

Overview of Changes in Revenues, Expenditures, and County Dollars

FY 2007 - 2008 Adopted Budget	\$	385,453,076
FY 2006 - 2007 Adopted Budget	\$	352,713,812
Difference	\$	32,739,264
Percent Change		9.3%

- The overall budget for Forsyth County for FY 2007-2008 increases by \$32.7 million or 9.3%.
- The growth in the Property Tax Base of over 4%, coupled with healthy growth in Sales Taxes and other resources, was sufficient to cover expenditure increases in the operating budget.
- However, a 3 cent property tax increase was approved for the “Education Debt Leveling Plan” (EDLP) which is discussed further below.
- The budget was adopted on May 31, 2007. However, the North Carolina Legislature was still in session considering bills concerning Medicaid which could dramatically impact the County’s Adopted Budget.
- While the County awaited the State’s decision, some \$2.4 million in expenditures were “put on hold” pending the outcome.
- On July 30, 2007, the State gave final approval to the bill which provides for the State taking over the County share of Medicaid over a three year period, in exchange for the County giving up certain Sales Taxes.
- The net impact of the Medicaid/Sales Tax swap benefits the County in future years by reducing the pressure on the Property Tax Rate. For FY 2007-2008, part of the formula calls for the County to also make up some School capital outlay matching funds that the State would have normally provided.
- On August 9, 2007, the Commissioners informally approved the release of the \$2.4 million in funds which had been put on hold, and informally agreed that the estimated additional amount of School capital outlay (\$547,000) would come from fund balance if necessary.

In the discussion which follows, the reader will find references to “Continuation Budget” and “Alternate Service Level Budget”. The “Continuation Budget” represents those resources necessary to continue the same level of service as was provided in the preceding fiscal year. “Alternate Service Levels” represent changes (up or down) to those service levels.

A summary of the Adopted Budget follows on the next page.

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County Dollars Change FY 07 to FY 08 (dollars affecting property tax rate)

	<u>Expenditure</u>	<u>Revenue</u>	<u>Net</u>
Growth in Property Tax Base (no change in rate)	-	8,294,253	(8,294,253)
Sales Taxes	-	3,034,440	(3,034,440)
Increase in EMS Revenue		1,705,707	(1,705,707)
Transfers from other funds (primarily CPO's)	268,622	2,704,252	(2,435,630)
3 ¢ on Property Tax rate for Education Debt Leveling Program	8,977,525	-	8,977,525
Continuation Budget additional or deleted positions	777,542	102,190	675,352
Alternate Service Level additional or deleted positions	539,117	589,359	(50,242)
Other Alternate Service Level Changes County Departments	743,892	338,670	405,222
Jail medical and food contracts	589,100	-	589,100
WS/FC Schools	6,594,000	1,075,000	5,519,000
Increase in Use of Fund Balance for 1 time School Capital Outlay		1,000,000	(1,000,000)
Medicaid	2,546,274	-	2,546,274
Contract for countywide communications system	586,000	293,000	293,000
Dell and Lowe's Economic Development Incentives	721,128	-	721,128
Payback to hospitals for Greene Hall Expansion	875,000	-	875,000
Compensation for employees	1,325,396	-	1,325,396
Health Insurance - employees	1,561,000	-	1,561,000
Health Insurance - retirees	548,808	81,750	467,058
Increase in amount allowed for salary savings from <\$1,500,000> to <\$1,900,000>	(400,000)	-	(400,000)
Nov. 2006 School Bonds (Revenue from Lottery Proceeds)	2,790,281	2,790,281	-
Nov. 2006 FTCC Bonds (Revenue from EDLP)	434,250	434,250	-
Other Debt	1,489,033	-	1,489,033
All Other	<u>1,772,296</u>	<u>1,318,587</u>	<u>453,709</u>
SubTotal	<u>\$ 32,739,264</u>	<u>23,761,739</u>	<u>8,977,525</u>
Increase Property Tax Rate by 3 cents for the Education Debt Leveling Plan (EDLP)	<u>\$ -</u>	<u>8,977,525</u>	<u>(8,977,525)</u>
Grand Total	\$ 32,739,264	32,739,264	-

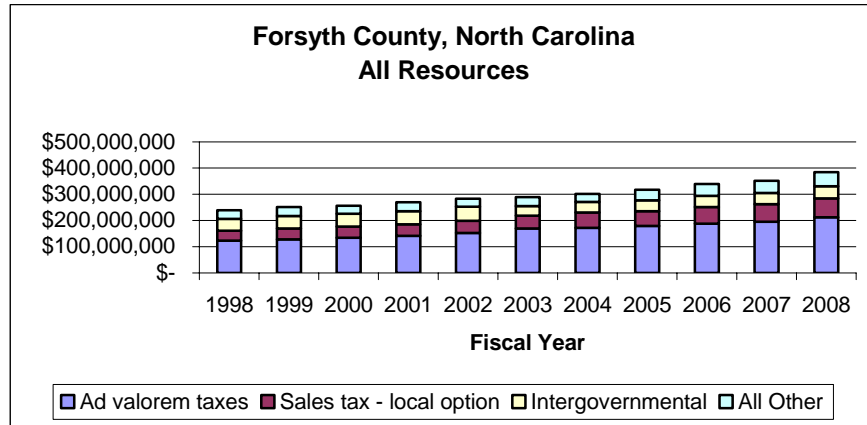
A discussion of these factors begins below.

Revenues

	<u>FY 2007</u>	<u>FY 2008</u>	<u>Difference \$</u>	<u>Difference %</u>
Ad Valorem Taxes	194,856,802	212,128,577	17,271,775	8.9%
Sales Taxes	68,390,723	71,425,164	3,034,441	4.4%
Intergovernmental	41,924,240	46,812,508	4,888,268	11.7%
Charges for services	22,150,444	25,334,074	3,183,630	14.4%
Other financing sources	2,394,211	5,426,963	3,032,752	126.7%
All Other	22,997,392	24,325,790	1,328,398	5.8%

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A history of the Forsyth County revenue clearly shows that Ad Valorem (property) Taxes, Sales Taxes, and Intergovernmental are our primary sources of revenue. In the Adopted Budget for FY 2008, Ad Valorem Taxes account for 55% of revenues, Sales Taxes account for 18.5% of revenues, and Intergovernmental sources account for 12.1% of revenues. These top three sources account for a total of 86% of the revenues in the Adopted Budget. No other single revenue source was any more than 7% of the budget.



Since most of the Intergovernmental revenue is tied to specific programs, the primary source of general revenues to support the overall budget are Property Taxes and Sales Taxes, with the former being the only one which we can effectively change to support increased expenditures. The other resource which the Commissioners can use to a limited extent to balance the budget is Appropriated Fund Balance. In the FY 2008 Adopted Budget, Appropriated Fund Balance accounts for 2.4%, a \$1,000,000 increase compared to the FY 2007 Adopted Budget. Commissioners tied this increase to one time school capital outlay.

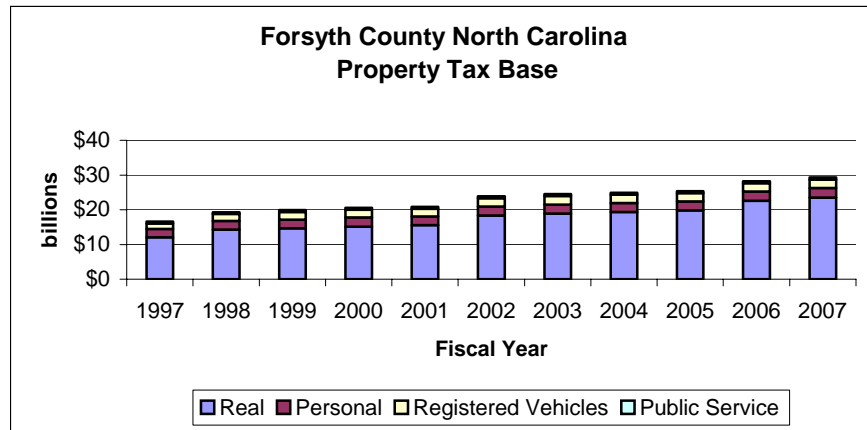
A comparison of the sources of revenue in the Adopted Budgets from FY 1998 and FY 2008 shows clear trends in how Forsyth County's budgets are funded.

	<u>FY 1998</u>	<u>FY 2008</u>
Ad valorem taxes	51.31%	55.23%
Sales tax - local option	15.81%	18.60%
Intergovernmental	18.94%	12.19%
All Other	13.94%	13.99%

The Adopted Budget for FY 2008 includes an increase in the property tax rate of 3 cents. This increase is intended to fund the Education Debt Leveling Plan (EDLP) to avoid future property tax increases to pay for the recently voter approved (November 2006) Education Bond.

Overview of Changes in Revenues, Expenditures, and County Dollars

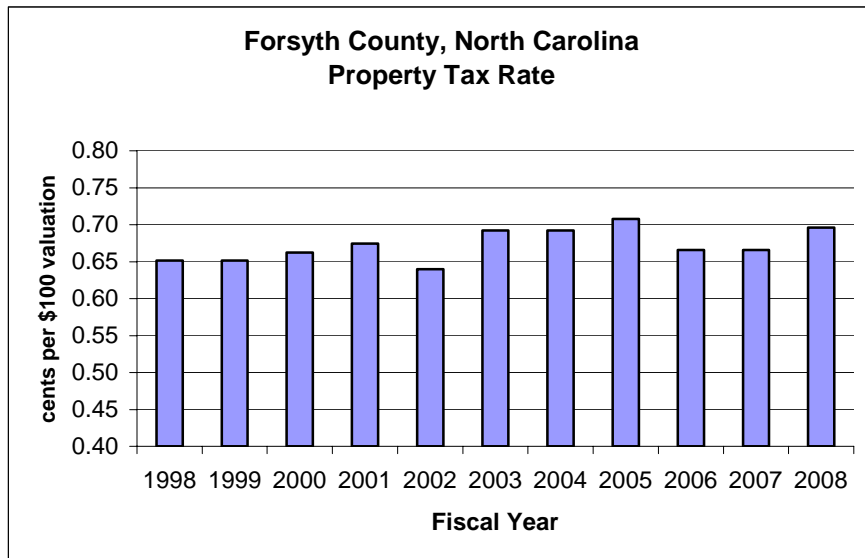
Tax Base/Ad Valorem (Property) Taxes.



Growth in the property tax base of 4.1% for FY 2008 is the largest percentage increase outside of a revaluation year since FY 1987-1988 when it was 6.7%. The FY 2007-2008 property tax base is estimated at \$30.455 billion. This is an increase of \$1.2 billion compared to the FY 2006-2007 original estimate of \$29.265 billion. This makes two years in a row of close to 4% growth. Normal growth in the base, as defined by the average growth in the base in the three consecutive years between the two most recent revaluation years (FY 2006 and FY 2002) is 1.8%. Some of the real growth is due to the successful economic development endeavors such as the Dell Computer project and the Lowe's Data Center.

The Adopted Budget called for a property tax rate of 69.6¢ per \$100 of assessed valuation, reflecting an increase of 3 cents (4.5 %) from the rate of 66.6¢ used for FY 2007. The Adopted rate, coupled with a collection percent of 98.26%, produces revenues of \$208.3 million, an increase of \$17.3 million of which \$8.3 million is due to growth in the tax base, and \$9 million is due to the rate increase.

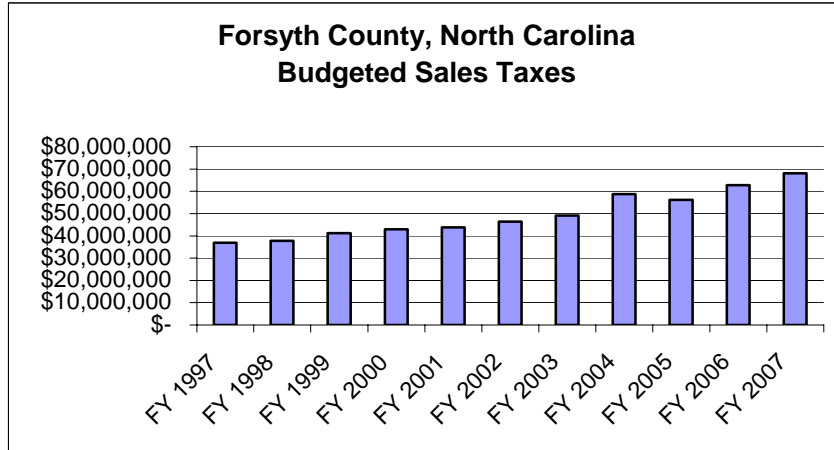
The Adopted Budget for FY 2008 includes an increase in the property tax rate of 3 cents. This increase is intended to fund the Education Debt Leveling Plan (EDLP) to avoid future property tax increases to pay for the recently voter approved (November 2006) Education Bond. No adjustment in the property tax rate was approved for other expenses.



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Sales Taxes

As stated earlier in the overview, Sales Taxes are our second largest source of revenue, accounting for 19% of our resources for FY 2008. This is an increase of almost 4%, or \$3 million. The 2 ½% in sales taxes the County receives is made up of 4 different pieces. The largest (1%) is generated in and returned to the



County (point of delivery). There are 3 different ½% sales taxes. Two of these are collected statewide and then returned to the Counties on a per capita basis. The final ½% is ½ point of delivery and ½ per capita. \$ 1 million of the total for FY 2008 is expected to come from “recoveries” resulting from sales tax audits.

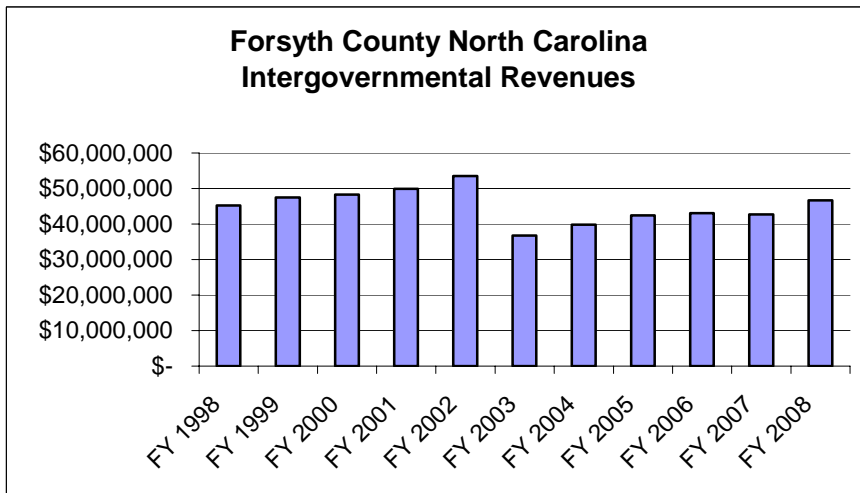
As an urban county, Forsyth fares better from the 1% point of delivery than a combined 1% of the state shared per capita. However, the state shared per

capita is growing faster than the point of delivery.

It should be noted that the future holds big changes in sales taxes for all of North Carolina’s 100 counties. As part of the NC Legislature’s bill to remove the Medicaid burden from counties, we will be giving up one of the ½ % sales taxes. We will also have to “hold harmless” the cities and towns in our county. That being said, we still benefit from this swap due to the relatively large amount of Medicaid we would have had to budget.

Intergovernmental

As noted in the Overview, Intergovernmental Revenue is the third largest source of revenue for FY 2008,



accounting for 12.2% of our resources. Most Intergovernmental revenue relates to pass through funds for functions of the departments of Social Services and Public Health.

However, for the first time, the County is budgeting Lottery Proceeds (\$3.2 million) in the Debt Department to offset debt service from the November 2006 referendum. The \$3.2 million accounts for most the total increase of 11.8% (\$4.7 million).

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All Other Revenues

While none of the remaining revenues constitute more than 7% of the total, 2 (two) categories are worth noting: Charges for Services and Other Financing Sources.

Charges for Services

The increase in this category is due to privatizing the service for collection of ambulance bills in the EMS Department.

Other Financing Sources Transfers from Other Funds (Primarily CPO's)

The Transfers from Capital Project Ordinances (CPO's) represent \$2.2 million of the increase, and is more of a one time adjustment as opposed to a recurring revenue. Most of these affected CPO's are being closed. The expenditure piece represents the increase for eligible expenses from the Law Enforcement Equitable Distribution Fund. The transfers from the CPO's are included in the Debt department, while the Law Enforcement Equitable Distribution Fund is included in the Sheriff's department.

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Expenses

	<u>FY 2007</u>	<u>FY 2008</u>	<u>Difference \$</u>	<u>Difference %</u>	<u>FY 2008 % Of Total</u>
Education Debt Leveling Plan (EDLP)	-	8,977,525	8,977,525	100.0%	2.3%
Payments to Other agencies	121,615,728	130,273,258	8,657,530	7.1%	33.8%
Debt Service	38,172,711	42,886,275	4,713,564	12.3%	11.1%
Personal Services	107,126,477	111,478,340	4,351,863	4.1%	28.9%
Other Operating Costs	38,835,204	42,955,460	4,120,256	10.6%	11.1%
All Other	46,963,692	48,882,218	1,918,526	4.1%	12.7%
Total	352,713,812	385,453,076	32,739,264	9.3%	100.0%

Education Debt Leveling Plan (EDLP)

This item in the budget constitutes the single largest increase in the budget, as well as a major policy decision. During budget deliberations, the County Commissioners considered a plan for funding the schedule of debt service for the recently approved (November 2006) Education Bond referendum by levying 3 cents on the property tax rate. This referendum included \$250 million for the Winston-Salem/Forsyth County School system, and \$25 million for Forsyth Technical Community College. The following schedule was presented to them.

3 cent scenario					
FY	\$ in (3 cents on Property Tax, Lottery Proceeds, Interest)		\$ out (Debt Service)	Balance	
2008	\$	15,551,307	(3,224,531)	12,326,776	
2009		16,215,036	(6,983,000)	21,558,812	
2010		17,412,598	(13,489,070)	25,482,340	
2011		17,593,967	(19,139,770)	23,936,537	
2012		17,592,771	(23,106,309)	18,422,999	
2013		17,548,074	(24,112,322)	11,858,751	
2014		18,518,404	(23,513,072)	6,864,082	
2015		18,618,661	(22,913,822)	2,568,921	
2016		18,808,740	(24,263,572)	(2,885,911)	
2017		19,128,958	(23,969,322)	(7,726,276)	
2018		20,573,144	(24,240,572)	(11,393,704)	
					Lottery Proceeds
					\$ 66,000,000
					3 cents on property tax rate
					125,703,602
					Interest
					5,858,058
					Total Resources
					\$ 197,561,660
					Total Debt Service
					\$ 208,955,364
					Difference
					\$ (11,393,704)

Facing debt service near or above \$24 million for several years in the very near future, the Commissioners felt it prudent to "level the debt" in the future by levying the 3 cents now, as opposed to having to raise the tax rate by 5 or more cents later.

Payments to Other Agencies

As a category, Payments to Other Agencies represents the 2nd largest increase in expenditures, and represents the largest percent of the expenditure pie (33.8%).

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By far, the largest agency within this category is the Winston-Salem/Forsyth County Schools.

	<u>FY 2007</u>	<u>FY 2008</u>	<u>Difference \$</u>	<u>Difference %</u>	<u>% of FY 2008 Category</u>
Winston-Salem/Forsyth Schools	\$101,868,904	108,462,933	6,594,029	6.5%	83.3%
Forsyth Technical Com. College	7,420,002	7,539,037	119,035	0.1%	5.8%
CenterPoint Human Services	6,403,044	6,404,751	1,707	0.0%	4.9%
Special Appropriations	1,753,418	2,771,408	1,017,990	1.0%	2.1%
Economic Development	1,091,006	1,905,982	814,976	74.7%	1.5%
All Other	<u>4,170,360</u>	<u>5,095,129</u>	<u>924,769</u>	<u>0.9%</u>	<u>3.9%</u>
Total	<u>\$121,615,728</u>	<u>130,273,258</u>	<u>8,657,530</u>	<u>8.5%</u>	<u>100.0%</u>

Winston-Salem/Forsyth County Schools

The increase of \$6.6 million in the budget for the local school system represents an increase of \$5.5 million (5.4%) in their "normal" appropriation, plus additional \$1.1 million for the High School SRO (School Resource Officer) program, which is offset by revenue in the Sheriff's department.

The County has budgeted the salaries and related expenses in the Sheriff's department for years. The change places the equal of these expenses in the Schools budget, with revenues flowing back to the Sheriff's department. There is no affect on the property tax rate. This will make the manner in which we budget for the High School program consistent with the Middle School SRO program, and will increase our per pupil expenditure by roughly \$87. The total increase for the schools increases the per pupil expenditure from \$2,021 to \$2,108 (4.3%).

Special Appropriations - Payback to Hospitals

Special Appropriations contains both County funds and pass-through funds for various outside agencies. The increase of \$ 1 million is mostly (\$875,000) related to an agreement reached with the two major hospitals in the area and Forsyth Technical Community College (FTCC). This is the 1st year of a 4 year agreement.

Several years ago, the County's Capital Improvements Program for FY 2008 included \$3,500,000 for an expansion to Greene Hall on the FTCC campus for additional classrooms to educate nursing students. The two hospitals in town (Wake Forest Baptist Medical Center and Forsyth Memorial) requested that the Commissioners allow them to proceed on an earlier time table, with the understanding that the hospitals would pay for the expansion, but that the County would repay the hospitals over a 4 year period, interest free, beginning in FY 2008.

Economic Development - Dell and Lowes Incentives

The \$721,128 in incentives for Dell and Lowes reflect the first year of incentives approved by the Board of Commissioners. The companies met the performance agreements adopted by the County Commissioners in 2005. Ultimately, the total taxable value of these two projects is projected to be at least \$200,000,000, with a projected increase of 1,720 new, full-time jobs.

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Debt Service

FY 2008 is the first year of debt payments from the successful November 2006 Education bond referendum. Lottery proceeds are budgeted to offset the School portion of this new debt (\$2,790,281). However, the debt service from the FTCC portion of the November 2006 bond referendum has no revenue offset, nor does the increase from other debt from the past, mostly school debt. Consequently, there is a net \$1.9 million increase in County dollars.

	<u>FY 2007</u>	<u>FY 2008</u>	<u>Difference \$</u>	<u>Difference %</u>	<u>FY 2008 % Of Total</u>
Debt Service	38,172,711	42,886,275	4,713,564	12.3%	100.0%
Total	38,172,711	42,886,275	4,713,564	12.3%	100.0%

Personal Services

As a category, Personal Services represents the 4th largest dollar increase (\$4.4 million).

	<u>FY 2007</u>	<u>FY 2008</u>	<u>Difference \$</u>	<u>Difference %</u>	<u>FY 2008 % Of Total</u>
Compensation	95,545,477	96,870,873	1,325,396	1.4%	86.9%
Health Insurance - employees	11,371,000	12,932,000	1,561,000	13.7%	11.6%
Health Insurance - retirees	1,710,000	2,258,808	548,808	32.1%	2.0%
Added or Deleted Positions		1,316,659	1,316,659	100.0%	1.2%
Salary Savings	(1,500,000)	(1,900,000)	(400,000)	26.7%	-1.7%
Total	107,126,477	111,478,340	4,351,863	4.1%	100.0%

Compensation

The \$1.3 million represents the net increase for compensation in the budget, not including the County funded portion of health insurance. Included in the FY 2008 budget is an average increase of 2.5% for performance. The amount shown also includes salary slippage and full implementation of the market based pay plan.

Health Insurance

Health Insurance has become a major influence in the County's budget for the last several years. The FY 2008 budget assumes the County's share will increase 10%. Recent negotiations reduced the initial request from our carrier (Blue Cross/Blue Shield) of a 19.3 % increase to 9.3%. In addition, the employee share of the premium is also being adjusted upward, as are deductibles. Eligible Retirees are treated the same as employees.

Position Changes

Position changes included in Adopted Budget are reflected in the following table. Position costs include salaries, benefits, and related operating expenses.

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Position Changes

	<u>Expenditure</u>	<u>Revenue</u>	<u>Net</u>
<u>Continuation</u>			
Sheriff: add 2 FT positions; allowance for 5 more if data finalized.	\$ 497,549	-	497,549
EMS: delete 2 FT billing positions	(81,215)	-	(81,215)
Fire: add 2FT positions, delete 1PT positions	115,851	10,755	105,096
Public Health: add 2FT and 1PT for WIC	79,702	79,702	-
Public Health: delete 2 FT grant positions	(69,127)	(69,127)	-
Social Services: add 4FT positions (roughly 50% of costs covered by revenue)	161,720	80,860	80,860
Library 2 FT positions	<u>73,062</u>	<u>-</u>	<u>73,062</u>
Subtotal Continuation (net 13FT, 0 PT)	<u>777,542</u>	<u>102,190</u>	<u>675,352</u>
<u>Alternate Service Level</u>			
Sheriff: delete 6 FT grant positions	(336,561)	-	(336,561)
EMS: begin migration to 12 hour shifts (13FT)	200,000	-	200,000
Public Health: Dental clinic 1/2 year (11 FT)	498,912	498,912	-
Public Health: Environmental Health (1/2 year)	27,622	1,000	26,622
Public Health: Nurse for Special Children's School	49,749	49,749	-
Social Services: Add 1 FT for In-home Aid Program	30,777	15,389	15,388
Social Services: Add 1FT for Child Protective Services	48,618	24,309	24,309
Library Teen Coordinator	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Subtotal Alternate Service Level (net 23 FT)	<u>\$ 539,117</u>	<u>\$ 589,359</u>	<u>\$ (50,242)</u>
Grand Total net 36 FT	\$ 1,316,659	691,549	625,110

Compared to the revised position count for FY 2006-2007, there were a total of 216 additional FT positions and 9 additional PT positions requested.

By Service area, a summary of position changes is as follows:

Position Changes Requested and Recommended by Service Area

	<u>Total Requested</u>		<u>Total Approved</u>	
	<u>FT</u>	<u>PT</u>	<u>FT</u>	<u>PT</u>
Public Safety	146	1	14	(1)
Environmental Management	(1)	(1)	(1)	(1)
Health	30	3	13	1
Social Services	22	-	6	-
Education	1	1	1	1
Culture and Recreation	9	5	3	-
Community and Economic Development	-	-	-	-
Administration and Support	9	-	-	-
General Government	-	-	-	-
Total	<u>216</u>	<u>9</u>	<u>36</u>	<u>-</u>

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Increase in Amount Allowed for Salary Savings

Based on experience, the Adopted Budget for FY 2008 includes an increase in the budgeted amount for salary savings from <\$1,500,000> to <\$1,900,000>, for an effective decrease in expenditures of \$400,000. The amount budgeted for this purpose was <\$750,000> in FY 1994, <\$1,000,000> from FY 1995 to FY 2000, <\$1,420,000> in FY 2001, <\$1,200,000> in FY 2002 and FY 2003, and <\$1,500,000> from FY 2004 until the current year.

Other Operating Costs

Departmental representation in Other Operating Costs is dominated by the Social Services department.

	<u>FY 2007</u>	<u>FY 2008</u>	<u>Difference \$</u>	<u>Difference %</u>	<u>FY 2008 % Of Category</u>
Social Services	36,772,238	40,475,855	3,703,617	10.1%	94.2%
All Other	2,062,966	2,479,605	416,639	20.2%	5.8%
Total	38,835,204	42,955,460	4,120,256	10.6%	100%

While many of the Social Services expenses are fully or partially offset by revenue from the State and Federal governments, Medicaid is not one of them.

Other Operating Costs - Medicaid

Medicaid in the adopted budget is consistent with the State of NC House budget, which provides us with some relief from Medicaid (\$1.7 million). However, the Senate budget contained no relief.

As noted at the beginning of this section, we had to “freeze” some expenditures pending the outcome at the State level.

On July 30, 2007, the State gave final approval to the bill which provides for the State taking over the County share of Medicaid over a three year period, in exchange for the County giving up certain Sales Taxes and other considerations.

All Other

There are 2 notable increases in the All Other Category, both in contractual services.

All Other - Jail Medical and Food Contracts (\$589,100)

A continuing rise in the population of the jail, coupled with increasing costs of medical care, contribute to this increase. This amounts to a 13.3% increase.

All Other - Contract for Countywide Communications (\$586,000)

The new communications system for the City and County has been under warranty. The warranty expires December 31, 2007. Consequently, we have budgeted for the first 6 months of the maintenance contract, with the ½ of the expense being offset by revenue from the City of Winston-Salem. There will be a similar increase in the FY 08-09 budget.

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Top Tens

Some benefit can come from seeing a ranking of various categories.

Top Ten Expenditure Increases, by Department

Non-Departmental	\$11,044,259
Winston-Salem/Forsyth Schools	6,594,029
Debt	4,713,564
Social Services	4,404,557
Sheriff	2,534,713
Special Appropriations	1,017,990
Economic Development	784,976
Interagency Communications	499,620
Public Health	383,749
Court Services	341,558

Top Ten Revenue Increases, by Department

Non-Departmental	\$21,815,130
Debt	4,961,926
Sheriff	2,061,935
Emergency Medical Service	1,702,707
Social Services	1,281,552
Public Health	822,312
Court Services	341,558
Interagency Communications	178,132
Fire Protection	155,338
Register of Deeds	131,215

Top Ten County Dollars Increases, by Department

Winston-Salem/Forsyth Schools	\$6,594,029
Social Services	3,123,005
Special Appropriations	1,017,990
Economic Development	784,976
Sheriff	472,778
Interagency Communications	321,488
Library	285,385
Parks and Recreation	158,601
Finance	147,316
Environmental Affairs	121,598

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Changes in Primary Sources of County Dollars

	<u>FY 2007</u>	<u>FY 2008</u>	<u>Difference \$</u>	<u>Difference %</u>
Ad Valorem Taxes	194,856,802	212,128,577	17,271,775	8.9%
Sales Taxes	68,390,723	71,425,164	3,034,441	4.4%
Earnings on Investments	4,656,207	4,570,234	(85,973)	(1.8%)
Transfers from CPO's		2,171,645	2,171,645	100.0%
Hold Harmless Payment	319,214	144,800	(174,414)	(54.6%)
Unreserv ed Fund Balance Utilized	8,400,000	9,400,000	1,000,000	11.9%
Total	276,622,946	299,840,420	23,217,474	8.4%