



Budget Message 2002-2003

from the office of the County Manager

May 20, 2002

Wake County Board of Commissioners:

The past year has dramatically changed our lives, unlike any other year. Since I stood before you last year to present my recommended budget, we have experienced profound changes in our economy and our sense of security.

The events of September 11 will be with us always. In a single hour, our world as we knew it changed drastically. The ramifications of that tragedy accelerated an economic recession that was already well underway, and has had a direct impact on us at both the state and county levels. It also has had an impact on how we approach security issues.

Fortunately, Wake County continues to grow and progress, despite the setbacks and slowdowns. In many ways, we are on the right track to continue meeting the demands of growth by planning responsibly for our future and being fiscally conscientious as we grapple with budget pressures. However, we are going to be challenged to continue meeting the needs of growth, as our budget remains relatively flat.

Last year, I presented a budget that recommended expansions in several areas, including education, environmental services, human services and public safety, both in Emergency Medical Services and the Sheriff's Office. This year, I am recommending a budget that is much different.

Let me go straight to the bottom line:

- There are **no additional recurring revenues** in next year's recommended budget. What we gained in additional property tax revenue from growth will be erased if, as we expect, the State of North Carolina withholds our reimbursements revenue.
- **Taxes will not be raised** and will remain at the current level of 56.4 cents per \$100 of valuation for the third consecutive year.
- There are **no increases in most line items** from the current year budget, even to account for inflation. In very few cases, such as contractual obligations, we have provided increases as needed. However, in many cases, line items have been reduced.
- **School operating spending is recommended to be \$203 million, an increase of \$11.3 million** over the amount provided by the 1997 agreement with the Board of Education. This also is an increase of \$10 million over the current year appropriation.
- **We will not add new programs, or expand current programs or services.** In some areas, programs will be consolidated, and in some cases, programs will be cut back. We tried to focus on those that would least affect citizens. One new facility, the Eastern Regional Center in Zebulon, will open in the fall as planned, but at minimal staffing levels.
- **Some fee increases are proposed.**
- **The capital program has been reduced, but large capital projects will stay on schedule.** We have worked very hard to put into place a solid, well-planned Capital Improvement Program, and we have shown you the model for paying for that over several years. As we all know, capital is one of those areas that seems easy to delay or stop, but you always pay much more in the end because every year that you postpone, the commensurate costs go up.
- **Wake Technical Community College funding remains at the fiscal year 2001-02 level.**
- **Outside agencies** (such as United Arts, the Symphony, The Healing Place and others) **will be reduced by 2.9%**, which is the average reduction of County spending.

HIGHLIGHTS OF THE RECOMMENDED FISCAL 2002-03 BUDGET

The recommended fiscal year 2002-03 Wake County budget totals \$634,345,133, a 1.34% increase from the current year's amount. The property tax rate remains at the current level of 56.4 cents per \$100 of valuation.

Revenue: Property taxes, sales taxes, investment earnings, fees for services, and State reimbursements comprise the main revenue sources where we expect variations from fiscal 2002.

The **tax base** is projected at \$66 billion, an increase of 4.5%, due to growth in building activity in 2001. In particular, residential building activity remained strong throughout the year. Commercial activity was sluggish, and we ended with our weakest year since 1997.

Property tax revenue is projected to increase by \$16.6 million, or 4.7%, to \$368 million.

Revenue from **sales taxes**, projected at \$93.1 million, would be 2.2% lower than the current year budget. Changes in the economy and in the method of sales tax distribution by the State to the County and its municipalities have negatively affected our sales tax revenue. Wake County has been hit especially hard by the change in distribution of sales tax revenue. Instead of distributing sales tax revenue by point-of-origin, the 2001 N.C. General Assembly approved legislation that distributes the Article 39 one-cent sales tax by point-of-destination. This action has the effect of moving sales tax revenue out of the counties with major industrial or commercial retailers.

Investment earnings are expected to continue to be low during the upcoming year, as interest rates are not projected to increase significantly over the course of the year.

Overall, **fees for services** are expected to generate an additional \$5.2 million, mainly from new fees established by the N.C. General Assembly for Register of Deeds activities (\$2.2 million), emergency medical services (EMS) reimbursements (\$1.8 million), and Medicaid reimbursements for public health services (\$1.2 million). Medicaid and Medicare reimbursement formulae increases drive most of the EMS and public health revenue increases.

The recommended budget **does not include State reimbursements** for repealed inventories and intangibles taxes due to Wake County, nor do we expect the State to pay the beer and wine tax revenue owed to us in fiscal 2002-03. This loss of \$14.2 million, coupled with the losses in sales tax revenue and investment earnings, offsets any revenue gains we will receive from a higher property tax base or higher fees.

Fee Increases: A number of fee increases are proposed, mostly in the areas of development and inspections, public safety and environmental services. Two new fees are proposed, for traffic impact analysis review and for on-site wastewater "One-Plus-One Review" (a review of whether an area to be subdivided can accommodate another septic system.)

REVENUES	
Item	Change from Current Fiscal Year Budget
Property tax	\$16.6 million
Sales tax	(\$2.2 million)
Investment earnings	(\$ 4 million)
Fees for services	\$5.2 million
State reimbursements	(\$14.2 million)

The recommended fee schedule is:

<u>Department/Division</u>	<u>Current Fee</u>	<u>Recommended Fee</u>
<u>Public Safety</u>		
Emergency Medical Services special event coverage (per hour)	\$60	\$75
9-1-1 monthly telephone surcharge	12 cents	25 cents
<u>Community Services</u>		
Inspections/Development Plans/Permits (IDPP) inspection of manufactured homes	\$91	\$182
IDPP inspections of residential additions of 400 square feet or less	\$152	\$228
<u>Subdivision & Zoning</u>		
Traffic Impact Analysis Review (new fee)		
Residential	N/A	\$1,000
Commercial	N/A	\$1,200
Preliminary subdivision review	\$500	\$800
Exempt subdivision review	\$60	\$85
Minor subdivision review	\$150	\$170
Construction subdivision review	\$100	\$200
<u>Environmental Services</u>		
Onsite Wastewater One-Plus-One Review (new fee)	N/A	\$200

Expenditures: The most notable expenditure is for the **Wake County Public School System's operating budget**. A total of \$203 million is dedicated to schools, \$11.3 million more than is required by your 1997 agreement with the Board of Education.

We plan to open the **Eastern Regional Center** this fall, as scheduled. That will cost approximately \$700,000, and we will shift some existing Human Services and other staff to the facility and allocate 15 new positions to the center. Other positions are being added, including some that are shifting from contract services to those provided by the County (an example would be staffing the South Wilmington Street Center with County employees rather than contracting with Urban Ministries).

Many new positions were requested that we are not recommending, including the Sheriff's budget request for 23 new deputies, as part of a longer-term plan to add 23 deputies per year for four years. You have previously funded three years of this request, but in light of our current funding challenges and the uncertainty facing us over the next year, we did not feel it was prudent or possible to recommend that \$2.1-million request from the Sheriff.

We are adding \$933,000 for **security measures** in the County. The costs of security and bioterrorism readiness have increased significantly since last September.

We will meet our obligation for the **Medicaid match** of an additional \$2.2 million.

STRATEGIES FOR BALANCING THE BUDGET

We used several strategies to balance the budget without a tax increase. This section will cover the following strategies:

- Reduce the capital plan and use one-time sources of revenue.
- Service evaluation and reductions.
- Consolidation of similar functions.
- Community agency reductions.

ONE-TIME REVENUE SOURCES

We balanced this budget with a number of one-time adjustments, including putting less money into the capital program and using fund balance from the Capital Projects Fund. This means that we will essentially “owe” ourselves \$25.4 million as we begin fiscal 2003-04. Here’s a look at the source of one-time revenue and the impact on future budgets:

Action:	Amount:	Impact/Ramifications:
Reduce fiscal 2003 appropriation to our capital program from 18.5 cents to 17.5 cents	\$6.4 million	Recommended as a one-time adjustment; is equivalent to 1 cent on the property tax rate
Use Capital Projects Fund fund balance	Up to \$11 million	Will impact the County's ability to fund future schools capital projects beyond fiscal 2004-05. Also a one-time revenue source, equivalent to 1.7 cents on the property tax rate.
Use Capital Projects Fund fund balance	\$8 million	This reduction will impact the County's ability to fund schools capital projects in fiscal 2004, or require the use of Phase IIIB project close-out or Plan 2000 savings to meet fiscal 2004 planned obligations. Also a one-time revenue source, equivalent to 1.2 cents on the property tax rate.

SERVICE EVALUATION AND REDUCTIONS

This year, we faced a number of budget pressures. First, the Governor withheld \$4.2 million that we expected to receive as reimbursements. Also, the economic slowdown affected our budget for the current year. Property tax revenues were close to what we had planned to receive, but sales tax revenue has dropped – as it has in most of the country – due to the slumping economy. For example, in the third quarter, sales tax revenue for Wake County was about 4% lower than the third quarter last fiscal year. To date, sales tax revenues are about \$2.4 million less than last year, or down 3.45%.

In March, we established several hold-the-line measures, such as:

- **Hiring Restrictions** – Vacant positions would remain as such, and no new positions would be filled unless critical.
- **Travel Restrictions** – Travel was limited to necessary in-county only.
- **Salary Adjustments and Reclassifications** – No salary adjustments or reclassifications were to be approved for the remainder of the fiscal year unless authorized by the Department Head and County Manager’s Office.

I also gave the departments savings targets to meet by the end of June, and asked the managers to carefully monitor and review their expenditures for the remainder of the year. The departments were very responsive, demonstrating leadership and guidance that is helping us to successfully meet our budget shortfall.

For the coming fiscal year, we knew that we would face substantial increases in our Medicaid match, employee health insurance, school operating, and debt service on the capital improvement plan. Therefore, we asked departments to show what a 10% cut in their budgets would look like and were presented with a list of possible reductions or consolidations. We also established an open forum for employees to make suggestions, and we received a number of excellent ideas.

As we went through the process of evaluating services, you will see that some results led to recommendations for reductions. In some cases, we concluded after evaluating services that it would be in the County's best interest to provide services ourselves instead of contracting them out.

Overall, we are reducing department spending by \$4.07 million.

We are reducing or eliminating services in the following areas:

- Eliminate parks grant-in-aid program (provides grants to municipalities)
- Reductions in Cooperative Extension, associated with state cutbacks
- Reductions in use of contracted personnel (Information Services, Finance)
- Reductions in line items in most departments
- Human Services nutritional counseling services
- Human Services abstinence education
- Human Services Youth Initiative funding

We are proposing to eliminate 30 positions, most of which are vacant. These positions were offered by departments, and are spread across Human Services, Environmental Services, Public Safety, Community Services and General Services.

In some cases, we are adding staff, often by shifting contract dollars or assuming responsibility from the State, including:

- Homeless services at the South Wilmington Street Center will be provided by 21 employees rather than through a contract with Urban Ministries.
- Contract dollars will shift to salaries in Information Services, Human Services and the Register of Deeds.
- We are adding three positions in the public health/bioterrorism area of Human Services.
- We are adding eight positions in the Child Protective Services area of Human Services.
- We are minimally staffing the new Eastern Regional Center with 15 Human Services employees.
- The State has shifted responsibilities to us for the Wright Building Transitions Program at Dorothea Dix, which provides mental health services to adults. The State is providing \$770,659 in annual recurring funds, beginning in fiscal 2002-03. This adds nine positions to Human Services.

Position Changes	
Eliminate positions	(30)
Use existing contract dollars for salaries at South Wilmington Street Center (Human Services)	21
Use existing contract dollars for salaries in other departments (Register of Deeds, Information Services, Human Services)	6
Bioterrorism/Security (Human Services)	3
Eastern Regional Center (Human Services)	15
Child Protective Services (Human Services)	8
Wright Building Transitions Program (Human Services)	9
Net new positions	32

CONSOLIDATIONS

One strategy we are using is consolidation of some internal functions. We are constantly examining areas in which we have overlap or provide similar services to see if we can consolidate our efforts.

Some of the areas we are looking at consolidating include:

- The Finance Department will assume the billing and collection functions of landfill activities from the Solid Waste Division. Also, the Housing Loan Portfolio management is being transferred to the Finance Department as part of the ongoing strategy to consolidate financial management of loan programs.
- We are closing the mail center in Human Services and consolidating it with the one in General Services.
- Environmental Services and Community Services will share an administrative position.
- Several departments are providing public information functions, including Human Services, Parks and Recreation, Libraries, General Services (Reprographics), and others. We are continuing to explore the consolidation of public information efforts, and plan to move toward a more centralized approach in order to ensure that the County's message is more consistent, that we aren't duplicating efforts and that we are concentrating our energies on priority topics.
- Human Services has had two staff members assigned to personnel duties. These positions are shifting to the Personnel Department.

COMMUNITY AGENCY REDUCTIONS

Each year, the Board considers contributions to the arts and other groups that contribute to a well-rounded, quality community. By investing in these areas, we feel that we are helping to sustain the type of community that continues to attract new economic development and contributes to the local economy in numerous ways.

Because we reduced County spending an average of 2.9%, we are recommending that our contributions to these agencies be reduced by the same amount. The agencies include: United Arts Council, the Greater Raleigh Chamber of Commerce, Exploris, North Carolina Symphony, The Healing Place and Kids Voting.

EMPLOYEE PAY AND BENEFITS

Wake County has an excellent reputation for customer service, and that is because of our employees. You have recognized that employees are our greatest asset, and have previously funded County Employee Day, employee appreciation activities and customer service awards. You also have provided funding for the pay-for-performance system and the employee health plan.

The recommended fiscal 2002-03 budget continues the pay-for-performance system. We are recommending funding our system with an **average salary increase of 2.5%**, based on performance, with additional emphasis and funding to reward top performers. This is not an across-the-board increase for all employees, but a system that rewards employees based on individual performance and productivity. The budget covers a **20.5% increase in health insurance rates**, which comes to \$1.4 million. Those employees who insure family members will pay the additional percentage. It should be noted that our initial insurance rate premium was calculated at a 30% increase; through negotiation and some plan modifications, we were able to reduce that amount. One change will be an increase in the office visit co-pay for employees, which will be \$20 instead of \$15. We also are recommending a slight increase in the co-pay for prescription drugs.

We will review our employee appreciation activities, such as County Employee Day, some employee appreciation events and the holiday symphony, for cost reductions. Many employees themselves

suggested these events be cut, saying they felt that health insurance and other benefits were a higher priority, not to mention programs and direct services to citizens. I am proud of our employees for stating their priorities and participating in the budget decisions.

By continuing to fully cover the cost of full-time individual employee insurance, you are demonstrating your commitment to a competitive business organization and the overall well-being of our workforce, and you are providing a high level of income protection for our employees.

OTHER BUDGET HIGHLIGHTS

WAKE COUNTY BOARD OF EDUCATION

The Commissioners and the Board of Education, in a 1997 agreement, earmarked a portion of the general fund property tax for school operations. The School System's allocation of the property tax rate is 29.6 cents per \$100 of assessed valuation, generating about \$191.7 million. **We are recommending an additional appropriation of \$11.3 million, which brings the total recommended budget for school operations to \$203 million. We will be using fund balance for the second consecutive year to fund the school system at a level higher than required.**

Last year, the Commissioners agreed to give the Wake County Public School System an additional \$9.7 million in fiscal 2001-02 from the fund balance for a total operating budget of \$193 million, or \$20 million more than the previous year. As part of that funding agreement, the 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. We had expected to have the Committee's report in time to incorporate into this year's budget process, but the mammoth task of studying such a large school system, coupled with other timing issues, delayed this study. The consultant, MGT of America, expects to present its final report to the Committee in June. The Committee will then develop its recommendations to the Commissioners and the Board of Education over the summer.

Debt service on the bonds issued to pay for new school construction and renovations is rising in fiscal 2003 to \$82.7 million dollars, an increase of \$14 million from the current year level of \$68.7 million. That is part of our long-term capital improvement plan and financing model.

THE CAPITAL BUDGET

We are entering the third year of the Capital Improvement Program (CIP) approved in 2000. We are, in essence, modifying the financial model with some postponements of projects and the transfer of fund balances to the operating budget.

In the CIP financing model, we had planned to apply 18.5 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 2003, we propose that we transfer 17.5 cents instead, and use the resulting \$6.4 million to help balance the budget. In order to maintain the flexibility in the capital program for future projects or larger scope of programs, **the 18.5 cents will need to be restored in fiscal 2004. Consequently, this action is a one-time revenue source.**

Some of the changes we are proposing include:

- Postponing some building renovations until 2004.
- Postponing plans for a new regional center until we evaluate the services at Southern Regional and the new Eastern Regional Center.

- Postponing plans to move Cameron Village Regional Library (our recent one-year lease extension will give us time to explore a long-term lease option in the current location or make a decision about moving the library).
- Postponing the construction of additional detention facilities on Hammond Road until additional space is required by sustained inmate population increases.
- Delaying the development of school parks – we are providing money for land acquisition of just two sites.
- Postponing some automation projects.

At the same time, the capital financing plan covers a \$15-million increase in debt service payments (\$14 million of which is for school-related debt service).

FIRE TAX DISTRICT

The recommended tax rate for the fire service tax district for fiscal 2002-03 is 10 cents, a 1-cent increase from the current level. Last year, we increased the amount by two cents and allocated that new amount entirely to capital, so that 6½ cents are dedicated to operating costs and 2½ cents to capital. We recommend continuing those allocations, with the 1-cent additional amount going to operations and related improvements, so we would dedicate 7½ cents to the operating budget and 2½ cents to capital next year. The average assessed value of houses in the unincorporated area is \$178,230, so the average homeowner would pay about \$18 more in fire taxes.

The reasons for the recommended increase are to pay for:

1. Fire department operational cost increases (improving firefighting and EMS "first responder" capabilities).
2. Staffing and equipping the new Willow Springs fire station.
3. The Knightdale Volunteer Fire Department.
4. Initial fire station safety/health improvements, based on a professional facility assessment of all department facilities.
5. A study of salary structure and fire truck fleet needs for all departments.

The budget appropriations to the various fire departments for operations and related improvements total \$10,556,000, 22.8% higher than the fiscal 2002 appropriations of \$8,597,368. This includes a 2.5% pay increase, the same as for County employees. On the capital side, the recommended budget appropriations total \$3,519,000 for fire stations and equipment.

SOLID WASTE ENTERPRISE FUND

The Solid Waste Management Division receives funding from tipping fees charged at the landfill and from the residential household fee assessed on each household in Wake County. We reviewed our expenses related to solid waste disposal, and are recommending **no increase in the tipping fee of \$29.50 per ton or the \$20 per household solid waste fee**, which pays for the recycling program and costs associated with operating the convenience centers.

In the past year, we have focused our efforts more on waste reduction and recycling by adding a commercial waste specialist, and we implemented programs to recycle electronics and wood pallets. We also had planned a "mega" recycling event, forming partnerships with the municipalities to collect holiday recycling at eight locations. Unfortunately, we were snowed out! We intend to try to expand our efforts again this year, as we believe it will significantly increase participation by making holiday recycling more convenient.

Under the direction of the new Solid Waste Director, the division is evaluating program goals and objectives and developing a comprehensive, integrated solid waste management system that will be sustainable over the long term. The division also is reorganizing its budget data by program functions, with certain costs and revenue allocated where appropriate. This method will improve program administration, cost accountability and performance measure tracking.

EXPANSION ITEMS NOT FUNDED

- One-stop voting sites
- Additional voting precincts
- Additional positions in the Register of Deeds
- Additional Sheriff's deputies
- Assortment of Human Services programs, including Community Partnership Grants, Child Mental Health services at Eastern Regional, Ready-to-Learn Centers, Community Health Promotion, increase in communicable disease caseloads, At-Risk Children's Program, Adult Mental Health at Eastern Regional, Adult Community Treatment, Economic Self-Sufficiency Team, Adult Medicaid Intake, Veteran Services, Child Support Enforcement, Partnership for Educational Success
- Select building improvements/maintenance
- Position in Finance
- Multi-casualty response unit
- Additional Wake Technical Community College funding (\$800,000)
- Training coordinator in Personnel
- Audio books in Libraries
- Staffing in Information Services associated with e-Government efforts
- New Animal Control vehicles
- Additional latent examiner position in CCBI
- Two positions in Emergency Management
- Additional staff for American Tobacco Trail, Yates Mill Park, open space efforts

STATE BUDGET OUTLOOK

Governor Mike Easley announced early this year that he was withholding \$95 million in payments to counties and cities in order to handle the State's budget crisis. That translates into \$4.2 million that Wake County was planning to receive, but will not get by the end of the current budget year. The recommended budget for next year does not assume that we will receive our reimbursements and beer and wine tax.

We are very concerned about the State's inability to address its own budget crisis in a long-term manner, and we are extremely perturbed that the State is using local government funding as a source of its own funding, holding money that rightfully belongs to the citizens of Wake County. We also are concerned about the ramifications that the State's future budget actions may have on us. The General Assembly is returning this month, and its decisions may well affect us in many areas, including human services, environmental services, libraries and public safety programs.

There has been some talk that the State may find a way to advance the date of the half-cent local optional sales tax. If that is the case, or if the State is able and willing to give us our reimbursements next year, **I am recommending that all proceeds be reallocated to the County's capital fund.** We have not included any potential optional sales tax or reimbursements in the budget, but in the unlikely chance that we receive that

funding, **it is imperative that we use it to pay ourselves back first**, rather than spend it on new programs or services. This will restore our capital financing plan.

We also are concerned that the State budget woes will result in cuts in other areas of service delivery. For example, the recommended fiscal 2003 budget includes payments from the State for mental health programs similar to the current year. We have received some indication that these programs are targeted for reductions by the State. If the State does cut mental health programs, Wake County will not be able to make up the difference.

State library aid may be at stake, as well. This year, we were expecting to receive \$451,000 in State library aid payments, which we use for books and other materials, but the Governor ordered the June payment (nearly \$35,000 for Wake County) withheld. We are budgeting the same amount – \$451,000 – in the fiscal 2003 budget. If this aid is withheld, it will have a severe impact on our ability to buy new books.

We will, of course, closely monitor the General Assembly's actions during its upcoming short session.

SUMMARY AND BUDGET CALENDAR

The recommended fiscal year 2002-03 budget is balanced without a tax increase, with no expanded programs or services, and with increased funding for the Wake County Public School System's operating budget.

Please note that several of these strategies to balance the budget are not adequate for long-term planning. They are one-time savings or one-time use of reserves, and this cannot be sustained over the long term. Even though we are making some tough budget decisions this year, we are setting ourselves up for a much tougher decision-making process next year. This is the reality: Heavy reliance on fund balance appropriations means that next year, **we will need to find \$25.4 million in permanent reductions or raise the property tax rate – or a combination of both.**

The next step is your review of the recommended operating and capital budgets for 2002-2003. To begin this process, we ask that you take the following steps:

1. Officially receive the recommended fiscal year 2002-03 budget for your consideration.
2. Hold a public hearing on the budget during your regular meeting on Monday, June 3, 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 10, at 10:00 a.m.
4. Consider the budget for adoption on Monday, June 17, during your regular meeting, which begins at 2:00 p.m.

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

Respectfully submitted,



David Cooke
County Manager