

# **WAKE COUNTY, NORTH CAROLINA MANAGEMENT'S DISCUSSION AND ANALYSIS**

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, 2007. 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 eighth 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 2007.
- The County issued \$455 million of fixed rate general obligation bonds in February 2007 and \$100 million in variable rate general obligation school bonds. The fixed rate bonds were comprised of \$400 million school bonds, \$26 million of Open space bonds, \$16 million of library bonds, and \$13 million of Wake Technical Community College bonds. The bonds were sold at a net interest cost of 4.0333%.
- On the government-wide statements, the liabilities of the County exceeded its assets at the close of the fiscal year by \$316 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 \$1.4 billion dollars.
- As of the close of the 2007 fiscal year, the County’s governmental funds reported combined ending fund balances of \$772 million, up \$372 million from \$400 million for the prior fiscal year. During the fiscal year ended June 30, 2007, the County issued \$555 million in long-term bonds to refinance some existing short-term notes and finance additional capital expenditures for the school system and county capital programs. A total amount of \$281 million of those bond proceeds were still on hand at June 30, 2007. Expenditures in

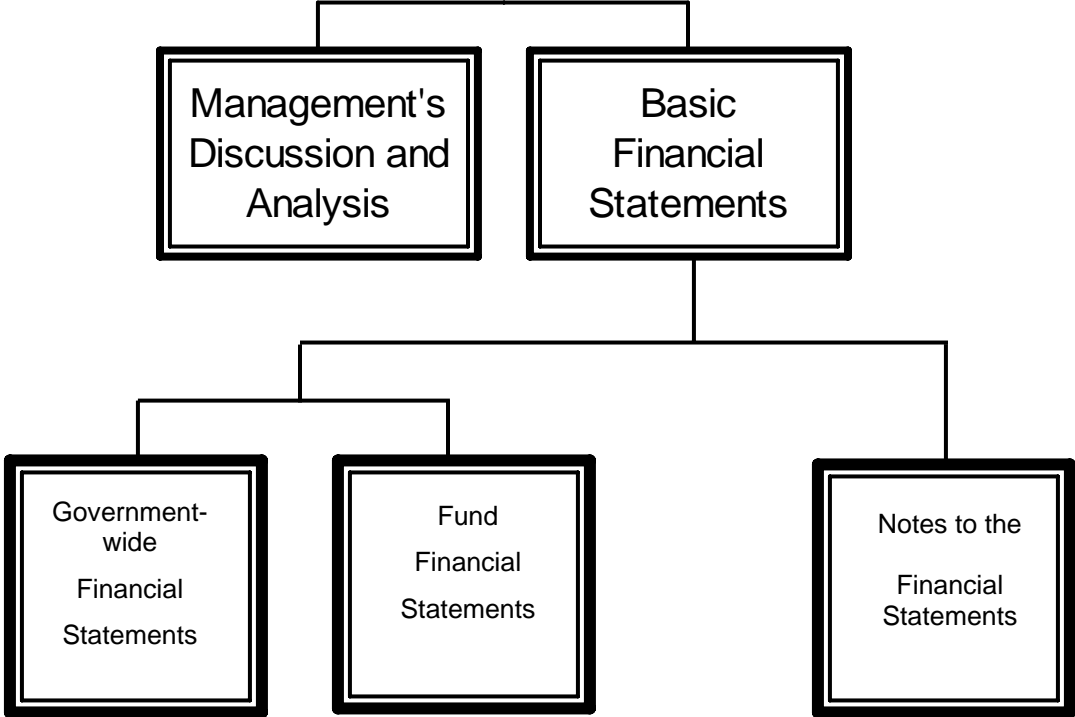
the School Capital Fund, which are not capital expenditures for the County, of \$225 million, offset by \$555 million in general obligation bond proceeds, account for the majority of the fund balance increase.

- During fiscal year 2007 the governmental funds balance increased \$372 million. The various components of this increase included a \$180.5 million increase in the amount reserved for encumbrances, a \$141.6 million increase in the amount Designated for Subsequent Year's Expenditures – capital project funds, a \$40.6 million increase in the amount designated for subsequent year's expenditures for debt service, and a \$9 million increase in the amount designated for subsequent year's working capital. These changes were anticipated in accordance with the County's operating and seven-year capital financial models to build schools as well as County projects such as libraries, public safety, and parks.
- At the end of the 2007 fiscal year, the unreserved fund balance for the County's General Fund was \$171.5 million or 20.5% (percent) of total General Fund expenditures and transfers out for the fiscal year, an increase from \$11.95% of total General Fund expenditures and transfers out at the end of the prior fiscal year. Of this \$171.5 million, \$12.4 million has been designated for subsequent year expenditures in the budget for the fiscal year ending June 30, 2008 and \$89.7 million has been designated for working capital, resulting in no undesignated fund balance.

## **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 Board members and also 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** – The County has only 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 an enterprise fund to account for its solid waste landfill operations. This fund is the same as the function shown in the business-type activities 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. The County uses an internal service fund to account for its risk management activity. Because this operation benefits predominately governmental rather than business-type activities, the internal service fund has been included within the governmental activities in the government-wide financial statements.

**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, and fines and forfeitures that are collected from citizen’s and disbursed to the School System under North Carolina law, and for the three percent interest on the first month of delinquent motor vehicle taxes that the County is required to remit to the North Carolina Department of Motor Vehicles.

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 \$316.1 million as of June 30, 2007. Net assets are reported in three categories: invested in capital assets, net of related debt of \$320.5 million, restricted for future capital needs of \$4.8 million, and unrestricted net deficit of (\$641.4) 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 is 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 increased to \$320.5 million from \$300.9 in the prior fiscal year. The largest portion of the increase relates to the County's governmental activities. For the fiscal year ended the amount invested in capital assets, net of related debt for governmental activities increased by \$19 million to \$310 million.

The other 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, 2007, the unrestricted deficit of \$(641.4) 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	\$(1,426,948,583)
All other unrestricted	<u>785,528,956</u>
Total unrestricted (Deficit)	<u>\$( 641,419,627)</u>

The amount reported in the total unrestricted category increased from \$(528) as of June 30, 2006 to \$(641) as of June 30, 2007. This increase was the result of an increase in the County's school system debt outstanding from \$1.005 billion as of June 30, 2006 to \$1.427 billion as of June 30, 2007. The All Other Unrestricted amount increased from \$477 million in the prior fiscal year to \$785 million in the current fiscal year. That increase primarily resulted from General Obligation School bond proceeds on hand at the end of the year of \$229 million. 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, the debt is reported as a portion of unrestricted net assets.

**Wake County's Net Assets:**

	<b>June 30, 2007 Governmental Activities</b>	<b>June 30, 2006 Governmental Activities</b>	<b>June 30, 2007 Business-type Activities</b>	<b>June 30, 2006 Business-type Activities</b>	<b>June 30, 2007 Total</b>	<b>June 30, 2006 Total</b>
Current and other assets	\$ 887,544,201	\$ 581,798,649	\$ 45,199,976	\$ 38,479,164	\$ 932,744,177	\$ 620,277,813
Capital assets	446,957,164	400,629,443	10,740,531	10,193,631	457,697,695	410,823,074
<b>Total assets</b>	<b>1,334,501,365</b>	<b>982,428,092</b>	<b>55,940,507</b>	<b>48,672,795</b>	<b>1,390,441,872</b>	<b>1,031,100,887</b>
Long-term liabilities/schools	1,426,948,583	1,005,433,252	-	-	1,426,948,583	1,005,433,252
Long-term liabilities/other	148,121,451	120,109,040	15,804,147	14,136,707	163,925,598	134,245,747
Other liabilities	112,488,771	116,371,278	3,184,486	2,267,449	115,673,257	118,638,727
<b>Total liabilities</b>	<b>1,687,558,805</b>	<b>1,241,913,570</b>	<b>18,988,633</b>	<b>16,404,156</b>	<b>1,706,547,438</b>	<b>1,258,317,726</b>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	309,808,523	290,775,463	10,740,531	10,193,631	320,549,054	300,969,094
Restricted/Bonds	4,765,007	-	-	-	4,765,007	-
Unrestricted	(667,630,970)	(550,260,941)	26,211,343	22,075,008	(641,419,627)	(528,185,933)
<b>Total net assets</b>	<b>\$ (353,057,440)</b>	<b>\$ (259,485,478)</b>	<b>\$ 36,951,874</b>	<b>\$ 32,268,639</b>	<b>\$ (316,105,566)</b>	<b>\$ (227,216,839)</b>

The impact of the inclusion of the school system debt, without the corresponding assets, continues to be offset by the following positive operational initiatives and results:

- Continued diligence in the collection of property taxes by maintaining a collection percentage of 98.79%.

- 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 \$1.552 billion at June 30, 2007.

## Wake County's Changes in Net Assets:

	For the Year Ended		For the Year Ended		For the Year Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	Governmental Activities	Governmental Activities	Business-Type Activities	Business-Type Activities	Total	Total
Revenues:						
Program revenues:						
Charges for services	\$ 69,863,683	\$ 94,610,770	\$ 20,624,752	\$ 20,528,263	\$ 90,488,435	\$ 115,139,033
Operating grants and contributions	126,739,477	130,992,525	1,102,733	1,038,558	127,842,210	132,031,083
General revenues:						
Property taxes	514,897,471	468,502,179	-	-	514,897,471	468,502,179
Sales taxes	149,755,646	136,593,464	-	-	149,755,646	136,593,464
Grants and contributions not restricted to specific programs	5,433,654	5,704,166	-	-	-	-
Other general revenues	82,585,327	67,653,560	2,749,030	1,589,026	5,433,654	5,704,166
<b>Total revenues</b>	<b>949,275,258</b>	<b>904,056,664</b>	<b>24,476,515</b>	<b>23,155,847</b>	<b>85,334,357</b>	<b>69,242,586</b>
Expenses:						
General administration	60,741,669	68,198,823	-	-	60,741,669	68,198,823
Human services	237,600,544	250,108,791	-	-	237,600,544	250,108,791
Education	523,605,091	496,720,211	-	-	523,605,091	496,720,211
Community development and cultural	48,468,336	55,385,595	-	-	48,468,336	55,385,595
Environmental services	11,976,377	8,145,774	-	-	11,976,377	8,145,774
Public safety	104,453,165	99,183,648	-	-	104,453,165	99,183,648
Interest on long-term debt	56,300,238	49,736,040	-	-	56,300,238	49,736,040
Solid waste	-	-	19,495,080	19,178,292	19,495,080	19,178,292
<b>Total expenses</b>	<b>1,043,145,420</b>	<b>1,027,478,882</b>	<b>19,495,080</b>	<b>19,178,292</b>	<b>1,062,640,500</b>	<b>1,046,657,174</b>
Increase (decrease) in net assets before transfers	(93,870,162)	(123,422,218)	4,981,435	3,977,555	(88,888,727)	(119,444,663)
Transfers	298,200	275,000	(298,200)	(275,000)	-	-
Change in net assets	(93,571,962)	(123,147,218)	4,683,235	3,702,555	(88,888,727)	(119,444,663)
Net assets, beginning of year	(259,485,478)	(136,338,260)	32,268,639	28,566,084	(227,216,839)	(107,772,176)
Net assets, end of the year	\$ (353,057,440)	\$ (259,485,478)	\$ 36,951,874	\$ 32,268,639	\$ (316,105,566)	\$ (227,216,839)

**Governmental activities.** Governmental activities decreased the County's beginning net assets by \$93.6 million or 105.27% of the total decrease in the net assets of the County. As in prior fiscal years, the \$93.6 million 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, 2007, these school capital expenditures out of the School Capital Fund that the County could not capitalize totaled \$225 million.

**Business-type activities.** Business-type activities increased the County's beginning net assets by \$4.7 million, this increase of \$1 million from the \$3.7 million increase reported in the prior year was primarily the result of an additional \$1 million interest earnings associated with the Solid Waste Fund balance and rising interest earnings on the County's investment portfolio.

### **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 seven major funds, as defined by GAAP for the fiscal year ended June 30, 2007, were the General Fund, the Affordable Housing Fund, the Major Facilities Fund, the Debt Service Fund, the Capital Improvements Fund, the School Capital Fund, and the Solid Waste Fund, which is an enterprise fund.

At June 30, 2007, the governmental funds of Wake County reported a combined fund balance of \$772 million, an increase of \$372 million, from the prior fiscal year. The largest portion of this increase resulted from a net increase in fund balance of \$294 million in the School Capital Fund. This increase in the School Capital Fund resulted primarily from the bond proceeds issued of \$500 million, offset by expenditures of \$225 million. As is true historically, the Debt Service Fund balance continued to increase, with fund balance increasing by \$36 million in total. This increase resulted primarily from bond premiums received at the time of issuance of \$26 million. The Debt Service Fund balance will be used to fund future debt service payments. The Capital Improvements Fund increased by \$24 million, again due in large part to bond proceeds of \$42 million. These increases were all in accordance with the County's seven-year financial 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 needs.

As part of its strategic planning, the County has identified unreserved fund balances in the General Fund and the Debt Service Fund that are available to use as needed for unforeseen circumstances and emergencies. Although these fund balances are used to finance our seven-year capital improvement program, we do have some flexibility with these funds. Therefore, we would have funds available to meet short-term cash needs in the case of an emergency. The County has the ability to use the Debt Service Fund balance or the County Capital Fund balance and alter the long-term plan for any funds used, as needed.

**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 2007 fiscal year, the total fund balance of the General Fund was \$171.5 million, compared with \$163 million at the end of the prior year. Of that \$171.5 million, \$102.2 million was unreserved fund balance. None of the \$102.2 million was undesignated, a decrease from \$3.4 million undesignated in the prior fiscal year.

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

During the fiscal year ended June 30, 2007, 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. Total amendments to the General Fund increased budgeted revenues and expenditures by \$15.4 million or 1.8%. Approximately \$9 million of this increase resulted from Wake County Human Services taking advantage of additional revenues from outside sources, including charges for services and intergovernmental revenues. Remaining budget amendments generally covered various grant awards received throughout the year.

Actual revenues and transfers in the General Fund were less than the amounts projected in the final budget by \$3.3 million at the end of fiscal year 2007. The negative variance is due mainly to higher than expected tax revenues, including sales taxes and property taxes, which were \$7.8 and \$5.5 million, respectively, over the budgeted projection. These increases were more than offset by negative variances of \$7 million in State revenues and \$10.7 million in Mental Health Charges for Services that are offset by equivalent reductions in expenditures.

Actual expenditures and transfers out were \$30 million less than budget, due in large part to below projected spending in Human Services, General Services, and Public Safety. Underspending of approximately \$18 million in Human Services was due to a change in Medicaid regulations, while the General Services Department was under budget by \$4.5 million largely as a result of a lower number of replacement fleet being replaced than anticipated. Public Safety was under budget due to vacancy savings in Emergency Management and unspent grant amounts.

**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 Landfill Fund at the end of the fiscal year amounted to \$26 million, an increase of \$4 million over the \$22 million reported at the end of fiscal year 2006. This increased amount is attributable to an increase in investment earnings from the prior fiscal year.

## Capital Asset and Debt Administration

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

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 24,924,836	\$ 25,171,436	\$ 1,875,253	\$ 1,875,253	\$ 26,800,089	\$ 27,046,689
Landfills	-	-	6,324,482	7,054,343	6,324,482	7,054,343
Buildings	164,361,874	169,847,689	993,453	1,009,209	165,355,327	170,856,898
Machinery and equipment	3,338,294	3,274,881	1,575	4,273	3,339,869	3,279,154
Vehicles and motorized equipment	8,711,031	10,395,908	-	-	8,711,031	10,395,908
Improvements other than Buildings	6,295,482	5,978,837	219,029	232,628	6,514,511	6,211,465
Infrastructure	7,531,535	7,753,659	-	-	7,531,535	7,753,659
Construction in progress	231,794,112	178,207,033	1,326,739	17,925	233,120,851	178,224,958
<b>Total</b>	<b>\$ 446,957,164</b>	<b>\$ 400,629,443</b>	<b>\$ 10,740,531</b>	<b>\$ 10,193,631</b>	<b>\$ 457,697,695</b>	<b>\$ 410,823,074</b>

**Capital assets.** The County's investment in capital assets for its governmental and business-type activities as of June 30, 2007, totals \$458 million (net of accumulated depreciation). These assets include buildings, vehicles, equipment, as well as land and landfills.

Major capital asset transactions during 2007 fiscal year included the continued land acquisitions for Open Space Preservation Program, a continuation of a new system automation project for Finance/HR processes, a new regional center located in the northern area of the County that is slated to open during fiscal year 2008, a new downtown parking deck, along with renovations to other libraries and continued improvements to judicial facilities.

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, 2007, the County had total general obligation bonded debt outstanding of \$1.554 billion, \$1.425 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 clean water loans, qualified zone academy bonds, and installment purchases. A summary of total outstanding debt is shown below.

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

	2007	2006
General Obligation bonds (schools)	\$ 1,425,313,967	\$ 965,043,843
General Obligation bonds (other)	128,798,579	81,460,731
Capital leases	571,090	733,181
Clean water revolving loans	-	237,923
Qualified zoning academy bonds (schools)	1,634,616	1,798,077
Commercial paper notes payable (schools)	-	38,591,332
Commercial paper notes payable (other)	-	19,658,668
Installment purchases	7,778,972	7,763,477
 Total	 \$ 1,564,097,224	 \$ 1,115,287,232

Wake County's total general obligation debt increased by \$507.6 million or 48.9% during the fiscal year ended June 30, 2007. This planned increase occurred because the County only issued \$555 million in new general obligation bonds during the 2007 fiscal year, which were offset with a decrease in outstanding debt of \$70.6 million that was retired.

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 3.9% (percent) at June 30, 2007, compared with the seasonally adjusted regional State rates of 4.9% (percent).
- The total assessed value of property in the County continues to increase. From fiscal year 2006 through fiscal year 2007 the total assessed value increased from \$75.1 billion to \$78.8 billion, an increase of 4.9%.
- Sales tax collections increased to \$150 million for the fiscal year ended June 30, 2007 from \$137 million in the prior fiscal year, a 9.65% increase. Also, occupancy and prepared food and beverage taxes increased to \$29.4 million from a total of \$26.5 million in the prior fiscal year, a 10.9% increase.
- Wake County continues to grow, adding an estimated 34,000 persons to its population over the past year and more than 7,500 new children to its public school system.
- The average yield on investments was 4.79% for fiscal year 2007, compared to 3.67% for fiscal year 2006. Investment earnings increased significantly by 51% in fiscal year 2007 from the prior year as interest rates in the market place continued to rise and older lower earning investments matured out of the County's portfolio. 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 \$35 million for the fiscal year ended June 30, 2007, on an average portfolio balance of more than \$530.2 million. This compares to 2006 earnings of \$18.6 million on an average portfolio balance of \$507.5 million.

Some of these factors and others were considered when management prepared Wake County's budget ordinance for the 2008 fiscal year.

## **Budget Highlights for the Fiscal Year Ending June 30, 2008**

**Governmental Activities:** The County approved an original budget of \$920 million for the General Fund budget for fiscal year 2007, which represents a \$68 million or 7.98% increase over the original budget adopted for the fiscal year 2006 of \$852 million. This increase was primarily attributable to a steady growth in property tax valuation, which is expected to increase by 4.2 % in fiscal year 2008. Also in fiscal year 2008, a .044-cent property tax rate increase was approved that brought the tax rate to a total of \$.678 per \$100 assessed value.

Budgeted expenditures for operating public schools increased \$30 million (10.87%) from the original budget adopted for fiscal year 2007 as a result of continued growth in student enrollment and the construction and operations associated with new schools to accommodate student growth.

Other General Fund increases resulted from increased budgeting of \$5 million for additional operating funds for Wake Technical Community College and an additional \$16 million was required for increases in debt service payments. Other departmental increases were offset by decreases of \$1.26 million in Public Safety to reflect the expiration of Homeland Security grants and a reduction of \$15.6 million in Human Services due to a change in how Medicaid payments to non-County providers are processed.

**Business – type Activities:** For the 2008 fiscal year, the County has not budgeted any increases in charges for services or household fees related to the solid waste function. The original operating budget of \$25.5 million for fiscal year 2008 represents an increase of \$2.7 million or 11.8 (percent) over the prior fiscal year.

### **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 Director of Finance, Wake County, North Carolina, 336 Fayetteville Street Mall, 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 financials 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.