



April 18, 2011

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) 2011/12 Operating Budget. The attached budget document continues to present financial information to you and the public in a very clear and concise manner. As has been done in the past 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 collective efforts to maintain core services using current resources – a critical assignment to maintain financial stability through the ongoing fiscal stress.

The principal factors driving budgetary decision making are the negative impacts on our general fund revenues brought about by the recession. Contrary to last year when we projected no growth in our tax base, this year's projections include an actual reduction in our tax base. Significant reductions in the fees and fines collected continue. Once again, the most notable revenue change is the reduction in state aid. These impacts to our revenue continue to shrink our general fund. The uncertainty regarding the pace and timing of economic recovery continues.

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

The FY 2011/12 Recommended Operating Budget sets aside for the fourth year our priority to attract and retain talented and capable staff able to perform a high level of public service. Given the continued economic decline in revenue, there is no cost of living adjustment included in the budget. Vacant positions "frozen" in the current fiscal year will remain frozen and unfunded, and positions vacated during the new budget year will be thoughtfully considered before filling. There are neither furlough days nor workforce reductions included in the Recommended Operating Budget. However, total authorized County employment has been reduced by 112 full time positions since the beginning of FY 2009/10. Ninety-eight (98) of those positions are Parks Commission positions which even though they are still filled, are no longer included in the County Authorized Staffing count. Health care costs to the County are not increased this year; however, there are required adjustments to the benefit package and 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 all employees. Funding for travel, training and office supplies were cut 25% while funding for uniforms was cut 10%. Outside agencies will receive a 50% funding cut, and Spartanburg Humane Society funding is reduced by 10%.

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, 2010 at \$64 million, all of which is unfunded.

State Act 388 and Act 402 continue to present the County with substantial 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 three fiscal years and those anticipated in the future. 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 millage annually as permitted by law only serves to further diminish our latitude to address future matters requiring resource-based solutions. The Consumer Price Index (CPI) increase was 1.64% and our population increased 0.59%. The debt service millage required to meet all bonded debt obligations will decrease in FY 2011/12. To that end, my recommendation includes an upward adjustment in County operating millage rate of 0.4 mils resulting in no net increase to the total County millage rate.

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 reduction of 1.36% in our tax base to reflect the growing numbers of successful tax appeals. Understanding that changes to the ATI will reduce our tax base by an estimated \$32 million, we continue to work closely with the Assessor and Auditor on tax revenue estimates and to refine our understanding of this pending legislative change. Staff continues to diligently study continued 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.

I offer the FY 2011/12 Operating Budget 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, preserves our financial stability, respects our tax payer's burden and our community's need to grow and develop responsibly.

## **Executive Summary**

The FY 2011/12 Recommended Operating Budget total from all sources is \$154,336,096, a 2.06% increase from FY 2010/11. The overall budget amount reflects a \$1.09 million reduction (-1.34%) in the tax-supported General Fund portion of the budget; and, as stated earlier, includes a millage adjustment of 0.4mils. This change is within the Act 388 millage cap. The tax base is estimated to decline 1.36%. No requests for Act 388 millage cap formula approval were received from the Spartanburg Parks Commission, the Library, the Charles Lea Center or the Community College. Pursuant to the purchase agreement for the Evans Building, an additional 1.0 mil is included for the Community College to repay their incurred debt.

The Road Maintenance Fund Revenues increase 17% to \$5.9 million. Additional operating costs previously budgeted in the General Fund continue their shift into the Road Maintenance Fund to accurately reflect the cost of maintaining our road system. Last year a significant planned contribution to fund balance effectively lowered the budgeted revenue number. The Storm Water Management Fund revenue increases 28% for the same reasons stated above, as well as reflecting the use of fund balance for programmed capital projects. The County continues the appropriations to the City of Greer for providing storm water management services within their municipal boundaries. SADAC's budget decreases 8% and reflects the savings associated with closing the detoxification center.

The 7<sup>th</sup> Circuit Public Defender is reduced 7% to reflect funding cuts at the state level. The General Fund subsidy to the Spartanburg County portion of this fund increases \$100,000. 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.

Overall, the Special Revenue Fund increased 38%. The Pre-Trial activities for both adults and juveniles have been moved out of general fund due to the restricted nature of their revenues. Positions previously supported by stimulus funding for the Solicitor's Office are now supported by grants and reported in this fund. In addition, the Sheriff's Office received a Gang Grant resulting in 1 position being added. C-Funds are increased 9.5% due to increased anticipated support for capital projects, and Transportation Planning activities will increase from the prior year. The Community Development Fund is decreased 10% because the General Fund transfer to support operating costs will not occur. There is much concern about federal funding for these programs that help our low to moderate-income residents, and planning is underway to deal with any necessary programmatic changes.

The Parks Commission's budget increased 29% from the prior fiscal year, though no change in millage is requested. The increase in the operating budget is reflective of changes in the way in which the Afterschool Youth Club is budgeted. Revenues and expenditures for this program were previously recorded outside of the budget process. In order to more fully reflect the activities and financial responsibilities of the Spartanburg Parks Commission, complete revenues and expenditures related to this program are now budgeted. Additionally, revenues and expenditures associated with the operations of Tyger River Regional Park are included in the FY 2011/12 budget request. A use of fund balance for one-time capital items is also budgeted.

The Hospitality Tax Fund is projecting a 10% increase in tax revenue based on growth in revenues received this past year. For the second year, this fund will be supporting the Arts Partnership and the Spartanburg County Regional Museum. The Spartanburg Parks Commission has requested \$646,400 to partially fund Tyger River Regional Park operations. The Workforce Investment Board Fund is decreasing 11% to reflect decreasing revenues from the federal government.

The Capital Improvement Plan Fund increases over 37% from the prior fiscal year due to increased capital project funding. As you aware, significant changes in the total funding level of CIP fund are likely to occur from year to year due to the one-time nature of capital projects and their substantial cost. Included in this recommended increase is \$2.8 million for a comprehensive solution to the FCC 2013 unfunded mandate, reduced funding for vehicle replacement, and funding for efficiency upgrades that will be offset by utility savings. An increase in hospitality tax pay-as-you-go funding for capital projects has been included at the request of the Parks Commission to provide resources for Holston Creek Regional Park, Tyger River Regional Park, and Va-Du-Mar McMillan Regional Park.

The Debt Service Fund decreases nearly 8% from the prior year due to the retirement of debt. Specifically, final payment was made on the 1<sup>st</sup> master lease related to Sheriff's Office Vehicles and the 1998A General Obligation Bond. As a result, the debt service millage decreases in FY 2011/12 0.4mils. Included in the debt service fund for the first time is repayment of the Brownfields Loan for the cleanup of victor mil. This payment, estimated at just under \$85,000 annually will terminate in FY 2020/21. A new Methane Fund

also been established to house the revenues and expenditures related to the collection, treatment, distribution, and sale of landfill gas at the Wellford Landfill.

There are a several housekeeping items in the FY 2011/12 budget. Two new Internal Service Funds were created to report activities provided by the Facilities Maintenance and the Information Technologies departments previously reported in General Fund. Costs for these operations, along with Fleet Services, are charged back to user departments based on direct benefit received.

### **Creating a Safe and Secure Community – Program Services**

For FY 2011/12, the Recommended Operating Budget includes a total of \$55,783,127 to provide for the safety and security of our community. Monies derived from the tax supported General Fund provides 93% of the revenue necessary to support these services. The remaining \$4.17 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. Funding for the Detention Facility is increased over the prior fiscal year to reflect historical overtime expenditure trends. The employer retirement contribution rate has been increased for both the police retirement and state retirement systems. A slight reduction in overtime is budgeted for the Sheriff's Department to reflect the continued reduction of these costs; however, we are always mindful that extra-ordinary events may dictate a higher level of resources. Support for EMS is increased to reflect a debt service obligation for ambulances purchased in FY 2010/11. As previously noted, the 7<sup>th</sup> 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 2011/12 Recommended Operating Budget includes a total of \$18,898,280 to provide for the administrative infrastructure required for our government's service operations. Operational savings were identified by each department as budgets were submitted for review. Property and other insurance costs are reduced. In FY 2007/08, an overhead allocation program was put into place to recover available dollars from funds using services provided by General Fund, including retiree health care benefits and unemployment claim cost. Beginning in FY 2011/12, all funds receiving support from Information Technologies, Fleet Services and Building Maintenance will transfer their fair share of these associated costs to the respective Internal Service Funds. These costs were previously reported as part of General Fund. General Fund is the primary user of these services.

Major departmental expenditures remaining in General Fund include the County Administration, County Attorney, Assessor, Treasurer, Auditor, Delinquent Tax, Register of Deeds, and Finance 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 budgeted in non-departmental. Liability and property insurance premiums are also budgeted in Non-Departmental (\$1.01 million), as are County payments for retiree health plan benefits (\$1.22 million) and unemployment (\$170,000).

### **Preserving the Community Infrastructure – Program Services**

The FY 2011/12 Recommended Operating Budget includes a total of \$22,599,499 to provide for the maintenance, preservation, and improvement of the County's infrastructure. The proposed funding level reflects a decrease of \$712,200 (-3.1%) from the prior fiscal year. This decrease is primarily a result of the

removal of funding for frozen positions as well as reduced funding for scheduled equipment replacement of the Solid Waste Fund. Monies derived from the tax supported General Fund and tax supported Storm Water Fund provide \$6.0 million (27%) of the revenue necessary to support this operation. The remaining \$16.6 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. The overall commitment to the maintenance and improvement of our infrastructure remains high. Investment in road resurfacing and transportation safety improvements is made possible by the Road Maintenance Fee. Program services for bridge maintenance, storm water outfall mapping, water monitoring, road widening and extension, and routine maintenance of our road network are increased from FY 2010/11, when a contribution to reserves was made to provide resources for future capital projects.

### **Enhancing the Quality of Life in Our Community – Program Services**

For FY 2011/12, Quality of Life program services which provide for education, recreation and care of County citizens constitute a total of \$47,544,220, a 6.8% increase from the current budget. Monies derived from the tax supported General Fund provide \$3.8 million (8%) of the revenue necessary to support operations. Other tax supported monies include proceeds from the Hospitality Tax Fund, Parks Commission 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 \$43.7 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 FY 2011/12, those departments and agencies included in this program derive their monies from special purpose tax or tax district levies.

Spartanburg Community College's budget request includes an additional 1.0 mil to support debt service related to the Evans Building. No Act 388 operating millage adjustment is requested.

Similarly, the Spartanburg Parks Commission has not requested an Act 388 operating millage adjustment. Structural changes to the Parks Commission budget allow budgetary information to be presented in a new manner. Included in the FY 2012-16 Capital Improvement Plan is a list of Parks and Recreation capital projects, funded by the County's Hospitality Tax. These projects focus on providing resources to finish existing capital projects and beginning development on a new regional park. As the new Tyger River Regional Park is completed, operating expenditures related to parks operations will increase. As a result, the recommended budget for the Hospitality Tax fund includes a requested transfer to the Parks Commission fund to help offset operational costs associated with Tyger River Regional Park. Also included in the Hospitality Tax fund 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 \$659,063, a 12.9% 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 50% for a total funding of \$1,265,235 in addition to a 10% reduction 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 \$4,640,000 and include \$4,186,188 for repayment of debt, operations at

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 \$5,285,235 which reflects a 10.9% decrease 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 \$1,935,609 and reflects a suspension of funds from the General Fund.

### **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 2011/12 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 decreased from 3.3 mills to 2.9 mills, a decrease of 0.4 mills. This decrease in debt service millage is related to the retirement of a master lease for Sheriff's Office vehicles and the retirement of a General Obligation bond issued in 1998.

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. Additionally, a transfer from the 9-1-1 Phone Fund for repayment of debt related to the replacement of the Call Processing Equipment (CPE) system during FY 2010/11 is also included. The Recommended FY 2012-16 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. Additional leases for a comprehensive solution to the FCC 2013 Mandate and for efficiency upgrades at several County facilities are included. These capital leases will not impact the recommended debt service millage for FY 2011/12 and it is expected that utility savings related to the efficiency upgrades will be substantial enough to offset debt service related to that project in future years.

### **Fund Balance (Reserves)**

For Fiscal Year 2011/12 I am pleased to report that our reserves are stabilized and projected to be 11% of operating at year end. 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. Unlike previous years, a small but very important contribution to fund balance was made at year end for FY 2009/10. The projections estimating an impact on fund balance from the current fiscal year are analyzed continuously. Revenue received from the Evans Building transaction will be added to our reserves at year-end. The cost savings programs instituted in previous years and this year have helped the County weather the storm.

### **Future Outlook**

While we remain optimistic for a rapid and robust recovery in the state and local economies, we continue to 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 2013/14 or beyond before general fund revenues return to prior levels. As was done last fiscal year, we have extended our efforts to approach the new fiscal year 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, FY 2009/10 and FY2010/11 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...”. Four 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. 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 2011/12 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 2011/12 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