

# **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, 2006. 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**

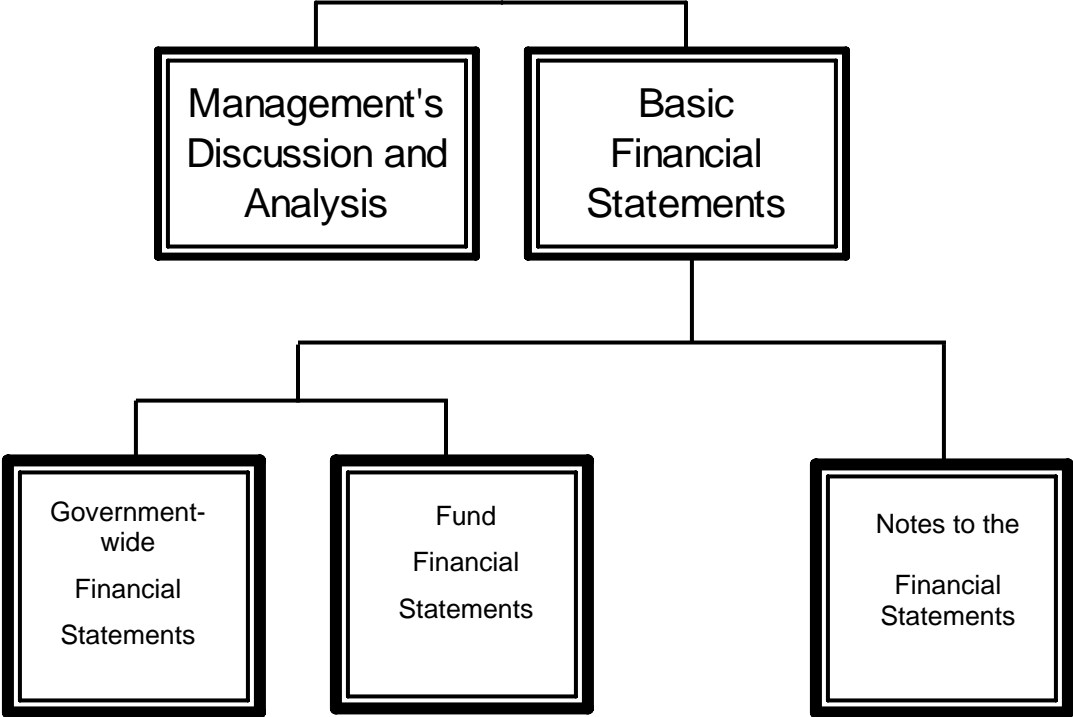
- The County has maintained an “Aaa” bond rating from Moody’s Investors Service since 1973, an “AAA” rating from Standard & Poor’s Corporation since 1983, and an “AAA” rating from Fitch for the seventh year in a row. This bond rating is a clear indication of the sound financial condition of The County. 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 October 2005.
- The County issued \$41 million of general obligation school bonds in October 2005. The bonds were sold at a net interest cost of 4.23%.
- Also during the fiscal year ended June 30, 2005, the County began a general obligation commercial paper program in an amount up to \$309 million. Of the \$309 million program, \$225 million is for public school capital, \$40 million is for Wake Technical Community College, \$26 million is for open space, and \$18 million is for libraries. The County issues commercial paper as expenditures for these purposes are incurred. During the fiscal year, the County issued a total of \$58.25 million of commercial paper under this program with interest rates between 3.19 and 3.7%.
- On the government-wide statements, the liabilities of the County exceeded its assets at the close of the fiscal year by \$227 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 billion dollars, of which \$38 million is short-term commercial paper notes that will be retired with general obligation debt that will be issued during the fiscal year ending June 30, 2007.

- As of the close of the 2006 fiscal year, the County's governmental funds reported combined ending fund balances of \$400 million, down from \$604 million for the prior fiscal year. In the fiscal year ended June 30, 2006, the County began issuing short-term commercial paper notes to finance the school system capital program. As a result, there are not any outstanding bond proceeds in the 2006 fund balance; outstanding bond proceeds totaled \$136 million at the end of fiscal year 2005. Additional expenditures in the school capital program which are not capital expenditures for the County of \$86.6 million account for the balance of the decrease in governmental fund balance. Increases in other governmental funds activity were largely offset by a \$63 million increase in governmental funds revenue.
- During fiscal year 2006 the governmental funds balance decreased \$204 million. The various components of this decrease included a \$130 million decrease in the amount reserved for encumbrances, a \$14 million increase in the amount Reserved by State Statute, a \$77 million decrease in the amount designated for subsequent year's expenditures, and a \$12 million decrease in the total undesignated amount of fund balance. 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 2006 fiscal year, the unreserved fund balance for the County's General Fund was \$97.1 million or 11.95% (percent) of total General Fund expenditures and transfers out for the fiscal year, a decrease from \$102.6 million and 13.60% of total General Fund expenditures and transfers out at the end of the prior fiscal year. Of this \$97.1 million, \$13 million has been designated for subsequent year expenditures in the budget for the fiscal year ending June 30, 2007 and \$80.7 million has been designated for working capital, resulting in \$3.4 million being reported as unreserved and undesignated.

## **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 legally separate from the County, Wake County ABC Board is important to the County because 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** – 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 three 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.

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 \$227 million as of June 30, 2006. Net assets are reported in two categories: invested in capital assets, net of related debt of \$301 million and unrestricted net deficit of (\$528).

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 \$301 million from \$284 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 \$19.6 million to \$290.8 million. One of the primary reasons for this increase is the increase in general obligation debt-other outstanding from \$96.5 million as of June 30, 2005 to \$109.9 million as of June 30, 2006 and a corresponding increase in capital assets for governmental activities of \$50.5 million during fiscal 2006.

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, 2006, the unrestricted deficit of \$(528) 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	\$(1,005,433,252)
All other unrestricted	<u>1,533,619,185</u>
Total unrestricted (Deficit)	<u>\$( 528,185,933)</u>

The amount reported in the total unrestricted category increased from \$(510) as of June 30, 2005 to \$(528) as of June 30, 2006. This increase was primarily the result of an increase in the County's school system debt outstanding from \$991 million as of June 30, 2005 to \$1.005 billion as of June 30, 2006. This 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.

## Wake County's Net Assets

	<b>June 30, 2006 Governmental Activities</b>	<b>June 30, 2005 Governmental Activities</b>	<b>June 30, 2006 Business-type Activities</b>	<b>June 30, 2005 Business-type Activities</b>	<b>June 30, 2006 Total</b>	<b>June 30, 2005 Total</b>
Current and other assets	\$ 581,798,649	\$ 710,072,045	\$ 38,479,164	\$ 32,662,433	\$ 620,277,813	\$ 742,734,478
Capital assets	400,629,443	350,156,570	10,193,631	12,531,246	410,823,074	362,687,816
<b>Total assets</b>	<b>982,428,092</b>	<b>1,060,228,615</b>	<b>48,672,795</b>	<b>45,193,679</b>	<b>1,031,100,887</b>	<b>1,105,422,294</b>
Long-term liabilities/schools	1,005,433,252	991,084,852	-	-	1,005,433,252	991,084,852
Long-term liabilities/other	120,109,040	105,683,383	14,136,707	13,314,647	134,245,747	118,998,030
Other liabilities	116,371,278	99,798,640	2,267,449	3,312,948	118,638,727	103,111,588
<b>Total liabilities</b>	<b>1,241,913,570</b>	<b>1,196,566,875</b>	<b>16,404,156</b>	<b>16,627,595</b>	<b>1,258,317,726</b>	<b>1,213,194,470</b>
Net assets:						
Invested in capital assets, net of related debt	290,775,463	271,213,100	10,193,631	12,531,246	300,969,094	283,744,346
Restricted/Bonds	-	118,153,362	-	-	-	118,153,362
Unrestricted	(550,260,941)	(525,704,722)	22,075,008	16,034,838	(528,185,933)	(509,669,884)
<b>Total net assets</b>	<b>\$ (259,485,478)</b>	<b>\$ (136,338,260)</b>	<b>\$ 32,268,639</b>	<b>\$ 28,566,084</b>	<b>\$ (227,216,839)</b>	<b>\$ (107,772,176)</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 98.8%.
- 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 on the County's general obligation debt outstanding of \$1,046.5 million at June 30, 2006.

## Wake County's Changes in Net Assets

	For the Year Ended		For the Year Ended		For the Year Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	Total	Total
Revenues:						
Program revenues:						
Charges for services	\$ 94,610,770	\$ 89,755,068	\$ 20,528,263	\$ 19,390,570	\$ 115,139,033	\$ 109,145,638
Operating grants and contributions	130,992,525	115,401,175	1,038,558	969,896	132,031,083	116,371,071
General revenues:						
Property taxes	468,502,179	446,187,553	-	-	468,502,179	446,187,553
Sales and use taxes	136,593,464	124,603,942	-	-	136,593,464	124,603,942
Grants and contributions not restricted to specific programs	5,704,166	4,038,667	-	-	5,704,166	4,038,667
Other general revenues	67,653,560	55,235,080	1,589,026	1,038,874	69,242,586	56,273,954
Total revenues	904,056,664	835,221,485	23,155,847	21,399,340	927,212,511	856,620,825
Expenses:						
General administration	68,198,823	53,512,005	-	-	68,198,823	53,512,005
Human services	250,108,791	242,823,255	-	-	250,108,791	242,823,255
Education	496,720,211	389,668,265	-	-	496,720,211	389,668,265
Community development and cultural	55,385,595	45,969,169	-	-	55,385,595	45,969,169
Environmental services	8,145,774	8,233,369	-	-	8,145,774	8,233,369
Public safety	99,183,648	85,983,497	-	-	99,183,648	85,983,497
Interest on long-term debt	49,736,040	44,964,694	-	-	49,736,040	44,964,694
Solid waste	-	-	19,178,292	21,587,342	19,178,292	21,587,342
Total expenses	1,027,478,882	871,154,254	19,178,292	21,587,342	1,046,657,174	892,741,596
Increase (decrease) in net assets before transfers	(123,422,218)	(35,932,769)	3,977,555	(188,002)	(119,444,663)	(36,120,771)
Transfers	275,000	200,000	(275,000)	(200,000)	-	-
Change in net assets	(123,147,218)	(35,732,769)	3,702,555	(388,002)	(119,444,663)	(36,120,771)
Net assets, beginning of year	(136,338,260)	(100,605,491)	28,566,084	28,954,086	(107,772,176)	(71,651,405)
Net assets, end of the year	\$ (259,485,478)	\$ (136,338,260)	\$ 32,268,639	\$ 28,566,084	\$ (227,216,839)	\$ (107,772,176)

**Governmental activities.** Governmental activities decreased the County's beginning net assets by \$123.1 million or 103.09% of the total decrease in the net assets of the County. As in prior fiscal years, the \$123.1 million decrease is due in large part 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.

**Business-type activities.** Business-type activities increased the County's beginning net assets by \$3.7 million, this increase of \$3.7 million from the prior year was primarily the result of a \$1.1 million increase in fees collected for the County's landfill and a \$2.4 million decrease in the operating costs associated with the landfill.

### **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 six major funds, as defined by GAAP for the fiscal year ended June 30, 2006, were the General Fund, the Affordable Housing 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, 2006, the governmental funds of Wake County reported a combined fund balance of \$400 million, a decrease of \$204 million, from the prior fiscal year. As in prior fiscal years, the Debt Service Fund balance continued to increase, increasing by \$4.4 million in total. The Debt Service Fund balance will be used to fund future debt service payments. The increase in the Debt Service Fund balance was offset by decreased in the County's capital funds. The Capital Improvements Fund and the School Capital Fund decreased by \$36.3 million and \$168.6 million, respectively. These decreases resulted because capital building programs are growing as a result of the increased capital needs of a growing population. These decreases were 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. In addition, the County had \$135.7 million in unspent bond proceeds in the prior fiscal year; however, the County had no unspent bond proceeds as of June 30, 2006. During the 2006 fiscal year, the County began issuing general obligation commercial paper for certain components of its capital program and as a result, reimburses itself for capital expenditures.

**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 2006 fiscal year, the total fund balance of the General Fund was \$163 million. Of that \$163 million, \$97.1 million was unreserved fund balance. \$3.4 million of the total \$97.1 million was undesignated, a decrease from \$13.7 million in the prior fiscal year.

## **General Fund Budgetary Highlights:**

During the fiscal year ended June 30, 2006, 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 \$19 million or 2.4%. \$10 million of the \$19 million increase resulted from County Human Services taking advantage of additional revenues from outside sources, including charges for services and intergovernmental revenues. An additional \$2.8 million was also allocated to the Wake County School System midyear to cover additional students not anticipated at the time the budget was prepared. Remaining budget amendments generally covered various grant awards received throughout the year.

Actual revenues and transfers in exceeded the amounts projected in the final budget by \$2.2 million in fiscal year 2006. The positive variance is due mainly to higher than expected property tax revenues, which were \$6.2 million over the budgeted projection. There was also a positive variance of \$2 million in building permits and inspection fees charged by the County. These positive variances were offset in large part by negative budget variances for grants from federal, state and local sources, which received a combined \$2 million less than budgeted projections and Charges for Services, which received \$4.5 million less. The negative budget variances for Intergovernmental resulted from large differences between the budgeted and actual revenues associated with Public Safety Homeland Security grants as a result of actual activities being different from planned activities. These are multi-year grants where the planned activities are expected to be expended in the 2007 fiscal year. The Charges for Services difference was related to ongoing changes in mental health in North Carolina that changed the funding stream as well as the associated expenditures of various mental health billed services, where some direct benefit payments began to be made directly to the providers, where in the past the funds flowed through the County.

Actual expenditures and transfers out were \$18.5 less than budget, due in large part to below projected spending in Public Safety, which was \$6 million below budget, also because of the same timing differences related to various Homeland Security grants. Other departments that contributed to the positive variance in costs were Human Services, \$6.6 million below budget due almost entirely to various grant activity and to the changes in the mental health funding process; General Services, \$2.07 million below budget; the Board of Elections \$.7 million under budget; and non-departmental costs were \$.8 million under budget.

**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 \$22 million, an increase of \$6 million, or 37.97%, over the \$16 million reported at the end of fiscal year 2005. This increased amount is attributable to a reduction in cost of services 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	
	2006	2005	2006	2005	2006	2005
Land	\$ 25,171,436	\$ 25,173,538	\$ 1,875,253	\$ 1,817,850	\$ 27,046,689	\$ 26,991,388
Landfills	-	-	7,054,343	9,377,830	7,054,343	9,377,830
Buildings	169,847,689	172,556,270	1,009,209	1,024,965	170,856,898	173,581,235
Machinery and equipment	3,274,881	4,904,955	4,273	6,971	3,279,154	4,911,926
Vehicles and motorized equipment	10,395,908	8,966,953	-	-	10,395,908	8,966,953
Improvements	5,978,837	6,168,480	232,628	246,227	6,211,465	6,414,707
Infrastructure	7,753,659	7,753,659	-	-	7,753,659	7,753,659
Construction in progress	178,207,033	124,632,715	17,925	57,403	178,224,958	124,690,118
<b>Total</b>	<b>\$ 400,629,443</b>	<b>\$ 350,156,570</b>	<b>\$ 10,193,631</b>	<b>\$ 12,531,246</b>	<b>\$ 410,823,074</b>	<b>\$ 362,687,816</b>

**Capital assets.** The County's investment in capital assets for its governmental and business-type activities as of June 30, 2006, totals \$411 million (net of accumulated depreciation). These assets include buildings, vehicles, equipment, as well as land and landfills. For the fiscal year ended June 30, 2005, these amounts included infrastructure for the first time as the County capitalized its infrastructure in accordance with requirements mandated by the Governmental Accounting Standards Board in GASB Statement 34.

Major capital asset transactions during 2006 fiscal year included the continuation of a detention facility expansion, continued land acquisitions for Open Space Preservation Program, a new system automation project for Finance/HR processes, a new library in the western area of the county that is slated to open during fiscal year 2007, 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, 2006, the County had total general obligation bonded debt outstanding of \$1.046 billion, \$1.005 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**

	2006	2005
General Obligation bonds (schools)	\$ 965,043,843	\$ 989,123,314
General Obligation bonds (other)	81,460,731	86,846,198
Capital leases	733,181	607,239
Clean water revolving loans	237,923	475,843
Qualified zoning academy bonds (schools)	1,798,077	1,961,538
Commercial paper notes payable (schools)	38,591,332	-
Commercial paper notes payable (other)	19,658,668	-
Installment purchases	7,763,477	8,570,962
Total	\$ 1,115,287,232	\$ 1,087,585,094

Wake County's total general obligation debt decreased by \$28.6 million or 27% during the fiscal year ended June 30, 2006. This planned decrease occurred because the County only issued \$41 million in new general obligation bonds during the 2006 fiscal year, which were offset with a decrease in outstanding debt of \$69.6 million that was retired. Further, the County issued \$58.3 million in short-term commercial paper notes that will be retired with general obligation bonds in the spring of 2007, which the County began utilizing to finance the construction phase of projects.

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 3.5% (percent) at June 30, 2006, compared with seasonally adjusted federal and State rates of 4.6% (percent).
- The total assessed value of property in the County continues to increase. From fiscal year 2005 through fiscal year 2006 the total assessed value increased from \$71.1 billion to \$75.1 billion, an increase of 5%.
- Sales tax collections increased to \$137 million for the fiscal year ended June 30, 2006 from \$125 million in the prior fiscal year, a 9.62% increase. Also, occupancy and prepared food and beverage taxes increased to \$26.5 million from a total of \$24.2 million in the prior fiscal year, a 9.8% increase.
- Wake County continues to grow, adding an estimated 27,000 persons to its population over the past year and more than 5,700 new children to its public school system.
- The average yield on investments was 3.83% for fiscal year 2006, compared to 2.30% for fiscal year 2005. Investment earnings increased significantly by 28% in fiscal year 2006 from the prior year as interest rates in the market place continued to rise and older 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 \$23.1 million for the fiscal year ended June 30, 2006, on an average portfolio balance of more than \$604.5 million. This compares to 2005 earnings of \$14.2 million on an average portfolio balance of \$549.4 million.

Some of these factors and others were considered when management prepared Wake County's budget ordinance for the 2007 fiscal year.

## **Budget Highlights for the Fiscal Year Ending June 30, 2007**

**Governmental Activities:** The County has approved an \$852 million General Fund budget for fiscal year 2007, which represents a \$43 million or 5.19% increase over the original budget adopted for the fiscal year 2006. This increase was primarily attributable to a steady growth in property taxes (\$22.3 million), sales taxes (\$4.1 million). In fiscal year 2007, a 3-cent property tax increase was approved that is expected to generate an additional \$22.9 million.

Budgeted expenditures for operating public schools increased \$29.1 million (11.87%) from the original budget adopted for fiscal year 2006 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 \$6 million in Public Safety that is the result of a new Hammond Road Detention Facility and \$1.9 million for the additional operating costs associated with the openings of West Regional Library, Holly Springs Community Library, and North Regional Library. Finally, an additional \$5 million was required for increases in debt service payments.

**Business – type Activities:** For the 2007 fiscal year, the County has not budgeted any increases in charges for services or household fees related to the solid waste function. The total operating budget of \$22.8 million for fiscal year 2007 represents an increase of \$1.7 million or 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.