

May 15, 2008

Forsyth County Board of Commissioners
Forsyth County Government Center
Winston-Salem, North Carolina

Dear Commissioner Whisenhunt, Commissioner Conrad, Commissioner Bailey, Commissioner Kaplan, Commissioner Linville, Commissioner Marshall and Commissioner Whiteheart:

I am honored to submit the enclosed recommended budget for the fiscal year beginning July 1, 2008 and ending June 30, 2009 for your consideration as required by North Carolina General Statute 159 and the *Local Government Budget and Fiscal Control Act*.

Three documents comprise the budget. The first document is the continuation budget necessary to continue providing services at the current level. This section contains both the financial information and narrative descriptions of each program currently funded by the Board. The second document contains detailed information on eighty two (82) alternate service levels requested by departments and outside agencies. These are "new and different" activities that expand the current level of service to Forsyth County citizens and taxpayers. The third section is a summary of the proposed adjustments (mostly reductions) necessary to achieve a balanced budget without a tax increase.

The recommended budget is balanced and prepared in accordance with the policies and procedures outlined in the *Local Government Budget and Fiscal Control Act* and will be submitted to the Government Finance Officers Association for peer review.

Goals

This recommended budget is my attempt to capture the Board's vision of what Forsyth County will strive for in the coming year. It is based on the values communicated to me in individual discussions, in monthly briefings and meetings, and in the winter planning retreat. My understanding of your collective desire for this budget is as follows:

- Avoid shifting the increased costs of County government on taxpayers already struggling with the economic slowdown, changing credit markets, and the increased costs of fuel and other personal expenses;
- Carefully analyze the savings from reduced service levels and present the efforts to balance the budget in this context;
- Conservatively estimate revenues and expenditures to avoid expectations of performance that are not realistic;

- The appropriated fund balance recommended by the County Manager is the goal for expenditure reversions; therefore create management incentives to encourage reversions at (or above) this level;
- Continue to improve efficiency & effectiveness of all County programs;

Present a budget that maintains an acceptable level of service, but allows for policy review and potential service changes providing for full disclosure of needs to all Board members and the citizenry.

Overview

The FY 2008-2009 Budget has been prepared during a period when economists are debating whether or not the United States is in a recession. Fuel prices are at all time highs and families are making difficult decisions about how to re-prioritize essential needs given static income streams. Businesses are dealing with how the increased operational costs will impact their profitability. Key indicators, such as building permit data, suggest that the current slow revenue growth will continue for all of fiscal year 2009 and probably extend into 2010.

The unemployment rate for the nation is 5%, compared with the State's rate of 5.2%, which is also the rate for the Winston-Salem Metropolitan Statistical Area. The State is estimating relatively weak growth in sales tax revenues and the impact of annexation has further negatively impacted this important revenue source.

In addition, the legislature is discussing a number of proposed laws that would create or expand property tax exemptions for certain taxpayers. This budget assumes that if additional exemptions are approved, the County would be held harmless.

Board members clearly indicated that simply passing along the increased costs of local government to citizens was not acceptable, and that the County should replicate the actions of our citizens and business leaders by re-prioritizing, reorganizing, and adapting to the realities of a dynamic local economy. The County's department managers, budget staff, and employees have worked courageously in preparing the FY 2008-2009 Annual Budget.

Continuation Budget

The Continuation Budget reflects a 3.7% increase over the prior year, and would require a 2.7 cent tax increase (3.9%) to balance the budget.

To eliminate the need for the 2.7 cent property tax increase, it will be necessary to achieve net reductions of \$8,255,109. If successful, this will result in a budget that is only about 1.6% higher than the FY 2007-2008 Original Budget if all of the needed reductions come from the expenditure side.

Some highlights by Service Area of the Continuation Budget include:

- Public Safety

1. Public Safety departments requested an additional 114 full time positions, with 80 of these being in the Emergency Medical Services Department. Although none are included in the Continuation Budget, consideration is being given to some expansions and enhancements as Alternate Service Levels.
2. The Continuation Budget reflects an increase of \$4.6 million (8.3%) due to annualizing market and performance adjustments made during FY 2007-2008, and additional overtime allocated to EMS and the Sheriff. Also, 13 EMS positions were approved in the FY 2007 -2008 budget, with 12 to be funded in the last quarter of FY 2007-2008. These positions are being used in the transition from 24 hour to 12 hour shifts. The increase in the FY 2008-2009 budget is \$518,000.
3. Public Safety Revenues increased \$1.4 million (8.4%) due to a \$1.9 million (27%) increase in budgeted revenue for EMS. This increase helps offset a \$828,000 decrease in jail fees received for housing State and Federal prisoners. The major increase in EMS revenue is attributable to the debt setoff program and continuing good results from our contract for collecting ambulance fees.
4. The combination of increased expense and revenue results in a \$3.2 million increase in "County dollars" for this Service Area.

- Environmental Management

1. As a result of a sharp decrease in housing construction activity, the Inspections Department has "frozen" 2 vacant positions, and eliminated a clerk position, resulting in an expenditure decrease for FY 2008-2009.
2. Revenues are up in Environmental Affairs Department due to an increase in the Federal EPA funds, and an increase from PART for modeling and reports for park and ride projects.
3. These departments combine for a decrease in expenditures and increase in revenue for a combined decrease in "County dollars" of (\$58,000).

- Health

1. Expenditures in this Service Area reflect a \$1.5 million (5.7%) increase, primarily due to annualizing market and performance adjustments made during FY 2007-2008, and budgeting for a full 12 months for the newly established Dental Clinic. Four (4) additional positions are included in the Continuation budget for Public Health, but are totally offset by revenue.
2. Revenue reflects a \$891,000 increase (7.5%) mainly due to the budgeting for a full year of the Dental Clinic, as well as increased grant revenue for the Jail Screening Program, WIC, and Carolina Access.
3. The combination of increased expenses, but a greater percentage increase in revenue, create a 4.2% increase in "County dollars".

- Social Services

1. Excluding Medicaid, this service area reflects an increase of \$1.5 million, (5.7%). This increase is due to annualizing market and performance adjustments made during FY 2007-2008, and a state mandated increase in what we budget for Foster Care and Adoptions expense.
2. Despite these expenditure increases, revenue is down \$353,000. This is partly due to the innovative methods our Department of Social Services will no longer be able to employ in Foster Care. Also, other State and Federal rule changes are having a negative effect on our revenue.
3. The combination of increased expense and decreased revenues create an increase in required County Dollars of \$3 million. We are hopeful that future investment in technology will have a significant impact on reducing personnel expense in the Department of Social Services.

- Education

1. The Continuation budget includes significant increases for Education (\$6.9 million) including the Winston-Salem/Forsyth County Schools (\$6.3 million – 5.8%) and Forsyth Technical Community College (\$534,000 – 7.1%).
 - a) Excluding the one time capital outlay of \$1 million in the FY 2007-2008 Schools budget, the increase becomes \$7.3 million or 6.8% compared to their “normal” appropriation for FY 2007-2008. Although there is a large gap between the Schools total request and what is included in the Continuation budget, we are separately recommending consideration of funding for many of their maintenance projects with 2/3rds bonds.
 - b) The increase for FTCC reflects normal increases, as well as the first year of expense for the new Northwest satellite campus. Roughly \$200,000 of the total increase is attributable to the new campus. An additional \$500,000 is shown as an Alternate Service Level to fully staff and operate this campus because State funds lag a year behind.
 2. Although revenue is normally not a factor in the Education Service Area, it is a big factor in FY 2008-2009. For the first time, we are able to include transfers from Capital Project Ordinances (CPO) interest earnings to offset Schools and FTCC capital outlay expense (\$2.4 million and \$100,000 respectively). We are able to do this because these funds have been freed up thanks to Lottery proceeds and Education Debt Leveling Plan funds being used in Debt Service.
 3. The combination of increased expense and dramatically increased revenue reduces the total increase in County dollars to \$4.4 million.
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- Culture and Recreation
 1. Modest increases in the Library system (1.6%) and Tanglewood Park (1.2%), combined with a decrease of 2% in the Parks and Recreation Budget, result in an overall increase of \$153,000 (.9%).
 2. Revenue reflects a decrease as a result of budgeting for catering services at Tanglewood for ½ year.
 3. The combined effect of modest increases in expenditures, and the decrease in revenue, result in a 2.5% increase in County dollars (\$263,000).

 - Community and Economic Development
 1. This Service Area reflects a significant increase of 18% (\$664,000) in expenditures due to budgeting for economic incentives. The payment to Dell will increase this year by \$105,200, while the payment to Lowe's will decrease by \$3,540. In addition, there are four new economic incentive projects for FY 2009. The most notable of these projects is the Research Park being developed in conjunction with Wake Forest University Health Sciences. Our anticipated payment will be \$396,270.
 2. Although little revenue is budgeted directly in this Service Area, it should be noted that Occupancy Tax Proceeds budgeted in Non-Departmental (\$525,000) is used to offset these expenses. This source of revenue is roughly the same as was budgeted in FY 2007-2008.

 - Administration and Support
 1. Relatively flat budgets in this Service Area result in increased expenditures of less than 1% (\$174,000). Included in this service area is a decrease for replacement vehicles of \$328,000, and a decrease in the Capital Repair Program of \$393,000. These decreases are mostly neutralized by an increase of \$455,000 for gasoline. Despite this large dollar increase budgeted for gasoline, the steady increase in prices may cause the budget to be inadequate. We have increased Contingency to help with this possibility.

 - General Government
 1. Expenses rise by 2.2% (\$ 540,000) in the Continuation budget in this Service Area.
 - a) Of significant importance in the FY 2008-2009 Non-Departmental budget is the first time budgeting for Post Employment Benefits (\$1.6 million) as required by the Governmental Standards Board (GASB). This contribution is an estimate and will continue into the future and be adjusted periodically as a result of actuarial studies.
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- b) Also in Non-Departmental is the estimated cost of performance adjustments for County employees. The amount included is intended to fund an average increase of 3.6 %, with a range of 2% to 5%.
2. General Government is also where we budget for most of the Countywide revenue.
- a) Property Taxes - Growth in the base is assumed to be 2.2%, or \$670.4 million. This results in increased revenue of \$4.5 million without increasing the tax rate. The collection rate used is the same as was actually realized in FY 2006-2007, the most recently completed full year (98.23%) at the current property tax rate of 69.6 cents per \$100 of valuation. To balance the Continuation Budget, a 2.7 cent (3.9%) increase was required. This brings in an additional \$8.3 million. You will be provided with my recommendations for changes to the Continuation Budget to eliminate the need for this increase. This will result in reductions to, or elimination of, some County services.
 - b) Sales Taxes reflect an overall decrease of \$5.7 million. . Excluding the Medicaid/Sales Tax Swap (which takes about \$7.2 million), the remaining Sales Taxes result in an increase of \$1.2 million. We have also included \$600,000 in expected “discoveries” by our audit contract. These discoveries assume a carryover of \$500,000 from FY 2007-2008, as well as \$100,000 in new discoveries. The new discoveries are offset by the same amount in sales tax audit fees expense.
 - c) Interest Earnings are expected to decrease as a result of lower interest rates.
 - d) Fund Balance utilized is almost the same as we budgeted in FY 2007-2008. The slight increase of \$229,000 is attributable to a CPO which is being closed during FY 2007-2008, and can be appropriated to offset debt service in FY 2008-2009.

Property Taxes - No Change in Rate	208,278,577	212,798,383	4,519,806
Sales Taxes	71,425,164	65,657,653	(5,767,511)
Interest Earnings	4,570,234	3,615,435	(954,799)
Hold Harmless	144,800		(144,800)
Unreserved Fund Balance Utilized (exclusing EDLP)	9,785,900	10,014,900	229,000
Subtotal	<u>294,204,675</u>	<u>292,086,371</u>	<u>(2,118,304)</u>
Property Taxes - 2.7 cent (3.9%) Increase	-	8,255,109	8,255,109
Total	<u>294,204,675</u>	<u>300,341,480</u>	<u>6,136,805</u>

- Special Appropriations
 1. Although overall expenditures reflect a slight increase of \$74,000, County funded agencies are down due to the one time funding of the Downtown Health Plaza in FY 2007-2008.

- Debt Service
 1. Although Debt Service expense is up \$3.7 million, revenue from Lottery Proceeds and the newly created Education Debt Leveling Plan (EDLP), along with other changes, create a net decrease in County dollars of \$64,000.

 2. Revenue includes the first time use of EDLP funds (\$871,000) to fund the FTCC portion of the November 2006 bond referendum. There is a \$3,626,350 increase in Lottery Proceeds for FY 09 to cover the debt service on the 2006 School Bonds.

Capital/Debt Service Funding Strategy

The Capital Improvement Program is contained herein for your consideration, and is also replicated in the alternate service level book which increases levels of service. Of immediate interest are two strategies on which we will need to reach agreement.

1. 2/3rds Bond for FY 2009. We have the capacity to issues \$12.3 million in 2/3rds bonds, and we will suggest several projects for your consideration, including several projects for the Winston-Salem/Forsyth County Schools.

2. Fall 2008 Bond Referendum. FTCC is requesting a bond referendum this Fall to fund their move into the building currently occupied by School Administration and the Career Center, and consequently, the cost of moving School Administration and the Career Center to different space. The rough total for this referendum will be \$63 million.

3. Pay As You Go – At this point we estimate we will have \$1 to \$5 million available for projects which would be appropriate for this type funding. The amount available depends on the outcome of the current fiscal year.

Alternate Service Level Recommendations

In past years, I have presented a single list of alternate service levels to the Board with my recommendations for balancing the budget. Generally speaking, some excess funds are usually available for additions to the budget to enhance services. The deficit in the continuation budget of \$8,255,109 and the desire to hold the tax rate at its current level created a need to identify management strategies to balance the budget. To minimize confusion, this year we have divided the alternate service levels into two separate books – one containing additions and the other reductions.

- Additions

Department managers and outside agencies recommended service enhancements having a net financial impact of \$16,383,948. While these are important enhancements that would improve services to the citizens, the current financial situation greatly limits what I am recommending. The following are the only increases in service levels recommended in this budget, all of which are funded either with increased fees or fire district taxes:

	Expenditure	Revenue	Net County
Increase Ambulance Fees / 12 hour shift migration	387,181	387,181	0
Increase Fire Tax Rate – Belews Creek	28,371	28,371	0
Increase Fire Tax Rate – Suburban (Rural Hall)	40,259	40,259	0
Increase Fire Tax Rate – Walkertown Fire Tax District	32,850	32,850	0
Increase Fire Tax Rate – Old Richmond Fire Tax District	39,622	39,622	0

- Reductions

Department managers were asked to submit management strategies to reduce costs while minimizing the service level impacts. Instructions to the department were as follows:

1. The strategies should result in savings of at least 5% of net-county dollars.
2. At least 80% of the costs identified should be recurring costs – either personnel, contractual, or operational costs that would logically be impacted by a change in the level of service.
3. The impact on services should be clearly identified in the management strategy and quantified to the extent feasible. Examples include reduced operating hours, increased waiting times, etc.
4. Creative thinking and cooperation was encouraged

The strategies for the WS/FC Schools and the Sheriff’s Department have not been received as of this letter. The assumption in balancing the budget is that the two organizations will provide cuts equal to 3.5% of their total budget. Outside agencies receiving County support have been cut 15%.

Department managers submitted reductions totaling more than \$9,524,443, many of which have significant impacts on the services that citizens receive. I am recommending reductions totaling \$8,508,356 to balance the budget. This amount will allow you to restore \$253,247 of these cuts and still have no property tax increase. Implementation of the recommended strategies will reduce the number of positions by 31. In most cases the effective date for implementation is July 1st.

I will personally commit to working with employees that will be affected by this reduction-in-force to assist them in finding other employment – either by internal transfers where appropriate or in finding outside employment. The reductions are significant and I understand that some of them

may not be consistent with the Board's policy objectives. County staff has worked diligently to provide sufficient detail so that options are clearly identified.

Summary

The proposed budget and work program for FY 2008-2009 is presented for your consideration, debate, and eventual adoption. I look forward to the detailed review and examination that ensures that the budget as a policy document reflects your goals for this community.

Thank you for the opportunity you have given me to work for this great organization. I appreciate your support, guidance, and encouragement as I continue to grow in my service to this community. Putting together a budget is a tremendous effort. I need to thank all of the department managers, the Sheriff and the Register of Deeds, for sharing information and supporting data about their operations. I asked many questions and departments responded in a timely and professional manner in every case.

To Joe Bartel, Budget and Management Director, thank you for sharing your expertise and institutional understanding of this organization. It is clear to me that you care deeply for this organization and this community. This is a mark of a great public servant and I appreciate the time you spent with me to develop an operational budget that strives to continue the tradition of excellence in Forsyth County.

To the Budget and Management staff – Ronda, William, Stephanie, Chad, and Debbie – I cannot thank you enough for your dedication and commitment. Your work is outstanding and I appreciate your team-oriented approach to getting this monumental task completed.

To Ed Jones, Paul Fulton, Jane Cole and Damon Sanders-Pratt – thanks for the wise counsel and the honest and frank discussion about Forsyth County Government. You provide strong leadership to this organization and I thank you for generously sharing your expertise and experience.

To Carol, Kim and Carla - thanks for treating every person who walks in the door with kindness and compassion. Also, thanks for the teamwork and can-do attitude that makes the demands of public service more manageable.

Respectfully submitted,

Dudley Watts
County Manager