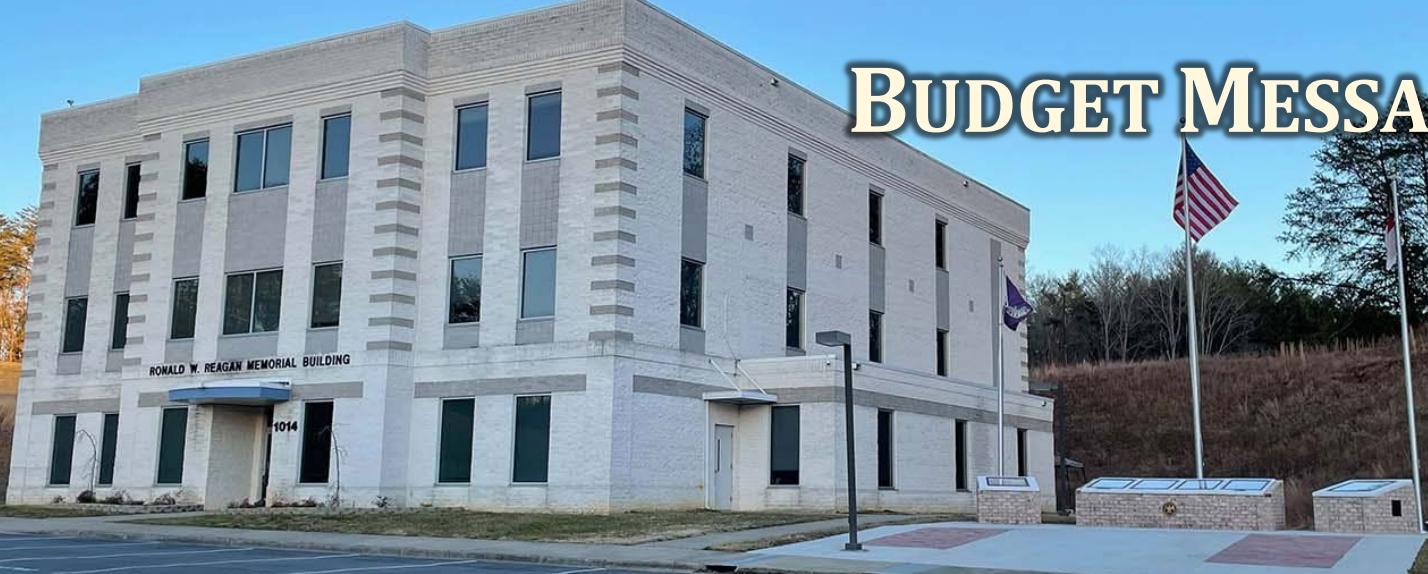


BUDGET MESSAGE



May 12, 2025

The Honorable Keith Wood, Chairman
Members of the Board of Commissioners
Stokes County, North Carolina

Dear Chairman Wood and Members of the Board of Commissioners:

Pursuant to Section 159-11 of the North Carolina General Statutes (NCGS), I am pleased to present the 2026 Stokes County Operating Plan (SCOP), our first five-year operating plan, including the recommended budget for Fiscal Year (FY) 2026 for your review and consideration. This document has been prepared to provide a comprehensive view of the County's operating plans over the next five years. We aspire for this document to demonstrate excellence in four key areas: 1) as a policy document, 2) as a financial plan, 3) as an operations guide and 4) as a communications device.

During FY 2025, Stokes County began development and implementation of an all-new strategic planning process, rooted in a balanced scorecard approach to measuring and understanding organizational performance. Going forward, our strategic planning process will be rooted in performance measurement and analysis which will facilitate continuous process and performance improvement. Our planning framework will intentionally provide an integrated approach to organizational performance management that results in the delivery of ever-improving value to our customers and improvement in the overall effectiveness of County governance. Initial implementation of this framework has transformed the County's budgeting process into a more strategic, results-driven process. Resource allocation will now be more closely aligned with the County Board of Commissioners' strategies and focused on achieving the results articulated in our newly developed Balanced Scorecard (BSC).

The FY 2026 Budget as presented was developed through initial, start-up components of the County's all-new strategic planning process. This process is described in detail in the *Operational Priorities Development* section of this document. The strategic planning process includes the development of the County's BSC. The BSC contains thirteen strategic goals, 36 strategic objectives, and 87 Key Performance Indicators (KPIs). Since this process is new, initial performance measurement will occur during FY 2026. In future years, we will use measured performance of KPIs to understand where resources are best applied to strategically improve performance. The BSC will be the foundation upon which future operating plans are developed to ensure recommended budgets protect, promote and enhance quality of life for Stokes County residents and visitors, while also helping to accomplish our vision. That vision is for Stokes County to be a dynamic, thriving community that is rich in natural beauty and embraces the future while respecting its rural heritage and history.

KEY FACTORS CONSIDERED IN DEVELOPING THE STOKES COUNTY OPERATING PLAN AND FY 2026 BUDGET

While inflation has recently abated, the compounded effect of multiple years of high inflation have significantly increased operating expenses. Goods and services the County purchases to support service delivery are significantly more expensive than they were four years ago. Likewise, the cost of attracting and retaining a high-quality workforce has grown at a relatively unprecedented rate. Meanwhile, recent exhaustion of extensive COVID related grant funding requires that County taxpayers have to bear a larger portion of the overall burden. The County experienced unprecedented local option sales tax revenue growth in years, but that growth subsided significantly in FY 2025. It seems that sales tax growth will continue to be muted in FY 2026, though the impact of tariff negotiation could result in a wide variety of potential sales tax revenue growth outcomes. The FY 2026 budget was developed assuming a two percent increase in sales tax revenues.

Fuel prices have fallen on average locally and across the country compared to 2025. The Trump Administration's energy friendly policies are likely to continue to apply downward pressure on energy prices, but the impacts of geopolitics on global supply and demand cannot be forecasted with certainty.

The County must ensure that it remains financially postured to respond to the effects of negative economic shocks, natural disasters, and other major unanticipated expenses. To do so, it is important to maintain a healthy fund balance level. In November of 2025, the Stokes County Board of Commissioners adopted an all-new fund balance policy requiring that annually adopted budgets are developed to provide for predicted, end-of-year fund balances that are at least 30 percent of budgeted expenditures.



In addition to inflation, growth in population and economic development are other key factors considered in the development of this operating plan. According to the North Carolina State Demographer's Office, Stokes County's population increased 2.2 percent from 2020 to 2023. Their projections out to 2030 call for slower growth, with a 2030 estimated population of 46,328 compared to the 2020 Census number of 44,524. This projected, ten-year growth of 4.1 percent for Stokes County is significantly lower than for the state overall which is 12.5 percent. It seems reasonable to assume that Stokes County's proximity to

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Winston-Salem and Greensboro may result in slightly greater population growth than state officials currently project. Stokes County's unemployment rate is slightly higher in 2025: 3.5% compared to 3.3% in 2024. This is reflective of state and national trends.

Another principal issue affecting the County is workforce capacity in certain areas of our organization as we continue to assess our ability to meet the needs of Stokes County residents, property owners, businesses and visitors. To address this, the FY 2026 Budget includes the addition of three full-time positions. One of those positions is in Environmental Health. Another is in Emergency Medical Services. The third is in the Department of Social Services.

PRIORITIES AND AREAS OF FOCUS

The recommended FY 2026 Budget provides a financial plan for the ensuing fiscal year and has been developed in accordance with the County's financial policies and the Balanced Scorecard (BSC). At Stokes County's first annual strategic planning retreat, the Board of Commissioners affirmed thirteen strategic goals:

1. Safeguard the county,
2. Promote education and workforce skills development,
3. Support socially and economically vulnerable residents,
4. Promote and safeguard public health,
5. Record, protect and provide access to property records and vital records,
6. Ensure land use compatibility and preservation of rural character,
7. Promote a thriving business community,
8. Support environmental preservation,
9. Promote active living and cultural opportunities
10. Promote election integrity
11. Professionally manage a high performing organization
12. Attract and retain an engaged workforce, and
13. Maintain a healthy financial condition

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The five-year planning period includes eleven significant operational investments totaling \$5,545,000. Of these eleven investments, five are scheduled to begin in FY 2026 (or continue from prior years). The plan also calls for a \$50 million strategic investment in a new elementary school in FY 2029. This new school will facilitate consolidation of two or more existing schools, resulting in long-term, reduced operational costs, and will be funded from the \$0.04 that has historically been levied to support school system capital requirements.

Strategic Goal	Strategic Objective	Operational Investment	Fiscal Year(s)
Attract & retain an engaged workforce	Provide a supportive and rewarding work environment	Address pay/salary compression	2026
Promote and safeguard public health	Deliver effective emergency medical services	Improve EMS staffing and performance by switching to a 24/72 work schedule	2026
	Deliver effective clinical services	Remodel King health facility	2027
Maintain a healthy financial condition	Provide effective tax valuation and collection services	Implement use and personal property tax compliance program	2026
Safeguard the county	Deliver effective animal control services	Design and build new animal shelter (carry-over from 2025	2026
	Deliver effective law enforcement services	Renovate plumbing in the jail	2028-2030
Promote a thriving business community	Promote economic development	Complete broadband expansion county-wide ahead of BEAD grant cycle	2027
Support environmental preservation	Provide effective solid waste services	Add Mountain View Rd green box site	2027
Ensure land use compatibility and preservation of rural character	Deliver effective zoning & zoning enforcement services	Update the Comprehensive Plan	2027
Support socially & economically vulnerable residents	Deliver effective social work services	Add 3d floor to DSS building or fund office space in another location	2029
Professionally manage a high performing organization	Maintain County assets	Demo old Danbury school	2029

FY 2026 GENERAL FUND RECOMMENDED BUDGET

OVERVIEW

The General Fund is used to account for resources which are not required legally or by sound financial management to be accounted for in another fund. The General Fund is the County's largest annually budgeted fund and provides resources for all of the County's core service functions.

When preparing the FY 2026 Operating Plan, County Management adhered to the following budgetary principles:

- Maintain adequate funding levels for County services,
- Seek to contain operating costs while adequately funding infrastructure and capital replacements,
- Maintain a fund balance of at least 30% of budgeted expenditures, per the County's Fund Balance Policy, and
- Uphold sound budgetary principles such as using conservative revenue estimates and maintaining healthy operating margins.

The FY 2026 recommended General Fund budget totals \$74,644.482. The recommended budget as presented results in a per capita expenditure of \$1,635 based on a projected population of 45,659.

Approximately 51% of all General Fund operating revenue comes from ad valorem taxes and local option sales taxes. Over the past two years, the County's revenue profile has returned to normal after the exhaustion of COVID related grant funding. Dependence on the ad valorem tax has increased as a result.

Overall, the recommended budget for the General Fund utilizes \$6,784,903 of appropriated fund balance. Historically, operating revenues come in at 101% of budget, while operating expenditures are expected to fall 9% below budget. If this projected budget to actual variance is achieved in FY 2026, we will decrease fund balance by approximately \$1,288,937, which will cause fund balance to decrease to 38.5% of budgeted expenditures. This is above the Board's adopted policy minimum of 30%. This positions the County well to address unforeseen emergency circumstances during the year. However, at the proposed \$0.58 tax rate, fund balance project to fall to 33.1 percent over a five-year horizon.

SOURCES OF REVENUE

The General Fund's primary sources of revenue include:

- Ad valorem taxes,
- Local option sales taxes,
- Intergovernmental revenues,
- Permits and fees,
- Sales and service revenues, and
- Investment income.

Ad Valorem Taxes (Property Taxes)

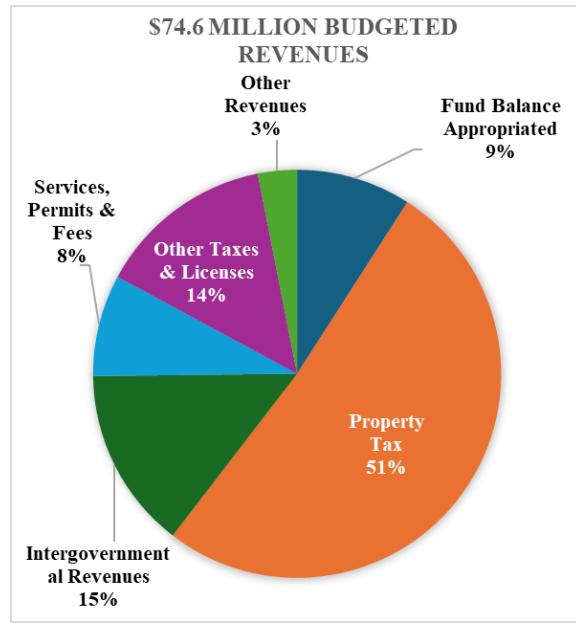
Two characteristics of the property tax distinguish it from other forms of taxation and underlie the methods of determining tax liability and enforcing collection. The first characteristic is that the property tax is levied on property itself, not the owner. The second is that the tax is measured by the value of the property, not by the owner's ability to pay. Thus, it is often called an "ad valorem" tax, from the Latin phrase meaning, "according to value."

In North Carolina, property tax rates are customarily expressed in dollars per \$100 valuation. The maximum property tax rate allowed in North Carolina is \$1.50 per \$100 of valuation. This proposed budget recommends a General Fund property tax rate of \$0.58 per \$100 of valuation, which is a \$0.09 reduction from the previous year. This means that for every \$100,000 in value of property, \$58 of ad valorem tax is due. All property was revalued by Stokes County as of January 1, 2025. Property values in the County appreciated an average of approximately 41%. This significant increase in property values coupled with high inflation since the last revaluation in 2021 resulted in an inflation-adjusted revenue-neutral tax rate of \$0.606 per \$100 of property valuation. The recommended tax rate is 0.036 below the inflation adjusted revenue rate.

The "inflation-adjusted revenue neutral tax rate" is not to be confused with the revenue neutral tax rate defined by the North Carolina Local Government Budget and Fiscal Control Act. The "inflation-adjusted revenue neutral tax rate" concept was developed five years ago by another local government in North Carolina and it's use as an informative tool has spread substantially since then. County leaders recognize that the cost of doing business has increased since the last revaluation period. This is accounted for by modifying the traditional revenue neutral tax rate to account for cumulative inflation that has occurred since the last revaluation date of January 1, 2021.

The revenue neutral tax rate as defined by the North Carolina Local Government Budget and Fiscal Control Act is determined by setting a property tax rate that generates the same revenue as the previous year, plus normal growth. The revenue neutral tax rate for the County, as calculated by the formula provided by the North Carolina Local Government Commission, is \$0.5410.

With an anticipated collection rate of 98% for real and personal property and 100.0% for motor vehicles, a penny on the tax rate generates approximately \$663,300 in revenue. Total ad valorem tax revenues are projected to be \$38,327,834 in FY 2026. In North Carolina, the ad valorem tax is the only significant source of revenue that the State allows local governments to control. This revenue accounts for 51% of the General Fund's operating revenues.



Intergovernmental Revenues

Intergovernmental revenues consist primarily of the local option sales taxes, utility sales taxes and hold harmless sales tax reimbursements.

Two (2.0) cents of the six and three quarters (6.75) cents paid in sales tax on retail sales in Stokes represents the local share of this tax. This tax consists of a one percent tax that was first levied in 1971, a one-half percent tax levied in 1983 and a one-half percent tax levied in 1986. The state collects the sales taxes and distributes them to local governmental jurisdictions. Sales tax revenues are distributed on a proportional, taxable assessed value basis to local governments and rural fire districts within Stokes County.

As the County's second largest General Fund revenue source, local option sales tax is expected to generate approximately 15% of the County's operating revenues, or \$10,072,500 in FY 2026. This represents an increase of 2.0% from the previous year's budget. This increase is due to inflation and continued strong consumer spending on taxable goods.

Sales, Services, Permits and Fees

This past year, the County conducted a comprehensive review and update on its overall fees and charges schedule. Many components of this schedule had not been reviewed or updated for several years. As a result of this update, the County expects an increase in collection of Sales, Services, Permits and Fees receipts of \$402,550 in FY 2026. This will properly shift financial burden away from taxpayers as a whole and toward the users of specific services.

Investment Income

Investment income consists primarily of earnings on cash and investments in the North Carolina Capital Management Trust (NCCMT). The NCCMT portfolio closely tracks the federal interest rates. At current and projected interest rates, investment income is expected to be \$1,083,285 in FY2026, an increase of nearly 44% from the FY 2023 amended budget.

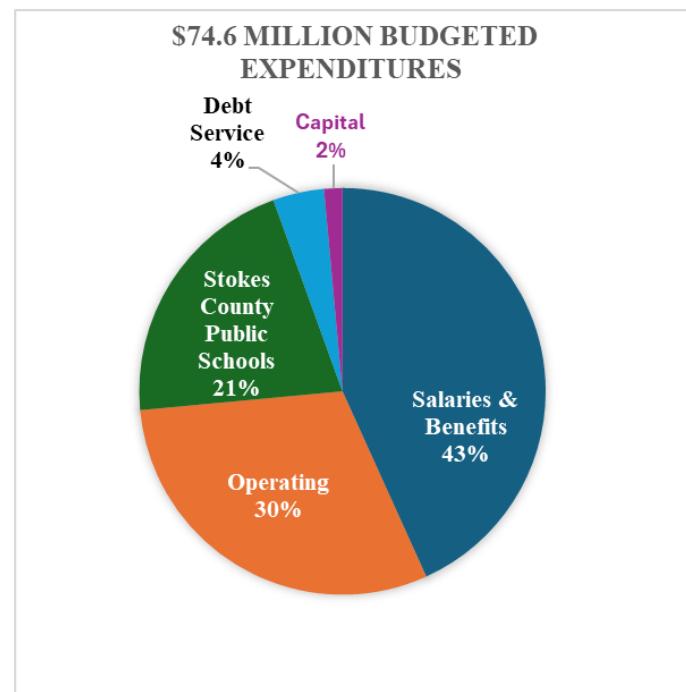
EXPENDITURES BY CATEGORY

General Fund Expenditures fall into one of five categories:

1. Salaries and benefits
2. Operating costs
3. Capital expenditures
4. Debt service
5. Stokes County Schools

Salaries and Benefits

Salaries and benefits for the County's 365 full-time equivalents (FTEs) account for \$32,273,579, or 43%, of the total General Fund Budget



For FY 2026, the budget recommends an increase of three full-time positions (EMS training officer, environmental health specialist, and deputy DSS director). The following chart indicates the budgeted number of FTEs for the past five years.

In accordance with Stokes County Pay and Benefits policy, County employees receive a cost-of-living adjustment annually. This year, that adjustment is 2.9%, which is based on the annual consumer price index percentage for the prior calendar year. Adjustments are effective July 1.

Additionally, 2.0% of salary and associated benefits is included in accordance with County policy to accommodate merit pay increases. Department heads assign merit pay increases such that the average for all members of their departments may not exceed 2.0% and no employee receives more than 3.0%. The FY 2026 budget includes \$400,000 to address salary compression challenges across the workforce. A key, representative symptom of these challenges is that employees who have worked for Stokes County for many years and are far more experienced receive pay comparable to newly hired employees without comparable experience or credentials. This budget also included \$675,000 to accommodate switching from a 24 hours on, 48 hours off EMS schedule to a 24 hours on, 72 hours off schedule. This change will put Stokes County in line with surrounding counties and help to address hiring and retention challenges.

Operating Costs

This category of expenditures accounts for \$21,265,411 or 30% of the total General Fund Budget. Two operational investments are included in the FY2026 budget that add to operating costs. The first is \$20,000 to implement a use and personal property tax compliance program. The second is \$20,000 to implement an annual resident survey. This survey will include many customer satisfaction results associated with Key Performance Indicators (KPIs) in performance measurement system and balanced scorecard annual performance summary.

Capital Expenditures

This category of expenditures accounts for \$1,084,500, or 2% of the total General Fund budget. Estimated operating costs associated with significant non- routine capital expenditures are incorporated into the *Five-Year Financial Forecast* by policy.

Capital expenditures are for the purchase of vehicles, equipment, land, infrastructure, and other items that have a value greater than \$5,000 and a life expectancy of at least one year. Detailed information on capital purchases for FY 2026 can be found in the *General Fund Capital Expenditures* section of the Strategic Operating Plan document. The list below highlights some of the more notable items for FY 2026:

- Replace solid waste transfer station scales
- Replace one ambulance
- Replace EMS supervisor/ME transport truck
- Build new animal shelter (from FY2025)

Debt Service

In FY 2026, the County will have \$3,038,076 in debt service expenditures. This is an increase of \$2,094,644 which results from the courthouse expansion project.

County School Funding

The County supports Stokes County School funding via payment from the General Fund to pay a portion of salaries and benefits as well as annual operating expenses. For FY 2026, this budgeted amount is

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\$15,641,325, which is a 2.1 percent increase over FY 2025 funding. In addition, the County separately levies \$0.04 in property taxes to support a school project capital fund. One of the two cents in sales tax that Stokes County receives is statutorily required to fund county school system capital outlay and reserve funding.

FUND BALANCE

At June 30, 2025, the County's fund balance in the General Fund is projected to be approximately \$30.0 million, or 43% of the FY 2025 Budget. The budget as proposed for FY 2026 will decrease the level of fund balance to approximately \$28.7 million, or 38.5% of expenditures. This is 8.5% above Stokes County's policy minimum and it may accommodate potentially needed building infrastructure maintenance improvement programs in future years. The County Commissioners fund balance policy also includes a provision commit fund for future capital needs. The projected level of fund balance positions the County well to address significant future capital needs.

BALANCED RECOMMENDED GENERAL FUND BUDGET

As required by North Carolina General Statutes, the recommended General Fund budget is balanced. In other words, total revenues equal total expenditures. The budget is based on an ad valorem tax rate of \$0.58 per \$100 valuation for the General Fund.

Departmental requests were reduced by approximately \$1.9 million to balance the budget. Although the budget does not fund all the requests made by departments or external groups, it does fund appropriate strategically selected investments designed to increase quality of life in Stokes County.



The following tables are a summary of the balanced recommended budget for the County's General Fund, the only annually budgeted fund for FY 2024:

Revenues by Type	FY 2026 Budgeted	Expenditures by Type	Fy 2026 Budgeted
Ad Valorem Taxes	\$ 38,327,834	General Government	\$ 16,244,557
Intergovernmental Revenues	\$ 10,738,006	Public Safety	\$ 20,910,162
Permits, Fees, Sales & Services	\$ 6,019,655	Health & Human Services	\$ 18,115,699
Other Operating Revenues	\$ 1,115,419	Education	\$ 15,641,325
Investment Income	\$ 1,083,285	Administration	\$ 2,296,965
Other Taxes & Licenses	\$ 10,461,500	Cultural & Recreational	\$ 1,146,949
Revenues	\$ 67,745,699	Economic Development	\$ 288,825
Other Financing Source	\$ 113,880	Total Expenditures	\$ 74,644,482
Fund Balance Appropriated	\$ 6,784,903		
Total Revenues	\$ 74,644,482		

A Public Hearing to receive citizen input on the recommended budget will be held on Monday, May 27, 2025 at 5:30 pm in the Commissioners Chambers. A copy of the proposed budget is available for inspection at in the Clerk to the Board of County Commissioners office and website at [Stokes County, NC](#) .

I wish to express my thanks to the Board of Commissioners and senior leadership for their support in developing this FY 2026 Budget and operating plan. I also want to recognize all the Stokes County employees who have accomplished so much this past year. Please let me know if I can be of any further assistance as you review this proposal.

Respectfully Submitted,

