

## ***Fiscal Year 2012 Budget Message***

**May 16, 2011**

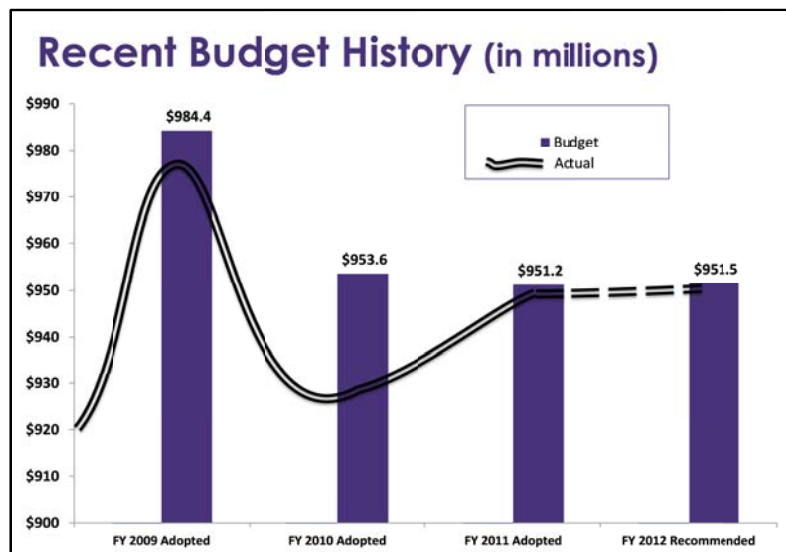
### **Wake County Board of Commissioners:**

It is my pleasure, privilege and responsibility to present you, the Wake County Board of Commissioners and citizens, a balanced, recommended budget for fiscal year 2012.

Balancing the budget has been quite challenging over these past three years, as we have tried to maintain our footing on ground that was constantly shifting due to the turbulent economy. Both the fiscal year 2010 and fiscal year 2011 budgets reflected declining revenues with forecasts that were less optimistic than the prior year. Actual revenue performance was even worse than what had been projected in the annual budgets.

We found ourselves searching for the bottom and looking for indications that the recession was over and the recovery had begun. While economists declared the recession over in June 2009, it was another 18 months before some of the indicators, such as employment and sales tax, began to stabilize and improve.

Back in fiscal year 2009 our revenues peaked and started to descend. We froze hiring, reduced budgets mid-year, prepared a fiscal year 2010 budget that was \$30 million less than fiscal year 2009, by reducing and eliminating programs, and cutting positions. We implemented several “one-year” strategies that turned into “two-year” strategies in fiscal year 2011, and although the revenue descent slowed, we maintained the hiring freeze and cut more spending. It has been like a roller coaster ride. Some would say exciting or exhilarating at times; some would say downright scary or terrifying.



During our roller coaster ride, we kept three principals at the forefront:

- Focus on core services and priorities,
- Realign existing resources to meet priority needs, without raising the property tax rate, and
- Maintain our long-term planning focus.

The recommended fiscal year 2012 budget reflects those same principles.

### **Fiscal Year 2012 Recommended Budget**

One year ago, I recommended to this Board a budget that was, for the second year in a row, less than the prior year. For the first time since 2009, our primary revenue sources of property and sales tax are not projected to decline. The recommended budget totals \$951.5 million and is practically the same amount as the fiscal year 2011 adopted budget of \$951.2 million. The budget maintains the existing property tax rate at 53.4 cents.

Now this may not appear to be too exciting. But, what occurred to bring this about is like our roller coaster ride. A roller coaster ride begins and ends at the same point, but a lot happens in between.

Without raising the property tax rate, we had to find the ability to fund commitments already in motion, like staff to open the expanded jail facility on Hammond Road; funds for a contract to operate 16 mental health beds at WakeBrook; and capacity to address the merger of Emergency Medical Services (EMS) services, while centralizing EMS Revenues. We had to ensure that funding for education was maintained and resources were added to the City-County Bureau of Identification (CCBI) and Board of Elections. We had to also determine if we would be able to provide employee pay increases for the first time in three years.

To accomplish those priorities, reductions had to be made. We set budget targets to fiscal year 2010 spending levels, requested departments to identify 3 percent reduction strategies, and keenly followed revenue and workload trends in all departments.

The result is a budget that is essentially no larger than last year – but accomplished with a lot of ups and downs along the way.

### **Operating Budget Overview**

Again this year, the recommended budget does not include a property tax increase. The fiscal year 2012 recommended budget accomplishes the Board of Commissioners number one goal of developing a budget that does not include a tax increase, while maintaining or even increasing funding for its highest priorities: education, public safety and mental health.

## General Fund Revenues

Overall, revenues in fiscal year 2012 are projected to be \$300,000 more than the fiscal year 2011 budget and approximately \$33 million less than our peak with the fiscal year 2009 budget, adopted before the recession began. As we have shared with you over the past three years, we have a different revenue picture than what we have experienced in the past decade. Where property tax growth once averaged between five percent and six percent each year prior to 2009, growth over the past two years combined has been less than three percent.

### FY 2012 Total Revenue Picture

	FY 2011 Adopted Budget	FY 2012 Recommended Budget	Change
Taxes:			
Property	\$ 632,638,000	\$ 638,646,000	\$ 6,008,000
Sales Tax	113,634,000	111,580,804	(2,053,196)
Other Taxes	9,030,421	8,530,421	(500,000)
<b>Total Taxes</b>	<b>755,302,421</b>	<b>758,757,225</b>	<b>3,454,804</b>
Federal	15,161,217	15,681,585	520,368
State	105,878,532	100,148,737	(5,729,795)
Local (ABC Board)	7,105,500	4,223,100	(2,882,400)
Charges For Services	61,123,578	66,820,757	5,697,179
All Other Revenues	6,648,752	5,868,596	(780,156)
<b>Total</b>	<b>\$ 951,220,000</b>	<b>\$ 951,500,000</b>	<b>\$ 280,000</b>

### Property Tax

In fiscal year 2012, we are seeing some positive signs of recovery. The property tax base is projected to grow by one percent, from \$119.1 billion to \$120.3 billion. Both real property, such as land and houses, and some personal property, such as vehicles, are subject to property taxes. We are projecting that real property will increase by just eight-tenths of one percent. Although this is an improvement from fiscal year 2011, the relatively small growth reflects the

### Revenues: Property Tax Changes

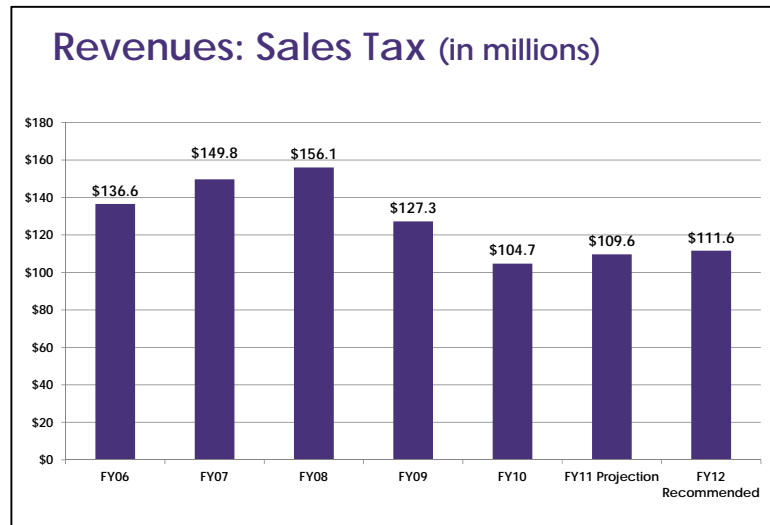
<i>(in millions)</i>	FY11 Adopted	FY12 Recommended	Change
Real Property	\$ 103.1	\$ 103.9	\$ 0.8
Personal Property	6.1	6.2	0.1
Public Service	3.1	2.9	(0.2)
Vehicles	6.9	7.5	0.6
<b>Total</b>	<b>\$ 119.2</b>	<b>\$ 120.4</b>	<b>\$ 1.2</b>

current economic situation and a lower amount of new construction compared with prior years.

Vehicle tax revenue in fiscal year 2012 will see the largest percentage increase due in part to an increased number of vehicles purchased in the County, and the stabilization of used vehicle values during fiscal year 2011.

### Sales Tax

Since fiscal year 2008, sales tax revenues have declined by \$51 million, with \$30 million being a result of the Sales Tax / Medicaid Swap, and \$21 million caused by the economic downturn. The recommended budget reflects a projected increase of just under \$2 million, or 1.8 percent, more than the fiscal year 2011 estimate. While the growth is far below the seven percent historical average, it is still growth, and an indicator of an improving economy.



### Intergovernmental Funding

Other revenue changes include Wake County Board of Alcoholic Control (ABC Board) revenues and charges for services. For the current year, or fiscal year 2011 budget, the ABC Board funded Wake County an additional \$3 million. This one-time contribution reflected the financial strength of the Wake County ABC Board and their generosity during difficult financial times. Though we were fortunate to receive this revenue in fiscal year 2011, it was not recurring. Therefore, the 2012 budget has been reduced by this amount.

### Charges for Services

The largest area of revenue increase in the budget is in charges for services. This increase does not represent an increase in rates or fees, but is a result of the centralization of EMS billings, coupled with the consolidation of two EMS agencies into Wake County – Apex and Six Forks. Currently, each non-profit agency bills for services separately and retains these revenues. Under this structure, the non-profit agencies cannot receive cost reimbursements from Medicaid. With centralized billings, the County will bill and collect EMS revenues, including full Medicaid cost reimbursements, and appropriate funds to the remaining two non-profit agencies. This change will result in at least \$500,000 in additional revenue to the EMS system. Total system revenues and expenditures for all agencies results in a budget increase of approximately \$8.4 million.

Had this change not occurred, the fiscal year 2012 budget would have been \$943.1 million.

### **General Fund Expenditures**

As I mentioned, the recommended budget for fiscal year 2012 is \$951.5 million and again maintains the tax rate at 53.4 cents.

Anticipating continued slow revenue growth and being cognizant of the need to fund our high priorities and commitments, we approached developing the fiscal year 2012 budget differently. Departments were provided a target for developing their 2012 budget requests that mirrored their actual expenditures for fiscal year 2010. This target was \$11 million lower than the fiscal

year 2011 adopted budget. Departments were then asked to identify options for reducing their budgets by another 3 percent.

<b>Expenditure Categories (in millions)</b>				
	FY 2010 Actual	FY 2011 Adopted Budget	FY 2012 Recommended Budget	Change
Education	\$ 330.5	\$ 329.5	\$ 330.4	\$ 0.9
County Government	395.9	412.7	412.1	(0.6)
Debt and Capital	205.1	209.1	209.0	(0.1)
	\$ 931.6	\$ 951.2	\$ 951.5	\$ 0.3

To provide an overview of the expenditures included in the fiscal year 2012 recommended budget. I believe it will be helpful to group the expenditures into three broad categories: Education, County Government, and Debt and Capital.

## **Education**

Education comprises more than one-third of the fiscal year 2012 budget, or \$330.4 million.

### WCPSS

The fiscal year 2012 recommended budget increases the appropriation to the Wake County Public School System (WCPSS) to \$314.4 million, an additional \$908,000. This is the result of realigning educational services provided by the County through Human Services.

The County provides funding for a variety of programs in support of the school system. Some of these programs include School Resource Officers and School Health Nurses; other programs include 4-H school-based and Ready to Learn centers. The recommended budget realigns the funding for the 4-H school-based services and Ready to Learn centers such that those dollars are now directly provided to the school system. Thus, the fiscal year 2012 budget includes an increase in the appropriation to WCPSS by the budgeted amounts of these two programs. The school system will have the opportunity to contract with the County for these programs, or the school system could choose to use these dollars to fund other higher priorities.

### Wake Tech

The fiscal year 2012 recommended budget also maintains the County's commitment to Wake Technical (WakeTech) Community College. The fiscal year 2012 budget funds WakeTech at the same amount as last fiscal year, which is \$16.0 million.

## **County Government**

Next is county government, representing all of our spending which is not tied to education or the capital program. County government accounts for 43 percent of the fiscal year 2012 budget.

## New Facilities

At the forefront of developing the fiscal year 2012 budget was the need to fund anticipated commitments. Included in these commitments is the opening of new facilities. These commitments are not a surprise and are part of our long-range planning. The expansion of the Hammond Road Detention Center is part of our 30-year master plan for criminal justice and public safety, and has been in motion for many years. WakeBrook, which opened in January of this year, had been planned since 2004 to address some of the gaps in the Mental Health Continuum of Care.

We worked with Human Services and the Sheriff's Office to leverage their existing departmental resources to fund a portion of the dollars needed to operate the new facilities.

We are on track to open the second phase of WakeBrook this summer. The 2012 budget includes \$2.1 million to contract with a vendor to fund 16 beds for facility-based crisis and detox services.

And, next spring, we will open the second phase of the Hammond Road Detention Facility. We will move many current functions to the building – including the Magistrates Office, CCBI, prisoner intake and booking, and many of the support functions for the detention center.

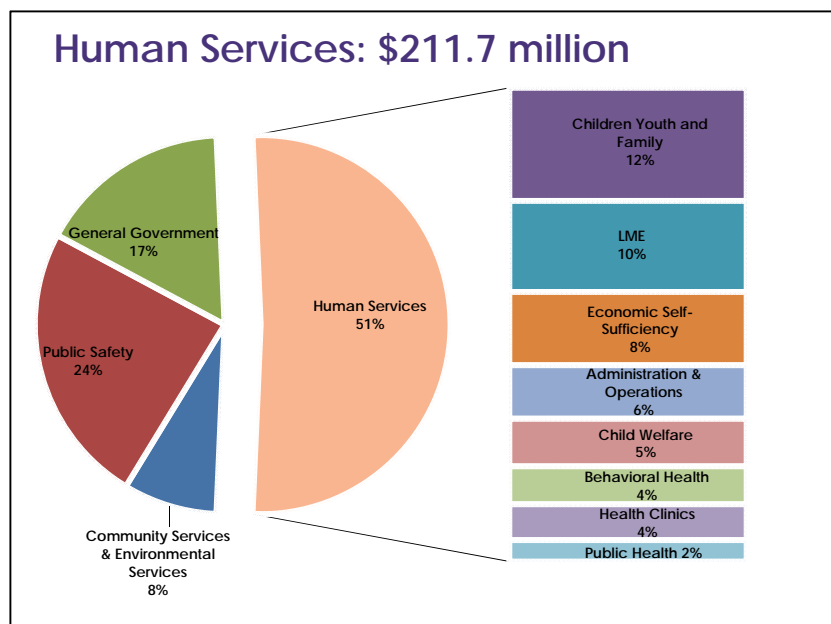
As we discussed in the Board of Commissioners April work session, the opening will require 97 new full-time employees. The fiscal year 2012 budget includes \$3.5 million for these positions, as well as three months of operating costs.

In order to create the ability to fund these new facilities, we had to make some reductions throughout Wake County Government. Now let me describe what is in the recommended budget for county government, and touch on some of the items that go up and some of the items that go down.

## Human Services

Human Services, the County's largest department, comprises a major portion of the county government part of the budget.

The department provides community health programs and clinics, child and family services, mental health and substance abuse services, economic assistance and affordable housing programs. Some of these services



continue to see increased workloads during this slow economic time.

Human Services receives federal and state funding, as well as county dollars. The fiscal year 2012 recommended budget reduces overall funding to Human Services by \$14.4 million, when compared to the 2011 budget. There are many ups and downs the result in the overall reduction.

On the up-side, the budget includes:

- the new funding for WakeBrook, including additional security,
- additional funding for the Holly Hill contract, and
- staffing and funding for a Medicaid partnership with WakeMed.

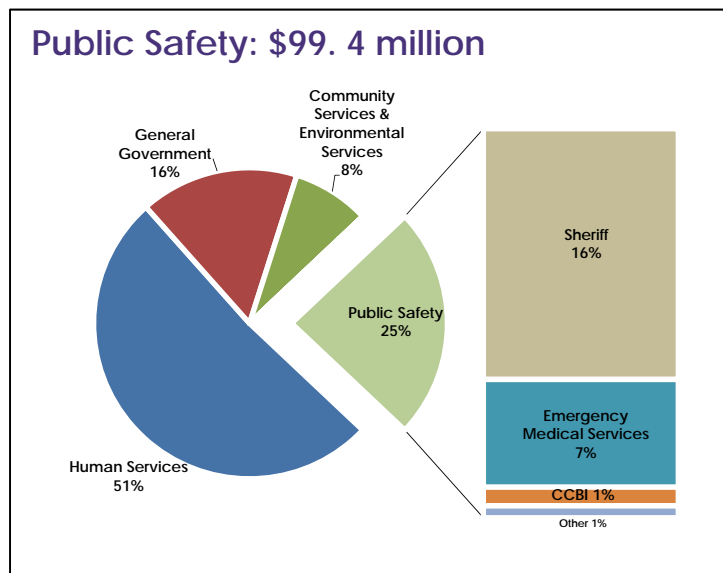
The reductions include:

- the elimination of vacant positions in child daycare administration,
- reducing County funds that support child welfare foster care at funding levels higher than those mandated by the State of North Carolina,
- reducing support to non-profit housing agencies, and
- Federal and State pass-through revenues.

The fiscal year 2012 budget continues the Board of Commissioners' commitment to mental health services by funding a full year of operations of the crisis and inpatient substance abuse units at WakeBrook, in addition to the \$2.1 million added for the contract for facility-based crisis and detox services. We will continue to work with our community partners to implement a mental health system that provides cost-effective, quality care for Wake County residents.

### Public Safety

As you know, public safety has been, and is, a priority for Wake County. Our commitment to the safety and well-being of our citizens guided our evaluation of the proposals put forth by the Sheriff's Office, CCBI, EMS, and Fire Rescue and Emergency Management.



As mentioned earlier, the fiscal year 2012 budget adds \$3.1 million to the Wake County Sheriff's Office for phase two of the Hammond Road Detention Center. The Sheriff's Office will hire 91 new positions in the coming fiscal year and reallocate many other positions from existing facilities to the expanded Hammond Road Detention Center. The budget also includes a Sheriff's Deputy position funded by Wake Tech for security at the main campus.

The City-County Bureau of Identification is responsible for crime

scene investigations and forensic services to every law enforcement agency in Wake County. The fiscal year 2012 budget provides funding for six additional positions in the Investigations Division. These positions will improve crime scene response times and increase the efficiency of law enforcement officers in the field. The City-County Bureau of Identification will also add a part-time chemist that will analyze blood work in driving under the influence cases.

The fiscal year 2012 budget reflects the consolidation of Six Forks and Apex Emergency Medical Services with Wake EMS, and as discussed a few minutes ago, it incorporates centralized billing for Wake EMS and the two remaining not-for-profits – Cary EMS and Eastern Wake EMS. These changes are financial in nature, and will not impact the excellent service delivery and outcomes that citizens and residents currently receive and expect from emergency medical services in Wake County.

Libraries, Inspections and Environmental Services

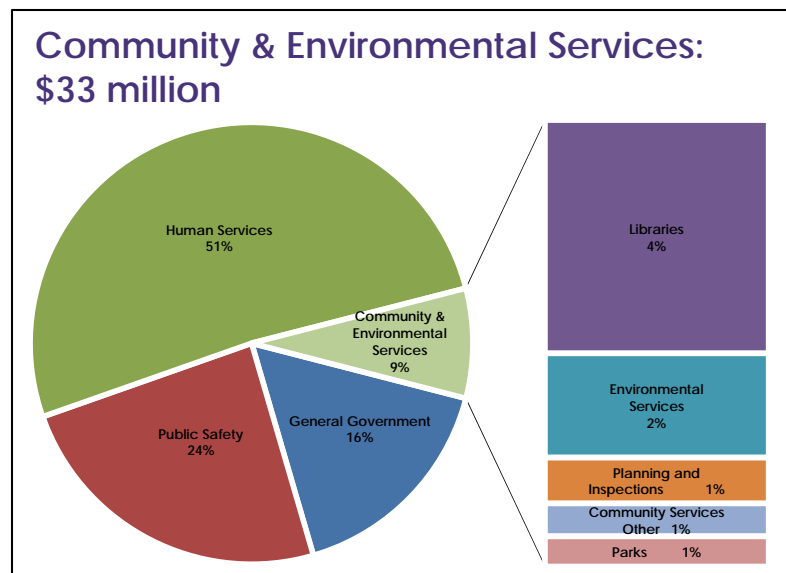
Let’s describe what is happening with Libraries, Inspections and Environmental Services.

The recommended budget includes a reduction of \$759,000 in the Wake County Public Libraries book budget. The Libraries developed this reduction strategically – changing the way they do business. Starting in July, our libraries will purchase a slightly different mix of materials and use new approaches for managing the collection, while maintaining the current circulation.

The workload at the County’s Planning, Development and Inspections Division is still less than it was before the economic downturn. The fiscal year 2012 budget recommends the reduction of another position in this area.

Environmental Services’ recommended budget includes changes in Cooperative Extension. In Wake County Government, Cooperative Extension is split between

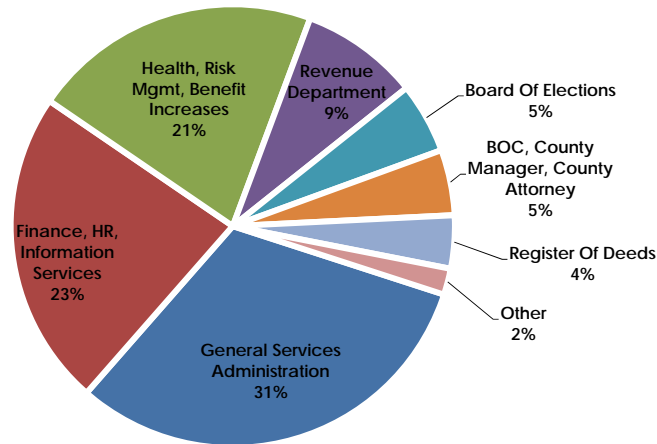
Human Services and Environmental Services. After evaluating Cooperative Extension’s role within Environmental Services, we are recommending two changes. The first is to reduce our funding for state positions that have been vacant for more than one year. The second is to transfer the remaining Cooperative Extension funding, which was in the Environmental Services budget, to its own account in order to provide greater transparency and accountability.



## General Government

Now that we have covered the largest and most widely known portions of the budget, I would like to turn to general government. General government includes the administrative and back office functions of the County, such as Finance, Information Services, Human Resources,

### General Government: \$67.9 million



Revenue, Facilities Design and Construction, General Services Administration, Board of Elections and Register of Deeds. This category also includes our contracts with several community non-for-profit organizations, and the County's memberships in regional, state and national associations.

This part of the budget reflects more downs than ups. The recommended budget

includes reductions totaling \$2.3 million and the reduction of 5.5 positions in general government departments.

On the up-side, the fiscal year 2012 recommended budget includes funding for:

- Board of Elections operations/warehouse,
- one-stop voting sites for the presidential primary, and
- additional General Services Administration staff and facility operations costs to support the new detention center.

## Memberships and Public Agencies

The recommended budget includes a reduction to agencies that receive funding from the County by 3.0 percent. This includes: the Chamber of Commerce, The Healing Place, United Arts, Communities in Schools, North Carolina Symphony and the East Wake Educational Foundation. Funding for Marbles Kids Museum is reduced by 10 percent. With the recommended fiscal year 2012 budget, these public agencies will have been reduced a cumulative 19 percent during the past three fiscal years.

The fiscal year 2012 budget includes the recommendation to discontinue our Community Partnership grants process. In prior years, the County designated funds for a competitive not-for-profit grant process. The fiscal year 2011 adopted budget included \$502,000 for this purpose. These funds were considered one-time and the County did not enter into long-term commitments for future aid. For fiscal year 2012, these funds are not included in the recommended budget.

### Employee Compensation and Benefits

Throughout the past 36 months, we have spoken with employees at all levels of the organization. While there have been questions on many topics, most County employees understand the changes that have occurred in our economy.

Our workforce has been engaged in the discussions on cost reductions and in assuming more work as positions remain or become vacant.

During this time, our workforce has taken on more and made do with less. County employees have not received pay increases in either of the last two fiscal years. While the County was not able to accommodate pay increases, the full cost of health insurance and the required retirement contribution increases were borne by the County.

During the budget development, our goal was to be able to provide a pay increase this year without sacrificing funding to high priority areas. The recommended budget includes a two percent performance pay increase as well as funding to cover a portion of the anticipated increase in health insurance.

Other employee compensation and benefit changes include:

- changes to the pay band structure as a result of the annual compensation market survey, and
- elimination of retiree health insurance benefits for employees hired after June 30, 2011.

### **Debt and Capital**

On Monday, May 9, 2011, the Board of Commissioners held a work session to discuss the debt and capital finance model, and reviewed the 2012 to 2018 Community Improvement Plan, or CIP.

The County funds its debt service obligations through two major sources: a portion of the property tax plus a portion of sales taxes that is required by state law to support school construction.

### AAA Bond Rating

The credit rating agencies reaffirmed Wake County's AAA credit rating this spring. The County continues to meet its debt service fund balance targets and adhere to other financial policies that are necessary to maintain our AAA rating, which translates into a lower cost of capital for county, school, and community college facilities.

### Change in Property Tax Rate Dedicated to Debt and Capital

At the work session, we reviewed the recommendation that a portion of the property tax transferred to debt and capital be reduced from 15.76 cents to 15.50 cents. In fiscal years 2010 and 2011, the recommended and adopted budgets included a "one-time" strategy of reducing

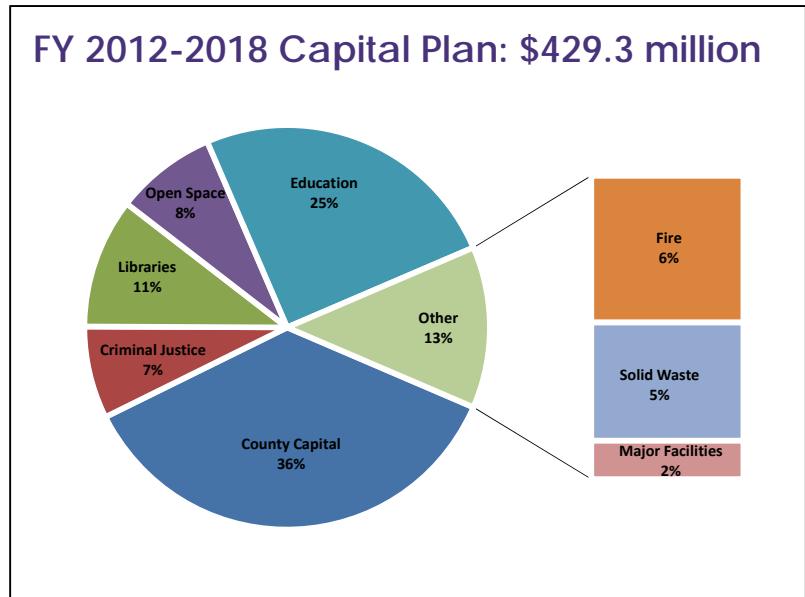
the transfer to capital by \$4 million. The fiscal year 2012 recommended budget includes making a permanent reduction in the property tax rate dedicated to debt and capital — from 15.76 cents to 15.50 cents.

Reducing the transfer to capital has no impact on the debt service fund. This still allows us to preserve our ability to issue some new debt without a tax increase. It also maintains our flexibility in case of a loss of lottery funds, which the County uses for debt service on school general obligation bonds.

Reducing the transfer does reduce the projected balance for future cash-funded CIP projects by \$19.9 million over the time horizon of 2012 through 2018.

Fiscal Year 2012 - 2018  
Community Improvement Plan

The 2012 to 2018 CIP totals \$429.3 million, of which \$148.7 million is for projects in fiscal year 2012. Capital facilities and adequate infrastructure are critical for the County’s continuing growth. The CIP also supports responsible stewardship of existing facilities.



**Special Revenue / Enterprise Funds**

Outside of the budget we have discussed today, the County administers special revenue and enterprise funds, including Solid Waste, the South Wake Landfill Partnership and the Fire Tax District. As we have worked to increase efficiency and reduce spending in the general fund, we have had the same approach in these areas.

Solid Waste

The Solid Waste budget maintains the household disposal fee at \$20. Revenues generated by the fee fund Convenience Centers, household hazardous waste disposal, environmental education programs and the County’s litter control program.

Wake County also administers the South Wake Landfill in partnership with 11 municipalities. The recommended budget maintains the tipping fees for the South Wake Landfill at \$30 per ton, and \$36 per ton at the East Wake Transfer Station.

## Fire Tax District

The Fire District provides fire protection services in the unincorporated areas of Wake County and the town of Wendell. The Wake County Fire Tax District budget for fiscal year 2012 is \$20.2 million and maintains the existing tax rate at 8 cents.

The fiscal year 2012 Fire Tax District budget maintains existing levels of service and includes a full year of funding our portion of the cost associated with the Garner Fire and EMS Station, which opened in December 2010. The Fire Tax budget also includes funding for a two percent merit adjustment for fire employees.

## **Summary**

In summary, the recommended fiscal year 2012 budget is \$951.5 million, \$300,000 more than the fiscal year 2011 adopted budget. It maintains the tax rate at 53.4 cents.

I am proud to represent this organization. Our management team and employees have been engaged in the challenges we have faced over the last three years, and have participated in the strategic analysis of programs and services to help make difficult decisions.

Through all of the ups and downs of our roller coaster ride, we kept three principals at the forefront:

- focus on core services and priorities,
- realign existing resources while maintaining the existing tax rate, and
- maintaining our long-term planning focus.

This budget reflects priorities. Just as we have done the last two years, we have illustrated the reductions by department or agency. For fiscal year 2012, we have reallocated resources in order to provide additional

<b>Cumulative Budget Changes Since February 2009</b>		
<i><b>Budget increases or no decrease</b></i>	<i><b>Less than 15% Decreases</b></i>	<i><b>Greater than 15% Decreases</b></i>
WCPSS	Board of Commissioners	Environmental Services
Wake Tech Community College	Board of Elections	Finance
Sheriff	Community Services	Fire/Emergency Management
CCBI	County Manager	General Services
Emergency Communications	Facilities Design & Construction	Information Services
EMS	Human Resources	Public Agencies
Revenue	Human Services	Register of Deeds
County Attorney		

funding for our highest priorities of public safety and education. This was a difficult budget development process, but we believe the reductions and reallocations are reasonable and the majority of them are sustainable. We are proud to again to present a budget without a tax increase. The 2012 budget provides additional funding for education, public safety and mental health and prioritizes other reductions in order to offset increases in the County's high-priority areas.

Last year at this point in the discussion, I shared with you the words of President Franklin D. Roosevelt during the Great Depression, "We have always held to the hope, the belief, the

conviction that there is a better life, a better world, beyond the horizon.” And today, the horizon looks a little brighter.

This year, I will share some words from our home-grown young star, American Idol finalist Scotty McCreery, who said, “If my life were a song, it would probably be titled ‘Roller Coaster,’ up and down all the time.”

If this budget were a song it would be titled Roller Coaster, up and down all the time. But, let’s face it---Scotty McCreery is on the up and up. And, we hope the local economy is as well.

Everyone has worked extremely hard to arrive at where we are today, and we look forward to working with you, the Board of Commissioners and Wake County citizens, on the fiscal year 2012 budget.

We encourage citizens to offer feedback on the recommended budget. There are a number of ways in which citizens can be involved. Immediately following the conclusion of the budget presentation, the budget will be posted online at [www.wakegov.com](http://www.wakegov.com) and copies will be available at all public libraries tomorrow, Tuesday, May 17, 2011.

While online, citizens are encouraged to visit [WakeGov.com/budget](http://WakeGov.com/budget) to learn about the budget process, read answers to frequently asked questions, and watch videos about the county budget and local economy. Citizens can also email comments to [budget@wakegov.com](mailto:budget@wakegov.com).

Lastly, Wake County residents can leave a voicemail at 856-5433, or speak at one of the two public hearings.

The next step will be for you to hold public hearings on Monday, June 6, 2011, at 2 p.m., here in the boardroom; and at 7 p.m. at the Wake County Commons. As in the past, you will hold a work session dedicated to the budget scheduled for Monday, June 13, 2011. And, on Monday, June 20, 2011, you will be asked to adopt the fiscal year 2012 budget.

Thank you for your consideration of the fiscal year 2012 recommended budget.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "David Cooke". The signature is fluid and cursive, with the first name "David" being more prominent than the last name "Cooke".

David Cooke  
County Manager