



# Memorandum

## FY 2010 Recommended Budget

May 18, 2009

Wake County Board of Commissioners,

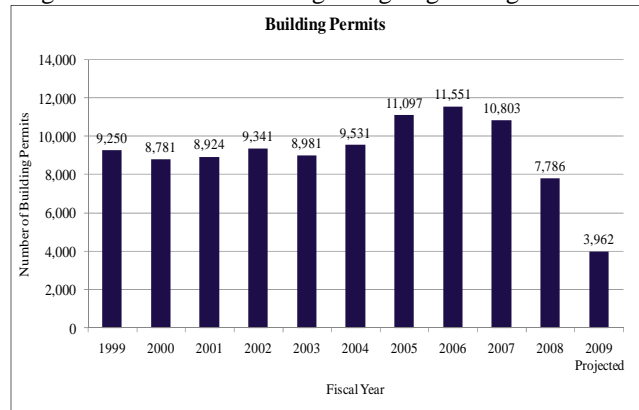
It is my pleasure, privilege and responsibility to present to you, the Wake County Board of Commissioners and citizens, a balanced, recommended budget for Fiscal Year 2010.

Each year presents new opportunities and challenges as we engage in the next year's budget development. If you'll remember back to last year at this time, I reported that Wake County was beginning to see a slowing in the local economy. Now, that statement has taken on unexpected form as we face an economic recession that has affected every American in some way and Wake County's residents have not been spared. This year's budget development process has been like no other in recent memory as we have had to react to and anticipate financial challenges not experienced in this country in a long, long time.

Nationally, the economic downturn is primarily a result of the real estate and financial markets. The stock market is down; foreclosures and unemployment are up; and industries like banking and auto manufacturing are going through a severe transformation. Like many other counties and businesses across the U.S., Wake County is not immune to the effects of this new economy.

### FY 2010 REVENUES AND RECOMMENDED BUDGET

Over the last 10-15 years, Wake County has seen an influx of individuals and families from other counties, states and countries. At times, the growth rate has been as high as 106 people per day. In these times of growth, our County government and the local real estate development industry responded to these gains in population and the demands for housing, services and infrastructure.



In this recession, however, we aren't seeing the growth we previously experienced. We have seen a significant decrease in home sales, the indefinite suspension of real estate development, and a drop in new home starts. As I will describe in more detail shortly, each of these slowdowns related to real property have an undesirable effect on the County's revenues.

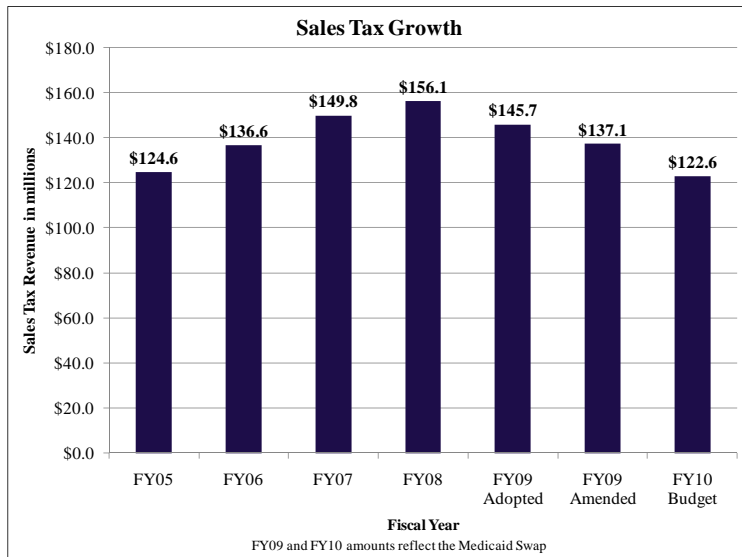
We anticipated a weakening in revenue growth in 2008, and this was based on downward trends occurring in building permits. New construction permits are the primary indicator of our property tax base growth, and permits issued in the spring and summer months of 2008 were sharply down during the same period of the prior year. These declining numbers have continued this fiscal year and our residential permit activity for the months of January through April are less than half of the amount from the same time last year.

Tax Base Changes (in billions)		
	FY09	FY10
Real Property	\$ 99.6	\$ 101.3
Personal Property	\$ 6.4	\$ 6.1
Public Service	\$ 3.0	\$ 2.8
Vehicles	\$ 7.6	\$ 7.4
<b>Total</b>	<b>\$ 116.6</b>	<b>\$ 117.6</b>

Property tax is the County's largest revenue source, comprising almost 66% of total revenues. In 2010, we expect the property tax base to grow by only 1%, from \$116.6 billion to \$117.6 billion. This is considerably less than in recent years, when we consistently experienced 5 to 6 % annual growth.

Both real property, such as land and houses, and some personal property, such as vehicles, are subject to property taxes. We are projecting that real property will increase by just 1.7% next year. The slight growth in real property tax is somewhat offset by decreasing values for the other components of the tax base.

In FY 2010, personal property is expected to decrease by 4.0%. This decline seems to be due largely to the choices of businesses and consumers to delay the purchases and upgrades of taxable property such as heavy machinery, business equipment, and the family car. Because not many people are buying new cars, the County's "inventory" of taxable vehicles will get older. Instead of the typical growth in vehicle taxes, we expect a decrease in total taxable vehicle values in FY 2010.



Overall, sales tax revenues are expected to decrease by \$23.1 million from the FY 2009 Adopted Budget. Of this decrease, \$8.7 million is directly related to the Medicaid/Sales Tax "swap" legislation, which will allow the expected decline in sales tax receipts to be offset by a corresponding decrease in budgeted expenditures. The remaining sales tax revenue decrease is entirely due to the economic slowdown. This economy-driven loss of revenue is the single largest hit to our revenue streams, and accounts for almost half the County's total revenue decrease since last year's Adopted Budget.

While sales tax revenues, in the current year, have dramatically declined, we are projecting a modest or 1.5% growth rate in FY 2010. Our assumptions are that the local economy will stabilize during the

next year and that our county population will continue to grow, particularly respective to the rest of the State of North Carolina.

In 2010, we are expecting a continued decline in development-related fees and revenues. With a surplus of homes on the market and with stricter access to credit for builders, new development slowed dramatically, and building and subdivision permit fees are expected to decline by \$1.4 million. The Real Estate Excise Tax collected by the Register of Deeds is projected to decrease from \$11 million to \$6.5 million next year and is a direct reflection of the current housing market.

The combined changes to our revenue streams result in a 2010 revenue projection of \$953.6 million, nearly \$31 million less than this year's adopted budget.

## FY 2010 BUDGET DEVELOPMENT GOALS AND PROCESS

Wake County had four primary goals as we developed the budget.

- First and foremost, was the collective agreement, by this board, that Wake County would not address projected revenue shortfalls by increasing the property tax rate. In light of the current economic climate, we determined that the services we provide next fiscal year should not be at any additional expense to our taxpayers.
- Without the option to make up revenue shortfalls by increasing taxes, we developed a second goal in the development of this recommended budget - that is that reductions must be sustainable. The budget problem we are trying to solve is a long-term problem that may last for more than two years.
- We will balance short-term reductions in the operating budget while maintaining a long-term perspective. While we have reduced the capital program next year, the changes have been about slowing or delaying projects. We need to maintain a long term perspective as we are still a growing county and have increasing infrastructure needs.
- Finally, we also recognized that cost reductions should be focused in a way that would have the least impact on service delivery and citizens. We looked first to reduce administrative and indirect costs and carefully evaluated reductions that would impact citizens.

All of these efforts have the same goal, to bring expenditures in line with revenues, and to provide Wake County citizens with a budget that is both sustainable and responsible.

The County has always worked under the premise that departments have the most knowledge about their operations. We asked departments to be proactive to the rapidly changing economy and to identify strategies to reduce their budgets by 10% on an ongoing basis – not just for FY10. Departments put forward their prioritized list of reduction proposals and

communicated the impacts that the cuts would have on services. We decided that we could not make across the board cuts to balance the budget, because some reductions would have greater impact to the community than others.

In March, viable reductions were not enough to cover the gap between projected spending and expected revenues. So, we asked some departments to offer additional reduction alternatives, beyond the 10% proposals they originally put forward. At the same time, we evaluated all vacant positions and examined other cost saving strategies and reorganization opportunities to identify more sustainable reductions.

The recommended budget for fiscal year 2010 is \$953.6 million, nearly \$31 million less than the budget we started with this fiscal year, and maintain the current tax rate of 53.4 cents.

## FY 2010 EXPENDITURES

It is helpful to describe the 2010 recommended budget by categorizing the expenditures into three broad categories: Debt and Capital, Education, and Wake County Government.

Budgeted Expenditures by Category			
	FY09	FY10	% Change
Debt and Capital Transfers	\$ 204,811,000	\$ 205,785,000	0.5%
Education	\$ 333,520,000	\$ 330,516,774	(0.9%)
County Government	\$ 446,029,000	\$ 417,298,226	(6.4%)
<b>Total</b>	<b>\$ 984,360,000</b>	<b>\$ 953,600,000</b>	<b>(3.1%)</b>

County Government Reductions	
Development Services	\$ (2,552,103)
General Government	\$ (8,594,919)
Libraries/Parks/Environmental	\$ (2,066,532)
Public Safety	\$ (2,873,873)
Human Services:	
Medicaid	\$ (13,937,157)
State/Federal Funded	\$ 6,892,177
County Funding	\$ (5,598,367)
Net Human Services Reduction	\$ (12,643,347)
<b>Total Reductions</b>	<b>\$ (28,730,774)</b>

Our transfer to debt and capital will essentially stay flat, increasing by less than 1%, or \$974,000.

The Education category includes funding for the Wake County public school system and Wake Technical Community College. Recommended funding for education will decrease by approximately \$3 million, a decrease of less than 1%.

The most significant decreases will be in County Government, and represents all of our spending which is not tied to Education or the capital program. The recommended budget reduces funding by \$28.7 million, or a 6.4% decrease from the current budget.

## County Government

The reductions in County Government reflect literally hundreds of ideas and proposals put forward by the staff and departments to reduce our spending. Some of these ideas and proposals represent small amounts of money and some represent large amounts of money. At the same time, some of the reductions

will not be noticeable to citizens, while others will be quite apparent. These reductions are recommended after careful consideration of the impacts on our citizens, staff and operations.

The recommended budget reduces the County workforce by a total of 122 positions. Of the 122 positions, 102 of them are currently vacant.

Position Reductions by Function			
	Vacant FTEs	Filled FTEs	Total FTEs
Development Services	14.50	5.00	19.50
General Government	8.00	7.00	15.00
Libraries/Parks/Environmental	13.50	4.50	18.00
Human Services	62.82	3.00	65.82
Public Safety	3.00	1.00	4.00
<b>Total County Government</b>	<b>101.82</b>	<b>20.50</b>	<b>122.32</b>

*Development Services*

As the local economy slowed, housing and development related services have seen the largest impact. Just as we added positions in development-related service areas as the market expanded, we must reduce the number of positions and resources to correlate with the decline in the housing and development market.

Considering all development services together, we will reduce spending by \$2.6 million and reduce the workforce by 19.5 positions. These reductions will be seen in the Register of Deeds, Planning, Inspections, Environmental Services, Fire, and Geographic Information Systems.

The budget also reflects a reorganization of resources and staff that are involved in the development process. We plan to consolidate staff and resources with the goal being a more efficient and consistent development review process.

*General Government*

General government includes the administrative and back-office functions of the County, such as Finance, Information Services, Facilities Design and Construction, and General Services. This category also includes our contracts with some Community non-profit organizations, and the County’s memberships in regional, state, and national associations. The recommended budget includes reductions totaling \$8.6 million and the reduction of 15 positions. These position reductions are in the departments that provide day-to-day support for the operation of Wake County government, such as Information Services, Finance, General Services, the County Manager’s Office and Board of Elections.

The recommended budget includes reducing all agencies receiving funding from the County by 10%. This includes: The Healing Place, United Arts, The Greater Raleigh Chamber of Commerce, Marbles, Communities in Schools, and others.

Agency or Organization	FY 2009 Adopted	FY 2010 Recommended
<b>Public Agencies</b>		
Communities In Schools	\$ 75,000	\$ 67,500
East Wake Education Foundation	50,000	45,000
Contribution to Marbles	1,000,000	900,000
Healing Place For Men & Women	500,000	450,000
African American Cultural Festival	200,000	180,000
North Carolina Symphony	34,000	30,600
Wake County Arts Council	350,000	315,000
Aid to Community Agencies	600,000	540,000
<b>Total Public Agencies</b>	<b>\$ 2,809,000</b>	<b>\$ 2,528,100</b>
<b>Memberships</b>		
CAMPO (Cap Area Metro Planning Org)	\$ 133,487	\$ 133,487
Institute Of Government	85,795	85,795
National Assoc Of Counties	11,253	11,253
NC Assoc Of County Commissioners	70,955	67,377
Raleigh-Durham Airport Authority	12,500	12,500
Triangle J Cog Contribution	203,361	190,556
<b>Total Memberships</b>	<b>\$ 517,351</b>	<b>\$ 500,968</b>
<b>Non Departmental Contracts</b>		
Consulting Fees	\$ 400,000	\$ 200,000
Federal Lobbyist	120,000	30,000
Historic Preservation	158,081	142,273
Women's Commission	12,500	11,250
Wake County Economic Development - Edge 3	100,000	75,000
Wake County Economic Development - Chamber of Commerce	305,000	289,500
<b>Total Non Departmental Contracts</b>	<b>\$ 1,095,581</b>	<b>\$ 748,023</b>

The budget does include resources for our Community Agency funding process. This is the competitive grant process for community not-for-profits. This funding is included in the budget but the funding amount has been reduced by 10%.

### *Human Services*

Of all County departments, Human Services comprises the largest portion of the budget, and provides community health programs and clinics, child and family services, mental health and substance abuse services, economic assistance and affordable housing programs. Some of these services are seeing increased workloads as the economy has slowed.

The recommended 2010 budget reduces County funding by \$5.6 million and the reduction of 65 positions. Our focus in Human Services was the same as our County-wide approach. First, look to reduce administrative and indirect costs and minimize reductions in areas that provide direct service to clients. Many of the position reductions involve administrative or supervisory positions, of which, all but 3 are vacant. Human Services will still have 65 vacant positions to allocate to their highest priority areas.

At the same time, the recommended budget reflects increases in State and federal revenues. Some of these revenues have been recently appropriated in this year's budget and are expected to continue next year. The budget reflects the elimination of the County's share of Medicaid.

The 2010 budget continues the Board of Commissioners commitment to mental health services with additional funding to cover a full fiscal year in our contract with Holly Hill Hospital. We continue to work with Holly Hill and our other community partners to implement a mental health system that provides cost-effective, quality healthcare.

### *Libraries/Parks/Environmental*

Reductions in this area total \$2.1 million and 18 positions. Most of the savings and reductions in positions are related to recommended changes in the Library system. Position reductions are also being recommended in Soil and Water and in our Solid Waste Fund.

The library system conducted their evaluation in a pragmatic and deliberate fashion. In order for the department to make reductions, they determined they would have to close branches, cut hours and/or eliminate one of the bookmobiles. The closing of libraries was low on our list of cuts, as it is a popular service to our citizens. But as we balanced the trade-offs, library closings and schedule changes were necessary. The budget recommends the closure of the Athens Drive and Duraleigh branches.

The closure of Athens Drive discontinues a contract between Wake County and the Wake County Public School System that allows public access to the Athens Drive High School library. The County funding has allowed for public access during the school day and for extended hours when the school was not open. Athens Drive Library will still function as a standard high school library to Athens Drive High School Students.

With the opening of the new Leesville Library in a few months, we are recommending the closure of the Duraleigh branch. The Duraleigh branch is in leased space and its closure will allow us to transfer resources instead of adding new resources for the Leesville facility.

The recommended budget includes the elimination of one of our bookmobiles. Bookmobiles serve child care centers throughout the County. The second bookmobile, which will continue to serve children in daycare, was placed into service in 2007.

Finally, the recommended budget includes savings resulting from a reduction in operating hours. We expect these changes will occur at times that will have the least impact on our customers.

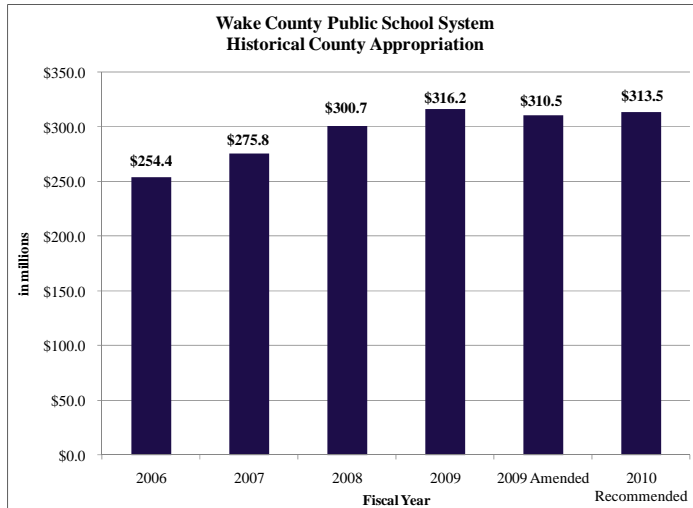
In total, Library Services will see a reduction of \$1.5 million and 14 positions.

In the areas of County parks, we are recommending some reductions; however, there will not be a reduction in the hours of operation at our 7 County parks.

## Public Safety

We have now discussed all the areas of County government except public safety. As you know, public safety is a priority. Our commitment to the safety and wellbeing of our citizens guided our evaluation of the proposals put forth by the Sheriff's Office, CCBI, EMS and Fire Rescue and Emergency Management.

These departments have very few vacant positions and reducing the level of services these departments provide is not a long-term option. We will not be taking any ambulances off the street, detention officers out of the jail, or Sheriff's deputies out of our schools or neighborhoods. We will however be eliminating four positions, two in the Sheriff's Office and two in CCBI. The recommended budget also includes the reduction of temporary staffing in the courthouse, and reflects reductions in contracts and equipment maintenance.



## Education

### Wake County Public School System

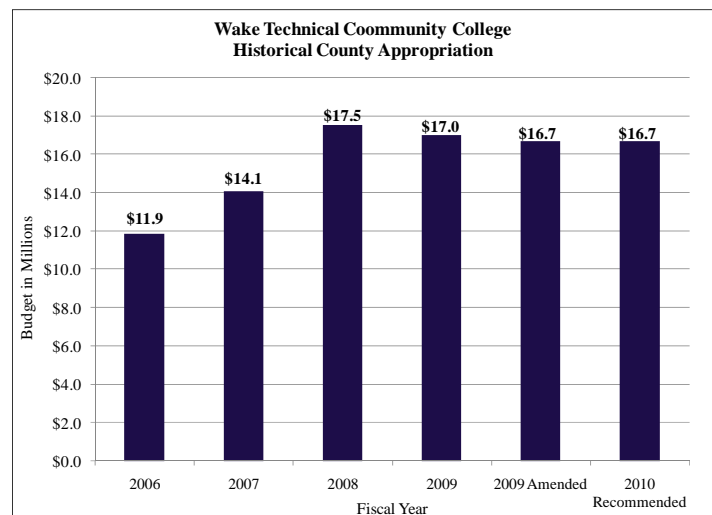
This year, the public school system's budget was \$316.2 million, which was revised during the year to \$310.5 million. In March of this year, we received the request from the Board of Education that totaled \$316.84 million.

The FY10 recommended funding for the Wake County Public School system is \$313.5 million. Essentially, it came down to what we could afford with our available resources.

In order to meet the request from the Board of Education another \$3.3 million in reductions would have had to be made in other areas of the budget.

### Wake Technical Community College

For Wake Technical Community College, this year's budget began at \$17.0 million and later revised to \$16.7 million. The FY2010 recommended budget includes the same amount as their current year amended budget, or \$16.72 million.



## Debt and Capital

Capital facilities and adequate infrastructure are critical for the County's continuing growth. The FY 2010-2016 Community Improvement Plan (CIP) is long-term oriented, anticipates future needs, and supports responsible stewardship of existing facilities.

The foundation of Wake County's seven-year Community Improvement Plan is long-term planning, part of which is maintaining a sustainable debt-financing strategy. The Board of Commissioners is aware of the challenges and changes we have made since September 2008 and these challenges and changes are reflected in the capital budget. The seven-year plan for capital expenditures totals \$903.2 million.

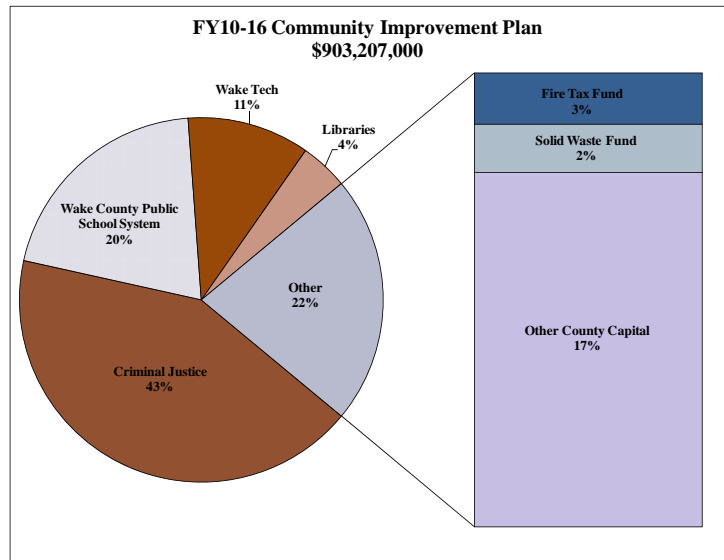
The FY 2010 - FY 2016 CIP addresses slower economic growth and revised debt issuance schedules by modifying some project schedules. The library construction and renovation projects previously scheduled for the next two years are now to begin in 2011. Similarly, we are postponing Open Space purchases, funded with bonds, until at least January 2011.

Due to the financial markets, we worked with the Wake County Public School System and Wake Technical Community College to delay project schedules. The CIP includes those revised schedules.

We have also made some one-time and recurring reductions in the CIP. The FY 2010 CIP includes a \$350,000, one-time reduction to the County contribution to affordable housing which is made up by excess program income and carry-over funds in the affordable housing portfolio.

The 2010 CIP includes \$450,000 in recurring reductions to community use of school parks. Since the pace of school construction has slowed, the number of potential sites for joint use of school parks is not as high as in past years. Furthermore, we are indefinitely postponing the next Regional Center which was planned to be built on the Western side of the County.

While there have been some schedule modifications and reductions, the CIP still includes projects that are moving forward as originally planned.



The Leesville Road Library will remain on track and open this fall. Likewise, we are scheduled to break ground on the Wake County Animal Care, Control and Adoption Center expansion in August. This effort will allow us to have a single sheltering system for all animals in the County by July 2010.

This past March, the Board of Commissioners approved the schematic design for our Continuum of Care facilities for mental health and substance abuse. This project remains on schedule to open in the fall of 2010.

Finally, the CIP includes appropriations for the Hammond Road Detention Center Phase II. We have begun the process to finance the project, with the bond sales to occur in July.

As we move forward we will continue to evaluate the capital program to determine the best financing options for the Justice Center. We will also continue to evaluate the best options for bond sales for schools and Wake Tech this winter and spring of 2010.

We have balanced project schedule modifications and reductions with projects that will remain on track. The result is that we are able to reduce the transfer to capital by \$3.5 million. However, this is a one-time strategy. This funding had previously been required to fund cash funded projects in the CIP. The recommended FY2010 budget includes this one time savings.

**SPECIAL REVENUE AND ENTERPRISE FUNDS**

The County administers special revenue and enterprise funds including the Fire Tax District, Solid Waste, and the South Wake Landfill partnership. As we have worked to increase efficiency and reduce spending in the general fund, we have had the same approach in these areas.

*Solid Waste*

The Solid Waste budget maintains the household disposal fee at \$20 per household. Revenues generated by this fee fund convenience centers, household hazardous waste disposal, environmental education programs and the County’s litter control program.

Wake County also administers the South Wake Landfill in partnership with municipalities. Included in the operation are the South Wake landfill and a transfer station in eastern Raleigh. The recommended budget maintains the tipping fees for South Wake Landfill at \$30 per ton and \$36 per ton at the East Wake Transfer Station.

*Fire Tax District*

The Fire Tax District provides fire protection services in the unincorporated areas of Wake County and in the Town of Wendell. The Wake County Fire Tax District budget for FY 2010 is \$20.3 million and maintains the existing tax rate at 8.0 cents. The district will continue staffing programs set in motion during the current fiscal year such as new full-time staff, equalizing retirement funding, and the construction of a new fire station in southeastern Wake County (Garner #4).

**EMPLOYEE PAY, BENEFITS AND POSITION ELIMINATION POLICY**

Throughout the budget process, we have spoken with employees at all levels of the organization. While there have been questions on many topics, nearly all employees understand the current economic climate. Our workforce has been engaged in the discussions on cost reductions and is assuming more work as positions remain or become vacant. However, in order to limit the need for additional spending cuts that may require further position reductions; the recommended budget does not include funding for pay increases.

The employee healthcare plan is estimated to require an additional \$1.6 million next year. The recommended budget includes \$800,000 and we will evaluate strategies to address the remaining \$800,000 that may include changes in employee premiums and/or changes in the health plan.

The recommended budget includes the elimination of 122 positions. Twenty of these affect current employees. It is important to understand that eliminating a position is different than laying-off a person from the County's employment. The recommended budget retains approximately 95 vacant positions—mostly in Human Services. It is our policy and practice to work with employees whose jobs are eliminated. Employees are given the opportunity to fill an alternate vacant position in their current department or in a different department in the County or they can choose to leave the County and receive a severance. We will work with each of these 20 employees and expect that all of them will have an option to remain with the County if they so choose.

**SUMMARY**

The FY10 recommended budget is \$953.6 million, \$31 million less than this year's adopted budget. It maintains the property tax rate at 53.4 cents and is the product of a lot of hard work in our departments. I am proud to represent this organization. Everyone was engaged in the challenge and participated in the difficult decisions.

The budget also reflects priorities; budget changes or reductions are not across the board.

On the lower end of the reductions, you see Education and the Sheriff. In the middle range of reductions, you will find other public safety functions like EMS and Emergency Communications, as well as Human Services. All other departments and agencies have been reduced by at least 8% from this year's adopted budget.

<b>Distribution of Reductions by Size</b>		
<u>&lt; 3%</u>	<u>3% - 8%</u>	<u>≥ 8%</u>
Wake County Public Schools	Emergency Medical Services	Board of Commissioners
Wake Technical College	Emergency Communications	Board of Elections
Office of the Sheriff	Human Services	Budget and Management Services
County Attorney	General Services	CCBI
Revenue	Human Resources	Community Services
		County Manager
		Environmental Services
		Facilities, Design & Construction
		Finance
		Fire & Emergency Management
		Information Services
		Outside Agencies
		Register of Deeds
		Soil and Water

We believe this to be a responsible budget given the economic times. But we are still not “out of the woods.” Just as we have done this year, that is, consistently reassess the economic landscape and adjust, we will need to do the same next year. Here are a few things we will need to see before we are sure further cuts are not needed next year and the following year:

- Building activity and building permits need to rise—we have not seen any evidence of this yet.
- This budget includes a modest growth rate of 1.5% in sales tax revenue. If sales do not increase or decline further, then additional changes will have to be made next year in our sales tax projections.
- We are using a one-time \$3.5 million savings in the capital budget to balance this year’s operating budget. As we work through the fiscal year, we will need to identify permanent savings in either the capital or operating budget.
- But our greatest unknown or concern is the situation of the State’s budget. At this time, the State legislature is working with the Governor to balance the State’s budget. Decisions made at the state level may impact our revenues or expenditures in the future.

We built this budget without a tax increase. Our goal was to bring expenditures in line with the available revenues. I believe the recommendations are sustainable and responsible. Everyone has worked extremely hard to arrive where we are today and we look forward to working with you, the Board of Commissioners and Wake County citizens on the budget.

We do “hope” that citizens will offer feedback to you all and the staff on the recommended budget. There are a number of ways in which citizens can be involved.

Immediately following the conclusion of the recommended budget presentation the budget will be posted online at [www.wakegov.com](http://www.wakegov.com), and copies will be available at all public libraries.

While they are online, citizens are encouraged to visit [WakeGOV.com/economy](http://WakeGOV.com/economy) to learn about the budget process, read answers to frequently asked questions and watch videos about the County budget and local economy. Citizens can also email comments to [budget@co.wake.nc.us](mailto:budget@co.wake.nc.us), and read comments submitted by others.

Wake County residents can also leave a voicemail at 919-664-5559, or speak at one of the two public hearings.

The next step will be for you to hold public hearings on Monday, June 1, at 2 p.m. here in the Boardroom and at 7 p.m. at the Wake County Commons Building. As in past years, you will hold a work session dedicated to the budget, scheduled for Monday, June 8. And on Monday, June 15 you will be asked to adopt the Fiscal Year 2010 Budget.

Thank you for your consideration of the recommended budget.

Respectfully submitted,



David Cooke  
County Manager