

THE COUNTY EDGE

Economy meltdown sears county budget

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MONROE - The nation's economic downturn has Union County cinching its belt with a number of capital projects in jeopardy.

Plans for a new middle and high school to help relieve student overcrowding at Porter Ridge, Sun Valley additions and renovations to ease enrollment overcapacity, a new schools' transportation facility, and a proposed super regional library, could all befall a soured economy.

On Monday (Oct. 20), the Board of Commissioners unanimously implemented a hiring freeze and curbed spending after learning that Union County faces major financial hurdles. Kai Nelson, county finance director, recommended that the county staff launch discussions with the school system, South Piedmont Community College, and the library about postponing capital projects.

"The past several weeks have been extremely difficult and worrisome," Nelson wrote in an Oct. 16 memorandum. "The speed with which the capital markets and the economy have imploded has taken me and most others by complete surprise."

Nelson requested that the county consider "major and unprecedented adjustments" regarding both operating and capital expenses.

America's worsening credit crisis has begun to adversely impact the county's ability to secure and repay funding. It has experienced an increase in interest expense on the county's outstanding variable rate debt, Nelson stated.

There are significant constraints on the county's ability to issue new or cost efficient debt due to limited access to capital markets funding and significantly higher risk premiums in the form of increased interest rates, according to Nelson. A sagging economy is currently affecting major sources of local revenue in terms of property tax collections, retail sales and real estate activities.

Union County's sizable debt position includes a blend of variable rate, synthetic fixed rate and traditional fixed rate debt. The county currently has about \$288 million in variable rate debt with another \$314 million in fixed rate debt. Last month, Union County's variable rate debt spiked from less than 2 percent to between 5 percent and 8 percent.

Union's borrowing costs have increased dramatically over the last month with the county's monthly costs increasing from \$450,000 to \$680,000 with the difference unbudgeted.

With property tax revenue representing 64 percent of the county's general fund receipts, Nelson projected a possible shortfall of roughly \$1 million based on a slipping collection rate.

Real Estate revenues are expected to fall short of budget by about \$800,000. Retail sales tax collections are projected to be short by approximately \$500,000.

Union County's hospital lease with Carolinas Medical Center is expected to produce a shortfall of roughly \$1.35 million, largely due to declining investment income compared to last year.

Nelson's good news included reports that the county's investment income could exceed budget by \$500,000.

The county should recoup somewhere around \$1.5 million with regard to the schools' enrollment projections in relation to the actual enrollment on the calendar year's 20th day.

Nelson recommended that the county focus on finding solutions to the variable rate bond dilemma of significantly higher interest expenses. He also called for a review of the decisions related to the 2009-2013 Capital Improvement Plan. Nelson suggested that the county identify expenditures that may be deferred.