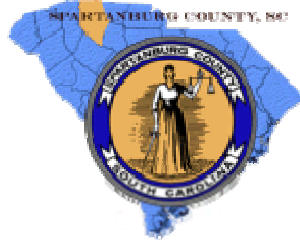


**SPARTANBURG COUNTY, SOUTH CAROLINA
FY 2009/10 RECOMMENDED OPERATING BUDGET**



April 20, 2009

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 my Recommended Fiscal Year (FY) 2009/10 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 Program (CIP), reflects our best efforts to continue providing essential and effective public services 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 experiencing very limited tax base growth and significant reductions in fees and interest revenues. Perhaps the most notable revenue change is the multi-million dollar reduction in state aid. Those 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 2009/10 budget decisions with a cautious eye on FY 2010/11 and beyond. To that end, this budget seeks to strengthen the county's reserves, preserve the county's AA 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.

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The FY 2009/10 Recommended Operating Budget sets aside for one 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 through FY 2009/10. There are neither furlough days nor workforce reductions in the Recommended Operating Budget. The County’s workforce is stabilized and only a few new positions have become vacant in the past nine months. Health care costs are not increased this year, and workers’ compensation costs continue their downward trend. State imposed employer contributions to the State Retirement System have been deferred until FY 2010/11.

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.

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 this fiscal year 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 minimal 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 and the change in the Consumer Price Index (CPI). The debt service millage will be reduced significantly this year which will offset the affect of this important incremental adjustment to the county operating millage.

As of the date of this transmittal, County staff is continuing to develop scenarios to estimate the impact on our organization if changes are made to State Act 402 and if additional cuts are made to the Local Government Fund. 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 a 1.5% property tax base growth. The loss of tax base growth from the 15% restriction will never be captured. Understanding that changes to the ATI will negatively impact our total revenue, we continue to work on tax revenue estimates and to refine our understanding of this pending legislative change.

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 2009/10 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

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economic uncertainties, our tax payer's burden and our community's need to grow and develop responsibly.

Executive Summary

The total FY 2009/10 Operating Budget total from all sources is \$148,398,769, a 6.2% reduction from FY 2008/09. The overall budget amount reflects a \$5.2 million reduction (-5.8%) in the tax-supported General Fund portion of the budget, and as stated earlier, includes the Act 388 millage cap formula (3.8% CPI + 2% population growth) to add to the available fund balance. The tax base growth is estimated at 1.5%. Additional requests for Act 388 millage cap formulas include Parks and Recreation increasing their budget by \$513,118 or 9.7% over last fiscal year to expand services and Spartanburg County Community College is requesting an increase in their budget by \$331,830 (7%) to expand the Smart Jobs Program. The Library is not requesting a millage adjustment. Their proposed budget is \$11,685,136, and represents a 3.5% increase. Charles Lea is not requesting a millage adjustment, and their budget is \$1,278,000. This represents a 4.81% increase.

The Road Maintenance Fund Revenues increase 13% to \$6,902,452 and includes budgeted use of fund balance of approximately \$1 million. The Storm Water Management Fund revenue increases 55%. In addition to the 1 mil tax levy, approximately \$303,000 in fund balance is budgeted for capital projects and for 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 decreases 25% because less fund balance is required for the equipment replacement program this fiscal year. SADAC's revenues decrease 3.17% related to outside funding sources. The Special Revenue Fund is decreased 35% mainly attributable to shifting delinquent tax activities to their General Fund budget. The Debt Fund millage drops to 2 mils, or 60%, as debt obligations are retired.

Community Development (formerly Community and Economic Development), is requesting a 7% decrease in its revenues related to reduced Federal funding and General Fund support. The Capital Project Reserve Fund's transfer to the Capital Improvement Plan Fund is reduced 80% reflecting projected capital project cost contributions. The 9-1-1 Fund is projecting a modest decrease of 2.83% reflecting their projected revenues for the current fiscal year. The Palmetto Landfill Fund will be closed at the conclusion of FY 2008/09, and related monitoring costs have been transferred to the Solid Waste Management Fund. The Hospitality Tax Fund is projecting an 8.5% increase in revenues based on actual collection activity.

Creating a Safe and Secure Committee – Program Services

For FY 2009/10, the Recommended Operating Budget includes a total of \$57,549,709 to provide for the safety and security of our community. This proposed level of investment reflects a decrease of 4% over last year, attributable to reductions relating to the shift of fuel and fleet-related costs, with the exception of outside vehicle repairs, to the General Fund non-departmental department. Monies derived from the tax supported General Fund provides 96% of the revenue necessary to support these services. The remaining \$2.1 million in proceeds for this program are primarily received from grants and dollars collected from telephone surcharges.

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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, Probate Court, and Public Defender. The only substantive change in the program from the prior fiscal year includes the transfer of two previously grant-funded deputy positions to the General Fund. Detention center overtime and prisoner-related costs are expected to decrease from current spending levels based on average prisoner counts requiring no adjustment to this budget. Based on current year spending for Sheriff over-time, 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. No new positions are proposed.

Excelling at Customer Service – Program Services

The FY 2009/10 Recommended Operating Budget includes a total of \$20,256,441 to provide for the administrative infrastructure required for our government's service operations. The proposed funding level reflects a decrease of \$1.7 million or (7.6%). Two GIS positions were shifted from General Fund to the 9-1-1 Fund where surcharge revenues are available to support dispatch-related activities. Additional operational savings were identified by each department as budgets were submitted for review, as well as property insurance costs were 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 \$1.2 million allocation is budgeted for the first time this fiscal year.

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 included as 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. Liability and property insurance premiums are also budgeted in Non-Departmental (\$1.1 million), as are County payments for retiree health plan benefits (\$1.6 million). Delinquent Tax efforts related to the posting, sale and collection activities previously budgeted in the Special Revenue Fund have been shifted to the General Fund as the operations shift from contractor-provided to in-house services. Revenues offset this expense.

Preserving the Community Infrastructure – Program Services

The FY 2009/10 Recommended Operating Budget includes a total of \$22,172,625 to provide for the maintenance, preservation, and improvement of the county's infrastructure. The proposed funding level reflects a decrease of \$2.8 million (11%) from the prior fiscal year. Monies derived from the tax supported General fund and tax supported Storm Water Fund provide \$6,952,239 (31%) of the revenue necessary to

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support operations. The remaining \$15.2 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 \$389,500 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 ease 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 increased from FY 2008/09 but are more heavily reliant on reserves.

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 2009/10, Quality of Life program services which provide for education, recreation and care of County citizens constitute a total of \$41,720,684, a 2% increase from the current budget. Monies derived from the tax supported General Fund provide \$2,939,442 (7%) 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 provide \$26,847,147 (64%) of the program resources. The remaining \$11.9 million in revenue for this program is received from federal and State grants and State Aid to Local Subdivisions.

Major departmental expenditures in this program occur in the Parks and Recreation 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 FY2009/10, those departments and agencies included in this program derive their monies from special purpose tax or tax district levies.

Spartanburg Community College is requesting that their millage be increased by the Act 388 cap to expand the Smart Jobs program to assist the citizens to become employed. The Smarts Jobs program was developed in 2004 using funding authorized by County Council to provide job skills trainings for those County citizens who have lost their jobs. These citizens are often not eligible for financial assistance and do not have money to pay tuition. To date, 1,400 citizens have enrolled in the basic program including a Job Readiness Workshop to prepare for job interviews. Nearly 800 citizens have entered Smart Jobs training programs, are continuing their skills training at Spartanburg Community College, or have been placed in a job. This year the program experienced a significant increase in unemployed citizens seeking help.

Parks and Recreation 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

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in the FY 2010-14 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.

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 \$232,800. Medical services for the indigent are provided at a total cost of \$871,125, a 7% reduction from the current fiscal year. County funding to the 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 at \$1,492,513. The Arts Partnership and Regional Museum are recommended to be funded at their current level of \$266,150. 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, 631,723 which reflects a modest 1.4% decrease from the current fiscal year. Hospitality Tax expenditures are recommended at \$2,605,000 and include \$2,407,329 for capital projects reserve related to enhanced recreational infrastructure. 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 \$1,951,052 and reflects another decrease in federal funding, as well as reduced funding from the General Fund to offset postage charges.

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, Voter-Approved Bonds and lease obligations. The FY 2009/10 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 reduced from 4.9 mils to 2 mils, a tax reduction of 2.9 mils. This is made possible by the County meeting a portion of its current debt obligation. Fund balance is budgeted to pay for new master leases to support technology and vehicle replacement programs. As part of the FY 2010-2014 Capital Improvement Plan, Council will be requested to consider several debt issues during the new fiscal year. Each issuance requires that an ordinance be adopted, and the budget will be amended as part of this process to reflect new debt issues. As such, the Capital Budget Ordinance does not include appropriations for these debt issues, meaning that no funding may be spent without Council approval of the respective debt issue ordinance. No new tax-funded payments will be required in FY 2009/10.

Fund Balance (Reserves)

For Fiscal Year 2009/10 I am recommending that an appropriation of \$2.5 million be deposited into our undesignated reserves to increase our fund balance. As previously noted, the importance of fund balance given the revenue constraints imposed upon us

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cannot be overstated as we work our way through federal, State and local economic downturns. As noted in the FY 2006/07 and FY 2007/08 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. Even with the cost savings programs instituted this year, including deferring capital expenditures, shifting programming to relieve the burden on General Fund, freezing vacant positions, furlough days and instituting a Voluntary Time Off (VTO) Program combined with revised revenue estimates we may still require the use of fund balance. The FY 2009/10 budget does not presume to use any fund balance reserves to pay for budgeted expenditures, and a \$2.5 million contribution to restore and reinforce our fund balance is recommended.

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 2011/12 or beyond before general fund revenues return to prior levels. Therefore we approach FY 2009/10 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 and FY 2008/09 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...". Two 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 insure fiscal flexibility in these uncertain times. As stated last year, the implications of Act 402, however, remain unclear as we step away from the first reappraisal year under this new legislation and realizes 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 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 2009/10 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.

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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 2009/10 budget to you for your consideration. I look forward to working with you and our public on its adoption.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Breed', written in a cursive style.

D. Glenn Breed
County Administrator