



County Manager's Recommended *2005-06 Annual Operating Budget*

*Presentation to the Orange County Commissioners
Orange County, NC
May 26, 2005*



Tonight's Presentation

- Major Milestones
- Sustaining Our Resources
- Recommended Budget Highlights
 - Revenues
 - Expenditures
 - County Operations
 - Education
 - Capital Funding
 - Employee Pay and Benefits
- What Lies Ahead?



Major Milestones

- Joint initiatives between County and Schools
 - Collaboration discussions
 - Educational Excellence Report
 - Revenue enhancement and expense reduction efforts
- Tremendous strides in Park Development
 - Opening of Little River Regional Park and Natural Area
 - Master site plans completed for Phase 2 at Efland-Cheeks Park, Twin Creeks District Park and Educational Campus, and Northern Park



Major Milestones

- Continued progress in Lands Legacy program
 - More than 1500 acres of land throughout the County being protected and conserved since inception of program
 - Leveraged more than \$3.7 million in Federal and State grants to assist with conservation and preservation initiatives
- New County Facilities
 - Opening of Cedar Grove Branch Library and Carrboro Cybrary
 - Planning for Southern Orange Senior Center, Orange County Satellite Campus of Durham Technical Community College
 - Completion of Space Study Update and County Facilities Needs Report



Sustaining Our Resources

- Sustainability Principles
 - Financially sustain existing critical services to citizens as new initiatives are considered
 - Retain stable, qualified, competent, flexible work force
 - Carefully correlate operating and capital expenditures for all initiatives or projects
 - Put infrastructure in place to meet citizen expectations for service delivery
 - Balance resources for all major functions such as education, public safety and human services
- All in context of County's organizational mission, legal responsibilities and available resources



Across the Nation

- Due to state and federal funding cuts and implementation of unfunded mandates, a number of local governments have had to become “creative” in funding services
 - They have become dependent on one-time budget “fixes” such as borrowing from unspent capital projects, freezing and delaying hiring, and using fund balance to try to keep tax increases low
 - Most have tapped all of their non-recurring funding sources
 - True for Orange County as well
- To that end, analysts predict that the majority of State and local governments will face a budget gap as they begin planning for fiscal year 2005-06



County's Revenue Highlights



Revaluation – Appreciation of Property Values

- Factors affecting real property appreciation include location, size and nature of property use
 - If property owner experienced valuation change that fell below the countywide average percentage and if the tax rate remained at the effective tax rate, would probably experience a decrease in property taxes
 - If, on other hand, the change increased the value above the average, owner would probably experience an increase in property taxes



Property Tax Base

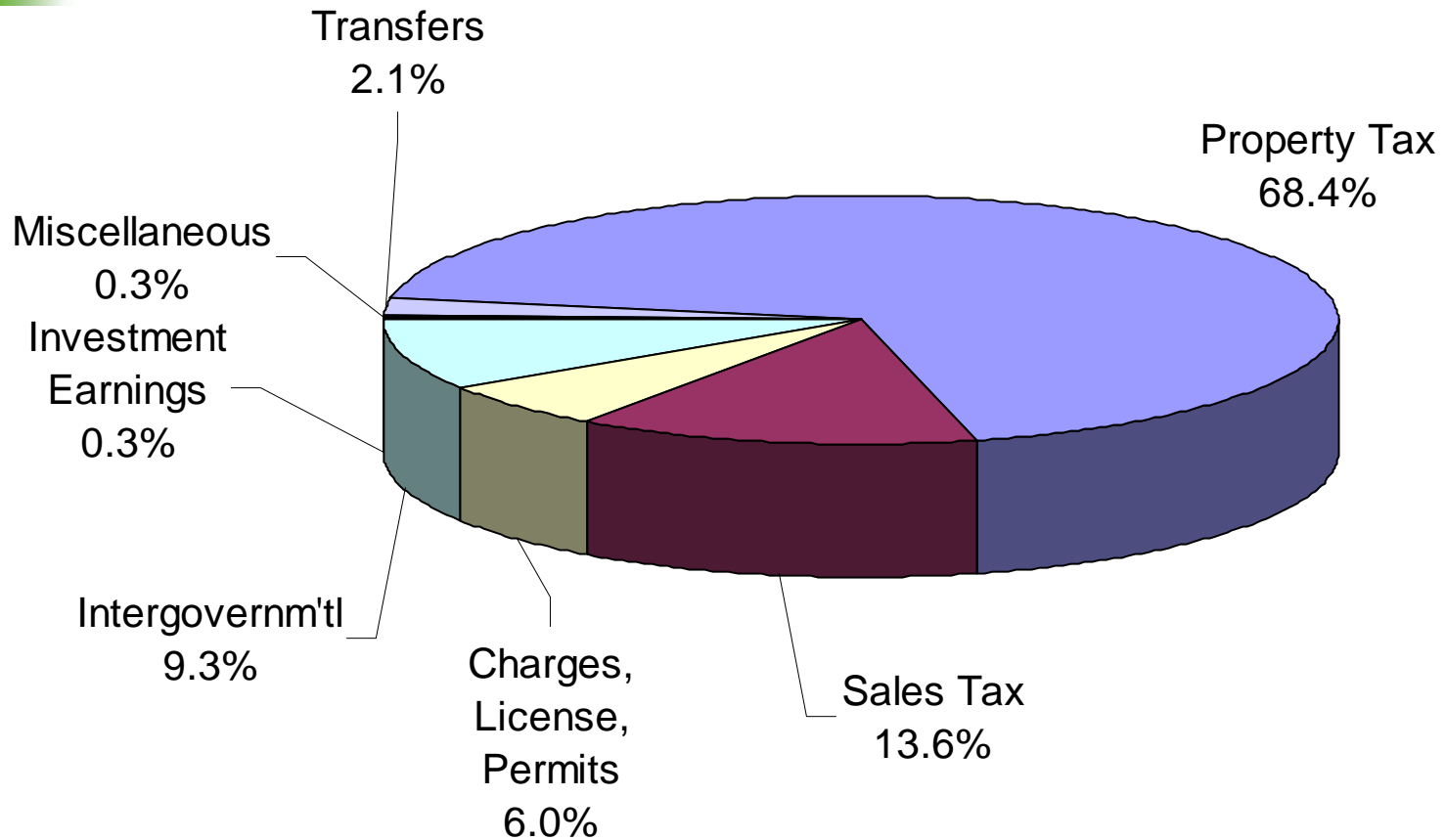
- Overall property tax base approaching \$12 billion
 - Compared to \$10 billion base used to plan 2004-05 budget
- Reflects estimated growth rate of about 19%
- Average increase in non-Revaluation years between 3.5 to 4%



Proposed General Fund Tax Rate

- Recommended tax rate of 86.8 cents per \$100 of assessed valuation
 - Represents an increase of nine cents over the equivalent “revenue neutral” post-revaluation tax rate of 77.8 cents
- One cent on property tax estimated to generate \$1,187,580

Property Tax Revenues Continue to Be Strong





Other Revenue Highlights

- Revenues such as sales tax reimbursements and investment earnings have slowed or decreased over last few years
- Intergovernmental revenues for next year increase by about \$1.4 million
 - 11% increase tied mainly to Department of Social Services
 - Offsets expenditure increases such as
 - Daycare services
 - Social Worker positions added during the current fiscal year



Fund Balance

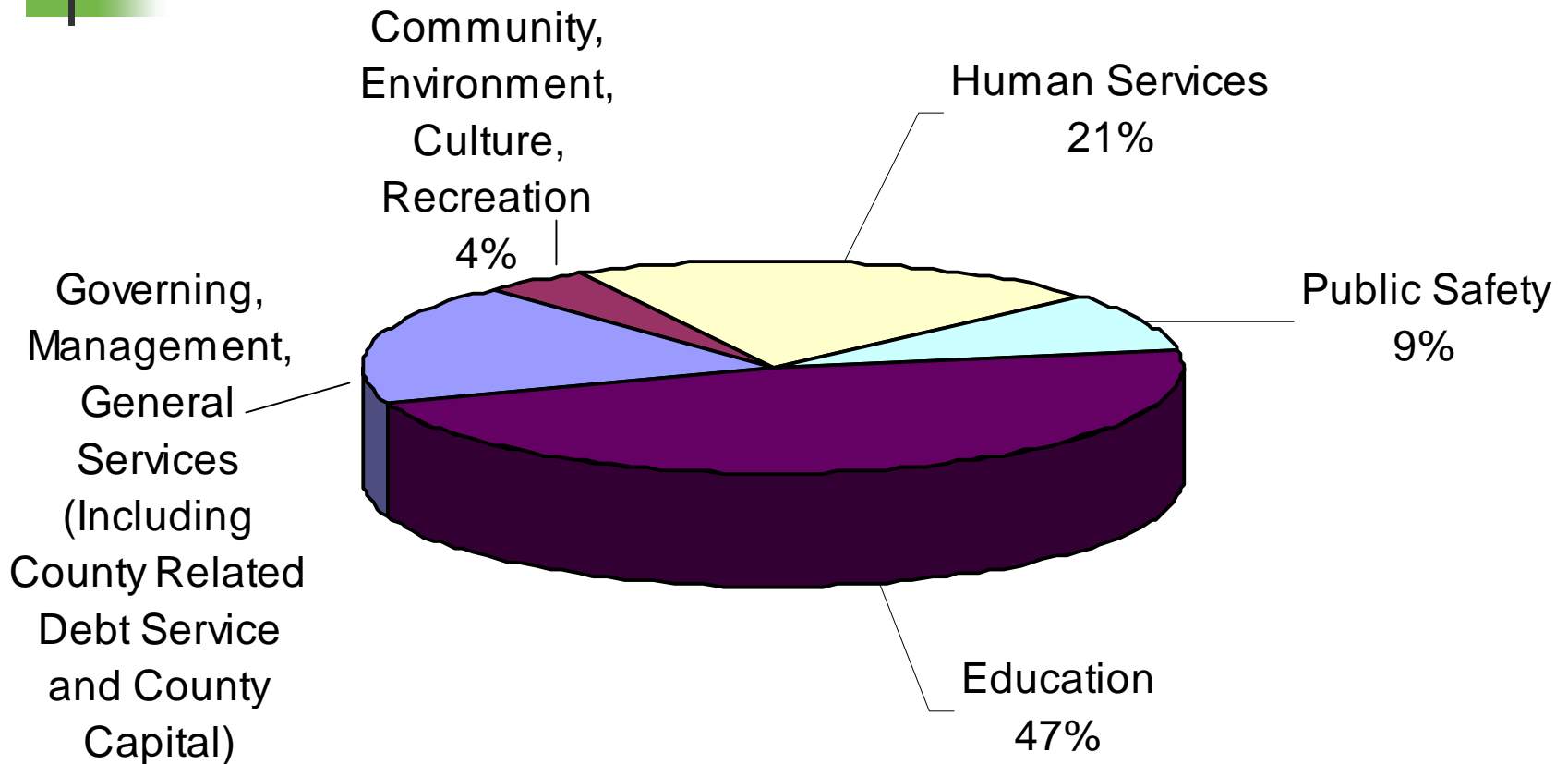
- Fund balance serves as “cash safety net” and enables entities to:
 - “Pay the bills” during slower revenue collection periods
 - Meet unforeseen needs should they arise
- Recommended budget provides for no fund balance appropriation
 - Barring external impingements during the remainder of current fiscal year, expect year end fund balance to fall between 8 and 8.5%



County's Expenditure Highlights

General Fund Budget

Totals \$152.8





Major Elements Driving Budget

- \$1.9 million to increase the current per pupil appropriation by \$95
- \$1.9 million to cover increased debt service resulting from Summer 2004 bond sales and additional programmed debt planned for the upcoming year
- \$4.9 million to reinstate full funding for school recurring capital and County recurring and long-range capital
- \$1.5 million for employee pay and benefits
- \$1 million to establish reserve fund to address priority funding needs such as education and human and court related services
- \$1 million to address the County's share of Medicaid, fuel and utilities costs



Public Assistance and Foster Care

- Number of families receiving Food Stamps increased by about 50% in the past two years
- Medicaid caseload has risen about 20%
- Costs for foster care has increased due to increased costs per child as well as a rise in the number of families requiring intervention



Education

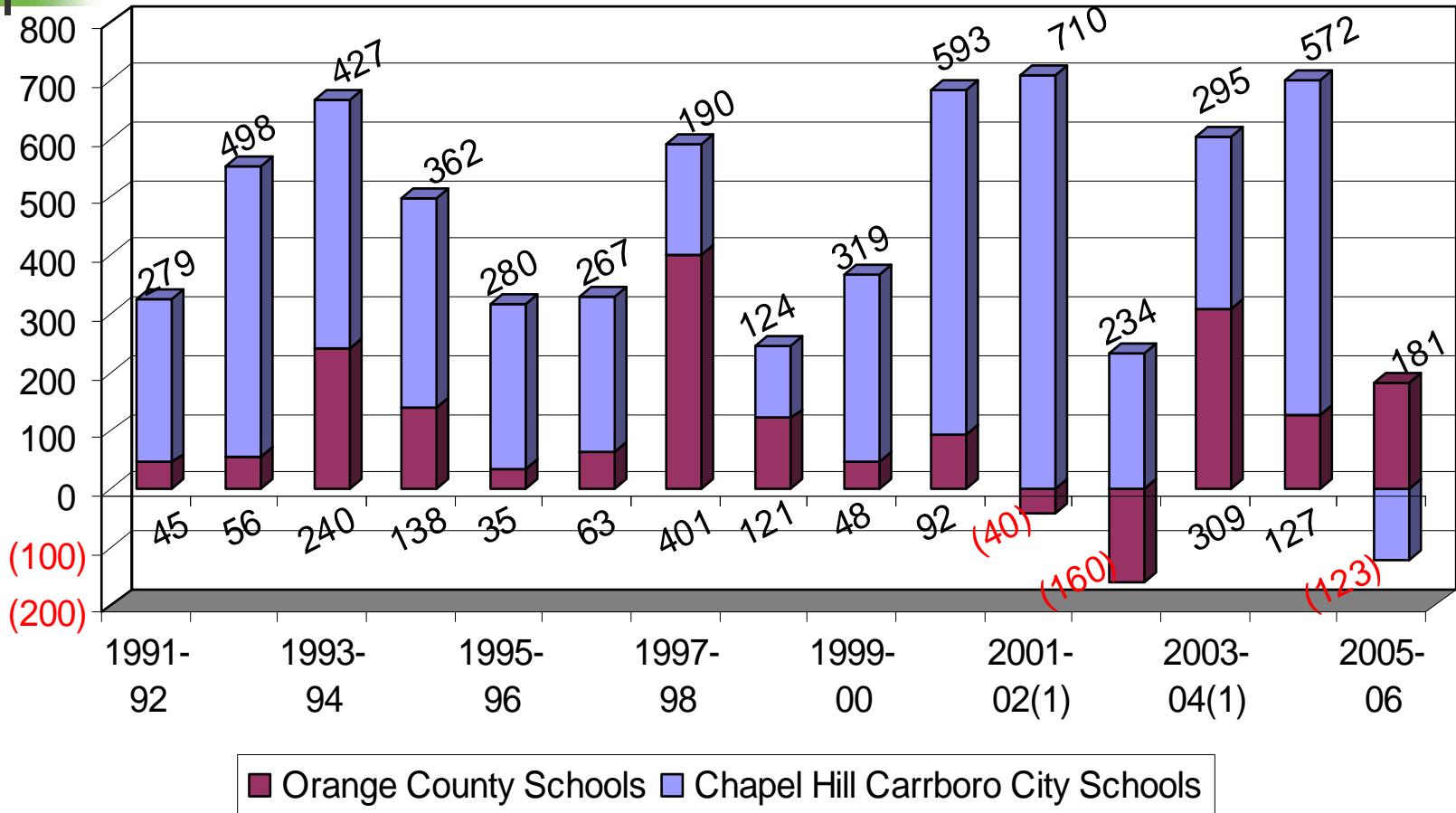
- School equity issues discussed during April 2005 work session
- Equity in process of being defined
 - Programmatic
 - Equal per pupil funding
- 2005-06 education budget possible framework
 - Tier I – mandates/obligations
 - Tier II – possible restoration of State cuts or address continuation of 2004-05 school board initiatives covered with fund balance
 - Tier III – Educational Excellence, equity considerations



Education Observations

- Since 1997, Orange County continues to be #1 in per pupil funding in annual rankings by Public School Forum
- \$95 per pupil funding increase falls short of school board requests, but it and capital funding should keep Orange near top of rankings
- Smallest net student increase in at least last 15 years

Annual Student Growth





Education Observations

- \$95 recommendation aimed at addressing Tier I expenses such as salary and benefit increases
- Actual salary/benefit funds needed are subject to change during State budget political process
- Recommendation does not significantly address:
 - \$1.4 million to continue 2004-05 OCS program enhancements paid through fund balance
 - 2004-05 mid-year CHCCS fund balance adjustments
 - DPI projected loss of 123 CHCCS students

Per Pupil Allocations to Each District State Mandated Funding Formula

	CHCCS	OCS	Total
Base # of Students	10,986	6,832	17,818
Increase/(Decrease) # Students	<u>(123)</u>	<u>181</u>	<u>58</u>
Total Projected Students (including charter students)	10,863	7,013	17,876
Recommended County Per Pupil Allocation	<u>2,718</u>	<u>2,718</u>	<u>2,718</u>
Total Recommended Current Expense Funding	29,525,634	19,061,334	48,586,968
Total Approved Current Expense Funding FY 2004-05	28,816,278	17,920,336	46,736,614
Recommended Increase in Accordance with Statute	709,356	1,140,998	1,850,354
Requested Current Expense Funding	31,426,659	21,192,516	52,619,175



Education Observations

- Based on higher per pupil increase request by OCS of \$399, full funding of both school system requests equates to another 4 to 4.5 cents on tax rate
- Recommending CHCCS district tax at post-revaluation revenue neutral rate of 17.5 cents – down from 20 cents in 2004-05
- BOCC may consider additional school funding, such as “Tier III” appropriations outside of per pupil allocation
 - Middle college high school initiative
 - School resource officers



Critical Needs Reserve

- New approach this year involves creation of \$ 1 million reserve for critical and emerging needs
- BOCC may allocate during June budget process, or later in fiscal year
- Could address Tier II or III education needs – social workers, subject area specialists, other school board priorities – on per pupil basis
- Potential non-education uses of reserve include:
 - Public assistance
 - Day care
 - Justice and court services
 - Fund balance enhancement



Capital Funding

- Changes to capital funding policy a 2004-05 priority for BOCC
- Since 1988 bond referenda, over 75 percent of capital funds spent for school needs
- Capital constraints exacerbated by need in recent years to use earmarked capital funds to help balance County operational budget
- BOCC adopted policy in November 2004 of 60% for schools, 40% for County for next ten years



Capital Funding

- Spring 2005 work sessions on 60-40 capital policy led to BOCC selection of Option 2
- Includes recurring capital for schools and County at 3 cents and 1 cent of tax rate proceeds, respectively
- Recommended budget fully implements Option 2
- \$5 million increase from 2004-05 for school and County recurring and long-range capital
- Progress towards \$17 million+ backlog of County facility maintenance/repairs/improvements



Other Capital Considerations

- Uncertainty in Raleigh about impacts of potential “education lottery”
- Possible State sequestering of Public School Building Funds – a key component of Orange County debt service funding
- \$100,000 construction manager initiative
 - 60% from school capital, 40% from County capital
 - Three year pilot effort
 - Provide independent, critical review of County and school construction projects for savings/efficiencies



Employee Pay and Benefits

- Manager's Recommended Budget emphasis on funding pay plan on an ongoing basis and some "catch up" in increased cost of living and salary compression issues
- Elements include:
 - 2.5 percent cost of living effective July 1, 2005
 - Reinstatement of 2.5 percent in-range salary increases for proficient or higher work performance
 - Reinstatement of Meritorious Service awards to recognize top performing employees
 - \$5 increase in County 401(k) contribution for non-sworn law enforcement employees from \$20 to \$25 per pay period
- Employee health insurance increase of up to 15.9 percent
- Increase in the Living Wage from \$9.11 to \$9.34 per hour



On the Horizon

- Start up costs for OCS Middle School #3 – opening August 2006
- Start up costs for CHCCS High School #3 – opening August 2007
- Capital impacts from phased implementation of BOCC-endorsed Space Needs Report
- Assuming successful property acquisition negotiations, future operations/maintenance costs of SportsPlex and co-located senior center
- Review of various County fees to ensure they are at appropriate levels



Conclusion

- One of the most challenging Orange County budgets of past 20 years, and my tenure as Manager
- Progress on capital repair and improvement goals
- Address school priorities in some creative ways
- Recognize our talented and committed employees
- Manager and staff ready to assist BOCC in making this their budget



Public Hearings and Work Sessions

(All Meetings Begin at 7:30 p.m.)

Public Hearings	May 31	Southern Human Services Center, Homestead Road, Chapel Hill
	June 2	F. Gordon Battle Courtroom, Hillsborough
Work Sessions	June 9	Southern Human Services Center, Homestead Road, Chapel Hill
	June 14	Government Services Center, Cameron Street, Hillsborough
	June 16	Southern Human Services Center, Homestead Road, Chapel Hill
Work Session/ Adoption	June 20	Southern Human Services Center, Homestead Road, Chapel Hill
Final Adoption	June 23	Southern Human Services Center, Homestead Road, Chapel Hill



Document Availability

- Clerk to Board of Commissioners
- County Budget Office
- Orange County Library
- Chapel Hill Public Library
- Carrboro Library
- Cedar Grove Library
- Orange County Website (portions of document):
 - www.co.orange.nc.us