

Manager's Budget Message

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May 14, 2015

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

Dear Chairman Plyler, Vice-Chairman Martin, Commissioners Kaplan, Linville, Marshall, Whisenhunt, and Witherspoon:

I am honored to submit the County Manager's recommended budget for the fiscal year beginning July 1, 2015 and ending June 30, 2016 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, which includes the appropriations necessary to maintain current service levels. 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 52 alternate service levels for your consideration and 2 items for decisions and/or clarification because of their future budget impact. The Alternate Service Levels are "new and different" activities that expand or contract the current level of service to Forsyth County citizens and taxpayers. In prior years, the alternate service level document has been divided 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. For FY2015-2016, all of the Alternate Service Level requests are to increase service levels with several of the requests from community agencies seeking new or increased funding primarily to back-fill reductions in other funding sources or for capital campaigns.

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:

18% 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 debt service to total General Fund expenditures would be 14.9%. Taking all annually budgeted funds into consideration, the ratio of debt service to total budgeted expenditures would be 14.6%.

Recently the Board amended the Debt Policy from a hybrid debt ceiling model of 15% (taking into account lottery funds and other revenue) to a maximum of 18% of budgeted expenditures. This change simplifies the reporting in the Comprehensive Annual Financial Report and provides capacity for borrowing without significantly jeopardizing the County's triple A rating. The prior policy required disclosure of the offsetting lottery funds and rebates from the Qualified School Construction Bonds in the final calculation.

No new debt is programmed in the coming year. This allows for the strategic issuance of two-thirds bonds in FY 2017 to support capital maintenance projects and provide capacity for a potential bond referendum in November 2016.

14% Target Fund Balance - The County maintains an adequate fund balance to meet the cash flow demands throughout the year and to ensure that funds are available in the event of an emergency or other unforeseen circumstances. On April 27, 2015, the Board amended the County fund balance policy from 16% to 14%, citing the availability of debt-leveling and other

funds to meet the County's cash flow requirements. This change is expected to make available approximately \$8 million to fund one-time needs.

Education Debt Leveling Plan – In previous years, the Board earmarked the equivalent of 4.51 cents of the tax rate to retire debt for educational facilities. This budget continues this set-aside to ensure that sufficient funds are available in future years for the purpose of retiring the debt service associated with the 2006 and 2008 education referendums. Additionally, this budget expands the debt-leveling concept and earmarks an additional .7 cents to retire the library debt authorized in November of 2010. A summary of the debt-leveling plans are shown below:

Proposed Tax Rate (in cents) 72.83

2006 Education Debt Leveling 3.30

Set aside to offset debt service associated with the \$250m School Bonds approved in November 2006.

2008 Education Debt Leveling 1.21

Set aside to offset debt service associated with the \$62.6m of Educational Facilities bonds approved in November 2008.

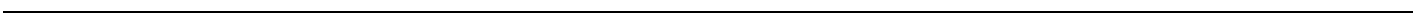
Library Debt Leveling 0.70

Set aside to offset debt service associated with the \$40m of Library Bonds approved in November 2010.

School Funding Formula – This is the fourth 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 consistent with the formula. Because of improved Sales Tax revenue and Property Tax Base, the School System will receive a higher appropriation than seen in the prior three (3) fiscal years. For each increase in property taxes (not associated with a debt leveling plan), the School System receives almost 40% of the new revenue.

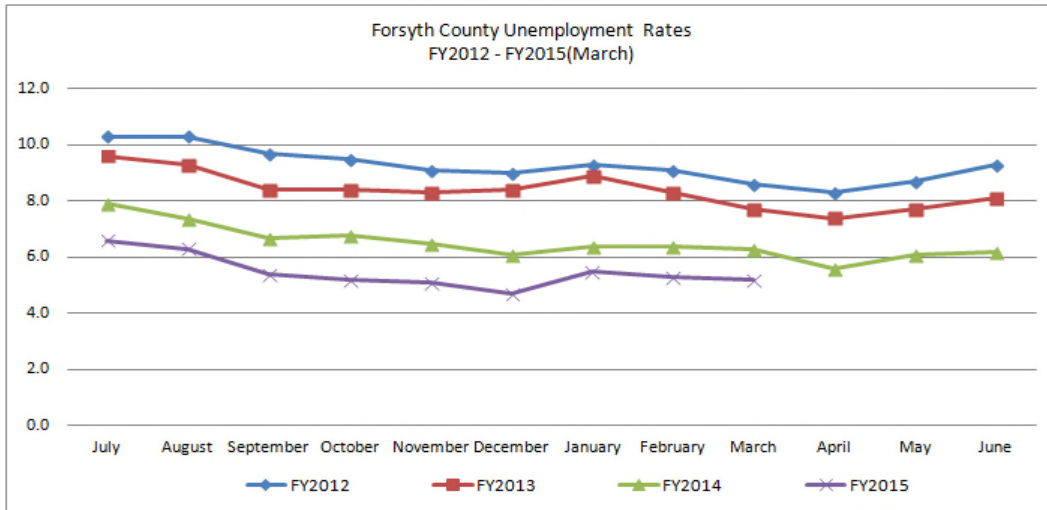
Multi-Year Approach - As always, the Manager's recommended budget takes into consideration projections of revenues and expenditures in the current fiscal year and challenges in the budget year and beyond. In addition, the Manager will execute the budget in a manner that avoids shifting additional costs into subsequent years.

- 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 provides for full disclosure of needs to the public.

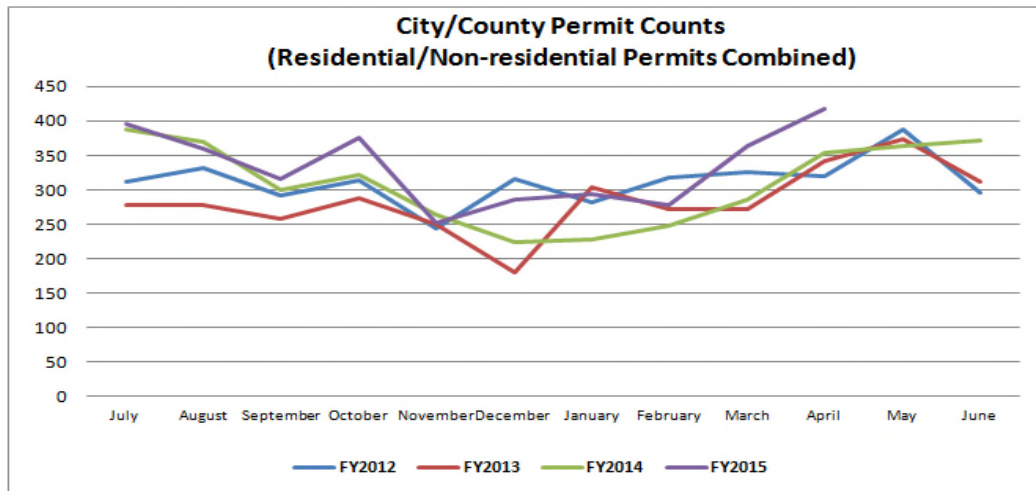


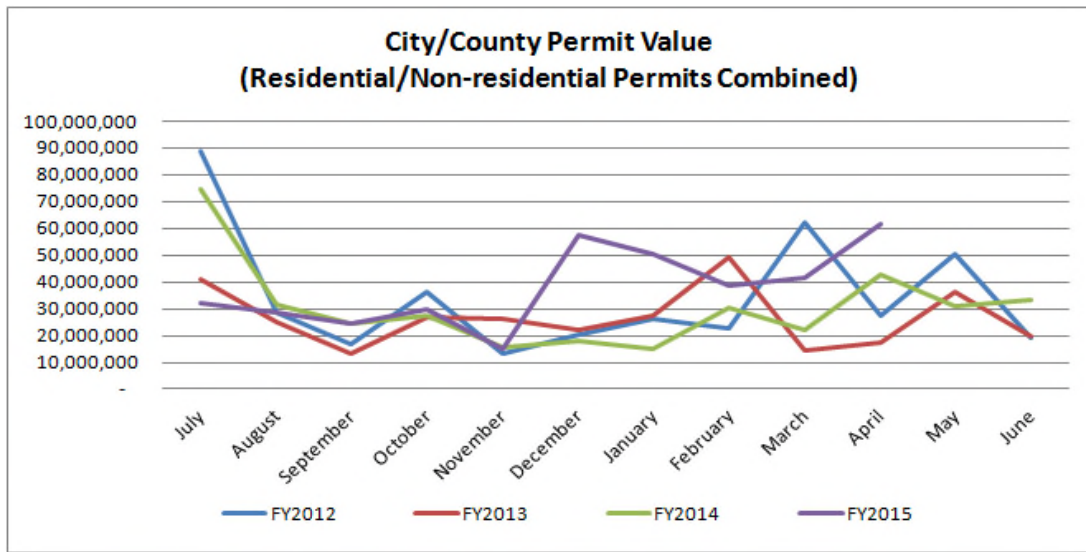
General Overview

This budget has been prepared during a period of steady improvement in the local economy. Over the last twelve month period (March 2014 to March 2015), the local unemployment rate has fallen from 6.2% to 5.2% according to the Bureau of Labor Statistics (www.bls.gov). The improvement over the last three full fiscal years and through March 2015 is even more pronounced as shown in the chart below:

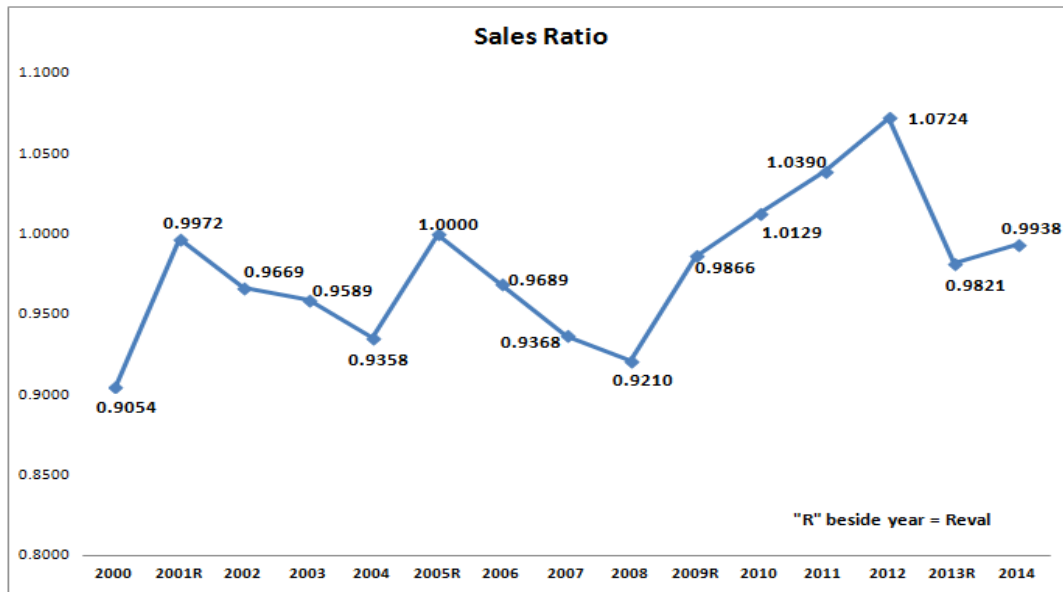


Through April, construction permits (city/county combined and residential/non-residential) have increased by 11.8% over the last 12 months while the total value of those construction permits increased 25.9%. The first chart below shows combined city/county permit counts for residential and non-residential permits while the second chart shows the same city/county combined permit information in terms of total value of the permits.

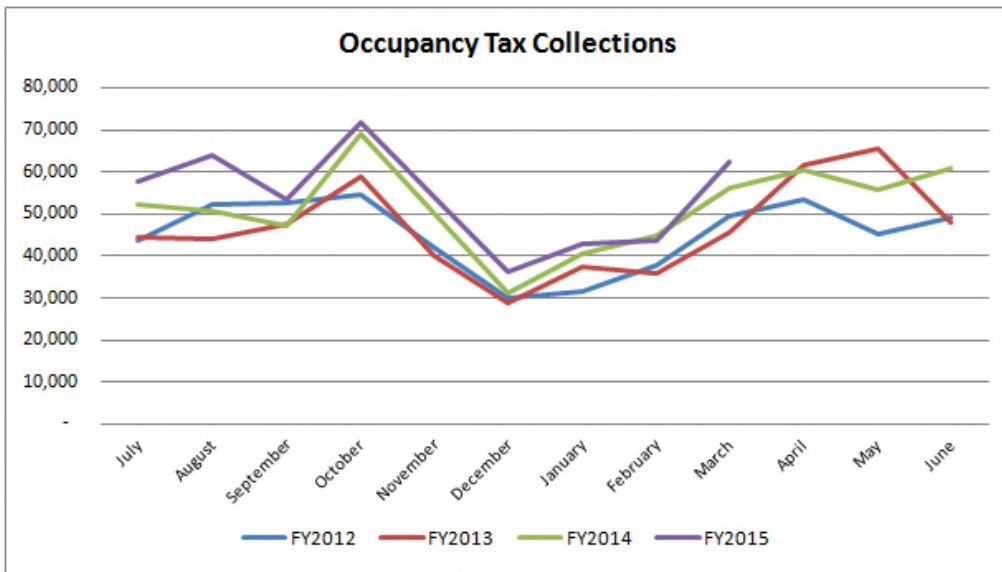




Property values have begun to increase (as measured by the quarterly sales/assessment ratio) after the precipitous decline in property values during the last revaluation period. The following graph provides a look at the Sales Ratio from 2000 through 2014. As seen in the graph, the sales ratio is improving and with a revaluation scheduled for 2017, we hope to see continued improvement, albeit probably not as much particularly in residential property.



Other measures of economic improvement can be found in Sales Taxes and Occupancy Taxes. For Occupancy Taxes, we have seen steady improved collections on hotel/motel taxes which reflects activities in the County. For example, JDL Fast Track, an indoor track and field facility has been consistent in bringing in national collegiate and high school championships to the County as well as other national track events. For instance, in 2015 alone, the track hosted the CIAA, Big South, and Atlantic Sun Indoor Championships as well as the NCAA Division 3 Indoor Championships. With the number of athletes in these conferences plus spectators, hotels and motels and restaurants were major benefactors. This can be seen in the graph below showing Occupancy Tax revenue over the past two fiscal years.



Improvement in Sales Taxes is attributable as much to an expanded base and the fact that Amazon collects Sales Taxes than great improvement in the economy. However, there is improvement in sales tax from an overall economic perspective. For FY2015, while Sales Taxes appear to be on track to be at least \$2 million above budget, the volatility in sales tax refunds for non-profits tempers enthusiasm for a major rebound. Non-profits have a three-year window in which to request refunds. While the majority of refunds in Forsyth County go to the two major hospitals, refunds are much lower in FY 2015 compared to last year or even years prior. As of the February sales data, refunds total 6.9% of Gross Sales while we normally would see around 11%-12% in refunds. We anticipate that between now and September when the final sales numbers for June are distributed, refunds will normalize to around 10%-11%.

The combination of factors described above have resulted in the first year since 2008 for an opportunity to responsibly recommend enhanced levels of service.

The following sections provide an overview of the revenues and expenditures and the alternate service levels included in the Manager's Recommended Budget.

The Manager's Recommended FY 2015-2016 General Fund Annual Operating Budget is balanced at \$412,911,452 and assumes a general levy of \$72.83 cents per \$100 valuation. This increases the current tax rate of \$0.7168 by 1.15 cents. Of the increase, .7 cents is identified with the debt leveling for the library bonds. The continuation operations at current levels would require \$407,153,241, and available revenue is \$409,238,211. This provides an operational surplus of \$2,084,970. With the addition of the Manager's Alternate Service Level recommendations, a total of \$412,911,452 is required resulting in the proposed tax rate of \$0.7283. The School System benefits by being the recipient of almost 40% of any new revenue from Sales and Property Tax increases. Therefore, the Recommended budget has the School System receiving an increase of over \$4.5 million or 3.96% compared to the FY2015 appropriation.

Overview of Revenue

This is the first year since 2008 where almost all of the County's revenue sources are experiencing some growth. This is true not only for the primary revenue sources - sales taxes and property taxes, but is also seen with intergovernmental and fee-based revenues. This seems to confirm an improving local economy.

Property tax revenue is the County's largest revenue source and comprises 57.3% of the General Fund revenues. Property tax revenue is expected to increase in the recommended budget by 3.6%, mostly due to growth in the business personal property (4.1%) and an improved overall collection rate of 98.43%. The State's Tax and Tag together program has resulted in greatly improved collections - 87.67% (FY2013) versus 99.38% (FY2015) in the current year. A comparison with FY2014 is not provided because it would be a mixture of two systems, the old RMV system and a partial year with implementation of Tax and Tag Together.

Sales tax revenues are the second largest source of County revenue and total \$59.75 million, an increase of 3% over the current year budget. Sales taxes are difficult to accurately project because of the impact of refunds on collections. Non-profit and governmental units eligible for sales tax refunds have 36 months to claim the refunds, which has the tendency to skew the annual collections. The proposed budget is based on an estimate that normalizes the refunds at approximately 11% of gross collections. While conservative, there is some thought that with the lower number of refunds, some non-profits may be holding back on remitting refund requests or because of the push last year at the State level to cap refunds that many may have sent as much as they could and we are seeing a dip as a result. We feel comfortable with the recommended number.

Intergovernmental revenues are bolstered by the State administrative cost share for medicaid eligibility in NCFAST. The State clearly recognizes the additional burden on counties to implement and maintain this system. Social Services is able to draw-down 75% reimbursement for all Medicaid applications processed through NCFAST compared to standard 50% Medicaid reimbursement using the paper-based system. Social Services is processing all Food and Nutrition and Medicaid applications through NCFAST resulting in additional revenue coming in to the County. The County using most of the additional resources to hire 20 additional Income Maintenance Caseworkers to process the thousands of applications and re-certifications that have to be completed each month.

Appropriated fund balance is recommended at \$15,995,349 of which \$1,437,331 is appropriated to fund school technology based on the impact of the recommended tax increase on the school funding formula. Debt leveling comprises \$3,620,687 with \$10,937,331 undesignated.

Overview of Expenditures

Departmental leaders are to be commended for continuing to seek operational efficiencies and more effective ways to deliver services. Despite increases in personnel costs and other fixed expenditures, the continuation budgets increased slightly by 0.5% (\$2,045,872). Adding the recommended enhanced service levels increases this to 1.9% (\$7,804,083).

Of the 32 departmental cost centers, 10 recommended budgets are reductions from the current year budget. The Non-departmental budget drops by approximately \$2.6 million due to the one-time expense in the current year for the Forsyth Technical Community College Carolina Building renovation. Social Services and Public Health benefited from enhanced cost sharing by the State and Federal governments. The transfer of Youth Detention to the State saves approximately \$280,000 in direct expenditures. Additional revenue in the Register of Deeds' office is a direct result of the improved economy and reduces net County dollars by almost \$150,000. Parks and Recreation also benefits from better revenues, yielding a reduction in the budget of approximately \$132,000.

The following sections outline a few of the major expenditure drivers.

Debt Service

The recommended budget includes \$61,479,297 to service the County's current outstanding debt (principal and interest) of \$690,118,953. This is a reduction of \$2,851,211 from FY2015.

WSFC Schools

The recommended budget includes \$118,255,921 to support the WSFC Schools and is based solely on adherence to the funding formula. This increases the current appropriation by \$4,505,066. Of this amount \$3,067,735 is driven by the baseline budget and \$1.4 million is the impact of the County Manager's recommended tax increase. The County Manager recommends funding the \$1.4 million from fund balance rather than further increasing the property tax and earmarking this amount for technology.

This approach signifies an ongoing commitment to integrating state-of-the-art technology in the schools and could form the basis for a dependable revenue source for this purpose. The downside of using fund balance for this purpose is the increased pressure on the subsequent year budgets for continuation funding.

Public Safety

The Recommended budget shows purposeful commitment to enhance safety and security in Forsyth County. The recommended tax increase supports the following initiatives:

- \$1,225,000 to support enhanced staffing in the Law Enforcement Detention Center, to increase patrol capacity, and to add additional courtroom security personnel. The recommendation for additional patrol capacity is based on the outstanding work completed by Budget and Management staff to compare staffing levels from 2008 to present. These additional deputies will allow the Sheriff to provide the 2008 baseline level of service for an increased population base. With municipalities unable to annex, the unincorporated population has grown as developments are built on the outskirts of municipal limits.
- \$300,000 to support a Mobile Integrated Healthcare pilot program in EMS. This will provide quick paramedic first response. In addition, a purpose of this program is to provide whole person evaluation, triage and management for clients at high risk for instability in the community and at risk for repeat Emergency department utilization. The program would provide pre-emergency department and post-emergency department care. Currently, only about 5% of EMS calls are severe, acute medical illnesses. Many of the patients could be more effectively managed in the community by connecting them with resources to promote stability and recovery. By piloting this program, we anticipate seeing some efficiencies in not having to tie up ambulance units with these non-critical calls. There are efforts in the State legislature to fund some pilot paramedicine programs throughout the State, and with this pilot project, we may enhance our ability to tap into other revenue sources to expand the program. The recommended funds will more than likely accommodate 3-4 paramedics who will be required to work solo as preceptors. As such, they will be more seasoned members of EMS whose compensation will represent the majority of the funding proposed.
- \$143,000 to support two additional school nurses to improve the nurse to student ratio. While these two positions will not improve the ratio much given the projected student population, additional resources are helpful to maintain the percentage and not fall even further back not just in Forsyth County but across the State. As with the para-medicine program, there are efforts in the legislature to review the school nurse issue statewide through a legislative study. The County would need to hire an additional 50-51 full time nurses to meet the State standard of 1 nurse per 750 students. Currently the County funds 18 full time school nurses with 4 contracted nurses for the Exceptional Children's program, and 8 funded by either the School System or Wake Forest Baptist Medical Center. To fund 50 additional full time nurses, the annual cost would be over \$3.575 million. Additionally, it would be virtually impossible for Public Health to hire and retain that many school nurses throughout the year. Two school nurse positions were added in the current year budget, and a phased-in staffing approach appears to be the most manageable at this time.
- \$150,000 to assume local responsibility for a majority of the staff in the Safe-on-Seven program. Grant funding has been depleted, and this allocation keeps this award winning program operating. While this leaves approximately \$26,000 unfunded, many of the positions funded with the Governor's Crime Commission grant are also staff members of non-profits. The \$150,000 will allow the majority of the program staffing in the DA's office and Clerk of Court's office to remain to provide the integral portions of the program.

Employee Compensation

Personnel-related costs are the second largest expenditure (behind support for the schools) and totals \$131,159,312 annually. The recommended budget includes continued funding of the performance pay plan and the accelerator to bring employees closer to the market rate of pay. The recommended budget includes performance adjustments at an average 2.58% with a range of 1%-4%. The budget assumes average employee ratings of 3.1 rating on annual performance evaluations. For those employees who are below their position's Market Reference Point, an "accelerator" of up to 50% of the performance adjustment may be received. The accelerator is not applicable to employees whose salaries are above the market reference point.

The recommended budget also takes a significant step in regional hiring competitiveness by including a 2.5% contribution to employee 401ks for non-law enforcement personnel. The cost of this recommendation is \$1,924,380. Any contribution would be a major step to increase our competitiveness and retain high performing employees.

The proposed budget provides \$503,500 to change the current policy for holiday pay that primarily affects law enforcement and emergency services shift personnel. Because of the difficulty in scheduling holiday leave, the proposed policy will pay employees for holiday and avoid accrual.

Continued funding of the fully insured health benefits program requires a 10% adjustment that has been included in both the County and employee contributions.

Finally, the proposed budget includes funds payroll related adjustments related to a clerical compensation/classification study and a timekeeping change for law enforcement and fire services staff that changes from a 28-day pay true up to a straight bi-weekly timekeeping procedure.

The recommended funding level for all personnel-related accounts reflects an increase of \$4,422,546 or 3.5% from the current fiscal year.

Other Service level increases

Other service level enhancements include the following:

\$45,000 to support Cooperative Extension's involvement in the urban farming initiative. Adds one position to staff to coordinate efforts.

\$30,000 to provide Social Services staff resources to assist in library efforts to address homelessness issues. The Library received a three-year LSTA grant to provide a peer-support specialist at the Central Library. The funding was provided to Insight to hire the peer support specialist and the Library passed through the grant funds to Insight. Grant funding ends June 30, 2015 and the Library requested that the County assume funding the position. However, the Manager recommends that if the funds are approved, the position should be shifted to Social Services and there may be opportunities to draw-down funds to offset County costs. The position could retain a physical presence at the Library.

Overview of Other Budget Issues

While the primary focus of the proposed budget is on the proposed county-wide tax rate and appropriate service levels, fiscal year 2016 will present other challenges. Two significant issues facing the County budget are the Capital Improvement Program (CIP) and tax base pressure faced by the volunteer fire departments.

There has been significant discussion about funding critical Board of Education projects and Hall of Justice conditions. and the condition of the Hall of Justice. The debt policy change has created an opportunity to consider what projects could be included on a referendum for general obligation bonds, how much, and timing of a ballot issue.

The 2013 revaluation had a detrimental impact on the tax base generally, but it particularly impacted the volunteer fire departments that had been accustomed to a revenue windfall every four years. This occurred because the Board of Commissions generally did not adjust for revenue neutrality in the same manner as for the Countywide general fund rate. As a result, many of the departments are requesting increases to the fire tax district rates and some volunteer department rate increase requests are beginning to approach the maximum of 15 cents allowable without a referendum. Moving forward, I have recommended to the departments that a county-wide study be conducted by an outside consultant to ensure that the system makes the necessary adjustments to ensure sustainability.

It is important to recognize that this Budget Message does not address all of the operational concerns of this organization. As stated earlier, a detailed and 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 35.

Summary

The proposed budget and work program for FY2015-2016 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, Assistant County Manager/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. Patrice, both Kyles (Wolf and Haney) and both Adams (Fernbach and Pendlebury) 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.

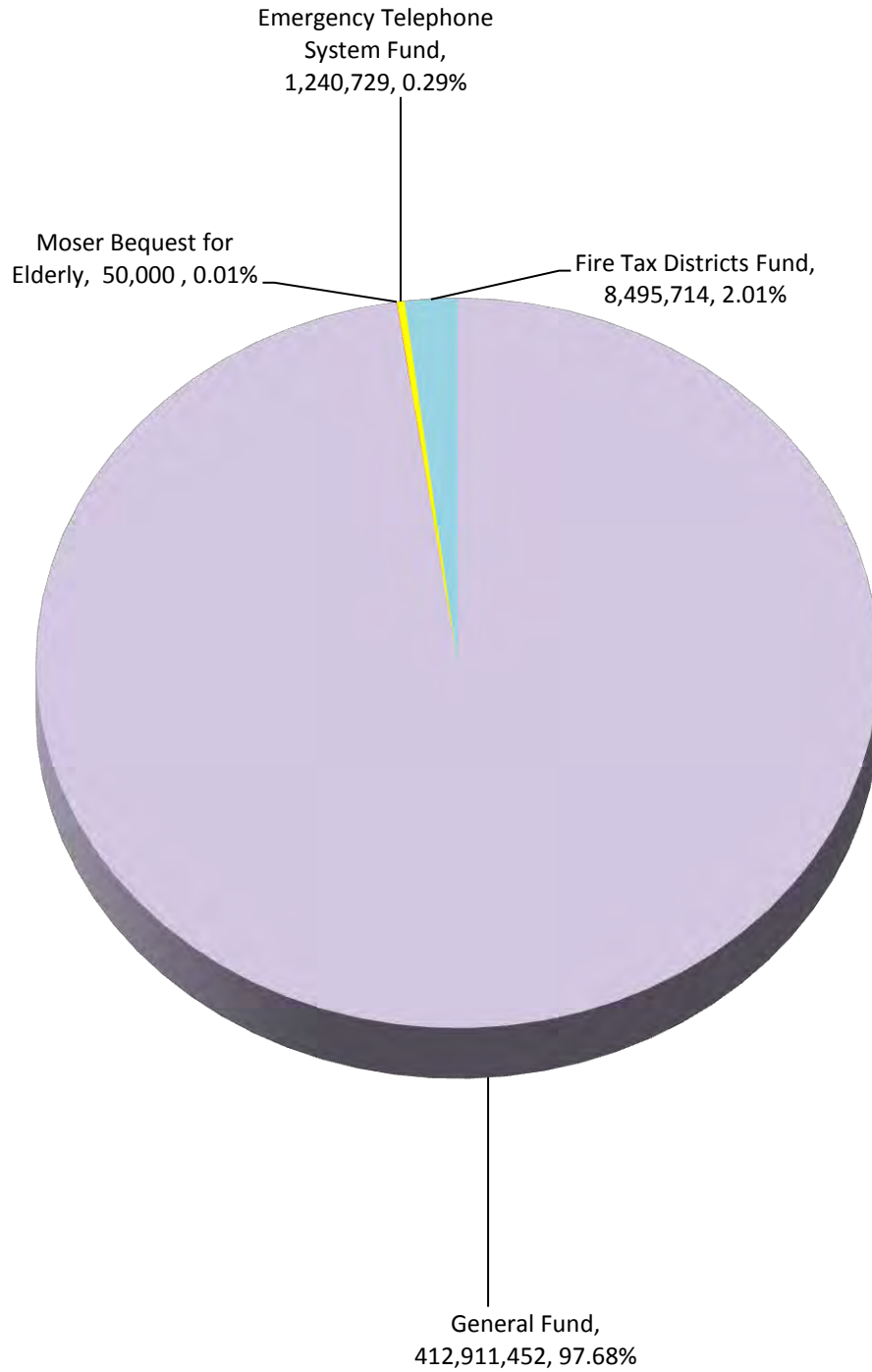
To MIS and Print Shop staff, thanks for providing last minute heroics. You provide a great service and I appreciate your efforts to produce a quality document in a timely manner.

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.

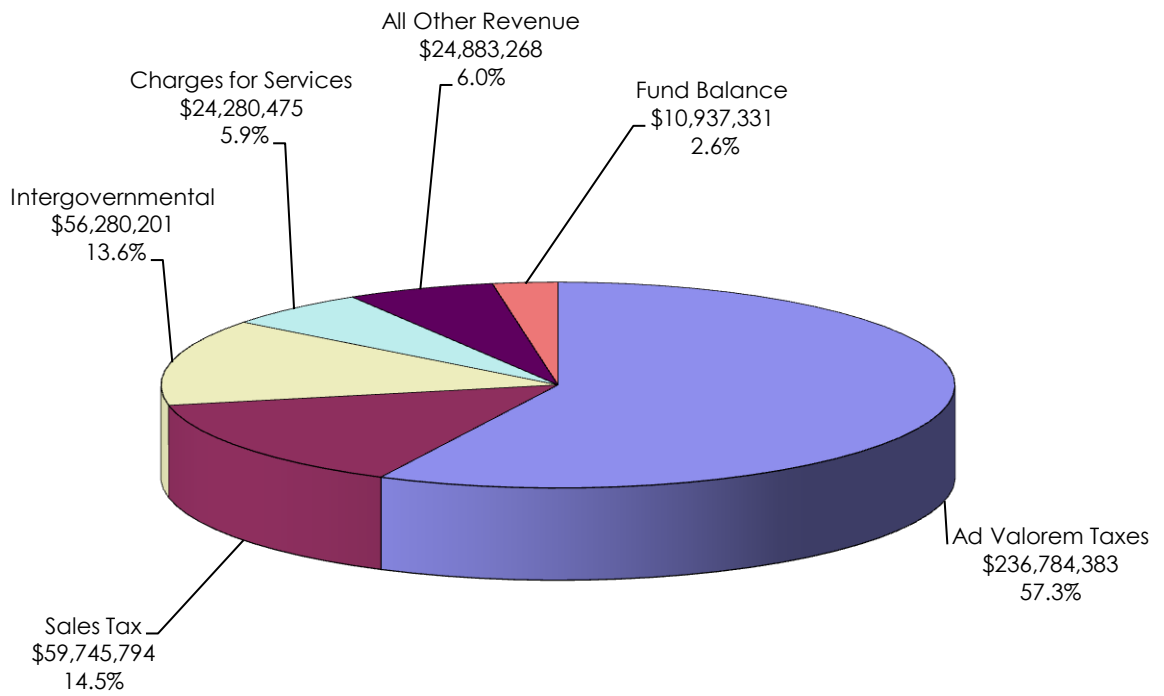
Respectfully submitted,

J. Dudley Watts, Jr.
County Manager

All Funds - \$422,697,895



General Fund - Revenues Recommended = \$412,911,452



General Fund- Expenditures \$412,911,452 Recommended

