

Letter from the Administrator



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Citizens of Charleston County:

I am pleased to present to you the Fiscal Year (FY) 2017 Charleston County Operating Budget, as adopted by Charleston County Council on June 21, 2016. Charleston County has received the Government Finance Officers Association (GFOA) Distinguished Budget Presentation Award for the past twenty-seven years. We are proud of this recognition, and we work hard each year to improve upon the budget from the previous year. We believe that this budget document conforms to the award program requirements, and we are submitting it to GFOA for consideration.

HIGHLIGHTS

- *Addresses Growth in Charleston County*
- *Strengthens Financial Fundamentals*
 - *Matches Recurring Revenue with Recurring Expenditures*
 - *Maintains Prudent Fund Balance*
 - *Reallocates Rainy Day Fund*
- *Preserves County Resources*
- *Plans for the Future*
- *No Tax Increase*

The balanced FY 2017 budget addressed the following four budgetary challenges:

- **Growing Population** ~ The tri-county area is estimated to grow by approximately 1,000 new residents per month during FY 2017. As a result of growth in population, the County is experiencing some growing pains from the increased requirements for existing citizens. The growth of citizens from different areas of the country is also changing the dynamics for the types and levels of service demands required from the County by new citizens. The proposed budget includes twenty-five new positions to provide direct services to citizens and address the increasing service demands. Eleven of the new positions are for the drainage program recently approved by Council to meet federal mandates and improve service to the community.
- **Maintaining Financial Health** ~ This budget follows the County's financial policies, maintaining fund balance levels, and matching recurring costs with recurring revenue. The FY 2017 budget reallocates the Rainy Day Fund to 4% of the General Fund budget. In addition, the budget optimizes the use of General Fund funds by utilizing outside funds. The Local Accommodations Tax reimbursement to the General Fund was maximized to offset costs associated with providing services to tourists. The Debt Service Fund is anticipated to fund a short-term borrowing for Public Works equipment replacement. The County plans to utilize funds from the Transportation Sales Tax: Roads Program for the 25% FEMA match to address damage from the thousand year storm.
- **Preserving Resources** ~ The proposed budget includes continuing the longevity and merit programs for our employees, our most valued asset. Between FY 2011 through FY 2016, the County deferred some maintenance on buildings in order to match previous expenditures with projected revenues. The proposed budget represents an increase in funding for building maintenance. While the increase represents a positive move for the County, the County will continue to be challenged with building maintenance due to the age of the County's facilities. In addition to increased funding for repair, the County added nine new positions to continue the County's endeavors to preserve our buildings, equipment, vehicles, and telephone infrastructure which total approximately \$500 million in value.

- **Planning for the Future** ~ A solid financial budget addresses current issues, as well as financial issues. The County recognizes there is an employment shift expected in the next three years resulting in an increase in the number of employees retiring, particularly employees in management positions. Between FY 2016 and FY 2018, 30% of all county employees are eligible to retire (either the employee has fulfilled 28 years in the SC retirement system or is 59 years old or older). This budget begins to address this anticipated shift and includes funding for employment development and training. The goal is to groom our current employees so they are prepared for the management positions that are expected to become vacant in the near future. This budget also updated the County's five-year financial forecasts to identify future challenges and opportunities in the County's major funds.

In previous decades, Charleston County's economic driving forces were the military presence and tourism. This economic canvas began to change 20 years ago with the closing of the Navy base and shipyard. While tourism has remained strong over the years, local leaders have painted a new picture of Charleston that includes a solid manufacturing and industrial presence, a growing international business community, several health care providers, and a thriving high-technology industry. In recent years, Boeing Company, Mercedes Benz, Volvo, Google, and Benefitfocus began calling the greater Charleston metro area home. On average, 20 new residents move into the area daily. This new Charleston, which has a different face from 20 years ago, sets the stage for the FY 2017 and future budgets.

THE BUDGET IN BRIEF

Early in the budget process, the County reviewed projected appraised property values, Charleston County and national economic indicators, actual FY 2015 receipts, and FY 2016 year-to-date collection trends to project the amount of revenues available for FY 2017. From this process, a target budget was determined for each office/department. As a result of this approach, the County met all financial obligations without a tax increase.

Revenues and other sources for all operating funds¹ total \$470.5 million for FY 2017, an increase of \$17.5 million over the previous fiscal year. The County's largest revenue sources, the Property Tax and the Local Option Sales Tax reflect a net increase of \$10.3 million for the General Fund. Another increase in the General Fund sources is a \$3.4 million increase in Emergency Medical Services (EMS) billings due to the population growth. Revenues from fees-in-lieu of property taxes resulted in an additional \$2.9 million in the Special Revenue Fund Transportation Development: Revenue Bond Debt Service. County Council designated the fees as security for the repayment of the debt service on transportation related projects. The increase in the Special Revenue Fund revenues also includes an increase to the Public Works: Stormwater Drainage fund. This increase of \$2.2 million is the result of the newly enacted stormwater rate adjustment for services provided in unincorporated areas of the County and services provided to municipalities per governmental agreements.

Expenditures and other uses for all operating funds total \$476.0 million for FY 2017, a \$4.0 million increase from the previous year. The largest increases in the General Fund represent an additional \$3.4 million in EMS and \$1.7 million in the Sheriff's Office due to the annualization of costs related to the public safety expansion in FY 2016. The second significant increase in the General Fund is an additional \$3.3 million in Facilities Management which represents the transfer of annual recurring maintenance related to roofing, heating/cooling, and paving from the Capital Projects Fund (not included in the annual operating budget) to the General Fund. The third most significant increase is in the Special Revenue Fund. The newly enhanced Public Works: Stormwater Drainage program resulted in a \$2.1 million increase. The increases are minimized by a one-time, \$10.4 million transfer of funds in

¹ The operating funds include all funds appropriated on an annual basis but exclude project-length budgets, e.g., Capital Projects Funds and grants.

FY 2016 to the Capital Project Fund for the library expansion approved by voters in the FY 2014 referendum and for other projects.

The General Fund's beginning fund balance represents several different components. An amount is maintained according to a County financial policy that is equal to two months of recurring disbursements. In addition, a portion of fund balance in the General Fund is set-aside for a "rainy day" per the County's budget ordinance. The Rainy Day Fund was established to provide funds for use in the event of a major calamity. This amount is required to be maintained at no less than four percent of General Fund disbursements. As part of maintaining the County's financial health, there was no reliance on General Fund fund balance for FY 2017 expenditures.

MAJOR POLICY ISSUES

As the County prepared the FY 2017 budget, staff reviewed the practice of using the General Fund fund balance for pay-as-you-go capital equipment and other one-time purposes. The County's financial policy requires that the County match recurring funds with recurring expenses. During this financial review, it was determined that the most efficient utilization of funding would be to classify annual maintenance related to roofing, heating/cooling, paving, and technology as recurring costs. In previous years, the County did not have recurring revenue to fund the annual maintenance and decided to use a pay-as-you-go approach where maintenance was performed as the funds became available in the fund balance. As a result of a stronger economy in Charleston County, as seen in the growth in property tax revenue, the County has the recurring funds to move the annual maintenance costs from the Capital Project Funds to the General Fund.

County Initiative: Workflow Analysis-Process Management – Ensure all new and existing processes and workflow are reviewed for efficiency of resources and utilized funding.

County Initiative: Long-Term Financial Planning – Ensure sound fiscal term planning.

While updating the long-term financial plan, it became evident that the County needed to consider options to reduce the increasing personnel costs. During budget deliberations, Council voted to discontinue the County subsidy for retiree health insurance for new hires as of July 1, 2016. By using sound long-term financial planning, the County is better positioned to remain stable following the financial shock of natural calamities and economic downturns, while providing excellent service to citizens and maintaining the workforce.

LOOKING AHEAD - CHALLENGES IN FY 2017 AND BEYOND

Several challenges have been identified for FY 2017 and beyond. The following section discusses the challenges and how successful resolution of these issues aligns with the County's mission and initiatives.

Charleston County Library System – County citizens voted to approve a \$108.5 million plan to expand the current Library system during the November 2014 election. The Library plan included building five new Libraries (three serving as replacements for existing facilities), renovating 13 existing branches, moving the Library's support staff out of the Main Library so that space can be reconfigured for public use, and upgrading the technology in all buildings. The County reduced the millage increase to fund the Library expansion by combining a pay-as-you-go approach with bond financing for the capital costs.

Construction of a Material Recycling Facility and a Lined Landfill Cell – The County is currently working to design a recycling center that is cost efficient and meets the needs of the growing population. Funding the recycling program without increases in the Solid Waste User Fee will remain a challenge, especially in a new market where the revenue generated from recycling has decreased.

County Initiative: Service Delivery – Provide a level of service that the customer recognizes as high in quality and value.

The Environmental Management Department also has plans to construct the next lined landfill cell for \$9.0 million in FY 2020, while managing the fund balance and reserves. In addition to setting aside funds for the construction, the County prudently strives to maintain the available portion of the Environmental Management fund balance at no less than \$5.0 million.

State Actions – In recent years, the state has not followed the long-standing statutory allocation formula for funding local governments. Although the General Assembly increased the funding level in FY 2013 and maintained that level in the following years, the increased allocation remains at pre-recession levels. The County is uncertain whether the General Assembly will be able to increase this level in future years. In addition, the County is challenged with absorbing the growing costs of state mandates and state-required services.

Managing the County Growth While Maintaining and Improving Services – The FY 2016 budget represented the first net millage rate increase in almost a decade. The County continues to see an increase in the types and amounts of service needs. In addition, population growth requires enhanced infrastructure needs for the Charleston areas. The citizens interest in expanded services was expressed when the voters approved the library expansion in 2014. The County continues to receive requests for improved drainage infrastructure, enhanced roads, additional parks and recreational facilities. In addition to infrastructure needs, the County is experiencing increased permit, appraisals and judicial service requests. The current budget has little contingency available to address unplanned costs and forces staff to work within their budgets. As we enter the new fiscal year and moving beyond, staff will continue to efficiently and effectively monitor the County's fiscal health and make decisions that best align with the needs of the great citizens of Charleston County.

CONCLUSION

The FY 2017 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,



Keith Bustran
Charleston County Administrator