

# READER'S GUIDE TO THE BUDGET

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## Purpose

This budget book summarizes all public service programs provided by County government and represents the annual plan for the allocation of resources. The budget presented covers the period of July 1, 2007, to June 30, 2008 ("fiscal year 2008").

## Process and Policies

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

## Sample Fund Summary Format:

### Operating Budget Departmental and Fund Summaries

For each department and fund, summary information is provided on expenditures, revenues and staffing for FY 2006 actual results; the FY 2007 budget, both adopted and current as of March 31, 2007; and FY 2008 adopted budget. A sample of the format is provided below:

## Department Summary

		<b>FY 2006 Actual</b>	<b>FY 2007 Adopted Budget</b>	<b>FY 2007 Current Budget</b>	<b>FY 2008 Adopted Budget</b>
Personnel Services	\$				
Operating Expenses					
Capital Outlay					
<b>Expenditure Totals</b>	\$	-	-	-	-
Intergovernmental Revenues	\$				
Fee & Other Revenues					
<b>Revenue Totals</b>	\$	-	-	-	-
<b>Number of FTEs</b>		-	-	-	-

# **READER'S GUIDE TO THE BUDGET**

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## **Budget Highlights**

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

## **Education**

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

## **Community Improvement Plan**

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

# **BUDGET PROCESS**

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## **Multi-year Business Planning Process**

Wake County's multi-year business planning process emphasizes strategic planning and target-oriented service delivery efforts. All departments develop a three-year (2007 to 2009) business plan that incorporates strategic thinking and continuous improvement. The business plan identifies what the department wants to accomplish, how it intends to achieve these accomplishments, the costs and revenues associated with specific plans and the measures that determine whether outcomes are being achieved. The plan clearly defines priorities as a way to focus attention on the most important accomplishments that should be achieved over time.

Because the business plans provide a multi-year roadmap for resource needs and successful management of service delivery, they are an integral part of the budget process. The business plans include the department's prioritization of services. Business plans are updated and refined annually.

## **Development of the County Manager's Recommended Budget**

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

Department requests are based on Budget Instructional Manual guidance. Each request must relate to the organization's program objectives in preparing cost estimates. In preparing the cost estimates for existing services, departments were instructed to calculate actual costs of providing the service. This serves as the basis for determining the appropriate funding level. Areas of new services or enhancements to existing services requested by departments are based on a strong definition of the issue, strategic alignment of plan and objectives, a clear statement

of what is trying to be accomplished, and identification of opportunities to collaborate or partner with others. Each expansion item is analyzed based on these objectives. These requests are received and compiled by the budget staff. Due to revenue constraints, departments are encouraged to develop proposals to trade or shift expenditures rather than seek additional funding.

The departments use a multi-step process to complete the budget requests to County Commissioners. The process consists of (1) Describing programs and emphasizing the outcomes produced by each department; (2) Clearly articulating measurable service objectives; (3) Identifying existing or new performance measures, specifying targets for each; (4) Identifying strategies to achieve the improvements; (5) Linking resources with outcomes; and (6) Discussing requests and strategies with the County Manager, who develops a recommended budget.

## **Public Input and Board Consideration**

The public may view the Recommended Budget through different venues. Interested readers can access the document on the County's website, where they can view a specific section or print the entire document. The website also displays the County Manager's budget message and presentation to the County Commissioners. In addition to the website, copies of the Recommended Budget are distributed to all County library locations, and copies are available to any individual requesting one.

There are multiple ways for citizens to comment on the Recommended Budget. On the date of the Board of Commissioners' first June meeting, two public hearings are held, one in the afternoon and one in the evening. A "Budget-at-a-Glance" is distributed at the public hearings, providing an overview of the Recommended Budget. In addition to the public hearings, citizens can provide feedback through email and voice-mail.

# BUDGET PROCESS

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After the County Manager presents the Recommended Budget, the Board of Commissioners begins its deliberation. Following the public hearings, the Commissioners hold a work session to discuss only operating and capital budget issues. The County Manager works with the Commissioners to determine the budget topics covered at the work session. At this work session, the Board considers and debates changes, and may instruct the County Manager to modify the budget before adoption.

## **Board of Commissioners' Authorization and Appropriations**

In compliance with the *North Carolina Local Government Budget and Fiscal Control Act*, the Board of Commissioners adopts an annual budget ordinance for all governmental and proprietary funds except funds authorized by project ordinances. All budget ordinances are prepared on the modified accrual basis of accounting. The annual budget for governmental funds and proprietary funds must be adopted no later than July 1. Agency funds are not required by state law to be budgeted. All capital projects funds and certain special revenue funds (e.g., Grants and Donations, Major Facilities, and Revaluation Reserve) and expendable trust funds are budgeted under project ordinances spanning more than one fiscal year and are controlled by project. Project appropriations continue until the projects are complete.

## **County Manager's Authorization**

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

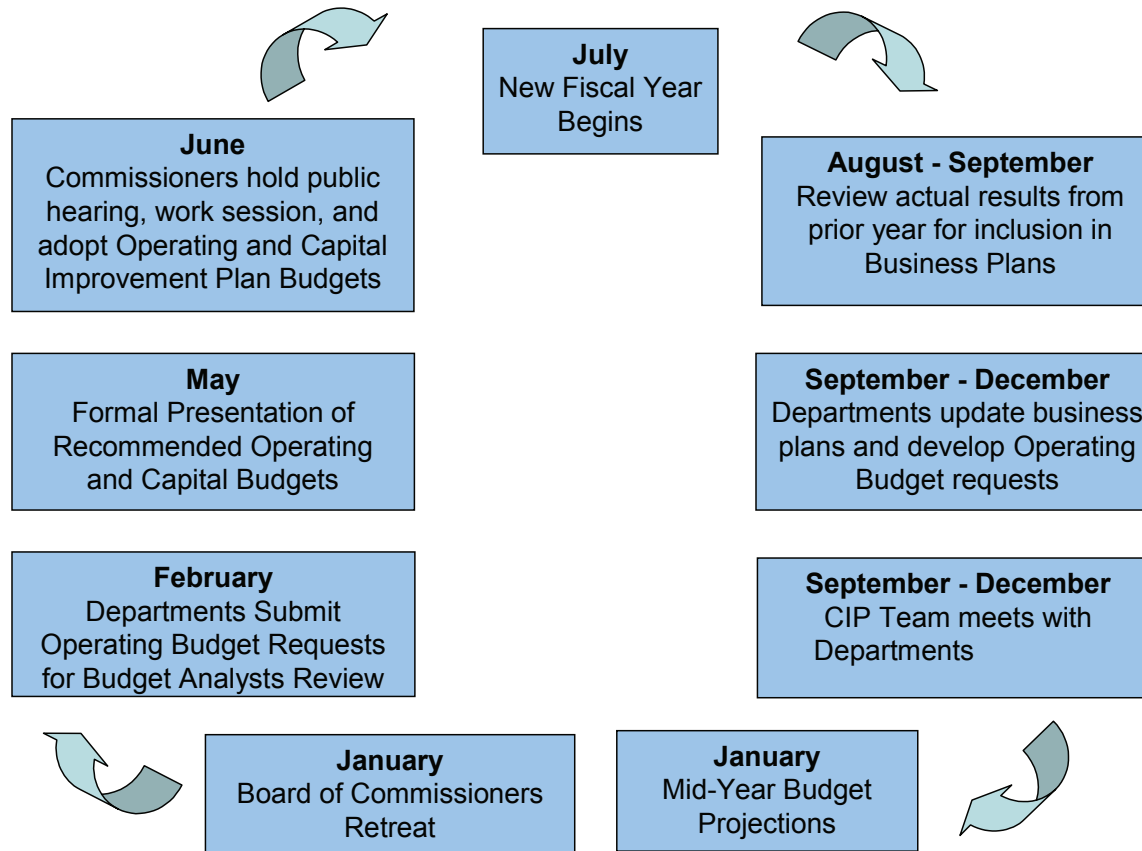
## **Budget Implementation**

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

# BUSINESS PLANNING & BUDGET PROCESS CYCLE

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**Note: This chart depicts the integration of the annual budget cycle and business planning processes.**

## BUDGET CALENDAR FOR FISCAL YEAR 2008

Date	Budget Activity
October 17, 2006	Budget Instruction Manual distributed to departments Budget Kickoff with Extended Management Team
December 17, 2006	Departmental Business Plans Updated Departments submit FY2008 Expansion Requests
September to December 2006	Community Improvement Plan Review—Meetings conducted by Facilities Design and Construction, General Services Administration and Budget and Management Services
February 16, 2007	Departments submit FY 2008 Operating Budget Requests
May 2007	Board of Education and Wake Technical Community College submit formal budget requests
May 21, 2007	Formal presentation of FY 2008 Recommended Budget and Community Improvement Plan to Board of Commissioners at regularly scheduled meeting
June 4, 2007	Public Hearing on Operating Budget, annual Community Improvement Plan and any proposed fee or tax changes
June 11, 2007	Special Budget Work Session with Board of Commissioners
June 16, 2007	Adoption of FY 2008 Operating Budget and Community Improvement Plan at regular Board of Commissioners meeting

# FUND STRUCTURE

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

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

<b>Fund Type</b>			
<b>General Fund</b>	<b>Special Revenue Funds</b>	<b>Capital Project Funds</b>	<b>Proprietary Funds</b>
General Fund	Capital Area Workforce Development Fund	County Capital Improvement Fund	Solid Waste Management Fund
	Debt Service Fund	Fire Tax District Capital Fund	South Wake Landfill Fund
	Emergency 911 Fund	Major Facilities Capital Trust Fund	
	Fire Tax District Fund	Solid Waste Capital Improvements Fund	
	Grants and Donations Fund	Wake County Public Schools Capital Projects Fund	
	Housing and Community Revitalization Fund	Wake Technical Community College Capital Projects Fund	
	Major Facilities Fund		
	Revaluation Reserve Fund		

# FUND STRUCTURE

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## Governmental Fund Types

### General Fund

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

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

### Debt Service Fund

The debt service fund is used to account for principal and interest payments for bonds associated with capital projects for the County, Wake County Public School and Wake Technical Community College.

### Special Revenue Funds

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

## Capital Project Funds

Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The County has six capital project funds within the governmental fund types: County Capital Improvement Fund, Wake County Public Schools Capital Projects Fund, Wake Technical Community College Capital Projects Fund, Fire Tax District Capital Projects Fund, Major Facilities Capital Trust Fund, and the Solid Waste Capital Projects Fund.

## Proprietary Fund Types

### Enterprise Fund

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

# FUND STRUCTURE

The Chart below summarizes the relationship between County departments and the County's fund structure

Organizational Units	General Fund	Capital Area Workforce Development Fund	Debt Service Fund	Emergency 911 Fund	Fire Tax District Fund	Grants and Donations Fund	Housing and Community Revitalization Fund	Major Facilities Fund	Revaluation Reserve Fund	County Capital Improvement Fund	Fire Tax District Improvement Fund	Major Facilities Capital Fund	Solid Waste Capital Trust Fund	WCPSY Capital Improvements Fund	Wake Tech. Comm. College Capital Projects Fund	Solid Waste Management Fund	South Wake Landfill Fund
Board of Commissioners	O																
Board of Elections	O																
Budget and Management Services	O		M			M		M	M	M			M	M			
Community Services	O				P												
County Attorney	O																
County Manager	O																
Environmental Services	O				P							M			D	M	
Facilities Design and Construction	O							M	M	M							
Finance	O	M				M				M			M	M			
General Services Administration	O				P			P									
Human Resources	O																
Human Services	O	D			P	D											
Information Services	O							P									
Medical Examiner	O																
Non-Departmental	O																
Planning	O																
Public Safety	O		M	M	P					M							
Register of Deeds	O																
Revenue	O						M										
Sheriff	O																
Wake County Public Schools	O												M				
Wake Technical Community College	O													M			

**Key:**

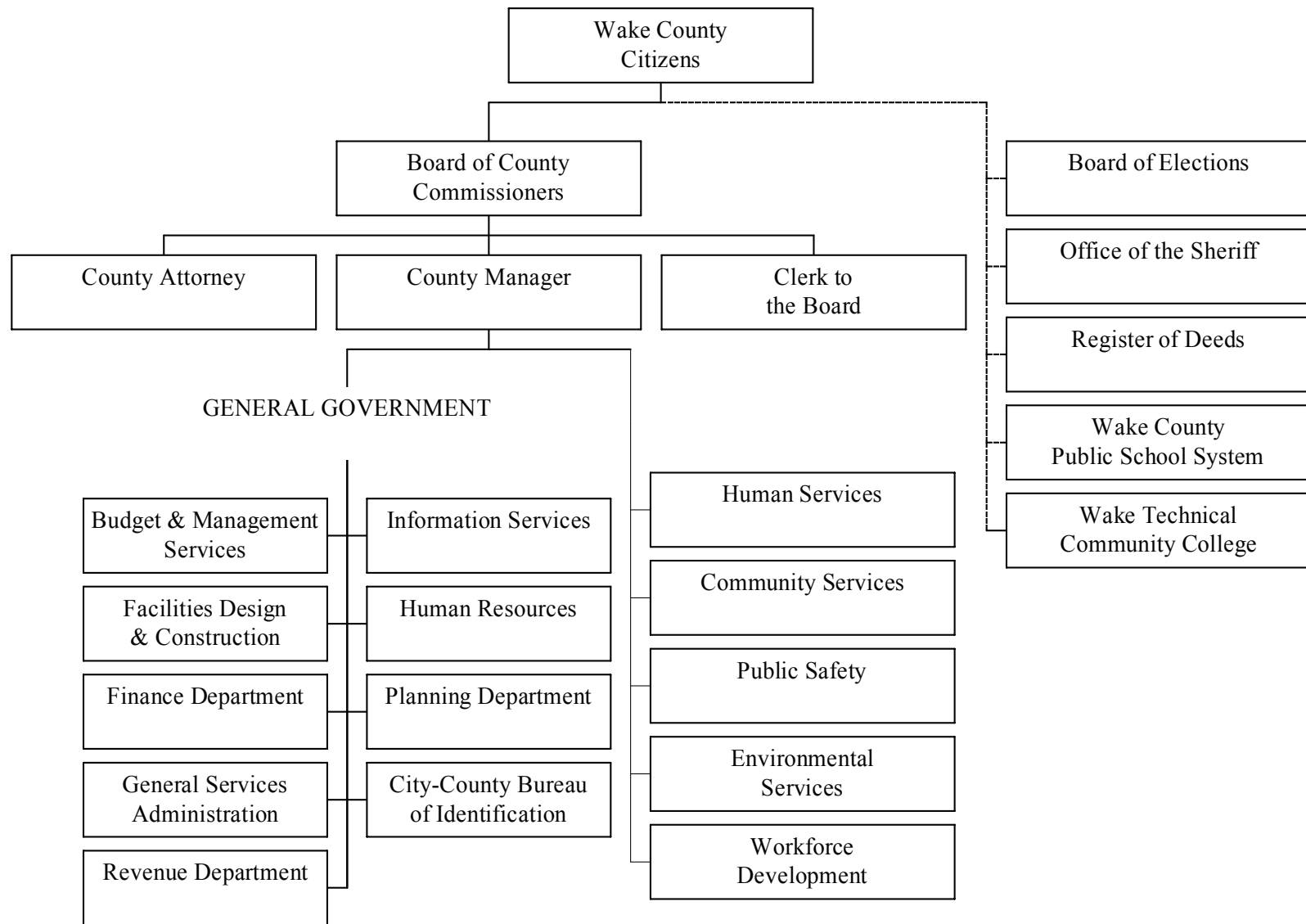
**O:** All, or most, operating funding for this unit is budgeted in the General Fund

**D:** Unit has a specific division in this Special Revenue Fund

**M:** Unit has either primary, or shared, responsibility for managing this fund

**P:** Unit manages selected projects within this fund

# WAKE COUNTY GOVERNMENT FISCAL YEAR 2008 ORGANIZATIONAL CHART



----- Denotes liaison relationship

# **BASIS OF BUDGETING AND BASIS OF ACCOUNTING**

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## **Basis of Budgeting**

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

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

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

## **Basis of Accounting**

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

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

the basis of generally accepted accounting principles (GAAP). In most cases, GAAP presentation conforms to the County budget presentation. Exceptions are as follow:

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

# FINANCIAL POLICIES

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

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

## Operating Budget

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

## Reserves

The County shall maintain a total General Fund balance of at least fifteen percent (15%) and an unreserved fund balance of at least 11% of the following fiscal year's General Fund adopted budget in order to provide the County with adequate working capital and investment income. Any unreserved fund balance is available for appropriation only for one-time non-recurring expenses. Any appropriation to a contingency account in the County's general fund shall not exceed one percent (1%) of the total general fund budget.

## Revenues

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

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

## Capital Improvements

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

## Debt Policies

The ability of Wake County to issue debt in the market place with a AAA bond rating saves the citizens millions of dollars by allowing the County to issue debt with a lower interest rate than non-AAA units.

## Debt Planning Guidelines

Provide capital facilities as needed.

- Preserve the County's AAA bond rating.
- Ensure sufficient flexibility to meet future obligations and take advantage of opportunities.
- The County will maintain a debt affordability model that assesses the future impact of the current bond programs as well as the dedicated funding stream used to finance the capital program. This model provides the County with a forecast of future debt capacity and associated debt service payments.
- The County will maintain a CIP budget planning cycle of at least

# FINANCIAL POLICIES

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## Debt Services Polices (Cont'd)

seven years. This will provide management the ability to plan and fund needed capital facilities.

- The following revenues are dedicated to the CIP model:
  - \* 19.2 cents of the property tax;
  - \* The portion of Article 40 and 42 of sales tax that are statutorily-dedicated to school capital;
  - \* Any federal, state or local grants that are used for capital improvement;
  - \* Any General Fund unrestricted interest earnings. The County will dedicate unrestricted General Fund interest income to the Debt Service Fund, which it uses to account for all its debt service payments. This dedication matches interest earnings on investments with interest expense on variable rate debt as economic conditions vary.

## Debt Service Guidelines

Many ratios and rankings are reviewed by the rating agencies. The County does not directly control most of the economic indicators used by the rating agencies, such as per capita wealth, growth of the labor force and unemployment rates; however, several are controlled by management and are addressed below. The County will compute the following debt calculations each year and benchmark against other AAA-rated units. When available, statistics are included with ratios from the 42 AAA-rated counties nationwide. Although the Board of Commissioners has not formally adopted specific debt limits, these standards provide the framework for developing the County's Community Improvement Plan.

**Guideline 1:** The Debt Service Fund will maintain a fund balance that is no less than 19% of the subsequent fiscal year's debt service payments through November. The 19% represents approximate debt service payments through November. **The debt model currently exceeds this guideline.**

**Guideline 2:** The County's seven-year capital plan should be funded with debt funding comprising 70% - 85% of the total funding; cash ("pay-as-you-go") funding should make up the remaining 15% - 30%. Pay-as-you-go funding provides the County with a flexible cash flow so that the debt can be issued at the most opportune market time rather than when construction payments are due. A pay-as-you-go component to the capital program is a significant element that contributes to the financial integrity of the County and its ability to maintain a AAA bond rating. **The debt model currently meets this guideline.**

**Guideline 3:** To promote asset and liability management, the County will issue variable rate debt. However, the long-term variable rate debt component should not exceed 25% of the County's total outstanding debt. The concept of this management tool is that the County matches interest income from investments with interest expense on the variable rate debt in the debt service fund. These revenues and expenditures (or asset and liabilities) move in the same direction as they react to market conditions. This concept is used by many "AAA" units to take advantage of historically lower variable debt rates while reducing the stress on budgeting. **Wake County currently has 21.4% in variable rate debt.**

**Guideline 4:** The average AAA- rated entity repays 70% of bond principal within 10 years, one of the factors considered by the rating agencies. **Wake County will pay 61% of bond principal within 10 years.**

**Guideline 5:** The amount of general obligation net debt (including municipal net debt) per capita should be consistent with other AAA units. Per capita debt is considered to be a basic benchmark that depicts a jurisdiction's burden on the general population. **Net per capita debt at June 30, 2007 will be \$1,917 and will be monitored annually.**

**Guideline 6:** The combined County and municipal debt should not exceed four percent of the countywide tax base. Based on historical funding levels as well as standards used by credit rating analysts, it is advisable that the County not incur a level of total outstanding general

## FINANCIAL POLICIES

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obligation debt that exceeds four percent of the tax base. This level of debt includes debt issued by Wake county government as well as debt issued by the various municipalities within the boundaries of Wake County. Municipal debt is included since the municipal taxpayer bears the burden of debt issued by the respective municipal government and by county government (in North Carolina property within municipal boundaries is also within the county boundaries). Furthermore, credit rating analysts typically consider this total debt level in a layered system of governments such as exist in Wake County. **As of June 30, 2006, the combined debt was approximately \$4,888 million or 2% (percent) of the countywide tax base.**

**Guideline 7:** Wake County government's net outstanding debt should not exceed 2.5% of the countywide tax base. North Carolina state law permits local governments to issue debt up to eight percent of the total assessed valuation. Consistent with the County's desire to maintain a AAA bond rating, Wake County has adopted 2.5% as a guideline. **The County's debt per assessed valuation is currently at 1.92% as of May 2007.**

**Guideline 8:** Wake County's annual debt service payments should not exceed 20% of the general fund and debt service budget. The County's annual debt service payment will not exceed 20% of the General Fund and Debt Service Fund budgets. (Note: Divide total annual debt service payments by the totals of the General Fund expenditure budget plus the Debt Service Fund expenditure budget, less the transfer between the two funds.) This computation is a ratio that rating agencies use to judge the government's ability to make debt payments and to continue to respond to operating priorities. **As of June 30, 2006 Wake County's debt service payments were 14.41% of the general and debt service fund budgets.**

### User Fee Policy

North Carolina General Statutes (NCGS) authorize the setting of fees by counties in Section 153A - 102. The statute reads: "The board of commissioners may fix the fees and commissions charged by county officers and employees for performing services or duties permitted or

required by law. The board may not, however, fix fees in the General Court of Justice or modify the fees of the register of deeds prescribed by G.S. 160-10 or the fees of the board of elections prescribed by G.S. 163-107."

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

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

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

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

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

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

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

# FINANCIAL POLICIES

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primary guiding principle.

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

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

1. If the service is purely a private good and does not enhance community-wide quality of life, the fee shall be set according to market rates and shall strive for full cost recovery. Whether or not the service is deemed to enhance community-wide quality of life will depend on the goals and objectives of the County.
2. If the service provides broader public benefits through its consumption, thereby enhancing community-wide quality of life, the fee shall be set so that use of the service is not discouraged, demand for the service is unchanged and partial recovery of costs is obtained.
3. If low-income citizens are included in the population of service recipients, fees for their participation shall be set to recover partial costs of providing the service, as long as this can be accomplished without precluding their use. A sliding-scale fee is one strategy for accomplishing this.

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

*User Fee Policy adopted by the Board of Commissioners on March 13, 2000.*

## **Business Investment Grant Policy**

**Policy Objective:** Support the development of an economic environment that attracts or encourages new investment, creates new jobs, and results in a diverse tax base.

**Eligible Projects:** A company (“Economic development projects”) may be eligible for a Business Investment Grant if they meet both a New Investment Threshold and New Jobs Threshold. Special consideration may be given to corporate, regional, or divisional headquarters projects for Fortune 500 companies and large international companies.

**New Investment Threshold:** New or existing companies may be eligible for a Business Investment Grant for new investments, which exceed \$100,000,000 (one hundred million dollars) in 2004 dollars. For each subsequent year, the amount of new investment will be increased by CPI and rounded to the nearest million dollars. New investment is defined as, “improvements to real estate, machinery, equipment, and other business personal property.” The value of land is not included in the calculation of new investment. New investment must exceed \$100,000,000 in assessed valuation, as determined by the Wake County Revenue Department. Existing Wake County businesses may be eligible for a Business Investment Grant for new investments, which exceed \$50,000,000 in 2004 dollars provided that existing taxable assessed valuation exceeds \$75,000,000 in the year the grant agreement is approved. Only the value of the new investment will be used to calculate the amount of the incentive grant.

**New Jobs Threshold:** New or existing companies are eligible for a business investment grant when the investment threshold is met and at least 50 new jobs are created. New jobs are defined as a net increase in the company’s number of full-time, Wake County employees. A full-time employee is defined as a person who is employed by the company for at least 35 hours per week and whose wages are subject to withholding. The average wage for new jobs must pay 120% of the average wage for Wake County, as defined by the North Carolina Department of Commerce Finance Center. (In 2004, the average wage was \$605 per week; 120% would be \$726 per week.) Existing Companies are eligible

# FINANCIAL POLICIES

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## **Business Investment Grant Policy (Cont'd)**

for a Business Investment Grant when the investment threshold is met, the company currently employs at least 250 full-time employees, and at least 50 new jobs are created. The average wage for the new and existing jobs must pay 120% of the average wage for Wake County, as defined by the North Carolina Department of Commerce Finance Center.

The Company must also agree to provide health insurance in at least the minimum amount required for tax credits under the William S. Lee Act, as it existed on the date of the approval of the policy. Under these provisions, a company must provide health insurance for full-time positions and pay a minimum of 50% of the premiums.

*Revised policy adopted by Board of Commissioners on October 17, 2005*

## **Summary of Significant Accounting Policies**

The accounting policies of the County conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles in the United States. The following is a summary of the more significant accounting policies:

**Deposits and Investments** All deposits of the County are made in board-designated official depositories and are secured as required by State Law [G.S. 159-31]. The County may designate as an official depository any bank or savings and loan association whose principal office is located in North Carolina. Also, the County may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts and certificates of deposit. In compliance with the North Carolina Local Government Budget and Fiscal Control Act, the Board of County Commissioners adopts an annual budget ordinance using the modified basis of accounting for all governmental and proprietary funds except funds authorized by project ordinances. The annual budget for governmental funds and proprietary funds must be adopted no later than July 1. Agency and pension trust funds are not required by state law to

be budgeted. All capital projects funds and special revenue funds other than the Special Tax District and the Major Facilities Funds are budgeted under project ordinances spanning more than one fiscal year and are controlled by project. Project appropriations continue until the projects are complete. The Debt Service Fund is also budgeted annually.

State law [G.S. 159-30(c)] authorizes the County to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT), a Securities and Exchange Commission registered (2a-7) mutual fund.

As required, the County's investments are stated at fair value as determined by quoted market prices. The NCCMT Cash Portfolio securities are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio securities are valued based upon a matrix pricing system and/or appraisal by a pricing service. Except for the Pension Trust Fund and unspent bond proceeds, the County pools moneys from several funds to facilitate disbursement and investment and maximize investment income. Income from pooled moneys is allocated to participating funds based on the funds' respective share of total pooled cash and investments. The County pools moneys from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. All deposits of the County are made in board-designated official depositories and are secured as required by State Law [G.S. 159-31]. The County may designate as an official depository any bank or savings and loan association whose principal office is located in North Carolina. Also, the County may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts and certificates of deposit.

**Receivables and Payables** Outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and the business-type ac-

## FINANCIAL POLICIES

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tivities are reported in the government-wide statements as “internal balances.” State law [G.S. 159-30(c)] authorizes the County to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT), a Securities and Exchange Commission registered (2a-7) mutual fund.

**Taxes Receivable:** In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], ad valorem taxes for property other than vehicles are levied on July 1, the beginning of the fiscal year and are due on September 1 (lien date); however, no penalties or interest are assessed until the following January 6. Property taxes on certain registered motor vehicles are assessed and collected throughout the year. The taxes are based on the assessed values as of January 1, 200320042005. As required, the County's investments are stated at fair value as determined by quoted market prices. The NCCMT Cash Portfolio securities are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio securities are valued based upon a matrix pricing system and/or appraisal by a pricing service. Except for the Pension Trust Fund and unspent bond proceeds, the County pools moneys from several funds to facilitate disbursement and investment and maximize investment income. Income from pooled moneys is allocated to participating funds based on the funds' respective share of total pooled cash and investments. The County pools moneys from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

**Deferred Revenues:** Ad valorem taxes collected within 30 days after the fiscal year end for the year ended June 30, 200420052006 and prior years are accrued within the funds because the amounts are considered measurable and available. The remaining ad valorem taxes receivable are not accrued, as the amount is not considered available. These taxes receivable are significantly past due and are not considered to be an available resource to finance the operations of the subsequent year.

GAAP states that property taxes, which are measurable but not available, should be initially recorded as deferred revenues under the modified accrual basis of accounting. The receivable amount is reduced by an allowance for uncollectible taxes and an amount equal to the net receivable is shown as deferred revenue on the combined balance sheet. In addition, property taxes collected in advance of the fiscal year to which they apply are recorded as deferred revenues.

**Allowances for Uncollectible Accounts:** Allowances for uncollectible accounts are maintained on all types of receivables that historically experience uncollectible amounts. Allowances are based on collection experience and management's evaluation of the current status of existing receivables.

**Inventories and Prepaid Expenditures:** Inventories are valued at cost, using the weighted average method. The inventories of the General Fund consist of expendable supplies and are recorded as expenditures when consumed. The General Fund inventories reported on the fund balance sheet are offset by a fund balance reserve, which indicates that it does not constitute a resource available for appropriation. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets:** Capital assets that are purchased or constructed are recorded at historical cost. Donated assets are recorded at estimated market value at the time of donation. The County defines capital assets as assets with an individual cost of more than \$5,000, and an estimated useful life of more than two years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. The County will capitalize infrastructure assets that were acquired or constructed prior to July 1, 2001 in a subsequent fiscal year.

The County began to retroactively report its infrastructure assets during fiscal year 2005. The County chose to include all assets over the capitalization threshold of \$5,000 that have been acquired since July 1, 1980. The infrastructure assets are recorded at historical cost.

## FINANCIAL POLICIES

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Depreciation is computed using the straight-line method. Any interest incurred during the construction phase of proprietary fund type capital assets is reflected in the capitalized value of the asset being constructed. Capital assets are depreciated on the following basis:

- Buildings 40 years
- Improvements 40 years
- Infrastructure 20-50 years
- Vehicles and Motorized Equipment 5 years
- Machinery and Equipment 3 years
- Land used for landfills is depleted using the straight-line method over its expected useful life of 3 years.

**Long-Term Debt:** In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements governmental fund types report the face amount of debt issued as an other financing source. Bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the debt issued and any related premium are reported as other financing sources. Discounts on issuance are reported as other financing uses. Issuance costs are reported as a reduction of proceeds. The special obligation bonded debt issued for solid waste construction is carried within the enterprise funds. The debt service requirements for the special obligation debt are being met by system revenues.

**Compensated Absences:** The vacation policy of the County provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. An expense and a liability for vacation pay and salary-related payments are accrued as the leave is earned in the government-wide and proprietary fund financial statements. The compensated absences liability is liquidated using funds to which the liability accrued as the accumulated leave is used. The County's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest but any unused sick leave

accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the County has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

**Fund Equity:** In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. State law [G.S. 159-13(b)(16)] restricts the appropriation of fund balance to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year. Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through state statute.

# FINANCIAL MODELS

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## Capital and Debt

Wake County uses a long-term financial planning model for its Community Improvements Plan (CIP) and the General Fund. The County funds its CIP through a dedicated funding approach. Dedicated revenues include portions of the County's property tax (currently 19.2 cents) and sales taxes plus the income from the County's investments, including investments held in the County's general fund, capital projects funds and debt service fund.

The CIP is financed from a combination of debt and cash financing. The CIP-dedicated revenues are deposited into the County's debt service fund and capital projects funds. Revenues deposited into the County's debt service fund are used to pay debt service on the County's general obligation bonds and revenues deposited into the County's capital projects funds are used to pay capital project expenditures directly.

The primary revenues deposited into the debt service fund include a portion of the property tax (currently about 67% of the 19.2 cents) plus the entire portion of sales taxes that is required by state law to support public school capital outlay. Investment income from the County's general fund and debt service fund is the other source of revenue. The remaining 33% of the 19.2 cents property tax plus various other revenues are deposited into the County's capital projects funds.

The County uses its long-term financial planning model to balance revenues, expenditures and fund balances over time to ensure that CIP needs are met while maintaining compliance with federal tax law related to tax-exempt bonds. Key assumptions in the model include the projected rate of growth of property and sales taxes and projected interest rates on County investments and future borrowings. The County continually reviews model assumptions and CIP needs to ensure that the CIP stays on track and, if necessary, makes adjustments to the long-term financial plan long before any shortfall arises.

## Operating

Recently, the County has developed a similar long-term financial planning model for its general fund, taking into account general fund reve-

nue, expenditures, transfers, and fund balance. The County uses the model to consider both County and school operating needs over a four-year period and make decisions regarding tax rates, resource allocation and fund balance level. The County management believes that a multi-year planning model for operating purposes permits it to better anticipate and plan for long-term operating requirements, increase its lead time for key operating decisions, and improve its assessment of the long-term impact of actions taken in connection with the current year operating budget. In addition, the model assists in balancing CIP and long-term operating needs.

Key assumptions in the general fund model include the same growth rates of property and sales taxes as in the capital financial model. Other areas where assumptions are made include operating impact of capital facilities that will open during the coming years, pay increases, and contractual increases. Most revenue estimates are based upon historical growth rates while departmental expenditures are held flat except for Human Services. The Human Services Department typically receives additional revenue from the State; consequently, its budget is expected to continue to increase each year. In addition to building in the operating impact of new schools when they are opened, the general funds model provides for additional funding each year based upon student growth.

*Note: Additional information on the financial planning model is found behind the tab labeled Financial Planning Model.*

# LONG-RANGE PLANNING

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The County's leadership and management believe that a long-range approach to budgeting provides the foundation for effective annual operating budgets that support the County's long-range goals and objectives. The Board participates in numerous long-range planning efforts, including:

- Board of Commissioners' goal-setting and
- Long-range Financial Modeling.

## Board of Commissioners' Goals

At the Board of Commissioners' Planning Retreat on January 26, 2007, the Board identified eight focus areas to address the opportunities and challenges posed by a rapidly growing urban county. The Board considers these issues to be of significant and immediate importance to the community.

The eight focus areas are:

Educated Citizenry	Environmental Stewardship
Health Community	Cultural Awareness
Vital Economy	Strong Leadership & Governance
Safe Community	Mobility/Access to Transportation

Within these eight focus areas, the Board identified nine high-priority goals for 2007:

1. **Blue Ribbon Committee on the Future of Wake County:** Implement Blue Ribbon Committee recommendations, including seeking authorization from the General Assembly for a 1-cent sales tax to be used for transportation and school construction.
2. **Quality-of-Life Bond Initiatives:** Initiate a bond referendum in fall 2007 for Wake Tech, Libraries, and Open Space.
3. **Citizens Facility Advisory Committee:** Take an active role with the Citizens Facility Advisory Committee to evaluate cost-effective strategies for the school capital building program.
4. **Mental Health Reform:** Work with Wake County's state legislative delegation and local stakeholders to design and implement a continuum of care to compliment the 44-bed expansion at Holly Hill Hospital.
5. **Community Assessment:** Present the results of the Wake County Community Assessment, being released February 2007, and recommend an implementation plan.
6. **Stormwater Task Force:** Complete the work of the County-wide Stormwater Task Force and recommend an implementation plan.
7. **Anti-Littering:** Evaluate and implement a series of anti-littering measures that include strategies for education, cleanup, and enforcement.
8. **Economic Development/Certified Sites:** Work with the municipalities and the Greater Raleigh Chamber of Commerce to create an inventory of sites for large-scale economic development.
9. **Gang Prevention:** Implement strategies from the Gang Prevention Task Force.

*Wake County will continue to work on implementing the following goals from 2006 as part of its ongoing operations:*

1. **Changing Faces:** Study the impact of changing demographics on Wake County services and programs to guide plans now and in the future.
2. **Urban County Leadership:** Take a leadership role among the largest, urbanizing counties to discuss common issues and promote common legislative agendas, involving transportation, water supply, Medicaid financing and air quality, for example.
3. **Criminal Justice Trends:** Assess the impact on the County's criminal justice system resulting from the effects of mental health reform and the increased use of illegal drugs.
4. **Citizen Awareness:** Implement strategies to increase citizen awareness of and support for Wake County services.
5. **Criminal Justice Facilities:** Implement a courthouse and criminal justice long-term capital plan.
6. **Transportation Strategies:** Continue to work with the Capital Area Metropolitan Planning Organization to identify and implement transportation strategies to address the needs of Wake County and municipalities.
7. **Unincorporated Growth/ETJ:** Reconfirm the County's approach to how development should occur in the unincorporated areas and evaluate the County's criteria for extraterritorial jurisdiction expansion for municipalities.