

## Strategic Plan of Work & Projections

The Strategic Plan of Work & Projections portion of this document provides a narrative discussion of the County's long-term planning process and links the policy making priorities with the operational implementation. There are a number of planning efforts underway that will shape the County's long-term future. The results of the completed plans have been incorporated into the Adopted FY 2015 Operating and Capital Budget.

The County, in recent years, has set its strategic priorities through a "Plan of Work" process. In contrast to the traditional strategic planning process, which looks years into the future, the plan of work process establishes specific focus areas. These focus areas are then further refined to reflect specific goals or policy areas that need to be addressed.

The Plan of Work, in recent years, has translated into the development of the Operating and Capital Budgets, and has established the guiding basis for the organization.

As the flow chart indicates, the plan of work is the starting place for the annual cycle, establishing the foundation and priorities for the budget process and providing measureable and tangible goals.

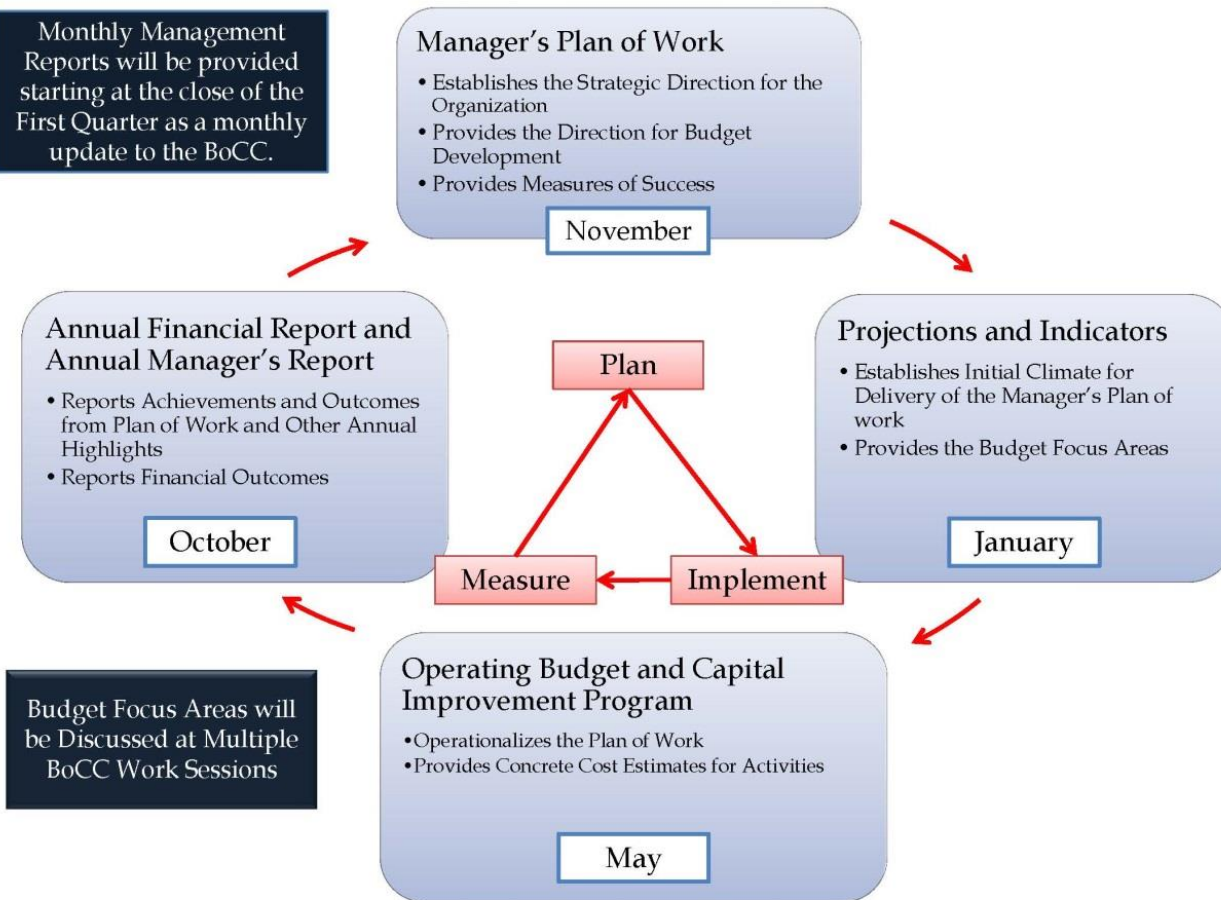
The plan of work is built on the concept of establishing objectives, determining deliverables, reporting and feedback, adjusting the deliverables, and ultimately celebrating successes. The plan of work, unlike a strategic plan, is revisited every year through the process, evaluated, and adjusted.

### Development of the Plan of Work

While the plan of work establishes the ongoing focus areas, it is important to take a step back and review the process and the history behind the plan of work.

The plan of work was developed with specific objectives in mind:

- A sustainable plan to achieve the Board of County Commissioners' objectives.



- Provide a measurable means to evaluate the County's performance.
- A means to communicate to the community the Board's priorities.
- Serves as the foundation for the upcoming year's budget process and establish organization objectives.

The plan of work process began in January 2012 when the Board of County Commissioners identified the need for the plan. During several work sessions that month, in conjunction with the Five-Year Forecast, the BOCC began work on developing the plan. Individual BOCC members provided input concerning the needed focus areas. The initial results yielded seven specific areas:

- Capital Program
- Economic Development
- Education
- Efficient and Effective Government
- Fiscal Sustainability
- Planning
- Public Safety

Through the spring of 2012, the BOCC worked to find consensus and arrived at five focus areas:

- Public Safety
- Fiscal Sustainability
- Capital Program
- Planning and Economic Development
- Efficient and Effective Government

With these five focus areas as the foundation, the Board of County Commissioners adopted the County Manager's Plan of Work on July 16, 2012.

The focus areas were revisited during January of 2014, and minor changes were made to reflect the changing dynamics in Union County. The current focus areas are:

- Public Safety
- Building Community Consensus
- Planning and Economic Development
- Fiscal Sustainability

- Effective and Efficient Service Delivery

As the graphic on the next page illustrates, these areas provide a nexus point for the vision and annual budget focus areas. While the individually identified projects in the plan of work change annually, the five focus areas provide an overarching priority that allows management to plan and ultimately establish day-to-day operations and budgets.

### *Development of the Vision*

What is a vision statement? The vision statement, as adopted by the Union County Board of County Commissioners, represents a description of what the organization would generally like to achieve or accomplish. It serves as guide for developing and evaluating all aspects of County government and service delivery.

Beginning in the fall of 2013, the County's executive management team began work on what was considered a "branding" project focused on establishing the County's brand in the community and unifying the County's message for the public.

During the initial branding development process the executive team quickly realized that while the County had a vision statement adopted in 2004, it did not reflect the changing values and services in the community. Additionally, given the organizational changes, the core values had evolved as well.

The management team worked through a different process and started with several fundamental questions:

- How did we get here, what is our history?
- What are our core values?
- What are the issues facing Union County and its residents?
- What does our environment look like, politically, economically, internally to the organization, externally in the community, and customer expectation?
- What do we want the future to look like?
- How do we get there?



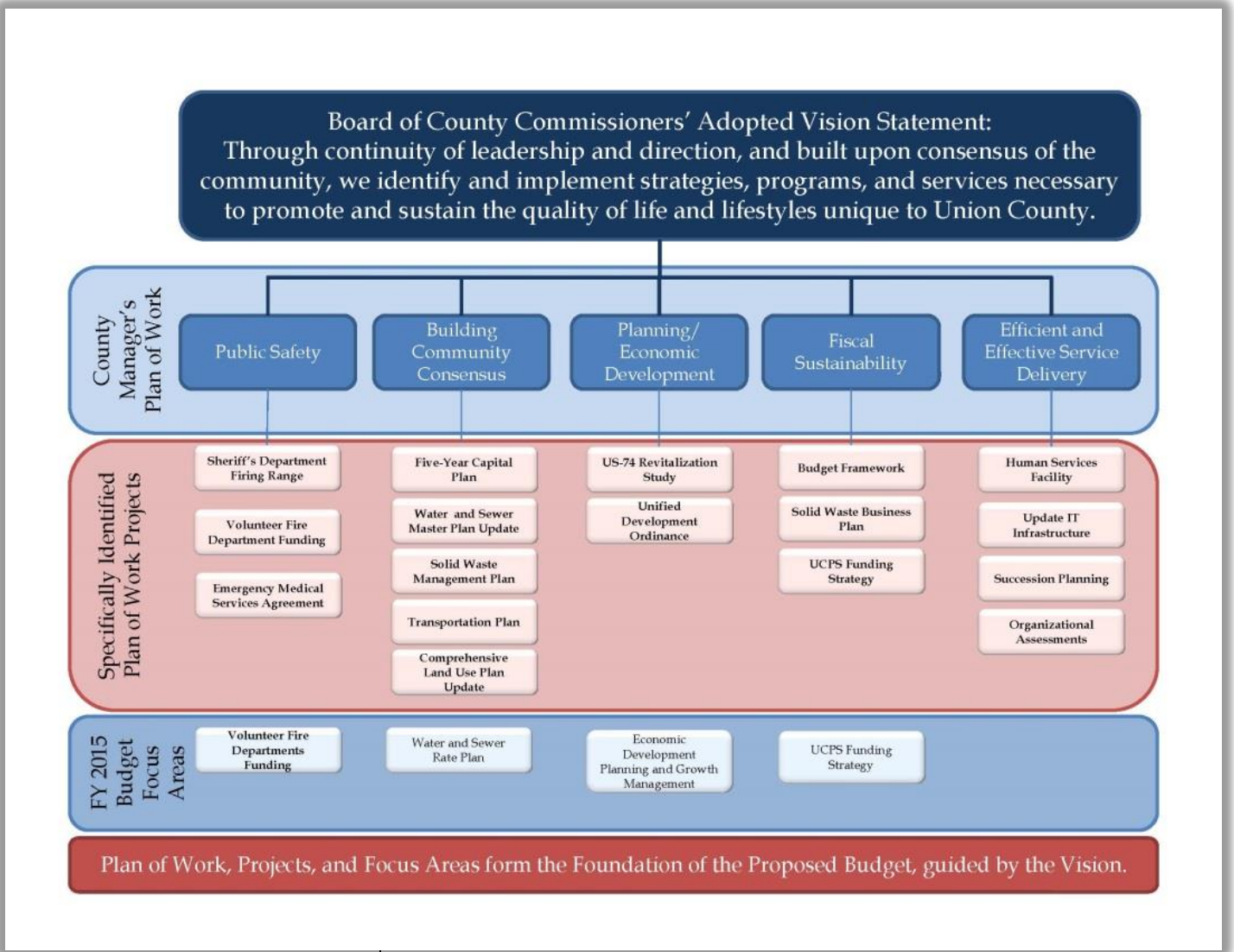
The discussions focused in on the rapid growth of the County during the late 1990s and early 2000s. The growth was reflective of a community that was evolving; going from a period, in the 1980s and before, of fairly minimal growth in population as well as a fairly static county government. From 1990 to 2010 the population of the County more than doubled. This unique stressor significantly impacted the County and can be felt even today.

From the work done during multiple sessions, the management team established several key concepts that it believes should guide the vision statement.

- Consensus of the Community
- Continuity of Leadership and Direction
- Sustainability, both Economically and Institutionally, of Key Programs and Services
- Balance of Programs and Services that Address the Diverse Interests of our Residents

During the December 9, 2013, Board of County Commissioners’ work session, the proposed vision statement was presented to the Board of County Commissioners.

Through continuity of leadership and direction, and built upon consensus of the community, we identify and implement strategies, programs, and services necessary to promote and sustain the quality of life and lifestyles unique to Union County.



During the January 21, 2014, Board of County Commissioners’ work session, the proposed vision statement was again discussed and presented, with the final adoption coming following a presentation during the February 17, 2014, Board of County Commissioners’ regular board meeting.

With the adoption of the vision statement, the next steps in the process are to identify the actions necessary to implement the vision and ultimately task each service area with developing an action plan to carry out the vision.



## Development of the Budget Focus Areas

Each year, in January as the kick off to the annual budget development process, the County staff prepares and updates the annual *Five-Year Financial Projections, Fiscal Indicators, and Demand for Services Index*. The “Five-Year Projection” provides a snapshot into the future regarding the County’s General Fund and Water and Sewer Utility Fund, future debt, and economic and demographic trends.



The County’s *Five-Year Financial Projections, Fiscal Indicators, and Demand for Services Index* provides a three pronged approach to analyzing the County’s needs.

The financial projections provide a statistically valid projection of future costs and revenues. This core information provides a basis for decision making in the budget process as well as providing some general indications concerning anticipated resource requirements for the future.

The fiscal indicators provide a more global look at the fiscal health of the County. The fiscal indicators use various economic, demographic, and financial indicators to establish trends. These trends in turn provide an indication of fiscal health and sustainability. Much like a thermometer provides a temperature reading, fiscal indicators provide a picture of the County’s financial health.

The demand for services index provides a services side analysis of demand. While not comprehensive, the selected demand indicators provide an indexed look at the past demand for services. With this look at demand trends there is indication of possible future demand. An index is indicative of underlying trends, and provides a directional look at service demands.

Using these three tools the County can draw conclusions concerning the future of finances and services in the County. It is from the vision statement, plan of work, and these conclusions, that the staff and the Board of County Commissioners can determine the needed budget focus areas.

In January of 2014, the Board of County Commissioners established the budget focus areas:

- Growth Management and Economic Development Planning
- Sustainable Volunteer Fire Department Funding
- Sustainable UCPS Funding Model
- Sustainable Water and Sewer Rate Plan

These specific focus areas, combined with the other priorities set during the December 9, 2013 Board of County Commissioners discussion concerning the Manager’s Plan Work formed the foundation for the County Manager’s FY Adopted 2015 Operating and Capital Budget.

## Other Planning Efforts

There are several other significant planning efforts under way that will shape the future of the County and will certainly have an impact on future operating budgets and capital programming.

- Water and Sewer Master Plan Update
- Solid Waste Management Plan
- Transportation Plan
- Comprehensive Land Use Plan Update
- US-74 Revitalization Study



- Unified Development Ordinance

While not an exhaustive list, these plans will help to shape the future of the County. The plans coupled with the planning going in the individual municipalities within the County, illustrate the changing dynamics of the County as it grows into the future, while working to honor its past.

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**General Fund Financial Projections**

	Actual FY 2013	Revised FY 2014	Adopted FY 2015	Projected FY 2016	Projected FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020
<b>Funding Sources</b>								
Ad Valorem Taxes	\$ (157,703,452)	(156,081,812)	(76,391,824)	(77,381,246)	(78,387,953)	(79,412,390)	(80,455,019)	(81,516,318)
Local Option Sales Taxes	(26,834,776)	(26,948,400)	(30,093,981)	(30,846,331)	(31,617,489)	(32,407,926)	(33,218,124)	(34,048,577)
Other Taxes	(2,093,213)	(1,826,000)	(2,383,000)	(2,451,819)	(2,523,078)	(2,596,878)	(2,673,326)	(2,752,534)
Unrestricted Intergovernmental Revenue	(81,981)	(61,700)	(82,500)	(82,710)	(82,924)	(83,143)	(83,366)	(83,593)
Restricted Intergovernmental Revenue	(10,990,062)	(10,235,667)	(10,931,560)	(11,085,362)	(11,242,506)	(11,403,072)	(11,567,145)	(11,734,809)
Federal Grants	(15,859,114)	(11,653,596)	(12,297,575)	(12,297,575)	(12,297,575)	(12,297,575)	(12,297,575)	(12,297,575)
State Grants	(3,900,615)	(9,426,923)	(8,576,978)	(8,576,978)	(8,576,978)	(8,576,978)	(8,751,978)	(8,751,978)
Non-Enterprise Charges For Services	(8,451,001)	(8,775,563)	(9,522,754)	(9,660,567)	(9,801,745)	(9,946,377)	(10,094,553)	(10,246,368)
Debt Proceeds - Restricted Revenue	(80,474,253)	-	-	-	-	-	-	-
Investment Income	(116,820)	(500,000)	(500,000)	(505,000)	(510,050)	(515,151)	(520,302)	(525,505)
Other Revenue	(7,058,776)	(6,682,251)	(6,875,801)	(6,878,071)	(6,880,364)	(6,882,679)	(6,885,018)	(6,887,380)
Interfund Transfers	(20,023,787)	-	-	-	-	-	-	-
Planned Fund Balance Usage	-	-	(1,927,001)	-	-	-	-	-
<b>Total Funding Sources</b>	<b>\$ (333,587,850)</b>	<b>(232,191,912)</b>	<b>(159,582,974)</b>	<b>(159,765,659)</b>	<b>(161,920,661)</b>	<b>(164,122,168)</b>	<b>(166,546,406)</b>	<b>(168,844,638)</b>
<b>Expenditures</b>								
Employee Compensation	34,027,344	37,680,371	38,852,136	40,395,042	41,984,235	43,237,841	44,529,055	45,859,006
Employee Benefits	18,628,020	20,878,894	22,368,016	23,724,716	25,160,631	26,563,037	28,051,473	29,631,527
Operating Cost	27,620,869	33,967,728	32,429,916	33,250,208	34,094,127	34,458,708	35,342,206	36,251,591
Capital Outlay	946,691	2,220,500	1,294,786	1,347,579	1,402,772	1,460,482	1,520,828	1,583,938
Contracts, Grants, and Subsidies	8,992,335	10,066,554	12,574,933	14,082,570	14,493,425	14,743,314	15,168,576	15,623,885
UCPS Current Expense	81,504,155	83,021,859	-	-	-	-	-	-
General Debt Service	107,168,994	5,472,064	3,411,642	3,642,447	3,554,257	3,788,100	4,760,225	3,318,428
UCPS Related Debt Service	43,426,394	44,012,450	44,989,088	43,733,632	43,511,858	42,479,116	40,119,411	37,447,184
Interdepartmental Charges	(2,454,470)	(2,713,965)	(1,602,626)	(1,634,679)	(1,667,372)	(1,700,720)	(1,734,734)	(1,769,429)
Interfund Transfers	51,979	8,412	4,777,083	2,304,140	2,103,580	1,566,080	748,580	731,080
UCPS PayGo Capital Funding	-	17,936,454	-	-	-	-	-	-
Other Budgetary Accounts	-	358,515	488,000	488,000	488,000	488,000	488,000	488,000
<b>Total Expenditures</b>	<b>\$ 319,912,311</b>	<b>252,909,836</b>	<b>159,582,974</b>	<b>161,333,655</b>	<b>165,125,512</b>	<b>167,083,959</b>	<b>168,993,621</b>	<b>169,165,210</b>
Revenues (Over)/Under Expenditures	\$ (13,675,539)	20,717,924	-	1,567,996	3,204,851	2,961,790	2,447,214	320,572
Sensitivity (+/-2% Goal)	0.00%	8.19%	0.00%	0.97%	1.94%	1.77%	1.45%	0.19%

**General Fund Projections**

The General Fund is the chief operating fund of the County. The majority of County services are funded by or through the General Fund. The General Fund is funded through tax revenues; federal, state, and local intergovernmental revenues; charges for services; and other sources.

The General Fund projection is based on an analysis of historical and current expenditure trends, known upcoming projects and costs, and current cost drivers. In this case, the "Revised FY 2014" column reflects the amended budget through April 2014, and the "Adopted FY 2015" column represents the Adopted FY 2015 Operating and Capital Budget for county services, which excludes school funding.



## Projection Assumptions

During the development of any projection a number of assumptions are made concerning growth of revenues and expenditures. Following are some of the core assumptions included in the projection:

- The County continues to provide the same level of service currently provided throughout the projection period.
- The economic conditions remain similar to current levels; periods of sustained economic growth or sustained downturn will impact the projections. Given the uncertainty surrounding these possibilities, the projections are based on the current conditions.
- Generally, operational expenditures are projected to maintain an inflationary pace, growing at about two percent annually. This varies on some line items, but holds true for the bulk of the projection.
- Revenue has been projected given recent history and collection patterns. There are two notable exceptions to this:
  - State and Federal Intergovernmental revenue are anticipated to remain flat through the projection period. This was done given the recent history of limited, if any, growth in these programs. Projecting these revenues without growth is a conservative approach which in this case is warranted.
  - Ad valorem taxes are estimated in accordance with *North Carolina General Statutes 159-13(b)-6*, which limits the estimated revenue, based on levy, to the previous year's collection levels. Recent history indicates that this revenue has a likelihood of being greater than anticipated; however, the County is required to use the mandated projection.
- Employee compensation is anticipated to grow at roughly three percent annually. The projection makes no assumption concerning pay for performance or additional staffing, but instead uses a proxy growth assumption for employee compensation that reflects normal growth.
  - The projection does include year's two and three of the Sheriff's Office pay range adjustment program. This three year program is aimed at bringing sworn officers compensation in line with surrounding areas. The benefits have also been increased to reflect this program.
- Employee benefits, specifically health benefits costs, are assumed to continue to grow at about seven percent annually. This is reflective of the current market conditions and anticipated future medical contributions, unemployment insurance, separation allowances, and other benefits are projected to grow between three and five percent. This is reflective of the growth in compensation and the growing liabilities of these services.

- Debt service assumptions are based on current agreements and costs. They do not reflect additional refundings or restructurings.
- As the projection indicates, the General Fund, starting with the Adopted FY 2015 Operating and Capital Budget no longer includes the UCPS Current Expense Funding or the UCPS Capital Outlay Funding. In future years, this funding will be shown in the "Schools Budgetary Fund". In addition the proceeds from the "Schools Tax", or the UCPS portion of the county-wide Ad Valorem taxes will be shown there as well. Based on this change the reduction in expenditures and revenue are evident when compared to prior years.

## General Fund Projection Summary

General Fund Revenue and Expenditure Projection			
	Revenue	Expenditures	Revenue Over/(Under) Exp.
FY 2013	\$ 253,113,597	239,438,058	13,675,539
FY 2014	232,191,912	252,909,836	(20,717,924)
FY 2015	159,582,974	159,582,974	-
FY 2016	159,765,659	161,333,655	(1,567,996)
FY 2017	161,920,661	165,125,512	(3,204,851)
FY 2018	164,122,168	167,083,959	(2,961,790)
FY 2019	166,546,406	168,993,621	(2,447,214)
FY 2020	168,844,638	169,165,210	(320,572)

As the table indicates, there is an annual deficit; however, a further analysis of past trends and projection variances would indicate that if the deficit or surplus is within two percent of the expenditure total, then the projection is essentially balanced. In the case of the General Fund projection, for county services, there are no years where the deficit is greater than two percent.

The projection variance sensitivity, coupled with the average growth of 1.82 percent annually, indicates that given the assumptions, the Adopted FY 2015 Operating and Capital Budget for county services is sustainable through the projection window.



Service Area	Tax Rate in Pennies	Adopted FY2015 Expenditures	Current Ad Valorem Taxes	Non-Current Ad Valorem Taxes	Local Option Sales Taxes	Other Taxes	Inter- governmental Revenues	Non-Enterprise Charges for Services	Investment Income	Other Revenue
Administrative Services	0.60	\$ 1,435,519	(1,434,934)	-	-	-	-	(585)	-	-
Board of Elections	0.48	1,138,215	(1,137,315)	-	-	-	(400)	(500)	-	-
Community Partners	0.16	7,252,551	(381,123)	-	-	-	(657,255)	(30,270)	-	(6,183,903)
Community Services	2.93	8,079,765	(6,987,986)	-	-	-	(240,099)	(663,573)	-	(188,107)
Emergency Services	4.94	12,481,228	(11,777,828)	-	-	-	(62,500)	(488,900)	-	(152,000)
General County Administration	(0.06)	14,280,359	138,233	(3,410,400)	-	(2,383,000)	(5,997,492)	(700)	(500,000)	(2,127,000)
Growth Management	(0.22)	2,752,995	529,705	-	-	-	-	(3,282,700)	-	-
Human Services	6.96	39,958,089	(16,567,514)	-	-	-	(19,971,699)	(3,267,085)	-	(151,791)
Public Works	(0.19)	(447,617)	447,617	-	-	-	-	-	-	-
Register of Deeds	(0.07)	982,192	166,008	-	-	-	-	(1,148,200)	-	-
Sheriff's Office	9.88	26,363,100	(23,523,027)	-	-	-	(2,199,832)	(640,241)	-	-
Union County Public Schools DS	5.23	45,306,578	(12,453,261)	-	(30,093,981)	-	(2,759,336)	-	-	-
<b>Total</b>	<b>30.64</b>	<b>\$ 159,582,974</b>	<b>(72,981,425)</b>	<b>(3,410,400)</b>	<b>(30,093,981)</b>	<b>(2,383,000)</b>	<b>(31,888,613)</b>	<b>(9,522,754)</b>	<b>(500,000)</b>	<b>(8,802,801)</b>

#### General Fund Revenue Allocation

Given the change in FY 2015 to an Ad Valorem Tax Rate for County Services and an Ad Valorem Tax Rate for Schools, there has been a heightened interest in the other funding sources that support the General Fund. In other words, why use the Ad Valorem Tax for Schools and not the other sources in the General Fund. The table above provides a detailed analysis of the allocation of the various revenues in the General Fund.

The table above is often referred to as the "Net Takers" table because it demonstrates, on an allocated basis, how much each service area costs in terms of Ad Valorem Tax. The "Tax Rate In Pennies" column effectively provides insight into the tax impact of each service area, in several cases where that tax impact is negative, the service area provides additional funds in support of the total general fund and does not cost the tax payer or require Ad Valorem Tax support.

Before analysis can occur, it is important to understand what the General Fund is used for. Without belaboring the discussion of fund accounting, the General Fund is the principal operating fund which provides for the accounting of the most basic governmental services. Because of this, the General Fund has no specific nature, like a utility fund that focuses on utility

operations, or the 911 communications fund that focuses on specific operations and revenues.

It should be noted: the table above is the allocation analysis for the General Fund only and excludes the Schools Tax and the funding for UCPS Current Expense and Capital Outlay.

As the table above indicates, the majority of the revenue in the General Fund, about sixty-five percent, comes through the Ad Valorem Taxes and the Local Option Sales Taxes.

Ad Valorem Taxes, commonly referred to as "property taxes" are the largest revenue source in the county, making up forty-six percent of the total revenue.

Local option sales taxes are allocated to fund the Union County Public Schools debt service. Totaling just over \$30 million, sales taxes make up about nineteen percent of the total General Fund revenue.

The remaining thirty-five percent of the revenue comes through the following:





- *Non-Current Ad Valorem Taxes* – Revenue derived from prior years uncollected Ad Valorem Taxes and cost recoveries. Comprises about two percent of the total.
- *Other Taxes* – Revenue derived from franchise taxes, transfer taxes, gross receipts, and other non-Ad Valorem taxes, comprises one percent of total revenues.
- *Inter-Governmental Revenues* – Revenues derived through grants, mandated services, and agreements with other units of government. These funds are generally restricted in nature **and can only be used for the programs** they were intended for. This funding makes up twenty percent of the total.
- *Non-Enterprise Charges for Services* – Charges for Services are comprised of the various fees charges for specific services and are used to partially offset the cost of providing the service. For example, this would include Parks and Recreation, Library Fees, and Inspection Fees. Charges for Services make up about six percent of the total General Fund revenue.
- *Investment Income* – Revenue derived from the investment of the General Fund, fund balance. Investments are governed by the North Carolina General Statutes. This revenue, which comprises less than one percent of the total, and is largely dependent on market conditions and the cash balances in the General Fund.
- *Other Revenue* – Other revenue are various funding sources that do not specifically fit the other categories. The largest portion of the other sources, is revenue derived from the lease of the hospital. This lease provides about \$6.4 million annually. In addition, in FY 2015 the other sources includes \$1.9 million of fund balance usage. The total Other Revenue make up about six percent of the total revenue.

### Schools Tax Rate Projection

#### Union County Public Schools Funding Projection

Fiscal Year	UCPS Current Exp.	UCPS PayGo	Total	Schools' Tax Rate
FY 2014	\$ 83,021,859	17,936,454	100,958,313	35.36
FY 2015	87,097,884	19,531,582	106,629,466	45.50
FY 2016	90,956,320	19,786,024	110,742,344	45.50
FY 2017	94,985,673	20,044,847	115,030,520	47.50
FY 2018	99,193,538	20,308,165	119,501,703	47.50
FY 2019	103,587,812	20,576,093	124,163,905	50.50
FY 2020	108,176,752	20,848,749	129,025,501	50.50

Note: CPI Assumption = 2%, ADM Growth Assumption = 2.43%

As the table above indicates, the projected Schools Tax rate is planned to grow every other year. The FY 2015 Schools Tax rate was established to allow a stabilized rate for FY 2015 and FY 2016. The rate is projected to be sufficient to provide the funding level for UCPS Current Expense and Capital Outlay that is mandated by the General Assembly through Session Law 2014-9.

Additional discussion related to funding for UCPS can be found in the Union County Public Schools tab in this document.

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## Water and Sewer Utility Fund Financial Projections

	Actual FY 2013	Revised FY 2014	Adopted FY 2015	Projected FY 2016	Projected FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020
<b>Revenues</b>								
Water and Sewer Rate Revenue	(26,521,908)	(28,238,551)	(29,497,367)	(32,279,419)	(35,326,497)	(38,992,013)	(43,246,512)	(47,682,828)
Water Tap Fees	(1,294,734)	(1,230,000)	(1,230,000)	(1,419,357)	(1,459,474)	(1,340,911)	(1,374,774)	(1,409,493)
Sewer Tap Fees	(1,631,920)	(2,016,225)	(2,016,230)	(2,262,576)	(2,326,526)	(2,137,525)	(2,191,507)	(2,246,852)
Water Miscellaneous Revenues	(9,875)	(12,157)	(10,200)	(10,506)	(10,821)	(11,146)	(11,480)	(11,825)
General Miscellaneous Revenues	(872,967)	(1,235,565)	(1,113,740)	(1,147,152)	(1,181,567)	(1,217,014)	(1,253,524)	(1,291,131)
Interest Income	78,920	(338,444)	-	(486,432)	(590,930)	(565,179)	(533,810)	(494,200)
<b>Total Revenue</b>	<b>(30,252,483)</b>	<b>(33,070,942)</b>	<b>(33,867,537)</b>	<b>(37,605,442)</b>	<b>(40,895,816)</b>	<b>(44,263,787)</b>	<b>(48,611,608)</b>	<b>(53,136,329)</b>
<b>Expenditures</b>								
<b>Operating Expenses</b>								
Personnel	6,033,161	7,030,684	6,676,792	7,196,032	7,743,087	8,319,294	8,926,049	9,356,144
Utilities	1,447,465	1,403,088	1,421,018	1,534,241	1,656,485	1,783,235	1,919,683	2,066,571
Water Purchased for Resale	3,057,865	3,374,232	3,427,786	3,556,983	3,713,025	3,849,231	3,990,945	4,138,407
Other Operating	7,785,391	8,567,392	8,476,397	8,730,689	8,992,610	9,262,388	9,540,260	9,826,467
Payments to Anson County	381,341	295,092	2,614,402	2,522,494	2,522,494	2,522,494	2,522,494	2,508,426
Capital Outlay	371,359	1,085,717	560,000	576,800	594,104	611,927	630,285	649,193
Transfer to Stormwater Fund	208,944	319,893	287,282	295,900	304,777	313,921	323,338	333,039
Existing Debt Service	6,888,131	6,632,374	6,155,226	6,294,377	6,220,760	5,953,573	5,934,172	5,917,811
New Debt Service	-	-	-	3,060,824	5,065,358	9,390,968	12,223,811	19,232,014
PayGo Capital Program	7,600,000	10,589,089	21,696,400	4,740,340	6,601,840	4,888,360	6,242,700	3,388,000
<b>Total Expenditures</b>	<b>33,773,657</b>	<b>39,297,561</b>	<b>51,315,303</b>	<b>38,508,680</b>	<b>43,414,541</b>	<b>46,895,390</b>	<b>52,253,737</b>	<b>57,416,072</b>
<b>Revenue (Over)/Under Expenditures</b>	<b>3,521,175</b>	<b>6,226,619</b>	<b>17,447,766</b>	<b>903,238</b>	<b>2,518,725</b>	<b>2,631,603</b>	<b>3,642,129</b>	<b>4,279,743</b>
Projected June 30, 20XX Fund Balance	84,931,611	78,704,992	61,257,226	60,353,988	57,835,263	55,203,660	51,561,531	47,281,788
Projected Reserve Target	17,316,914	32,799,713	35,812,998	35,340,028	37,178,116	39,629,657	43,619,597	44,858,508
Projected Rate Increases	3.50%	3.50%	6.50%	6.50%	6.50%	7.00%	7.50%	0.00%

### Water and Sewer Utility Fund Projection

The Water and Sewer Utility Fund is an enterprise fund that accounts for the operations of the County's water and sewer utility. The concept of the "enterprise" fund is a business like activity, in this case, a utility that is fully funded through the user fees or charges for service. To this end the utility rates reflect the real cost of providing the services to the customers. Because not all Union County tax payers are utility rate payers, the General Fund or general tax dollars, are not used to subsidize the utility, in converse, the Water and Sewer Fund, or rate payers, are not subsidizing the General Fund.

Water and Sewer rates and fees are set with the objective of funding operations and maintenance of the existing system and the future planned growth. The financial projections and subsequent rate recommendations provide an annual starting point for the discussion of system needs and possible future rate increases.

The Water and Sewer Utility Fund financial projection is based on an analysis of historical expenditures, revenues, and consumption trends, as well as the current cost drivers. For the purposes of this



projection, “Revised FY 2014” refers to the adopted operating and capital budget, including any amendments through March 2014.

In addition to using revised budget information to project future costs and revenues, assumptions have been made concerning growth, inflation, and demand. These assumptions are:

- Implementation of the approved “Comprehensive Water & Wastewater Master Plan,” which has been implemented through the Adopted FY 2015-2020 Public Works Capital Improvement Program.
- System Growth:
  - The amount of annual growth in population served by the water and sewer system is projected to grow by 2.8 percent annually through FY 2017 and 2.5 percent annually through FY 2020.
  - The amount of annual growth in billed water consumption is projected to grow at 2.5 percent in FY 2015 and 1.5 percent annually through FY 2020.
  - The amount of annual growth in the population served by the sewer system is projected to grow 3 percent annually through FY 2017 and 2.6 percent annually through FY 2020.
  - The amount of annual growth in the average daily sewer flows is projected to grow 3.9 percent annually through FY 2017 and 5 percent annually through FY 2020.
  - In FY 2015, it is assumed that approximately 1,273,000, 851,000, 215,000, 161,000, and 160,000 kgals (units of 1,000 gallons) of water will be consumed in residential tiers 1, 2, 3, 4, and 5 respectively. These amounts are based on residential water consumption data.
- Revenue and Cost Projections:
  - All revenues, with the exception of the Water and Sewer Service Charges, Water and Sewer Tap Fees, and Interest Earnings, are projected based on annual growth of 3 percent starting in FY 2016.
  - Interest Earnings were projected in each year of the projection based on the average annual cash balance and an assumed interest earnings rate of 0 percent in FY 2015, .8 percent in FY 2016, and then 1 percent annually through FY 2020.
  - All expense figures, with the exception of debt service and cost incurred related to water purchased for resale from Catawba, Anson, and Charlotte-Mecklenburg, were based on budgeted figures and reflect an overall increase of 5.9 percent in FY 2015.
  - All expense figures, with the exception of debt service and costs incurred related to water purchased for resale from Catawba,

Anson, and Charlotte-Mecklenburg were classified as general, labor, or utilities and escalates accordingly beginning in FY 2016, based on the classification’s corresponding growth rate. The annual growth rate for general, labor, and utilities classifications is 3 percent, 5 percent, and 8 percent respectively.

- Costs incurred related to water purchased from Catawba, Anson, and Charlotte-Mecklenburg in FY 2015 are based on the adopted budget and reflect an overall increase of 1.6 percent.
  - Costs incurred related to water purchased for resale from Catawba are grown at an annual rate of 4.5 percent for FY 2016, 3.8 percent in FY 2017, 2.8 percent in FY 2018, and 2.9 percent for FY 2019 and FY 2020.
  - Costs incurred related to water purchased for resale from Anson are grown at an annual rate of 2.5 percent for FY 2016, 5.4 percent in FY 2017, 5.1 percent annually through FY 2020.
  - Costs incurred related to water purchased for resale from Charlotte-Mecklenburg are grown at an annual rate of 5.9 percent for FY 2016 and FY 2017, and 5.9 percent annually through FY 2020.
- Costs related to the recently approved CMUD operations agreement are included.
- Capital Projects:
  - Certain capital projects are funded through PayGo capital funding and others are funded through the use of revenue bonds. Based on this breakdown debt assumptions have been made including the issuance of revenue bonds in FY 2015, FY 2017, and FY 2019 to provide the needed proceeds for the debt funded capital projects. The projected debt service has been incorporated into the projections.
  - The projected revenue bonds are based on a 20 year amortization at 5.5 percent interest.
- Projected Target Reserve:
  - The minimum reserve target is based on the current policy of 365 days of operating and maintenance costs.
  - Debt service coverage related to the revenue bonds is assumed to be at least 1.5 times net revenues.
  - Debt service coverage related to all outstanding debt is assumed to be at least 1.0 times net revenues.
- Adopted Rate Increases - the recommended rate increases were assumed to become effective the first day of each of the fiscal years.



**Water and Sewer Utility Fund Projection Summary**

When setting a rate recommendation for the water and sewer utility fund, there are three main goals.

- Ensuring fiscal sustainability through sustainable operations, a sustainable system, and sustainable debt service.
- Ensuring rate fairness through the appropriate mix of base rates and volumetric rates, as well as ensuring intergenerational equity when funding system expansion.
- Encouraging conservation through the rate structure.

Given the recommended rate increases, the Water and Sewer Fund projections indicate that for the projection period the fund will remain sustainable while implementing its capital program and providing services to the rate payers.

Water and Sewer Revenue and Expenditure Projection				
	Revenue	Expenditures	Revenue Over/(Under) Exp.	Proposed Rate Increase
FY 2013	\$ 30,252,483	33,773,657	(3,521,175)	3.50%
FY 2014	33,070,942	39,297,561	(6,226,619)	3.50%
FY 2015	33,867,537	51,315,303	(17,447,766)	6.50%
FY 2016	37,605,442	38,508,680	(903,238)	6.50%
FY 2017	40,895,816	43,414,541	(2,518,725)	6.50%
FY 2018	44,263,787	46,895,390	(2,631,603)	7.00%
FY 2019	48,611,608	52,253,737	(3,642,129)	7.50%
FY 2020	53,136,329	57,416,072	(4,279,743)	-

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As the table indicates, initial projections indicate the Adopted 6.5 percent increase in FY 2015, FY 2016, and FY 2017 is needed to maintain the fund given its current level of capital investment and growing debt service. Based on the projections, the largest driver of cost is the investment in PayGo Capital and the increasing debt service. By the end of the projection period this cost is projected to be 49.70 percent of the total expenditures, more than \$28 million annually.

The annual projected deficits shown on the revenue and expenditure comparisons demonstrate that the fund balance that has been built over time is used as both a rate smoothing mechanism, to ensure rates are increased gently over years, versus significantly in a single year, and, as the source for the PayGo Capital funding. This strategy ensures that as the system builds out the rate payers are as minimally impacted as possible.

