



Leadership Partnership Stewardship Leadership Partnership Stewardship

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2007 Fiscal Year Adopted Budget

May 15, 2006

Wake County Board of Commissioners:

Each spring, it is the County Manager's responsibility, and privilege, to present a balanced budget to the Board of Commissioners and the citizens of Wake County for their consideration. The FY 2007 Wake County Budget I recommend today reflects the priorities established by the Board of Commissioners, including education, mental health, and public safety. The budget also builds on, and supports, our many community partnerships.

Wake County is the sixth fastest growing County in the nation. On an average day, we grow by 79 new residents and convert 27 acres of land to a human-built environment. Each month, we issue 1,000 new residential building permits. Each year, our public school system adds over 6,000 new students. The County's job growth continues to outpace the state and the nation. Our financial condition continues to be strong as evidenced by our AAA bond rating – Wake County is one of only 22 counties in the United States with a AAA bond rating from all three rating agencies. Visionary leadership, responsible stewardship and effective partnerships within the Triangle region and the County have contributed to our success, and these qualities will be required to meet the future challenges as we continue to grow to a projected population of nearly 1.4 million 25 years from now—nearly double today's population.

The Board of Commissioners is to be applauded for leadership and planning efforts. In January of this year, you established priority goals to serve as the focus of your energy while leading Wake County through this time of rapid growth. To address the capital needs of our school system, you have worked with the Wake County Public School System through recurring monthly meetings to prepare for the System's new building program. To address a broader array of community

needs, you commissioned the Blue Ribbon Committee on the Future of Wake County. This committee of sixty-five community leaders has evaluated the countywide infrastructure for the next 25 years and determined the funding needs and potential revenues sources and will make recommendations to you on addressing these long-term needs.

This weekend we read the polls about our citizens' responses to tax increases to build new schools, with some uncertainty about their support for mandatory year-round schools. On the other hand, driving to work this morning, I saw yard signs urging "NO mandatory year-round schools." It is our responsibility to provide funding for schools to meet both operating and capital needs. After meetings with the many families whose loved ones have a mental illness, you have committed funds and support for a local inpatient psychiatric facility. And we have worked hard to ensure that our community can provide the many other services needed when hospitalization is thankfully not needed. You as the County's elected officials are responsible for ensuring the Sheriff, EMS, fire and emergency management are protecting the public safety and health of our citizens.

Tackling these issues and garnering public support for them will test our leadership, our partnerships and our stewardship. These high-quality public services are opportunities our citizens can see and value. We have shown ourselves to be excellent stewards of the public's money – and, now, we are asking for their continued support and trust in our accountability. This is the context for the budget I am recommending to you and our citizens today.

The FY 2007 Recommended Budget is one step in the process of achieving our long-term goals. We face many challenging decisions in the coming years, and the FY 2007 budget is the next one. The total recommended General Fund Budget for FY 2007 is \$849 million, which includes a 3-cent tax increase in the property tax rate to adequately fund education in our community, follow through on our com-

mitment to care for citizens needing specialized mental health services, and improve a range of public safety services throughout the County.

REVENUES

The County is fortunate to have a strong property tax base. As the economy continues to rebound and housing starts remain steady at more than 1,000 building permits each month, the tax base remains strong and is expected to grow by 4.9% over 2006. This projection is slightly up from the assessed value estimates shared at the Board of Commissioners annual planning retreat. New revenue from normal growth in property (\$22.3 million) and sales taxes (\$4.1 million) is expected to increase by \$26.4 million. But this growth alone is not sufficient to meet the priorities outlined in this budget and therefore, this budget recommends a 3 cent property tax increase that will generate an additional 22.9 million.

Sales Taxes

Sales tax is the County's second largest revenue source and is affected closely by the national and regional economies. While sales tax growth remains steady, the projection for FY 2006 is that the revenues will be slightly less than estimated. Because of this, and because of the uncertainties surrounding consumer spending as fuel prices continue to rise, the FY 2007 estimate reflects an increase of only 3% over the current budget.

FUNDING OUR PRIORITIES AND COMMITMENTS

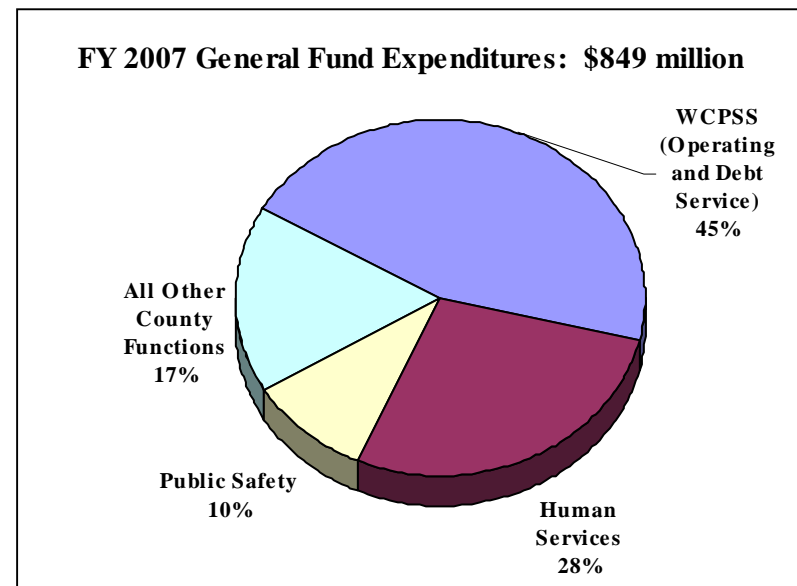
Early in every budget process, we identify funding needs required to honor previous commitments and to adhere to sound financial policies. Often, the increases required for these areas consume a large portion of new revenues. Before considering anything else, the budget funds these areas:

- Transfers to the Debt Service Fund and Community Improvement Plan—To provide sufficient funding for community improvements and to maintain our AAA rating, we commit 16.5 cents of the property tax rate to debt service and the CIP. The additional funding needed in FY07 is \$5.6 million;

- Annualization of new facilities opened during FY 2006—The FY 2006 budget funded several new facilities for partial years including 4 new or expanded libraries. The FY 2007 budget requires new funds of \$1.5 million to operate these facilities for a full year;
- Wake Tech will open additional new facilities that will increase the need for County funds by \$1 million;
- Annualization of employee pay and benefit increases in FY 2007 totals \$1.4 million;
- Increases in fuel and utility costs will total approximately \$1.5 million;
- State-mandated increases—Wake County's local match for Medicaid services will increase by \$2.2 million next year; and
- To continue funding to the Wake County Public Schools at the same equivalent tax rate level would require approximately \$12.7 million.

These commitments total more than \$25.9 million and are slightly less than the amount of new revenues available from the current tax rate and sales tax dollars.

The total recommended General Fund Budget is \$848,969,000. The



funding allocation emphasizes the County’s highest priority areas with the Wake County Public School System receiving approximately 45% of the budget for operating and debt service expenditures, Human Services – 28%, Public Safety – 10%, and all other functions of County government representing 17%.

Wake County Public Schools

Enrollment growth continues at a fast pace for the Wake County Public School System (WCPSS).

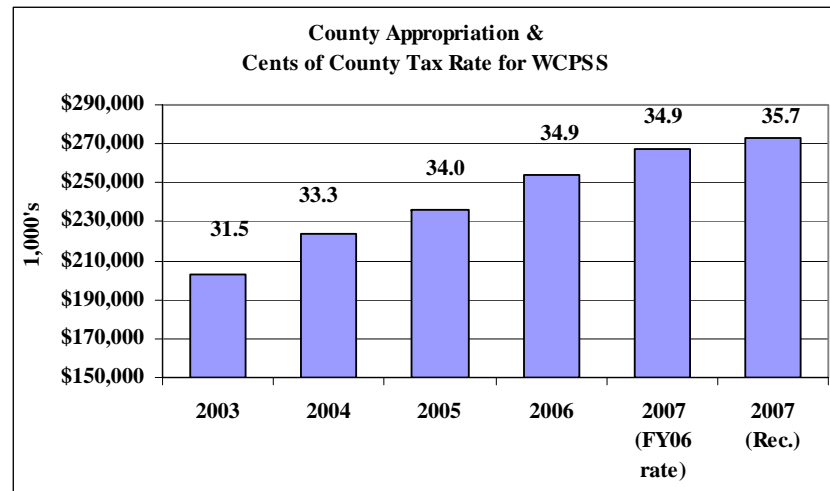
The Board of Education’s Plan for Student Success is built on an enrollment growth estimate of 7,060, which would be a 5.9% increase from the 2005 20th day student enrollment.

Public Schools Funding	
FY 2006	FY 2007
\$254.4 m	\$272.9m
7.3 % Increase	

For operating needs, the Board of Education requests total funding from the County of \$275.8 million, an increase of \$21.4 million over FY 2006. The County has committed to the funding increases in student enrollment and the cost of opening new schools. The County’s per pupil funding for FY 2006 is \$2,030. Based on a projected student enrollment for FY 2007 of 127,564 and the opening of six new elementary and two new high schools during FY 2007, the County appropriation to WCPSS is recommended at \$272.9 million, a 7.3% or \$18.5 million increase. This will increase per pupil funding to \$2,066. In addition to direct operating support, debt service related to school construction will increase by \$6.6 million to a total of \$113.7 million, bringing total funding for WCPSS to \$386.6 million or 45% of the total County operating budget.

While this budget does not fully fund the School System’s request, the recommended County funding demonstrates the County’s commitment to quality education as County funding continues to outpace the growth in numbers of students. Over the past six years, County funding will have increased by an average of 7% while the student population will have increased an average 4.6%.

For the past five years, WCPSS’ share of County property tax revenue has grown each year. For FY 2007, the County appropriation for operating expenditures equals 56% of the property tax rate.



Wake Technical Community College

The budget recommends a third consecutive year of increased funding for Wake Tech. Since FY 2004, the County’s support of the College has increased by 73% to a total of \$14.9 million.

The FY 2007 increase of \$2.2 million is proposed primarily for: North Campus start-up staffing (\$990,000); plant operations and maintenance costs due to expanded campus facilities, including the first building at the new North Campus (\$1.02 million); and maintenance contracts, technology costs and salaries and benefits funded by County (\$470,000).

Community College Funding	
FY 2006	FY 2007
\$12.7 m	\$14.9 m
17 % Increase	

In addition to operating budget funding, the Community Improvement Plan includes \$750,000 in increased pay-as-you-go funding for general repairs and renovations at College facilities. These funds are for furniture, fixtures and equipment for first North Campus building.

Mental Health and Human Services

The Human Services FY 2007 budget of \$235.9 million continues a range of services from mental health treatment to flu shot clinics to em-

ployment training. County tax dollars fund \$84 million of these services, with other revenue sources comprising the remaining funds of \$145 million in services.

The State’s mental health reform efforts have significantly impacted – and will continue to impact – how Wake County consumers receive mental health services. As part of mental health reform, the pending closure of Dorothea Dix hospital reinforced the County’s need for local inpatient psychiatric beds. The budget commits \$5 million to meet the needs of clients requiring in-patient psychiatric services as payments from Medicaid, private insurance and clients themselves are not expected to be sufficient to cover the total cost of care. We have continued to work with our local partners to pursue a local psychiatric hospital for this area, and will use this \$5 million to make good on our commitment to fund operating gaps.

Human Services	
FY 2006	FY 2007
\$ 245.8 m	\$235.9 m
4% Decrease	

The Human Services budget includes other significant changes related to the State’s Mental Health Reform. The State recently reduced its funding for Wake County’s Local Managing Entity by approximately \$3.3 million. Those cuts, in both revenues and expenditures, are reflected in the budget.

Also, the budget includes an increase of over \$2 million for the “Medicaid match” – the portion of the State’s Medicaid cost that it passes on to all 100 counties. In other changes, Human Services’ budget decreases by \$20 million in both revenues and expenditures related to Medicaid-funded services. These reductions do not mean that Wake County consumers will lose benefits or receive less service. Instead, these reductions reflect the fact that community health providers will bill the State directly for Medicaid reimbursement, and these transactions will no longer pass through the County’s books.

The budget includes increases to keep up with population growth. It includes 39.5 new staff members to maintain services levels in:

- Maternal and Child Health
- The Child Health Clinic
- The Women’s Health Clinic
- Child Protective Services
- Foster Care and Adoption Services
- School Health Nurses

Public Safety

The recommended budget increases funding for the high priority area of public safety. The annualized costs of new facilities are included, as well as improvements to existing services and some new services.

Sheriff’s Office: The Sheriff’s Office budget increases by \$6.2 million, largely resulting from the annualization of detention positions at the new Hammond Road 1B Detention Facility (\$2.5 million). The budget also funds cost increases in inmate health care services, food services and the Sheriff Safekeeper’s program. Law Enforcement increases support the final phase of vehicles purchased in FY 2006 for Courthouse deputies. Lastly, approximately \$500,000 is provided to adjust detention and law enforcement salaries for salary compression. Salary compression occurs when market conditions require higher starting salaries while existing employees’ pay is not adjusted to reflect the change in market conditions. This is a one-time adjustment and will become effective in October.

Sheriff’s Office	
FY 2006	FY 2007
\$49.0 m	\$55.2 m
13 % Increase	

Emergency Medical Services: The budget funds increasing costs for staffing, fuel, and supplies. On the recommendation of the EMS Peer Review Committee, the budget funds new ambulances needed to meet existing response time goals. Three new ambulance units will be in service during the daytime, when the need is highest. To better meet system-wide response time goals, these units will not be limited to a specific geographic area, but deploy around the County. The budget also converts a 12-hour unit stationed in North Raleigh (the Durant Road service area) to a 24-hour unit.

Law Enforcement and Inmate Detention: The budget funds a full-time Forensic Computer Examiner position in the City-County Bureau of Identification (CCBI). This position will assist the County's law enforcement agencies by analyzing computers, cell phones, PDAs, and other technology used by criminals. To address inmate detention, the budget funds the Criminal Justice Advisory Board's recommendation to expand the capacity of the electronic monitoring program from 60 to 85 positions.

Again, the foundation of our request supports these three priority areas of critical need -- education, mental health and public safety. Largely to fund these priorities, this budget calls for a 3-cent increase in the property tax rate, from 60.4 to 63.4 cents per \$100 of valuation. Beyond funding our priorities, this budget holds the line in other areas of County government, including parks, inspections, permitting and other areas.

OTHER EXPENDITURE HIGHLIGHTS

Libraries

The Library Master Plan calls for the opening or expansion of new libraries from 2006-2010, and the recommended budget provides funding to run these new libraries.

The new West Regional Library and Holly Springs Community Library

	Projected Opening Date	New Square Footage	New Positions in FY07
West Regional Library	August 2006	30,000	-
Holly Springs Community Library	December 2006	8,000	5.0
North Regional Library	January 2007	12,000	4.5

are scheduled to open during the first part of FY07. This year's budget provides the remaining funds needed to staff and open these libraries and annualizes funding for operating Cameron Village Regional Library, which re-opened in January 2006. Providing full year funding

for these three facilities adds \$1.3 million to the FY07 budget.

The FY07 budget also includes dollars for the expansion and relocation of North Regional Library, which is scheduled to open in January 2007. In addition to funds provided for recruitment and training in the first part of FY07, the budget also includes a half-year of operating funds for the expanded library.

General Services Administration

Rising utility costs drive the recommended increase for General Services (GSA)—of the nearly \$2 million increase, utilities account for 80%. The utilities budget anticipates a four percent increase in electricity and 11% in natural gas, combined with the annualization of utility costs for the recently opened Hammond Road 1B Detention Facility.

The recommended budget also supports four cost-neutral positions to address facility maintenance, management of after-hours security events, and maintaining the facility management system for the County's portfolio. In addition, the vehicle fleet fund will support an additional Master Mechanic position to address demands associated with a growing fleet inventory.

General Services	
FY 2006	FY 2007
\$ 23.1 m	\$ 25.0 m
9% Increase	

Other County Departments

The budget funds additional resources for these County departments:

- Budget and Management Services: one position to provide additional financial analysis, long-term planning, and project management;
- Community Services - IDPP: one position to support increase volume in Plans and Permits.
- Information Services: one additional position to support the billing and collections system, a key part of the County's revenue application. Funds are also included for increases in license and maintenance fees that support desktop services and network security.
- Planning Department: one additional Planner I to provide coor-

dination for code enforcement

- Register of Deeds: one position to better meet service demands in the Vital Records Office

Fire Tax District

The Fire Commission, which makes recommendations relating to fire service in the Fire Tax District, unanimously recommends a FY 2007 operating budget consistent with its Long-Range Plan, approved by the County Commissioners in February 2005. The budget, which does not propose a tax increase, funds cost increases for fuel, liability insurance, and health plans. The Fire Commission’s budget also funds a number of staffing improvements, including an additional \$200,000 to support volunteer stipends, seven additional full-time firefighters at rural departments, and funding to cost-share eight positions with Fuquay-Varina, Garner, and Holly Springs.

Solid Waste

The FY07 Budget for the Solid Waste Enterprise Fund totals \$22.8 million for the cost of operating North Wake Landfill, Citizen Convenience Centers, and recycling promotion and other solid waste activities. The budget includes \$3.7 million reserved for the possible construction of the South Wake landfill, which the Board of Commissioners will discuss in June. The budget does not increase the landfill tipping fees or household fees, which make up over 80% of the fund’s budget.

SUPPORT FOR MEMBERSHIPS AND PUBLIC AGENCIES

The budget includes County funding to community agencies and not-for-profit organizations. The Recommended Budget provides \$3.1 million for memberships and public agencies. Memberships will require a 12% increase. The budget recommendation maintains our commitments to public agencies. While the funding does not fully fund the request for two of the agencies, United Arts Council and Wake County Economic Development, it does restore their funding to the FY 2002 level. Also included is funding for the County’s commitment to the EDGE3 program, a five-year program in conjunction with North Carolina State University to attract technologically oriented employers to the County. The following table summarizes these allocations:

Agency or Organization	FY 2006	FY 2007	FY 2007
	Funding	Requested	Recommended
Memberships:			
North Carolina Association of Co. Commissioners	\$ 57,750	61,523	61,523
National Association of Counties	9,051	11,257	11,257
Institute of Government	69,950	74,904	74,904
Triangle J Council of Governments	168,020	170,788	170,788
Capital Area Metro Planning Organizations	121,412	161,634	161,634
RDU International Airport	12,500	12,500	12,500
Subtotal Memberships	\$ 438,683	492,606	492,606
Public Agencies:			
The Healing Place of Wake County	\$ 242,750	250,000	250,000
The Healing Place for Women	150,000	250,000	250,000
Wake County United Arts Council *	301,000	350,000	310,000
North Carolina Symphony	34,000	34,000	34,000
Exploris Operation Contribution	1,000,000	1,000,000	1,000,000
Operating Support for Soccer Center	150,000	150,000	150,000
Mid-Eastern Athletic Conference	200,000	200,000	200,000
Women's Commission of Wake County	12,500	12,500	12,500
Wake County Economic Development *	286,500	306,867	295,000
Wake County Economic Development - EDGE3		100,000	100,000
Subtotal Public Agencies	\$ 2,376,750	2,653,367	2,601,500
Total Memberships and Agencies	\$ 2,815,433	3,145,973	3,094,106
* Restored funding to F Y 2002 levels			

EMPLOYEE PAY AND BENEFITS

The County is able to provide excellent, customer-valued services because of the hard work and dedication of roughly 3,500 employees. Our pay system awards salary increases based strictly on performance within market-competitive pay ranges. The competitiveness of our pay ranges are evaluated each year through targeted salary studies. All pay ranges will be adjusted this year between 2% and 5% in the FY 2007 budget to ensure our ranges remain competitive. Approximately 100 employees’ pay will be increased to bring their current salary to the new pay minimum. Also, the recommended performance pay increase is budgeted at 4%.

The County provides a comprehensive program of benefits to employees, including a 5% contribution to a 401(k) savings plan, participation in the state retirement system, County-paid life insurance and long-term disability, optional life insurance and short-term disability programs and dental insurance. All these benefits will remain unchanged in FY 2007.

One benefit, the County's health insurance plan, will change somewhat in the upcoming year due to continuing increases in the cost of health care and increased usage of health care services by our employees. The adjustments being made to the health insurance plan in FY 2007 are designed to ensure that the County has adequate revenues to cover its claims with as few changes as possible to our current Base and Premium health insurance plan options. In the coming year a full evaluation of health insurance options and costs will be conducted under the leadership of the County's Health Insurance Core Team, a cross-departmental team, including a retiree representative, to work with our health care consultant in FY 2007 to develop a sustainable, strategic plan for health care. This evaluation will include input from a broad cross section of County employees and will result in a long-term strategic plan for health care for the organization.

A detailed analysis of our FY 2006 claims and trends in our health care utilization over the past few years indicates that both medical and pharmacy services costs continue to increase at slightly higher rates than industry norms and that the rates for the County's Premium Plan are not sufficient to cover the costs incurred by these plan participants. While adjustments were made last year to address this trend, claims data indicated that further adjustments must be made in FY 2007 to properly price the Premium Plan.

To cover these increases, benefits changes will be made to both the Base and Premium Plans: the co-pay for specialist services will increase from \$25 per visit to \$35 per visit and the prescription drug cost for the most expensive group of drugs (Tier 3) will increase from a \$50 co-pay for each prescription to a range of \$50-\$100 co-pay depending on the cost of the drug.

Both plans will also reflect changes in the co-insurance for outpatient hospital and surgery services to allocate costs to the users of these services. Co-insurance for the Base Plan will go from 90% to 80% and the Premium Plan will go from 100% to 90%, with a maximum out-of-pocket of \$1,500 for single subscribers and \$3,000 for dependent cover-

age.

The County will increase its share of health insurance contributions by 7.5% or \$800,000, and will continue to cover 100% of the employee-only level in the Base Plan. Dependent coverage rates paid by employees will also increase 7.5% on the Base Plan, with employee contribution rates on the Premium Plan increasing by \$29 per month for employee only coverage to \$112 per month for family coverage.

Providing an affordable health care plan that meets the needs of the County's active employees and retirees is a challenging task. I look forward to sharing the work of the Health Insurance Core Team over the next year so together we can craft a plan that balances care for our employee family with the fiscal stewardship our citizens expect.

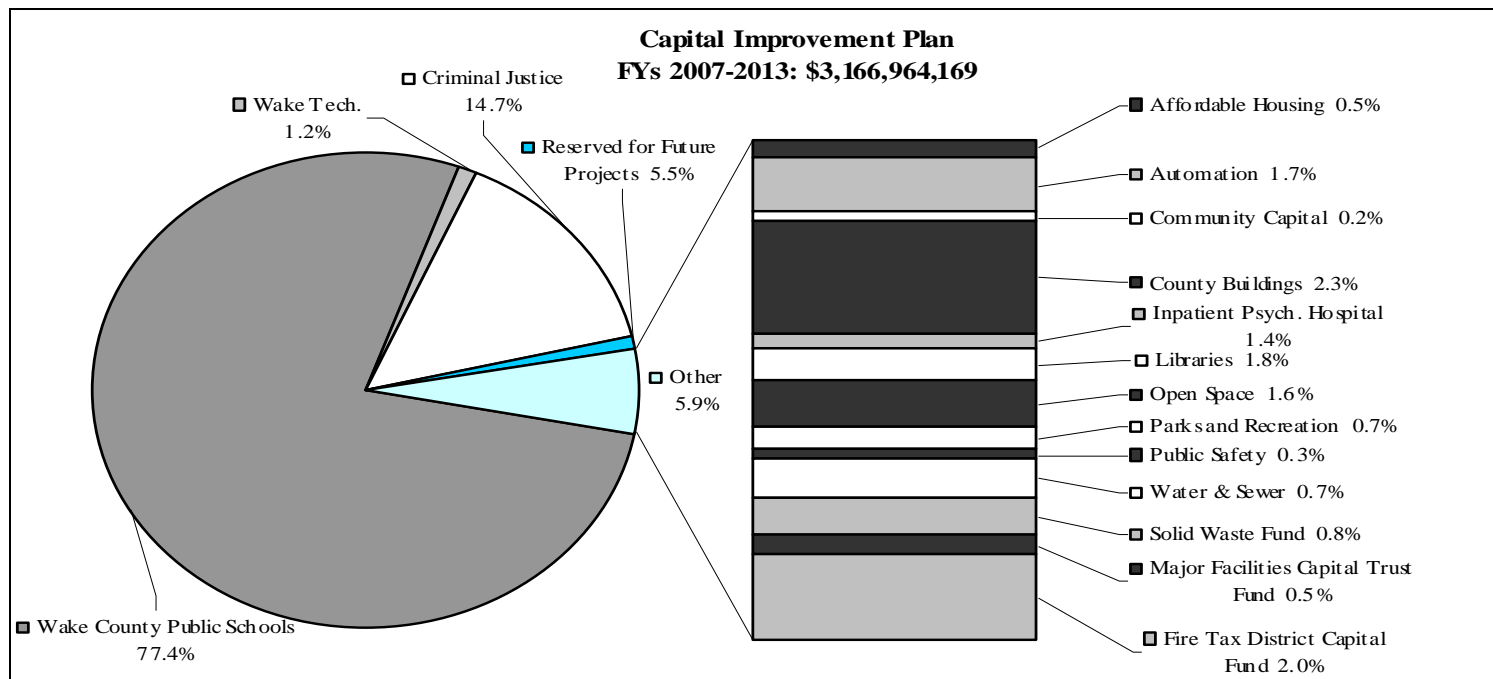
COMMUNITY IMPROVEMENT PLAN

The FY 2007-2013 Community Improvement Plan (CIP) totals \$3.2 billion, with FY 2007 accounting for \$235.4 million of those expenditures. The recommended CIP reflects the priorities of the 2006-2012 Plan. This seven-year plan invests heavily in education, for both the Public Schools and Wake Technical Community College. It also allocates considerable resources to criminal justice, public safety, and mental health. Changes have been made to update timing and cost estimates and to add some new and previously identified projects that align with the County's priorities. The sections below highlight the major changes to this year's Capital Plan.

Station #2 to accommodate an ambulance and staff.

In the area of mental health, the CIP also provides \$6 million for an Inpatient Psychiatric Facility. With this funding, the County's total funding reserved for this community improvement is at \$10 million. We will continue to work with the State and our community partners to address this need.

Wake County Public School System: The Board of Commissioners top goal for 2006 is to work with the school board to develop strategies and an action plan to meet growing school capital needs, including an expedited school bond in November 2006. The amounts included in the CIP are tentative until final decisions are reached on the size of the bond.



CIP Highlights

New Projects: The Community Improvement Plan recommends two new projects in the areas of Public Safety. These include planning and design funds for future EMS facilities and expanding the Wendell Fire

Criminal Justice: Developing a long-term plan for the County's courthouse and judicial facilities needs was another of the Board of Commissioners goals for 2006. The County's rapidly growing population will place increasing demands on the County detention and court facilities. To keep up with growth, the FY07-13 CIP includes \$468 million for

Criminal Justice facilities. The Board of Commissioners endorsed this plan in FY 2006, along with a funding strategy for the capital improvements proposed through 2013 for both detention and judicial facilities.

LEADERSHIP, PARTNERSHIP, STEWARDSHIP

The FY 2007 Recommended Budget balances the need to support the County's highest priorities with the need to maintain service levels. This budget, and the budgets to come, will challenge us as we continue our efforts to plan responsibly for the future of our growing community. The FY 2007 budget was developed within the context of our long-range financial planning model, to ensure that we remain financially strong in the face of these challenges. In future budgets, we will also be able to consider recommendations from the Blue Ribbon Committee that you commissioned, which has worked tirelessly throughout the past five months to strategically assess our long-term needs. With this dedication to long-range financial and infrastructure planning, we will be better equipped to help Wake County continue to be a great place to live, work and play.

As leaders of our community, we will continue to take a long-term approach to financial planning. This will enable us to maintain our strong financial position and use taxpayer dollars efficiently. Specifically, we will work with our community partners to:

- Plan comprehensively for mental health programs and, specifically, an Inpatient Psychiatric Facility;
- Implement a new capital building program for public schools;
- Pursue legislative authority for a half-cent local option sales tax for school construction;

- Monitor and analyze the deployment of public safety resources, including ambulance units and fire department staffing.

By maintaining service levels and increasing support to the community's highest priority programs, Wake County will continue to be recognized nationally as a great place to live, work, conduct business, earn an education and enjoy a high quality of life. As we lead Wake County through this period of change and growth, we will strive to maintain and build partnerships with community stakeholders, and we will continue to be good stewards of the taxpayers' resources.

Respectfully submitted,



David C. Cooke
County Manager

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