



## Budget Message

from the office of the County Manager



May 19, 2003

Wake County Board of Commissioners:

While we have experienced a slower economy and a number of layoffs, particularly in businesses in the Research Triangle, Wake County continues to be an attractive place. Though our average unemployment rate increased in Wake County, we still are maintaining a healthy growth rate, adding about 20,000 persons a year. Wake County is meeting the challenges of a growing community.

We continue to plan responsibly for our future, focusing on growth and environmental issues, and capital needs such as new schools, libraries, fire and ambulance stations and jails. Through discipline, careful budget planning and strict financial management, we have maintained our excellent bond credit rating, receiving the top rating from all major national bond rating agencies. We have done all of this in the face of State budget cuts, withholding of revenue owed to counties, lower-than-projected revenues, and heightened expectations of "homeland security."

In short, we have worked hard at maintaining a progressive, quality community that people want to live in today, and planning for the quality community in which people will want to live 20 years from now.

Last year, we recommended a budget that added no new programs and no expansion to existing programs or services. We provided a \$10-million increase for the Wake County Public School System's operating needs, while awaiting the results and recommendations of a Board-appointed citizens' advisory committee reviewing school operations. We did not raise taxes, keeping the rate constant for the third consecutive year.

Last year we used strategies to balance the budget that were unfit for long-term planning. We used one-time savings and borrowed from our capital budget, actions that are simply unsustainable over multiple years. In fact, our reliance on one-time revenues in fiscal 2002-03 started us down the path toward our budget planning process for 2003-04 by needing to make up \$22.2 million even before we considered budget requests by the Board of Education, County departments and County agencies. Because the County Commissioners put the ½-cent local option sales tax into effect December 1, 2002, we expect to be able to repay our capital fund by \$10.2 million, but that still leaves us with a \$12.0-million deficit to make up, even before we start considering new requests.

These types of strategies cannot be used any longer. We have tremendous demands from a public education system that grows by more than 3,000 students each year. The new Sheriff is beginning to make full use of the Hammond Road Detention Center. And, because of the sluggish economy, we have more demands for public health and mental health services, for food assistance, for affordable housing, so we need to find ways to meet those needs. We are continuing to grapple with higher security and bioterrorism readiness issues.

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The budget we are recommending this year meets the challenges before us on a financially sustainable basis. Here are the highlights:

- **For the first time in four years, a property tax increase is being recommended** to meet the needs of law enforcement, our public education system and human services programs. We are recommending an increase of 4 cents, to 60.4 cents per \$100 of valuation. (The owner of a \$200,000 house will pay \$80 more in taxes this year.)
- **The County appropriation to schools is recommended at \$223.7 million, an increase of \$20.7 million** from the current year appropriation. We also are recommending strategies to identify funds to meet the Board of Education's request for \$231 million.
- **We are recommending an additional 110 employees**, with the bulk of those – 68 – going to the Sheriff's Office to staff the new Hammond Road Detention Center. We also are adding staff in Human Services, particularly to bolster early childhood programs in the public schools but also to focus on communicable diseases and bioterrorism preparedness. We are recommending adding staff for the first time since 1992 to the General Services Administration, which maintains our buildings, grounds and fleet services.
- **The capital program will keep large projects on schedule**, including \$7 million in planned renovations at three Human Services facilities. We are committed to a solid, long-term and well-planned Capital Improvement Program. The model we have developed pays for that program over several years, and we remain committed to the long-term nature of the program and the financing model. We will ask voters to approve a bond referendum this fall to pay for new schools over the next four years, and also to pay for new libraries around the County.
- **We will continue to focus on growth and long-range planning**, implementing the Growth Management Plan and our Environmental Stewardship agenda, which includes the Watershed Management Plan and Comprehensive Open Space Plan.
- We are recommending **no additional funding over current levels** for most County departments, Wake Technical Community College or community agencies such as the United Arts Council, the Greater Raleigh Chamber of Commerce, Exploris, North Carolina Symphony, the Healing Place and Kids Voting.
- We are recommending **no change in the Fire Tax District or solid waste tipping fee or household fee**.
- We are offering **employees a choice in health care coverage plans** and asking them to share in the cost of their health insurance.

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## BUDGET OVERVIEW

The recommended **budget totals \$706,379,000**, a 6.6% increase from the current year.

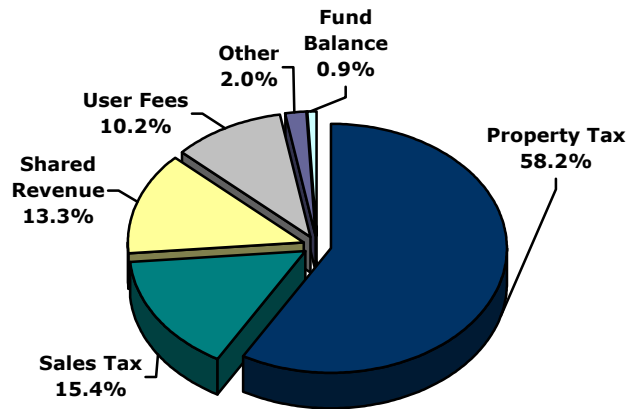
**Revenues:** Property tax and sales taxes make up the bulk of the revenue picture, and our forecasts are showing a slight improvement over our expectations for the current year.

The **tax base** is projected at \$68.5 billion, an increase of 3.8%, due mainly to growth in the residential sector.

**Property tax revenue** is projected to increase to \$411 million. About \$13.3 million, or a 3.8% increase, is due to growth. The recommended 4-cent increase in the property tax rate adds another \$26.3 million to the total.

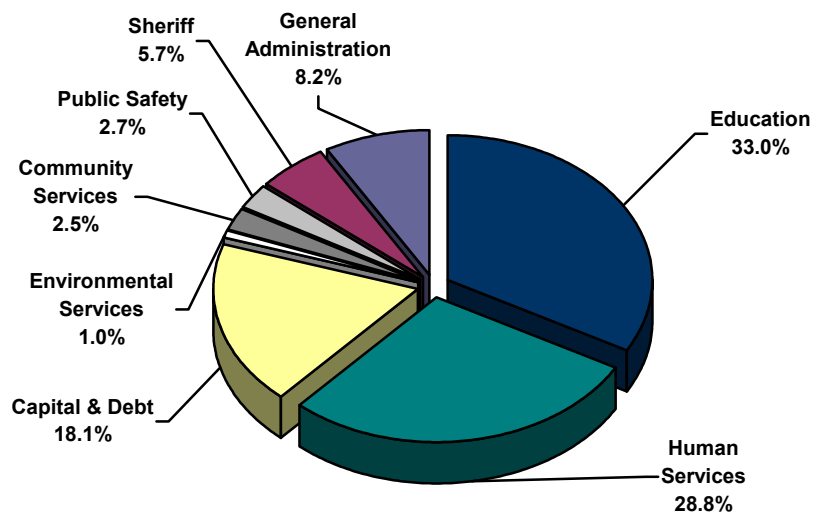
Revenue from **sales taxes** is projected at \$109.1 million, which includes \$17 million from the new 1/2-cent sales tax.

**Fees for services** are expected to generate an additional \$14 million, mainly from Human Services fees (projected at \$12.1 million more) and Register of Deeds activities (\$1 million).



**Expenditures:** The most notable expenditure is, again, for the **Wake County Public School System's operating budget**. A total of \$223.7 million is recommended to support the schools, \$20.7 million more than the current year funding. We are recommending a 10% increase in appropriations for the schools, and will ask the Board of Education to use an additional \$4.8 million of its fund balance. An additional \$1.5 million would be available from unrestricted local revenues. The Board of Education requested a total of \$231 million to meet the School System's goal of having 95% of students pass third- and eighth-grade end-of-year testing.

Another large expenditure increase will be in the area of **Human Services**. The base budget for fiscal 2003-04 includes



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\$10 million in anticipated increases, reflecting current year experience. These additional costs are matched by increased revenue projections. Wake County has experienced greater than anticipated activity in child and adult mental health services, \$6.6 million in reimbursed costs. Child day care subsidies, also fully reimbursed by the state, are \$1 million over budget. Foster care reimbursed costs are also \$1 million over budget this year. Lastly, the full-year impact of increases in staffing costs accounts for \$1.4 million of the growth in the base budget. We project continued growth in child and adult mental health services, and have added another \$3 million of revenues and expenditures in these and other program areas that are fully reimbursed by the state.

Related to the above-mentioned increases in **Medicaid reimbursements** is the obligatory increase in the County's portion of the overall cost of the Medicaid program. The County's Medicaid match is projected to increase by \$2 million in fiscal 2003-04; this increase is offset by \$1.3 million in line-item reductions identified during the budget process. In summary, Human Services expenditures are increasing by \$15.3 million and revenues are increasing by \$13.7 million. The increase to the County's general fund is \$1.6 million.

## We are recommending 110.7 new positions, including:

- The **Sheriff's Office** would receive 68 positions to staff the Hammond Road Detention Center, which requires three shifts of employees, seven days a week. The Center was finished in 2001 but has not been fully occupied because of lack of staffing. The current jail is over capacity by an average of 33%, which means that many detainees are sleeping on the floor. To increase safety for both the detainees and staff, and to relieve this severe overcrowding, we need to make use of the new facility. In addition, two investigators are recommended in response to increased participation in multi-agency task forces regarding terrorism readiness and homeland security.
- **Human Services** would add 39.7 new positions, including 12.7 for the Partnership for Educational Success program. This program engages families and community partners, such as churches, businesses, nonprofits and other agencies, to work with Human Services and the School System to improve a child's ability to succeed in school. Human Services staff, including child mental health staff, school nurses and case managers, are based in the schools to operate the program. Human Services also would add four (4) positions in the areas of

<b>Position Changes</b>	
Staff the Hammond Road Detention Center (68) and investigators (2) – (Sheriff's Office)	70
Partnership for Educational Success Program (Human Services)	12.7
Communicable Disease and Bioterrorism Readiness (Human Services)	4
Child Protective Services (Human Services)	8
Various Human Services positions for mental health, housing, maternal care, transportation, emergency assistance	15
Facilities and Grounds Maintenance (General Services Administration)	7
Parks Technician to staff American Tobacco Trail (Community Services)	1
Information Technology Engineers	2
Budget and Management Analyst	1
Positions reduced (Court Services)	(10)
<b>Net new positions</b>	<b>110.7</b>

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communicable disease and bioterrorism readiness, to ensure that we are ready to respond to any threats to public health, such as from tuberculosis, smallpox or SARS. Human Services also would add eight (8) positions to boost the foster care and child protective services area. Other staffing increases – 15 additional positions – are proposed in various programs such as mental health, housing, maternal care, transportation and emergency assistance. These latter positions are fully reimbursed and correspond to the continued growth in state-funded programs mentioned above. Human Services also is abolishing 10 positions from its Court Services program, which will be fully outsourced to the provider community on July 1, 2003. In summary, the net increase in Human Services staff is 29.7 full-time positions.

- **General Services Administration (GSA)** would add seven positions to help maintain new facilities, including several that are becoming operational or under County control in the new fiscal year: Five County Stadium, ten 800-megahertz radio communication towers for emergency communications, two Fire/EMS stations, two school parks and the American Tobacco Trail. Since 1992, GSA has taken on responsibility for an additional 1,060,445 square feet, bringing the total square footage to more than 3 million. Of this, 35% is operated 24 hours/day, seven days/week, or on extended schedule. GSA has outsourced and not added staff to keep up with this growth. The staff being added will include those who maintain buildings and grounds, as well as a second shift to maintain mechanical and electrical systems at County facilities, including emergency generators. Two of the positions, which will be dedicated to maintaining the Wake Consolidated Transportation fleet (which provides transportation services to Human Services' clients), will be fully funded through a state Department of Transportation program and from user fees.
- Because technology is so critical to our ability to function and provide services, we are recommending the addition of two **Information Technology Engineer positions** in Information Services. One position would support the County's complex computer database systems that provide data related to land and real estate, such as property appraisals and building permits. The other position would focus on the County's servers, providing maintenance, upgrades and performance and security monitoring. In the past four years, the County has doubled the number of servers needed for its computer systems from 50 to 100, and has not added staff. This also is an around-the-clock operation.
- Other positions added include a parks technician for the American Tobacco Trail and an additional budget and management analyst.

## ★ OTHER BUDGET HIGHLIGHTS

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### WAKE COUNTY BOARD OF EDUCATION

We are recommending funding strategies to meet the Board of Education's full request for \$231 million, which is up from the current year appropriation of \$203 million. Last year, funding for schools was established at \$203 million from the County, with the understanding that the School System would use \$10 million of its fund balance. In fiscal 2004, the County appropriation will increase from \$203 million to \$223.7 million.

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In addition, we are recommending the following funding strategies:

- The School System would be requested to add \$4.8 million of its own fund balance to the \$223.7-million County appropriation.
- An additional \$1.5 million from unrestricted local revenues is assumed to be available to the School System during the year.
- We are revising downward the School System's estimated funding to charter schools by \$1 million, to nearly \$7 million, based on revised enrollment projections.

Two years ago, Commissioners and the Board of Education jointly created a Citizens Advisory Committee to examine and make recommendations about the appropriate level of funding for school operations. That report was presented to you in February 2003, and its recommendations are considered in the School System's budget request.

Debt service on the bonds issued to pay for new school construction and renovations is rising in fiscal 2004 to \$91.8 million, a \$9.1-million increase from the current year level of \$82.7 million. That is part of our long-term capital improvement plan and financing model.

In addition to these expenditures, the County further supports the School System in achieving students' educational success with \$4.7 million in funding for school-based health and other teams, 4-H Youth Development, Ready-to-Learn Centers, School Resource Officer program, and the Safe Schools program run by the Cooperative Extension Service. The County also supports the School System with the Communities in Schools program at \$410,000, and the weekly maintenance of 17 school parks, which comes to \$261,000 per year.

With regard to the Schools' upcoming capital program (Plan 2004), County staff is working with the School System staff to recommend assumptions, project priorities and funding levels, which will be determined by the Board of Commissioners and the Board of Education in June 2003.

## **THE CAPITAL BUDGET**

The capital budget for fiscal 2003-04 totals \$81.8 million, with \$13.4 million financed through general obligation bonds, \$28.2 million through other financing sources (such as fire tax district, water/sewer fund balance, solid waste closure reserves) and \$40.2 million in pay-as-you-go funds.

In the current CIP financing plan, we are dedicating 17.5 cents of the property tax rate to the capital program, to provide funds for current and future debt service on the general obligation bonds we have issued to pay for schools and other capital projects, and also for pay-as-you-go projects. For fiscal 2004, we propose that we transfer 16.5 cents instead. In exchange for this, we are recommending that interest earnings from all funds be dedicated to the capital program. Because debt service payments and investment earnings are both interest-rate sensitive, the two are linked to leverage the variable debt portion of our portfolio.

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## **FIRE TAX DISTRICT**

Of the current 10-cent fire district tax, 2½ cents is dedicated to capital improvements in the district, while 7½ cents is allocated to operations and related improvements. For fiscal 2003-04, we are recommending **no change in the tax rate or the allocation formula.**

In the coming year, Stony Hill Fire/EMS station will open. We are providing increases to Stony Hill, Hopkins, and Apex departments for part-time staffing to improve response time and to all departments to begin implementing a uniform pay plan for fire departments.

We expect to complete a study examining Fire and Emergency Medical Services (EMS) station locations and making recommendations about future locations. It also is examining the types and numbers of fire trucks at each station and the appropriate staffing levels (for instance, the ratio of paid to volunteer firefighters) and will make recommendations about those needed in the future. This study is scheduled for completion this summer. The results of both of these studies will be considerations in the fiscal 2004-05 budget discussions.

The budget appropriations to the various fire departments for operations and related improvements total \$11.1 million, 5.1% higher than the fiscal 2003 appropriations of \$10,556,000. On the capital side, the recommended budget appropriations total \$3.9 million for fire stations and equipment.

## **SOLID WASTE ENTERPRISE FUND**

The Solid Waste Management Division receives funding from tipping fees charged to waste haulers at disposal sites and from the residential waste reduction fee assessed on each household in Wake County. We reviewed our estimated revenues and expenditures related to solid waste disposal, and are recommending **no increases in the landfill tipping fee or the annual household solid waste fee.**

We are in the process of evaluating all program goals and objectives and aligning our desired outcomes and priorities with the County's policy for environmental stewardship and the development of the Wake County Model Environmental Program. We have taken the first steps toward closer municipal collaboration for integrated solid waste systems within an umbrella of unified services, thus providing all of Wake County residents and businesses more effective and efficient programs.

## **EMPLOYEE PAY AND BENEFITS**

Like any business, Wake County's success is defined by its employees. We pride ourselves on our excellent customer service and hard work. We reallocate positions when possible, and adapt to changing demands by shifting employees or changing job responsibilities as needed. We also challenge employees to work smarter and harder, and emphasize the use of technology to help them work as effectively and efficiently as possible. We use a system of rewarding employees with annual increases, based strictly on performance. We also use our health plan as a way to provide incentives to employees and to help us remain competitive in the marketplace.

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The recommended fiscal 2003-04 budget balances the performance pay considerations with changes in how we approach continued escalations in health insurance costs.

The budget covers an **18% increase in health insurance rates**. To address the issue of affordability and provide a quality health plan, the County has used the following strategies this year:

- Solicited proposals for health insurance consultants and selected Aon Consultants to provide assistance in the health insurance area;
- Issued a Request for Proposals to interested health insurance providers. We received eight proposals, including from Blue Cross Blue Shield, Wellpath, Cigna and UnitedHealthcare, which is our current provider.
- Based on feedback from an employee focus group, our health insurance consultant and management team, UnitedHealthcare was selected as the County's health insurance service provider.
- We explored the option of becoming self-insured, which will require further review and analysis.
- We considered partnering with other comparable employers in the area, including other local governments.

Without plan modifications, the renewal provided by UnitedHealthcare represented a 23.5% increase in employer and employee-dependent coverage premiums. To offset the significant increase in cost for the County and dependent coverage, two health insurance plans will be offered to employees.

One plan, called the premium plan, continues the current point-of-service plan but will require for the first time a \$25 monthly payment by employees who have employee-only coverage. Dependent coverage premium increases within this plan will average around 19%.

The other plan, called a base plan, will require annual deductibles for employees of \$300 per year for individuals and \$600 for families. Employees with employee-only coverage will not have to pay for coverage, and those employees with dependent coverage will see no increase over last year's premium rates.

These proposed health plan modifications and rate changes represent an 18% increase (\$1.8 million) over the current fiscal year's budget for health insurance. The proposed changes will provide employees with a choice, while at the same recognizing the market realities of cost sharing.

To offset employee health insurance cost sharing and to continue to stay competitive in the market and retain high-performing employees, the fiscal year 2003-2004 budget recommends an average salary increase of 4%. This is not an across-the-board increase for employees, but a pay-for-performance system that rewards individual performance and productivity.

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## **MULTI-YEAR BUSINESS PLANS, LONG-RANGE OUTLOOK**

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Over the past year, all departments have prepared multi-year business plans. Just as the County plans for its capital projects over many years, we believe it is important to bring that mindset to the operational side of the County's business. This reflects our philosophy that the budget process – or the process of allocating scarce “taxpayer-derived” resources to seemingly boundless needs – is an ongoing process of management, not an annual event. Also, every successful organization knows where it is going and has a plan for getting there.

One ingredient essential to this ongoing process of allocating and managing resources is to have a plan outlining what we are trying to accomplish with the services we deliver or ensure are delivered. Therefore, each department's multi-year plan identifies its objectives and strategies detailing how it is going to accomplish what it wants to accomplish.

We intend to continue focusing on this type of long-term planning, both on the capital and operational sides of our budget.

We want to make you aware of a number of projects coming on line in the next few years, as they will incur operating costs that we will need to prepare for and cover.

- **Schools.** In August 2004, seven new schools will open.
- **Libraries.** The West Regional, renovated Cameron Village, Holly Springs branch and North Hills branch are expected to open in fiscal 2005-06 with an estimated operating impact of approximately \$1.8 million.
- **Parks.** In fiscal 2004-05, the Yates Mill Education and Research Center will open, followed by the opening of the Harris Lake Park Center in FY 2005-2006.
- **800-Megahertz Radio Communications.** The radio communication system is expected to be operating in the fourth quarter of fiscal 2003-04, and as a result, in the second year, fiscal 2004-05, a number of one-year warranties will expire. This means that Wake County will assume the operating costs associated with software maintenance, hardware maintenance, and pager and radio maintenance.
- **Criminal Justice Facilities.** Construction of Phase 1B of the Hammond Road complex is expected to begin in the fall of 2003, which means that it will open around July 2005. The cost of the facility will likely be incurred during fiscal 2005-06, when the detention center begins to reach capacity. The full cost of staffing and of housing the inmates is estimated at approximately \$5.6 million.

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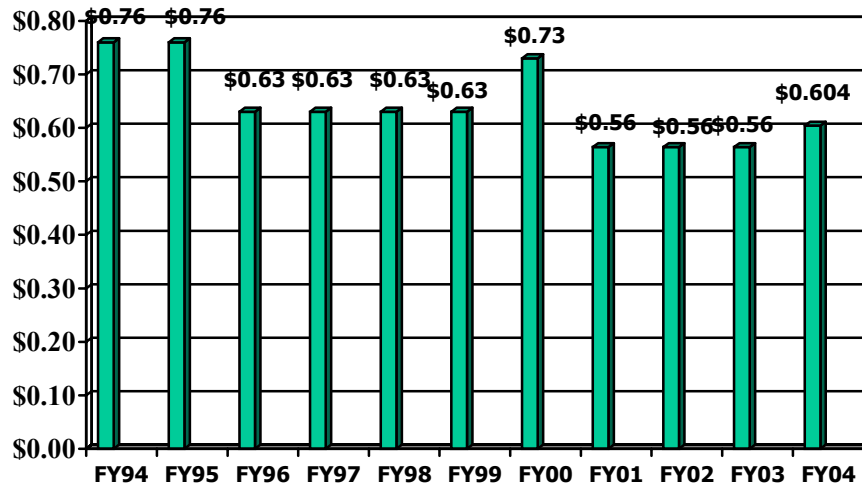
## SUMMARY AND BUDGET CALENDAR

The recommended fiscal year 2003-04 budget meets the community's expectations for a strong public education program, calling for a tax increase to pay for school operations – the first increase in four years. We are strengthening the Sheriff's Office and Human Services programs to provide for more public safety and to safeguard our public's health and emergency response capabilities. We are continuing long-term planning for County facilities through the Capital Improvement Program to ensure that we meet the demands of current and future growth.

Let me take a moment to provide additional perspective on the tax rate increase. I do not believe that we are an organization that recommends tax increases lightly or without good cause.

Since 1994, we have raised property taxes only once. In 1995, taxes actually were reduced by 13 cents per \$100 of valuation. They were not raised again until fiscal 1999-2000, when a failed bond referendum for school projects caused us to raise taxes by 10 cents per \$100 of valuation. The entire amount went to the Wake County Public School System – 8 cents was dedicated to capital projects, and 2 cents was dedicated to operating expenses.

### Wake County Property Tax Rates Per \$100 Assessed Valuation



Over the past 10 years, Wake County's population has grown by approximately 200,000 people. That has caused a tremendous demand on us, from libraries to schools to parks, from building inspections to restaurant inspections to well inspections, from public health programs to housing programs, from jail space to office space.

We have not needed a tax increase to keep up with that growth. We have stretched our staff and our programs, but we are at the point where that is no longer possible. We are on sound footing now with our services and our programs, but we will not continue to be on that same sound footing if we do not take actions today to prepare for tomorrow.

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The next step is your review of the recommended operating and capital budgets for 2003-2004. To begin this process, we ask that you take the following steps:

1. Officially receive the recommended fiscal year 2003-04 budget for your consideration.
2. Hold a public hearing on the budget during your regular meeting on Monday, June 2, at 2:00 p.m. in the Board Room of the Courthouse, and also that day at 7:00 p.m. at the Commons Building.
3. Hold your budget work session on Monday, June 9, at 10:00 a.m.
4. Consider the budget for adoption on Monday, June 16, during your regular meeting, which begins at 2:00 p.m.

We stand ready to assist you in your review and discussion.

Respectfully submitted,

A handwritten signature in black ink that reads 'David Cooke'. The signature is written in a cursive, flowing style.

David Cooke  
County Manager