

May 20, 2013

Wake County Board of Commissioners:

Each spring, it is my pleasure, privilege, and responsibility to present you, the Wake County Board of Commissioners and our citizens, a recommended budget for fiscal year 2014. This spring, it seems, the sky is a bit bluer, the grass and the leaves on the trees a shade greener, and the flowers much sharper in color. Or, maybe it is just because the local economy is better.

What a difference a few years make. In 2008, at the beginning of the recession, we froze positions, stopped capital projects, and began to reduce the spending of county government. Growth in the tax base was minimal and revenues declined year to year. For four years, we asked departments to identify strategies to reduce spending. Our theme during this period was consistent and clear:

- Focus on priorities;
- Realign resources to meet priority needs without raising taxes;
- Maintain a long-term perspective.

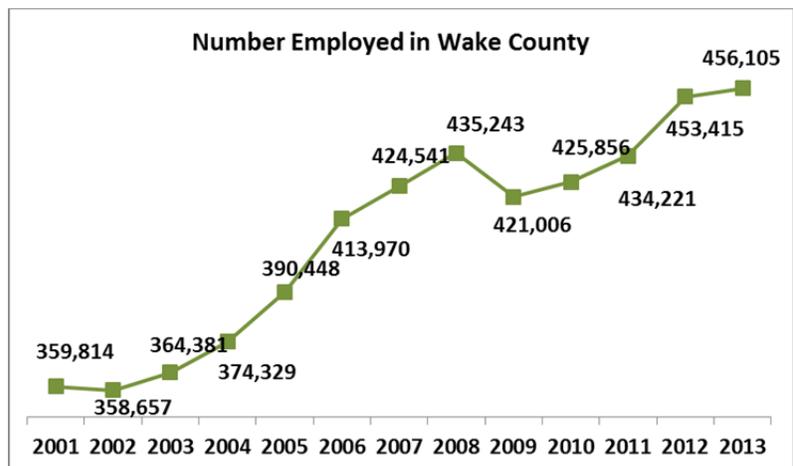
We were taking care of the business of government in a tough economic environment.

During the recession, people continued to move to Wake County. Wake County has grown by almost 100,000 since July 2008. This added some stress to county services and infrastructure. While some departments saw their workloads decline due to real estate and development activity, or inactivity, other departments experienced growing workloads driven by the population increase and those seeking services due to a down economy. Over the years, some capital projects remained on the sideline - primarily libraries - and we focused on just meeting our basic commitments by following those principles. Today, real estate activity has picked up, new job announcements are occurring more frequently, and people continue to move to Wake County.

### Key Trends

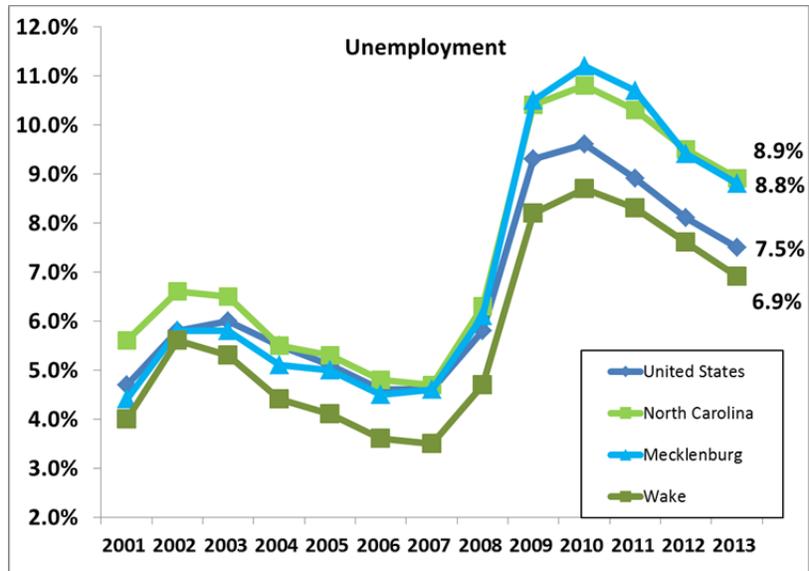
Let me begin by highlighting some of the key trends that we monitor as they have a direct impact on our recommended budget.

Job growth has been strong. The number of jobs in Wake County has been increasing and exceeds the level prior to the



recession. Job announcements for Citrix, IPreo, Allscripts, and MetLife’s plan to bring 1,200 high-paying jobs demonstrate our ability to continue to attract major businesses and grow jobs in Wake County.

The unemployment rate continues to decline, and is at a rate below the state and the country. As unemployment declines and population increases, spending in the community increases and positively impacts revenues generated through local sales taxes. Sales tax revenue growth is expected to exceed 6% for FY 2013 and projected growth for FY 2014 is 3.1%.



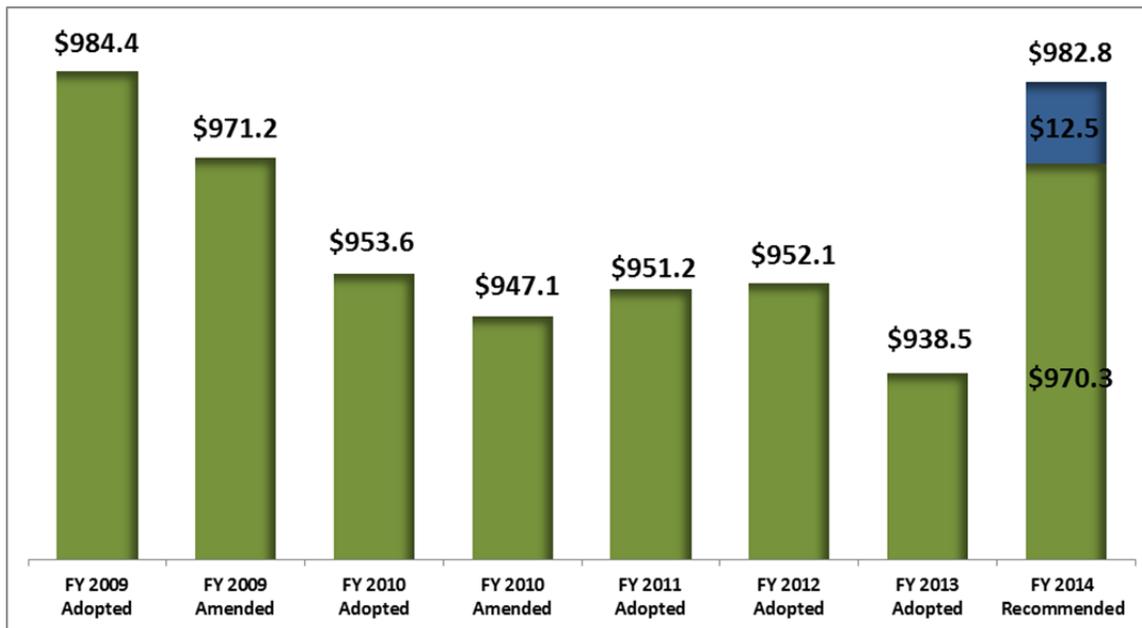
Real estate development is showing signs of recovery in new residential building permits with an increase of 60% over the same time period from a year ago. The tax base is also projected to grow at a steady and modest rate of 2.67%. This is more than twice last year’s growth rate. It is amazing what we get excited about now - six or seven years ago we would have been bemoaning a growth rate so small.



## Recommended Budget

The fiscal year 2014 recommended budget maintains the property tax rate for the fifth year in a row and totals \$982.8 million, a 4.7% increase over the current year budget.

Let's start by looking at our revenues.



## Revenues

In total, revenues are growing by \$44.3 million. The main drivers are property and sales tax. Property and sales tax make up over 80% of all revenues. One important point to make is that \$12.5 million of these revenues is one-time revenue in fiscal year 2014 and will not reoccur.

### Property Tax

As mentioned earlier, the property tax base is projected to grow by 2.67%; which will generate \$20 million dollars in new recurring revenue. This growth is approximately double the amount from this year, but is not back to the pre-recession levels of 5% to 6% annual growth.



As you know, the new Tag and Tax legislation will impact our revenues. As Marcus Kinrade, our Revenue Director, presented at our last work session, this change in how vehicle property tax will be collected is estimated to bring us \$12.5 million in one-time revenues. As these revenues are one-time, they are not being used to fund recurring needs, but are funding one-time expenditures in the operating budget of \$3.75 million with the remainder being transferred to the County's Capital Improvement Fund to fund capital projects.



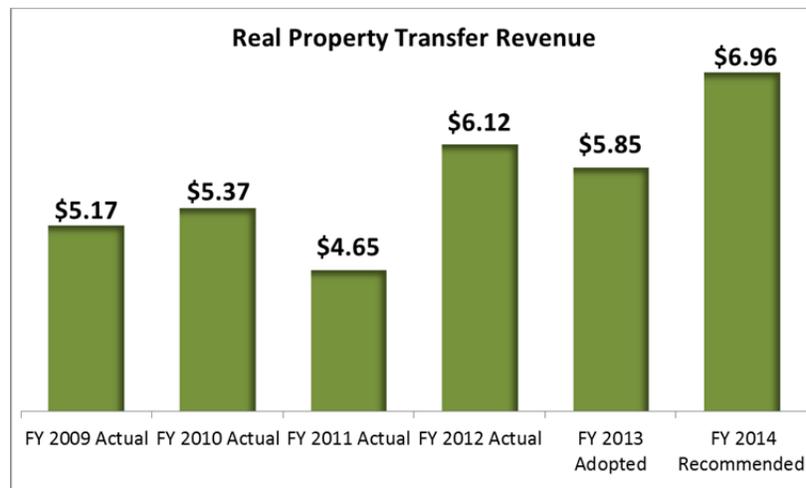
### Sales Tax

This is the third year in a row that we are seeing increases in sales tax revenue. Sales tax revenues for FY 2013 are expected to exceed budget and increase 6% over of actual collections in FY 2012. The estimate for FY 2014 assumes an overall rate of growth of 3.1%

over the FY 2013 projections and yields \$11.3 million of increased revenues over the 2013 adopted budget.

### Real Property Transfer Tax

Real Property Transfer Tax revenue projections reflect some recovery in real estate activity. While home sales prices are up over the prior year, the major driver of this tax is the volume of transactions which has increased more than 8% for FY 2013. The FY 2014 estimate is expected to increase to almost \$7 million, a 19% increase over the current year budget.



### **Expenditures**

With an improved revenue picture, the challenge of this budget was determining how to allocate the still limited dollars to requests that far exceeded available resources.

After several years of significant budget constraints, this year it came down to meeting our commitments, responding to an improving economy and addressing service issues while keeping in mind our priorities of education and public safety, and human services and public health. We are now taking care of the business of government as the economy recovers.

The budget increases can be broken down into five main components: Debt and Capital, Education, Public Safety, Human Services and Public Health, and Employee-related expenses.

### ***Debt and Capital***

In some areas, our policies drive allocation resources with the best example being our dedication of a portion of the property and sales tax revenues to our debt and capital programs. Of the \$44.3 million, \$17.5 million is committed to debt and capital.

Last week we held a work session and discussed the debt and capital finance model and reviewed the 2014 to 2020 Community Improvement Plan, or CIP.

As you know, the County funds its capital and debt service obligations through two major sources, 15.5 cents of our property tax rate plus a portion of sales taxes. The FY14 recommended budget includes an increase of \$8.73 million from these sources to pay for debt service and our capital program and another \$8.75 million in one-time property tax revenue from the tax and tag system change.

We covered the capital plan last week so I will not repeat our discussion other than to emphasize two points.

One, the credit rating agencies reaffirmed Wake County's triple triple-A credit rating this spring. 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.

Two, this fall, we plan to hold a bond referendum for schools. Last Thursday, the Board of Commissioners and Board of Education received information about a \$939.9 million school capital improvement plan which includes 16 new schools and 6 existing school renovations, as well as technology and security initiatives. As presented, the program would be funded by a combination of cash and general obligation bonds which allow the County to issue debt at the lowest cost to the taxpayers. The next step in the process is for the Board of Education to present a resolution to the Board of Commissioners approving the capital plan and requesting a school bond referendum be placed on the ballot.

### ***Education***

Let's shift to the operating budget and funding for Education. Education is a critical component of our community and the County is committed to quality education and to the success of Wake Tech and the Wake County Public School System.

The appropriation to the Wake County Public School System totals \$327.5 million dollars and is \$9.2 million higher than the current year appropriation. The increase fully funds the Board of Education's request of \$8.3 million in additional county dollars, and is similar to this year's funding methodology in that the school system is receiving a proportional share of the growth in the property tax base. The budget also includes funding for the lease of the Crossroads Administrative building in Cary. This year the amount of funding for the lease totals \$856,820.

For fiscal year 2014 Wake Tech did not request an increase in funding and the recommended budget maintains the current appropriation of \$16.2 million.

### ***Public Safety***

Now to Public Safety. Beginning in June, certain County operations and Criminal Courts will begin moving into the new Justice Center. Planning for the new Justice Center began over a decade ago and the new facility will soon be opening its doors to the public. The recommended budget includes \$1.8 million to fund utility, security, maintenance and housekeeping

#### Sheriff's Office

The recommended budget for the Sheriff's Office increases by \$3.8 million, or 5.6% over this year. One of the Department's responsibilities is managing our detention facilities. The newly expanded Hammond Road Detention Center opened in April 2012 and after a year of operation, the Sheriff's Office has identified certain areas within the facility where additional staffing is needed. The budget includes 24 new detention officers to staff five additional posts and the control room. Additional funding is also recommended for transportation between mental health facilities. Finally, funding is included to provide an hourly wage increase to 12-hour shift detention officers to create equity in hourly wages between 12-hour and 8-hour shift officers and for one Deputy Sheriff to serve as the School Resource Officer at Rolesville Middle School.

#### EMS

Over the past four years, EMS call volume has increased by about 11%. This increase requires equipment and staff to keep pace with the demands of providing services in a growing county. Addressing the need requires either new peak-load units to operate during the busiest time of day or the conversion of 24-hour shifts to 12 hours. The budget includes new ambulances and 18 full-time positions for adding or converting units, as well as an additional trainer and supervisor to accommodate the increase in staff. The EMS recommended budget increases by \$3.5 million, or 11.7% over this year.

#### CCBI

Moving on to the City-County Bureau of Investigation. CCBI is on track to become the second crime laboratory in North Carolina to be accredited under ISO/IEC 17025, which is the gold standard for forensic service provider accreditation. Becoming accredited shows that Wake County CCBI has a quality management system, proficient personnel and reliable scientific analysis. The recommended budget includes increased funding for supplies and materials

required for operating an accredited lab and meeting standards for blood alcohol and other crime lab analysis. The budget also includes funding to convert two part-time Latent Print Examiners to full-time to ensure fingerprints are processed in a timely manner.

### ***Human Services and Public Health***

#### Human Services

Overall, the Human Services budget remains flat year to year. Part of the budget declines due to the complete divestiture of behavioral health services. Increases in the budget are provided to meet workload needs and service gaps.

Human Services continues to work with the State of North Carolina to find efficiencies in order to serve more citizens with the same or fewer dollars. The State Department of Health and Human Services rolled out the NCFAST electronic case management program for Food and Nutrition Services last fiscal year and will continue to roll out the program for Adult Medicaid as well as Child and Family Medicaid in FY 2014. Human Services will rely on temporary personnel and overtime for existing staff in order to convert 79,000 paper case files to the electronic case management system by the end of next fiscal year.

As the population has grown, two of the services needing additional resources are the Child Support Enforcement and Adult Guardianship programs. As in many Human Services programs, caseloads have risen throughout the economic downturn. The recommended budget includes six new staff members for Child Support Enforcement and one for the Adult Guardianship program.

The department will also establish two Human Services Case Manager positions and one Human Services Supervisor position in the Social Services Division to expand the collaboration at WakeMed Health and Hospitals. Wake County has partnered with Wake Med and the state Department of Health and Human Services for the past few years to provide Case Manager positions in Emergency Departments to enroll as many eligible people in the Medicaid programs as possible.

Lastly, the County is divesting of Behavioral Health Services and beginning July 1, 2013, Alliance Behavioral Healthcare will administer behavioral health services for Wake County through contracts with providers. Wake Behavioral Health programs and clients are expected to be transferred to community providers by June 30, 2013. Based on the current divestiture timeline, additional resources are required from July 1<sup>st</sup> to August 31<sup>st</sup> to effectively transition services and make sure all consumers are served.

Funding for behavioral health is recommended at \$25.8 million, an increase of \$836,000. This is equivalent to the amount Alliance Behavioral Healthcare will reimburse the County for start-up expenses.

### Environmental Services

The Environmental Services budget increases by approximately \$515,000 or 6.4% over the adopted FY 2013 budget. The increase in costs for FY 2014 reflects maintaining our ability to meet increasing demands in two major service areas; Animal Services and Water Quality. These increases provide necessary funding to protect the health, safety and welfare of the public and provide the utmost care for animals.

The Water Quality division will undertake an initiative to scan and digitize well and septic tank permits, making these easier to access by the public and by county staff. A new position is recommended to work with residents and other agencies concerning contaminated wells and assist in the mitigation of problems associated with ground water contamination.

Also in Environmental Services, the recommended budget includes three positions at the Wake County Animal Care, Control and Adoption Center. These positions will work to continue to improve the care of animals in the center and to decrease the County's euthanasia rate. Specifically, these positions include a conversion of the center's medical director from contracted to full-time; adding an additional animal healthcare technician to better equip the center to treat and manage the animal population; and adding a rescue coordinator who will be dedicated to working with external groups to find homes for animals.

### Other Government Activities

At this point I have covered most of the increases in the budget and there are just a couple of additional items I would like to highlight.

### Real Estate Related Activities

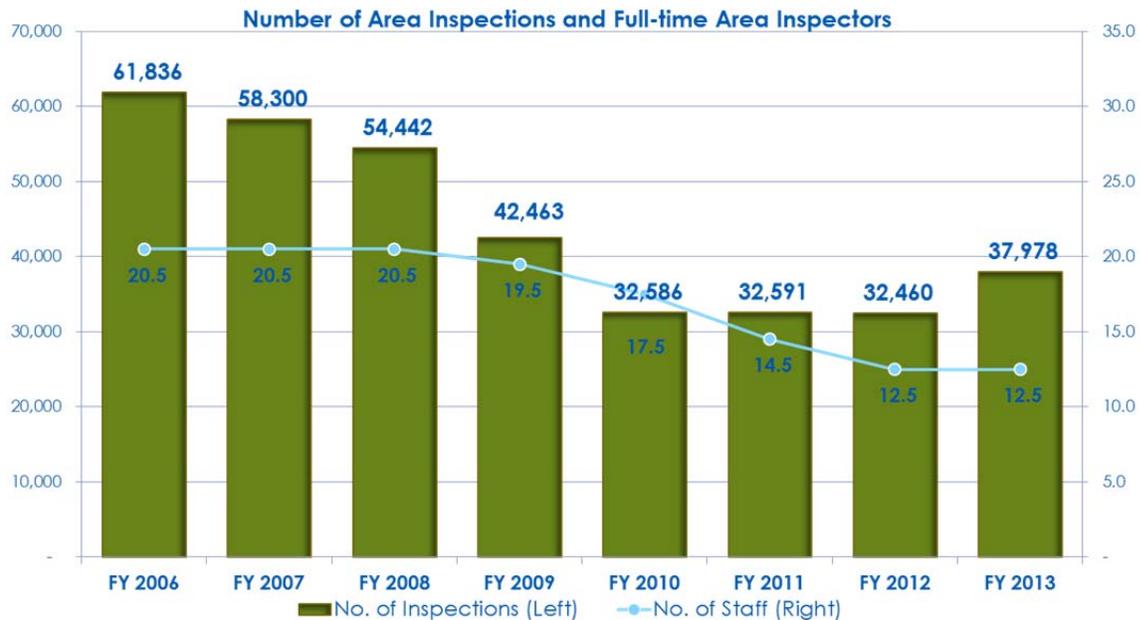
An impact of the recession was a drastic decline in the activities related to real estate development. As the activities diminished, so did the volume of work, and reductions were made in county staff and supporting expenditures to coincide with reduced needs for services. As the economy is now improving, we are seeing demand for service return and are recommending increasing funding in areas that were previously cut to meet the demand for the services. The three areas most impacted were: Register of Deeds, Building Inspections and the Revenue Department.

#### Register of Deeds

Register of Deeds statistics reflect an increase in volume and transactions, as mentioned in the growth of the real estate transfer fee. Three positions are added in this budget to accommodate those increased real estate-related transactions. The department had eliminated 4 positions during the economic downturn due to a decline in work volume. As we are now seeing volume return, it is necessary to add back positions in order to maintain service levels and meeting customer demand.

## Inspections

I have already mentioned the increase in building permits and the increase in deeds being registered. These are indicators that growth within the County has accelerated in the past year as the economic recovery continues. Corresponding with the recovery, the number of inspections has increased by 17%. In order to continue to provide thorough inspections with a satisfactory turnaround time, an additional inspector is necessary. As shown, even with an additional staff member, there will still be seven fewer positions than in 2008 before the economic downturn.



## Revenue

The Revenue Department is making quality assurance a top priority as workload continues to increase. The number of real estate parcels has increased by 104,326 since fiscal year 2001 to a total of 347,757. The Revenue Department has been aggressive in developing automated programs which have helped the Department's productivity in the last seven years; however, people are still required to physically visit properties. Three new positions are recommended as a result of the continually increasing parcel volume. Finally, a Business Auditor is recommended and will be paid with funding previously used for contingency fee audits that are no longer allowed under state law.

## Libraries

The FY2014 recommended budget restores a popular service which was reduced during the recession. Library hours were reduced as a cost savings measure in FY 2010 in response to the economic downturn. Staff has identified the need to provide additional hours through studying door count data and public surveys. The FY 2014 budget increases the operating

hours back to the level of service provided before this reduction, for most facilities and adds 5.5 positions to staff the increased hours.

## **Employee Related Expenses**

When it comes to Wake County employees, they are the backbone of the organization and they have worked through the tough days of the downturn. They have been taking care of business—serving our customers while enduring hiring freezes and staffing reductions—or continuing to serve clients while the services they have provided for years are divested to other community providers—or answering the call, the emergency calls for law enforcement, fire or EMS or the call from a citizen needing assistance, whether it's a library card or in need of financial help. And, even though the recommended budget includes 76 new positions, the total county workforce declines by 163 positions. This is entirely due to the divestiture of behavioral health services.

	<b>FY 2009 Adopted</b>	<b>FY 2013 Amended</b>	<b>FY 2014 Recommended</b>	<b>FY 2014 Recommended less FY13 Amended</b>	<b>FY 2014 Recommended less FY09 Adopted</b>
Public Safety	1,063.5	1,236.5	1,282.5	<b>46.0</b>	<b>219.0</b>
Human Services & Public Health	1,908.8	1,692.5	1,471.5	<b>(221.0)</b>	<b>(437.3)</b>
Real Estate Development Related	162.0	140.0	148.0	<b>8.0</b>	<b>(14.0)</b>
Libraries	219.5	210.5	216.0	<b>5.5</b>	<b>(3.5)</b>
Other Departments	412.9	393.3	391.8	<b>(1.5)</b>	<b>(21.1)</b>
<b>General Fund Total</b>	<b>3,766.7</b>	<b>3,672.8</b>	<b>3,509.8</b>	<b>(163.0)</b>	<b>(256.9)</b>

As you can see in our workforce numbers, we have fewer employees since 2009 and you will also see fewer employees in all areas of county government with the exception of public safety. While the total county workforce has been reduced by over 250 positions since 2009, the public safety workforce has increased by 219 positions.

The recommended budget includes a 2.75% performance based pay increase for employees. Recruiting and retaining top notch employees is our goal and challenge. We consistently evaluate our pay and compensation with other local governments and local employers.

Health insurance is the largest single employee benefit. The County is currently seeing overall medical trend costs that are below national averages but continue to experience a rise in the cost of health care for retirees. The recommended budget includes an increase of \$1.2 million to fund health care costs for retirees and anticipates holding employee premiums flat for plan year 2014.

Certain employee related costs are dictated by the state and will require an increase in funding of more than \$1.4 million. To settle the state's obligation with the federal government for Unemployment Insurance, costs are being passed along to all private and public employers. Wake County's share of this cost is \$891,000 in FY 2014. Lastly, the County participates in a state-administered retirement system. In fiscal year 2014, all local governments' contributions are increased by .33%; the cost to the county is estimated at \$530,000.

### **Operating Summary**

In summary, our goal has been to focus on our priorities and address our greatest need – all without raising the property tax rate. Our resources continue to be allocated and sometimes reallocated to our highest priorities, and in this budget that means to public safety, education and human services and public health

### **Special Revenue/Enterprise Funds**

Outside of the budget we have discussed today, the county 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 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.

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 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 50% is recommended to be allocated to the General Fund.

#### Fire Tax

The Fire Tax 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 2014 is \$20.7 million and maintains the existing tax rate at 8 cents. The Fire Tax District tax rate generates approximately \$20.7 million and provides funding to 19 municipal and not-for-profits fire departments. One of the goals of the Board of Commissioners and our citizen-led Fire Commission is long-term financial sustainability without relying on tax rate increases to fund fire services. Staff is working with several fire departments in evaluating potential consolidations and those efforts will continue into the next fiscal year.

## **Summary**

In summary, the recommended fiscal year 2014 budget is \$982.8 million and it maintains the tax rate at 53.4 cents. The plan continues the principles applied in the past and strives to take care of the county business at hand.

As you consider the recommended fiscal year 2014 budget, a couple closing thoughts come to mind. One, we prepare a recommended budget without a perfect picture of the future. The budget is a plan and we make our best assumptions about the future. Some of the current conversations down at the legislature may affect our future and impact our budget. Tax reform and changes in how elections will be conducted are two examples. We will follow these conversations closely.

Two, I am reminded how fortunate we are to live here in Wake County. The accolades keep coming in—about being the place for job growth, or to raise a family or being the healthiest county in the State. Those accolades mean jobs and people will continue to come to Wake County and our role and responsibility is to ensure that we continue to provide the infrastructure and the quality level of services that we all have enjoyed since we first arrived to Wake County.

## **Closing**

Residents 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 document, as well as information on the budget process will be posted online at [www.wakegov.com](http://www.wakegov.com). People can also email comments to [budget@wakegov.com](mailto: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 3, 2013, 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 10 at 9 a.m. On Monday, June 17 at the 2 p.m. regular meeting, you will be asked to adopt the fiscal year 2014 budget.

Respectfully submitted,



David Cooke  
County Manager