

May 12, 2011

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, 2011 and ending June 30, 2012 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 3 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 49 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 three categories: items for general discussion, 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 retreat. My understanding of your collective desire for this budget is as follows:

- Avoid shifting the increased costs of County government to taxpayers already struggling with the economic recession, changing credit markets, uncertain employment prospects, and static income streams;
- Carefully analyze the savings from reduced service levels and present the efforts to balance the budget in this context;
- Carefully review impacts to County departments of potential State government reductions in funding;
- 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. For the last two years, the Manager's recommended budget increased the reliance on fund balance to balance the budget. The recommended budget for FY 2011-2012 restores appropriated fund balance to a level that is sustainable.
- 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

This is the fourth year of extreme fiscal stress for businesses, citizens and local governments. The NCACC leadership describes the situation accurately in their *Forecast for 2011-2012*. "While the "Great Recession" officially ended in late summer 2009 after 20 months of the steepest economic decline since the "Great Depression", State economic growth has only recently begun to take hold." Current national economic forecasts point to a limited expansion during 2011 that may gain momentum in 2012; however, North Carolina has lagged behind the national economy. Given the County government's interconnectedness with State and Federal agencies, the short and medium term growth prospects for Forsyth County government are modest. In my opinion, we, as leaders, need to prepare this organization for a period of stagnant or slow growth for the next 3 - 4 years. This is not to say that the community will recover this slowly, but generally local government's revenue growth lags behind the overall economy by 12 - 18 months. A significant factor in this forecast is the FY 2013 revaluation and the likelihood that a revenue-neutral rate adjustment in FY 2014 will likely require a tax increase, rather than the usual decrease. This is due to the current weak housing market and the unlikelihood of significant improvement in time to impact the reappraisal.

For FY 2011-2012, the Manager's recommended budget is balanced with the County-wide ad valorem tax rate unchanged at 67.4 cents. Except for the portion of the tax rate earmarked for the Education Debt Leveling Plan, currently 4.1 cents, this will be the seventh consecutive year with no tax increase to fund increased operational costs. This is reflective of the Board of Commissioners' desire to avoid burdening taxpayers with additional taxes and is particularly noteworthy given the concurrent downward pressure on revenue during this period.

In the current budget, the County's two main revenue sources, property tax revenues and sales tax revenues were both projected to decline due to the weak economy. For FY 2012, sales tax revenues are up only slightly, while property tax revenues continue to decline due to the reduction in taxable personal property, State-certified utilities, and motor vehicles. It is important to note that a decline in property valuation is rare. Except for the past two years, it has not declined since the recession in 1991.

This budget continues to rely less on savings (or appropriated fund balance) than the previous budgets (\$1.6 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. This is the first year that the reserve funds will be tapped - this year by almost \$4 million. 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. During the economic downturn, the State changed the formula by which counties receive lottery funds. For FY 2012, this equates to a projected receipt of \$3.6 million based on average daily membership.

Given the constraints on the revenue side, balancing the budget required significant expenditure reductions. Total expenditures are \$387,351,489, an increase of \$5,565,957, or 1.5%. However, when factoring in the increase in debt service of \$9,985,926, the operating portion of the budget is down \$4,419,969, or -1.2%.

The recommended budget has a net reduction of 18 full-time and 27 part time positions, reduces funding for the employee longevity program by 50%, and reduces funds for performance-based adjustments to approximately 1% of salaries. Balancing the budget required some increases in personnel-related expenditures. Funding for the health plan, retirement contribution, retiree hospitalization, and other expenses increased by \$1,510,277 and were largely offset by operational reductions in the departmental budgets.

Over the past few years, the Board and management has responded to the financial challenges with a variety of strategies that limited the impact of the cuts on the larger employee base. By allowing management flexibility in across-the-board reductions in 2009, we allowed department managers to prioritize needs and re-engineer processes. In 2010, we implemented an early retirement incentive and were able to reduce staff and strategically reorganize, resulting in savings that have continued. Throughout the downturn we have made the difficult decisions to discontinue or merge services that were not essential or mandated, often affecting both employees and recipients of the services. Unfortunately this budget will affect all employees through higher insurance costs, a furlough program that will essentially reduce annual salaries for all employees, and a reduction in the longevity program that will impact senior staff members the most. While I believe that most employees understand the dire circumstances we face and are appreciative of the efforts to meet the community's needs, these actions are unpleasant and will impact the organization. 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.

Department managers and the Budget and Management staff have worked closely to reduce costs. Most departmental budgets reflect a decrease in the funding level for the coming year when compared to the current year original budget. Funding for all outside agencies has been reduced by 10%.

The Manager's recommended budget for the Winston-Salem/Forsyth County Schools provides for adequate funds to open the new schools and reflects an increase in funding of \$1,886,178 when compared to the current year original level, assuming that the \$2.7 million one-time allocation is not recurring, as directed by the Board last year.

The Schools are again faced with significant State cuts. Given the magnitude of the State reductions, the local share of funding is likely to increase as a percentage of the total funding. This is an important policy question and will likely generate a significant amount of debate. Every year the

momentum to shift responsibility for curriculum support from the State to local governments seems to grow. I have asked the Schools to work with County Budget and Management staff to identify the local portion of the State-mandated reductions and report these to the Board during the budget deliberations. I have not included an estimate of these reductions in my recommendations as a strategy to balance the budget; however, full disclosure of this shift in funding responsibility should be provided.

The Debt Policy is a significant budget issue and will be impacted by the Board's decisions on the Library bonds and the other projects included in the CIP. Passage of the recent bond referenda combined with the declining operating budgets has resulted in an increase in the debt as a percentage of expenditures. Management's recommendation is to consider adopting a policy that will restrict the debt at the 18% level and to include the policy in the Budget Ordinance. A key discussion item scheduled for consideration during the budget process is the timing to move forward with the voter-approved bond projects for the Library. The current debt percentage of budget based on the Manager's Recommended budget is 12.9%.

As stated previously, more than half of the County departmental expenditure budgets reflect reductions due to reorganizations, re-engineering work processes, efficiency improvements and other efforts to control costs. I am indeed proud of departmental leadership and their sensitivity to the economic realities that we all face. The budget staff did a great job of working with these leaders to compile a difficult, yet workable, proposal that forms the basis for an effective policy-level discussion of our community's future.

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 38.

Summary

The proposed budget and work program for FY 2011-2012 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, Chad, Kyle, Darryl, Karen 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, Pete Rodda 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, Kim and Tishara - 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