



COUNTY OF DURHAM

Michael M. Ruffin
County Manager

Fiscal Year 2012 Durham County Budget County Manager's Remarks May 23, 2011

Thank you, Mr. Chairman and members of the Board. Good evening to all of you.

I know tonight marks the beginning of your work on the budget as you review and debate these recommendations over the next several weeks. For your staff, the work began months ago. Each of you remembers our November 2010 Worksession when we first began to ask you about what you wanted to see in next year's budget. We began earnestly preparing the budget in January when we distributed instructions to County departments, and invited applications from nonprofit agencies for County funding.

In February, we again counseled with you about next year's budget. Kevin Leonard of the North Carolina Association of County Commissioners briefed us about what to expect from the General Assembly, and North Carolina State University economist Michael Walden brought good news about our state and regional economies. However, while Dr. Walden told us the recovery from the nation's worst recession was underway, he cautioned us that the road to economic rebound would be slow.

You held four "*Conversations with Commissioners*" meetings in March. While these forums were lightly attended, citizens voiced concerns about property taxes, education, and senior citizen services – to mention a few.

Just after these forums were completed, department and agency requests, as well as nonprofit funding requests were submitted, and the administration began the process of putting tonight's recommendation together. We only had nine weeks to pore over \$434 million in General Funds requests. The process we mapped out to understand each request and match all of them with available income took thousands of hours of staff time. We have a strong team of department heads, managers and budget analysts, and I have great confidence in their abilities to bring the level of detail to me that I need to make final decisions to address your priorities, and our community's needs. As you will soon see, they delivered again this year.

We continue to be influenced by the economy. Michael Walden was spot on in February. The recovery is indeed very slow. Let me share a few reasons why.

Our unemployment rate from last year has not improved greatly – it is presently 7.6%, down from the 8.5% I reported last year. The unemployment rate is still too high and thousands of our citizens continue to look for jobs.

Home sales in our county are improving, but slowly. New residential construction activity is considerably down from 2007 levels.

Tax foreclosures are impressively down this fiscal year compared to the last two fiscal years, but bankruptcies remain at recession-high levels. 2,500 bankruptcies are projected for this calendar year.

Ten-year sales tax collections certainly confirm that recovery is underway but only slightly. The upward slope for sales tax growth is nothing like the slope we saw in the early-to- mid 2000's.

I think the message here is one of cautious optimism. Durham County's economy is in better shape than many areas of the country, but the road to recovery is slow. We're heading in the right direction but still need to be very careful. I think the greatest threat to us at this point is soaring gasoline prices. Our economy is oil-sensitive and fuel costs affect almost every indicator in our economy. This cautious optimism shows up in our revenue forecasts for next year, as well as my reluctance to take on much in the way of expanded services.

So next year's recommended budget is very much a status-quo budget. General Fund spending appears to be higher than expected at 4.06%, but if you take out the sale of the Carmichael property (\$6.8 million) and the additional dollars needed for debt service (\$8.6 million), our spending for General Fund is up less than 1%.

Interestingly General Fund spending for next year appears to be at FY 2008 pre-recession levels. But that isn't true for County services. Durham Public Schools and increases for debt have been the "winners" for new funding over the last several years. Our departments have been repeatedly asked to do more with less, and they have willingly made the necessary sacrifices during a time in which we continue to see a soaring demand for many of our services. The sluggish economy, increasing debt and a cry for increased public school funding have required that we deliver the rest of our services more efficiently.

There is no recommended increase in next year's property tax rate. It will remain at 74.59 cents. I have increased our collection rate 8/10 of one percent. This collection rate gives our General Fund a needed injection of \$2.78 million to assist with our services and is a reflection of

the outstanding job that our Tax Department has registered to increase our tax collections. I cannot give them enough credit.

Many of our citizens complain that our property tax rate is too high. Actually, we're just a little higher than the average for the five most populous counties in our state, and overall rank 23rd out of North Carolina's one hundred counties. I have worked very hard to reduce property tax rates over the 11 years I've been here. When I arrived, we had the fifth highest county property tax rate in the state. To do this in a climate where public school funding has increased by \$41.8 million over the same time period, and over \$600 million has been borrowed to build new and renovated schools, a new courthouse, a new human services building, a new animal control building, a new ambulance station and four new regional libraries speaks to how differently we operate our organization today than we did in 2000. Again, a great team of highly committed, professional public servants enables me to point out this reality. It speaks to why we are a AAA-rated county. We have AAA leadership throughout our organization.

In the early 2000's, it was not unusual to see our property tax base grow anywhere from 3% to 5% a year. Again, our economy is improving, but it has yet to show up very much in our tax base. In fact, next year, we project the lowest increase in years, 34/100 of one percent.

I mentioned that increases in debt service are challenging us to be more efficient so we can continue to fund schools and County services. Note that for next year, 6.51 cents of the 74.59 cents of property tax are needed for debt, up from 5.48 cents in the present year. This represents an 18.8% increase and will continue to be a budget stressor as we see our debt grow over the next several years.

Property taxes make up over 56 cents of every dollar that we collect. Sales taxes, our second largest single source of revenue brings in over 12 cents of every dollar. Intergovernmental revenue, mostly in the form of grant money that comes from state and federal sources is a big driver in our budget – 20 cents of every dollar we get. I worry about how our leaders in Raleigh may affect this number over the next few years.

Because more money is required for debt, the amount of property tax to fuel our General Fund services is down next year by 1.24%; and sales tax growth continues to be sluggish – 2.15% projected for next year. Before the recession, 4% increases were the norm.

Other major sources of revenue that help our General Fund are shown. Three are up and two are down. By the way, we just heard that ABC Profit Distribution, projected to be level funding, will also be down by approximately \$250,000. We will be inquiring with the ABC System why this is over the next few weeks.

Other good news: Our General Fund Balance will remain at healthy levels. 19.81% is projected at the end of the present fiscal year. This is extremely important if we are to maintain our AAA credit rating because it represents one of the few measures the rating agencies monitor that we can control.

How do we compare to other counties? Our average is a little higher than the average of the five more populous counties of Wake, Mecklenburg, Guilford, Forsyth and Cumberland, four of whom are AAA, and just a little lower than the average of NC's 100 counties. In other words, we are right where we need to be.

Two of the county's seven fire tax districts have requested tax rate increases for next year. Bethesda has requested a 1 cent increase and Redwood has requested a ½ cent increase.

General Fund expenditures next year continue to emphasize an increasing importance on funding for education, human services and public safety.

This January, I asked all departments to submit a reduced budget of 2%. I took some of the proposed reductions, but there were some I could not take. For example, the Sheriff's Office offered the elimination of the warrant control initiative. I put it back in the budget. The Department of Social Services offered \$330,000 in reductions. I put every dollar back in their budget, too.

No services are recommended for elimination next year and no reductions of service levels are proposed. I recommend full funding for Durham Public Schools and flat funding for Durham Tech and the Museum of Life and Science. A 4.3% reduction in nonprofit agency funding is recommended. 43 of the 54 agencies applying for nonprofit grants are recommended for funding.

Other budget highlights: Full funding for the County's role in the *Opening Doors* Homelessness initiative. What was referred to as the Ten Year Plan to End Homelessness now has a new name, and a new emphasis. This initiative will fund one position in the Department of Social Services, the lead agency for County services to our homeless population. An additional \$43,368 has been recommended for homeless services. In other words, we are stepping up the level of funding to improve our services for our homeless citizens.

I have also recommended 50% funding for a Joint City-County Gang Reduction Strategy Manager. For the first time, the County and City will have a paid staff person to monitor and measure how well we are implementing anti-gang strategies from the 2006 Anti-Gang Assessment. Up until now, this has been done by volunteers. As more strategies are implemented, the work has grown beyond what we can expect volunteers to do. This is one of

the most important initiatives on which the City and County are working and additional resources are necessary for us to be successful.

Now, just take a look at the next two slides. The Health and Mental Health section of our Human Services Building opened last month. In 18 months, what you see on the ground now will increase by over 40% in size, and the Department of Social Services will be relocated from two buildings – one on Main Street that will be demolished and one on North Duke Street that is up for sale.

In late 2012 or early 2013, we will open the new courthouse. These two structures will dramatically change Durham's skyline. This represents the "New Durham" that we have become and points to the fact that Durham County is a major partner in what is happening in downtown Durham. I will have more to say about that later in my presentation, but suffice it to say that the additional hundreds of thousands of square feet to be maintained will require 4 new positions next year - three in General Services and one in Information Technology.

Other mentionable budget highlights for next year:

- \$20,000 for an energy monitoring system
- Modest fee increases in Animal Control, Emergency Medical Services, Sheriff's Office, Public Health and the Utility Fund
- Normal pay increases for County employees are restored
- No reductions are proposed for County benefits. This is a key retention tool for us in an improving economy
- 10.90 new positions are recommended - the five positions I've already mentioned in General Services, Information Technology, and the Criminal Justice Resource Center. 5.90 appear in other budgets - one in the County Attorney's Office (increased revenue will pay for it), 3.90 in our Libraries (reductions to vacant positions have been made to pay for them), and 1 in the Sewer Utility fund (sewer rates pay for it)
- 19.25 total positions have been recommended for elimination of which 7.48 are vacant positions in the General Fund.
- Of the 19.25 total eliminated positions, 13.25 are grant related, of which 11.77 are currently filled. Any employee who fills a grant position is always advised he or she is a provisional grant employee and future employment depends on continued grant funding.

Let me take a few minutes to explain the recommendation for Durham Public Schools. In an earlier panel, I mentioned 64/100 of one percent increase in funding for Durham Public Schools. This is correct but does not include the additional \$1,017,500 in lottery funds I recommended for their current expense budget. These funds are drawn down by joint action of the Board of County Commissioners and the Board of Education and do not normally run through our books. Therefore, they are not reflected in next year's appropriation. This being said, I have recommended exactly what the Durham Public Schools requested - \$110,106,952. I do want to point out, however, that we also have to pay over \$26 million in school debt next year, not to mention \$2.48 million for school nurses, school social workers, and school resource officers.

Because lottery funds do not appear in next year's budget, our current expense per pupil drops by \$33. The additional \$1 million in lottery funds will enable the school system to keep more teachers. Altogether, current expense, capital outlay and debt funding amount to an increase of \$17 per pupil. Funds for school nurses, school social workers and school resource officers add another \$70 in per pupil expenditures.

It's also important to point out that we lost \$4,070,000 in one-time lottery funds we budgeted this year to support debt service for the schools so the tax rate increase could be used by the school system to retain the 187 teachers that were slated for layoff this year. In other words, this budget required us to find additional funds to replace the loss in one-time funding for debt service plus the increase the system brought forward - \$4.7 million dollars.

I mentioned earlier that debt service payments next year are up by \$8.6 million. Notice that we have about as much next year for school debt service as we do for other county debt service.

Commissioner Phil Cousin asked for the chart years ago and I've kept it in my presentation because I think it points out just how much local funding we appropriated for DPS. 62 cents of every property tax dollar are directly tied to Durham Public Schools. This is great, but it also a budget stressor as we seek to fund other County services.

Since Fiscal Year 2002, we have increased per pupil funding by 32%. We lead the five more populous counties by hundreds of dollars on a per pupil funding basis. In fact, we are the only county that pays over \$2,500 per pupil. No one of comparable size, including the other four AAA-rated counties is close to us.

Let me quickly turn to nonprofit agency funding, discuss a couple of other important highlights for next year, and conclude with a couple of other major recommendations.

As I mentioned, I have recommended a 4.3% reduction in nonprofit funding. 43 agencies are recommended, six of which are first year recipients. 54 agencies applied for funding.

Our nonprofit agencies are our partners and Durham is a nonprofit town. I know the phase out of the City's nonprofit funding process has created financial stress in our nonprofit community. However, we cannot be expected to pick up the gap created by the City's decision to phase-out funding for nonprofit agencies.

I continue to recommend fleet maintenance and fuel merger with the City of Durham. This change makes so much sense. Besides saving as much as \$160,000 a year after the first year, it will provide for the first time the level of information we need to determine the appropriate size of our fleet. This is not about, and never has been about, the quality of work we get from the two vendors who maintain our vehicles for us. It is about the fact that the City's fleet maintenance can maintain our vehicles and do it more cheaply, not to mention providing us with information that will help us appropriately right-size our fleet and make better decisions about future vehicle replacement.

Before I move on to my final recommendations, I want you to see the budget for all funds. The news media always focuses on the General Fund as do I because almost all of the noteworthy recommendations are included in the General Fund. However, we have 16 other funds or fund types that make up our annual budget. Together, the total recommended appropriation for all funds next year is almost \$500 million.

While we are holding the line with next year's budget, we are certainly not holding the line as an organization. Next year will see the completion of the County's Strategic Plan, which you requested and which we will see through to implementation. Next month, our staff kicks off the planning process, which over the next several months will include citizen surveys, interviews with community leaders, focus groups and town hall meetings led by you. And while this is going on, our Strategic Plan Development Team will be combing through a lot of data, all leading to the final priority setting with you from which a plan will emerge with clearly stated goals and priorities. Future budgets and future services will be guided by the decisions we make next year.

Our strategic planning process will also require some additional organization and service analysis. As county manager, it is important for me to focus on how our organization may need to shape itself in order to implement the goals you will adopt in the strategic plan. I will commission the following study groups, each led by a member of the County's Executive Management Team:

- County Manager's Office
- Budget and Management Services

- Public Information
- Human Resources
- Veteran Services
- Information Technology

I am entering my 38th year as a public employee. I could not be more excited about our strategic plan and what will come from it. I eagerly look forward to working with you on it.

Let me mention that the public hearing on the budget will be held on June 13th at 7 pm. Adoption of the final budget is scheduled for June 27th at 7 pm. Between tonight and June 27th, several budget workshops are scheduled on May 26 from 2 pm to 5 pm, May 31 from 4 pm to 6 pm, June 1 from 1 pm to 5 pm, and June 14 from 11 am to 4 pm. I do not believe we will need all these dates and times. We will finalize this part of the calendar with you at the beginning of our May 26th budget worksession.

There is a companion recommendation to this budget that I want to lay out for you. I am convinced that the time is right for two sales tax referenda: $\frac{1}{4}$ cent for education and $\frac{1}{2}$ cent for public transit. Let me explain why.

This year the General Assembly will eliminate the temporary 1% sales tax that was imposed statewide two years ago to generate additional funding to help the state deal with a massive deficit. The elimination of this tax at the end of June represents a window of opportunity that we will not see again. If we were to impose both taxes next year, one cent will be removed and $\frac{3}{4}$ of a cent in local sales taxes for education and transit will be added. The sales tax rate in Durham County would go down by $\frac{1}{4}$ of a cent.

Voter support for both of these taxes is strong. In a January poll, 66% of the voters polled supported a one-quarter cent sales tax for education, and 60% supported a one-half cent sales tax for public transit. The Regional Transportation Alliance released a poll in March in which 60% of voters in Durham supported a transit tax, the same number for our survey. Interestingly, 75% of voters in all three counties –Wake, Orange and Durham- felt that they would benefit from public transit whether they use it or not.

Let me deal with each tax separately for a moment. I do not suspect much public opposition to a one-quarter cent sales tax for education. Durham Public Schools will face its toughest budget next year due to the loss of stimulus funding and a sustainable source of funding will be needed to address this \$6 million-plus gap the school system will face. A full year's collections of the one-quarter cent sales tax will generate \$9 million in Fiscal Year 2013. I recommend that \$6.175

million of the collection be given to DPS to address the operating deficit it will face; \$2 million for school-related debt service to help with an additional \$60 million in debt that was sold this fiscal year and another \$134 million to be sold in the next two years; and \$825,000 for Durham Technical Community College. Dr. Bill Ingram came up with an innovative idea to offer need-based grants of up to \$2,500 a year for 300 Durham Public School graduates to attend Durham Tech. He realizes, as do all of us that an individual's future is directly tied to a good education. Durham Tech has outstanding course offerings and prepares its students today for the jobs that will come tomorrow. These grants will enable Durham residents who may not otherwise be able to get a post-secondary education to continue their dreams and have the opportunity to lift their standard of living.

There are several steps you will need to take if you decided to move forward on this tax referendum:

1. Hold a public hearing on the question on June 13th
2. Adopt a resolution to call for the referendum on June 27th

As I said I expect little opposition to this tax, but your early adoption of a resolution to call for a referendum will provide additional time for a private group to raise the money to market public approval of the tax. While we can provide information about how funds would be spent and answer general questions about the tax, we cannot spend public funds to promote approval of the tax.

If you call for the referendum for November 8th, if voters approve the tax, and if you decide to impose the tax, the tax would go into effect on April 1, 2012. An estimated \$2.7 million would be collected next fiscal year. I would recommend you escrow this amount for use with your Fiscal Year 2013 budget.

The more difficult sales tax for you to consider is the ½ cent sales tax for public transit. It, too, however, makes a lot of sense. High gas prices are here to stay and voters have clearly said in the Regional Transportation Alliance's (RTA) poll that high gas prices will underscore the need to expand public transit options. Paul Fallon, who conducted the poll for RTA, noted, "If gas were to increase to \$4 a gallon, more than 20% of voters said that that would make them more likely to support the tax to improve transit options."

Just last week, the *News & Observer* reported the Triangle area as the number one region in the country on the "Gas Guzzling" list. Did you know that if we continue to grow over the next 20 years as has been forecast, we will be the only metropolitan area of our size without a rail system?

Why would I even recommend a referendum for a ½ cent sales tax for public transit when Wake and Orange counties may not be ready to move forward this November? I am recommending that the referendum be held at the same time the referendum for the ¼ cent sales tax is held.

Approval of a ½ cent sales tax for transit in Durham County would mean an additional 25,000 bus hours in the first year of full implementation, and up to 50,000 total additional bus hours by the end of the third year of implementation.

With the approval of Durham County voters, commuter rail will run from Durham to the Research Triangle Park six years after the tax is imposed. This is perfect timing because the Park's foundation has also launched a strategic planning effort. Park leaders realize that the Park needs to be refreshed, and there is no doubt that density in some areas of the RTP will need to be increased if the Park is to continue to compete globally. There could not be a better time for the County and Park to collaborate on rail planning and make sure that density changes are closely coordinated with transit station locations.

We are the heart of the Triangle. Regional transit in Wake and Orange counties must come through Durham. Why not lead the way! It would no doubt help future referenda in Wake and Orange counties. We have been leading the Triangle with bold decisions for a decade. Outsiders thought Capitol Broadcasting was gambling on American Tobacco. We didn't. We put up over \$14 million for a parking deck to make it happen. Outsiders and insiders thought it was risky to put a 1% occupancy tax on the books for the Durham Performing Arts Center. We didn't. This board enacted a 1 percent occupancy tax that will raise \$38 million to fund the debt for DPAC. DPAC has hosted over 280 events since it opened with over 750,000 guests attending from across the region. It is listed on the top 10 list in Pollstar magazine's Top Worldwide Theater Venues.

Durham is not a leader in the Triangle. We are THE leader in the Triangle. We are a destination of distinction and THE place to live in the Triangle. We are special because we ARE bold, and we have made bold decisions that have paid off for our community. This is another opportunity that begs for bold leaders to move forward.

There are several steps you will need to take if you decide to move forward:

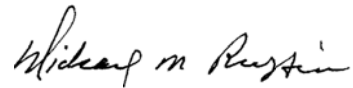
1. Final Draft of Transit Plan presented at the June 6 Worksession
2. Public engagement meetings on Transit plan held in May and June
3. Public Hearing on Transit Plan on June 13, 2011
4. Public Hearing on Sales Tax on June 13, 2011
5. Adoption of Transit Plan on June 27, 2011
6. Resolution to call for Referendum adopted on June 27

There will be organized opposition to a ½ cent sales tax for public transit, which again is why I am recommending that you call for the referendum as early as possible to give a private group the time it will need to raise funds and launch a marketing strategy to win voter approval. At the end of the day, I believe Durham voters will see that now is the time for public transit, and I believe they will vote to support it.

Some final comments about both sales taxes: First, the only reason the sales tax for transit is higher than for education is due to the way the laws are written for each referenda. Second, neither of these local sales taxes applies to food and drugs. Equally important, a large percentage of sales taxes in Durham are paid by out-of-county residents.

Tonight's budget recommendation, and the initiatives that go with it, continue to distinguish our County as a provider of services, many of which serve as a best practice model for communities across the country. The staff and I look forward to working with you as you move to adopt a budget to serve our community. Thank you for giving me this time to address next year's budget and for the privilege to serve this county as its manager.

Sincerely,

A handwritten signature in black ink that reads "Michael M. Ruffin". The signature is written in a cursive style with a large initial 'M'.

Michael M. Ruffin
County Manager

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