

May 17, 2012

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

Dear Commissioner Linville, Commissioner Conrad, Commissioner Marshall, Commissioner Plyler, Commissioner Whisenhunt, Commissioner Whiteheart and Commissioner Witherspoon:

I am honored to submit the County Manager's recommended budget for the fiscal year beginning July 1, 2012 and ending June 30, 2013 for your consideration as required by North Carolina General Statute 159 and the Local Government Budget and Fiscal Control Act.

As in the past, two documents comprise the budget. The document in the large three-ring binder 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 small binder contains detailed information on 57 alternate service levels impacting departments and outside agencies. These are "new and different" activities that expand or contract the current level of service to Forsyth County citizens and taxpayers. This year we have divided the alternate service level document into two categories: service level reductions/cost savings measures and service level increases that require additional funding to be secured either through additional taxes, use of fund balance or reductions in other areas.

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

The 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 weekly briefings and meetings, and in the winter work session. My understanding of your collective desire for this budget is as follows:

- Honor the fiscal policies approved by the Board. The financial strength of Forsyth County can be directly attributed to the discipline and forethought inherent in the following policies:

15% Debt Ceiling

The Board recognizes that the wise use of debt financing is critical to the County's ongoing financial condition. If approved by the Board, the ratio of net debt service to total expenditures would be 14.2%.

16% Target Fund Balance

The recommended budget anticipates that property and sales tax revenues will continue at the same level for the remainder of the current fiscal year. It also assumes that expenditure reversions will be sufficient to generate a slight positive fund balance for FY 2012 and provide limited funds for paygo projects. Unless there is an unforeseen economic shift, the recommended budget should retain a fund balance at the 16% target.

Education Debt Leveling Plan

In previous years the Board set aside 4.1 cents of the levy to retire debt for educational facilities. This budget continues to earmark this revenue to ensure that sufficient funds are available in future years for this purpose.

School Funding Formula

This is the first year that this formula serves as the basis for both the County Manager's recommended funding level and the Board of Education's requested level of funding.

Multi-Year Approach

During the winter work session the Board endorsed the concept of approaching the coming year with the recognition that the following year (FY 2014) will be challenging due to the impact of a property revaluation that will provide a lower total valuation. To counter this eventuality, the recommended budget avoids deferring expenses into FY 2014 and restricts one-time revenue. It also funds a variety of cost-saving initiatives such as energy efficiency improvements and other strategies to reduce the operational cost of government in future years.

- Conservatively estimate revenues and expenditures to avoid expectations of performance that are not realistic and continue to improve efficiency & effectiveness of all County programs;
- Present a budget that maintains an acceptable level of service, but enables policy review of service level changes and providing for full disclosure of needs to the public.

Overview

For FY 2012-2013, the Manager's recommended budget is balanced with the County-wide ad valorem tax rate of 67.87 cents, an increase of .47 cents. This is much lower than the 2.28 cents increase that was projected at the Board's winter work session in February. The lower recommendation can be attributed to improved revenues.

Earlier in the year the revenue outlook was gloomy. The projected sales taxes in February were \$150,000 lower than originally budgeted and refunds were at record levels - almost 23.1% compared with "normal" levels of about 10%. Not meeting the current year original budgeted amounts played a significant role in the estimated deficit for FY 2012-2013. Sales tax collections have improved significantly with four consecutive months of positive growth for the same month as compared to the prior year. Other revenues have also shown improvement as the year has progressed. For example, property taxes are up approximately \$3.2 million, while the projection in February was an increase of only \$670,000. Two of the four classes of property saw increases - real and registered motor vehicles. Taxable personal property and public service properties - utilities, rail, motor freight, etc.- are projected to decline in FY 2013.

The recommendations for total expenditures are fairly close to the estimated amounts in February; however, there are several bright spots that would have forced a much higher recommended tax increase. The Sheriff's Office budget (in terms of net County funds) declines by more than \$1.1 million for the coming year. This is attributed to sound management of two jail-related contracts - food and medical care. The County also benefits from the contract with the State to house misdemeanants for a fee. Also of significance is the use of bond premium over a two year period (through FY 2014) to fund capital needs in the operating budget for the schools. This has reduced the

Manager's Budget Message Fiscal Year 2012-2013

County's net cost to fund the requirements of the funding formula for the Winston-Salem Forsyth County Schools and the opening of the Forsyth Technical Community College's new facilities. Other notable increases are included in the detailed discussion in the next session.

The recommended budget has a net reduction of 3 full-time positions, restores funding for the employee longevity program to the previous level, and continues the modest funding of performance-based adjustments at their current level (approximately 1% of salaries). Funding for the health plan increased while the funding for the retirement contribution fell slightly. These increases were largely offset by operational reductions in the departmental budgets. Employees are our strength and, hopefully, as conditions improve, we can continue the efforts to be the local government employer that attracts and retains the best and brightest people.

The Manager's recommended budget for the Winston-Salem/Forsyth County Schools is based on the funding formula developed jointly by the County and the Schools. This approach provides additional funding of \$2.4 million for the school system. The net impact to the County has been mitigated by applying capital funds generated from the bond premium. This will be a two year strategy.

This budget continues the strategic issuance of 2/3rds bonds every other year to fund a combination of community college maintenance projects, school maintenance projects and County general maintenance projects (including parks). The total amount eligible for funding using this approach is \$20,833,333. In an effort to reduce the County's overall debt burden this budget only recommends issuing a total of \$13,550,000. This has required management to prioritize the needs and fund the most important projects in this issuance cycle.

The proposed budget relies less on savings (or appropriated fund balance) than the previous budgets (\$1.5 million less). This reflects management's intent to reduce the amount of fund balance appropriated to the pre-recessionary levels. This will serve to avoid dependency on one time funds to balance future budgets. The recommended budget does rely on the availability of funds from the Education Debt Leveling (EDLP) program; however, there are sufficient funds to ensure that this program will continue to self-fund the increasing debt service requirements of publicly approved debt. The use of reserve is particularly noteworthy because original projections showed that the first debt leveling tax rate (3.1 cents) should have been able to be reduced. However, those projections were based on receiving approximately \$6 million per year in NC Education Lottery Funds and interest earnings ranging from 3.5% to 5%. During the economic downturn, the State changed the formula by which counties receive lottery funds and interest earnings are barely 1%.

A detailed and much more in-depth discussion of the overall changes in revenues, expenditures, and County dollars is included in the section of the budget document starting on page 29.

Summary

The proposed budget and work program for FY 2012-2013 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 Ronda Tatum, our Budget and Management Director and a tremendous public servant, I owe a tremendous thank you. 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 - William, Kyle, Darrell, Patrice 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 and Damon Sanders-Pratt, thanks for the wise counsel and the honest and frank discussions about Forsyth County Government. You provide strong leadership to this organization and I thank you for generously sharing your expertise and experience.

To Rob Robinson, Steve Giljames, and the staff of the E-Gov and the Print Shop, thanks for providing last minute heroics. You provide a great service and I appreciate your efforts to produce a quality document in a timely manner.

To Carla and Kim - 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