

Budget Message

*“A good hockey player plays where the puck is. A great hockey player plays where the puck is going to be.”
-- Wayne Gretsky*

Chatham County Commissioners and County Residents,

The past four years have represented the worst economic collapse since the Great Depression. The county and the various agencies it funds, including the school system, have taken numerous steps to ensure the provision of critical services without overburdening taxpayers. Many of the steps were in the spirit of hockey player Wayne Gretsky's quote. Like Gretsky, we have tried to anticipate changes and position ourselves for success. We have planned ahead, anticipated increased expenses, and made reductions where possible so that we are ready and able to provide services to a population poised for growth.

Some of the time we have had to play defense. The county anticipated significant reductions in state-shared revenues and cost shifting in FY 2011-2012 that did not materialize. Thankfully, with the exception of funding for health services, the state has not balanced its budget on the backs of local government.

The same cannot be said for education. Because of reductions in state funding, Chatham County Schools now spends approximately \$1,000 less per student than in FY 2008-2009 (source: Department of Public Instruction Statistical Profile). During this time, Chatham County has increased local funding and worked closely with the school system to manage the deep cuts. As a result, of the 54 positions eliminated by the school system, only two were filled, meaning that position cuts were handled through attrition, not layoffs. The Superintendent

has cited that most other school systems in the state have laid off many more employees than ours.

We propose to increase our support of education again in FY 2012-2013. The recommended budget includes an \$800,000 increase to fund increased enrollment and help close a projected budget deficit. The increase is funded by 1) delaying construction of the new high school by one year, as requested by the Board of Education (\$226,119) and 2) through a one-time appropriation of \$400,000, also requested by the



Acme-McCrary Ribbon Cutting (L-R): Twig Wood, Brookwood Farms Barbecue; Joseph Rebolledo, Acme-McCrary; Garry Estes, Acme-McCrary; Chatham County Commissioner Chairman Brian Bock,; Dianne Reid, Chatham Economic Development Corporation; Bill Redding, Acme-McCrary; Siler City Town Commissioner Tony Siler; Siler City Mayor Charles Johnson; Randy Julian, Acme-McCrary

Board of Education (with the rest being absorbed by general fund revenue).

Prior to FY 2012-2013, 19 county positions have been cut (though only four people have been laid off) and county employees have absorbed additional work. The FY 2012-2013 budget proposes to cut an additional four positions. Only one of these is filled.

Because of the unpredictable economy and its effect on our local revenues, the threats to the school system budget, and the fact that many local residents were dealing with job loss, the county has not increased employee pay and benefits in four years. The only additional compensation given during this time was a one-time bonus funded from a reserve set aside for that purpose. The bonus honored pay-for-performance agreements suspended in FY 2008-2009 because of the economic situation. Many surrounding jurisdictions, including the Town of Pittsboro, restored employee pay raises in FY 2011-2012. As the pay study conducted in 2008 showed, county employees were already behind their counterparts by 15%. For the county to remain competitive in salaries, I believe implementation of the 2008 pay study is essential. While the county cannot financially support full implementation of the study, estimated at \$3 million, we do recommend the first phase of implementation, which increases employee salaries by an average of 6%. We also propose giving employees who do not benefit from the pay study a 2% salary increase. These pay adjustments cost \$1,302,058 in the general fund and are recommended beginning July 1.

The current year budget (FY 2011-2012) was prepared under the Board of Commissioners' direction to cut \$1.5 million from the county budget. Commissioners approved a funding reduction strategy that asked all county agencies,

except the school system, to identify proposed cuts. The manager recommended and the board approved cuts that maintained mandated services, but reduced discretionary spending. This defensive action, plus additional targeted cuts identified by the Board of Commissioner during its annual budget retreat this year, places us in the position to absorb significant increases in the FY 2012-2013 budget that will advance the county without raising taxes. These include:

- \$800,000 in school current expense (also partially funded by delaying the high school one year)
- \$1,302,058 for pay study implementation (general fund only)
- \$837,415 to operate the new justice center for six months
- \$1,275,328 for increased debt reserve contribution for the new jail and retirement of school and community college debt (the debt model requires that retired debt be transferred to the reserve less the \$226,119 savings from delaying the high school one year).

Even though some indicators in the national economy point to improvement, staff is still concerned about the local economy, as indicators are mixed. Recent business and industry announcements, especially in the western part of the county, are encouraging. Large expansions of Galloway Ridge and Carolina Meadows retirement communities are estimated to add approximately 50 jobs and \$43 million to the tax base by the end of FY 2012-2013 (most of the increase is already reflected in the property tax base). The recent announcement of Wal-Mart promises to increase the tax base (amount not yet disclosed), add about 300 jobs and substantially increase locally collected sales tax.

EDC's Business Attraction Efforts (does not include Wal-Mart)	2011 Actual	2012 Target	Through 1/31/12
Number of new clients locating in Chatham County	3	3	4
Number of new jobs created by new businesses	80	150	156
Value of jobs created (millions of dollars, measured by annual payroll)	\$2.9	\$3.0	\$3.6
Capital investment by new client firms (millions of dollars)	\$11.4	\$15	\$2.5

Last year EDC worked with eight businesses that invested \$7.9 million and created 63 new jobs. As of January 31, EDC is working with nine business expansions that account for more than \$129 million in new investment and create 220 new jobs representing \$5.7 million in new payroll. EDC is on track to beat all of its business attraction targets for FY 2011-2012, as the table above shows.

Meanwhile, the closing of Townsends, which had been the county's largest private employer, and the resulting increased county unemployment rate are sobering. Since the Townsends closing announcement in July 2011, the county has also seen locally collected sales tax trend significantly below the state average. Opening a new jail will add between \$1 and \$1.7 million in additional operating expenses, beginning in FY 2014-2015 (with a \$1 million increase in FY 2013-2014). The looming closing of the coal-fired Progress Energy plant in 2014 could result in a \$40 million loss in the property tax base. Finally, the postponed tax revaluation ensures growth in the tax base for two more years, but declining property values may offer county leadership a significant challenge in the FY 2015-2016 budget.

We believe the FY 2012-2013 budget takes an optimistic view of the county's economic position, but maintains our

careful financial management strategy that has allowed the county to progress in the face of enormous uncertainty. In spite of the Townsend closing, both major bond rating agencies recently affirmed Chatham County's AA+/Aa2 bond rating, citing good financial management, long-range planning, and strong financial indicators. As Harry Davis, an economist with Appalachian State University, said at the NC Economic Forum this year, "It's going to get better. It's going to be slow... slower than it used to".

Gretsky's talent lay in sensing the opposing team's play and getting to the puck before it arrived. While perhaps not as smoothly as him, the county has successfully anticipated issues and problems and positioned ourselves to stay ahead of the curve and not be left behind or, worse, clobbered.

We've anticipated economic decline and catastrophes – like declining and flat revenues, increasing foreclosures, business closings – and have taken steps that were well thought out and strategic. Last year's budget cuts were painful, but they made us stronger. We're now operating even more efficiently and have the flexibility necessary to let us invest in people, facilities, and schools without a tax increase.

Major Revenue Highlights:

- The county tax rate is recommended to remain at at 62.19 cents.
- Fire tax rate increases are proposed for the Bells Annex & North Chatham Fire District/North Chatham Fire Department, Bennett District/Fire Department, Circle City District/Pittsboro Fire Department, Hope District/Silk Hope Fire Department, and Moncure District/Fire Department.
- In an effort to recoup costs, fee increases are proposed in Environmental Quality, Health, and Parks & Recreation. The fee increases would cumulatively generate approximately \$15,000 in additional revenue. Changes are also proposed in several Planning fees, which will reduce revenue slightly.
- Consistent with the Board of Commissioners Financial Policy, appropriated fund balance is earmarked for one-time items in the general fund and waste management fund. Because of substantial cuts in last year's operating budget, the county was able to absorb most of its capital expenses in operating revenues. FY 2012-2013 marks a return to appropriating fund balance for nearly all capital expenses. A modest amount of fund balance is used for operating expenses in the water fund, which has a substantial fund balance.

Board of Commissioners Goals

By unanimous agreement, commissioners identified the following issues as their top priorities for the FY 2012-2013 budget:

1. **No tax increase**--The recommended budget does not propose to raise taxes.
2. **Increase employee pay**--The recommended budget provides funding for the first phase of pay study implementation and a 2% pay adjustment for employees not benefiting from the pay study.
3. **Long-range planning for expenses**--The recommended budget continues the county's long history of long-range planning, including a seven-year capital improvements program, which addresses increased operating costs, and a fund balance model that ensures the level of capital spending is sustainable.
4. **Determine how the County will respond to state and federal cuts**--County management has worked closely with Chatham County Schools, the Health Department, and other agencies to manage cuts in state funding. County staff works closely with the NC Association of County Commissioners and other professional associations to ensure the accuracy of revenue projections.
5. **Plan for the impact of property revaluations**--This issue remains unresolved. The county has postponed revaluation for two years to avoid having to substantially increase the tax rate to "revenue neutral." A second postponement is possible to FY 2017-2018, but no further. The commissioners can deal with this issue in three ways: increase the tax rate to revenue neutral, reduce expenses by \$4 to \$5 million, or postpone revaluation as long as possible. The first strategy shifts the tax burden to areas of

the county with lower incomes. The second strategy is believed to be impossible, as the county has already made substantial cuts in non-mandated services. The final strategy is unfair to property owners whose values have declined more than the county average, but who are still paying taxes based on higher values. The issue is difficult, complicated, and warrants much more discussion and study.

Commissioners adopted the following long-range goals and strategies during the retreat (note: these are in draft form) that have been or will be addressed in the coming fiscal year.

Goal: Create an environment that promotes more jobs for Chatham County without putting the burden on taxpayers and while minimizing our impact on natural resources.

Strategies:

- A. Work with the towns on changing the perception of the county to being business friendly; ask EDC to meet with town business owners associations on what the county can do to be more business friendly
- B. Implement EDC’s strategic plan and monitor the plan
- C. Invite EDC to come on a regular basis to commissioner meetings (ACHIEVED), including the marketing of the business campus in Siler City

Targeted Budget Reductions

As mentioned above, the \$1.5 million in cuts to the FY 2011-2012 budget puts the county in a position to manage known increases in FY 2012-2013, including the operating expenses of the new justice center and the increased

- D. Encourage the EDC to hold regular meetings with Town Boards and share feedback
- E. Continue to develop our regional water intake system
- F. Encourage providers to expand high speed internet throughout the County

Goal: Improve the Board of Education’s accountability and stewardship to Chatham County and its citizens.

Strategies:

- A. Partner with schools to develop a user friendly budget format for 2012-2013 (ACHIEVED)
- B. Ask schools to share their goals and objectives and measures (ACHIEVED)
- C. Partner with charter schools to develop a user friendly budget format for 2012-2013
- D. Ask charter schools to share their goals and objectives and measures
- E. Ask community college to come to a commissioners’ meeting to give an annual report (ACHIEVED)

Goal: Provide open and responsive government.

Strategies:

- A. Educate the community by holding town hall meetings in different locations on specific topics
- B. Hold listening sessions with all five commissioners in the community in different locations

contribution to the debt reserve for the new jail. During the planning retreat, the Board of Commissioners also directed staff to implement the 2008 pay study to the extent possible. Taking into account these priorities and known increases, staff

projections at the retreat showed a slight shortfall, of approximately \$400,000.

Commissioners identified several "targeted budget reductions," including:

- **Reduce attorney fees by \$50,000.** Overall the recommended budget reduces attorney fees by \$78,100. \$45,000 of this savings results from reducing the number of commissioner meetings the attorney attends from two to one per month. \$28,100 results from changes the Department of Social Services has made to how it works with contracted attorneys.
- **Reduce the appropriation to EDC by \$80,000 to place more responsibility for funding on the private sector.** EDC reduced its county request by \$45,000, by eliminating one position midyear (in FY 2013) and funding for arts organizations (only funding for Chatham Arts remained) and by reducing its marketing budget.
- **Reduce contingency by \$200,000.** The recommended budget eliminates contingencies for gasoline and sentenced misdemeanants. The contingency line item has been reduced \$35,295, but "department contingencies" have been eliminated, so that the overall reduction is \$200,000.
- **Reduce the NC Forestry Service by \$10,000.** The recommended budget does not reduce the forestry service; the value to local residents in cost-share revenue more than offsets the county's appropriation. We believe this is a good investment that we should continue.
- **Examine the Animal Control Division's spay and neuter program for possible reduction or elimination.** The manager does not recommend this. A review of the Animal Control spay/neuter program showed that the program is complimented and supported by Chatham Animal Rescue and Education (CARE), a local non-profit agency. The two

programs, operating together, have reduced the shelter intake of owner-surrendered animals by 24.4 % between 2008 and 2011. Eliminating or reducing the Animal Control program would weaken the impact of the programs. We recommend that Animal Control develop a plan for the program that will continue to decrease the intake of owner surrendered animals and at the same time decrease the intake of stray animals.

- **Reduce the appropriation for county road signs, since most eligible roads have been named.** The recommended budget reduces funding for road signs by \$5,000.
- **Eliminate the one-time expense of \$90,000 as a match for the Oak Foundation, since FY 2011-2012 completes the county's obligation.** The recommended budget does eliminate this expense.
- **Reduce the number of commissioners meetings from two to one per month.** Because of the short length of recent meetings, commissioners raised the possibility of reducing the number of monthly meetings. The manager recommends this action, which will save \$45,000 in attorney fees and \$1,900 savings in other expenses.
- **Eliminate the \$68,513 pass-through funding for the community college lease with the NC Arts Incubator.** The recommended budget eliminates funding for nine months of the lease (\$51,392), which does not expire until September 30, 2012, but also includes one-time transition funding from fund balance for the equivalent of an additional six months of rent.
- **Reduce the Health Department budget.** The manager and Health Department recommend reduction of the lead program, combining the Community Health Promotion and Advocacy and Family Outreach and Support Services divisions, and reallocation of staff. Because the number of

lead investigations is far fewer than originally projected, the manager and Health Department support continuing the enhanced program with existing staff and reducing the additional expenses approved when the program was established. Staff in positions established with the lead program will be moved to other vacant Health Department positions, assume additional duties, but continue to carry out the enhanced lead program. In addition, combining the divisions of Family Outreach and Support Services and Community Health Promotion and Advocacy to create a new division, Community & Family Health Connections is recommended. The merger of the two divisions will increase efficiencies within the department. Staff in the newly merged division have responsibilities that bring them into daily contact with the community, making it a good fit for coordination of activities and services. Total savings in the Health Department: \$110,045.

- **Examine dues paid to Triangle J Council of Governments for possible savings.** Staff did a thorough review of these dues and determined the county can eliminate one category of dues, resulting in a savings of \$2,500. All other Triangle J services are important, if not essential, to county operations.
- **Consider contracting out recreation programs.** The manager is not recommending this action because the county offers only two major sports programs, youth basketball and softball, which are not provided on a large scale by other organizations. Additionally, the county is able to offer the programs at a reduced participant fee.

However, the manager's office will work with the Parks & Recreation Department to ensure services are not duplicative and that other organizations could not provide as effectively at a lower cost.

- **Eliminate the code enforcement position in the Planning Department.** Because the current Board of Commissioners has directed staff to return to a complaints-driven enforcement process, rather than proactively seeking violations, the code enforcement position in the Planning Department is less important. Over the past two years, the workload of the position has been substantially reduced (the position is currently being shared with Building Inspections). Therefore, the manager recommends elimination of this position, resulting in a savings of \$54,704.
- **Continue the phased elimination of payments to towns for recreation.** The manager recommends this action, resulting in a savings of \$14,275.
- **Commissioners also asked staff to look at user fees and a four-day work week.** Staff has not had time to examine fully the impacts of a four-day work week. Departments were asked to look at user fees. Changes are proposed in Parks & Recreation, Health, and the Land and Water Resources Division of Environmental Quality.

Below is a summary of the targeted cuts and resulting savings:

Targeted Cut	Commissioner Requested Savings	Recommended Savings
Attorney fees	\$50,000	\$78,100
Economic Development	\$80,000	\$45,000
Contingency	\$200,000	\$200,000
Forestry	\$10,000	\$0
Spay & Neuter	Not specified	\$0
Road signs	Not specified	\$5,000
Matching grant for Oak Foundation	\$90,000	\$90,000
Reduce commissioner meetings ¹	\$1,200	\$1,900
Arts Incubator lease ²	\$68,513	\$51,392
Health Department	\$80,000+	\$143,314
Triangle J dues	Not specified	\$1,200
Contract recreation programs	Not specified	\$0
Code enforcement position	\$50,000	\$54,704
Recreation payments to towns	\$14,275	\$14,275
4-day work week	Not specified	\$0
Fees	Not specified	\$15,000
Total	\$643,988	\$699,885

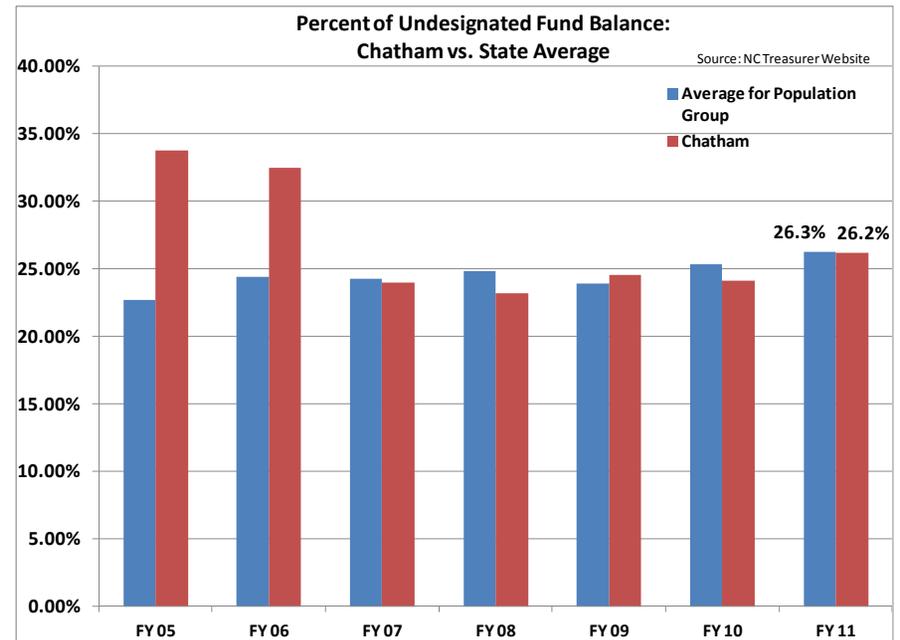
¹Savings also included \$45,000 reduction in county attorney retainer already included in attorney fee savings.

²The manager recommends one-time transition funding for the incubator equivalent to an additional six months of the lease. This funding would be taken from the recommended contingency.

Goals: Financial and Budgetary Policies

Long-term financial goals include those adopted by the Board of Commissioners in its Financial and Budgetary Policies.

- Meeting or exceeding revenue projections. In general, revenues are budgeted conservatively so that projections will be exceeded by 3% in FY 2013.
- Maintaining or enhancing the County's AA+/Aa2 bond rating. Current and future debt obligations, especially for school facilities, make it critical that the County receive the best possible interest rate to keep the cost of borrowing funds low. Maintaining adequate savings (fund balance) and not using it for operating expenses is crucial for this goal. The county's bond rating was recently affirmed by Moody's and Standard & Poor's and, along with Carteret County, has the highest rating among counties in the 50,000 to 99,999 population group.
- Developing self-supporting enterprise funds. One goal of establishing an enterprise fund is to eliminate the need for tax dollars to subsidize particular activities by paying for the activity through fees. An enterprise fund should support all costs, including depreciation, capital improvements, and equipment. The budget furthers this goal by continuing to fund operating costs in the enterprise funds from fees and other non-tax revenue sources. The FY 2011 budget eliminated the roughly one-cent contribution to the water capital reserve and the FY 2013 budget does the same.
- Maintaining adequate fund balance. The stated goal of the Board of Commissioners is to maintain undesignated unreserved General Fund savings (fund balance) equal to at least 20% of the budget. A fund balance at this level allows



the County to meet its financial obligations, gives Commissioners and staff an adequate reserve for emergencies and opportunities, and positively affects the County's bond rating. Chatham County's undesignated fund balance stands at 26.2% of budgeted expenditures, above the stated goal. This level of fund balance is slightly below the state average for counties our size, which is 26.3%, as shown in the graph above. In addition, fund balance is a major funding source for the capital improvements program and that plan calls for spending \$6.8 million over the next seven years.

Budget Process

The County's budget process has evolved over many years and is considered a model in the state. The last two editions of ICMA's reference book on capital budgets have included Chatham County's capital budgeting process. Staff also frequently presents on the budget process at the School of Government. Finally, the FY 2010-2011 budget won the Government Finance Officers Association Distinguished Budget Presentation Award. The FY 2012-2013 budget includes improvements requested by Commissioners during a budget critique held immediately after the FY 2012 budget process:

- The retreat should focus on goal-setting by the board of commissioners. The board may want to hire an outside facilitator to assist in that process. (ACHIEVED)
- Do not include discussion of the Capital Improvements Program (CIP) during the retreat. (ACHIEVED)
- The board of commissioners should focus more on future issues during the retreat. (ACHIEVED)
- The budget document should show the dollar variance, in addition to the percent change, in the budget summary. (ACHIEVED)
- The highlight section should be improved to explain the cuts in department budgets. (ACHIEVED)

The County uses a comprehensive budget process with the following goals:

- Commissioner leadership
- Input from all agencies and departments receiving funding

Chatham County FY 2012-2013 Budget Calendar

Deadline	Actions
7 September 2011	<ul style="list-style-type: none"> • Capital Improvements Program (CIP) forms distributed to agencies
7 October 2011	<ul style="list-style-type: none"> • Forms due from agencies and departments for new/changed CIP projects
7 November 2011	<ul style="list-style-type: none"> • Manager submits recommended CIP to the Board of Commissioners • Heads Up document due from departments
21 November 2011	<ul style="list-style-type: none"> • Hold public hearing on the proposed CIP
30 November 2011	<ul style="list-style-type: none"> • Work session on the proposed CIP
5 December 2011	<ul style="list-style-type: none"> • Board adopts CIP
21 December 2011	<ul style="list-style-type: none"> • Budget summit materials (trends, financial indicators, performance team recommendations, and departmental "Heads Up" document) submitted to Board of Commissioners • Work plan and new position forms distributed to departments
Mid January 2012 (preferably week of 9th)	<ul style="list-style-type: none"> • Budget Summit: Board of Commissioners sets goals and guidelines for FY 2013 budget
1 February 2012	<ul style="list-style-type: none"> • Requests for new positions and work plans (with goals, objectives, and performance targets) due from departments • Remaining budget forms distributed to departments/agencies
8 March 2012	<ul style="list-style-type: none"> • Budgets due from departments and agencies (except schools)
15 April 2012	<ul style="list-style-type: none"> • Budget due from schools
7 May 2012	<ul style="list-style-type: none"> • Budget submitted to Board of Commissioners and public
May 21 and 22, 2012	<ul style="list-style-type: none"> • Official public hearings held in Pittsboro and Siler City
Late May and early June	<ul style="list-style-type: none"> • Board of Commissioners holds budget work sessions
By 30 June 2012	<ul style="list-style-type: none"> • Board of Commissioners adopts budget (legal deadline)

- Team approach to budget development
- Community input
- Full information, including performance data

The process begins in the fall with preparation of the Capital Improvements Program (CIP). Staff presents the CIP document to Commissioners and the public in the fall. Commissioners hold a public hearing on the CIP, usually in December. Commissioners usually adopt the CIP during their retreat in January.

Prior to the budget retreat, departments prepare the “Heads Up” document, a list of issues or services impacting the budget in the upcoming year. Staff presents Heads Up and financial trends to Commissioners before the retreat.

Commissioners review this information and set goals for preparation of the recommended budget, including expenditure priorities and revenue constraints.

Department work plans and requests for new positions are due in early February. The budget staff reviews these items carefully and works with departments to refine them.

All other budget forms are due from departments in March. For a description of the budget reduction strategies used in FY 2013, please see the section with that title above.

The County Manager presents the recommended budget to Commissioners and the public usually at the first meeting in May. This year staff recommended that this be delayed by two weeks to allow more information to be received on the state budget.

Commissioners hold two public input sessions, including the required public hearing, to gain public feedback on the budget.

Commissioners hold three to five budget work sessions in early June to review the budget. Staff incorporates changes approved by Commissioners and prepares the budget ordinance for adoption at the second June meeting.

Historically, Chatham County has funded County non-profits that provide important services to our citizens. Agencies are able to use one application to apply jointly to United Way and Chatham County. The Board of Commissioners approved evaluation criteria for non-profits and appointed citizens to review the applications, using a standardized scoring sheet also approved by the board. Following the numerical ranking, evaluators discussed and reached consensus on funding recommendations. The County Manager made minor revisions to the recommendations, which are explained more fully in the Human Services Agencies budget. Commissioners approve the funding and also have \$10,000 to allocate directly.

Amendment Process: The budget is adopted by fund and department. Departments are authorized to transfer funds within their departments without limitation, except that funds cannot be transferred to or from personnel or capital items. The County Manager is authorized to:

- Transfer funds within a department without limitation.
- Transfer amounts of up to \$5,000 between departments of the same fund with a memorandum report of such transfers at the next regular meeting of the Board of Commissioners.
- Transfer amounts of up to \$50,000 from contingency to any department with a memorandum report of such transfers at the next regular meeting of the Board of Commissioners. Greater amounts can be made available upon agreement by Chair and Vice-Chair and notification of other Board members.

All other amendments must be approved by the Board of Commissioners.

General Fund Revenue Summary:

	2012 Amended	2012 Estimated	2013 Recommended	%Inc./ Dec.
Fees & Permits	902,900	972,997	993,354	10%
Intergovernmental	10,016,214	10,958,169	9,420,841	(6%)
Interest	75,000	72,000	70,000	(7%)
Grants/Donations	280,392	393,207	229,841	(18%)
Miscellaneous	(56,000)	82,052	(50,000)	(11%)
Other Taxes/Licenses	640,000	645,637	619,700	(3%)
Property Tax	54,045,000	55,619,328	55,612,300	3%
Sales & Service	1,981,370	2,224,241	2,131,319	8%
Sales Tax	7,970,000	7,978,642	8,036,000	1%
Transfers	6,731,611	6,476,344	6,010,328	(11%)
Fund Balance	1,595,278	0	4,964,392	211%
Total Revenues	84,181,765	85,422,617	88,038,075	5%

More in-depth information regarding economic assumptions and background information can be found in the Summary Information section.

Property Taxes:

Assumptions:

- Real property values are estimated to grow 2.4% in FY 2013, much lower than the average growth of 7% between FY 2006 and FY 2009, but slightly higher than the FY 2012 growth of 2%. The increase in value resulting from commercial development, Briar Chapel, Amberly, and Powell Place account for more than half of the growth. Commercial increases include Townsends' expansion prior to closing, Uniboard expansion, Governors Club office buildings, Powell

Place apartment buildings, Carolina Meadows expansion, and Galloway Ridge expansion.

- The 1.5% decrease in personal property results from loss of leased Townsend equipment and depreciation of business equipment. Most companies are still not replacing equipment in aftermath of the recession. In addition, Uniboard had been listing equipment at full value, but has now started depreciating it.
- A majority of the \$52 million increase in exemptions results from additional governmental buildings (more

than half is attributable to the Justice Center and Margaret Pollard School), \$3 million in senior citizen exemption, \$1.5 million for new church in Briar Chapel and property owned by Habitat for Humanity, and a change in the way the Tax Office treats common areas and open space, which have not been included as exemptions in the past.

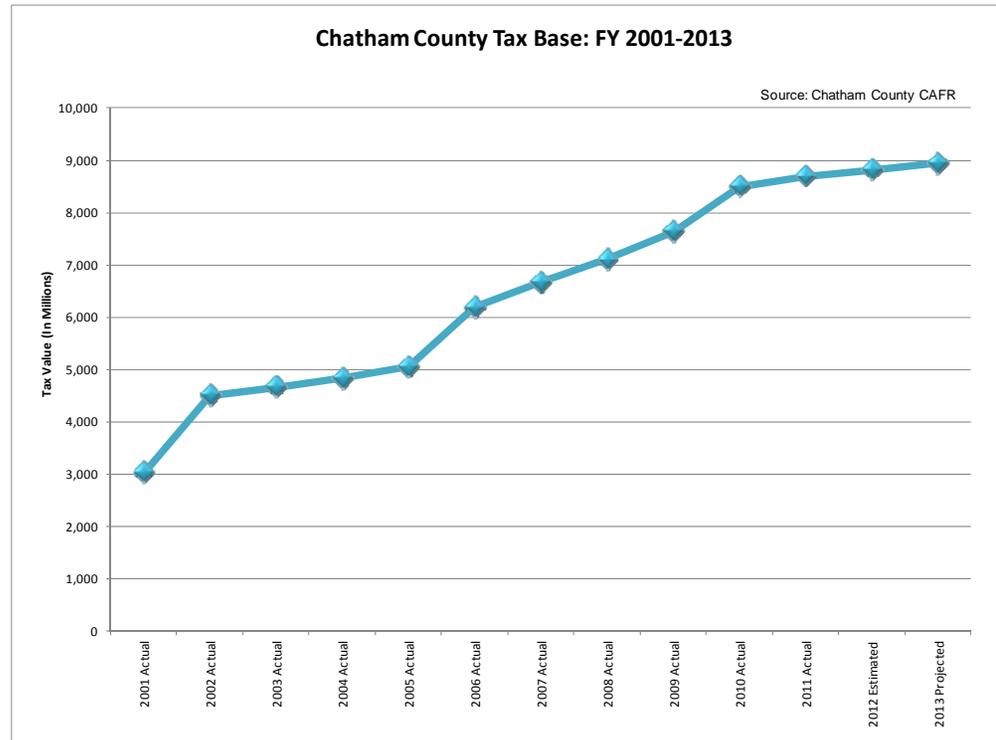
- The Department of Revenue (DOR) advised the County to budget \$250,000,000 for utilities in FY 2013. Actual values for FY 2012 were \$252 million. Because DOR's projections are usually very conservative, staff used the FY 2012 actual number in estimating utility values.
- After three years of decline, motor vehicle values are stabilizing and are projected at estimated FY 2012 levels, which are 7% above FY 2012 budgeted amounts.

The graph shows the increase in Chatham County's tax base since 2001. Notice the dramatic flattening of growth in the last three years. What is also troubling is that assessed value per capita is declining slightly, a trend not seen in this county in recent history.

The table on the next page shows the growth or decline in each part of the tax base.

Overall, the tax base is expected to grow 1.9%, resulting in additional revenue of \$1.3 million over the amount budgeted in FY 2012.

In developing the estimate for property tax, staff used the following factors:



- Tax base: \$8.9 billion—Staff used actual numbers for real property values as of April 15, 2012, reflecting estimated reductions by the Board of Equalization and Review. Staff used estimated numbers for personal property, exemptions, utilities, and motor vehicles since these values have not yet been finalized.
- Tax rate: 62.19 cents, the same tax rate as FY 2012.
- Staff again used collection percentages recommended by the Chatham County Tax Collector: Real and personal property collection percentage: 98%. Motor vehicle collection percentage: 90.72%.

	FY 2012 Budgeted	FY 2013 Projected	% Increase/ (Decrease)
Real Property	8,271,865,859	8,466,636,889	2.4%
Personal	517,571,049	509,690,286	-1.5%
Exemptions	(744,944,548)	(797,033,841)	-7.0%
Utilities	250,159,010	252,455,361	0.9%
Motor Vehicles	479,733,419	513,891,129	6.7%
Total	8,774,384,789	8,945,639,824	1.9%

Fire District Tax Rates:

As part of its annual operating budget, the Chatham County Board of Commissioners establishes tax rates for the 12 fire districts in the County. Recommended rates and contract amounts are as follows:

Fire District	FY 2012 Tax Rate	FY 2013 Requested	FY 2013 Recommended	Contract Amount Requested/ Recommended	Increase/Decrease In Fire Tax
Bells Annex (North Chatham FD)	0.06600	0.08800	0.08800	Included in North Chatham	
Bennett (Bennett FD)	0.07000	0.08000	0.08000	93,317	0.0100
Bonlee (Bonlee FD)	0.07000	0.07000	0.07000	210,391	0.0000
Central Chatham (Siler City FD)	0.08000	0.08000	0.08000	259,307	0.0000
Circle City (Pittsboro FD)	0.10820	0.11580	0.11580	1,022,627	0.0076
Goldston (Goldston FD)	0.08000	0.08000	0.08000	206,686	0.0000
Hope (Silk Hope FD)	0.06670	0.06850	0.06850	336,896	0.0018
Moncure (Moncure FD)	0.08750	0.11040	0.11040	660,158	0.0229
North Chatham (North Chatham FD)	0.06600	0.08800	0.08800	3,494,359	0.0220
Northview (Northview FD)	0.08350	0.08300	0.08300	23,733	-0.0005
Parkwood (Parkwood FD)	0.10000	0.10000	0.10000	269,973	0.0000
Staley (Staley FD)	0.10000	0.10000	0.10000	46,926	0.0000

Staff reviews budgets presented by the fire departments. Of the 11 fire departments/12 districts that provide services within Chatham County five have requested tax rate increases, five have requested no increase, and one has requested a decrease. It should be noted that the NC General Statutes limit the allowable "special" fire district tax rate at a maximum of 15 cents per \$100.00 valuation.

- **Bennett Volunteer Fire Department/District:** The department is requesting a tax rate of .08, a 1-cent increase from the FY 2012 rate of .07. Rate increase is requested due to increased fuel and vehicle maintenance costs and the replacement of a 30-year-old firefighting skid unit that is mounted on an emergency response vehicle.
- **Bonlee Volunteer Fire Department/District:** The department is requesting a tax rate of .07, no increase from the FY 2012 rate. The only significant budget line item increase was 25% for paid personnel which will provide staffing of the station from 8:00AM to 5:00PM, Monday thru Friday. The department recently lowered its Public Protection Class Rating from a Class 9 to a Class 6. This will have a very positive effect in the lowering of homeowners' insurance premiums.
- **Goldston Volunteer Fire Department/District:** The department is requesting a tax rate of .08, no increase from the FY 2012 rate. No budget line items increased by more than 1.25%. The department is projecting to create two new part-time positions in January 2013. The department recently lowered its Public Protection Class Rating from a Class 9 to a Class 6. This will have a very positive effect in the lowering of homeowners' insurance premiums.
- **Moncure Volunteer Fire Department/District:** The department is requesting a tax rate of 11.04, a 2.29-cent increase from the FY 2012 rate of .0875. The rate increase

is requested to replace aging equipment that is no longer serviceable or regulation compliant. The department also is proposing to add six new part-time positions due to the decreasing number of volunteers. In FY 2012 the department refinanced an outstanding loan and purchased a new ladder truck. Budgeted debt service expenditures actually decreased by \$1,000 for FY 2013. Approximately half of the debt service payments budgeted for FY 2013 can be attributed to the new truck. The department recently lowered its Public Protection Class Rating from a Class 9 to a Class 6. This will have a very positive effect in the lowering of homeowners' insurance premiums.

- **North Chatham Volunteer Fire Department (North Chatham & Bells Annex Fire Districts):** The department is requesting a tax rate of .088, a 2.2-cent increase from the FY 2012 rate of .066. The rate increase is requested due to the planned construction of two additional sub-stations, 12 new full-time positions, and related equipment/apparatus to equip the proposed stations. The proposed new sub-stations will lower the Public Protection Class Rating in the area from a Class 10 to a Class 6. This will have a very positive effect in the lowering of homeowners' insurance premiums.
- **Northview Volunteer Fire Department/District:** The department is requesting a tax rate of 8.3, a decrease of .05 cents from the FY 2012 rate of 8.35. The only budget line item increase was due to the increase in vehicle fuel costs.
- **Parkwood Volunteer Fire Department/District:** The department is requesting a tax rate of 10.0, no increase from the FY 2012 rate. The department continues to provide services to Chatham County at or near the Durham County rate. The department is currently evaluating

property located within their Chatham County district area to construct a new sub-station.

- **Pittsboro Fire & Rescue Department (Circle City Fire District):** The department is requesting a tax rate of 11.58, 0.76-cent increase from the FY 2012 rate of 10.82. The rate increase is requested due to increased vehicle fuel and building utility costs. The department is projecting to create three new full-time positions to staff the recently constructed sub-station. The new sub-station will lower the Public Protection Class Rating in the area from a Class 10 to a Class 6. This will have a very positive effect in the lowering of homeowners' insurance premiums.

- **Siler City Fire Department (Central Chatham Fire District):** The department is requesting a tax rate of .08, no increase from the FY 2012 rate. Tax District revenues decreased by 2% which appears to be offset by an increase of 13.3% in Town of Siler City funding.
- **Silk Hope Volunteer Fire Department (Hope Fire District):** The department is requesting a tax rate of .0685, a 0.18-cent increase from the FY 2012 rate of .0667. The rate increase is requested to make repairs to the recently constructed new main station that was not addressed by the contractor who has filed for bankruptcy and to purchase new firefighting appliances (saw, nozzles, foam).
- **Staley Volunteer Fire Department/District:** The department is requesting a tax rate of 10.0, no increase from the FY 2012 rate. The only budget line item increase was due to the increase in vehicle fuel costs.

Fee Increases:

The County Manager is proposing to institute or change fees in Land & Water Resources, Planning, Parks and Recreation, and the Preventive Health division of the Health

Department. The fee increases/new fees are expected to generate approximately \$15,000. See Appendix F for a list of fees.

Medicaid Relief:

Beginning with FY 2008, the state has gradually taken over counties' share of Medicaid expense in exchange for a portion of County sales tax revenue and other sales tax changes. Chatham County will lose more from sales tax revenue reductions and changes than we will gain from Medicaid relief. However, the Medicaid relief legislation guarantees counties a \$500,000 benefit annually.

The hold harmless payment is based on the actual sales tax revenue and Medicaid expense if the changes had not been made. A bad economy means that sales tax revenues are down and Medicaid expenses are way up, decreasing the overall benefit to counties. Staff has been very conservative in budgeting this revenue since FY 2010, when early projections showed the County receiving \$600,000 but only \$261,690 was actually realized. For FY 2012, staff recommended budgeting

\$1 million. It appears that receipts will be about \$1.5 million. For FY 2013, the North Carolina Association of County Commissioners (NCACC) is estimating \$1.43 million in revenue. County staff is recommending that \$1.25 million be budgeted in case sales tax or Medicaid estimates are off substantially, since these items are very volatile and dependant on the economy.

Elements of the Medicaid “swap” include:

- County loses all of Article 44 sales tax.

Sales Tax:

Because of changes brought about by Medicaid relief and a slower economy, sales tax is down as a percent of general fund revenues from 14% in FY 2009 to a projected 9% in FY 2013. The three parts of sales tax are:

Article 39: One cent on every dollar – comes back to the county where it is collected.

Article 40: One-half cent on every dollar – goes into a statewide pot and is distributed back based on population. Thirty percent must be spent on school capital or debt.

Article 42: One-half cent on every dollar –comes back to the county based on where it is collected. Sixty percent must be spent on school capital or debt (but counties must hold schools harmless for change from per capita to point of collection distribution method).

Intergovernmental:

Intergovernmental revenues are those that the state and federal government “share” with counties, generally to fund specific programs. Intergovernmental revenues are expected to

- Article 42 sales tax switches from being shared statewide on a per capita basis to being distributed based on local collections.
- State takes over 100% of County’s Medicaid costs.
- County must reimburse towns for their share of lost sales tax revenues.
- County must hold schools harmless for portion of Article 42 earmarked for school capital.
- Guaranteed “hold harmless” amount: +\$500,000.

In FY 2012, locally, sales tax revenues are trending 1% above FY 2011, compared with 6% above for sales tax collected statewide. This phenomenon may be the result of Townsends closing in September 2011.

Both the NC League of Municipalities and the NC Association of County Commissioners expect statewide sales tax growth to slow to 4% for the remainder of FY 2012. Staff estimated local sales tax to continue to be 1% above FY 2011.

For next year, both recommend budgeting between 2 and 3% growth for statewide collections. Staff is recommending 2.5%. Staff is estimating locally collected sales tax to remain at FY 2012 levels. Overall, sales tax is expected to grow by 1%.

decrease by 6%. Intergovernmental revenues have historically been declining as a portion of total revenue.

- **Medicaid Hold Harmless Payment:** Explained above.

- **Social Services Reimbursements:** State and federal government reimburse us partially for the salaries and operating costs of social services programs. All federal and state reimbursements are based on estimates provided by the NC Department of Health and Human Services and adjusted for local conditions. These reimbursements are linked directly to expenditures in Social Services. This revenue source is expected to decline by 7% to reflect reduced expenditures in foster care and daycare.
- **Safe Havens Grant:** Federal funding for the Safe Havens Program, which provides secure court-ordered visitation services for families, expires October 2012. State funding through the Governors Crime Commission expires June 2012. The program plans to reapply for both sources of funding. However, enough revenue remains in the federal grant to carry the program through the end of FY 2013. The expense and revenue offset in this program.
- **State-shared Corporate Income Tax (ADM):** This revenue source has been eliminated by the state.
- **Lottery Proceeds:** This revenue does not affect the general fund directly, as revenues are budgeted in the debt reserve.

Approximately \$550,000 is estimated for Chatham in FY 2013.

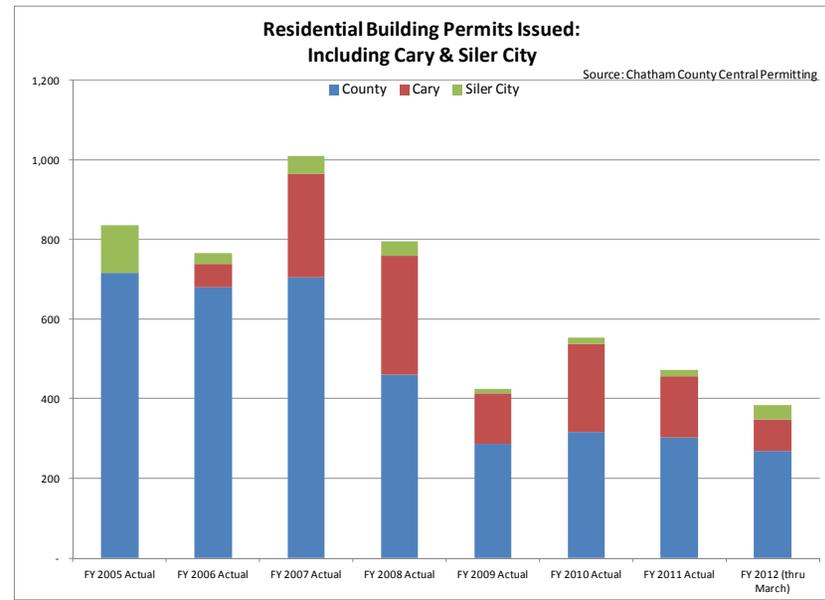
- **ABC Revenue:** The County ABC Board has unofficially requested that its \$100,000 contributions in FY 2012 and 2013 be reduced. Staff has requested official documentation of the request several times, but has not received it. After consultation with one board member, staff is estimating \$50,000 for both years.
- **Court Facility Fees:** Court facility fees continue to increase along with court activity in the County. Staff recommends a 13% increase over amounts budgeted in FY 2012.
- **Beer and Wine Tax:** The NC League of Municipalities estimates that FY 2012 collections (not yet received) will be 4.5% above FY 2011 and FY 2013 will be 3% above FY 2012. Staff used this recommendation to estimate revenues.

Fees & Permits:

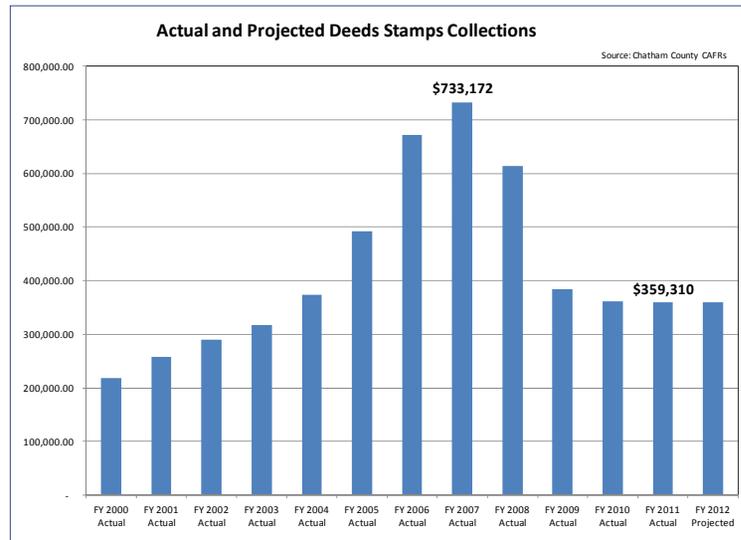
Fees are generated when County residents and others pay for permits charged for regulations the County is required to enforce. Some fees, such as Register of Deeds recording fees,

are set by state law. Most other fees are established locally and can be set at various levels. Overall, this source of revenue category is expected to increase 10%.

- Register of Deeds Fees:** Recording fees are charged when legal documents, such as deeds, plats, and marriage licenses, are recorded. Staff estimates that FY 2012 receipts will be about 7% more than budgeted. FY 2013 estimates are slightly more conservative than FY 2012 estimated receipts.
- Building Inspection Fees:** Staff estimates that the revenues for FY 2012 will be 9% more than budgeted. The number of building permits is also expected to increase in FY 2012, which reverses two years of decline. The number of permits is not the best predictor of revenues, as permit amounts are based on the square footage of housing. Staff recommends budgeting \$580,000, 3% less than FY 2012, plus \$50,000 estimated for the Wal-Mart permit.



Other Taxes and Licenses:



Other Taxes and Licenses represent locally collected taxes, other than the property tax. Overall, this revenue category is expected to decline 3%, due in large part to the expiration of two cable TV franchises and associated taxes.

- Register of Deeds Revenue Stamps:** Revenue stamps are charged when properties are sold within the County. We are required to share half of the revenue generated with the state. For FY 2012, this revenue source is expected to be slightly above FY 2011 levels. Since 2008, this revenue is down 51%. Projections for FY 2013 are slightly more conservative than FY 2012 estimated.
- Occupancy Tax:** The closing of Governor’s Club golf cottages and the economic downturn have had a dramatic

effect on occupancy tax revenues.. FY 2012 is estimated to be 21% above budget. As a practical matter, the expenses of the Pittsboro-Siler City Convention and Visitors Bureau are set equal to occupancy tax revenues. Any deficit is

subtracted from the occupancy tax reserve, while any excess contributes to the reserve. At the end of FY 2011, the reserve balance is estimated at approximately \$185,000.

Other Revenues:

Interest: With interest rates at all-time lows, the amount of interest the County earns on its funds has declined by more than 93% from FY 2008 levels. Staff recommends budgeting \$70,000 for FY 2013 based on current interest rates.

Grants/Donations: This revenue source is projected to decline by 18% because the County does not budget several grants and donations until actual amounts are known. Staff does not expect a significant difference in actual amounts.

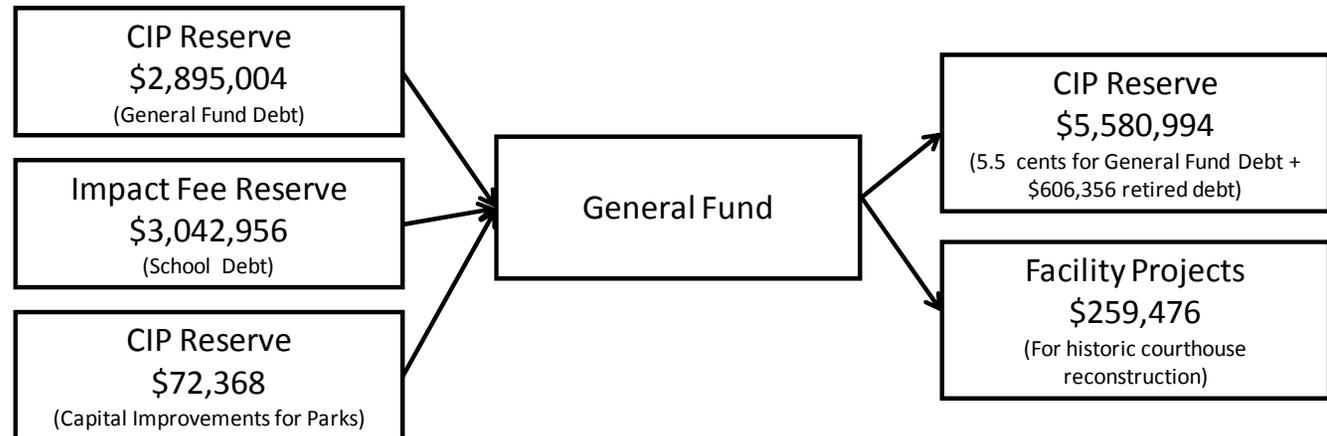
Insurance Reimbursements: The county's insurance limits for additional expenses (not construction related) have been exhausted and no additional revenue is estimated for FY 2012 or FY 2013. In fact, a \$259,476 transfer must be made to the courthouse reconstruction project to reimburse the project fund for revenue credited to the general fund. Until the opening of the new Justice Center, the county will continue to spend funds that are not reimbursable from insurance.

General Fund Sales and Service: Sales and service revenue is generated when County departments provide services directly to residents and are reimbursed either directly from residents or from a third party, such as Medicaid. In general, the County has more control over the “prices” of its services than any other revenue type, besides property taxes. The exception is Medicaid, because reimbursement rates are set by the Federal government. In the general fund, this revenue source is expected to increase 8% because increased projections for DSS fees, collection fees for fire districts, and indirect costs paid by the Utility and Waste Management funds.

Enterprise Fund Sales and Service: Sales and service account for a greater portion of the Water and Waste Management Funds. Water revenues are expected to increase 5% over FY 2012 budgeted and Waste Management revenues are expected to increase 3%.

Transfers:

Transfers of revenues generally occur from special revenue funds to the operating funds for one-time expenditures. Overall, this revenue source is expected to decrease 11% in the General Fund because of reduced general fund debt and the use of restricted sales tax for a portion of school debt.



- **CIP Reserve:** This reserve was established as part of the County’s financial plan to fund capital improvements. Five cents on the property tax rate, plus the decrease in debt service on general obligation bonds, is transferred annually to this reserve to pay for debt service on general County projects. In turn, funds to cover principal and interest on the County’s debt-financed CIP projects are transferred to the general fund each year. This approach avoids large increases in property taxes to pay for debt service. With the addition of the new jail and a one-year delay in constructing the new high school, an additional half cent is needed in the reserve.
- **CIP Reserve/Parks:** This reserve was established to accumulate funds for constructing parks on a pay-as-go basis. Most of the funds were used to construct Northeast Park, but a small amount remains. Staff is recommending

that \$72,368 be transferred into the general fund to pay for capital improvements at Northwest Park.

- **School Impact Fee Reserve:** This reserve accumulates school impact fees to pay for capital and debt service for Chatham County Schools. A transfer of \$3,042,956 is needed to cover debt for Virginia Cross Elementary, Northwood High School Renovations, Margaret Pollard Middle School, and several small projects paid for with funds leftover from the Margaret Pollard project. The debt for these projects total \$3,491,468, but the transfer has been reduced by \$448,692 to account for restricted sales tax which now exceeds the general obligation bond debt.
- **Utility Capital Reserve:** No transfers into the Water Fund are recommended.
- **Solid Waste & Recycling Fund:** No transfers into the Solid Waste & Recycling Fund are recommended.

Fund Balance:

General Fund One-time Expenses:	
General Fund Replacement Capital	678,448
General Fund Additional Capital	260,100
General Fund CIP	1,841,100
School Capital	1,779,391
School CIP	334,690
Operating One-time	594,944
Total	5,488,673
Fund Balance Appropriated	\$4,964,392

Fund balance is typically used as “revenue” to balance the budget. Consistent with the Commissioners adopted financial policy, in the general fund, the use of fund balance is tied to one-time or capital expenditures, as shown in the table. Overall, the general fund appropriation from fund balance is up 211% from FY 2012. Because of budget cuts made in FY 2012, it was not necessary to appropriate fund balance to cover the full amount of capital and one-time expenses. The FY 2013

level of appropriation is more typical. Staff avoided covering the \$400,000 one-time appropriation to Chatham County Schools from fund balance, in case this becomes recurring.

The appropriation of fund balance in the Solid Waste & Recycling Fund is recommended at \$484,645 to balance the budget. The fund includes one-time expenses of \$485,215.

The Water Fund appropriation is recommended at \$833,327 to balance the budget. The fund includes one-time expense of \$403,993. One reason water fund revenue does not cover expenses is because of the large amount of debt incurred for the western transmission line. In the past, the county has transferred funds from the capital reserve to cover this expense. However, the Water Fund has substantial fund balance available for appropriation, as the table on the next page shows, so the transfer is not recommended for FY 2013.

The table below shows the amount of fund balance available for appropriation in FY 2013 in the three major operating funds.

Fund Balance available for appropriation:	General Fund	Water Fund	Waste Management Fund
Cash and Investments	22,689,729	3,375,135	3,812,610
Less:			
Liabilities	2,067,308	243,487	127,516
Deferred revenues arising from cash receipts	311,560	0	0
Fund balance available for appropriation	20,310,861	3,131,648	3,685,094

General Fund Expenditure Summary:

	2012 Amended	2012 Estimated	2013 Recommended	Variance	% Inc./ (Dec.)
Administration	5,567,542	4,956,673	7,490,976	1,923,434	35%
Debt Service	9,202,732	9,423,542	8,715,788	(486,944)	(5%)
Debt/Capital Transfers	4,305,616	4,305,616	5,840,470	1,534,854	36%
Chatham County Schools	26,923,184	26,634,531	27,748,778	825,594	3%
Other Education & Culture	3,014,728	4,015,882	2,857,338	(157,390)	(5%)
General Government	2,314,849	2,255,822	2,280,912	(33,937)	(1%)
Human Services	18,286,197	17,239,133	17,531,201	(754,996)	(4%)
Natural Resource Management	2,909,646	2,648,080	2,483,921	(425,725)	(15%)
Public Safety	11,657,271	11,415,911	13,088,691	1,431,420	12%
Total	84,181,765	82,895,190	88,038,075	3,856,310	5%

Administration: Most of the increase in this department grouping can be explained by 1) increased capital expenditures, including renovation of the courthouse annex building and capital outlay associated with operating the new justice center [+\$1,349,463]; 2) increases in personnel and operating expenses for the new justice center, including utilities in the courts budget, five new positions and other operating costs in Facilities Management, and one new position in Management Information Systems [+\$199,885]; and 3) implementation of the pay study [+\$192,78].

Debt Service: Debt Service is declining by 5%, largely because of retirement of general obligation bonds for Chatham County Schools and Central Carolina Community College [-\$370,041].

Transfers to Reserve: This category is up 36%, and results from two factors: 1) increasing the contribution to the debt reserve: an increase in five cents on the property tax rate per the debt model [+\$216,779], plus an additional contribution to the reserve for jail debt [+\$678,543], less the savings from delaying the high school for one year [-\$226,119], and plus the retirement of debt (compared to FY 2006) [+\$606,356]; and 2) the transfer of excess insurance reimbursement from the general fund to the courthouse reconstruction project [+\$259,476].

Chatham County Schools: Overall, funding for Chatham County Schools is increasing 3%. Current expense funding is increasing by \$689,904 (the FY 12 amended budget includes \$110,096 in one-time funding). The capital outlay

appropriation remains at FY 2012 levels. Funding for the CIP has increased 68% [+\$135,690] to fund the portion of the JS Waters roof replacement not covered by funds leftover from Margaret Pollard Middle.

Other Culture & Education: The majority of the decrease from the amended FY 2012 budget is explained by one-time donation expenses in the library [-\$185,361] and the elimination of pass-through funding to the community college for the arts incubator lease [-\$51,392]. Additional expense in this department grouping includes implementation of the pay study [+\$46,115] and CIP expenditures in Parks & Recreation [+\$72,398].

General Government: General government is decreasing slightly. Increases resulting from the pay study [+\$60,040] are offset by transferring a position from Tax--Land Records to Management Information Systems [-\$47,358].

Human Services: Human Services is decreasing 4% due to the following: decreased expenses in daycare due to state reductions [-\$261,075]; decreased expenditures in foster care due to more careful budgeting [-\$256,500]; reduction of funding for the county's enhanced lead program and

reorganization of staff [-\$110,045]; and ending the county's obligation to provide matching funds for the Oak Foundation [-\$90,000]. These decreases are offset by implementation of the pay study [+\$104,830].

Natural Resource Management: Natural Resource Management is decreasing 15% due to the following: one-time grant funding in Soil and Water [-\$316,617], elimination of the code enforcement position in planning [-\$54,704], a reduction in funding to the Economic Development Corporation [-\$45,000], and a reduction in business incentives owed [-\$44,800]. These decreases are offset by implementation of the pay study [+\$31,267].

Public Safety: Public Safety is increasing 12%. Most of the increase can be explained by additional personnel and operating expenses for the new justice center [+\$530,730], pay study implementation [+\$561,604], and replacing more vehicles in the Sheriff's Office [+\$231,590].

Department Summary

Department	FY 2011 Actual	FY 2012 Amended	FY 2012 Estimated	FY 2013 Requested	FY 2013 Rec Cont	FY 2013 Rec Exp	FY 2013 Total Rec	% Inc /Dec
General Fund:								
Central Carolina Community College	1,113,214	1,926,167	1,926,167	1,773,567	1,824,959	(51,392)	1,773,567	-8%
Central Permitting -- Administration	196,607	265,319	194,156	307,066	222,202	50,100	272,302	3%
Central Permitting -- Fire Marshal Division	263,579	236,617	230,163	260,156	267,179	0	267,179	13%
Central Permitting -- Inspections Division	342,279	435,454	335,590	409,190	417,665	0	417,665	-4%
Chatham County Schools	32,325,114	33,002,797	32,779,063	33,569,558	33,234,868	334,690	33,569,558	2%
Chatham Trades	0	102,600	102,600	110,000	110,000	0	110,000	7%

Department	FY 2011 Actual	FY 2012 Amended	FY 2012 Estimated	FY 2013 Requested	FY 2013 Rec Cont	FY 2013 Rec Exp	FY 2013 Total Rec	% Inc /Dec
Chatham Transit Network	0	55,000	55,000	156,975	156,975	0	156,975	185%
Community Development/Ombudsman	60,525	63,845	70,606	79,104	63,741	16,722	80,463	26%
Cooperative Extension Service	303,878	326,071	312,683	326,071	316,281	0	316,281	-3%
Council on Aging	884,404	830,488	830,864	829,270	832,812	0	832,812	0%
County Attorney	335,674	329,211	287,467	278,114	329,106	(50,000)	279,106	-15%
County Manager's Office	619,718	762,589	749,288	762,625	786,730	0	786,730	3%
County Manager's Office -- Community Relations Div	237,098	0	0	0	0	0	0	0%
Court Facilities	73,317	78,917	71,294	190,325	78,308	112,877	191,185	142%
Court-Related Programs	648,819	550,089	652,787	493,781	510,827	0	510,827	-7%
Economic Development Corporation	1,173,460	1,262,542	1,263,239	1,171,142	1,216,308	(45,000)	1,171,308	-7%
Elections Office	319,620	311,465	271,433	358,975	335,973	(938)	335,035	8%
Emergency Management -- Emergency Medical Services	2,093,872	2,162,587	2,181,490	2,219,651	2,220,069	0	2,220,069	3%
Emergency Management -- Emergency Operations	433,745	456,267	337,372	352,822	362,859	0	362,859	-20%
Emergency Management -- Telecommunications	1,078,315	1,147,124	1,097,021	1,309,780	1,157,709	71,271	1,228,980	7%
Environmental Quality -- Land & Water Resources	80,100	143,095	128,082	144,532	147,392	0	147,392	3%
Environmental Resources	157,966	11,989	26,179	0	0	0	0	-100%
Finance Office	701,004	672,194	633,793	659,584	671,241	13,776	685,017	2%
Governing Board	323,796	372,452	351,190	319,783	323,822	(1,900)	321,922	-14%
Health -- Administration	468,154	463,876	453,737	514,932	517,425	5,769	523,194	13%
Health -- Animal Control	509,258	550,457	524,844	534,338	546,289	0	546,289	-1%
Health -- Community & Family Health	897,196	936,487	746,986	721,165	757,348	(16,560)	740,788	-21%
Health -- Community Health & Surveillance	622,594	524,037	530,194	555,494	513,257	50,891	564,148	8%
Health -- Environmental Health	1,128,530	1,137,967	1,038,610	995,238	1,136,112	(141,854)	994,258	-13%
Health -- Preventive Health Care	2,032,872	2,354,994	1,995,385	2,300,781	2,075,568	260,386	2,335,954	-1%
Human Service Agencies	544,936	356,227	383,462	289,527	264,527	25,000	289,527	-19%
Human Service Pass Through Grants	175,933	0	185,119	0	0	0	0	0%
Library	1,473,366	2,118,023	1,921,492	2,006,042	1,905,854	17,811	1,923,665	-9%
Management Information Systems (MIS)	1,191,757	1,041,879	1,023,180	1,304,115	1,189,592	184,829	1,374,421	32%
Non-departmental/General Services	4,877,330	5,071,658	4,749,703	6,595,562	6,754,062	(137,000)	6,617,062	30%
Parks & Recreation	1,017,034	736,557	1,947,630	656,946	745,435	59,692	805,127	9%

Department	FY 2011 Actual	FY 2012 Amended	FY 2012 Estimated	FY 2013 Requested	FY 2013 Rec Cont	FY 2013 Rec Exp	FY 2013 Total Rec	% Inc /Dec
Piedmont Behavioral Healthcare	561,538	535,169	520,789	508,918	536,165	(26,251)	509,914	-5%
Pittsboro-Siler City Convention & Visitors Bureau	87,921	81,772	85,211	83,123	84,883	0	84,883	4%
Planning -- Transportation	68,466	0	0	0	0	0	0	0%
Planning Department	484,077	494,200	491,492	448,985	518,741	(51,528)	467,213	-5%
Public Works -- Facilities Management	2,444,195	2,299,639	2,233,723	3,760,894	1,673,814	1,829,503	3,503,317	52%
Public Works -- Fleet Management	31,459	(9,049)	43,612	163,346	174,045	0	174,045	-2023%
Register of Deeds	377,095	406,229	387,874	411,327	410,388	0	410,388	1%
Sheriff's Office -- Law Enforcement	5,702,490	5,442,632	5,371,603	6,058,284	6,127,421	386,845	6,514,266	20%
Sheriff's Office -- Jail	1,413,503	1,661,955	1,545,475	1,840,400	1,840,224	144,287	1,984,511	19%
Social Services	10,539,785	10,730,961	10,163,609	10,095,137	10,230,540	(12,412)	10,218,128	-5%
Soil & Water Conservation District	244,438	516,513	418,539	199,512	206,178	0	206,178	-60%
Sustainable Communities -- Administration	110,417	0	69	0	0	0	0	0%
Sustainable Communities -- Resource Conservation	11,546	0	0	0	0	0	0	0%
Tax -- Administration	805,183	793,352	857,833	822,913	839,016	0	839,016	6%
Tax -- Assessment & Revaluation	293,827	320,619	283,984	321,598	325,710	0	325,710	2%
Tax -- Land Records	112,406	110,732	103,508	48,613	48,841	0	48,841	-56%
Water Fund								
Water -- Distribution	5,501,229	4,634,029	4,090,838	4,361,018	4,346,316	0	4,346,316	-6%
Water -- Waste Water Treatment	29,487	34,842	16,655	30,842	30,844		30,844	-11%
Water -- Water Treatment	1,111,480	1,127,098	1,049,170	1,458,985	1,475,707	0	1,475,707	31%
Waste Management Fund								
Environmental Quality -- Solid Waste & Recycling	2,629,974	3,070,413	2,907,358	3,324,895	3,482,734	2,561	3,485,295	14%

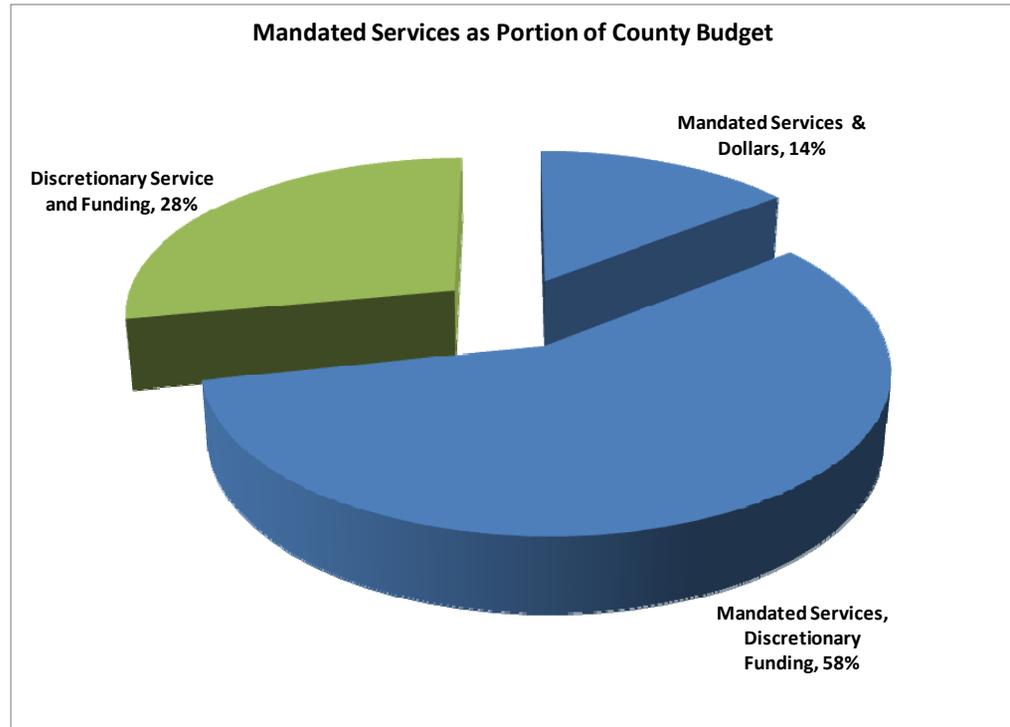
Mandated Services:

Overall, County staff has determined that **72% of the County budget is mandated by state and federal government.** This is down from FY 2012 (75%) because of reduced debt service, reduced mandated spending for daycare and foster care, and a large increase in the transfer to the debt reserve (which is considered non-mandated, even though most facilities funded through the reserve are considered mandated).

Mandated Services and Funding: 14% (down from 17% in FY 2012) of the County budget consists of spending that the County has no control over. The state and federal government mandate that services be provided and how much the County must fund those services. Most of these services are provided by Social Services. Debt service is also included in this category.

Mandated Services, Discretionary Funding: 58% (same as FY 2012) of the County budget consists of spending on mandated services. While state and federal governments do not tell us the amount to spend, they do require that the services be provided. The County can choose what level it wants to fund the service. For example, the state mandates that counties fund current expense for public education. The only requirement is that this funding be “adequate.”

Discretionary Service and Funding: 28% (up from 25% in FY 2012) of the County budget consists of services that the County can choose whether to fund. However, this category



includes services that the public often considers essential, such as the 911 center, animal control, and local supplements for teachers. It also includes most administrative expenses of the County, which are required to provide mandated services, such as facilities management and fleet.

For a detailed list of services by category, please see Appendix C.

Expansion Requests:

“Expansion requests” represent new programs, new positions, new capital outlay, and requests for the County to take over programs that previously were grant funded. The County Manager recommends that the following expansion

requests be funded. (At the suggestion of GFOA, only requests of +/- \$10,000 are listed here). More detail can be found on these and smaller requests in each department’s budget.

Department	Expansion/Cut	Net Cost
Central Carolina Community College	Board of Commissioners targeted cut: Eliminate rent for Incubator building for ceramics degree program and welding classes.	(\$51,392)
Central Permitting -- Administration	Web portal for permitting software.	\$50,100
Chatham County Schools	Capital Improvements Program: Fund the remainder of the cost of JS Waters roof from the general fund, with the balance to come from leftover Margaret Pollard funds.	\$304,690
Chatham County Schools	Capital Improvements Program: School paving installation and repair.	\$30,000
Community Development/Ombudsman	Increase time for coordinator from 75 to 100%.	\$16,719
County Attorney	Board of Commissioners targeted cut: Reduce county attorney retainer.	(\$45,000)
Court Facilities	Justice center operating expenses.	\$112,877
Economic Development Corporation	Board of Commissioners targeted cut: Reduction in force and services	(\$45,000)
Emergency Management -- Telecommunications	New VHF frequency and repeater for the fire service to alleviate overload of traffic on the paging channel.	\$33,764
Emergency Management -- Telecommunications	Operating expenses for the state-mandated backup 911 center.	\$34,500
Facilities Management	Capital Improvements Program (CIP): Annex renovations.	\$1,576,100
Facilities Management	Justice center personnel and operating expenses.	\$163,382
Facilities Management	Pavement repair to rear lot of Performance Building.	\$90,000
Finance	Reorganization of the Finance Office.	\$13,769
Health -- Community & Family Health	Reallocation of staff by adding Program Assistant IV.	\$42,839
Health -- Community & Family Health	Reallocation of staff by eliminating vacant Public Health Educator III.	(\$60,455)
Health -- Community Health & Surveillance	Reallocation of staff by adding Processing Assistant IV-50% for Immunization Tracking Position.	\$19,758
Health -- Community Health & Surveillance	Reallocation of Staff by adding Public Health Nurse II-50%.	\$31,127
Health -- Environmental Health	Board of Commissioners targeted cut: Reduction of childhood lead poisoning prevention	(\$143,314)

Department	Expansion/Cut	Net Cost
	program and reallocation of staff by eliminating vacant positions.	
Health -- Preventive Health Care	Capital Improvements Program (CIP): Purchase & implement patient data management system and electronic health records system (rollover from FY 12).	\$265,000
Human Service Agencies/Nonprofits	Capital contribution to Boys & Girls Club for renovation of Paul Braxton School.	\$25,000
Libraries	Continue increased library hours funded mid-year in FY 12.	\$17,811
Management Information Systems	Implementation of the performance review plan.	\$126,328
Management Information Systems	Justice center personnel and operating expenses.	\$50,491
Non-department/General Services	Board of Commissioners targeted cut: Eliminate contingencies for fuel and sentenced misdemeanants.	(\$200,000)
Non-department/General Services	Capital Improvements Program (CIP): Fund feasibility studies for new Agriculture Civic Center and renovation of old jail.	\$63,000
Parks & Recreation	Board of Commissioners targeted cut: Eliminate payments to towns for recreation.	(\$16,536)
Parks & Recreation	Capital Improvements Program: Improvements to Northwest Park.	\$72,398
Piedmont Behavioral Healthcare	Reduce funding for substance abuse intensive outpatient treatment program (IOP).	(\$26,251)
Planning	Board of Commissioners targeted cut: Eliminate Land Use Administrator I position.	(\$54,704)
Sheriff's Office -- Jail	Justice center personnel and operating expenses.	\$144,295
Sheriff's Office -- Law Enforcement	Justice center personnel and operating expenses.	\$386,819
Social Services	Bring childcare subsidy program in house.	\$15,877
Social Services	CUT -- Cut legal services costs.	(\$28,100)
	All other expansion requests	\$12,878
Total		\$3,028,770

Continuation Budget

“Continuation” refers to the portion of the budget that assumes that the County will continue to do business as it does currently. In other words, what will it cost next year to continue the same services and service levels without adding people or programs?

Overall, the continuation budget increased 1% from FY 2012. Reasons for this are as follows:

- **Salaries:** Continuation salaries increased 6% because of the pay study implementation.

- **Other Personnel Costs/Benefits:** Overall, this category increased 2%. An increase in benefits because of the pay study is offset by a decrease in the retirement rate.
- **Operating:** Operating expense increased just 1% and includes the additional \$775,000 for Chatham County Schools. In FY 2012, gasoline was budgeted at \$4.25/gallon. This was lowered to \$4/gallon in the FY 2013 budget based on estimates by the US Energy Information Administration and a survey of NC jurisdictions.

- **Debt:** The County's debt service obligations decreased 5% because of retirement of general obligation bonds for schools and the community college.
- **Transfers:** This category is up 36%, and results from two factors: 1) increasing the contribution to the debt reserve: an increase in five cents on the property tax rate per the debt model, plus an additional contribution to the reserve for jail debt, less the savings from delaying the high school for one year, and plus the retirement of debt (compared to FY 2006) and 2) the transfer of excess insurance reimbursement from the general fund to the courthouse reconstruction project [+\$259,476].

- **Public Assistance/Grants/Special Programs:** This category decreased 19% because of reduced foster care and day care expenses, the end of a large grant in Soil & Water, and the fact the county does not initially budget for pass-through grants since final amounts are not known at this time.
- **Capital Outlay:** Expenditures for replacement capital outlay increased 34% because of replacement of more vehicles.

Capital Improvements Program (CIP)

Background: The CIP is a long-term plan for funding the County's major capital needs. It shows how facilities, equipment, and other projects that cost \$100,000 or more could be scheduled and funded over the next seven years, beginning in FY 2013. The CIP is a plan that is updated annually during the budget process and may be modified at any time to reflect changing conditions. A CIP is a systematic way of anticipating, planning, and budgeting for major projects. The adoption of a CIP can improve the credit worthiness (bond rating) of a jurisdiction. CIP requests originate at the department level. The Manager's Office reviews new and existing requests and recommends a proposed CIP to the Board of Commissioners. The Board of Commissioners reviews the recommendation in detail, makes changes, and adopts an approved CIP. During review of the annual operating budget, Commissioners may make additional changes to the CIP.

Recommended Changes in the FY 2013 Operating Budget: The County Manager recommends the following

changes to projects scheduled in FY 2012 (changes that have occurred midyear) and FY 2013:

- **New High School:** At the request of the Board of Education, construction of the new high school is delayed by one year (for an August 2017 opening), resulting in an annual savings to the debt transfer of \$226,119.
- **Space Needs Study Implementation:** The architect has provided more detailed cost estimates for renovating the annex and old library/temporary superior court buildings. The FY 2013 budget increases the appropriation for the first phase on the annex renovations slightly by \$6,097 and appropriates \$70,000 to complete renovations to the temporary superior court/old library renovations for the Management Information Systems Department. Renovations are slightly more extensive than originally thought because the space will need to accommodate all MIS positions, as recommended by the performance evaluation conducted for the department. The project has a balance of \$112,128.24

- The replacements of the heating and air conditioning units for high school gymnasiums have been moved up to FY 2013 (from FY 2015) and the inflationary factor removed, reducing the cost from \$970,100 to \$916,700. The project will be funded from leftover Margaret Pollard debt proceeds.
- The JS Waters roof replacement is being moved up to FY 2013 (from FY 2014 and 2015). A majority of the project will be funded from leftover Margaret Pollard debt

proceeds. The balance, \$304,690, is recommended to be appropriated from fund balance in FY 2013.

- New football stadium and softball restrooms are recommended to be moved up to FY 2013 (part was previously scheduled in FY 2014) and funded from leftover Margaret Pollard debt proceeds.

See Appendix D for a summary of the Capital Improvements Program.

The Future

Short-Term: National economists believe the recession officially ended in late summer of 2009. However, local economic indicators are mixed. Troubling indicators include:

- The county's unemployment rate, following the Townsends closing, is trending at or above the national average after years of trending below than the national average.
- Property tax growth is sluggish and tax values exceed market values.
- The county's locally collected sales tax growth is trending below the state average.

A few local economic indicators appear to be improving:

- Building permit activity is on track to exceed the last four fiscal years.
- Motor vehicles values in FY 2012 are up more than 6% over FY 2011.
- The number of local foreclosures dropped significantly in 2011.
- Recent business openings in Siler City have all but exhausted the supply of vacant industrial property.

- The Wal-Mart announcement promises additional property tax base and locally collected sales tax.
- State budget forecasts are not as dire as the past four years. Departments are not expecting major budgetary impacts from the state. As this is written, General Assembly leaders are pledging to address the discretionary funding cut imposed on public education. That action could lead to the restoration of up to \$2.7 million for Chatham County Schools.

The Long Term: Because of excellent financial stewardship in the past, Chatham County is in a much better position than many other jurisdictions. The County has been able to continue critical functions and open new facilities without risky measures, such as using fund balance for operating expenses. The cuts made in the FY 2012 budget allowed the County to continue to provide critical and mandated services and positioned us to increase school funding, open the justice center, and give much needed employee raises.

Invitation for Public to Participate

Chatham County values the input of its residents. You have several opportunities to give your feedback. First, County Commissioners will hold two public hearings on the budget as follows:

- **Monday, May 21, 6 p.m.**, Agriculture Auditorium, Pittsboro.
- **Tuesday, May 22, 6 p.m.**, Siler City Courtroom, Town Hall.

Respectfully submitted May 7, 2012.

Charlie Horne

Charlie Horne
County Manager

You may provide comments or ask questions of our budget staff. Please contact Renee Paschal (renee.paschal@chathamnc.org), 919-545-8300 or Lisa West (lisa.west@chathamnc.org), 919-545-8483.

Commissioners will also hold a series of budget work sessions on May 24 and 30 and June 4. Check times and places on the County's website: www.chathamnc.org.