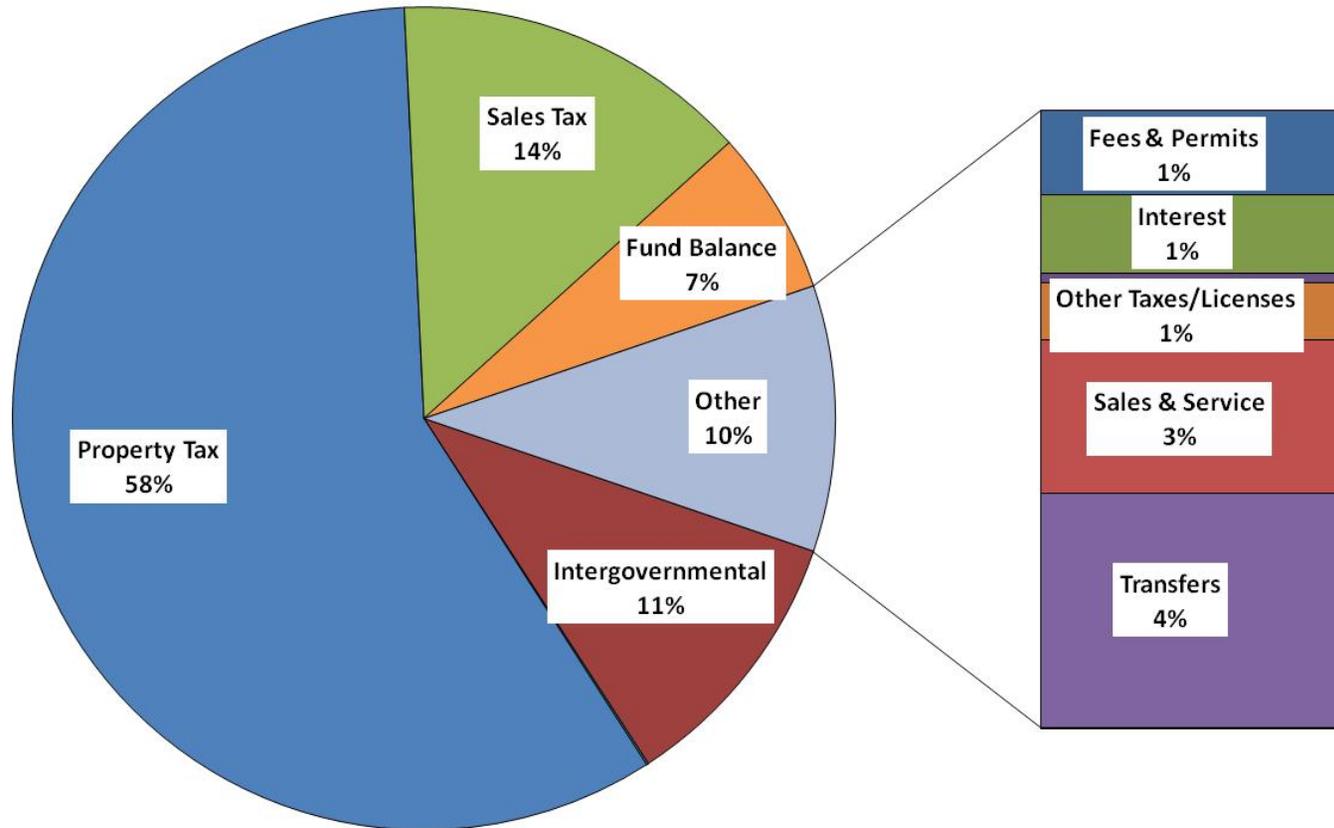


Revenue Assumptions

General Fund Revenue by Source:



The graph above shows total County revenues by type for the General Fund. As the graph demonstrates, the majority of the County's revenue comes from property tax. Other significant sources include the local option sales tax and restricted intergovernmental (state and federal funds).

Summary of Changes to the Recommended Budget

As is required by state law, the County Manager develops a “recommended” budget that is presented to County Commissioners in early May. Commissioners hold public hearings and work sessions to review the recommended budget in depth. Normally, Commissioners make changes to the recommended budget before the final budget is approved. Overall, Commissioners reduced the budget by \$973,692 and reduced the tax rate increase by 1.9 cents. Below is a list of the changes Commissioners made to the FY 2008-2009 budgeted revenues (An offsetting reduction in expenditures was also made. Please see the Expenditure Assumptions section for an explanation.):

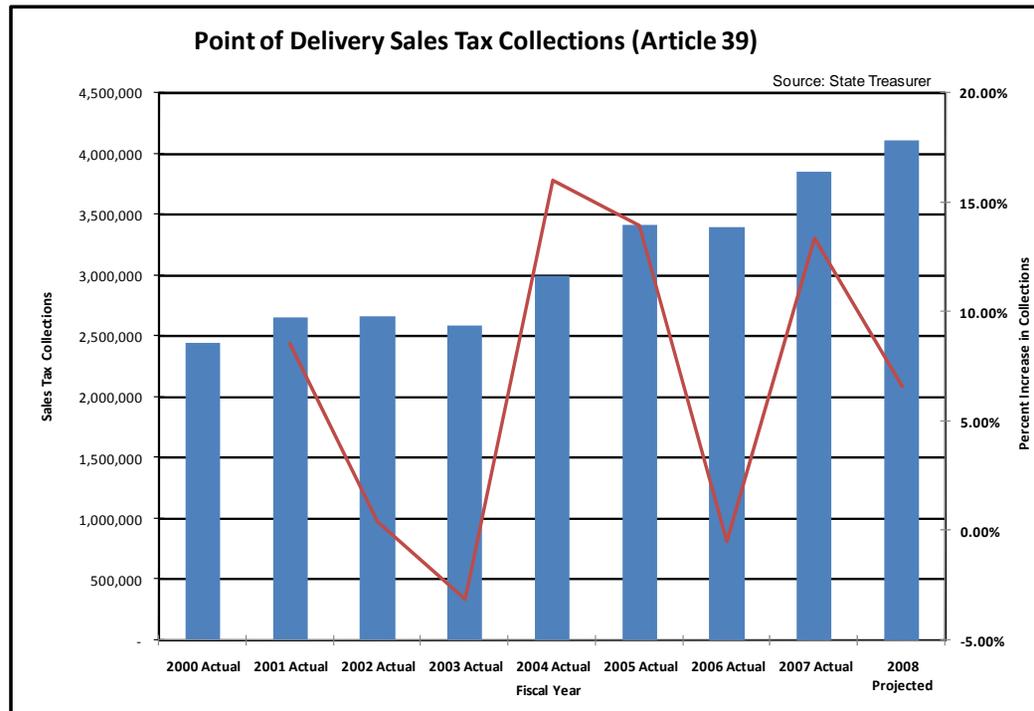
Keep the amount charged to fire districts for collection of taxes at 5% (manager’s proposal was to reduce to 1.5%)	157,366
Transfer funds from industrial reserve for implementation of the economic development plan	41,730
Increase revenue for social services position reimbursement	11,409
Increase revenue for jail mental health fund from OPC Mental Health	3,600
Decrease property tax revenue	(1,372,307)
Increase sales tax revenue (to balance budget)	41,308
Decrease Teen Center grant from Town of Siler City	(10,000)
Increase state revenue in Health-FOSS (to offset loss of teen center grant)	10,548
Additional state funds for Breast and Cervical Cancer Control Program	10,534
Increase transfer from school capital reserve	4,350
Decrease fund balance appropriation	(4,350)
Increase fund balance appropriation for hospital request	150,000
Decrease fund balance appropriation for Central Carolina Community College camera system (already approved in FY 2008)	(17,881)
Total	(973,693)

Major Revenue Highlights:

- A five and one-half cent property tax increase was recommended and earmarked as follows: one cent for a parks capital reserve to fund construction of park facilities; one cent for water capital needs to fund future debt service; 1.2 cents for school needs; and 2.3 cents for other general fund needs, including personnel. (Commissioners lowered the tax rate increase to 3.6 cents. They also reduced the capital reserve for parks by \$200,000 and eliminated one cent for water capital needs.)

- Increase in the fire district rates of Pittsboro, Goldston, West Sanford and Staley fire districts. The county manager proposed to lower the amount charged to fire districts for the County's collection of taxes from five percent to 1.5 percent. (Commissioners kept the collection fee charged to fire districts at five percent.)
- A \$10 increase in the Waste Management Solid Waste Fee for Collection Centers to fund a new collection center.
- An increase in Environmental Health Well Permit fees to help cover the costs of a new state-mandated well testing program.
- Small increases in fire and building inspection fees to better reflect costs of providing these services.
- Revenue and expenditures related to increasing the occupancy tax rate from 3% to 6%. Commissioners must approve this through several separate steps. However, the recommended budget presents a plan for how those revenues would be spent if the tax is increased.
- Consistent with the Board of Commissioners Financial Policy, appropriated fund balance is earmarked for one-time items in the general, utility, and waste management funds.

Economic Assumptions:



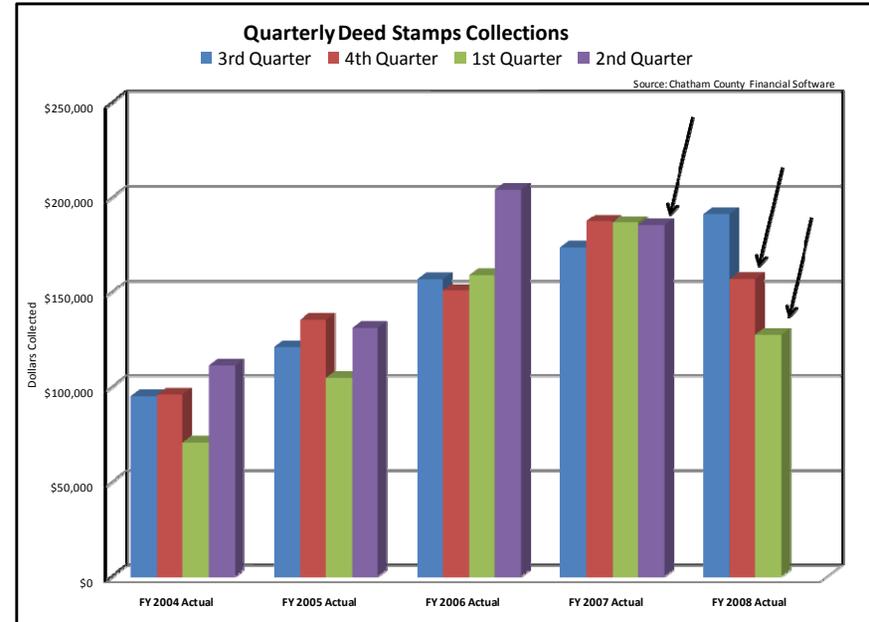
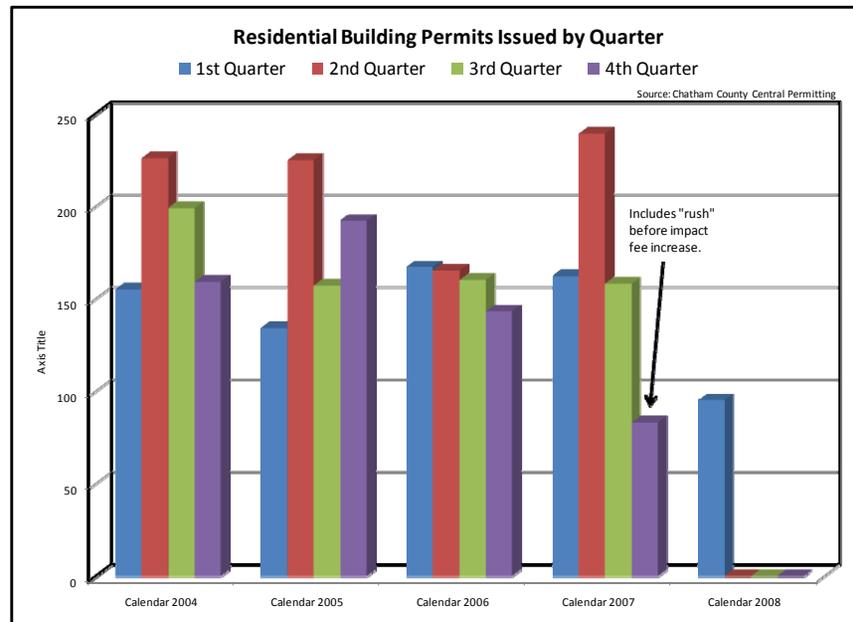
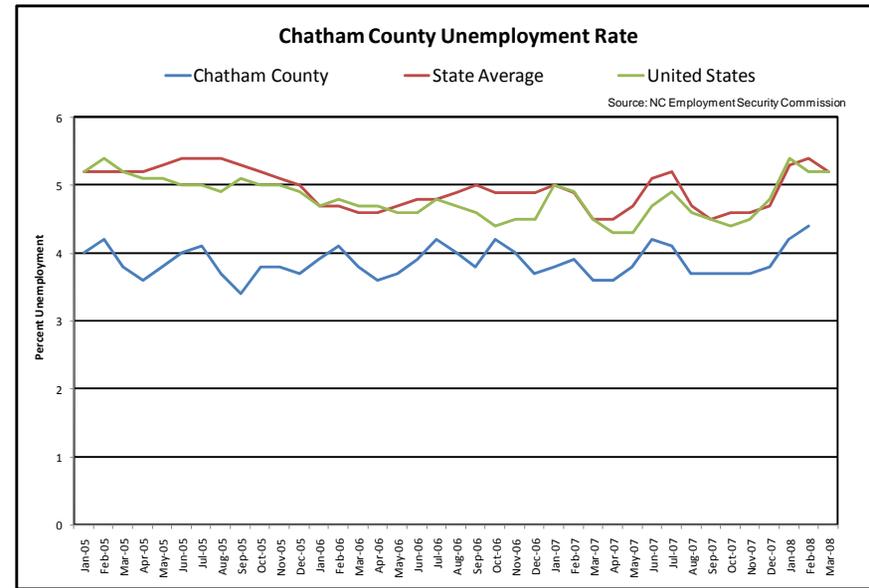
Economic conditions in the nation, state, and county continue to worsen. Although the Triangle Region is expected to outperform the nation and state, Chatham County is not immune from national economic forces. At the same time, the county's growing population presents many challenges to county government to provide adequate services in a poor economy. The sub-prime mortgage crisis, shrinking availability of credit, rising gasoline and food prices, and employment layoffs are affecting local revenue growth.

Many economists believe the nation is already in a recession (defined technically as two quarters of GDP decline). The state's fiscal analysts believe North Carolina will avoid a recession, but that overall revenue growth will slow. Sales taxes are growing just 2.9% this year, as compared with an average growth rate of 5.8%. (Source: North

Carolina Association of County Commissioners). In contrast, Chatham County's point of delivery sales tax has averaged 7.1% growth in FY 2008, which is about the average growth rate since FY 2001.

National, state, and local unemployment rates continue to increase. Historically, Chatham County's unemployment rate has been lower than the state and nation, as shown in the chart on the right. Chatham County has experienced the loss of at least 1,187 jobs since January 2008 (This number reflects large industries only; smaller businesses are not tracked.), including 837 job losses from the closing of the Pilgrim's Pride plant in Siler City and an estimated 200 job losses from Performance Fibers. These job losses have not yet been factored into the unemployment rate. In contrast, the Employment Security Commission reported only one job loss in the county last fiscal year.

Locally, an informal survey of realtors, developers, and



bankers showed that the County’s housing market is softening. Most expect the market to rebound in late 2008. The softening housing market is reflected in lower Register of Deeds deed stamp collections and fewer building permits being issued. Register of Deeds Stamps are projected to be down by 18 percent in FY 2008, after an average annual growth rate of

19%. Deed stamp collections have been down three out of the last four quarters, as shown in the chart the previous page.

Building permits were down 41 percent over the previous year for the last two quarters (see chart on previous page). According to Raleigh MLS data, house closings are also down 40 percent in the first four months of 2008.

Property Taxes:

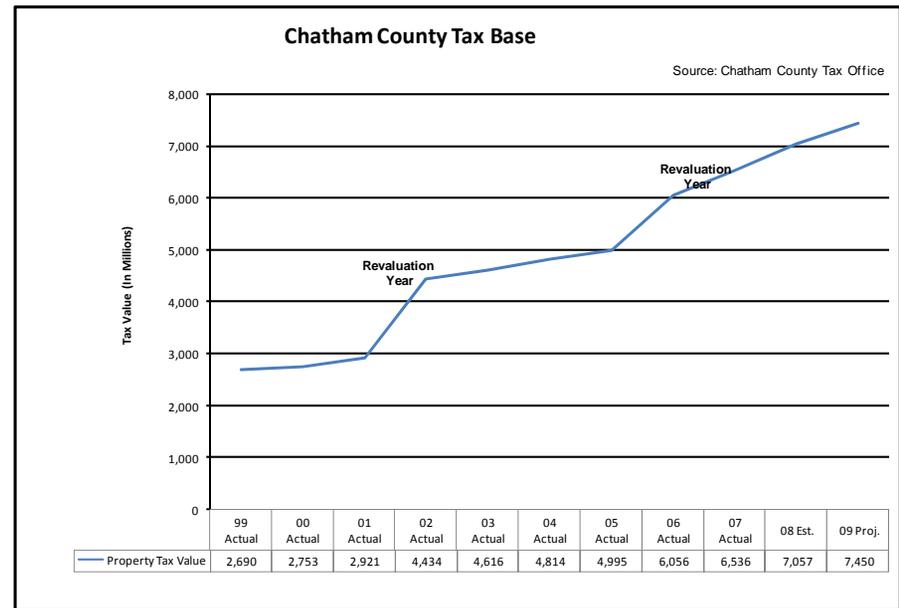
The Tax Office has yet to see an increase in foreclosures resulting from sub-prime mortgage defaults. However, job losses, tightening credit, and rising gasoline and food prices do jeopardize the county’s excellent collection percentage for property and motor vehicle taxes. After years of increasing collection percentages for real and personal property and motor vehicles, staff is recommending a more conservative estimate in FY 2009. Estimates are based on a 97.5 percent collection rate, a reduction of 1.2 percent from the estimated FY 2008 collection percentage, for real and personal property and utilities and 89.7 percent, a reduction of 2 percent, for motor vehicles.

The county manager recommended a five and one-half cent increase in the property tax rate for the following needs:

- One cent to establish a parks capital reserve to fund construction of park facilities;
- One cent for water capital needs to fund future debt service;
- 1.2 cents for school needs;
- 2.3 cents for new general fund needs, including public safety personnel.

Commissioners reduced the increase to 3.6 cents.

Real property values are estimated to grow 6.1 percent in FY 2009, down from 7.8 percent in FY 2008. Overall, the tax



base is expected to grow 5.6 percent, equaling the average annual growth rate since 1999 (excluding revaluation years). As a result, current year property taxes (not including a tax rate increase) are expected to grow by \$2.3 million (6.2 percent) over FY 2008 budgeted amounts. The graph shows the increase in Chatham County’s tax base since 1999.

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

- Tax base: \$7.4 billion—Staff used actual numbers for real property values as of January 1, 2008 and subtracted pending appeals. Staff used estimated numbers for personal property, utilities, and motor vehicles since these values have not yet been finalized.
- Tax rate: 67.2 cents. (Commissioners approved 65.3 cents.)

- Real and personal property collection percentage: 97.5%.
- Motor vehicle collection percentage: 89.7%.
- Exemptions: The senior citizen exemption is increasing in FY 2009 in value from \$20,000 to \$25,000 and the eligible level of income increased from \$20,500 to \$25,000. Eligible residents have until June 1 to sign up for the exemption. Staff doubled the exemptions received year to date.

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. The rates are based on the requests of the fire districts and are as follows. Increases are bolded:

District	FY 08 Rate	FY 09 Req. Rate	FY 09 Appr. Rate	Explanation for Change in District Rate
Bells Annex	7.00	7.00	7.00	
Bennett	7.00	7.00	7.00	
Bonlee	7.00	7.00	7.00	
Central Chatham (Siler City)	6.00	6.00	6.00	
Circle City (Pittsboro)	8.00	10.00	10.00	The department is opening a new fire station on Old Graham Road. Revenues from the increase will pay for three additional positions and the other operating costs of the station.
Goldston	7.00	8.00	8.00	The department is converting a part-time paid position to full time.
Hope (Silk Hope)	7.00	7.00	7.00	
Moncure	8.50	8.50	8.50	
North Chatham	7.00	7.00	7.00	
Parkwood	10.00	10.00	10.00	
Staley	9.38	10.00	10.00	Last year, Staley used its large fund balance to balance its budget and reduce its tax rate from 10 cents to 9.38. That revenue source is no longer available.
West Sanford	8.60	9.50	10.90	The petition and action of Commissioners that expanded the West Sanford Fire District into Chatham County requires that the Chatham County fire tax rate be set equivalent to the Lee County fire tax rate for this district. Lee County approved 10.9 cents for West Sanford.

Local Option Sales Tax:

The four parts of the sales tax are:

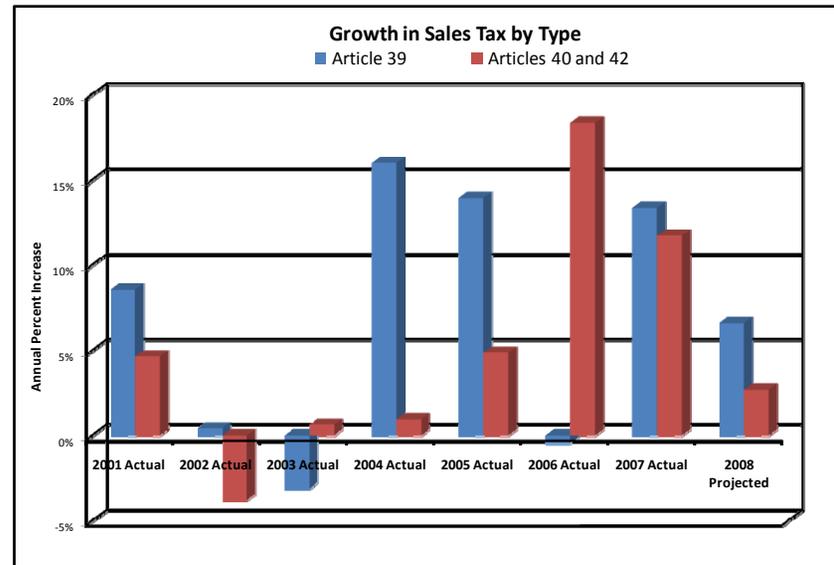
- Article 39: One cent on every dollar. Comes back to the county directly based on goods sold in the County.
- Article 40: One-half cent on every dollar. Goes into a statewide pot and is distributed back based on population. Thirty percent must be spent on school capital or debt.
- Article 42: One-half cent on every dollar. Goes into a statewide pot and is distributed back based on population. Sixty percent must be spent on school capital or debt.
- Article 44: One-half cent on every dollar. One-half comes back to the county directly based on goods sold in the County. One-half goes into a statewide pot and is distributed back based on population. In FY 2009, counties will lose 75 percent of the per capita portion of Article 44 in exchange for Medicaid relief (explained in more detail below).

Recent changes in how sales tax receipts are distributed back to cities and counties and the continuing erosion of the sales tax base in the form of exemptions (more than doubling in the last 10 years) have made estimating sales tax more difficult. In addition, prior to December 2005, all food sales tax receipts were credited as Article 39, which had the result of inflating Article 39 receipts and lowering Articles 40 and 42 receipts. As a result, Article 39 sales tax receipts, an indication of local economic activity, were lower in FY 2006 than in FY 2005, as shown in the graph above. In addition, it appears that growth in the Article 39 sales tax will be approximately 7 percent for FY 2008, compared with 2.9 percent growth in

Articles 40 and 42, which are distributed back based on population. Staff used the following assumptions:

- Similar growth in point-of-distribution and per-capita distributions. Although recent Article 39 receipts have been higher, the impact of the economy on local sales is uncertain.
- A 1.5-percent increase in sales tax revenues for the remaining months of FY 2008 (over the same months in FY 2007).
- A one-percent increase in sales tax revenues for FY 2009 (over FY 2008).

These assumptions are in line with what the North Carolina League of Municipalities and the North Carolina Association of County Commissioners recommend and are slightly more conservative than the state's fiscal analysts predict.



Fee Increases:

The County Manager proposed and the Board of Commissioners adopted changes to the following fees:

Fee Type	Current Fee	Approved Fee	Revenue	Explanation for Increase
Waste Management: Solid Waste Fee for Collection Centers	\$81/household	\$91/household	\$164,120	The Board of Commissioners' approved Capital Improvements Program (CIP) includes a new collection center in the northeast quadrant of the County. To construct the facility, the county will need to accumulate \$164,120 in capital reserve each year for the next five years.
Environmental Health: Well Permit	\$225/permit	\$340/permit	\$25,300	On July 1, a new state mandate to sample all new wells will go into effect. Raising the fee by \$115 will pay for additional costs associated with this each sample: \$30 for employee time, \$5 for vehicle expense, \$57.95 for the cost of sample kits, \$7 for courier service, and \$15 for re-sampling one out of five.
Environmental Health: Temporary Food Establishment Permit	\$0	\$50	\$2,000	The State Division of Environmental Health has mandated that local health departments charge \$50 for a temporary food establishment permit. This will apply to food vendors who set up for fairs and festivals, except those exempted by law.
Fire Marshal: Inspection of institutions, 6-21 people	\$45/Inspection	\$75/Inspection	\$180	The fee is set to better reflect the amount of time involved in inspecting a facility of this size.
Fire Marshal: Inspection of institutions, more than 21 people	\$60	\$125	\$585	The fee is set to better reflect the amount of time involved in inspecting a facility of this size.
Fire Marshal: Above ground and underground fuel storage tank removal	\$150/site	\$150/tank removed	\$300	The work involved is related more to the number of tanks than each site. This fee is comparable to that charged by other jurisdictions.
Fire Marshal: Fire inspection of hospitals	\$60	\$150	\$150	The fee is set to reflect the greater amount of time involved with inspecting a hospital.
Fire Marshal and Building Inspections: Inspection for ABC permits	\$0	\$100	\$600	Currently, the county does not charge for this service. A fire and building inspection is required each time ownership of an establishment with an ABC permit changes.
Fire Marshal: Fuel line pressure tests	\$0	\$30	\$200	Currently, the county does not charge for this service if it is not done with the installation of a fuel tank. This fee will only be charged when fuel lines are installed separately from fuel tanks.

Fee Type	Current Fee	Approved Fee	Revenue	Explanation for Increase
Fire Marshal: Fire inspection of utility occupancy	\$30 to \$100	\$30 to \$100	\$0	This occupancy type is currently classified as "storage." Staff proposed adding the utility occupancy class to better describe facilities such as water treatment plants. No change in the fee amount is requested
Fire Marshal: Plan review of sprinklers/alarms	Included in plan review fee	\$75	\$450	Sprinkler and fire alarm plans are submitted separately from building construction plans. Plan review requires extensive staff time.
Building Inspections: House moving fee	\$200	\$0.30 per square foot	\$700	Currently, the county charges a flat fee for inspection of moved houses. Because inspectors make as many trips to the job site for these permits as they do for single family dwellings, staff is proposing to charge the same amount as we charge for a single family permit.
Building Inspections: Change of contractor fee	\$0	\$25	\$1,250	Whenever a contractor is changed on a building permit, staff has to change the information in multiple locations. This fee will cover the administrative costs.

Medicaid Relief:

The County will lose more from sales tax revenue reductions than we will gain in Medicaid relief. However, the Medicaid relief legislation guarantees counties a \$500,000 benefit annually. Therefore, the County should receive "hold harmless" funds each year to ensure that we benefit by at least \$500,000.

Because of the four-year phase in of Medicaid relief and the process used by the state to take over certain components of the sales tax in FY 2009 and 2010, Chatham County will not see a gain of \$500,000 in revenues until 2011. In FY 2009, the Medicaid relief plan will actually result in a net revenue gain of just \$162,107, calculated as follows:

- County loses 75% of per capita portion of Article 44 sales tax: Loss of \$1,015,333.

- State takes over 50% of County's Medicaid costs: Gain of \$1,269,673.
- County must reimburse towns for their share of lost sales tax revenues: Loss of \$129,072.
- Gain before "hold harmless funds": \$125,268.
- Guaranteed "hold harmless" amount: \$500,000.
- *State counts Chatham County's remaining Article 44 per capita sales tax against hold harmless payment (even though the County already receives and has budgeted this revenue): Loss of \$337,893.
- Net gain: \$162,107 (the County will receive a "hold harmless" payment of \$36,839 from the state, which is the difference between the gain before "hold harmless" and the net gain).

*Note: There is no good explanation for why the state opted to count existing revenue against the county, except that the state operates on a cash basis.

Intergovernmental:

Intergovernmental revenues are those that the state and federal government “share” with counties, generally to fund specific programs. Intergovernmental revenues are expected to increase by 6.0 percent overall in the General Fund. Intergovernmental revenues have historically been declining as a portion of total revenue, because of the state’s elimination of intangibles tax, inventory tax, and senior citizen exemption reimbursements. Specific shared revenues in this year’s budget include:

- **Social Services Reimbursements:** The 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 increase by 12.6 percent to reflect increased

expenditures in foster care and adoptions, day care subsidy, and uncapped federal revenue for administrative expenses, which includes depreciation and interest on the new Social Services Building.

- **Safe Havens Grant:** Federal funding for the Safe Havens Program, which provides secure court-ordered visitation services for families, ends March 2009, a reduction of \$49,702 from FY 2008. The county has reapplied for continued funding, but the status of that request is unknown at this time.
- **LSTA Grant:** The budget includes a grant from state libraries for a new library automation system in the amount of \$77,295. The automation system will be used to manage circulation, once Chatham County separates from Alamance’s library system with the construction of the new library.

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 decrease by 0.3% for FY 2009 because the slowdown in the housing market

is leading to fewer planning, environmental health, and erosion control fees. Together these fees are down \$204,000.

Sales and service account for a greater portion of the Water and Waste Management Funds. In the Water Fund, sales and service are expected to increase 4.3 percent, reflecting a modest increase in water usage now that outdoor watering is permitted on a limited basis.

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 decrease by 21.3 percent.

- **Register of Deeds Fees:** Recording fees are charged when legal documents, such as deeds, plats, and marriage licenses, are recorded. Because of fewer deed

In the Waste Management fund, sales and service are expected to increase 11.8 percent, largely because of the increase in the Solid Waste Fee for Collection Centers from \$81 to \$91 per household. This fee is increasing to cover the cost of a new collection center.

and plat recordings, this revenue is expected to decrease by 7.4 percent.

- **Building Inspection Fees:** The major source of revenue in this category is building inspection fees. The 26.8 percent decrease from the FY 2008 budget results from significantly fewer housing starts being projected for FY 2009. Realtors and developers have said that they expect the soft housing market to last through at least the fall of 2008.

Other Taxes and Licenses:

Other Taxes and Licenses represent locally collected taxes, other than the property tax. Overall, this revenue category is expected to decrease 10.2 percent.

- **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. Because of the significant decline in houses being sold within the county, this revenue source is expected to decrease \$150,000 or 23.1 percent from FY 2008.

- **Occupancy Tax:** As a practical matter, occupancy tax revenues are set to equal the expenses of the Pittsboro-Siler City Convention and Visitors Bureau. Any deficit is subtracted from the occupancy tax reserve, while any excess contributes to the reserve. At the end of FY 2008, the reserve is estimated to be approximately \$165,436. In addition, the manager has included the possible three-percent increase in the occupancy tax.

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 increase by 30.3 percent in the General Fund because of transfers from the CIP, Impact Fee, equipment capital reserve, industrial reserve, school capital reserve, and 911 reserve.

- **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 is transferred annually to this reserve to pay for debt service on general County projects. In turn, funds to cover principle 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. Principle and interest on Certificates of Participation (COPs) issued for the Social Services addition and infrastructure for the Central Carolina Business Park is due in FY 2009. \$665,789, a 12.1 percent increase, will be transferred to cover this amount.
- **School Impact Fee Reserve:** This reserve accumulates school impact fees to pay for capital and debt service for Chatham County Schools. In FY 2009, \$1,183,624, a 12.1 percent increase, will be transferred from the Impact Fee Reserve to pay COP's principle and interest payments for Virginia Cross Elementary.
- **Personnel Savings Account:** The budget recommends that \$380,700, a 10.6 percent decrease, be transferred from the "Personnel Savings Account." These funds will be used to pay for salary increases and benefits for pay raises that exceed two percent. The reserve was set up to accumulate lapsed salaries during the year to fund the County's pay-for-performance system.
- **General Fund Capital Reserve:** Funds are accumulated in the reserve to pay for replacement vehicles and one-time capital items requested during the budget process. The budget recommends a total transfer of \$745,449, a 71.4 percent increase.

Fund Balance:

Fund balance is typically used as “revenue” to balance the budget. The use of fund balance in all three operating funds, General, Water, and Waste Management, is tied to one-time or capital expenditures, as shown below. Overall, the general fund appropriation from fund balance is down 21.8 percent from FY 2008.

General Fund:

Capital Improvements Projects (CIP)	1,498,290
Transfer to Utility Capital Reserve	1,444,532
Affordable Housing Match	200,000
Chatham Hospital Turning Lane	150,000
School Capital Outlay	1,882,689
Expansion Capital Outlay	170,661
Total	\$5,346,172

Water:

Dump Truck	70,000
Capital Outlay	10,000
Total	\$80,000

Waste Management:

Replacement Capital Outlay	543,000
Capital Outlay	500,000
Landfill Feasibility Consultant	50,000
Total	\$1,093,000

Expenditure Assumptions & Long-term Financial Goals

Summary of Changes to the Recommended Budget

As is required by state law, the County Manager develops a “recommended” budget that is presented to Commissioners in early May. Commissioners hold public hearings and work sessions to review the recommended budget in depth. Normally, Commissioners make changes to the recommended budget before the final budget is approved. Overall,

Commissioners reduced the budget by \$973,692 and reduced the tax rate increase by 1.9 cents. Below is a list of the changes Commissioners made to the FY 2008-2009 budgeted revenues (Note that an offsetting reduction in revenue was also made. Please see the Revenue Assumptions section for an explanation.):

Increase teachers supplement to \$300 for teachers and \$100 for classified personnel (proposal was \$150 for teachers and \$50 for classified personnel)	148,100
Reduce budget for new Community Development Department	(111,207)
Reduce contingency for new Community Development Department	(75,000)
Delay Phase 1 of pay study implementation to October 1	(154,482)
Eliminate one-cent on tax rate for water capital	(722,266)
Eliminate increases in commissioner salaries	(4,913)
Start social services position in July (proposal was January 1)	22,818
Reduce contribution to parks capital reserve by \$200,000	(200,000)
Reduce new sheriff's office personnel (with Sheriff's option to decide which new position would be eliminated)	(32,000)
Increase salaries for manager, sheriff, and register of deeds	10,418
Increase well testing supplies	5,800
Provide Civic Engagement Nickel Offense contribution	3,000
Fund US 64 Strategic Corridor Study contract	3,600
Reduce mowing contract for parks	(6,300)
Increase Chatham Trades transportation allocation	3,000
Increase Chatham Trades administration allocation	14,000
Increase Chatham Together allocation	3,000
Reduce commissioner-allocated non-profit funds	(20,000)

Decrease community health promotion (CHPA) salaries (to offset reduction in funds for Teen Center from Town of Siler City)	(3,912)
Increase Breast and Cervical Cancer Control Program (BCCCP) (additional state funds)	10,534
Fund Chatham Hospital request for reimbursement of turning lane	150,000
Decrease expense for CCCC camera system (already approved in FY 2008)	(17,881)
Total	(973,691)

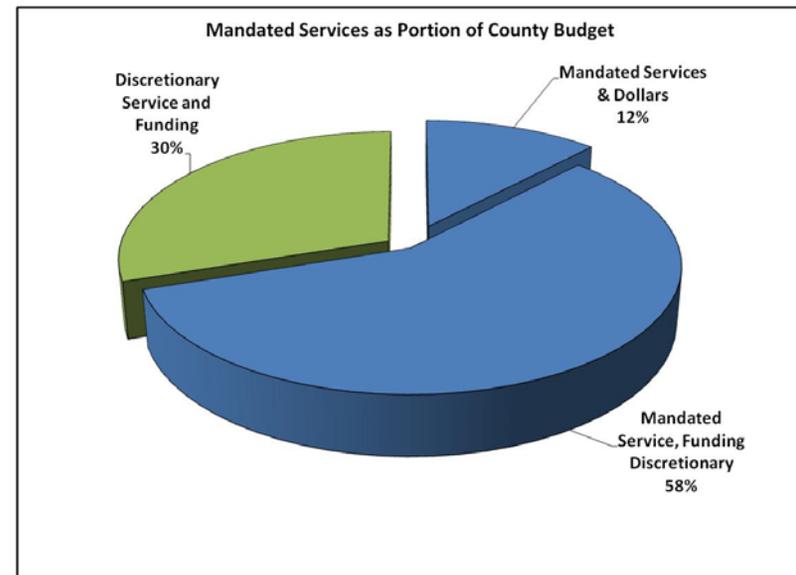
Mandated Services:

Overall, County staff determined that **70 percent of the county budget is mandated by state and federal government.** Using a model created by Cabarrus County, staff estimated mandated services as follows:

Mandated Services and Funding: 12 percent of the county budget consists of spending that the county has no control over. The state and federal government mandate that the services be provided and also mandate 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 percent 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.” The County can be forced by court action to increase funding for some of the programs in this category if the funding level is deemed too low (such as funding for public education or court facilities).

Discretionary Service and Funding: 30 percent of the county budget consists of services that the county can choose



whether to fund. However, this category includes services that the public considers essential, such as the 911 center, animal control, and local salary 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 received \$5.9 million in expansion requests, many of them for new personnel, and recommended \$2,986,021 in expansion. The County Commissioners increased expansion funding to \$3,009,250 and funded the items below: Note that all new positions, with the exception of

Detention staff, the Tax Exemption Specialist, the Executive Assistant in Social Services, and the CAP Social Worker, are recommended to be funded starting January 1, 2009. These positions will be frozen until the County Manager has determined that revenues are sufficient to cover their costs. These positions are starred (*) below. More detail can be found on these requests in each department’s budget.

Department	Approved Expansion	Net Cost	Tax Rate Equivalency
Chatham County Schools	Schools Current Expense Expansion	700,000	0.97
Chatham County Schools	Schools Teachers Salary Supplement Expansion	298,100	0.41
Community Development	Establish a Community Development Department	251,682	0.35
Council on Aging	Increased In-home Assistance for Seniors	83,502	0.12
County Manager's Office	Human Resources Software	0	0.00
County Manager's Office	*Management Analyst Position	38,133	0.05
Court-related Programs	Replace Grant Funding for Family Visitation Services	0	0.00
Economic Development	Implementation of the Chatham County Economic Development Strategic Plan	48,211	0.07
Economic Development	Strategic Plan Follow-up Studies	0	0.00
Emergency Management -- Telecommunications	New Repeated Channel for the Sheriff's Office	0	0.00
General Services	Pay Study Implementation	463,449	0.64
Governing Board	Comprehensive BOC Minutes Management & Webstream Access	5,300	0.01
Health -- Animal Control	Animal Control and Sheltering Software	11,500	0.02
Health -- Animal Control	Emergency Temporary Animal Shelter	0	0.00
Health -- Preparedness & Surveillance	Half-time Social Worker II--Community Alternative Program	-3,778	-0.01
Health -- Preventive Health Care	*Public Health Nurse II to Provide Limited Clinical Services in Pittsboro	37,342	0.05
Health -- Preventive Health Care	Increase Time of Public Health Nurse II for Family	30,358	0.04

Department	Approved Expansion	Net Cost	Tax Rate Equivalency
	Planning		
Library	Increase Time of Technology Support Position	26,593	0.04
Management Information Systems (MIS)	*Emergency System Specialist Position	30,022	0.04
Management Information Systems (MIS)	*MIS Administrative Support	25,821	0.04
Management Information Systems (MIS)	Service/transportation Van	2,000	0.00
Management Information Systems (MIS)	Storage Server	0	0.00
Management Information Systems (MIS)	Generator for Computer Systems	0	0.00
Management Information Systems (MIS)	Firewall Server	400	0.00
Pittsboro-Siler City Convention & Visitors Bureau	Enhanced Marketing Campaign	0	0.00
Planning	Geographic Positioning Unit (GPS) Unit	0	0.00
Recreation	*Increase Staff and Equipment for Maintenance of New Parks	28,300	0.04
Recreation	Greenways Master Plan	0	0.00
Sheriff's Office -- Law Enforcement	*Two Civil Officer Positions	64,273	0.09
Sheriff's Office -- Law Enforcement	*Narcotics Investigator Position	35,951	0.05
Sheriff's Office -- Law Enforcement	Replace Grant Funding for Gang Coordinator	14,893	0.02
Sheriff's Office -- Jail	Increased Detention Staff--Four Positions	152,832	0.21
Sheriff's Office -- Jail	Camera System for Detention and Courts	0	0.00
Sheriff's Office	Reduce expansion personnel (position not specified)	(32,000)	-0.04
Social Services	Executive Assistant/Personnel Technician Position	23,818	0.02
Tax -- Administration	Exemption Specialist	34,636	0.05
	Total	2,371,331	3.28

Criteria and Process: The recommended expansion budget is developed by a team, consisting of department heads, county manager, finance officer, and assistant county manager. The team used a scoring mechanism to rank all expansion requests received. Points were assigned based on whether the request met the following criteria adopted by the Board of Commissioners and listed in order of priority:

- Commissioner Goals
- Mandate

- Safety
- Operating Budget Impact
- Maintain Current Service Levels
- Efficiencies
- Consistency with Long-range Plans/Community Support & Impact
- Economic Impact
- Service/Access Improvement

- Service Additions
- Functional Area Ranking

Prioritization of Recommended Budget: Once all expansion projects were scored, the team met and prioritized expansion requests. Using funds available, the Manager followed this priority ranking, and additional information gathered from departments, to develop the recommended expansion budget. Details on these items are provided above. More detail is also available in the department budget.

Adoption by the Board of Commissioners: Following a rigorous review of all departments, Commissioners decide on whether expansion requests will be funded or not. In some cases, Commissioners may cut items the County Manager recommended. In other cases, Commissioners may decide to fund expansion requests that were not recommended. In FY 2009, Commissioners increased the amount of the supplement for teachers and classified personnel, reduced one of the new positions in the Sheriff's Office, delayed implementation of the pay study to October 1, reduced the budget for the new Community Development Department, and moved up the hiring date for the Executive Assistant in Social Services. Details on these items are provided above. More detail on all expansion requests is also available in the department budget.

Expansion Requests Not Funded: The following expansion requests were not funded:

- Council on Aging: Clerical support for Director
- County Manager's Office--Community Relations Division: Embracing Diversity, Eliminating Discrimination Workshop
- Elections Office: Assistant Deputy Director Position.

- Elections Office: Election Services Technician.
- Emergency Management--Telecommunications: Six Telecommunication Positions.
- Emergency Management—Telecommunications: Training Officer
- Environmental Resources: Environmental Resources Specialist. The recommended budget does include a contingency for new regulations currently under review by the Board of Commissioners. If needed, this Position can be funded from contingency.
- Health -- Animal Control: Air condition the dog kennel building.
- Health -- Animal Control: New animal transport unit for Animal Control trucks.
- Health -- Environmental: Environmental Health Specialist Position. This Position was requested to implement new well rules. Because of the uncertain economy and slowdown in building activity, the Manager's Office would propose not to fill this Position until need is demonstrated.
- Health -- Family Outreach and Support Services: Public Health Processing Assistant IV Position.
- Health -- Preparedness & Surveillance: A bilingual Health Check Coordinator/ Processing Assistant V Position.
- Health -- Preventive Health Care: Increase Administrative Assistant I from 75% to 100%.
- Sheriff's Office -- Law Enforcement: Two School Resource Officers Positions.
- Sheriff's Office -- Law Enforcement: Sex Offender/Community Service Deputy Position.
- Social Services: 75% Social Worker III—Foster Home Recruiter Position.

- Social Services: Children Protective Services Clinical Social Worker Position.
- Social Services: Increase Half-time Receptionist to Full Time.
- Social Services: Prevention Social Worker III Position.
- Social Services: Adult Services Social Worker III Position.

- Soil & Water: Replace grant funding for Part-time Clerical Position.
- Tax -- Land Records: Land Records Specialist Position. Again, because of the slowdown in the economy, the County Manager's Office would recommend a wait-and-see approach to whether this position will be necessary.
- Only partial funding was provided for Chatham County Schools' expansion request.

Capital Improvements Program (CIP):

During its budget summit, the Board of Commissioners adopted a five-year capital improvements program (CIP). For projects that are not debt financed, such as new schools, the operating budget must appropriate funds for the upcoming year. The approved budget includes funding for CIP projects as noted below. Projects are also highlighted in each department's budget.

- **Detention Facility Feasibility Study:** Hire a consultant to develop a building program (first step in design) for a new jail facility and develop preliminary cost estimates. Funding source: Fund balance. FY 2009 Cost: \$75,000.
- **GIS Software/Database for Economic Development:** Purchase of proprietary software developed by GIS Planning which gives detailed site and demographic data for available land and buildings in a specific geographic area. Funding source: Fund balance. FY 2009 Cost: \$54,000.
- **Library - Hardware and Software for an Automation System:** Purchase an automation system for Chatham County Public Libraries to operate independently from Alamance County. Funding sources: Grant from State Libraries, \$77,295 and fund balance, \$19,324. FY 2009 Cost: \$96,619.
- **Mobile Data Terminals Equipment and Software:** Purchase of software and equipment to equip deputies and

potentially other emergency responders with mobile data terminals (MDTs) and automatic vehicle locators (AVLs). These devices will allow computer-aided dispatch (CAD) data to be shared directly with emergency responders and allow the closest vehicle to be dispatched to emergencies. The project will be tested in the Sheriff's Office and phased in over two years. Funding source: 911 funds. FY 2009 Cost: \$127,345.

- **Parks Capital Reserve:** Establish a capital reserve to fund future facilities on park land, including new northeast and northwest park properties. These funds will be used to match other grants. Funding source: Increase in the property tax. FY 2009 Cost: \$522,266.
- **Replacement of Emergency Communications Equipment:** Replacement of Chatham County's communications equipment to comply with the Federal Communications Commission's (FCC) mandate that all equipment be capable of operating at 12.5 KHZ or less.

Funding source: 911 Funds. FY 2009 Cost (for planning only): \$72,100.

- **Schools - Asbestos Floor Tile Replacement:** Over a four-year period, provide abatement and replacement of 60,375 square feet of asbestos floor tile in five schools: Chatham Central High School, Pittsboro Elementary School, Moncure, Paul Braxton, and SAGE Academy. Work will include design, asbestos removal, air monitoring and repair. Funding source: Fund balance. FY 2009 Cost: \$130,000.
- **Schools - Bleacher Replacements:** Over a five-year period, remove unsafe bleachers at 11 schools and replace with aluminum bleachers that meet current safety codes. Funding source: Fund balance. FY 2009 Cost: \$125,000.
- **Schools - Camera Systems for Schools:** Over a three-year period, provide IP camera systems for all schools in the county. Funding source: Fund balance. FY 2009 Cost: \$274,566.
- **Schools - Expansion of North Chatham Cafeteria:** Expand the cafeteria at North Chatham to accommodate an additional 100 students. Funding source: Fund balance. FY 2009 Cost: \$434,000
- **Schools - Renovate High School Science Labs:** Renovate the science labs in all three high schools, including

plumbing, cabinetry, etc. Funding source: Fund balance. FY 2009 Cost: \$152,400.

- **Schools - Renovate Restrooms and Add Hot Water:** Renovate student restrooms and add hot water to schools across the district. Schools having the least hot water availability will be prioritized ahead of other schools. Work would include replacing partitions, fixtures, and faucets; selective floor replacement; surface-mounted hot water piping; replacing drop ceilings; and selective lighting improvements. Funding source: Fund balance. FY 2009 Cost: \$209,000.
- **Schools - Renovate Wastewater System at JS Waters:** Renovate the wastewater and sand filter system at JS Waters. Funding source: Fund Balance. FY 2009 Cost: \$25,000.
- **Waste Management - New Northeast Collection Center:** Accumulate funds in capital reserve over the next five years to build a new, state-of-the-art collection center in the northeast quadrant of the County to accommodate the increasing population in this area. Funding source: \$10 increase in Solid Waste Fee for Collection Centers. FY 2009 Cost: \$164,120.

Administrative Priorities:

Continuing last year's theme of "Making a Difference through Public Service," the County Manager identified four organizational priorities for the FY 2009 budget as follows:

- **Service to Customers and Residents:** Improving our ability to effectively and efficiently meet the needs of customers and residents through departmental goals linked to individual pay-for-performance agreements.

- **Employee Development and Retention:** Providing opportunities to develop employees professionally and personally, including promoting employee and family wellness and implementing strategies to retain good employees.
- **Resource Stewardship:** Ensuring wise use of county funds, including maintaining our current assets and

pursuing options to leverage other resources through partnerships and grants.

- **Vital Communications:** Sharing critical information within and across departments and seeking opportunities to inform and positively engage the public.

Departments were asked to include strategies for meeting these priorities in their departmental work plans. Further,

department leaders were asked to ensure that individual work plans, completed by every county employee, tied back to departmental goals and administrative priorities. Department work plans include department goals, strategies for meeting the goals (objectives) and key measures of performance for each goal.

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 rose by just 2.1 percent, which is less than the increase in the Consumer Price Index (CPI) of 4.1 percent (change from December 2006 to December 2007). Reasons for this increase are as follows:

- **Salaries:** Continuation salaries increased by 4.4 percent. However, that increase includes several positions funded only partially in FY 2008 and the addition of two grant-funded positions in Social Services. When continuation salaries are adjusted for this, the overall increase in salaries is 3.4 percent, again, well below the CPI. The continuation budget assumes that two percent of the pay increase will be

paid from continuation revenues. The remainder of the pay increase is funded from the “Personnel Savings Fund.” This fund captures lapsed salaries and is used for pay raises. A transfer of \$380,700 funds the additional amount required for salaries and benefits.

- **Other Personnel Costs/Benefits:** Overall, this category increased 5.4 percent because of a 10 percent increase in health and dental insurance premiums.
- **Operating:** Operating expenses increased 3.6 percent. The table below shows the major increases in the continuation operating budget. The contingency for enforcement of new land use regulations is being set aside to hire staff, consultants, etc. to implement the new regulations currently under review by Commissioners and citizen committees.

Major Operating Increases:	FY 08 Budget	FY 08 Estimated	FY 09 Approved	Variance	% Increase
Chatham County Schools	17,691,169	17,691,169	18,691,169	1,000,000	6%
First Health contract for EMS	1,717,464	1,717,464	1,896,638	179,174	10%
Contract appraisals for revaluation	50,000	150,000	190,000	140,000	280%

Major Operating Increases:	FY 08 Budget	FY 08 Estimated	FY 09 Approved	Variance	% Increase
Buildings Maintenance	189,965	191,000	320,000	130,035	68%
Electricity	230,455	270,681	353,520	123,065	53%
Gasoline	174,500	224,000	295,000	120,500	69%
Rent	238,551	235,256	334,396	95,845	40%
New Regulations Enforcement Contingency	0	0	75,000	75,000	100%

- **Debt:** The County's debt service obligations are increasing by 2.5%. The increase is a result of increased principal payments for certificates of participation (COPs) issued for the Social Services addition, Central Carolina Business Campus, and Virginia Cross Elementary School. Debt service will continue to rise as the County borrows funds for additional capital needs.

- **Transfers:** Continuation transfers to capital reserves in the General Fund will decrease by 9.9 percent..
- **Capital Outlay:** Expenditures for replacement capital outlay are increasing 34.6 percent.

Non-Profit Allocations

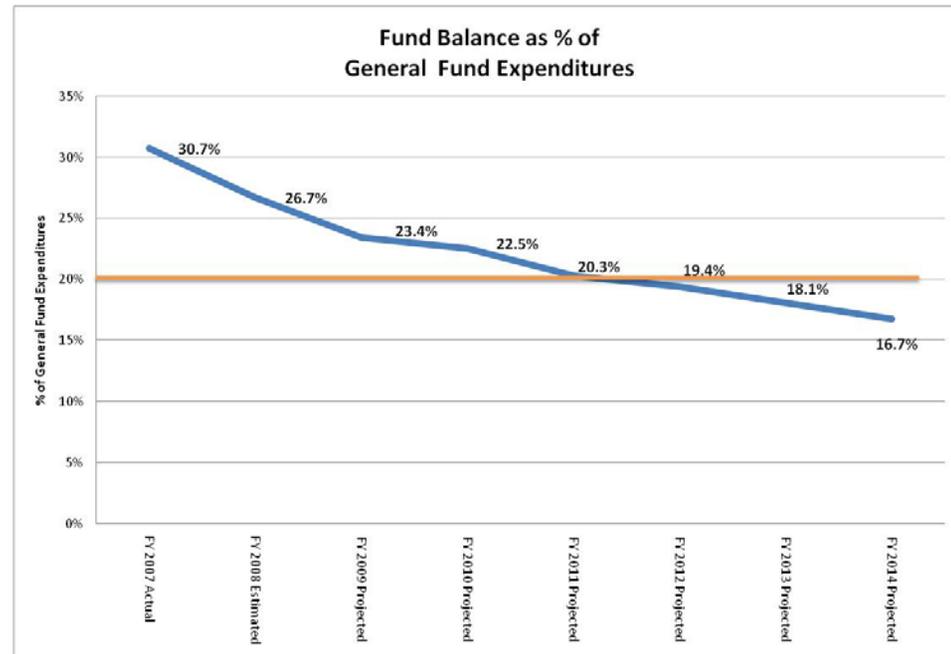
Historically, Chatham County has funded county non-profits that provide important services to our citizens. Commissioners voted last year to devote one-half of one cent on the tax rate to non-profit agencies, which is equivalent to \$361,000. In addition, county commissioners allocated an additional \$20,000 last year, which the manager has set aside for commissioners to allocate in FY 2009. Finally, the Family Resource Center (FRC) has historically received \$7,000 from the county outside the nonprofit allocations process. This year, FRC was required to submit a nonprofit application. Its historic funding was added to the nonprofit funds, for a total of \$388,000 to allocate. However, the county received requests totaling \$158,929 above this amount.

Agencies are able to use the same application to apply jointly to United Way and Chatham County. The Board of Commissioners set funding priorities 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. Finally, the Board of Commissioners approved funding, which is explained more fully in the Human Services Agencies budget.

Long-term Goals:

Long-term goals include those adopted by the Board of Commissioners in its Financial Policy and goals used by the County Manager to develop the recommended budget.

- Planning for capital projects and diversifying the sources from which these projects are financed, so that capital reserves and operating revenue balance reliance on debt. The recommended budget attempts to reduce reliance on debt by funding increased transfers to capital reserves.
- Meeting or exceeding revenue projections. In general, revenues are budgeted conservatively, in the hopes that projections will be exceeded. Additional revenues beyond projections increase the County's ability to provide services and add to the fund balance.
- Maintaining or enhancing the County's AA-/A+ 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.
- 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.



- Maximizing investment opportunities. Through the Board of Commissioners, the County has adopted a cash management plan (within the adopted Financial Policy) for the receipt, deposit, and disbursement of funds designed to maximize investment opportunities.
- Fund balance. The stated goal of the Board of Commissioners (according to the adopted Financial Policy) is to reach and maintain a General Fund fund balance of 20 percent. 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. As of June 30, 2009, staff estimates our fund balance will be at 23.4 percent of FY 2010 budgeted expenditures, above the level established by the Board of Commissioners. The table below shows the change in fund

balance since FY 2007 and the projected fund balance for the next five years. If the model proves to be correct, the county will need to reduce reliance on appropriated fund balance to maintain its 20-percent goal.

	FY 2007 Actual	FY 2008 Estimated	FY 2009 Projected	FY 2010 Projected	FY 2011 Projected	FY 2012 Projected	FY 2013 Projected	FY 2014 Projected
Budgeted Revenues	64,062,276	68,500,222	73,864,010	77,557,211	81,435,071	85,506,825	89,782,166	94,271,274
Budgeted Expenditures	66,087,465	70,989,858	76,304,136	85,454,007	90,310,150	99,234,027	103,204,944	109,798,672
Transfers Out		6,854,010	6,178,133	6,487,040	6,811,392	7,151,961	7,509,559	8,601,137
Projected Revenues	69,357,487	73,321,196	76,818,570	80,659,499	84,692,474	88,927,098	93,373,452	98,042,125
Projected Expenditures	61,967,412	71,267,231	72,760,639	81,733,334	86,403,444	95,131,985	98,897,801	105,276,172
Revenues over Expenditures	7,390,075	2,053,965	4,057,932	(1,073,835)	(1,710,970)	(6,204,888)	(5,524,348)	(7,234,047)
Transfers/Other Financing Sources/Uses	(9,560,927)	(3,518,429)	(2,906,046)	1,401,037	1,456,042	6,049,420	5,473,106	6,575,925
Fund Balance Beginning of Year	23,999,935	21,829,083	20,364,619	21,516,505	21,843,707	21,588,779	21,433,311	21,382,069
Increase in Fund Balance	(2,170,852)	(1,464,464)	1,151,886	327,202	(254,928)	(155,467)	(51,242)	(658,122)
Fund Balance End of Year	21,829,083	20,364,619	21,516,505	21,843,707	21,588,779	21,433,311	21,382,069	20,723,948
Revenue Variance	5,295,211	4,820,974	2,954,560	3,102,288	3,257,403	3,420,273	3,591,287	3,770,851
Expenditure Variance	(3,162,477)	277,373	(3,543,497)	(3,720,672)	(3,906,706)	(4,102,041)	(4,307,143)	(4,522,500)
Revenue % over Budget	108.27%	107.04%	104.00%	104.00%	104.00%	104.00%	104.00%	104.00%
Expenditure % of Budget	95.14%	100.39%	95.36%	95.65%	95.67%	95.87%	95.83%	95.88%
Fund Balance as % of Expenditures	30.75%	26.69%	23.40%	22.49%	20.29%	19.36%	18.06%	16.73%

The table below shows the amount of fund balance available for appropriation in FY 2009 for Water and Waste Management:

	Utility Fund	Waste Management
Cash and Investments	\$3,638,898	\$2,175,568
Less:		
Liabilities	209,497	92,309
Deferred revenues arising from cash receipts	0	0
Fund balance available for appropriation	3,429,401	2,083,259

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