

To: Forsyth County Board of Commissioners

Date: May 17, 2007

I am pleased to present the County's submitted annual budget 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 for all funds necessary to carry out the services authorized by the Forsyth County Board of Commissioners at the FY 2007 level. This section contains both the financial information and narrative descriptions of each program currently funded by the Board. The second section contains detailed information on 133 alternate service levels requested by departments and outside agencies. These are "new and different" activities that expand or retract the current level of service to Forsyth County citizens and taxpayers. The third and final section is the proposed capital funding strategy and proposed policy for the school bonds that were approved by the voters in a Countywide referendum in November, 2006.

The 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:

- Maintain the County's strong financial condition and our excellent credit rating by paying careful attention to our current and future fund balance position. This is to be achieved by developing and maintaining systematic financial plans and systems in the proposed budget.
- 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 the current 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 2007-2008 Budget has been prepared assuming that the local and State economies continues to remain relatively healthy. The unemployment rate is 4.1%, the same as last year. The State is estimating strong growth in sales tax revenues; however the impact of annexation has negatively impacted this important revenue source. Inflation appears to be under control, based on a consumer price index of 2.6% thru April. However, the price of fuel is expected to negatively impact the costs of services. Fortunately, the County's primary revenue source, property taxes, is projected to grow 4.2%, reflecting a stable local economy with continuing investment in homes and businesses. This percentage change reflects growth in the property tax base, with no change in the property tax rate.

The budget is prepared during a year where the actions of the North Carolina General Assembly play a pivotal role in County fiscal policy. The primary issue is whether or not the State budget will include Medicaid relief in the form of continuation of the cap on the counties' share. The continuation budget assumes that the County's Medicaid expenses would be capped at \$14.4 million (the FY 05-06 actual). It now appears that our assumption was too optimistic. If we receive the funding included in the House proposed budget that was submitted in early May, we will still need to make additional adjustments totaling approximately \$2,000,000. I understand clearly from discussions with Board members that the deficit would have to be made up with budget cuts, rather than from additional tax revenue. Therefore implementation of any new initiatives or programs funded in this budget may be delayed until the State budget discussions are finalized.

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.

Continuation Budget

The recommended continuation budget reflects a 5.9% increase over the prior year, and relies on a growing tax base and operational enhancements to avoid a tax increase to continue to provide the same level of services to citizens. The following is brief summary of some of the primary factors that drive the continuation budget, with a more detailed explanation in the document:

- General Government/Special Appropriations – The continuation budget includes funds for the performance-based pay program. This is a cost of approximately \$1.3 million in the FY 07-08 budget. This is also the first year of a repayment to the hospitals for assistance in the Community College expansion of Greene Hall (\$875,000). The City of Winston-Salem's annexation reallocated sales taxes, costing the County approximately \$1.5 million in lost revenue.
- Debt Service – The continuation budget includes an increase in the debt service of approximately \$4,700,000, of which approximately \$2,800,000 is offset by lottery proceeds. This is required to repay WSFC Schools and Forsyth Tech bonds and other debt. Transfers from other funds (primarily capital project ordinances) is budgeted in the Debt department.

- Education – The Winston-Salem/Forsyth County Schools budget reflects a 4.55% increase in the continuation budget based on the projected enrollment increase and the consumer price index adjustment. This equates to approximately \$4,519,000 in new funding. The budget has also been adjusted to allow all of the School Resource Officer funding to flow through the schools. The Forsyth Tech new continuation funding is \$119,035.
- Public Safety - This is the first year where the warranty on the radio system will not cover the contractual maintenance of the system, beginning January 1, 2008. The projected cost is \$586,000, of which ½ (\$293,000) is the County share. The jail medical and food contracts are expected to increase by \$589,100. The continuation budget also includes seven positions in the Sheriff's department that are required to meet the growth demands.
- Social Services – The continuation budget includes four positions that are justified to keep up with the increasing workload in the “Adult Services” and “TEAM” divisions. Budget staff analyzed the workload data and determined that these positions do not increase the level of service provided to citizens.
- Culture and Recreation – The continuation budget includes two new full-time positions at the Lewisville Branch Library opening this Fall. This will staff the branch at the same level as the other full service branches. At Tanglewood Park, we have separated the “Enterprise” operations from the “Park” operations to track and report “Enterprise” operations as at least a break even situation, and hopefully better. In the future, decisions will be made based on criteria which will contribute to the bottom line.
- Community and Economic Development – The continuation budget includes the first year of incentive payments for both the Dell and Lowes projects. The projects have met their contractual requirements for jobs and taxable investment. The expected incentive payments total \$721,128.

Alternate Service Level Recommendations

The Budget and Management staff worked with County departments and agencies to distinguish between continuation resources and the requests for improved, reduced or enhanced services. This effort to identify costs associated with these changes resulted in 133 alternate service levels that were requested. The Budget and Management staff and I are recommending funding for 39 of these requests, with a net cost of \$3.3 million. Funding these initiatives requires increasing the tax rate by 1.7%, increasing it from 66.6 cents/\$100 to 67.7 cents/\$100.

This document contains a list including each requested alternate service level and the estimated cost, any revenue offset and the manager's recommendation. Also included is a one page summary of each request that is based on information provided by the requesting department or agency.

Capital/Debt Service Funding Strategy

At the planning retreat in February, the Board requested that staff develop a plan that normalizes the future tax increases required to pay the debt service on the school bonds. The Board also expressed interest in the incorporation of more pay-as-you-go financing of smaller projects and using excess fund balance strategically to lower the overall burden of meeting the County's ongoing capital and facility needs.

Budget and Management staff developed a fiscally responsible proposal that earmarks a three cent tax to be used for debt service on the school bonds. By setting these funds aside for future years, the Board can assure that future tax increases will not be required for the 2006 Series School Bonds and that operational budgets will be consumed with this obligation. I recommend adopting the plan.

The strategy is outlined in detail in the document that accompanies the budget.

Summary

The proposed budget and work program for FY 2007-2008 is presented for your consideration, debate, and eventual adoption. I look forward to the continued 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. The challenges in the coming year will require managers and department/agency leaders to take a close look at how we do things. The Schools, cities and the County will have to continue to cooperate. The Board of County Commissioners has the commitment from the county administrative agencies that we are a leader in this endeavor.

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 working so hard to embrace the changes in the budget format and analytical approach. Your work is outstanding and I appreciate your team-oriented approach to getting this monumental task completed.

To Joe, Ed, Ron, Paul, Jane and Damon – 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,

County Manager