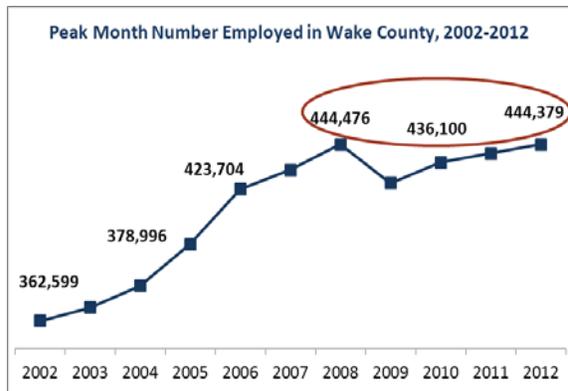
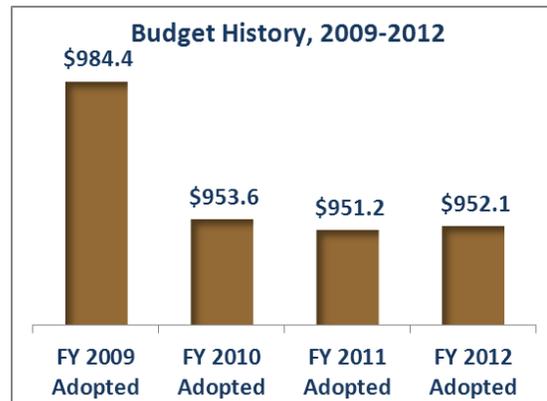


May 21, 2012

Wake County Board of Commissioners:

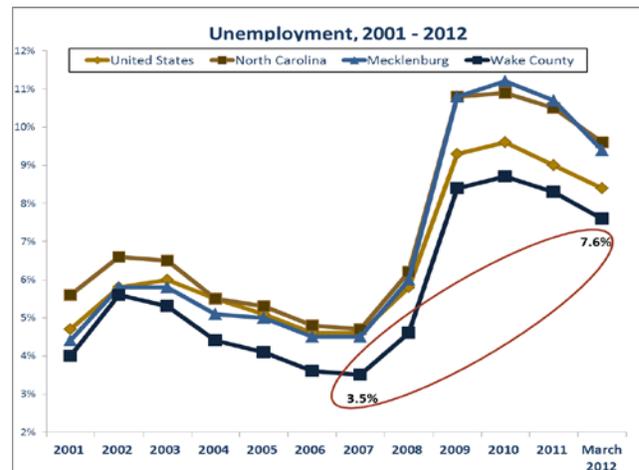
Each spring, it is my responsibility and privilege to present the Board of Commissioners and citizens of Wake County, a balanced budget for the next fiscal year.

Before I get into next year's recommended budget, I thought some context and perspective would be helpful. The bottom line is that things are better in Wake County. But, "better" is a relative term. Four years ago, when I presented the recommended budget in May of 2008, we talked of slowing revenue growth, but we really could not have anticipated what was in store for us for the next few years.



Things are better in Wake County. Employment growth has occurred over the past three years. More people have jobs this year than last year and that same trend has been in place for three years. On the other hand, four years later, we have not even returned to the number of our citizens who were employed in July 2008.

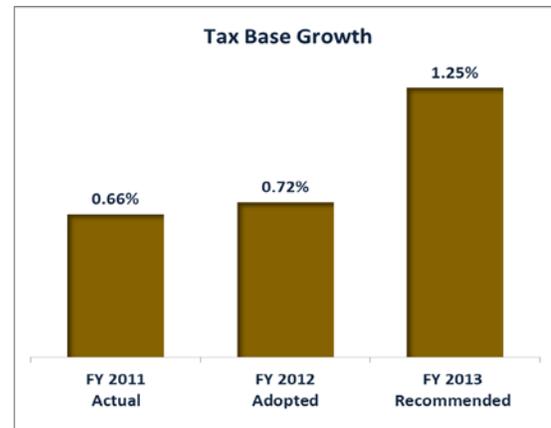
And, while unemployment has declined over the past two years, again reflecting that things are better, it is still twice the rate from 2007. But, things are better in Wake County as compared to the State, the Nation, or other urban Counties.



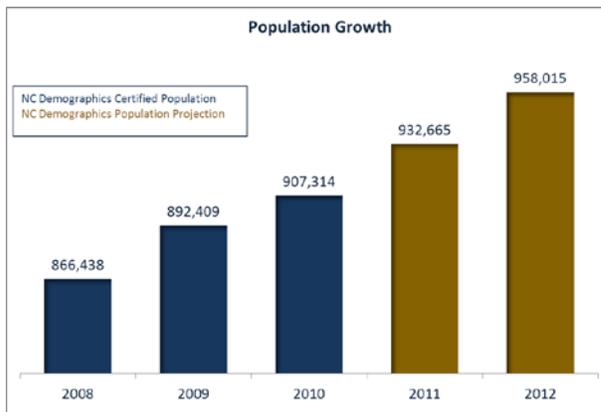


In the 2008 budget message, I mentioned a slowing revenue picture, one in which we revised our property tax revenue growth rate based on slowing building permit data. Building permits for the months of January through April 2012 are 23% higher than the same period in 2011. See, things are better. However, in comparison to 2008, permits are down 40%.

We expect the tax base to grow 1.25% next year. This is the highest growth rate we have used in the past three years. See, things are better. This will yield an additional \$10 million next year. The growth rate in 2008 was at just over 5% which would bring in an additional \$38 million in new property tax revenue that year.



Things are better. Recent trends have shown that the economic situation seems to be stabilizing. As such, I am cautiously optimistic about our revenue picture in FY 2013. The number of jobs have nearly returned to the level prior to the recession. Additionally, real estate development is showing signs of return through new building permits and an increase in the revenue for Property and Real Estate Transfer taxes compared to last year. And, sales tax revenue increased this past year, reversing a two-year decline and is projected to grow next year. Things are better.



Wake County - this is a unique place. Things are better here. While a recession was underway and revenues were shrinking, Wake County was growing. Since 2008, Wake County has added 91,500 citizens. Think of that, since the recession began, we have added more citizens than the combined population of Garner, Wake Forest, Knightdale, Morrisville and Rolesville.



2013 RECOMMENDED BUDGET



Things are better, but we are at a very different place than we could have ever predicted four years ago. We are serving more citizens with fewer public resources and fewer employees than before.

Three key principles have guided and continue to guide the decision-making process:

- Focus on core services and priorities,
- Realign existing resources to meet priority needs, without raising the property tax rate, and
- Maintain our long-term planning focus.

The recommended fiscal year 2013 budget reflects these principles.

Fiscal Year 2013 Recommended Budget

The recommended budget for FY 2013 is \$941,500,000 and maintains the property tax rate at 53.4 cents. This budget is \$10.6 million lower than the current budget, and reflects a realignment of fiscal resources due to the mental health merger with Durham County.

Alliance Behavioral Healthcare

As you well know, the State has required Local Management Entities to merge and consolidate. Wake County LME will merge with Durham County to form Alliance Behavioral Healthcare effective July 1, 2012. A total of \$32.6 million in state and federal revenue and associated expenditures will be removed from the County budget as these revenues will go directly to Alliance Behavioral Healthcare. Additionally, 109.75 full time equivalent positions will be reduced from the county payroll.

So, while the total budget declines, the FY 2013 budget still represents new revenues totaling \$22.0 million more than the 2012 budget.

Maintain property tax rate at 53.4 cents

Again this year, the recommended budget does not include a property tax increase. The fiscal year 2013 recommended budget accomplishes the Board's number one goal of developing a budget that does not include a tax increase while maintaining, and in some instances, increasing funding for our highest priorities: education and public safety.

General Fund Revenues

As mentioned, revenues are growing by \$22 million – the main drivers are property and sales tax. These revenue sources will see growth in FY 13 when compared to the current year budget.

Property Tax

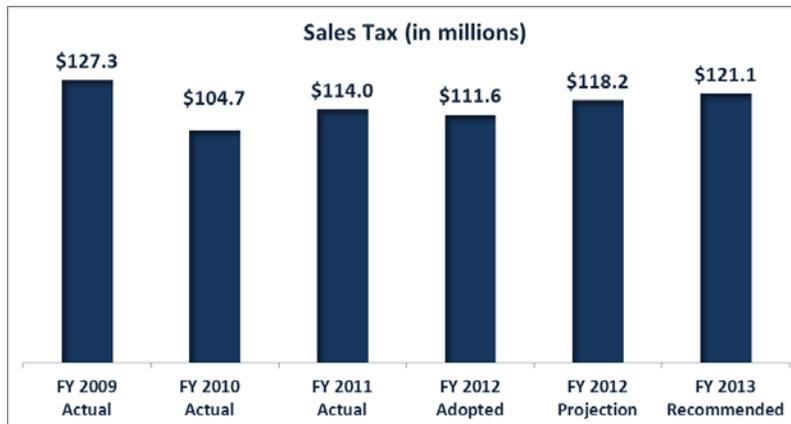
As mentioned, the property tax base is projected to grow by 1.25 percent; which will generate approximately \$10 million in property tax revenue. This growth is good news, but still is not as strong as it was at pre-recession levels of 5% to 6% growth. Both real property, such as land and houses, and some personal property, such as vehicles, are subject to property taxes.

Vehicle tax revenue in fiscal year 2013 will increase for two reasons; more vehicles are being purchased and used vehicle values are stabilizing.

	FY 2010 Actual	FY 2011 Actual	FY 2012 Estimate	FY 2013 Estimate	Change
Real Property	\$102.4	\$103.1	\$104.0	\$105.2	\$1.2
Personal Property	6.2	6.5	6.0	5.9	(0.2)
Public Service	3.0	2.8	2.8	2.8	0.0
Vehicles	7.1	7.1	7.7	8.0	0.4
Total	\$118.8	\$119.5	\$120.4	\$121.9	\$1.5

Sales Tax

This is the second year in a row that we are seeing increases in sales tax revenue. As such, we are estimating sales tax in FY 2013 to increase at a conservative rate of 2.5%.



The result of this is more than \$9 million in additional revenue from the 2012 adopted budget.



2013 RECOMMENDED BUDGET



Other Revenues

Other revenue increases include \$750,000 in additional EMS fees which are recommended to increase and be tied to Medicare rate changes, and \$1.4 million in revenues from the State for keeping sentenced misdemeanants in the County detention center.

FY 2013 Total Revenue Picture						
	FY 2009 Adopted	FY 2010 Adopted	FY 2011 Adopted	FY 2012 Adjusted	FY 2013 Recommended	Change
Taxes:						
Property Tax	\$619.6	\$626.8	\$632.6	\$638.6	\$649.0	\$10.4
Sales Tax	150.5	122.6	113.6	111.6	121.1	9.5
Real Property Transfer	11.0	6.5	5.3	4.8	5.9	1.1
Other Taxes	3.7	3.7	3.7	3.7	3.8	0.1
Total Taxes	784.8	759.6	755.2	758.8	779.8	21.0
Federal	8.4	9.4	15.2	11.2	10.8	(0.4)
State	109.3	113.2	105.9	78.2	78.6	0.4
Local	3.2	3.2	7.1	4.8	4.0	(0.8)
Charges For	61.5	62.0	61.1	60.7	62.0	1.3
All Other	17.1	6.2	6.7	5.9	6.3	0.4
Total	\$984.3	\$953.6	\$951.2	\$919.6	\$941.5	\$21.9

General Fund Expenditures

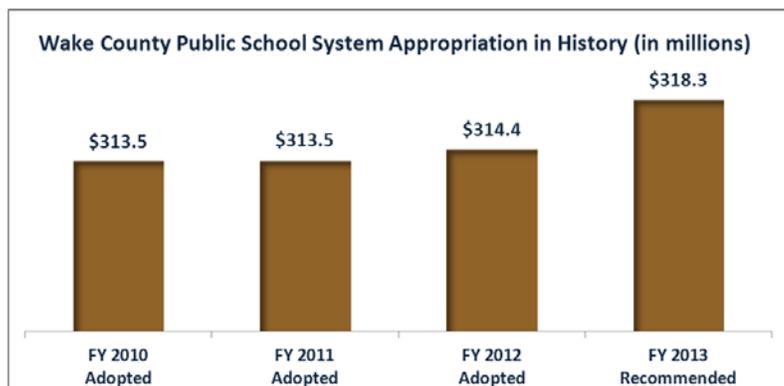
As I mentioned, the recommended budget for fiscal year 2013 is \$941.5 million, an increase of \$22 million from the current year once we adjust for the mental health merger. The increased expenditures are reflected in the County's priorities: primarily education and public safety.

Education

Education funding is increasing by \$4.1 million in the recommended budget, for a total of \$334.5 million. This increase is shared by the Wake County Public School System and Wake Technical Community College.

Wake County Public School System

Over the past three years, we have held the funding constant for schools. The overall County budget decreased, but funding for education remained flat. The 2013 recommended budget increases the appropriation to the Wake County Public School System to \$318.3 million, an increase of \$3.9 million.

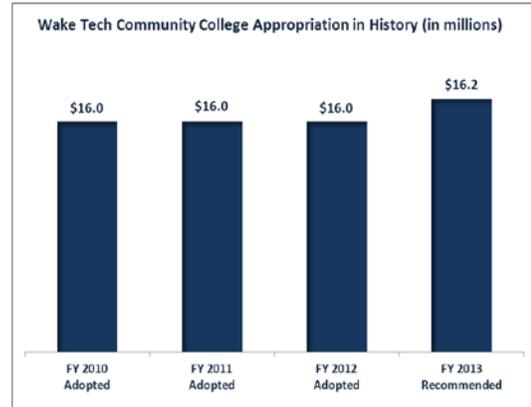


The appropriation increase is tied to growth in the assessed value, which is 1.25 percent over the fiscal year 2012 adopted budget. While this does not match the Board of Education's request, the recommendation shares the growth in the property tax base. Also included in the County budget is another \$7.5 million in

support of the school system for school health nurses, school resources officers, school based mental health and other services.

Wake Technical Community College

The 2013 recommended budget allocation for Wake Technical Community College uses the same approach towards funding. The fiscal year 2013 budget adds approximately \$200,000 for Wake Tech, for total funding of almost \$16.2 million, which represents a 1.25% increase.



Criminal Justice Facilities and Public Safety

The fiscal year 2013 budget includes \$5.9 million in additional support for our new Criminal Justice facilities and Public Safety services. This amount includes:

- \$2.1 million to provide a full year cost related to opening the Detention Center expansion at Hammond Road;
- \$1.1 million to support the opening of the new Justice Center, which is scheduled to open in June 2013. This amount includes the partial year cost of 15 positions in the Sheriff's Office, 6.5 positions for building operations in General Services, and contract security. Also included is funding for one-time equipment and start-up costs, such as vehicles and equipment.

Additionally, the Wake County Sheriff's Office is participating in the Statewide Misdemeanant Confinement Program which provides housing for those with sentences from 91 to 180 days. This will provide the County additional revenue of \$1.1 million above the expense to operate the program.

The fiscal year 2013 EMS budget reflects a full year of funding for the centralized billing for Wake EMS, Cary EMS, Eastern Wake EMS and Apex EMS. In total, the EMS system budget is increasing by \$2.1 million. The increase reflects additional funding for the EMS system to convert three 24-hour ambulance units to 12-hour units, and additional funds for the annualization of contract agency budgets.



2013 RECOMMENDED BUDGET



General Fund Transfer to Debt and Capital

The FY 2013 recommended budget increases the transfer to debt and capital by \$6 million. This is in keeping with our policy to dedicate 15.5 cents of the property tax rate to our debt and capital program. In addition, part of the growth in sales tax revenue, as required by State law, must be dedicated to school debt or capital. In FY 2013, we estimate our debt service expenditures will be \$235.4 million dollars with approximately 77% in support of Wake County Public Schools.

Other County Departments

Human Services

The Human Services budget increases by approximately \$1 million (less than 1%). This includes increases for the contract with Holly Hill Hospital and annualization of our contract with Daymark to operate a wing at the WakeBrook campus. Of course, the budget reflects the transfer of funds to Alliance Behavioral Healthcare, and in FY 2013 staff will be working with UNC Health Care on the transition of Behavioral Health services.

Board of Elections

The recommended budget includes \$2.1 million in funding for early voting sites at the equivalent service level to the 2008 general election while taking population growth into consideration. There is also additional funding for voter equipment maintenance and additional election operating funds. Given the nature of election cycles, annual budgets can change year-to-year and the net increase in the Board of Elections Budget is \$1.24 million over the current year budget.

In the end, other than the departments already mentioned, most departments and outside agencies decline or will remain flat or will grow by less than two percent. As the chart illustrates, only a handful of departments will see growth greater than 2%.

Reduced	Increased 0-2%	Increased 2%+
<ul style="list-style-type: none"> •Register of Deeds •Fire/Emergency Mgmt •Revenue •Human Resources •County Manager 	<ul style="list-style-type: none"> •WCPSS •Wake Tech •Board of Commissioners •Community Services •CCBI •Human Services* •Finance •Environmental Services •Facilities Design and Construction 	<ul style="list-style-type: none"> •Board of Elections +34.6% •Emergency Communications +9.3% •EMS +7.6% •General Services +7.4% •Sheriff +3.3% •County Attorney +2.6% •Information Services +2.3%



Employees

Employees have been amazing over the past three years. They have been engaged in discussions on the budget changes that have occurred over the past few years. Since the fall of 2008, the County has imposed a hiring freeze and a critical evaluation of all

County FTEs			
	FY 2012 Adopted	FY2012 Amended	FY 2013 Recommended
General Government	312	304	304
Community Services	303	304	304
Environmental Services	118	117	117
General Services	137	137	143
Public Safety	1,213	1,200	1,222
Human Services	1,784	1,750	1,637
Total FTEs	3,867	3,812	3,726
Change in FTEs		(55)	(86)

positions. For many employees, this has meant increased workloads with fewer and fewer co-workers. Reductions in the past year and in the upcoming budget reflect continued change and a smaller overall workforce. In the current fiscal year, we have had a net reduction in 55 full time equivalent positions. The FY 2013 budget adds positions for the

Hammond Road detention center, the new Justice Center, some paramedics, and technology positions. But overall, with reductions in some service areas and the creation of Alliance Behavioral Healthcare, the workforce will be reduced by another 86 positions.

In last year's budget we were able to fund a two percent performance pay increase, which was the first pay increase since FY 2009. The 2013 recommended budget includes a performance pay increase, again at a 2% level. The budget also sets aside \$700,000 for increases in the employer share of health insurance.

Debt and Capital

Last week we held a work session and discussed the debt and capital finance model and reviewed the 2013 to 2019 Community Improvement Plan, or CIP. The capital plan includes a recommended \$200 million general obligation bond referendum for Wake Technical Community College this fall. Based on reviewing the County's current and planned debt service obligations, there is sufficient capacity available to finance Wake Tech's next building program without a tax increase for capital.

Debt Service

The County funds its debt service obligations through two major sources, a portion of the property tax plus a portion of sales taxes. As I mentioned before, the FY 2013 recommended budget includes an increase of \$6 million for debt and capital.

AAA Rating

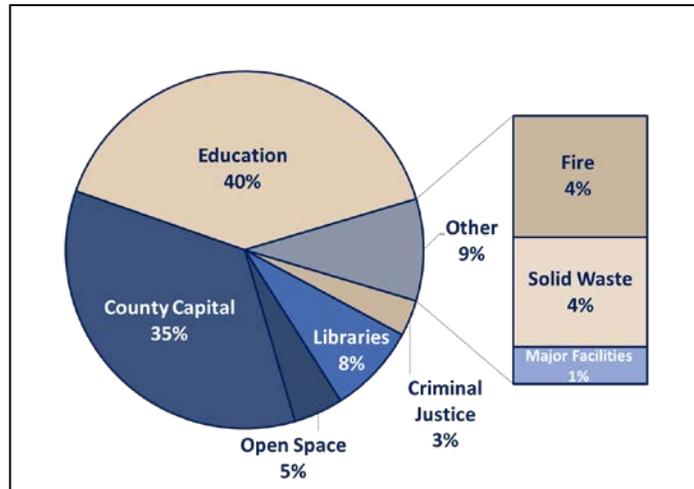
The credit rating agencies reaffirmed Wake County’s triple-A credit rating this past January. The County continues to meet its debt service fund balance targets and adhere to our other financial policies that are necessary to maintain our triple-A rating. This translates into a lower cost of capital for county, school, and community college facilities.

WCPSS Future Building Program

The Board of Education is currently planning the next steps for a future building program and a specific plan is not detailed at this time. However, the County will continue to work with the Wake County Public School System regarding a future referendum for schools.

Community Improvement Plan

The 2013 to 2019 CIP totals \$551.2 million, of which \$76.7 million is for projects in fiscal year 2013. Capital facilities and adequate infrastructure are critical for the County’s continuing growth. The CIP includes construction and renovation of county facilities, information technology infrastructure, affordable housing, protection of open space, and responsible stewardship of existing facilities. It also reflects a revised schedule for new library projects and funding for the replacement of infrastructure for public safety communications.



Special Revenue and Enterprise Funds

Outside of the budget we have discussed today, the County also administers special revenue and enterprise funds, including Solid Waste, the South Wake Landfill Partnership and the Fire Tax District.

Solid Waste

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



2013 RECOMMENDED BUDGET



Wake County also administers the South Wake Landfill in partnership with 11 municipalities. 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.

This is also, the first budget year in which the South Wake Landfill will be generating revenue from the landfill gas-to-energy system. Fifty percent of the revenue is recommended to go toward the Solid Waste Enterprise Fund and the other fifty percent is recommended to be allocated to the General Fund.

Fire Tax

The Fire District provides fire protection services in the unincorporated areas of Wake County and the Town of Wendell. The Wake County Fire Tax District budget for fiscal year 2013 is \$20.2 million and maintains the existing tax rate at 8 cents.

The FY 2013 recommended budget reflects an adjustment to the distribution of revenue allocated between operating and capital. Currently, 84% of the revenues are allocated to the operating budget and 16% is allocated to capital. Due to increasing operating expenditures, the allocation is recommended to change to 86% operating and 14% to capital. Staff's recommendation is slightly different than the recommendation of the Fire Commission and staff will continue to work with the Fire Commission on the necessary changes to the capital budget and on consolidation strategies in order to manage long-term operating costs.

Summary and Closing

In summary, the recommended fiscal year 2013 budget is \$941.5 million and it maintains the tax rate at 53.4 cents. Things are better in Wake County. We have weathered a very different and very difficult four years. And, when possible we used the economic changes to our advantage. We built and financed the detention center expansion and Justice Center taking advantage of the lowest interest rates in decades and low construction costs. We also focused on our priorities and core services.

This budget reflects priorities. Just as we have done the last three years, we have reallocated resources in order to provide additional funding for our highest priorities of public safety and education. This was a difficult budget development process, but we believe the reductions and reallocations are sustainable and reasonable. We are proud to again present a budget without a tax increase. Everyone has worked extremely hard to



2013
RECOMMENDED
BUDGET



arrive at where we are today and we look forward to working with you, the Board of Commissioners and Wake County citizens, on the 2013 budget.

Citizens are encouraged to offer feedback on the recommended budget. There are a number of ways in which citizens can be involved. Immediately following the conclusion of the budget presentation, the budget will be posted online at www.wakegov.com and copies will be available at all public libraries tomorrow, Tuesday, May 22, 2012.

Citizens can visit WakeGov.com/budget 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@wakegov.com, leave a voicemail at 919-856-5433, or speak at one of the two public hearings.

The next step will be for you to hold those public hearings on Monday, June 4, 2012, at 2 p.m. here in the boardroom, and at 7 p.m. at the Wake County Commons. As in past years, you will hold a work session dedicated to the budget scheduled for Monday, June 11. On Monday, June 18, you will be asked to adopt the fiscal year 2013 budget.

Respectfully submitted,

A handwritten signature in black ink that reads "David Cooke".

David Cooke
County Manager