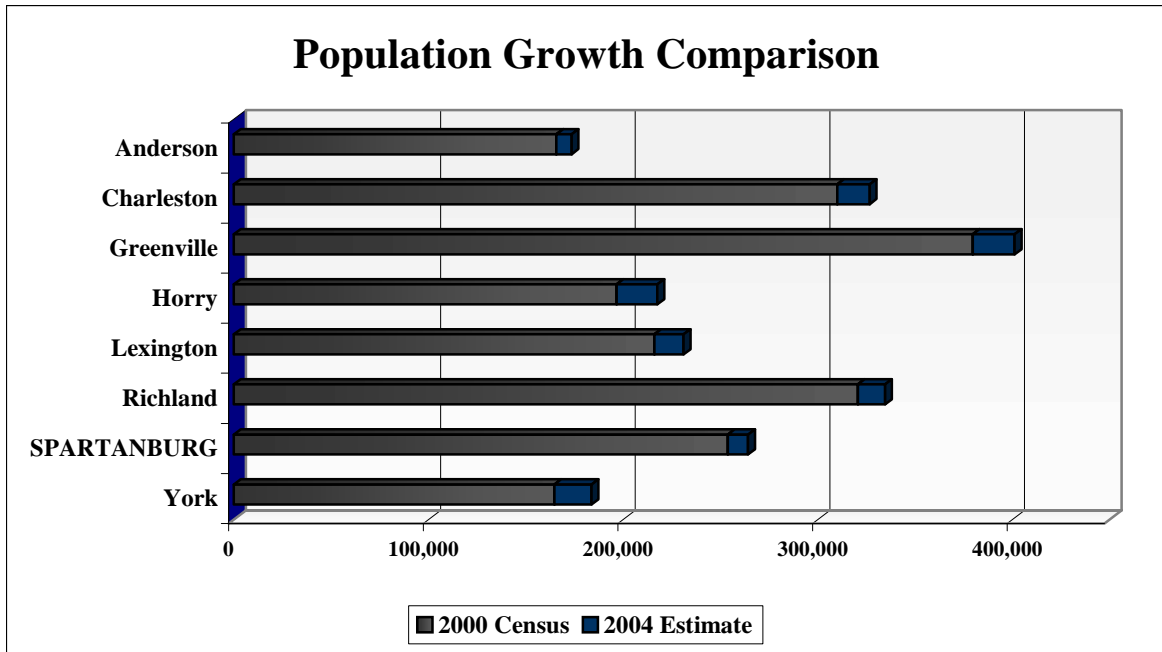
(Source: U.S. Census Bureau)

The chart illustrates Spartanburg County’s estimated population since 1997, and reflects a steady growth of 1% over the past several years. The estimated population today is 272,236 – an 11% increase over 1997’s population estimate of 244,980 and a 7% growth over the 2000 census number of 253,791.

Population change can directly affect County revenue and service delivery. A sudden increase in population can create immediate pressures for new capital outlay and higher service levels. Declining population indicates the need to revise revenue projections and adjust service needs. Spartanburg County’s growth, although lower than comparable counties in South Carolina, continues to increase at a steady pace.

This indicator is important because trends must be identified early to allow for operating adjustments. Although census data is available every ten years, estimates are adjusted and provided annually by the U.S. Census Bureau.

***Estimates based on a historical 1% growth**

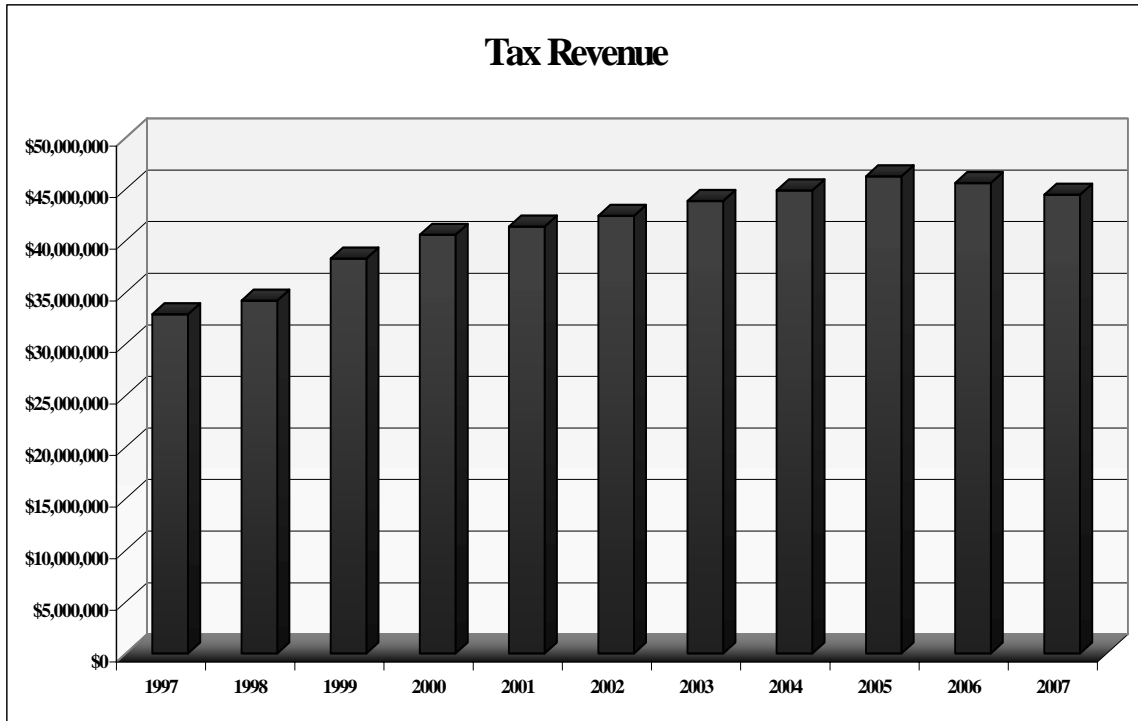


(Source: U.S. Census Bureau)

The chart tracks the estimated population growth by year for comparable South Carolina counties. The basis of comparison is physical attributes, infrastructure, types of services provided, and demographics. Data from comparable communities is often used as an information source for important issues facing the County, such as benchmarking service delivery.

As indicated above, Spartanburg County is experiencing slower growth than its comparable counties. The average growth is 6.7%, and the County's growth rate is 4% -- which is slightly higher than the state's growth rate projected to be 3.6%. This indicator is important because it may help the County define the relationship between economic and demographic factors. During the year, information will be collected and analyzed to identify components directly related to population growth.

When growth is lagging from comparable counties, trends need to be identified regarding job migration as well as other economic and social conditions. When a county's population is out-growing its neighbors, several questions should be answered. Is enough new revenue being generated to cover increased service delivery costs? Is the county's infrastructure sufficient? Should new development policies be implemented insuring that increased service demands are funded?



(Sources: CAFR)

Tax Revenue includes real, personal and delinquent property tax. Spartanburg County relies heavily on tax revenue to fund its general operations. Because of this dependency, it is important to identify and understand change.

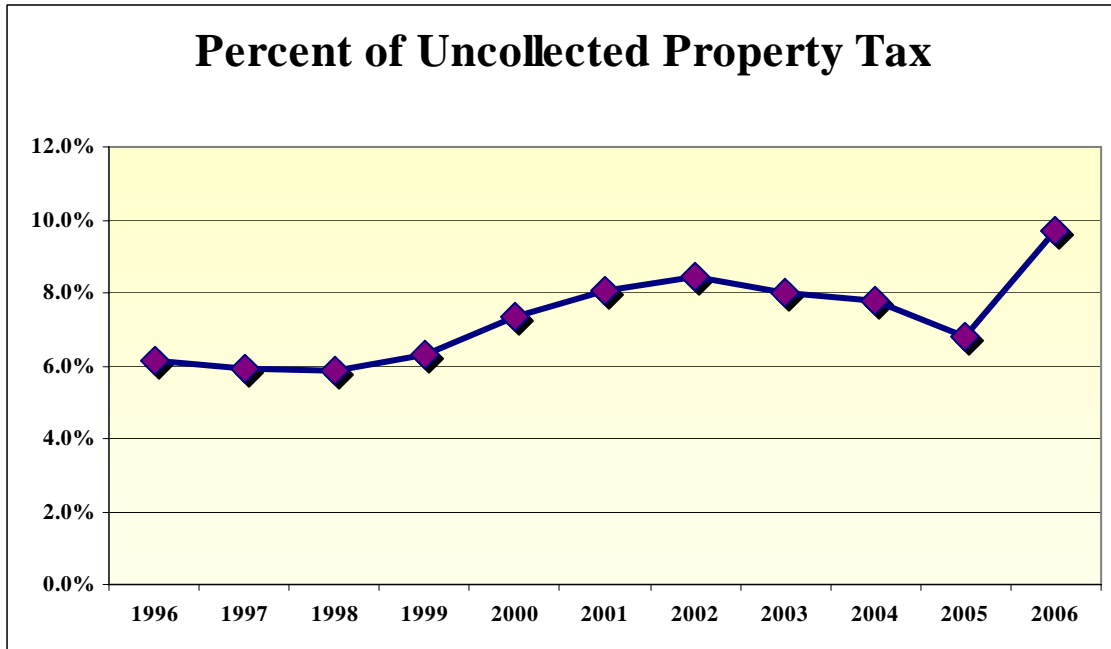
The South Carolina Code of Laws requires that all real property be reappraised every five years and adjusted to current market value to ensure fairness in the taxation process. The last reappraisal program was conducted in 2003, and before that in 1998. Property value had a positive growth in both of these reappraisal years and revenue is reflected in tax collections. Increased tax collections also reflect new growth and adjustments for nontaxable property development.

In previous years, General Fund subsidized debt service obligations. In FY 2007, County Council agreed that debt service payments should be funded by the debt service tax levy. As a result of this shift of funding sources for debt, the revenue derived from the General Fund will be reduced by approximately \$577,170 and correspondingly increase the revenue derived from the Debt Service millage by the same amount.

Of particular note in the proposed budget is the fiscal implementation of the Council approved Parks and Recreation Commission. Parks and Recreation revenue and expenditures, previously presented as part of the General Fund, are now accounted for separately. A separate millage levy, expected to yield approximately \$3 million, is noted for Commission operations. A corresponding spending reduction is assumed in the General Fund to reflect this action.

It is important to note that a new focus on delinquent tax collections occurred in 2005, and budgeted revenue increases to reflect these efforts. Unfortunately, the current year tax collection rate has declined from 93.18% in the 2004 tax year to 90.32% in tax year 2005. This impact is clarified in the following page.

Analysis will continue on this very important revenue source. Issues to be studied include growth, flexibility, elasticity, dependability, and diversity.

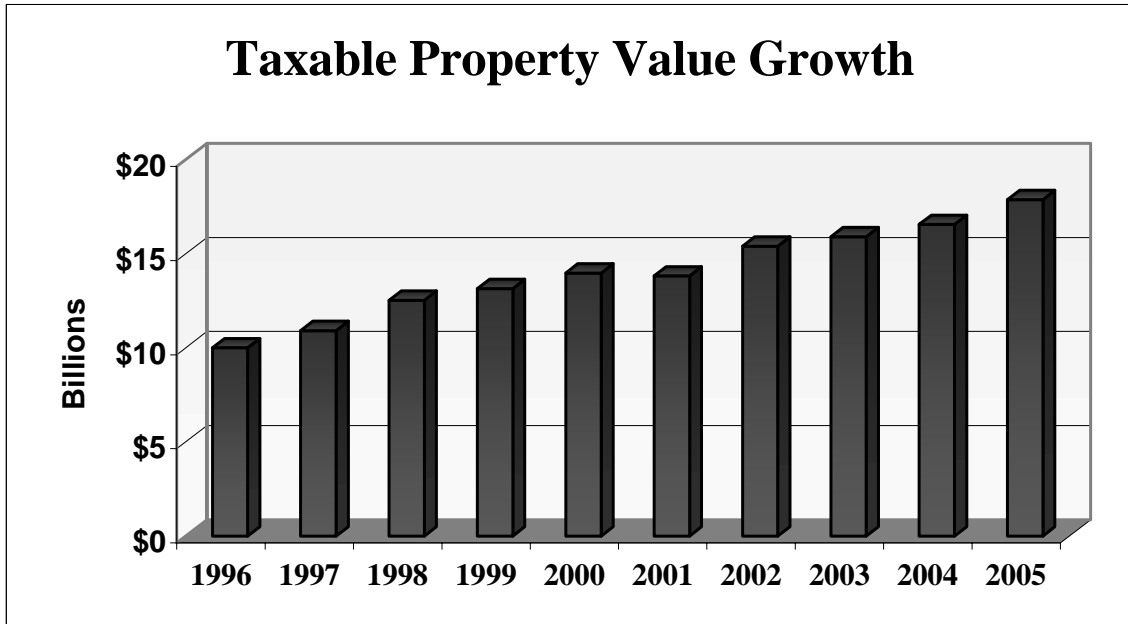


(Source: County Treasurer)

Each year a percentage of property owners is unable to pay their tax. If this percentage increases over time, it may indicate an overall decline in economic health. Also, as uncollected property tax rises, liquidity is decreased. This means there is less cash on hand to pay bills.

Bond rating agencies analyze the quality of property tax administration partly by the level of uncollected property tax. Industry standards assume a 2 to 3 percent of taxes will not be collected within one year of the tax due date. If uncollected taxes rise to more than 5%, this is a sign of the tax base's potential instability. An increase for two consecutive years is also considered negative.

A steady decline in uncollected property tax began in 2003 after reaching a peak in 2002. It is important to note that one large, late taxpayer can have a major impact in a collection year. Spartanburg County is working hard to collect current and past due tax, and these efforts are reflected in the graph.

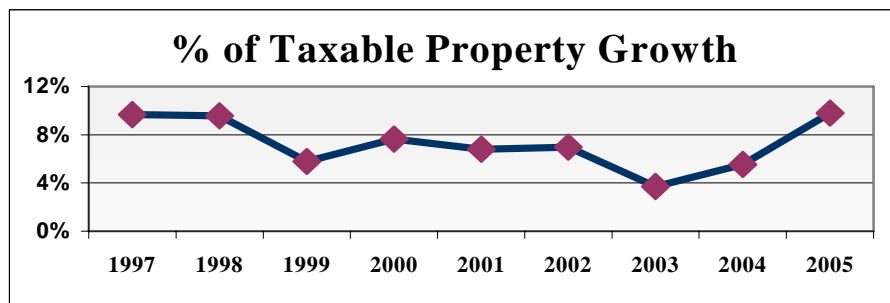


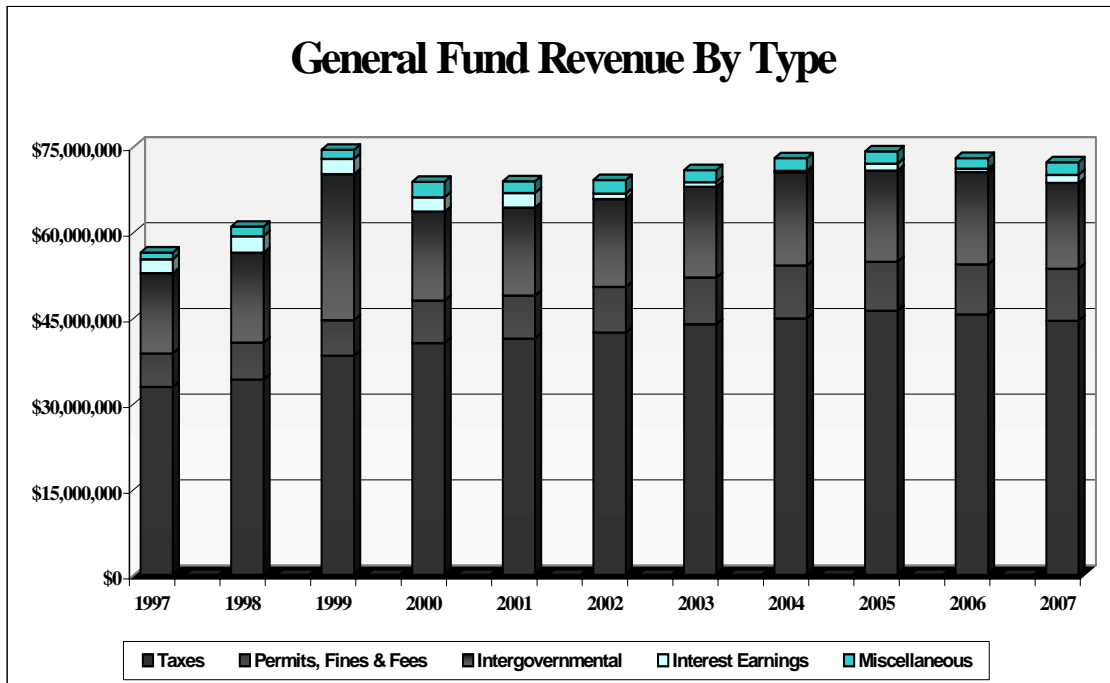
(Source: CAFR)

Changes in property values are important to track because tax revenue is a substantial revenue source, especially in a county with a stable or fixed tax rate. The higher the aggregate property value, the higher the tax revenue. Property value is a useful measurement of the county's economic health. Final FY 2006 information will be available and included in this chart in September 2006.

Rapid changes in property value is a warning of potential trouble. If property value grows significantly faster than personal or the median income over a reassessment period, citizens may have difficulty paying their property taxes. This is especially true for those on a fixed income.

The South Carolina Code of Laws requires that all real property be reappraised every five years and adjusted to current market value to ensure fairness in the taxation process. The last reappraisal program was conducted in 2003, and before that in 1998. The following graph shows the percent of property value growth from each previous year.





(Source: CAFR and 2007 Budget Plan)

Spartanburg County strives to maintain well-diversified revenue sources for its general operating costs. This effort ensures reasonable stability for operations at defined service levels, while providing the necessary elasticity to meet increasing service demands in a growing environment. Major revenue classifications are described below.

Taxes are the County's represent the largest of all General Fund revenues. Property taxes are levied on all residential, commercial and personal property. In 2007, tax revenue is projected to be 61.5% of all revenue. This is a 6% increase from 1997, and 1.7% more than 2006. Two significant property tax shifts are incorporated into the 2007 Budget Plan. Parks and Recreation activities are now reported in a Parks Commission Special Revenue Fund. A separate millage levy, expected to yield approximately \$3 million, is noted for Commission operations. A corresponding spending and millage reduction is assumed in the General Fund. Also, in FY 2007, County Council concurred that debt service payments should be funded by the debt service tax levy rather than subsidized by general operating tax revenue. As a result of this shift of funding sources for debt, the revenue derived from the General Fund will be reduced by approximately \$577,170 and correspondingly increased in the Debt Service millage revenue line item.

Permits, Fines and Fees represent revenue derived from penalties imposed for the commission of statutory offenses and violations of lawful administrative rules and regulations. This category also represents fees for services charged to individuals, businesses and other governmental units for services performed by the County. In 1997, this category represented 10% of all revenue, and has grown to 12.66% today with little change since 2000.

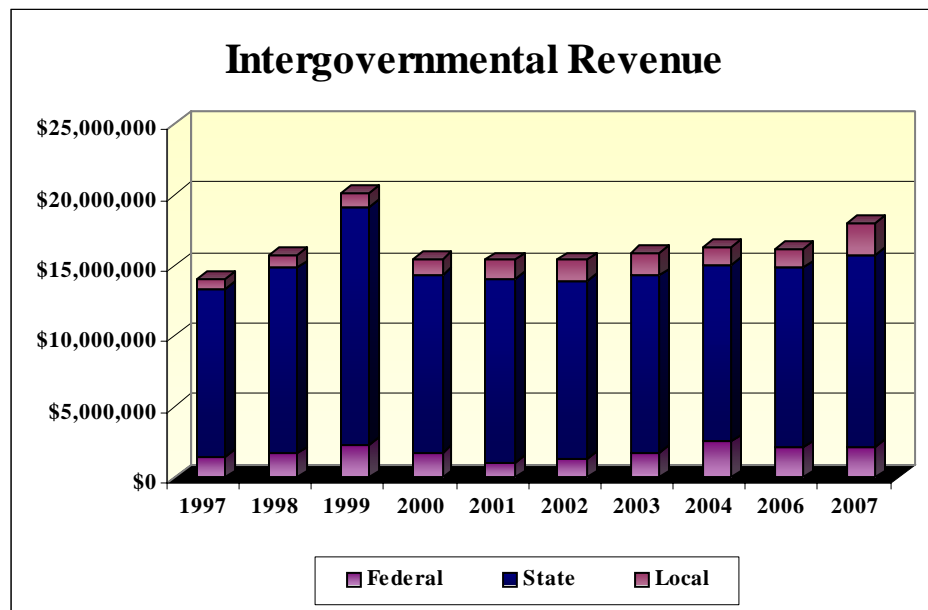
Interest Earnings represent revenue earned on investments of idle county money. In 1997, interest earnings was 4% of General Fund revenue and increased to 5% in 1998. The decline has been steady and a drop to 1% occurred in 2002 and 1003, .37% in 2004, and 1.6% in 2005. In 2007, revenue is estimated to increase nearly three times over budgeted 2006 – or 141%, and 25% higher than projected 2006 revenue.

Miscellaneous revenue represents revenue earned from unexpected income and other income that does not fit in the above categories. It has ranged from 2% to 4% over the past eleven years.

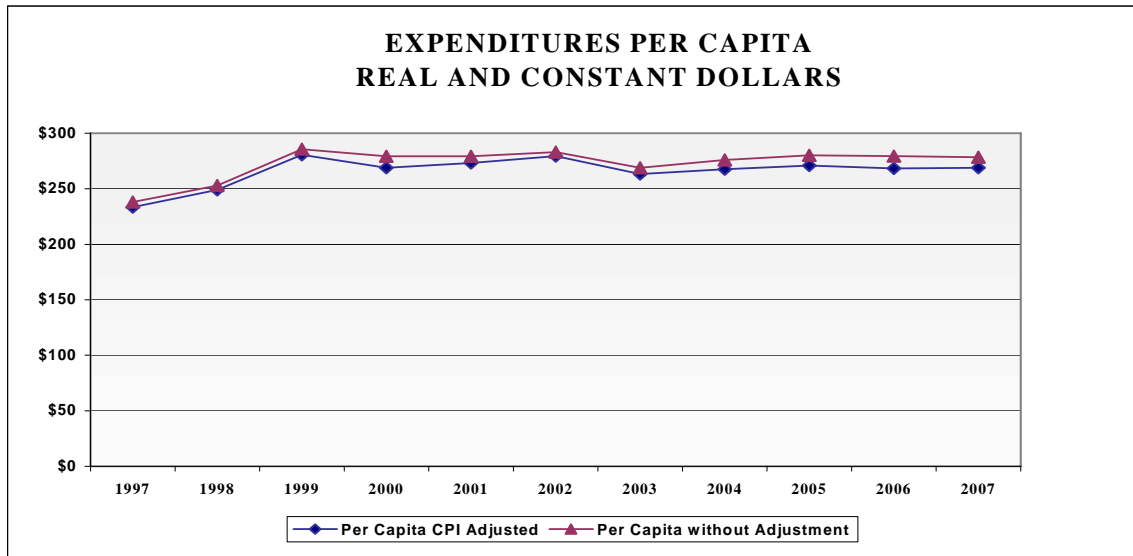
Intergovernmental revenue includes grants and allocations from the Federal and State governments, as well as a small portion for local governmental agencies. Intergovernmental revenue is the second largest source of General Fund revenue. In 1997, this category represented 25% of total General Fund revenue, and today it represents approximately 21%. This percentage has remained nearly constant for the last seven years.

Intergovernmental revenue is important because an over-dependence on such revenue can be harmful. The Federal and State governments must develop their own budget plans and, in hard economic times, grants to the County may be reduced. The County would then be faced with cutting programs and/or identifying alternate funding sources.

The goal is to maximize intergovernmental revenue in delivering service priorities. Care is given to know and monitor sources and be prepared to adjust if necessary. The graph below indicates very steady revenue sources, with the exception of a one-time State revenue increase in 1999.



(Source: CAFR and 2007 Budget Plan)



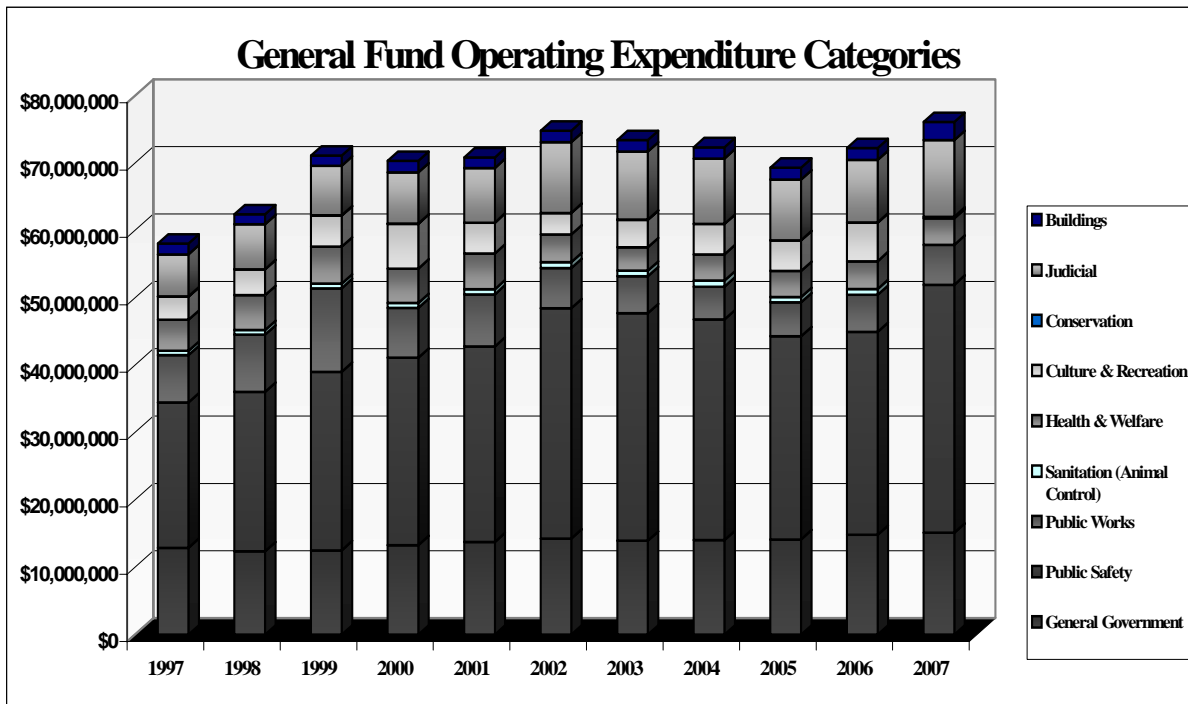
(Source: CAFR and US Labor Department)

This chart shows expenditures for the General Fund for each Spartanburg County resident. Changes in expenditures per capita reflect changes in expenditures relative to changes in population, changes in service levels and capital projects.

The lower graph line shows expenditures per capita in adjusted to each year's Consumer Price Index (CPI). The higher graph line shows actual dollars. The gap between actual and adjusted dollars reflects the purchasing impact of today's dollar and the impact of our resident's personal budgets. After several years of an increasing gap, the 2007 estimated gap is decreasing even with a higher CPI adjustment.

Increasing per capita expenditures can indicate:

- The cost of providing services is outstripping the community's ability to pay, especially if spending is increasing faster than the residents' collective personal income;
- The County is spending more real dollars to support the same level of services (declining productivity), if the increase in spending is greater than can be explained by the addition of new services;
- The County is providing more services; or
- The County is meeting unfunded Federal and State mandates.



(Source: CAFR, Budget Plan)

The following represents the services and programs provided:

General Government includes the County Delegation Office, County Council, County Administration, Budget Management, Transportation Planning, Legal Services, Human Resources, Register of Deeds, Registration & Elections, Records Management, Veterans Affairs, Building Codes, Development Standards, Auditor, Treasurer, Internal Auditor, Assessor, Reassessment Program, Information Technologies, Delinquent Tax, Finance, Purchasing, Economic Development and Planning and Development.

Public Safety includes the Sheriff, Coroner, Detention Facility, and Detention Facility Maintenance, Local Law Enforcement Block Grant (JAG), Fire Marshall, Volunteer Fire Department, Emergency Services Academy, National Guard Units, Emergency Preparedness Office, Haz Mat Team, Communications Operations and Communications Maintenance, and Rescue Squads.

Public Works includes Public Works Administration, Roads and Bridges and Environmental Enforcement.

Sanitation is Animal Control.

Health and Welfare consists of Indigent Care Services, Emergency Medical Service, Transportation Service Bureau, Mountainview Nursing Home, Area Mental Health, Health Department, and Rescue Squads, Social Services, Senior Centers of Spartanburg, Girls Home, and Boys Home.

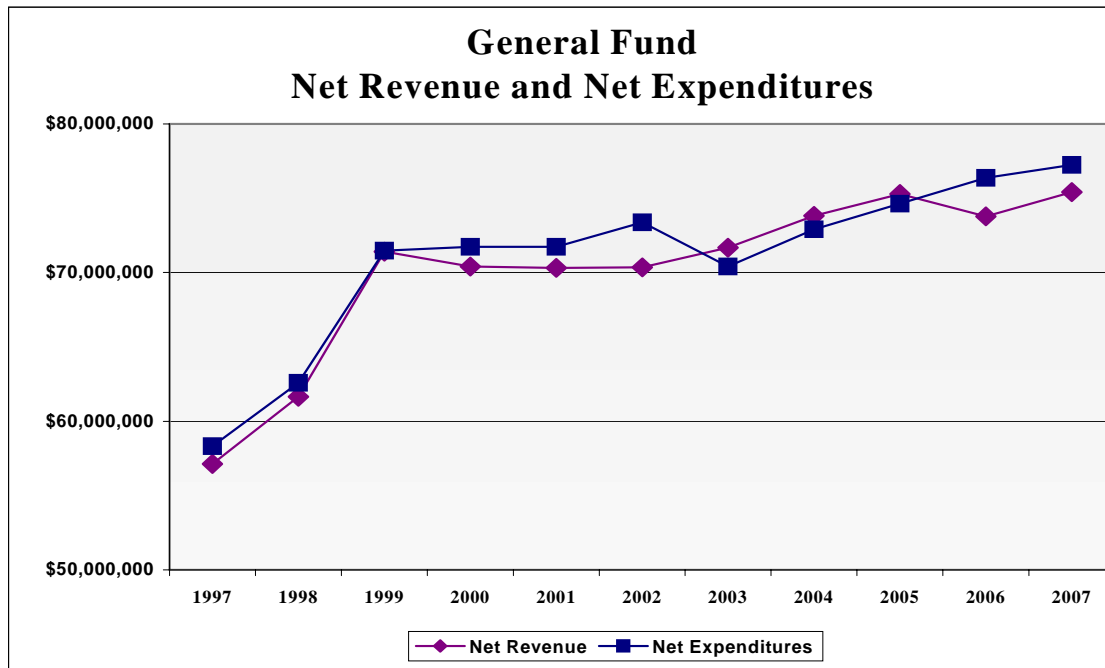
Culture and Recreation, in prior years, consisted of Special Projects, Special Events, Recreation, DSS Summer Lunch Program, Soccer Complex, Cleveland Park, Park Planning and Development, Recreation Projects, Spartanburg County Regional Museum, and Arts Partnership. In FY 2007, park operations were moved to a new special revenue fund, the Parks Commission Fund. Support for the museum and Arts Partnership remain in this category.

Conservation is Soil and Water Conservation.

Judicial contains Clerk of Court, Probate Court, Master-In-Equity, Public Defender, District Magistrates, Magisterial Court, Victim/Witness Program, Circuit Solicitor, Pretrial-Adult, and Pre-trial Juvenile.

Buildings includes the cost of utilities, routine and preventative maintenance for all county-owned facilities. In FY 2007, the individual building maintenance cost centers were combined into one new cost center called County Buildings.

This chart illustrates the County's expenditure policies since Fiscal Year 1997. The allocation of revenue represents the County's expenditure policies and the County's service and program priorities. Changes take place in the expenditure policies as priorities change from one year to the next, and when allocation adjustments are made. The following factors impact expenditures: economy, property taxes, property values revenues received, productivity and mandated actions at the Local, State, or Federal level.

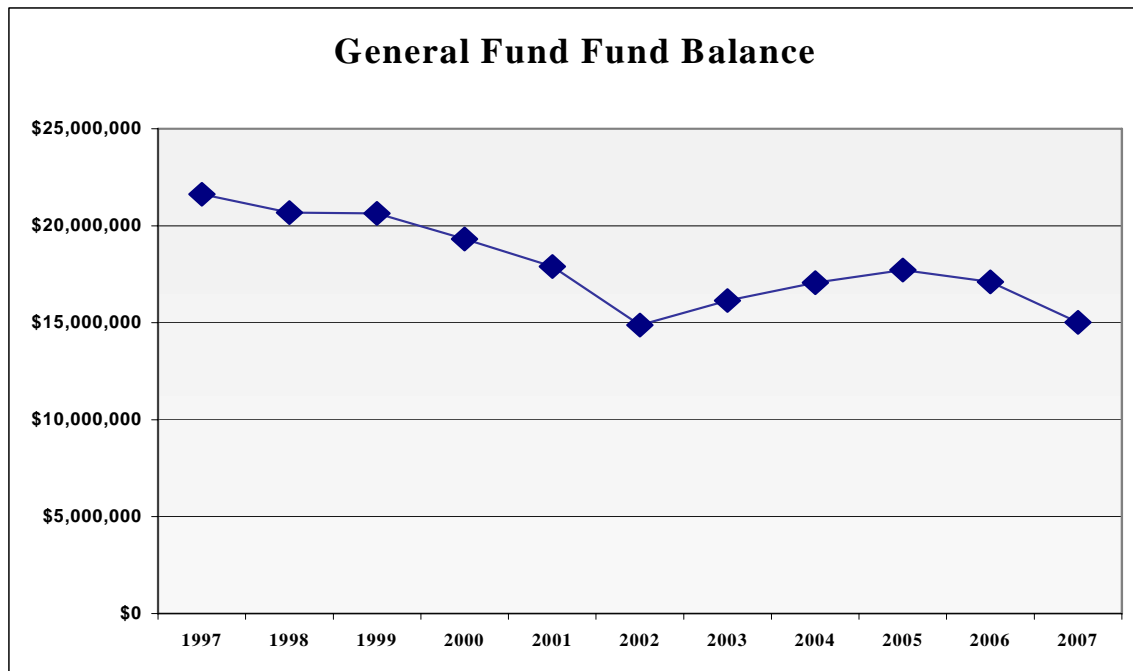


(Source: CAFR, Budget Plan)

Operating deficits or surpluses occur when current expenditures exceed current revenue or are lower than current revenue. It is important to note that a deficit does not mean the fund is out of balance. If a deficit is indicated, the decision was made to use fund balance to balance to address priority projects. It is not uncommon to plan to “spend down” fund balance for one-time expenditures. If a surplus is indicated, those funds are reserved for future years.

An operating deficit in any one fiscal year may not be cause for concern, but frequent and increasing deficits can indicate that current revenues are not supporting current expenditures. This indicator is important because a pattern of operating deficits may be a sign of an imbalance between revenue and expenditures.

Although it appears the gap widens in FY 2006, budgeted rather than actual numbers are represented. It is estimated that the year will end with a positive balance of approximately \$1.8 million.

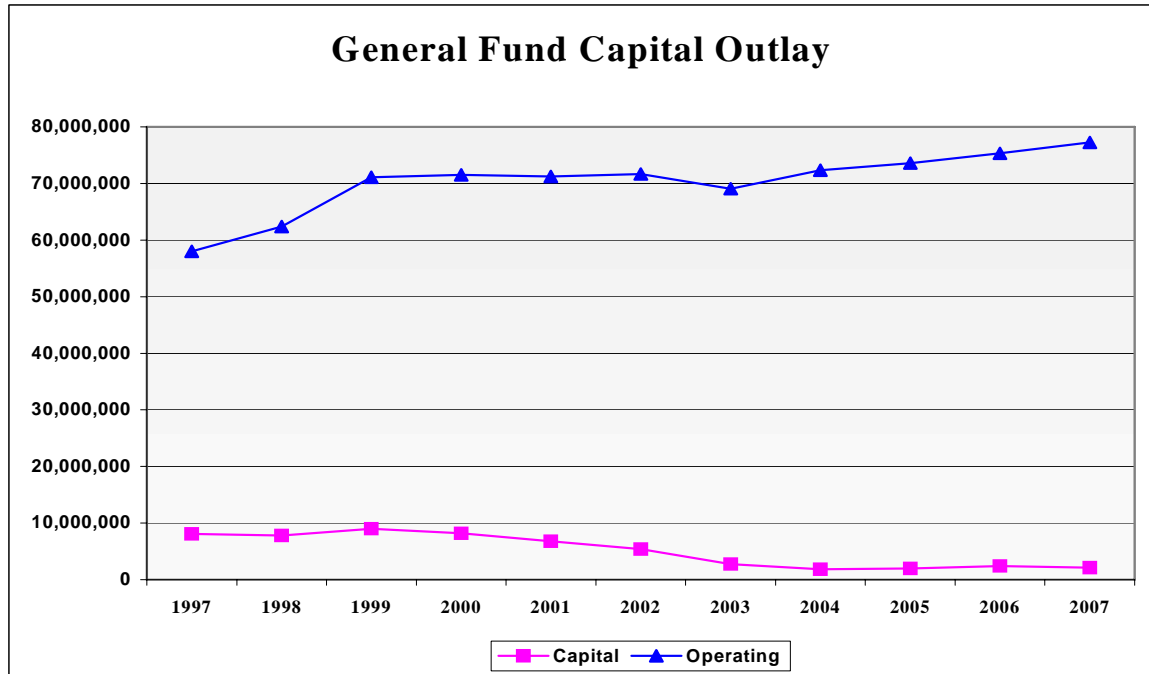


(Source: CAFR and Budget Plan)

Positive fund balances are considered to be available for future spending unless they have been reserved for a specific spending purpose. The chart above reflects total General Fund fund balance, after encumbrances and projects carried forward into the new year are recognized. The size of the fund balance can affect its ability to withstand financial emergencies. It can also affect the ability to accumulate funds for capital purchases without having to borrow. The FY 2006 end of year estimated fund balance is expected to be approximately \$1.8 million. The graph above shows FY 2006 budgeted numbers.

The County's use of fund balance in 2007 is planned, following four years of positive balances. It is interesting to note that a fund balance that is too large can signal a red flag. This could indicate that tax rates need to be reviewed. Currently, the County's undesignated reserve stands at \$12.7 million (exclusive of Equipment Replacement Reserve), approximately 16% of General Fund spending.

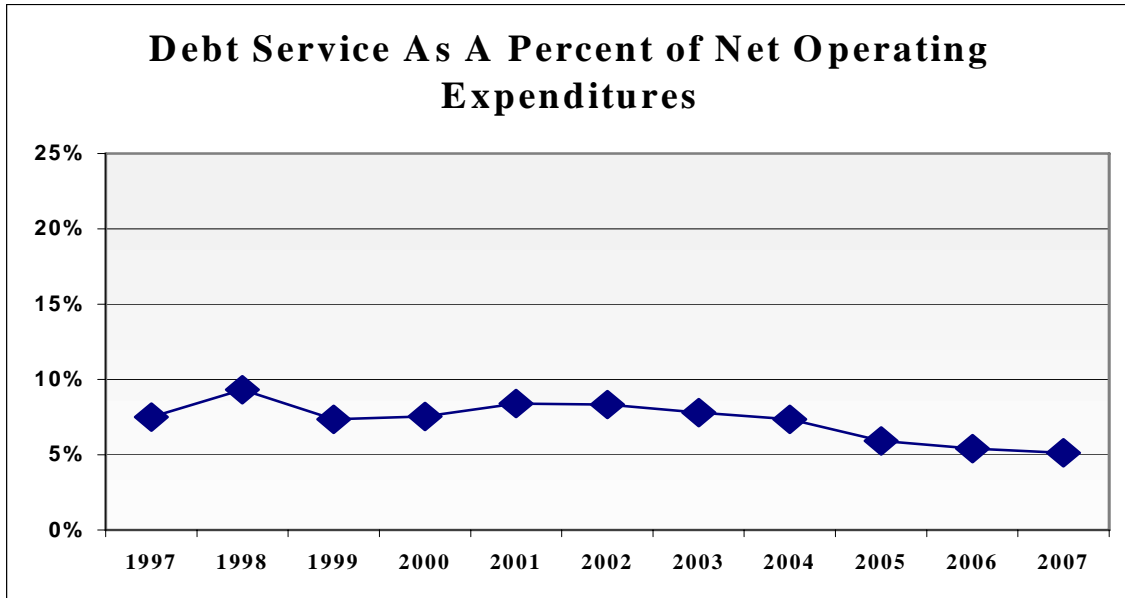
There are no set rules for determining the appropriate level of reserve. Much depends on the circumstances, such as the kinds of natural disasters or hardships that the County may be subject to and the adequacy of its insurance coverage, the flexibility of the revenue base, the overall financial health, new state regulations and the national economic conditions.



(Source: CAFR & Budget Plan)

The purpose of capital outlay in the General Fund operating budget is to replace worn equipment or to add new equipment. The ratio of capital outlay to net operating expenditures is an indicator of whether the stock of equipment is being adequately replaced. Over a number of years, the relationship between capital outlay and operating expenditures should remain about the same.

A decline persisting over three or more years indicates that capital outlay needs are being deferred, which can result in the use of inefficient or obsolete equipment. This also has an impact on other County operations including Fleet Services and insurance costs. Although FY 2006 indicates a slight upturn in this indicator, final numbers are not yet available. FY 2007 shows the gap widening. It will take a number of years to return to the amount previously invested in capital equipment.



(Source: CAFR)

Debt service can be a major part of a government’s fixed costs, and its increase may indicate excessive debt and fiscal strain. As indicated in the chart above, debt payments have been declining since 2001. The spike in 1998 is attributable to a refunding issue.

Debt service exceeding 20% of all operating revenues is considered a potential problem. Ten percent is considered acceptable. Before bonding additional long-term debt, the impact of its debt service must be analyzed in relation to total operating revenues.

The chart above indicates that the County is well below the standard of 10%.