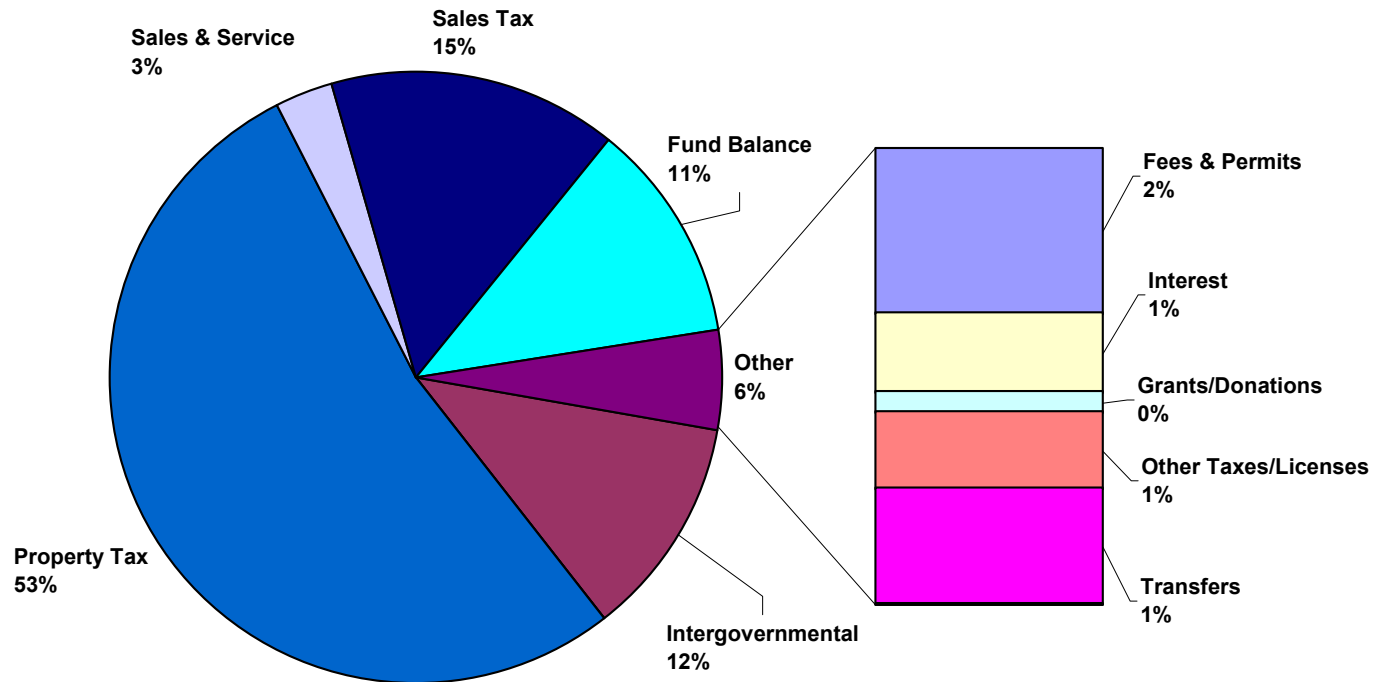


Revenue Assumptions

General Fund Revenue by Source:



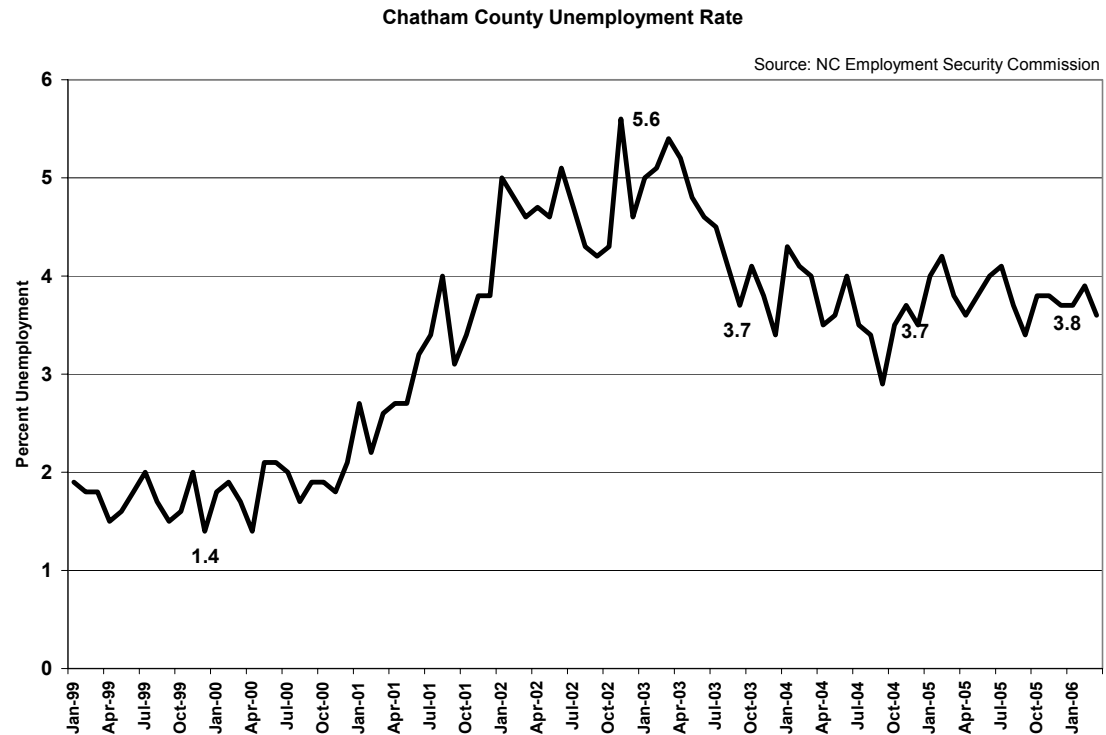
The graph shows total County revenues by type for the General Fund. As the graph demonstrates, the majority of the County's revenue comes from property tax. Other significant sources include the local option sales tax and restricted intergovernmental (state and federal).

Major Revenue Highlights:

- No property tax increase. The Moncure Fire District tax rate is increasing from 8.0 to 8.5 cents.
- Water rates are increasing to fund future water debt.
- Environmental health fees have been adjusted to better reflect actual costs.
- Appropriated fund balance is earmarked for one-time items.

Economic Assumptions:

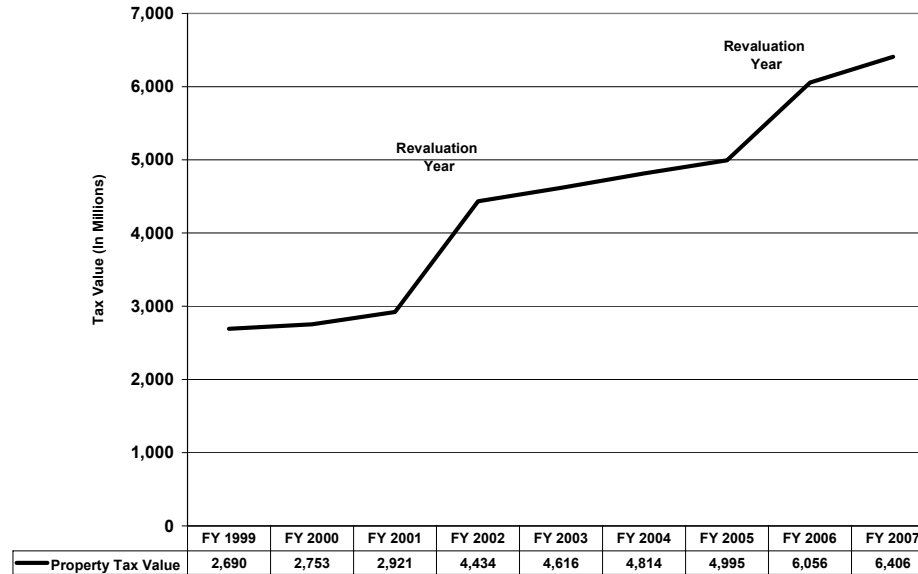
Estimating revenues accurately is always challenging. The recent economy makes this process even more difficult. The state economy is performing better than expected in FY 2006. Fiscal analysts predict a state budget surplus in FY 2006. While the economy as a whole and job growth have improved, higher energy prices and rising interest rates are expected to have an adverse effect on the FY 2007 economy. State fiscal analysts have lowered their earlier prediction of a 5.2 percent revenue growth to four percent. Locally, we continue to experience economic conditions that are better than the nation and state, though recent lay-offs in the western part of the county create difficulty in forecasting local conditions. Economists predict further job loss in the manufacturing sector. Job gains are expected in services and “knowledge” industries. For comparison, the state’s jobless rate in March 2006 was 4.5 percent; Chatham County’s jobless rate was 3.6 percent. The County’s jobless rate has improved, as the graph below shows. It is still well above levels in the late 1990s before the recent recession.



Property Taxes:

The property tax rate (59.7 cents) remains unchanged. Real property values are estimated to grow 6.5 percent. Overall, the tax base is expected to grow 5.8 percent, exceeding the average annual growth rate of 4.1 percent since 1999 (excluding revaluation years). As a result, current year property taxes are expected to grow by \$2.27 million (6.5 percent) over FY 2006 budgeted amounts.

Chatham County Tax Base



Analysis of Revenue Neutral:

Last year, when staff recommended a revenue neutral tax rate, we attempted to set this rate as close as possible to a rate that would produce the same revenue had revaluation not occurred. Staff actually over projected real/personal/utility values by .25 percent, when discoveries and rollbacks are excluded. Motor vehicle values have not been finalized, so an overall analysis is not yet possible.

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:

District	FY 06 Rate	FY 07 Rate
<i>Fire Districts</i>		
Bells Annex	6.00	6.00
Bennett	7.00	7.00
Bonlee	6.00	6.00
Central Chatham (Siler City)	6.00	6.00
Circle City (Pittsboro)	7.50	7.50
Goldston	7.00	7.00
Hope (Silk Hope)	7.00	7.00
Moncure	8.00	8.50
North Chatham	6.00	6.00
Parkwood	10.00	10.00
Staley	10.00	10.00
West Sanford	9.50	9.50

Local Option Sales Tax:

The four parts of sales tax are:

- Article 39: One cent on every dollar. Comes back to the county directly.
- 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.
- 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.
- Article 44: One-half cent on every dollar. One-half comes back to the county directly. One-half goes into a statewide pot and is distributed back based on population.

Recent changes in how sales tax receipts are distributed back to cities and counties and the continuous 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, staff underestimated the amount of sales tax we will collect in FY 06. We will likely exceed our budgeted numbers by 6 percent. These estimates are based on information provided by the North Carolina League of Municipalities (NCLM), which suggests that the second half of FY 2006 will exceed FY 2005 receipts by five percent.

In addition, we are estimating that sales tax revenues will increase by approximately four percent for FY 07. These estimates are based on information provided by NCLM and the North Carolina Association of County Commissioners (NCACC), who suggest budgeting an increase of between 4 and 5 percent for the parts of the sales tax distributed based on population.

Because of the inclusion of all food sales tax in Article 39 for the past two years, it is difficult to analyze how this portion of the sales tax is performing relative to the population-distributed sales tax. Because of the opening of additional retail centers, including Lowe’s Home Improvement, Ace Hardware, and Harris Teeter, staff is estimating this part of the sales tax will grow at the same level as the parts distributed based on population.

Intergovernmental Revenues:

Intergovernmental revenues are those that the state and federal government “share” with counties. Intergovernmental revenues are expected to increase by 13 percent overall, due in large part to additional sources of revenue for school capital needs. This source had historically been declining as a portion of total revenue, because of the state’s elimination of intangibles, inventory tax, and SCE reimbursements.

- **Social Services Reimbursements:** All federal and state reimbursements are based on estimates provided by the NC Department of Health and Human Services. These reimbursements are linked directly to expenditures in Social Services. This revenue source is expected to increase by 6.4 percent.
- **ADM Funds:** After withholding these funds from counties in FY 2005, the Governor has pledged support for future ADM funding. In FY 2006, proceeds are up because of increased revenue from the corporate income tax. As a result, we expect to collect over 300 percent more than we budgeted (\$170,483). Because economic conditions are not expected to be as robust as next year, staff is recommending a more conservative figure for next year: \$438,000.
- **Lottery Proceeds:** Based on recent information released by the Department of Public Instruction, it appears that Chatham County’s effective tax rate now slightly exceeds the state average, making us eligible for additional lottery proceeds. In addition, analysts’ predictions for lottery proceeds are currently on track. The state is estimating that Chatham County will receive \$1,104,243 in FY 2007 from lottery proceeds. After reviewing the Board of Education’s request for capital projects, county staff contacted DPI to find out which of these projects would be eligible for lottery funds. Eligible projects total \$712,250, the amount staff is estimating for the FY 2007 budget. Additional receipts would be used to offset the expense of school construction, thereby reducing future debt service. Because of the uncertainty associated with this revenue source, this funding is contingent upon receipt of revenue or official notification.

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. This revenue source is expected to grow by 13.2 percent in the General Fund, 31 percent in the Water Fund, and 1.2 percent in the Waste Management Fund.

- **Water Rates:** The budget includes an increase in water and sewer rates to fund future water debt, which is expected to generate an increase of \$585,228 in revenue. The rate increases for water and sewer are as follows:

	Usage	Rate
Residential (single family dwelling unit)		
Block 1 (per 1000 gallons)	(0 to 5000) gallons	\$7.00 per 1000 gallons
Block 2 (per 1000 gallons)	(5001 to 8000) gallons	\$8.50 per 1000 gallons
Block 3 (per 1000 gallons)	(over 8000) gallons	\$10.00 per 1000 gallons

	Usage	Rate
Multi-Unit Residential Complexes (apartments, condominiums, etc)		
Block 1 (0 to # of units x 5000) gallons	(0 to 5000) gallons	\$7.00 per 1000 gallons
Block 2 (# of units x 5000 to # of units x 8000) gal	(5001 to 8000) gallons	\$8.50 per 1000 gallons
Block 3 (# of units x over 8000) gallons	(over 8000) gallons	\$10.00 per 1000 gallons
Non-Residential-Commercial (convenience store, office water use)		
0 gallons and over		Delete; now residential rate

Water Fees and Charges:

Fee Description	Fee/Charge
Water Deposit--Rental	\$80
Meter Installation Fee	\$200
Hydrant Meter Use Fee	\$50 fee plus \$10 daily
Hydrant Fee (refundable)	\$1,000
Reconnect Fee after hours	Abolish fee. Service no longer available
Theft/Tampering/Vandalism (actual cost)	\$500 minimum
Inspection Fee	\$45 per hour
Design/Plan Review	\$60 per hour
Consulting Engineer (Design Review)	\$120.00 per hour
Consulting Engineer - Inspector	\$55 per hour
Meter Test	\$35
Chatham County Specifications Book	\$20

Water Connection Charges:

Meter Size	Availability Fee	Tap Fee
3/4 inch	\$ 3,500 per unit	\$1,000
1 inch	\$ 7,000 per connection	Actual Cost
1 1/2 inch	\$ 10,000 per connection	Actual Cost
2-inch	\$ 16,000 per connection	Actual Cost
3-inch	\$ 30,000 per connection	Actual Cost
4-inch	\$ 40,000 per connection	Actual Cost
6-inch	\$120,000 per connection	Actual Cost

Multi-unit residential, commercial and industrial availability fee: Multi-unit residential, commercial, and industrial users served through one meter will be charged an availability fee based on a per unit charge or the connection charge for the bulk meter, whichever is greater.

Sewer Rates:

	Usage	Rate
Block 1	(0 to 5000) gallons	\$ 7.00 per 1,000 gallons
Block 2	(5001 to 8000) gallons	\$ 8.50 per 1,000 gallons
Block 3	(over 8000) gallons	\$10.00 per 1,000 gallons

- **Solid Waste Fees:** Solid Waste fee revenues are determined by the number of households in the unincorporated area of the County and the level of the fee. The Manager is not recommending an increase in the disposal fee or the availability fee for FY 07. Revenues are expected to increase by 1.2 percent, based on an increase in the number of households.
- **Environmental Health Fees:** Overall, Environmental Health fees are expected to increase by 7.9 percent. The budget makes the following changes in environmental health fees to better reflect actual costs associated with performing services. Because the adjustments are minor, no additional revenue has been budgeted.

	FY 2006 Fee	FY 2007 Fee
On Site Wastewater Program Services		
Site Evaluation-Residential		
2 bedroom	\$120	\$130
3 bedroom	\$180	\$200
4 bedroom	\$250	\$275
5 bedroom	\$300	\$330
6 + bedroom	\$360	\$400
Expansion (1-2) bedroom	\$120	\$130
Site Evaluation Non-residential		
<601 GPD	\$300	\$330
1001-3000 GPD	\$450	\$500
>10,000 GPD	\$715	\$785
Construction Authorization		
System Type II	\$160	\$180
System Type III	\$215	\$235+\$150/1000 GPD over 3,000 GPD
System Type IV	\$255	\$ 280+\$150/1000 GPD over 3,000 GPD
System Type V	\$280	\$ 450+\$150/1000 GPD over 3,000 GPD
System Type VI	\$320	\$1000+\$150/1000 GPD over 3,000 GPD

	FY 2006 Fee	FY 2007 Fee
Non-residential	Add \$200 to System Type	\$0
Industrial Process Wastewater	\$0	System Type Fee + \$500
Operation Permit Revision	\$120	\$130
Change on Existing Permit (Limited-no soils work)	\$120-\$360	\$100
Change on Existing Permit(Comprehensive-soils work)	\$120-\$360	\$130-\$400 (Full Site Evaluation Fee)
OSWW System Monitoring		
Type III(b)	\$25/year	\$25/year or \$110/5 years
Type IV	\$50/year	\$50/year or \$135/3 years
Well & Water Analysis Services		
Wells		
Permit (includes 1 bacteria and 1 inorganic analyses)	\$200	\$225
Tattoo Studio		
Permit	\$125	\$150

- **Soil Erosion and Sedimentation Control Fees:** Overall, Soil Erosion and Sedimentation Fees are projected to increase by 176 percent over the FY 2006 budget. This is primarily due to the program only being in place since January 1, 2006. The budget abolishes the Plan Renew Fee of \$500. The current ordinance does not support this fee. In addition, upon expiration of plan approval and land disturbing permit, a new plan review and new land disturbing permit is required. Because this is the first year of the program, we have not collected any revenues from the Plan Renew Fee; therefore, there will be no effect on revenue from this action.
- **Planning Fees:** Because of fluctuations in Planning Fees, no increase is budgeted for FY 2007. The budget includes a new fee of \$500 for changing a major subdivision name. The charge will apply each time the developer changes the name of a major subdivision, which creates work for all permitting departments. Because this is a new fee without any history, no revenue is projected for FY 2007. In addition, the budget increases the penalty for Junk Yard Ordinance violations. Currently, penalties are \$50 for most land use violations, but only \$25 for Junk Yard Ordinance violations. This makes the penalties uniform. Finally, the budget increases the penalty for repeat violations of all ordinances from: \$50 to \$100 (first violation); \$100 to \$200 (second violation); and \$200 to \$500 (third violation). This change is expected to decrease repeat violations. No revenue will be generated, since penalties are sent to the Chatham County School system.
- **Recreation Fees:** Registration fees are being increased from \$15 to \$20. These fees have not been increased in several years.

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 and revenue stamps, are set by state law. Most other fees are established locally and can be set at various levels. Overall, this source of revenue is expected to increase by 9.9 percent, largely driven by residential growth.

- **Register of Deeds fees:** Recording fees are charged when legal documents, such as deeds, plats, and marriage licenses, are recorded. Because it appears we will just meet our projection for FY 2006, no increase is projected for FY 2007.
- **Building Inspection fees:** The major source of revenue in this category is building inspection fees. The 14.3 percent increase over the FY 06 budget is based on estimated receipts for FY 06 and a general increase in building activity in the county.

Other Taxes and Licenses:

Other Taxes and Licenses represent locally collected taxes, other than the property tax.

- **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 high rate of growth, revenue stamp receipts have grown consistently over the past several years. Therefore, we are estimating a 12.5 percent increase over the FY 06 budget.
- **Occupancy Tax:** As a practical matter, occupancy tax revenues are set equal to the expenses for the Travel and Tourism Department. Any deficit is subtracted from the occupancy tax reserve; as any excess contributes to the reserve. At the end of FY 06, the reserve is estimated to be approximately \$180,681.

Transfers:

Transfers as revenues generally occur from special revenue funds to the operating funds for one-time expenditures. Overall, this revenue source is expected to increase by 21.2 percent in the General Fund, because of a 65.3 percent increase in transfers from the equipment capital reserve.

- **Personnel Savings Account:** The budget transfers \$341,232 from the “Personnel Savings Account.” These funds will be used to pay for salary increases and benefits for 1.8 percent of the total 3.8 percent increase. The reserve was set up to accumulate lapsed salaries during the year to fund the county’s pay-for-performance pay 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 transfers a total of \$582,751 from this fund.
- **Waste Management Equipment Reserve:** Funds are accumulated in the Waste Management equipment reserve to replace capital outlay. The budget transfers \$111,000 to pay for a replacement vehicle for the collection center maintenance worker, stationary compactors for three collection centers, and three receiver tanks for compactors/pre-crushers.

Fund Balance:

Fund balance is typically used as “revenue” to balance the budget. No fund balance is recommended for appropriation in the Water Fund. The use of fund balance in the General Fund is tied to one-time or capital expenditures, as shown in the table below:

Water Capital Reserve	\$500,000
Electronic Document Management System (EDMS)/Imaging	\$100,000
Dunlap Renovations	\$955,505
Sheriff and Jail RMS Software	\$90,570

Siler City Health Phone System	\$60,000
School Capital Outlay	\$1,585,300
Transfer to Water Capital Reserve	\$5,000,000
Total	\$8,291,375

An allocation of \$77,545 from fund balance is required for the Waste Management Fund to cover operating expenses. For the last two years, the waste management fund has operated at a surplus. Staff will monitor the use of fund balance closely. A change in fee structure may be necessary to avoid future deficits, but no change is proposed for FY 2007.