

READER'S GUIDE TO THE BUDGET

Purpose

This budget book summarizes all public service programs provided by County government and represents the annual plan for the allocation of resources. The budget presented covers the period of July 1, 2005, to June 30, 2006 ("fiscal year 2006").

For each department and fund, summary information is provided on expenditures, revenues and staffing. Data is provided for: FY 2004 actual results; the FY 2005 budget, both adopted and current as of March 31, 2005; and FY 2006 adopted budget. A sample of the format is provided below.

Process and Policies

This section provides information on the budget process, the budget calendar, the fund structure, the basis of accounting/budgeting, and other financial policies.

Sample Fund Summary Format:

Operating Budget Departmental and Fund Summaries

Department Summary

		FY 2004 Actual	FY 2005 Adopted Budget	FY 2005 Current Budget	FY 2006 Adopted Budget
Personnel Services	\$				
Operating Expenses					
Capital Outlay					
Expenditure Totals	\$	0	0	0	0
Intergovernmental Revenues	\$				
Fee & Other Revenues					
Revenue Totals	\$	0	0	0	0
Number of FTEs		0.00	0.00	0.00	0.00

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Budget Highlights

In this section are revenue and expenditure summaries for the total County budget and an overview of revenues, expenditures, staffing and County organization.

Education

This section outlines the County's appropriations to the Wake County Public School System and Wake Technical Community College operating budgets.

Capital Improvement Plan

These sections provide detailed budget information about the County's seven-year Capital Improvement Plan.

BUDGET PROCESS

Multi-year Business Planning Process

Wake County's multi-year business planning process emphasizes strategic planning and target-oriented service delivery efforts. In 2002, all departments developed a three-year (2004 to 2006) business plan that incorporates strategic thinking and continuous improvement. The business plan identifies what the department wants to accomplish, how it intends to achieve these accomplishments, the costs and revenues associated with specific plans and the measures that determine whether outcomes are being achieved. The plan clearly defines priorities as a way to focus attention on the most important accomplishments that should be achieved over time.

Because the business plans provide a multi-year roadmap for resource needs and successful management of service delivery, they are an integral part of the budget process. The business plans were updated in December 2004 and included the department's prioritization of services.

Business plans will be updated and refined again beginning in late summer, marking the beginning of planning and evaluating service demands and performance and becoming the foundation for the FY 2006 County budget.

Formulation of the County Manager's Proposed Budget

The annual budget process commences in the fall of the preceding year, with the distribution of the budget manual and the development of the budget calendar. The calendar establishes the time lines for the process, including the date of submission of departmental requests, budget work sessions and public hearings that lead to final adoption of the budget.

Department requests are based on Budget Instructional Manual guidance. Each request must relate to the organization's program objectives in preparing cost estimates. In preparing the cost estimates for existing

services, departments were instructed to calculate actual costs of providing the service. This served as the basis for determining the appropriate funding level. Areas of new services or enhancements to existing services requested by departments were based on a strong definition of the issue, strategic alignment of plan and objectives, a clear statement of what is trying to be accomplished, and identification of opportunities to collaborate or partner with others. Each expansion item was analyzed based on these objectives. These requests were received and compiled by the budget staff. Due to revenue constraints, departments were encouraged to develop proposals to trade or shift expenditures rather than seeking additional funding.

The departments used a multi-step process to complete the submission of the budget to County Commissioners via the business plan documents and the budget document: (1) Described programs, emphasizing the outcomes produced by each department; (2) Clearly articulated measurable service objectives; (3) Identified existing or new performance measures, specifying targets for each; (4) Identified strategies to achieve the improvements; (5) Linked resources with outcomes; and (6) Discussed requests and strategies with the County Manager, who developed a recommended budget for final board approval.

Board of Commissioners Authorization and Appropriations

In compliance with the *North Carolina Local Government Budget and Fiscal Control Act*, the Board of Commissioners adopts an annual budget ordinance for all governmental and proprietary funds except funds authorized by project ordinances. All budget ordinances are prepared on the modified accrual basis of accounting. The annual budget for governmental funds and proprietary funds must be adopted no later than July 1. Agency and pension trust funds are not required by state law to be budgeted. All capital projects funds and certain special revenue funds (Sewer Districts, Employment and Training, Community Development, and 911 Special Revenue Fund) and expendable trust funds are budgeted under project ordinances spanning more than one fiscal

BUDGET PROCESS

year and are controlled by project. Project appropriations continue until the projects are complete.

County Manager's Authorization

For those funds for which annual budgets are adopted, appropriations are budgeted and controlled on a functional basis and amended as necessary during the fiscal year. The County Manager is authorized to transfer budgeted amounts within any fund; however, any transfers exceeding \$75,000 shall be reported to the Board of Commissioners, except for certain transfers from the Risk Management Internal Service Fund. Revisions that alter the total appropriations of any fund must be approved by the Board of Commissioners.

Budget Implementation

Once the budget is adopted, on July 1 it becomes the legal basis for the programs of each department of the County during the fiscal year. No department or other agency of the County government may spend more than approved and appropriated amounts. Financial and programmatic monitoring of departmental activities to ensure conformity with the adopted budget takes place throughout the year. Copies of the Adopted Budget can be found in the County's five regional libraries and may be obtained from the Budget and Management Department. Unencumbered appropriations lapse at the end of the fiscal year and are returned to fund balance for re-appropriation. The County Manager is responsible for maintaining a balanced budget at all times. If there is an excess of expenditures over revenues, the County Manager will take actions necessary to rebalance the budget.

BUDGET CALENDAR FOR FISCAL YEAR 2006

Date	Budget Activity
October 19, 2004	Budget Instruction Manual distributed to departments Budget Kickoff with Extended Management Team
December 17, 2004	Departmental Business Plans updated
September to December 2004	CIP Review—Meetings conducted by Facilities Design and Construction, General Services Administration and Budget and Management Services
February 2, 2005 and February 18, 2005	Departments submit FY 2006 Operating Budget Requests
May 2005	Board of Education and Wake Technical Community College submit formal budget requests
May 16, 2005	Formal presentation of FY 2006 Recommended Budget and Capital Improvement Plan to Board of Commissioners at regularly scheduled meeting
June 6, 2005	Public Hearing on Operating Budget, annual Capital Plan and any proposed fee or tax changes
June 13, 2005	Special Budget Work Session with Board of Commissioners
June 20, 2005	Adoption of FY 2006 Operating Budget and Capital Improvement Plan at regular Board of Commissioners meeting

FUND STRUCTURE

The County's accounts are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts comprised of assets, liabilities, fund equity, revenues, and expenditures or expenses as appropriate.

Wake County's governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. In the budget, various funds are grouped into three broad fund types and then fund categories within each type.

Governmental Fund Types

General Fund

The general fund is the primary operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes and federal and state grants. The primary expenditures are for education, human services, public safety, environmental, cultural, recreational and general governmental services.

The general fund is first subdivided into functional areas (e.g., general government or public safety) and then further divided into individual departments or divisions (e.g., finance department or fire/rescue division).

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The County maintains seven special revenue funds: Sewer Districts Fund, Employment and Training Fund, Special Tax Districts Fund, Revaluation Reserve Fund, Community Development Fund, Major Facilities Fund and the 911 Special Revenue Fund. The 911 Special Revenue Fund was established pursuant to state law [G.S. 159-26(b)(2)], which mandates that 911 revenues and expenditures be accounted for in a special revenue fund.

Capital Project Funds

Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, certain special assessments, or trust funds). The County has three capital project funds within the governmental fund types: County Capital Improvements Fund, Wake County Public Schools Capital Projects Fund and Wake Technical Community College Capital Projects Fund.

Proprietary Fund Types

Enterprise Fund

The enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The County has one enterprise fund: the Solid Waste Management Fund.

Internal Service Fund

The County has one internal service fund, the Risk Management Fund, which accounts for the insurance needs (both purchased insurance and self-retained risks) of all County departments.

BASIS OF BUDGETING AND BASIS OF ACCOUNTING

All funds of the County are budgeted for and accounted for during the year on the modified accrual basis of accounting in accordance with North Carolina General Statutes. Under the modified accrual basis, revenues are recognized in the accounting period in which they become measurable and available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the costs for goods or services are incurred (except for unmatured principal and interest on general long-term debt, which are recognized when due).

The County maintains encumbrance accounts under which purchase orders, contracts and other commitments are reserved against available appropriations.

The level of control, or level at which expenditures may not legally exceed the budget, is the department level for the General Fund and the fund level for all other funds. Any change in appropriation level of the fund must be approved by the Board of Commissioners. The County Manager or the Director of Budget and Management Services may approve any changes within a fund that do not require an alteration of the appropriation level. Appropriations lapse at year-end, except appropriations for the Capital Improvement Plan Fund, which are carried forward until the project is completed.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses and the related assets and liabilities are recognized in the accounts and reported in the combined financial statements.

The governmental funds (General Fund, Special Revenue and Capital Projects Funds) are also presented on a modified accrual basis in the combined financial statements in the Comprehensive Annual Financial Report (Financial Statements). The accounting records for the County's enterprise and internal service funds are reported on a full accrual basis of accounting. Under this basis of accounting, revenues are recognized in the period earned and expenses are recognized in the period incurred. The Financial Statements present the status of the County's finances on the basis of generally accepted accounting principles (GAAP). In most cases, GAAP presentation conforms to the County budget presentation.

Exceptions are as follow:

- Compensated absences are accrued as earned by employees per GAAP as opposed to being expensed when paid.
- Principal payments on long-term debt within the proprietary funds are applied to the outstanding liability on a GAAP basis as opposed to being expensed on a budget basis.
- Capital Outlay within the Proprietary Funds is recorded as assets on a GAAP basis and expended on a Budget basis.
- Depreciation expenses are recorded on a GAAP basis only.
- The Financial Statements include fund expenditures and revenues on both a GAAP basis and a budgetary basis for comparison purposes.

FINANCIAL POLICIES

Wake County's financial policies establish a foundation for the fiscal strength of County government. These policies guide the Board of Commissioners and the County Manager as they make decisions concerning resource allocations.

The financial condition of the County must be maintained at the highest level to assure resources are available to meet the community's ever-changing needs. The following policies, reflecting the County's commitment to continued fiscal strength, are related to the adoption and implementation of the annual budget. Further, they are designed to assure that the County maintains the highest credit ratings possible given prevailing local economic conditions.

Operating Budget

The County shall operate under an annual balanced budget ordinance whereby the sum of net revenues and appropriated fund balances equals the expenditure appropriations. Revenue projections shall be set at realistic and attainable levels, sufficiently conservative to avoid shortfalls, yet accurate enough to avoid a regular pattern of setting tax rates that produce significantly more revenue than is necessary to meet expenditure requirements. The County shall not develop budgets that include operating deficits that require the use of one-time resources to cover recurring expenses. The County's annual budget shall be adopted by July 1 and shall be effective for a fiscal period beginning July 1 and ending June 30.

Reserves

The County shall maintain a total General Fund balance of at least fifteen percent (15%) and an unreserved fund balance of at least 8% of the following fiscal year's General Fund adopted budget in order to provide the County with adequate working capital and investment income. Any unreserved fund balance is available for appropriation only for one-time non-recurring expenses. Any appropriation to a contingency account in the County's general fund shall not exceed one percent (1%) of the total general fund budget.

Revenues

The County shall diversify its revenue sources to the extent possible to

reduce reliance on the property tax. Periodically, the County will review specific programs and services that are identified to be potential areas for funding through user fees. The Board of Commissioners will determine the level of cost recovery for the program or service. For example, building inspection fees will be set at a level sufficient to recover the full costs of the services and solid waste fees shall be set at a level sufficient to recover the full costs of the solid waste enterprise operations. Sound cash management practices shall augment revenues available to the County. The County shall maintain an active investment portfolio in which 100% of all temporarily idle funds are invested daily.

Capital Improvements

The County adopts a seven-year Capital Improvement Plan (CIP) to be revised and approved annually. The County shall appropriate all funds for capital projects with a capital project ordinance in accordance with state statutes. Typically, capital expenditures included as a project in the Capital Improvement Plan shall cost at least \$100,000 and have a useful life of at least ten years. The Board of Commissioners will determine actual funding for the capital projects on an annual basis.

Debt Policies

Debt policies, along with annual debt service information, are found in the Debt Service Fund section that follows the General Fund.

USER FEE POLICY

Background

North Carolina General Statutes (NCGS) authorize the setting of fees by counties in Section 153A - 102. The statute reads: “The board of commissioners may fix the fees and commissions charged by county officers and employees for performing services or duties permitted or required by law. The board may not, however, fix fees in the General Court of Justice or modify the fees of the register of deeds prescribed by G.S. 160-10 or the fees of the board of elections prescribed by G.S. 163-107.”

Purpose

The purpose of the User Fee Policy is to establish guidelines, in accordance with NCGS 153A-102, which shall be used by the County Manager to determine fees and commissions that are not statutorily restricted. Furthermore, this policy also establishes guidelines for the county government regarding the institution of fees for performing services or duties permitted or required by law.

Provisions

User fees are an allowable manner of paying for services that generate direct benefits to persons who receive the service. The County encourages the establishment of fees at a level that maximizes revenues. Fees shall be developed based on the cost of providing services and county-wide goals and objectives as set by the Board of Commissioners.

All user fees shall be evaluated annually and updates shall be presented to the Board of Commissioners during the annual budget process.

Regulatory Fees

Fees charged to individuals or organizations for participation in government-regulated activities, such as building permits, land disturbance fees, and code enforcement permits, are considered “regulatory fees.”

Regulatory fees shall be set at a level that strives to recover full costs (direct and indirect costs, such as depreciation or usage costs associated with capital assets) of providing the service, unless statutory restrictions limit the fee amount.

Non-Regulatory Fees

Non-regulatory fees are charged for a wide variety of services; therefore, more in depth criteria must be used in establishing the fees. There are two primary purposes for non-regulatory fees: 1) to influence the use of the service and 2) to increase equity. The determination of the level of cost recovery varies based on which purpose applies.

A. If the purpose of the fee is to regulate and influence the use of the service, the fee shall be set to respond to demand. The amount of costs recovered shall be secondary, with impact on demand being the primary guiding principle.

1. If the purpose of the fee is to discourage use of the service, fees shall be set at a level to recover full costs of providing the service.
2. If the purpose is to provide a service for a fee but not discourage its use, fees shall be set so that demand for the service is not significantly reduced, while recovering partial costs of providing the service.

B. If the purpose of the fee is to improve equity by charging users for the consumption of goods and services, the following criteria should be considered in setting the fee:

1. If the service is purely a private good and does not enhance community-wide quality of life, the fee shall be set according to market rates and shall strive for full cost recovery. Whether or not the service is deemed to enhance community-wide quality of life will depend on the goals and objectives of the County.
2. If the service provides broader public benefits through its consumption, thereby enhancing community-wide quality of life, the fee shall be set so that use of the service is not discouraged, demand for the service is unchanged and partial recovery of costs is obtained.
3. If low-income citizens are included in the population of service recipients, fees for their participation shall be set to recover partial costs of providing the service, as long as this can

USER FEE POLICY

be accomplished without precluding their use. A sliding-scale fee is one strategy for accomplishing this.

If a service is provided by the County using general fund dollars to fully fund the service (therefore no fee charged), it is acceptable to set a fee for the use of the service for nonresidents of the County. An example of this includes public libraries.

Adopted by the Board of Commissioners on March 13, 2000.

LONG-RANGE PLANNING

The County's leadership and management believe that a long-range approach to budgeting provides the foundation for effective annual operating budgets that support the County's long-range goals and objectives. The three major components to the County's long-range planning efforts are the:

- Board of Commissioners' Goals
- Departmental Business Plans (see page 3) and
- Long-range Financial Planning Model (see pages 329 – 341).

The Board of Commissioners goals are incorporated into departmental business plans that serve as the driver for the base year of the financial planning model.

Board of Commissioners' Goals

On December 6, 2004 the Board of Commissioners adopted 14 goals that will be the Board's priorities over the next year. These goals do not cover all of the initiatives or services the County has responsibility for or is involved in achieving. Instead these goals identify the primary issues that will require the Board of Commissioners action and/or leadership and are of significant importance to the community. Staff has taken the Board's goals and identified the major steps that need to be accomplished in order to achieve the goals.

1. School Capital Needs

Work with the school board to develop strategies and an action plan to meet school capital needs over the next four to seven years.

Wake County's population growth has resulted in a steady increase in the number of students entering the public school system. This growth in the student population has caused the school system to make additional requests for funds from the County to address their capital needs. The Wake County Board of Commissioners and the Board of Education have been holding regular joint work sessions in an attempt to fully understand the issues facing the Wake County Public School System and Wake County Government as well as the options that are available to meet the school systems capital needs.

2. Little River/Open Space

Complete Little River Reservoir land acquisition and accelerate progress for open space acquisitions in approved watersheds and corridors.

The Little River reservoir was first designated as a future source of high-quality drinking water in a 1986 assessment of water-supply alternatives to meet the needs of eastern Wake County. The project as currently planned will consist of the construction of a water-supply reservoir within the Little River Watershed with a potential yield of 17 million gallons of water per day. The primary goals of the Little River Reservoir project are to:

- Assist municipalities of Knightdale, Raleigh, Wake Forest, Wendell, and Zebulon in providing additional water-supply resources required to meet drinking-water needs of current and future Wake County residents.
- Acquire approximately 2,000 acres of land for the water-supply reservoir and 200-foot buffer area.
- Foster the partnerships necessary for the long-term consolidation of operations and management of water and sewer systems in Wake County.

The County is also focused on acquiring properties within four critical watersheds, identified stream corridors and other areas of rural scenic and historical value. These areas include properties within the Falls Lake, Lake Jordan, Swift Creek and Little River watersheds, 40 miles of stream corridors within these watersheds, and the Mark's Creek area of Wake County. In November 2005, a \$26 million bond referendum for the acquisition of open space was approved.

3. Solid Waste Disposal

Decide on a long-term strategy for solid waste disposal, by working in partnership with all municipalities.

In order to ensure long-term disposal as part of the County's comprehensive solid waste system, the Solid Waste Management Division initiated a process in August of 2003 wherein the County and

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municipal managers agreed to collaborate and conduct an extensive evaluation to determine the best long-term disposal option for the County and its municipal partners. The governing bodies of all jurisdictions formally resolved to adopt an Interlocal Agreement to that end. The Agreement directed a Manager's Solid Waste Committee and a Technical Committee to facilitate the decision-making process and make recommendations. The Manager's Committee would collectively recommend to their respective boards and councils the best course of action to securing long-term disposal for residents and businesses.

In November the Managers Committee conducted interviews with the four private sector firms vying for a 25-year contract for long term solid waste disposal for Wake County. The Technical Advisory Committee (TAC) is presently drafting the Final Evaluation Report of the proposals.

4. Mental Health Reform

Work with local legislative delegation on implementation plan for mental health reform, and specifically identify strategies and action plan for in-patient hospital beds.

In 1999, the State Auditor's Office recommended:

- A shift from institutional to community based services;
- A uniform benefit package for all state residents;
- Specialized services for targeted populations of persons with serious and persistent mental illness, dual diagnosis of mental illness and substance abuse, and geriatric, child and adolescent clients; and
- Reorganization of area programs to local management entities.

In 2001 the General Assembly mandated these recommendations. As a result the County created a "Strategic Local Business Plan for the Redesign of Mental Health, Developmental Disability, and Substance Abuse Services" and submitted it to the state in 2003. This designated Wake County Human Services as the Local Management Entity for implementation of mental health reform.

Local Mental Health Reform proposes changes in service delivery,

including:

- A shift from the role of provider to assessor of services;
- Greater involvement and responsiveness to consumer needs; and
- The development of a local continuum of care for services, emphasizing treatment in the least restrictive community environment.

State implementation of mental health reform includes the recommendation to decrease institutional services statewide by closing Dorothea Dix and John Umstead Hospitals, and combining those services in a new, smaller psychiatric hospital in Butner. State hospital downsizing has begun by moving consumers from adult chronic inpatient units to community settings with funds following the client. So far the County has successfully transitioned clients from the Wright, Clark and Huey buildings at Dorothea Dix to community settings.

In accordance with State plans, by 2007, Dorothea Dix will decrease total beds from 395 to 239. Wake County's total bed day allocations will decrease from 111 beds to 61 beds. Local Management Entities are expected to develop services to serve consumers in their community, including preventing admissions or shortening lengths of stay. Acute admissions – generally less than 14 days duration – will occur, but are intended to be cared for in local psychiatric inpatient units.

The Public Consulting Group (PSG) reviewed Wake County's use of Dorothea Dix in 1999-2000. PGC concluded Wake County could support a local psychiatric inpatient unit of 40 beds but economies of scale – and current use of out of county inpatient admissions – support a more cost effective adolescent unit of 20 beds. Current admissions to Dorothea Dix and the County ATC demonstrates the need for 10 secure or locked detoxification or crisis beds for substance abusers and persons dually diagnosed with substance abuse and mental illness.

Human Services staff is proposing that a 60 bed local inpatient psychiatric unit be created to replace the beds at Dorothea Dix and to

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provide acute hospitalizations for adolescent and adult residents of Wake County.

5. Urban County Leadership

Take leadership role in establishing a forum/series of meetings for the largest and urbanizing Counties to discuss common issues and promote common legislative agendas around: Schools, Transportation and Open Space.

In North Carolina the larger, more urban counties are faced with similar challenges brought about by a rapidly growing population. Often these challenges are not the same as those faced by the non-urban counties and as a result situations arise where all the counties in the state cannot reach consensus on legislative agendas because of a lack of mutual interest or conflicting interest.

6. Citizen Awareness

Implement strategies to increase citizen awareness of Wake County services.

As the population in Wake County continues to grow, and as the demand for County services continues to rise, the need for improving communication with the public is even more important. It is the County's responsibility to provide the residents of Wake County information about the services that are available to them as well as accurate and timely information regarding the issues that the County is facing. In order to achieve these goals the County will continue the communication efforts that have been successful in the past as well as implement new initiatives during the year 2005.

7. Institute a countywide volunteer celebration and recognition event and award the Larry B. Zieverink "Volunteer-of-the-Year" Award.

8. Attract new investment and create new jobs, while continuing to work with the Wake County Economic Development program and all municipal Chambers of Commerce.

9. Develop multi-year business and financial plan for fire service in the unincorporated area and the Town of Wendell (Fire Tax Dis-

trict).

10. Develop and arrive at consensus on courthouse and criminal justice long-term capital plan.

11. Continue business-like approach to budget discussion and long-term financial planning and arrive at consensus on priorities of services and programs.

12. Continue to work with the Capital Area Metropolitan Planning Organization to identify and implement transportation strategies to address the needs of Wake County and municipalities.

13. Simplify and update the County's subdivision, zoning, and other ordinances to reflect current policies and initiatives (unified development ordinance).

14. Reconfirm the County's approach to how development should occur in the unincorporated areas and evaluate the County's criteria for extraterritorial jurisdiction expansion for municipalities.

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