

May 15, 2014

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

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

I am honored to submit the County Manager's recommended budget for the fiscal year beginning July 1, 2014 and ending June 30, 2015 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 major sections comprise the budget. The first and most comprehensive section 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 section is the detailed information on 26 alternate service levels for your consideration. 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%. New debt service in the coming year includes \$3,691,984 for two debt issues: 1) \$34 million of Library Bonds approved in November 2010 and 2) \$13.75 million for our continued 2/3rds bond program to fund Capital Maintenance efforts.

**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 essentially break even in FY 2015 with the possibility of some limited funds for pay-go 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 the equivalent of 4.51 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 third year that this formula serves as the basis for the County Manager's recommended funding level. The Board of Education's requested funding level is \$118 million and is based on changes in funding at the State and Federal level, increases in costs related to health care, salaries, and workers compensation, and other initiatives as opposed to using the formula.

**Multi-Year Approach** - As always, the Manager's recommended budget takes into consideration projections of revenues and expenditures in the current fiscal year and challenges in the budget year and beyond. This is particularly important in FY 2015 because of the Library debt service and the Library operations. The next section outlines a fiscal strategy that honors the commitment to avoid a tax increase for the Library projects and avoids temporarily reducing operational costs associated with the Library only to increase the funding with the opening of the renovated facility.

- Avoid shifting the increased costs of County government to taxpayers already struggling with the difficult economic environment and continued uncertain employment prospects;
- Conservatively estimate revenues and expenditures consistent with realistic expectations of performance 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 provide for full disclosure of needs to the public.

### Overview

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The FY 2014-2015 General Fund Annual Operating Budget is balanced with no changes to the current tax rate of \$0.7168. The recommended budget is \$401,183,104, or a 0.34% increase from the current year. One penny (\$.01) generates \$3,118,501 to support County operations and this is down from \$3,326,808 before the 2013 annual revaluation.

This budget has been prepared during a period of slow, but steady improvement in the local economy. Over the last twelve month period (March 2013 to March 2014), the local unemployment rate has fallen from 7.8% to 6.2%. Construction permits have increased by 13.0% over the last 12 months. Property values have remained fairly steady (as measured by the quarterly sales/assessment ratio) after the precipitous decline in property values during the last revaluation period.

An important observation about County government is that the factors affecting the County's finances generally lag behind the private sector activity that produces tax revenues. For example, a large new factory or hotel will generally be fully taxable a year after construction is complete. Likewise, the State distributes sales taxes to cities and counties 3 - 4 months after a sale occurs. As a result, local revenue (and the ability to accurately budget it) generally follows the activity that generates the revenue.

Because we have yet to realize economic performance projected by the State, this budget relies on "responsibly optimistic" projections with respect to sales taxes, registered motor vehicle taxes, the State and Federal share of DSS administrative costs, and reimbursements for ambulance services. The next few paragraphs discuss some of the changes that have been difficult to project. The Overview of

Changes in Expenditures and Revenue beginning on page 26 of the budget document includes a detailed discussion of some of these changes.

The State of North Carolina enacted changes related to the collection of sales taxes that broadened the base. Some of the changes took place on January 1, 2014 and others are scheduled to go into effect on July 1, 2014. Because of the lack of historical data, County staff relied on general projections from the State and careful consideration of the likely impact on our tax base with changes that may have a differential impact locally. Sales taxes are expected to grow by 3.71% in the coming year.

The "Tax and Tag Together" program is currently in its first year of operation and significantly changes how we budget for registered motor vehicles (RMV). In the past, the delay associated with the transfer of information from the State to counties and the subsequent billing to the owner made budgeting simple. Counties essentially budgeted the current amounts on the State's reporting system. With the new system, there is essentially no delay and counties receive taxes roughly 30 to 45 days after the funds are paid. As a result, counties must now predict how the RMV tax base might change year-to-year. Because of the uncertainty in the numbers provided by the Tax Department, this budget includes an estimate for motor vehicle valuation that will grow by 1% (from the 2013 TR1) in the coming year.

Local and State media outlets have written extensively about the problems inherent in the NCFAST system which is the automated system used by all North Carolina counties for citizens to apply for services such as Food and Nutrition Services (FNS or food stamps) and Medicaid. The sharing of costs for personnel and operating costs has traditionally been 50%; however, the County expects to benefit from an increase in this percentage to 75% for Medicaid applications and re-certifications processed using the new system. A more blended rate has been used in calculating revenue for this budget because of the universal worker concept and only work done for the Medicaid portion can receive the benefit from the increase in the Federal Financial Participation rate of 75%. Because of the blended rate used, we feel this is a more realistic, yet conservative revenue estimate. The increased or enhanced reimbursement rate is frankly one of the positive offshoots of this system that has not been reported by the media.

Ambulance service fees are expected to increase significantly in the proposed budget as a result of better reimbursement from Medicaid and Medicare. Staff reviewed how these calls are coded and believes that some calls are eligible for reimbursement at the higher Advanced Life Support (ALS) rate. In addition, staff feel that there may be some benefits, though modest, from the Affordable Care Act and uninsured citizens who may now have health coverage. As a result, the budget revenue for EMS payments is expected to increase 7.64%.

Reliance on appropriated fund balance is somewhat greater in the proposed budget, but is offset by two funding strategies that will be discussed in more detail in the discussion of the major expenditures considerations in the next few paragraphs. For FY 2014 - 2015 the appropriated fund balance is \$11.4 million, reflecting an increase of \$1.59 million from the current budget. A couple of items included in the budget provide some comfort that at least \$2.5 - \$2.8 million will not be used by fiscal year end. One of those items is Debt Service. When the Board determined the timing of issuing debt for the Library Bond projects, it was with the intent that the debt payment would be covered with debt service falling off. This budget honors that intent by including a full year debt payment of \$3.3 million for the Library Bonds with the knowledge that approximately \$898,000 will be used for an interest payment due to the timing of issuance. The pay-go funding that will likely result at year end will be earmarked for completing the Library projects and may forgo the need for issuing the full \$40 million approved for the project.

A similar strategy has been developed for Central Library branch operations. Rather than reduce operating funding for the Library system during the transition period where the Central Library is closed, the budget has basically been held flat. Position vacancies and reduced occupancy costs will provide savings for FY 2015 and 2016 that will provide additional pay-go funding. Like the anticipated savings in debt service, these funds can be earmarked for future construction costs as well.

As noted above, total expenditures in the proposed budget only increased by \$1,364,168, or approximately .34%. Several functional areas are responsible for the majority of the increase, with a few decreasing significantly. Most departments and agencies reflect relatively flat increases for the coming year.

The Non-departmental cost center generally reflects the largest budgetary increase because it includes funds for the performance-based pay program and the transfer to the capital project fund for emergency and non-emergency vehicle replacement. The proposed budget increases funding for both programs - the amounts available for salary adjustments totals \$1,449,910 or an increase of \$275,845. Vehicles and motive equipment replacements increase \$274,645. Salary savings are reduced from \$3.5 million to \$2.56 million, based on the assumption that positions will be filled more quickly than in the past. While this budget improves our competitive position with other local governments for employees, we continue to struggle with some of the larger counties and others that offer a 401K program, either direct contribution or matching contribution. This budget does not address funding for a local 401K contribution; however, several options are included in the Alternate Service Level section.

Other drivers include funding for the opening of new facilities at Forsyth Technical Community College. The College is opening new facilities at the Oak Grove Center and at the Biotech campus. New funding for these projects total \$493,216, increasing the total appropriation for the College by \$621,170 or 7.3%. Moving the Sheriff's Department to the new Public Safety Center is part of the \$239,343 increase in operational costs, increasing the Sheriff's total budget to \$41,670,638 or a 0.01% increase.

This is the third year using the funding formula as the basis for the Manager's recommendation for the support to the Winston-Salem/Forsyth County School system. The meager increases in the three drivers of the formula - growth in Average Daily Membership of .18%, growth in sales taxes of 3.71%, but loss of property taxes of .16% generates an increase of \$729,117. The recommendation does not include the one-time \$1,441,000 hold-harmless amount from last year, so the year-to-year impact of the formula is a reduction in funding of \$679,590. It is noteworthy that the formula is very generous to the schools during periods of revenue and ADM (student) growth and in the future will likely consume a large portion of new County resources once the economy fully stabilizes. Fortunately the schools have been able to build up a fund balance that is available for appropriation.

Other notable features of the FY 2015 Manager's recommended budget include relatively slight reductions in the budgets for the Department of Social Services (DSS) and the Emergency Services Department. The DSS Budget reflects a reduction of \$78,069 despite additional staffing for eligibility workers in the Medicaid and Food & Nutrition areas using the NCFast system. The reduction is attributable to two factors - enhanced reimbursement rates for workers using the system and the termination of the automation contract for the system used prior to the NCFast implementation. The reduction in the Emergency Services budget is the result of an improved revenue mix as discussed earlier in this section.

Five Volunteer Fire Departments are requesting tax rate increases for their Fire Tax District for various reasons. One of the reasons is the impact of some departments receiving SAFER grants for paid staff and now funding is ending and revaluation did not put the departments in a position to cover the personnel costs. Another factor is that several departments are planning construction projects or plan on purchasing apparatus in the near future and would like to enhance funding before going to banks to get loans.

It is important to recognize that the Manager's recommended budget does not address all of the operational concerns of this organization. The clear, collective direction from the Board has been to avoid increases in the local tax burden at the County level. This budget honors this desire but at the same time outlines requests from agencies and departments in the Alternate Service Level section of the budget. We will take time to facilitate a discussion of these needs at the detailed worksession on the budget.

As stated earlier, 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 26.

### **Summary**

The proposed budget and work program for FY 2014-2015 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 huge 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. Both Kyles (Wolf and Haney), Patrice, Adam and Debbie worked diligently to get the work completed in a timely and efficient manner. I cannot thank each of 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 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.

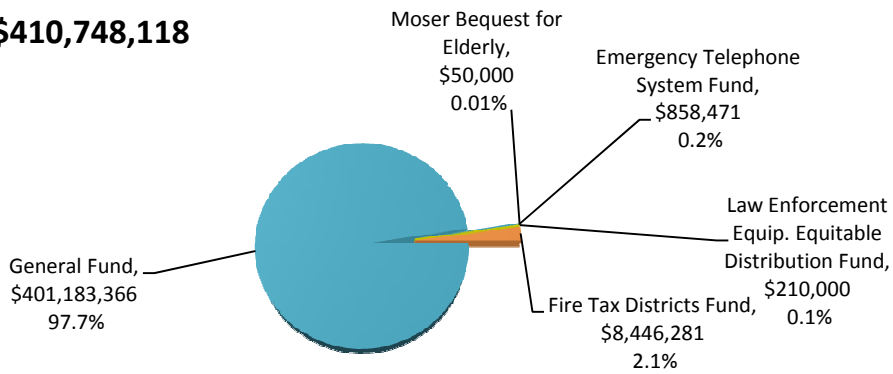
To Dave Kwiatkowski and the staff of IT-Application Solutions and Scott Angell and the staff of the Print Shop, thanks for providing last minute heroics. You provide a great service and I appreciate your efforts to produce a quality document in a timely manner.

To Carla, Kim and Lily - 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.

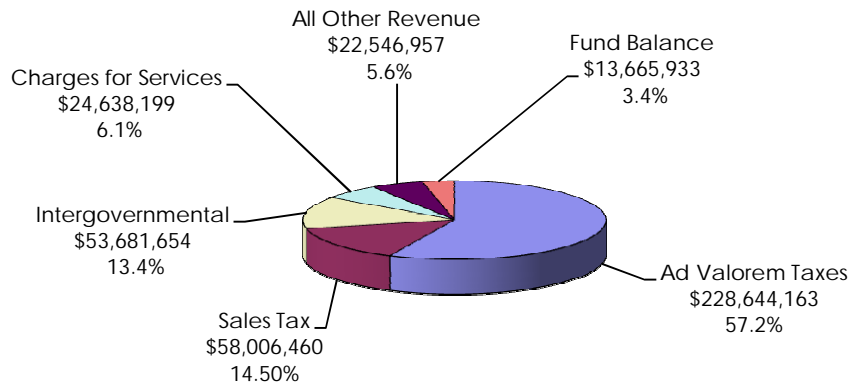
Respectfully submitted,

J. Dudley Watts, Jr.  
County Manager

**All Funds - \$410,748,118**



**General Fund - Revenues \$401,183,366  
Continuation Recommend**



**General Fund- Expenditures \$401,183,366  
Continuation Recommend**

