

# **WAKE COUNTY, NORTH CAROLINA MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR ENDED JUNE 30, 2009**

As the management of Wake County, North Carolina, we offer readers of our financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2009. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages **IX – XIV** in the Introductory section of this report.

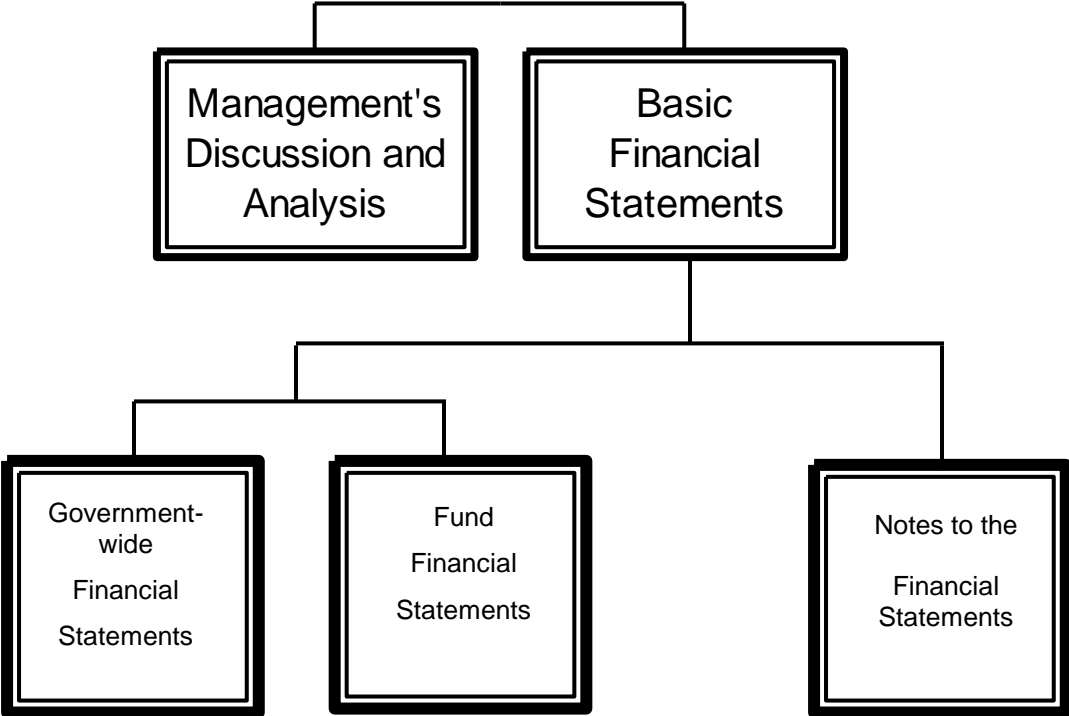
## **Financial Highlights for Wake County, North Carolina**

- The County has maintained an “Aaa” bond rating from Moody’s Investors Service since 1973, an “AAA” rating from Standard & Poor’s Corporation since 1983, and an “AAA” rating from Fitch for the ninth year in a row. This bond rating is a clear indication of the sound financial condition of The County. The County is one of the few counties in the country that maintains the highest financial rating from all three major rating agencies. This achievement is a key factor in keeping interest costs low on the County’s outstanding general obligation debt. These ratings were reaffirmed in February 2009.
- During fiscal 2009 in response to the deepening recession, the County reduced its General Fund budget by \$15.2 million or 1.6% of the total in response to projected revenue shortfalls. Because of the economic downturn, sales taxes, real property transfer taxes, as well as intergovernmental revenues fell short of projections. All County departments were required to propose reductions in their 2009 fiscal year budget due these shortfalls. Because of the conditions in the capital markets, the County also worked with the Wake County Public School System and Wake Technical Community College to delay their capital projects and made some one-time and recurring reductions in County construction projects as well.
- Wake County issued \$502 million in fixed-rate general obligation bonds in March 2009. \$300 million was issued to refund the short-term Bond Anticipation Notes that the County issued in October 2008 for Wake County Public School construction projects, Wake Community College, open space and libraries. \$100 million went for Wake County Public School construction. \$35 million funded additional Wake Community College construction projects. Finally, \$67 million refunded general obligation bonds issued in 1998, which should generate savings of approximately \$4.5 million.
- Wake County issued \$169 Million 2009 GO Refunding Bonds in May 2009. These bonds refunded portions of the 2001A, 2001B, and 2002 general obligation bond issuances with total savings of \$7.5 million.

- Subsequent to year end in July 2009, The County issued \$154.6 million in Limited Obligation Bonds. These bonds were issued in accordance with the County's capital plan for criminal justice needs and will be used to construct the Hammond Road Detention Center Phase II.
- On the government-wide statements, the liabilities of the County's governmental activities exceeded its assets at the close of the fiscal year by \$741.7 million (*net deficit*). The County's net deficit is impacted considerably by the general obligation debt the County has issued on the behalf of the school system to fund school capital outlay. Under North Carolina law, the County is responsible for providing capital funding for the School System. The County has chosen to meet its legal obligation to provide school capital funding by leveraging taxpayer dollars using a mixture of County funds and general obligation debt. The assets funded by the County are owned, utilized, and maintained by the School System. Since the County, as the issuing government, acquires no school capital assets, the County has incurred a liability without a corresponding increase in assets. At the end of the fiscal year, the outstanding balance of the school-related debt exceeded \$1.68 billion dollars.
- As of the close of the 2009 fiscal year, the County's governmental funds reported combined ending fund balances of \$660.7 million, up \$151.0 million from the \$509.7 million for the prior fiscal year. The County's governmental fund balance increased by such a large amount because, during the fiscal year ended June 30, 2009, the County issued long-term bonds to finance capital expenditures for the school system and county capital programs, receiving premiums on the issuance of \$54.5 million. A total of \$149.8 million of bond proceeds were still on hand at June 30, 2009.
- The County measures its financial health and flexibility to meet operating needs as a ratio of fund balance as a percentage of expenditures, transferring significant resources from its General Fund into the Debt Service Fund to meet those future commitments. As a result, the combined General Fund and Debt Service Fund balances are measured together to assess the County's overall fiscal health. At the end of the 2009 fiscal year, the fund balance for the County's General Fund was \$156 million while the Debt Service Fund balance was \$151 million; compared with \$169 million and \$100 million, respectively, in the prior fiscal year. The total fund balances of both funds compared as a percentage of expenditures in both funds was 22.43% of expenditures and transfers at the end of fiscal 2009, compared with a combined total of 25.47% at the end of the 2008 fiscal year.
- The County uses a long-term financial planning model for capital budgeting purposes. The capital and debt component of the model help evaluate the impact of capital funding decisions on the County's financial condition and to ensure policy targets are maintained. In accordance with its financial model, the County allocates a portion of property taxes specifically for debt service and cash funding for its capital program. The tax rate for fiscal year 2009 was 53.4 cents with 15.76 cents of that dedicated to capital and debt service. For the fiscal year 2009, the County transferred \$144.7 million from the General Fund to fund the Debt Service component of its model and a total of \$55 million to County capital and school capital outlay to fund those allocations.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the basic financial statements. The basic financial statements consist of three components: 1) the government-wide financial statements, 2) the fund financial statements, and 3) the notes to the financial statements. The basic financial statements present two different views of the County through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader’s understanding of the financial condition of the County. Required Components of Annual Financial Report.



## Basic Financial Statements

The first two statements in the basic financial statements are the **Government-wide Financial Statements**. The statements provide both short and long-term information about the County's financial status, using the full-accrual basis of accounting, in a manner similar to a private-sector business.

The two government-wide statements report the County's net assets and how they have changed. Net assets reported on the *statement of net assets* are the difference between the County's total assets and total liabilities. *The statement of activities* presents information showing how the County's net assets have changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The two government-wide statements are each divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the County's basic services such as education, human services, public safety, environmental services, community development and cultural services, and general government services. Property and other taxes as well as state and federal grant funds finance most of these activities. The business-type activities are those that the County charges customers to provide. For Wake County, only the Solid Waste function is reported as a business-type activity. The final category is the component units. Although the ABC Board is legally separate from the County, the County exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the County.

The government-wide financial statements are on Pages **17 - 19** of this report.

The next statements within the basic financial statements are the **Fund Financial Statements**. These statements focus on the activities of the individual parts of the County's government at a more detailed level than the government-wide statements. There are four parts to the fund financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statement; 3) the proprietary fund statements; and 4) the fiduciary fund statements.

The **fund financial statements** provide a more detailed look at the County's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the County's budget ordinance. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds** – Governmental funds are used to account for those same functions reported as governmental activities in the government-wide financial statements. Most of the County's basic services are accounted for in governmental funds. Governmental funds financial statements focus on the near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Governmental funds are reported using an accounting method called *modified accrual accounting*

which provides a current financial resources focus. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The **Budgetary Comparison Statement** is the next part of the fund financial statements that is presented. The County adopts an annual budget for its General Fund, as required by the North Carolina General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the County, the management of the County, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the County complied with the budget ordinance and whether or not the County has provided the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the Statement of Revenues, Expenditures and Changes in Fund Balance. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the variance between the final budget and the actual results.

**Proprietary Funds** – For the fiscal year ended June 30, 2009, the County had two proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for solid waste operations that are County funded as well as the South Wake Landfill Partnership Fund that accounts for the activities associated with the South Wake landfill that is a partnership between the County and eleven municipalities within the County. These funds are consolidated into the business-type activities that are presented in the Statement of Net Assets and the Statement of Activities. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the functions of the County. In fiscal year 2008, the County decided to begin accounting for all its risk management activities in the General Fund. Therefore, that fund was closed to the General Fund during that fiscal year.

**Agency Funds** – Agency funds are used to account for assets the County holds on behalf of others. Wake County has four agency funds that are used to account for taxes collected for and remitted to other municipalities within the County, funds held by Wake County Human Services on behalf of clients, The Department of Motor Vehicles interest penalties collected on behalf of the State, and fines and forfeitures that are collected from citizen's and disbursed to the School System under North Carolina law.

The final section of the basic financial statements is the **notes to the financial statements**. The notes are essential to a full understanding of the data provided in the government-wide and fund financial statements because they explain in detail some of the data contained in those statements.

After the notes, this report presents certain required supplementary information concerning the County's progress in funding its obligation to provide pension benefits to law enforcement personnel. Finally, combining statements are provided to show details about the County's non-major governmental funds, as well as enterprise and internal service funds. Budgetary information for each fund as required by the North

Carolina General Statutes and detailed comparison statements, including encumbrances reported for internal reporting purposes for the County's General Fund and annually budgeted funds, can also be found in this section.

### **Government-wide Financial Analysis**

As noted earlier, the County's liabilities exceeded assets by \$702.4 million as of June 30, 2009. Net assets are reported in three categories: invested in capital assets, net of related debt of \$330.0 million, restricted for future capital needs of \$2.5 million, and unrestricted net deficit of (\$1,034.9) million.

The largest portion of Wake County's net assets reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment); less any related debt still outstanding that was issued to acquire those assets that are still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The amount reported as invested in total capital assets decreased from \$368.6 million in the prior year to \$330.0 at June 30, 2009. The largest portion of the decrease relates to the County's governmental activities. For the fiscal year ended June 30, 2009 the amount invested in capital assets, net of related debt for governmental activities decreased by \$38.3 million to \$317.3 million. This component of net assets decreased because general obligation - other increased by more than capital assets during fiscal 2009. For a more complete discussion of capital asset changes during the fiscal year, refer to the Capital Asset and Debt Administration section of this Management Discussion and Analysis. None of the school-related debt is included in this calculation as it is not considered capital related debt for Wake County.

The other significant category of net assets is unrestricted net assets. This balance may be used to meet the government's ongoing obligations to citizens and creditors. At June 30, 2009, the unrestricted deficit of \$(1,034.9) million is attributable primarily to the general obligation bonds issued by Wake County for the school system within the governmental activities. Even though the debt issued has been issued to finance capital outlay and construction for the School System, the Governmental Accounting Standards Board has determined that it is not capital debt for the County since it is not financing assets that are owned by the County. As a result, the school debt is reportable within the unrestricted category of net assets rather than as part of the category invested in capital assets, net of related debt. The breakdown of the unrestricted portion of net equity is defined as follows:

|                                 |                          |
|---------------------------------|--------------------------|
| School System Debt              | \$(1,679,944,768)        |
| All other unrestricted          | <u>645,000,898</u>       |
| Total unrestricted<br>(Deficit) | <u>\$(1,034,943,870)</u> |

The amount reported in the total unrestricted category further decreased from \$(850.9) million as of June 30, 2008 to \$(1,034.9) as of June 30, 2009. This decrease in the unrestricted category was the result of an increase in the County's school system debt outstanding from \$1.36 billion as of June 30, 2008 to 1.68 billion as of June 30, 2009. This school debt is not considered capital debt for the County since the School System, not the County, holds title to the assets purchased or constructed with the debt proceeds. Therefore, both the debt and the associated bond proceeds are reported as part of the unrestricted component net assets.

**Wake County's Net Assets:**

|  | <b>June 30, 2009</b>    | <b>June 30, 2008</b>    | <b>June 30, 2009</b> | <b>June 30, 2008</b> | <b>June 30, 2009</b>    | <b>June 30, 2008</b>    |
|--|-------------------------|-------------------------|----------------------|----------------------|-------------------------|-------------------------|
|  | <b>Governmental</b>     | <b>Governmental</b>     | <b>Business-type</b> | <b>Business-type</b> | <b>Total</b>            | <b>Total</b>            |
|  | <b>Activities</b>       | <b>Activities</b>       | <b>Activities</b>    | <b>Activities</b>    |                         |                         |
| Current and other assets                           | \$ 767,949,689          | \$ 648,606,943          | \$ 46,814,254        | \$ 47,429,549        | \$ 814,763,943          | \$ 696,036,492          |
| Capital assets                                     | 515,774,369             | 485,513,672             | 12,714,646           | 13,000,011           | 528,489,015             | 498,513,683             |
| <b>Total assets</b>                                | <b>1,283,724,058</b>    | <b>1,134,120,615</b>    | <b>59,528,900</b>    | <b>60,429,560</b>    | <b>1,343,252,958</b>    | <b>1,194,550,175</b>    |
| Long-term liabilities/schools                      | 1,679,944,768           | 1,360,271,880           | -                    | -                    | 1,679,944,768           | 1,360,271,880           |
| Long-term liabilities/other                        | 233,161,217             | 153,225,485             | 14,659,557           | 17,293,634           | 247,820,774             | 170,519,119             |
| Other liabilities                                  | 112,367,632             | 139,957,366             | 5,522,117            | 3,788,734            | 117,889,749             | 143,746,100             |
| <b>Total liabilities</b>                           | <b>2,025,473,617</b>    | <b>1,653,454,731</b>    | <b>20,181,674</b>    | <b>21,082,368</b>    | <b>2,045,655,291</b>    | <b>1,674,537,099</b>    |
| Net assets:  |                         |                         |                      |                      |                         |                         |
| Invested in capital assets,<br>net of related debt | 317,257,114             | 355,571,204             | 12,714,646           | 13,000,011           | 329,971,760             | 368,571,215             |
| Restricted/Bonds                                   | 2,569,777               | 2,363,349               | -                    | -                    | 2,569,777               | 2,363,349               |
| Unrestricted                                       | (1,061,576,450)         | (877,268,669)           | 26,632,580           | 26,347,181           | (1,034,943,870)         | (850,921,488)           |
| <b>Total net assets</b>                            | <b>\$ (741,749,559)</b> | <b>\$ (519,334,116)</b> | <b>\$ 39,347,226</b> | <b>\$ 39,347,192</b> | <b>\$ (702,402,333)</b> | <b>\$ (479,986,924)</b> |

Because the County funds the school capital needs but does not carry the resulting assets on our financial statements, we report a net deficit. In spite of this, the County's finances are strong as evidenced by:

- Continued diligence in the collection of property taxes by maintaining a collection percentage of 98.82%.
- Planning and management of revenues and expenditures through the use of financial models for the capital, debt service, and various operating budgets.
- Continued low cost of bonded debt that is a direct result of the County's high bond rating by each of the three major rating agencies. As noted earlier, we consider this unique achievement to be a key factor in keeping the interest costs low on the County's general obligation debt outstanding of \$1.8 billion at June 30, 2009.

## Wake County's Changes in Net Assets:

|   | For the Year Ended         |                            | For the Year Ended          |                             | For the Year Ended |                  |
|---|----------------------------|----------------------------|-----------------------------|-----------------------------|--------------------|------------------|
|   | June 30, 2009              | June 30, 2008              | June 30, 2009               | June 30, 2008               | June 30, 2009      | June 30, 2008    |
|   | Governmental<br>Activities | Governmental<br>Activities | Business-type<br>Activities | Business-type<br>Activities | Total              | Total            |
| Revenues:   |                            |                            |                             |                             |                    |                  |
| Program revenues:   |                            |                            |                             |                             |                    |                  |
| Charges for services  | \$ 62,783,508              | \$ 69,028,878              | \$ 23,530,328               | \$ 20,548,146               | \$ 86,313,836      | \$ 89,577,024    |
| Operating grants and contributions                              | 167,770,447                | 150,308,118                | 1,146,661                   | 1,199,844                   | 168,917,108        | 151,507,962      |
| General revenues:   |                            |                            |                             |                             |                    |                  |
| Property taxes  | 640,238,154                | 579,083,019                | -                           | -                           | 640,238,154        | 579,083,019      |
| Sales taxes   | 127,210,118                | 156,037,557                | -                           | -                           | 127,210,118        | 156,037,557      |
| Grants and contributions not<br>restricted to specific programs | 5,125,653                  | 6,066,813                  | -                           | -                           | 5,125,653          | 6,066,813        |
| Other general revenues  | 51,240,992                 | 78,216,933                 | 2,090,927                   | 2,892,418                   | 53,331,919         | 81,109,351       |
| Total revenues  | 1,054,368,872              | 1,038,741,318              | 26,767,916                  | 24,640,408                  | 1,081,136,788      | 1,063,381,726    |
| Expenses:   |                            |                            |                             |                             |                    |                  |
| General administration  | 55,488,240                 | 47,969,041                 | -                           | -                           | 55,488,240         | 47,969,041       |
| Human services  | 244,176,508                | 240,798,504                | -                           | -                           | 244,176,508        | 240,798,504      |
| Education   | 661,548,515                | 620,118,123                | -                           | -                           | 661,548,515        | 620,118,123      |
| Community development and cultural                              | 59,885,379                 | 76,626,538                 | -                           | -                           | 59,885,379         | 76,626,538       |
| Environmental services  | 11,978,164                 | 11,527,956                 | -                           | -                           | 11,978,164         | 11,527,956       |
| Public safety   | 143,763,181                | 121,072,942                | -                           | -                           | 143,763,181        | 121,072,942      |
| General services administration                                 | 26,444,850                 | 24,167,418                 | -                           | -                           | 26,444,850         | 24,167,418       |
| Interest on long-term debt                                      | 73,811,478                 | 60,639,285                 | -                           | -                           | 73,811,478         | 60,639,285       |
| Solid waste   | -                          | -                          | 26,455,882                  | 21,939,090                  | 26,455,882         | 21,939,090       |
| Total expenses  | 1,277,096,315              | 1,202,919,807              | 26,455,882                  | 21,939,090                  | 1,303,552,197      | 1,224,858,897    |
| Increase (decrease) in<br>net assets before transfers           | (222,727,443)              | (164,178,489)              | 312,034                     | 2,701,318                   | (222,415,409)      | (161,477,171)    |
| Transfers   | 312,000                    | 306,000                    | (312,000)                   | (306,000)                   | -                  | -                |
| Change in net assets  | (222,415,443)              | (163,872,489)              | 34                          | 2,395,318                   | (222,415,409)      | (161,477,171)    |
| Net assets, beginning of year                                   | (519,334,116)              | (355,461,627)              | 39,347,192                  | 36,951,874                  | (479,986,924)      | (318,509,753)    |
| Net assets, end of the year                                     | \$ (741,749,559)           | \$ (519,334,116)           | \$ 39,347,226               | \$ 39,347,192               | \$ (702,402,333)   | \$ (479,986,924) |

**Governmental activities.** Governmental activities decreased the County's beginning net assets by \$222.4 million or 100% of the total decrease in the net assets of the County. As in prior fiscal years, the decrease is due primarily to increasing and continued capital spending in the school construction program. Since the School System, not the County, capitalizes these construction costs, they are included in the County's statement of changes as operating expenses within the education function. For the fiscal year ended June 30, 2009, these school capital expenditures out of the School Capital Fund that the County could not capitalize totaled \$310.6 million.

**Business-type activities.** Business-type activities remained consistent between the two fiscal years.

### **Financial Analysis of the County's Funds**

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The County's eight major funds, as defined by GAAP for the fiscal year ended June 30, 2009, were the General Fund, the Affordable Housing Fund, the Major Facilities Fund, the Debt Service Fund, the County Capital Improvements Fund, the School Capital Fund, the Solid Waste Operating Fund, and the South Wake Landfill Partnership Fund, the last two of which are enterprise funds.

At June 30, 2009, the governmental funds of Wake County reported a combined fund balance of \$660.7 million, an increase of \$151.0 million, from the prior fiscal year's balance of \$509.7 million. The General Fund and the County Capital Project Fund balances each decreased by \$13 million and \$20 million, respectively. In the case of the General Fund, the actual use of fund balance equaled the amount planned: \$9 million in the original 2009 adopted budget plus the annual encumbrance roll forward of \$4 million. This roll forward, which was completed at the end of the fiscal 2008, increases the appropriated fund balance in the subsequent year's operating budget for the amount of the roll forward. For the County Capital Project Fund, transfers into the fund from the General Fund were only \$25 million, compared with \$42.8 million in the prior fiscal year. The County funds its debt service and its capital needs with a dedicated 15.76 cents of the 53.4 cents property tax rate. Of the total amount available for capital and debt service funding, the amount needed to maintain the County's target debt service balance at 19% is funded first with the remaining funds transferred to the capital fund for pay-as-you-go capital funding. As a result, the amount of transfers into the County's Capital Projects Fund can fluctuate from year to year as the Debt Service Fund's needs change. In addition, in accordance with its financial model, the County transferred increased amounts to both the School Capital and the Wake Community College Capital Funds in fiscal 2009, further reducing the amount available for County Capital Projects.

The largest portion of the governmental fund balance increase resulted from a net increase in fund balance of \$93.7 million in the School Capital Fund. The increase in the School Capital Fund resulted primarily from school bond proceeds that were still on hand at the end of the fiscal year of \$83 million. Similarly, the Wake Community College Capital Projects Fund, a nonmajor capital fund, also reported an increase in ending fund balance of \$40.3 million as a result of bonds issued during fiscal 2009 of \$57.2 million. Finally, the Debt Service Fund balance increased by \$50.7 million as a result of \$54.4 million in premiums earned on the bond issuances throughout the fiscal year. At June 30, 2009, \$32.6 million of these premiums were still on hand as restricted cash in the fund. These changes were all in accordance with the County's capital improvement plan, which provides for capital needs for the county, the school system and the community college system by dedicating revenue sources to provide a stable financial model by which the County can meet its capital and debt service needs.

**Governmental Funds.** The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the County's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the County. At the end of the 2009 fiscal year, the total fund balance of the General Fund was \$156 million, compared with \$169 million at the end of the prior year. At June 30, 2009, the General Fund's fund balance of \$156 million includes \$55.5 that has been reserved by State statute, \$2.5 that has been reserved for encumbrances, \$.9 million that is reserved for register of deeds automation, \$2 million that has been designated for fleet for subsequent fiscal years and \$94.5 million that has been designated for working capital. As a result, there is no undesignated fund balance in the County's General Fund.

### **General Fund Budgetary Highlights:**

During the fiscal year ended June 30, 2009, the County revised its General Fund budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Amendments to the General Fund in fiscal year 2009 were an exception in that the County decreased budgeted revenues and expenditures by \$15.2 million or 1.6% in response to projected revenue shortfalls. The County took several measures throughout the 2009 fiscal year to monitor and reduce its expenditures, requiring all departments to propose reductions in their 2009 budgets due to significant shortfalls.

Actual revenues in the General Fund were less than the amounts projected in the final budget by \$16 million for fiscal year 2009. The revenue shortfall occurred primarily in sales taxes, real property transfer taxes, and intergovernmental revenues. Total taxes were lower than budgeted by more than \$12 million. The largest portion of this reduction, \$10 million, was attributable to sales tax collections. Approximately half of the sales tax reduction was attributed to the economic downturn and its impact on consumer sales; the remaining half was attributable to the County's reduced sales tax allocation from the State to cover the County's portion of the Medicaid swap. While the County experienced a reduction in sales tax revenue, there was an offsetting reduction in Medicaid expenditures within the Human Services Department. During February 2009, the County reduced operating budgets because of the economic downturn. At that time, The County was understandably uncertain how much sales tax revenues would decrease. In hindsight, our forecast of the state of the local economy proved to be too optimistic and ending sales taxes were less than the revised budgeted amount. There was also a revenue shortfall in real property transfer taxes in the General Fund of almost \$2 million. This shortfall also resulted from the recession and its impact on housing sales. The decline in the volume of home sales and the prices of those sales that do occur directly impact this revenue source. The intergovernmental revenue shortfall was primarily due to the State's budget reductions. Because of the downturn, some State funding streams, primarily in Human Services, did not meet their budget targets for fiscal year 2009.

Actual expenditures and transfers out in the General Fund were \$16 million less than budgeted amounts largely resulting from lower than projected spending in Human Services and in General Administration. Several areas of Human Services were under spent, with the largest favorable variances being in the Clinical Services and Economic Self-Sufficiency areas. The Clinical Services area of Human Services under spent its budget by \$1 million because of improved centralized methods of drug inventory management that achieved significant savings for the County. There was also a \$4.4 million favorable expenditure variance within the Economic Self-Sufficiency area of Human Services as a result of the County using the State's estimate for the Medicaid match. Finally, General Administration within the General Fund was under spent by \$3.6 million. Almost \$2 million of this was due to the Finance Department's favorable variance for the estimates of future years' claims associated with workers compensations. Late in fiscal year 2008, the County brought a large amount of routine claims litigation work in house. As a result of this decision, the County's ultimate loss estimates and its future years' claims estimates for workers compensation declined by significant amounts at June 30, 2009.

**Proprietary Funds.** The County's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets in the proprietary fund statement of net assets for the Solid Waste Operating Fund at the end of the fiscal year amounted to \$27.1 million, a decrease of .3 million from the \$27.4 million reported at the end of fiscal year 2008. In addition, the South Wake Landfill Fund, which opened in fiscal year 2008, is still in a start up phase. The County anticipates that the deficit will be cured over time as the landfill becomes more established.

### Capital Asset and Debt Administration

#### Wake County Capital Assets (net of Amortization and Depreciation)

|                                   | Governmental Activities |                       | Business-type Activities |                      | Total                 |                       |
|-----------------------------------|-------------------------|-----------------------|--------------------------|----------------------|-----------------------|-----------------------|
|                                   | 2009                    | 2008                  | 2009                     | 2008                 | 2009                  | 2008                  |
| Land                              | \$ 60,761,317           | \$ 40,931,187         | \$ 1,875,253             | \$ 1,875,253         | \$ 62,636,570         | \$ 42,806,440         |
| Landfills                         | -                       | -                     | 6,559,138                | 5,964,190            | 6,559,138             | 5,964,190             |
| Buildings                         | 240,414,105             | 195,703,862           | 855,304                  | 884,468              | 241,269,409           | 196,588,330           |
| Machinery and equipment           | 4,147,942               | 4,203,619             | 6,507                    | -                    | 4,154,449             | 4,203,619             |
| Vehicles and motorized equipment  | 13,785,545              | 10,995,433            | -                        | -                    | 13,785,545            | 10,995,433            |
| Improvements other than buildings | 17,337,112              | 12,288,308            | 397,973                  | 411,555              | 17,735,085            | 12,699,863            |
| Infrastructure                    | 7,086,208               | 7,308,570             | -                        | -                    | 7,086,208             | 7,308,570             |
| Construction in progress          | 172,242,140             | 214,082,693           | 2,980,471                | 3,864,545            | 175,222,611           | 217,947,238           |
|                                   |                         |                       |                          |                      |                       |                       |
|                                   | <u>\$ 515,774,369</u>   | <u>\$ 485,513,672</u> | <u>\$ 12,674,646</u>     | <u>\$ 13,000,011</u> | <u>\$ 528,449,015</u> | <u>\$ 498,513,683</u> |

**Capital assets.** The County’s investment in capital assets for its governmental and business-type activities as of June 30, 2009, totals \$528.4 million (net of accumulated depreciation). These assets include buildings, vehicles, equipment, infrastructure, as well as land and landfills.

Major capital asset transactions during 2009 fiscal year included the continuation of land acquisition for the county's Open Space Preservation Program, continued improvements to county buildings and judicial facilities, and continuation of automation improvements for various county computerized systems.

Additional information on the County’s capital assets can be found in Note 6. of the Basic Financial Statements.

**Long-term Debt.** As of June 30, 2009, the County had total general obligation bonded debt outstanding of \$1.867 billion, \$1.679 billion of which was issued to help meet the capital outlay needs for the School System. In addition to capital leases, the County also has outstanding qualified zone academy bonds, and installment purchases. A summary of total outstanding debt associated with governmental activities is shown below.

**Wake County's Outstanding Debt - Governmental Activities**

|  | 2009                    | 2008                    |
|--|-------------------------|-------------------------|
| General Obligation bonds (schools)       | \$ 1,678,637,074        | \$ 1,313,544,450        |
| General Obligation bonds (other)         | 188,832,222             | 121,050,550             |
| Capital leases                           | 328,068                 | 419,418                 |
| Qualified zoning academy bonds (schools) | 1,307,694               | 1,471,155               |
| Installment purchases                    | 9,356,965               | 8,472,500               |
| <b>Total</b>                             | <b>\$ 1,878,462,023</b> | <b>\$ 1,444,958,073</b> |

Wake County’s total general obligation debt increased by \$337.7 million or 23.5% during the fiscal year ended June 30, 2009. This planned increase occurred because the County issued additional general obligation bonds during the 2009 fiscal year in excess of debt service principal payments during the year.

Additional information regarding the County’s long-term debt can be found in Note 10. of the Basic Financial statements.

## **Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate in the County was 8.80% (percent) at June 30, 2009, compared with 4.8% at the end of the previous fiscal year.
- The County has an eight year revaluation cycle for residential property. In the most recent revaluation at January 1, 2008 that was effective for fiscal year 2009, the total assessed value of property in the County continued to increase. From fiscal year 2008 through fiscal year 2009, the total assessed value increased from \$83.1 billion to \$116.6 billion, an increase of 40.3%.
- As a result of the recession, sales tax collections decreased to \$127.2 million for the fiscal year ended June 30, 2009 from \$156 million in the prior fiscal year, a 7.2% decrease. Approximately half of this reduction was attributed to the economic downturn and its impact on consumer sales; the remaining half was attributable to the County's reduced sales tax allocation from the State to cover the County's portion of the Medicaid swap. While the County experienced a reduction in sales tax revenue, there was an offsetting reduction in Medicaid expenditures within the Human Services Department. Changes in occupancy and prepared food and beverage taxes were almost flat during the 2009 fiscal year with a decrease of \$.5 million from the prior fiscal year.
- Wake County continues to grow but at a slower rate than in the recent past, adding an estimated 36,000 to its population over the past year and more than 3,700 new children to its public school system.
- The average yield on investments was 1.70% for fiscal year 2009, compared to 4.40% for fiscal year 2008. Investment earnings decreased in fiscal year 2009 due to the economic recession and a steep decline in interest rates, despite the County's higher average portfolio balance. As in prior years, the County has continued to utilize detailed cash flow planning which has allowed us to keep cash invested until it was needed for expenditure, maximizing the maturity on our investments and our earnings on our portfolio. The County realized investment earnings on all funds of \$10.7 million for the fiscal year ended June 30, 2009, on an average portfolio balance of more than \$633 million. This compares to 2008 earnings of \$33.6 million on an average portfolio balance of \$764 million.
- While the yield on investments fell significantly during fiscal year 2009, the County generally experienced a historically low interest rate on the variable rate portion of its debt portfolio. Lower costs in this portion of the County's portfolio helped offset lower investment earnings as the County's unrestricted interest earnings are budgeted and posted in the Debt Service Fund.

Some of these factors and others were considered when management prepared Wake County's budget ordinance for the 2010 fiscal year.

## **Budget Highlights for the Fiscal Year Ending June 30, 2010**

**Governmental Activities:** The County approved an original budget of \$953.6 million for the General Fund budget for fiscal year 2010, which represents a \$30.8 million or 3.00% decrease over the original budget adopted for the fiscal year 2009 of \$984.4 million. The recommended budget for fiscal year 2010 maintained the current tax rate of 53.4 cents and eliminated almost 100 positions, the majority of which were vacant. The 2010 budget did not include any appropriation of fund balance.

In the General Fund, original budgeted expenditures for Human Services decreased by 5% or \$12 million from the prior fiscal year. Various other County operating departments proposed expenditure reductions ranging from a high percentage of 22% to low of 3%. The operating public schools appropriation decreased \$3 million (1%) from the final budget adopted for fiscal year 2009 with no significant change in school capital amounts.

**Business – type Activities:** For the 2010 fiscal year, the County’s budgeted amounts were broken out into two funds, the Solid Waste Management Fund and the South Wake Landfill Partnership Fund. The total amount budgeted for business-type activities for fiscal year 2010 decreased from \$28.9 million in fiscal year 2009 to \$28.1 million in fiscal year 2010.

## **Requests for Information**

This report is designed to provide a general overview of the County’s finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Interim Director of Finance, Wake County, North Carolina, 336 Fayetteville Street, Raleigh, NC 27602. Additional information concerning Wake County can also be obtained by referring to the County’s website at <http://www.wakegov.com>. Copies of financial statements and additional information concerning the Wake County Board of Alcoholic Control, a discretely presented component unit of the County, may be obtained at 225 Hillsborough St., Raleigh, NC 27602.