



DURHAM COUNTY GOVERNMENT

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County Manager

County Manager's Remarks Relative to the Fiscal Year 2011 Recommended Budget May 24, 2010

Thank you, Mr. Chairman. Good evening Commissioners, Mr. County Attorney, Madame Clerk, members of my staff, county department heads, employees, members of the public who are here tonight and others of you who are joining us by television.

North Carolina law requires that the County Manager present a recommended budget to the Board of Commissioners before June 1. Before I begin, let me say that this budget has been the most difficult budget season with which I have been involved in the 32 years that I have served as a manager. Two weeks ago, Interim Superintendent Hank Hurd and I were lamenting over the sleepless nights we have had over the last few months. Indeed, the decisions that I have had to make have been very difficult ones and I have found myself up at 4:30 many mornings over the last couple of months thinking about the recommendations I am putting forward tonight.

Having said this, I have actually been encouraged by the public outcry over state reductions to school funding. Just Friday, I watched from my perch on the second floor of this building hundreds of citizens in front of the courthouse asking that we help them save 237 teaching positions that state reductions have forced on our school system. I saw a diverse group of parents, teachers and students chanting their support for additional county funding.

We all know how vocal Durham can be. I am one who is grateful for a community that is willing to take a stand. It may be a little uncomfortable from time to time, but it is what democracy should be. The students who have been involved, from high school students in the Umbrella Coalition with whom I have personally met to kindergartners I saw with the parents during the two demonstrations in front of the building, have learned more about local government this year than they would ever learn in a civics class. This part of the journey has been a warming experience and speaks volumes about the Durham that we have come to appreciate.

The road leading to an adopted budget has many turns and many unknowns. Tonight is only one of many milestones in the journey leading to an adopted budget.

The journey began last November when we kicked off the budget season with an early retreat. We reviewed the current year and alerted you that the holiday season would serve as a major determinant as to whether sales taxes, our second largest source of revenue were rebounding. We reviewed early budget forecasts with you and advised that we were not observing anything that would lead us to believe we could expect to aggressively increase our income for next year. Finally, we asked you to consider a plan for the administration to use in putting the Fiscal Year 2011 budget together.

After private briefings with you in December, you reached consensus on a seven-point plan:

1. Recommended county-wide property tax rate shall not exceed \$73.81 cents (3 cents increase for debt only).
2. Appropriated Fund Balance shall not create a remaining unreserved balance percentage of less than 15%.
3. No funding reductions shall be recommended that would reduce required maintenance of effort and threaten reductions of federal or state funding.
4. Funding recommendations for outside organizations shall not exceed average level of reduction for county departments.
5. Consider consolidation and reorganizations of county services to reduce costs or increase efficiency.
6. No new services or increases to existing service levels.
7. Follow established policies if furloughs, layoffs or reductions in force is necessary.

In January, the administration published budget instructions consistent with this plan. County departments and agencies began putting their requests together. Because of the early warning signs we were seeing with both property and sales tax collections, I asked all departments and agencies to submit requests that included targeted reductions of 3%. In every case, however, I asked them to outline how the reduction would affect county services – realizing that the level of reduction may be one that is simply not tolerable. Nonprofit agencies were invited to submit applications for funding and a mandatory pre-application meeting was held to ensure familiarity with the web-based application process.

The Board held its second budget retreat in February and heard reports from two important groups in Raleigh that develop reliable information for budget makers to use. Kevin Leonard of the North Carolina Association of County Commissioners confirmed what we all had been hearing – state reductions for public schools would likely be massive when the state budget is adopted. Dr. Barry Boardman, an economist with the Fiscal Research Division of the General Assembly, warned us that the economy would likely not fully rebound for years, perhaps as late as 2014; and even then, “normal” would not be the “normal” we enjoyed in 2008 before this recession was in full tilt. Kim Simpson, Tax Administrator and Pam Meyer, Budget Director, also warned that our local

property tax and sales tax collection numbers were not encouraging. The Budget Director forecasted a budget deficit for the next fiscal year of \$10.8 million.

Nonprofit applications that were submitted confirmed what we all knew. They are struggling. Forty-Five applications requesting \$1,739,914 in county funding were received at the end of February.

County departments and agencies, except for the school system, submitted their requests in March and our team of budget analysts and managers began the process of reviewing these requests and gaining an understanding of the impacts of my requested three-percent reduction.

March was also the month during which the Board kicked off the public process of developing a county budget with three forums where the public was invited to express any concerns or suggestions that it would like to see Commissioners consider. Over 600 citizens attended one of the three forums held at the Little River Community Center, Holton Career and Resource Center and Jordan High School. Public concern, particularly for school funding, was constantly expressed. All of us were encouraged to visit our schools, and all of us have visited schools since these meetings were concluded. I have personally met with principals and toured five schools: Fayetteville Street Elementary, Little River Elementary, Githens Middle, Carrington Middle, and Riverside High. I met one evening with teachers from Little River Elementary who wanted to personally share their concerns with me. For all of us, our visits to our schools and the meeting with teachers and principals were fruitful and eye opening. I know they influenced my recommendations tonight and I want to thank all of you who worked to coordinate our visits.

April is typically a quiet month in the budget preparation process but nothing was quiet about April this year. Commissioners received hundreds of emails from citizens, teachers and students about school funding. The Umbrella Coalition, a group of parents, teachers and students from Hillside High School, held a demonstration in front of this building and met with Commissioners and me to personally express concerns about massive reductions to the local school budget and how it would impact schools.

In private meetings and telephone calls, I asked Board members to permit me to bring a budget proposal forward that included a tax rate increase for additional school funding. Four of you consented and the Administration began to finalize tonight's recommended budget. Before it was completed, we were able to review the Board of Education's request for over \$13 million additional dollars for school funding. These funds would be used to save the 237 teaching positions threatened by the massive reductions of state funding.

So here we are tonight, presenting the recommended budget. The Board begins its review tomorrow morning, not too surprisingly with the school board and school administration.

Review of the budget will continue in May and June. The Board has scheduled five meetings and will spend over 20 hours poring over the proposed budget. A public hearing will be held on June 14, the final public opportunity for citizens to weigh in, and on June 28th, a final budget will be adopted for the year beginning on July 1.

Before I discuss my recommendations, let me review some key budget drivers that helped to shape them.

- Unemployment continues to be high – 8.5% for February of this year.
- Home sales are rising but nowhere near 2007 levels and concern abounds now that the federal tax credit has ended.
- Residential building permit activity is still low but we are beginning to see some bounce.
- Bankruptcies continue to plague our local economy – 2,100 are projected by the end of this calendar year.
- Foreclosures continue to soar – 2501 through May 14- already a 204% increase over FY 2008.
- Local sales taxes are precipitously down and will not fully rebound for years.

These are sobering statistics and very much threaten our ability to fill gaps in funding created by state reductions, not to mention normal annual increases in operating costs - constants that must be accommodated from year to year.

As I begin to move through next year's recommended budget, there are seven core themes I used in reaching my decisions:

1. Ensure county revenue forecasts are realistic and based on present trends.
2. Protect services for those populations that are the most vulnerable.
3. Help Durham Public Schools save as many teaching positions as feasible.
4. Ensure that service reductions are minimal.
5. Protect the County's AAA bond rating.
6. Decrease appropriated fund balance to protect county reserves.
7. Use unreserved fund balance only for one-time, non-recurring expenditures.

Here's a quick glance, first at increases and additions:

- Next year's proposed General Fund budget, the fund that houses virtually all county services as well as appropriations for schools and other outside agencies, is \$339.2 million - a .68% increase over the present fiscal year.
- I have proposed a \$4.29 cents increase in the property tax rate from \$70.81 cents to 75.10 cents – a 6% percent increase, or \$85.80 more each year for an owner of a \$200,000 home.
- Eight new positions in the general fund have been recommended at a cost of \$340,035.

- I have recommended a 3.16% in current expense funding for Durham Public Schools - an \$80 increase in per pupil spending.
- \$4 million in lottery funds for school construction and school debt.
- Fee increases are proposed in the Sheriff's Office, Erosion Control, Fire Marshal, Public Health, Triangle Wastewater Treatment Plant, and Solid Waste Management.
- Health insurance costs have increased 18% - \$1.96 million more next fiscal year.
- The county's share for employee retirement has increased 31.8% - \$1.4 million more next fiscal year.
- Nineteen new and replacement vehicles for General Services, Sheriff and EMS – no new vehicles were purchased in the current year and our fleet cannot go another year without replacement.
- Increased operating costs for Southwest, which opened this morning, and South Library, which will open July have been included.

I should note that increases of \$1.96 million in health insurance, \$1.4 million for the county's contribution for employee retirement, the cost for additional vehicles, and additional costs to open and operate two new regional libraries were absorbed by reductions, and not by the proposed increase to the tax rate.

- Finally, nonprofit funding for 33 of the 45 applications received has been recommended totaling \$835,650.

There are some notable eliminations and reductions:

- 63.56 full-time equivalents have been recommended for elimination – 13 are filled.
- In light of the City Manager's decision to recommend the elimination of City support for the Warrant Control Program, county funding has also been eliminated - \$450,000. I am hopeful that some compromise can be reached for continued City/County participation as I do not believe the program should be terminated. However, the County cannot absorb the difference necessary to run the program. If not funded, the responsibility for warrant control will return to its statutory custodian, the Clerk of Court and I would expect the backlog of unserved warrants to grow rather than shrink as it has over the last 17 months since the service was launched. Seventeen county positions are presently funded.
- A 3% reduction for Durham Technical Community College.
- A 3% reduction for the Museum of Life and Science.
- No raises or benefit enhancements for county employees.
- Suspension of longevity payments for county employees.
- Libraries will close from 6 pm to 9pm on Wednesday evenings.
- Sale of the home health agency will create a \$500,000 savings.
- Departmental Budgets have been reduced by 1.63%.

- Nonprofit funding has been reduced by 4.07%.
- County dollars for the General Fund are down by \$25.2 million this year and next. We have done a lot of cutting in our own budget, too.
- Appropriated Fund Balanced is reduced by \$600,000 to \$6 million.
- A \$1 million reduction to Capital Outlay funding (non-lottery) for Durham Public Schools.

While I requested 3% reductions from county departments and agencies, I quickly realized that I could not accept all of them. It would have meant the elimination of some services and deep reductions for several services. It would also hurt populations who do not deserve to hurt any more than they are already hurting: citizens who are poor, sick, disabled, and homeless, along with our veterans. We define ourselves in how we serve those who are less fortunate than we. I take pride to work for a county that embraces that philosophy. I have asked the department heads who head departments that serve these populations and stand assured that the services we provide to those who are the most vulnerable in our county are preserved by this recommendation.

I do want to make two observations about my recommendations for two county departments – the Board of County Commissioners and County Administration – your budget and my budget. First, both budgets have been reduced far more than the average of 1.63%. I have recommended a reduction of 4.32% for your budget, one of the deepest on the list. And for the record, this Board has not asked for and never would vote a raise for itself in a year when county employees are not receiving raises. Secondly, I have taken a more than 4% reduction in my budget, too, and we receive no raises either. In both cases, I thought it was important for our budgets to serve as an example.

Let me focus on the General Fund budget in greater detail. While the budget for all funds is \$461.1 million, it's the General Fund that funds the vast majority of county services, including funding for schools, Durham Tech, the Museum of Life and Science and nonprofits. As mentioned earlier, General Fund spending for next year is capped at 339.3 million, a .68 increase over the FY 2010 General Fund Budget. Overall spending is down .32%.

Property taxes comprise 58% of all general fund revenue. Intergovernmental revenue, largely in the form of state appropriations and grants, comprise over 21% of all general fund revenue and sales taxes are just over 11½%. These three sources of income are the three greatest sources that drive our ability to fund budget requests.

In the late 1990's and early 2000's, the county's property tax base experienced robust growth. It was not unusual to see years where the county experienced 4 to 5 percent increases in its tax base. Those years are gone for now. In fact, our projection for next year's tax base is only projected to grow 1.31%. This percentage of growth coupled with sluggish sales tax collections and state reductions cannot accommodate the level of increases that have been requested for next year. For example, the Board of Education

request for current expense funding next year would require a \$4.53 cents increase in the property tax rate. With the expected increase in debt service, taxpayers would be asked to shoulder more than a 7 cents increase in the county property tax rate, which I do not believe is advisable and I did not recommend. This being said, every 1 cent increase in the property tax rate would generate over \$2.8 million in property taxes.

Interestingly, despite the 4.29 cents increase I have recommend in next year's property tax rate, projected property tax income will only increase by 2.14%; and sales tax collections for next year are down 4.13%. Seventy percent (70%) of all general fund revenue is derived from these two sources of income.

Other small sources of revenue are noted. Animal taxes, ABC revenue, Register of Deeds income, investment income, EMS transports, and solid waste fees are substantial, but pale in comparison to the \$236 million we receive from property and sales tax collection.

Already mentioned, the 4.29 cents tax rate for debt and schools will increase property tax bills by 6%:

- \$100,000 home: \$42.90
- \$150,000 home: \$64.35
- \$200,000 home: \$85.80

The Board also sets tax rates for county fire districts serving unincorporated Durham County. There are seven, two of which – Eno and New Hope are located mainly in Orange County. Tax rates for these two districts are set by the Orange County Board of Commissioners. New Hope is the only district requesting an increase.

Many citizens have and will encourage you to support my recommended tax rate increase. Some will ask you to raise taxes the entire amount necessary to fully fund the Board of Education's \$13 million request. We are a county of some wealth and it's true that many would not miss a few extra dollars to support schools. In fact, we rank 8th in North Carolina in per capita income. But there is another Durham out there that we have to consider. Many do not realize that while we rank 8th in per capita income, we rank 50th in poverty. For the poor increases in property taxes are hard to swallow and will influence the rents they pay, and the transportation and daycare costs they have to absorb to work the low-paying jobs they have.

Demographics have been taken into consideration when tax rate increases are proposed - 13.8 % of our residents live below the federal poverty line and 14.5% of our population is comprised of residents over the age of 60. These two groups are a significant number of residents in our county and struggle to accommodate tax rate increases of any amount.

I don't know who labeled the County's Fund Balance as a "rainy day fund" suggesting the money is just sitting there and could be used to fill any and all gaps created by deep state reductions. This is not possible, nor financially wise. First, we don't have \$92 million to spend. Actually this number is forecasted to drop to \$87.7 million at the end of this fiscal year. Almost \$30 million of this amount must be reserved by state law, or to pay bills for goods and services purchased before the end of this year but for which the bill will not be received until next fiscal year. This leaves \$57.9 in net unreserved, which comprises the 15% we retain to protect our bond rating.

Spending fund balance for recurring needs of that magnitude would more than raise the eyebrows on bond analysts. We would be immediately asked to submit a plan to recover this amount in a short period of time. In fact, our adopted financial policy requires a board-adopted plan any time our unreserved fund balance drops below 15%. There is no way we could develop a plan to replenish \$13 million in unreserved fund balance in this economy. Absent an approved plan, we would subject ourselves to losing a rating that would cost us dearly as we begin to finalize debt service for the Human Services Building, the new Courthouse, as well as school improvements presently under consideration by the Board of Education in its Long Range Facilities Plan which will be adopted this fall.

Finally, why fund a need for which there is no plan of record to see that it doesn't reappear next year? There is no such plan. For these reasons, this is not a road we should travel down.

Let me take the balance of my time to briefly explain some of my major recommendations.

I've already mentioned my recommendations for Durham Public Schools, Durham Tech the Museum of Life and Science, and county departments are taking an average reduction of 1.63% and I have proposed overall reductions of 4.07% from the current level of funding for the thirty-three nonprofit agencies.

General Fund expenditures for next year show that Education, Human Services and Public Safety comprise over 75 cents of every dollar proposed for spending.

Next year, school nurses and school social workers will be reduced from twelve-month employees to ten-month employees, saving \$224,591. These reductions were necessary due to reductions that the school system had to make to its contract with us for these employees and other reductions to state grants.

I have recommended the elimination of 58.78 FTE's. Substantial reductions in the Sheriff's Office are due to the elimination of the warrant control program, which presently has 17 assigned positions. Many of the public health positions slated for elimination are due to the sale of the home health agency.

Nine new positions are recommended:

- Three for General Services due to the completion of the public health portion of the Human Services Building and the completion of the Durham County Memorial Stadium.
- Five positions for Public Health – the restoration of an Assistant Health Director that was temporarily eliminated last year when our then Assistant Director was promoted to Health Director; and four positions to replace the termination of a laboratory contract which will enable us to serve our clients in our new facility more efficiently and at a lower cost.
- One new position in the Enterprise Fund for a pre-treatment laboratory technician at the Triangle Wastewater Treatment Plant.

Other important recommendations: Flat funding for Urban Ministries and the Ten Year Plan to End Homelessness. However, I am recommending termination of the present contract with Durham Affordable Housing Coalition. The AICPA audit of the Ten Year Plan effort indicates that it is time to step back and consider changes to the Ten Year Plan's efforts. In fact, the chairman of the Ten Year Plan committee has indicated that the committee will take next year to reconstitute itself and refocus its efforts. Meanwhile, the funding for next year can be used for any number of purposes – additional mental health services for the homeless, an investment that has already shown itself to be effective, or permanent supportive housing for the homeless while they are getting back on their feet.

I have also recommended the following appropriations:

- \$18,120 for the Durham Economic Resource Center – this is the last year of the three year commitment.
- \$554,063 for the Animal Protection Society.
- \$137,934 for the Greater Durham Chamber of Commerce to continue the outstanding work it has registered in helping to create new investment and jobs in our community
- \$52,380 for Downtown Durham – I think it goes without saying that our investment to Downtown Durham has provided a great return. Downtown Durham is vastly different from the Downtown Durham we remember ten years ago.

I have proposed \$835,650 for thirty-three nonprofit agencies, a 4.07 reduction from the current fiscal year. Reductions to existing agencies of between 5% and 15% were recommended based on the strength of the application and previous performance. Twelve agencies were not recommended for funding again based on the strength of the application and/or previous funding.

Next year's recommendation for current expense funding for Durham Public Schools represents an increase in per pupil spending of \$80 - \$2934 per pupil. When we add the annual cost for school-related debt service and school capital outlay, the per pupil increase for next year is \$3,650, an increase of \$116.

My recommended budget for Durham Public Schools will save 111 teaching positions. I have recommended the transfer of \$1 million from the capital outlay appropriation to current expense to assist with this need. 1.79 cents of the 4.29 cents increase in the tax rate provides the balance of funds needed, \$5,148,756 to save the 111 teaching positions. Consequently, the total increase proposed for current expense is \$6,148,756.

My tour of the five schools validated the need for technology upgrades. Fayetteville Street Elementary School, for example, had no computers in its computer lab, and most of the systems in the classrooms that were being used were grossly outdated. Next year, the county will surplus 878 desktop systems and 55 laptops. I have offered Mr. Hurd as many of these systems as DPS has the resources to take and ready for classroom use. These are usable systems that are commonly configured and can quickly be converted for use by DPS. There is no reason for a classroom teacher to complain next year about outdated technology, some of which doesn't work at all.

Before I leave school funding, I want to share three more panels with you. Notice that next year's annual debt service is \$43.2 million. The schools portion of this debt, which is not part of what we give them for current expense and capital outlay, is \$23.7 million, 8 cents of property taxes. In fact, when you add what we spend for school debt to annual funding along with \$2.6 million in other county funds for school health nurses, nutritionists and school resource officers, over 60% of every tax dollar we receive is used for Durham Public Schools. In other words, 36.22 cents of the 75.10 tax rate I have proposed shows up in the school budget. However, another 8.25 cents for debt and almost 1 cent for nurses, nutritionists and school resource officers are absorbed by the county.

Tomorrow you will discuss school funding with the school board. My recommendation for current expense represents an \$80 increase in per pupil funding. The Board of Education's request proposes a \$276 increase in per pupil spending for current expense. We cannot take the state's place and fund an increase of this magnitude.

School funding is a high priority in Durham County and has been for years. Notice the precipitous spike in per pupil funding over the last ten years. We also stack out very well when compared to what other managers from the six most populous counties across the state have recommended. County managers in New Hanover, Guilford and Wake have recommended flat funding. Mecklenburg and Forsyth county managers have recommended reductions of 6.25 and 3.7%, respectively. I am the only manager of the six most populous counties to have recommended additional funding for public schools.

Before I close, I have one final recommendation. The Joint City-County Committee, comprised of the Mayor, the Chairman of the Board of County Commissioners, three City Council members and two County Commissioners, have asked the city manager and me to look at merger opportunities. One of the guidelines that you gave me at the beginning of this budget season was to consider the consolidation and reorganization of county services to reduce costs and increase county efficiency. This budget reflects some of these changes and we are actively working with the City in the areas of fleet management and employee training. But we are only nibbling around the edges and overlooking the obvious. The real gains lie in the merger of law enforcement and fire service. Everyone is afraid to utter the “m” word when it comes to these two functions, but I am convinced that the savings at stake are significant. How we do it, who would lord over it, and which jurisdiction will control either function are what a study can determine to be the most practical. The issue is sticky but the times are extraordinary and extraordinary times demand extraordinary solutions. I hope you agree with me and will urge the Joint City-County Committee to explore the question at its September meeting.

The public hearing on the recommended budget will be held on Monday, June 14 at 7 pm. The Board is scheduled to adopt a final budget on Monday, June 28th. Five budget hearings are presently scheduled. Tomorrow’s first hearing begins at 9 am with the Board of Education. Other hearings are scheduled for May 26 from 9 am to 12 noon, June 14 from 2 pm to 6 pm, June 15 from 9 am to 5 p-m, and June 21 from 9 am to 12 noon. All of these meeting dates and times may not be required so consult the County Website, www.durhamcountync.gov for updates.

A copy of the proposed budget, tonight’s presentation and a transcript of my comments are already on the website. Copies of the budget document will be available tomorrow in the Office of the Clerk to the Board, adjacent to this room, the County Manager’s Office on this floor, or the Budget Office, located on the 4th floor of this building.

We have a great staff and they have worked so hard in helping me with tonight’s recommendation. I want to personally thank the Deputy and Assistant County Managers, Wendell Davis, Carolyn Titus, Deborah Craig-Ray and Drew Cummings; Assistant to the County Manager, Laura Jensen; Public Information Specialist, Dawn Dudley; Budget and Management Services Director, Pam Meyer, and a great team of budget analysts, Keith Lane, Kim Connally, and Gene Hodges; George Quick, Finance Director and Susan Tezai, Deputy Finance Director; all of our County Department Heads, many of whom are here tonight; and last but not least, Vera Alston in my office, who helps out in so many ways.

All of us look forward to working with you. You have important decisions to make and we stand ready to assist you in any way possible. Thank you for your attention and for giving me the time I needed to explain my recommendation.

