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Honorable Chairman and Members of Charleston County Council:

This document represents the fiscal year 2004 Charleston County Operating Budget, as adopted by Charleston County Council on June 3, 2003. I believe the fiscal year 2004 budget meets the following budget objectives:

- < **No net increase in taxes and fees for the homeowner.** The net tax *and* fee bill for the four percent assessed property homeowner of \$100,000 in appraised property value will total \$224.80 which is unchanged from the current year. The Local Option Sales Tax credit¹ of \$109.00 for the \$100,000 homeowner also remains unchanged. The fee portion of the homeowner's tax bill reflects an \$89 user fee for disposal of solid waste and remains unchanged.
- < **Maintain existing levels of basic services to the community.** The County will continue to maintain its level of basic services to the community even though the costs to provide these services continue to increase.
- < **Maintain a compensation and benefits package sufficient for attracting and retaining a qualified and highly motivated work force.**
 - < **Compensation.** The budget includes \$3.4 million in funding to maintain the existing compensation plan. This plan includes pay for performance, a longevity program, and a 2.5 percent Cost of Living Adjustment.
 - < **Benefits.** The budget includes an additional \$1.8 million to maintain benefits including state retirement, health insurance, dental insurance, life insurance, workers' compensation and contributions to employees' 401K plans as allowed by state law. The County participates in South Carolina's retirement plan which does not anticipate any changes in funding requirements for the upcoming fiscal year. The County also provides funding for health insurance coverage for employees based on the cost of the Blue Cross Standard Plan, and provides partial funding for health insurance coverage for spouses and dependents of employees. The health insurance coverage includes rate increases for all insurance carriers for fiscal year 2004. In addition, the Workers' Compensation Fund reflects premium increases based on the County's experience factor and the loss of a discount for self insuring.

¹ For more information related to Local Option Sales Tax, please refer to p. xxxviii in **Major Revenue Sources**.

THE BUDGET IN BRIEF

Current revenues and transfers in for all operating funds² total \$255.3 million for fiscal year 2004, an increase of \$11.3 million over the current year. One of the major sources for this increase is a net growth in taxes. Ad valorem taxes less the Local Option Sales Tax (LOST) are up \$2.3 million reflecting an expanding tax base. The Local Option Sales Tax is up \$1.2 million reflecting the current status of the economy. The revenues from taxes have significantly declined as a funding source for the General Fund from 55 percent in fiscal year 1991 to 39.4 percent in fiscal year 2004 as the result of the LOST credit. An additional source of revenue growth is a \$3.9 million increase in Charges and Fees. The Charges and Fees reflect additional interfund revenues of \$1.7 million for health insurance and workers' compensation. Charges and Fees also include growth in Solid Waste User Fee revenues and growth in business license fee revenues coupled with an increase in rates. The growth in revenues for the County is offset somewhat by lower interest earnings of \$0.8 million reflective of prevailing interest rates.

Expenditures and other uses for all operating funds total \$267.7 million for fiscal year 2004, a \$12.2 million increase from the current year. The budget includes approximately \$5.2 million in additional personnel costs to maintain the compensation plan, provide for a Cost of Living Adjustment, and fund the related benefits. In addition, the budget includes \$0.9 million to fund 24 new positions to maintain current service levels for Emergency Medical Services and the Detention Center. Also included is a \$1.5 million increase in debt service that is according to schedule. These increases are partially offset by \$1.5 million in savings from an early retirement program completed in fiscal year 2003.

Beginning fund balance for all funds for fiscal year 2004 is \$105.3 million. The General Fund's beginning fund balance is \$16.0 million which represents excess revenues and lapsed appropriations from fiscal year 2003 and unbudgeted surplus from fiscal year 2002. In addition, the County maintains a portion of fund balance in the General Fund for a "Rainy Day" per the County's budget ordinance. The "Rainy Day" reserve was established to provide funds for use in the event of a major calamity. This amount is anticipated to be \$7.5 million at the end of fiscal year 2003 and is required to be maintained at no less than four percent of General Fund disbursements.

MAJOR POLICY ISSUES

The County is currently facing several major issues which affected the development of this budget. These issues represent challenges and opportunities which will impact how the County develops over the next several years.

Economy

Along with the rest of the nation, the County continues to experience the effects of an economic downturn. For more than a decade, the County has relied upon the growth in the economy to fund new programs and rising costs due to inflation. Therefore, because economic growth has slowed, the County has had to adjust its spending to fit the available funding.

² The operating funds include all funds appropriated on an annual basis which excludes project-length budgets, e.g., Capital Projects Funds.

State Actions

The South Carolina state legislature passed a bill during the 2000 legislative session that will have a significant impact on County revenues in the future. The act called for a statewide referendum in November 2000 to reduce the taxable portion of the appraised value of personal motor vehicles. The referendum passed, and as a result the taxable portion will be reduced from 10.5 percent to 6.0 percent over a six-year period beginning January 1, 2002. This bill reduces fiscal year 2004 revenue by \$1.0 million, and it will have an estimated impact of \$6.6 million upon full implementation in fiscal year 2008.

During fiscal year 2003, the State began adjusting the Local Option Sales Tax revenue for point of collections that were reported incorrectly. The effect on fiscal year 2003 revenues was minimal due to a hold harmless provision. However, the County will not experience any revenue growth until additional revenues exceed the deficit between actual collections and the hold harmless amount.

Outstanding Litigation

The County is party to several legal proceedings that may affect the County's operations. The Department of Justice has sued the County over minority representation on County Council. The outcome of this lawsuit may require the County to change the method of electing Council members from countywide to single member districts. The Court ruled in favor of the Department of Justice, and the County is in the process of appealing the decision.

In a countywide referendum during November 2002, voters approved a half-penny sales tax to fund greenspace preservation, public transportation, and road and bridge projects. The referendum was challenged in court and the State Supreme Court overturned the results of the election. The Court has been petitioned for a reconsideration of its ruling.

The County is also involved with litigation relating to a reassessment cap that was enacted during fiscal year 2002. This reassessment cap limited the growth in the assessed value of four percent owner-occupied property to fifteen percent. The State Supreme Court ruled that the County's reassessment cap ordinance was invalid. Several cases are still outstanding related to refunds of bills for fiscal year 2002. The most significant of these cases was initially ruled against the County, and the County intends to appeal this ruling.

During July 2002, Council passed an ordinance that would have capped the growth in assessed value to fifteen percent for all real properties effective for the 2003 tax bill (fiscal year 2004). This ordinance has been challenged in court, and Council has delayed implementation of the cap until the lawsuit has been resolved.

LOOKING AHEAD - CHALLENGES IN FISCAL YEAR 2005 AND BEYOND

Although the County faced many challenges in developing the fiscal year 2004 budget, the County has identified several additional challenges for fiscal year 2005 and beyond.

Operating Impact of Building Program

The John's Island branch library (scheduled to open in July 2004) will require full-year funding during fiscal year 2005. The construction of a replacement Juvenile Detention facility is currently under study by an independent consulting firm, and the renovation of the former temporary judicial complex is under consideration as well. Both projects, if adopted, will require operational funding in the future.

In addition, the County continues to face inmate population overcrowding and personnel staffing issues at its Detention facility. At the direction of Council, the Jail Oversight Committee was formed to explore solutions. While the work of the committee is not yet complete, one alternative being discussed is an expansion of the Detention facility. If this alternative is approved by Council, it would have a significant operational funding impact in the years ahead.

State Actions

A major issue for the Lowcountry is the replacement of the Cooper River Bridges. Although the bridges are owned and maintained by the State, the State has required local funding for the project. The State, the Federal government, and Charleston County are funding the project. Charleston County has committed to pay \$3.0 million a year for 25 years beginning in fiscal year 2004. If the County is not successful in its appeal to the State Supreme Court for a reconsideration of the ruling against the half-penny sales tax, alternative sources of funding will need to be found. Although a specific source of funding has not yet been identified, alternative options are an increase in property taxes, a motor vehicle fee, the sale of property, or a combination of accommodations fee and property taxes.

The reduction in the taxable portion of the appraised value of motor vehicles will continue to be phased in from fiscal year 2005 through fiscal year 2008. The County will see a reduction in property tax revenue from motor vehicles as follows:

Fiscal Year	Reduced Revenue	Cumulative Reduced Revenue
2005	\$1.1 million	\$3.3 million
2006	\$1.2 million	\$4.5 million
2007	\$1.3 million	\$5.8 million
2008	\$0.9 million	\$6.6 million

Roads

As the County continues to strive to reduce the miles of roads that need to be constructed or repaired, additional funding will be necessary to support this program. Due to budget constraints, no annual appropriation for roads was included in the fiscal year 2003 or fiscal year 2004 budgets. A half-penny sales tax approved by voter referendum was intended to provide funding for these projects. However, the State Supreme Court's overturning of the referendum leaves the County searching for additional funding sources.

CONCLUSION

The fiscal year 2004 Charleston County Operating Budget meets the County's budget objectives and addresses the major policy issues that face the County. As the County enters a new year and looks forward to future years, we will continue to strive to efficiently and effectively meet the needs of Charleston County's citizens.

Respectfully submitted,

Roland H. Windham, Jr.