

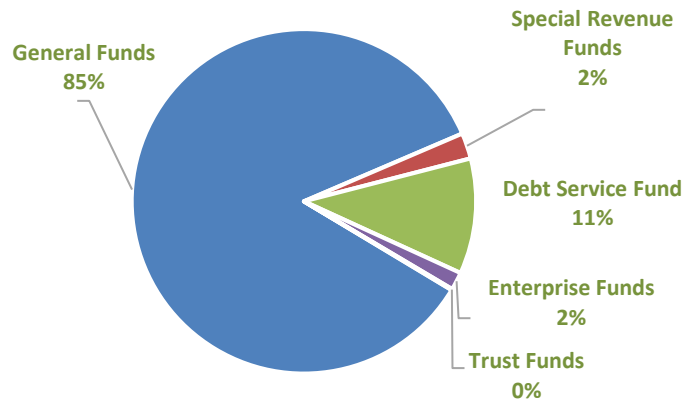


Durham County Government
Budget Overview in Preparation for FY 2018-19 Budget Development

Budget Overview

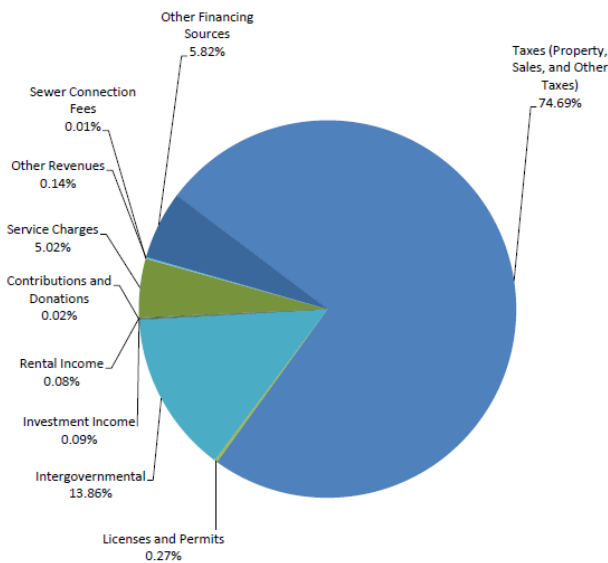
Durham County Government’s Approved FY 2017-18 budget totals \$633.1 million from the General, Debt Service, Enterprise, Special Revenue and Trust funds. Over 85%, of the budget is maintained within the General Funds, which include the following categories (sub funds): General (101), Risk Management (102), SWAP (103), Capital Finance (125) and Benefits (150). The General Fund (101) is where most department budgets reside and where the major focus of annual budget deliberations occur. The Capital Finance Fund (125) is where various sources of funding are collected to support annual debt service payments, while the Risk Management (102) and Benefits (150) funds are self funded insurance funds. The below overview highlights the 101 General Fund budget activities.

Durham County Total Budget
\$633.1 million

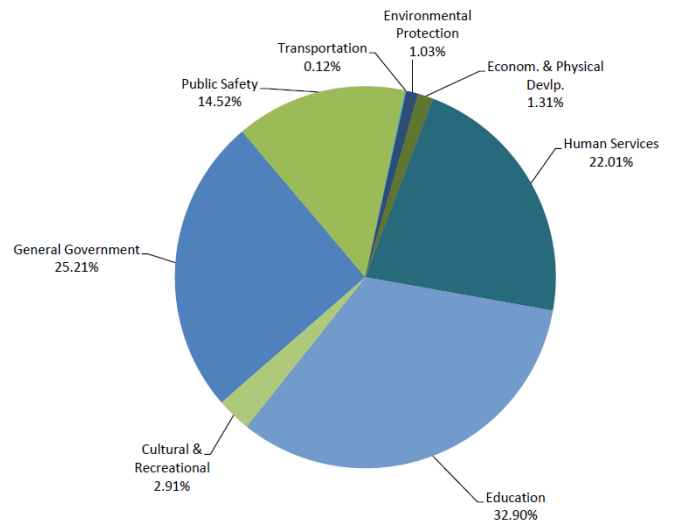


General Fund 101: \$434.8M

A. Revenues



B. Expenditures



*Note: 54.4% of General Government is made up of transfers to other funds to support debt service payments, benefits and other expenses.



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General Fund 101

Revenues

Several revenue sources support the General Fund (101), with 74.7% funded by property, sales, occupancy and other local taxes. The next significant revenue sources are the federal, state and local intergovernmental revenues, which comprise 13.86% of the General Fund budget. Service Charges, Other Financing Sources, including fund balance, and other miscellaneous revenues comprise the remaining revenue. The below table reflects summary revenue categories.

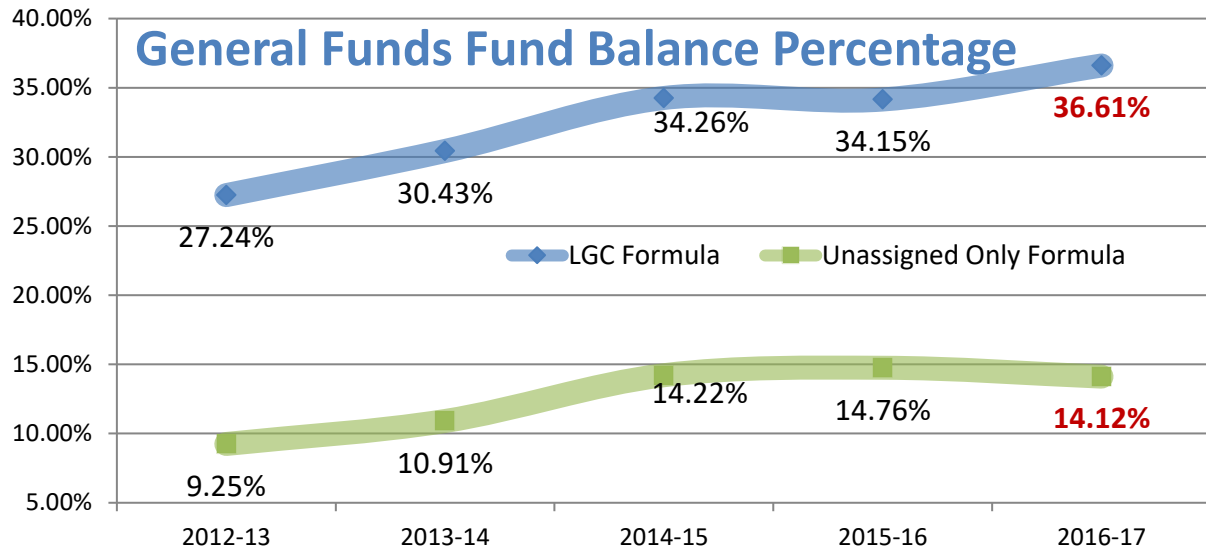
General Fund	Fund 101			
Source of Revenue	2016-2017 Original Budget	2017-2018 Department Requested	2017-2018 Commissioner Approved	% Change Budget to Budget
Taxes	\$311,492,211	\$319,568,637	\$324,720,170	4.25%
Licenses and Permits	\$1,359,250	\$1,172,500	\$1,172,500	-13.74%
Intergovernmental	\$57,876,643	\$59,990,170	\$60,261,540	4.12%
Contributions and Donations	\$77,476	\$70,093	\$70,093	-9.53%
Investment Income	\$140,000	\$400,000	\$400,000	185.71%
Rental Income	\$443,156	\$364,207	\$364,207	-17.82%
Service Charges	\$20,612,487	\$21,808,580	\$21,811,080	5.81%
Sewer Connection Fees	\$42,100	\$43,150	\$53,150	26.25%
Other Revenues	\$556,962	\$475,462	\$587,302	5.45%
Other Financing Sources	\$21,762,239	\$21,537,854	\$25,323,384	16.36%
Total	\$414,362,524	\$425,430,653	\$434,763,426	4.92%

It's important to note fund balance appropriations (outside of use as a balancing revenue, which are never expected to be spent) support one-time expenses, which is consistent with the County's financial guidelines. This approach has kept the County's reserves aligned with recommended levels that meet benchmarks established by rating agencies (i.e. Moody's and Standard & Poors) to obtain the highest designation agency thresholds, which have in turn increased over the years due to overall economic climate changes. In the above table Fund Balance Appropriated is folded up in the "Other Financing Sources" revenue grouping and accounts for \$14.37 million of the total \$25.32 million shown.

For over 20 years Durham County has met the financial goals necessary to be awarded a triple A bond rating by multiple rating agencies. We are one of only 69 counties in the United States that the rating agency Standard & Poor's has listed as AAA and one of only six of North Carolina's 100 counties that are AAA rated. Since the 2008 economic recession, rating agencies have continued to raise the benchmark requirements needed to achieve a triple A bond rating. As such in recent years fund balance reserves have increased to meet rating agency fund balance targets. The triple A designation affords Durham County the best lending rates for short and long-term debt which ultimately saves taxpayers money and increases overall County buying power to address the County's capital needs.



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Expenditures

Nearly one-third of the General Fund expenditure budget supports the Education function (32.90%), with Durham Public Schools (\$134.03 M) and Durham Technical Community College (\$7.16 M) comprising the majority of the expenses. In the General Government function a transfer of dollars funds the County’s Capital Finance Fund for debt service (\$37.53 M) and employee benefits (\$20.84 M). As noted in the previous pie chart 54.4% of General Government is made up of transfers to other funds to support debt service payments, benefits and other expenses. Some of the other General Government administrative operations includes the Register of Deeds, Tax Administration, Information Technology and County Administration.

The Human Services function totals 22.00% of the General Fund budget. Within the Human Services function the Department of Social Services (\$62.34 M), Public Health (\$26.03 M) and Mental Health (\$6.13 M) expend majority of the funds. The Public Safety function totals 14.52% of the General Fund budget with \$34.94 million allocated to support patrol and detention services for the Sheriff’s Office. Emergency Medical Services (\$15.57 M), Fire Marshal (\$5.61 M) and Criminal Justice Resource Center (\$4.11 M) are the other major public safety expenditures. The final highlight is the Cultural and Recreational function. This function is 2.90% of the General Fund budget with majority of the funds supporting Durham Library operations at \$10.51 M. The below table reflects summary expenditures by function.



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General Fund

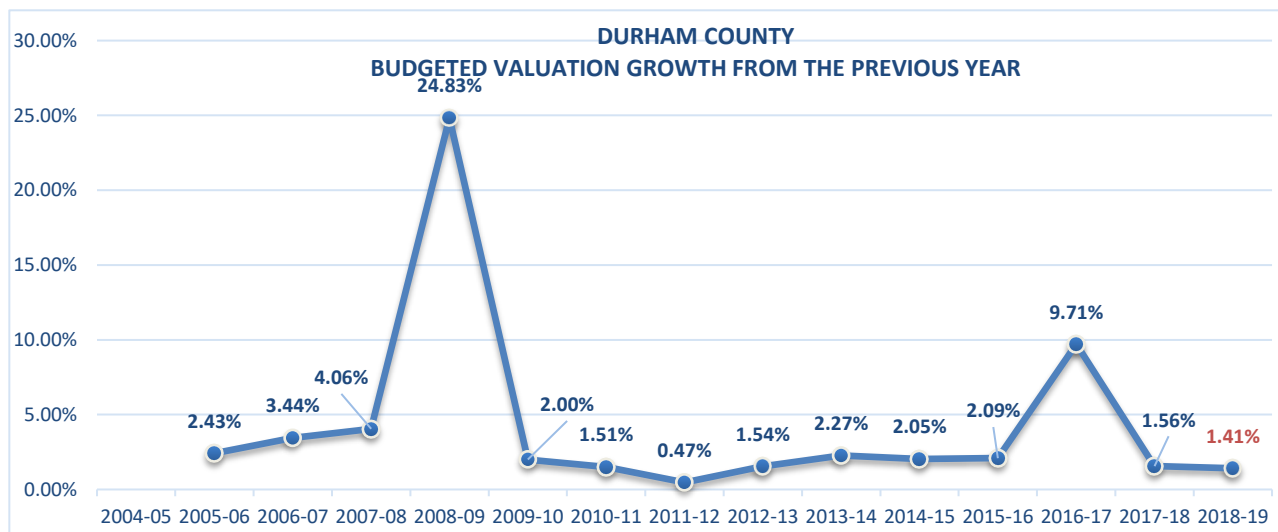
Fund 101

Function	2016-2017 Original Budget	2017-2018 Department Requested	2017-2018 Commissioner Approved	% Change Budget to Budget
General Government	\$103,352,464	\$112,307,000	\$109,584,024	6.03%
Public Safety	\$60,354,231	\$71,363,012	\$63,133,100	4.60%
Transportation	\$12,500	\$512,500	\$512,500	4000.00%
Environmental Protection	\$4,312,131	\$4,373,206	\$4,458,542	3.40%
Econ. & Physical Devlp.	\$6,422,486	\$5,388,955	\$5,714,727	-11.02%
Human Services	\$92,909,937	\$97,872,041	\$95,683,882	2.99%
Education	\$134,879,723	\$147,761,107	\$143,038,856	6.05%
Cultural & Recreational	\$12,119,052	\$12,669,201	\$12,637,795	4.28%
Total	\$414,362,524	\$452,247,022	\$434,763,426	4.92%

Multi-Year Fiscal Forecast

Since the 2008 “Great Recession”, criteria used by Moody’s and Standard & Poor’s have placed increased emphasis on the importance of long-term planning. Such forecasting is critical for recurring operating expenses and long-term debt management. Historically there have been slowed revenue growth in the major revenue categories including property taxes, sales taxes and intergovernmental revenues. Staff is in process of updating the current multi-year plan for FY 2018-19 to FY 2022-23.

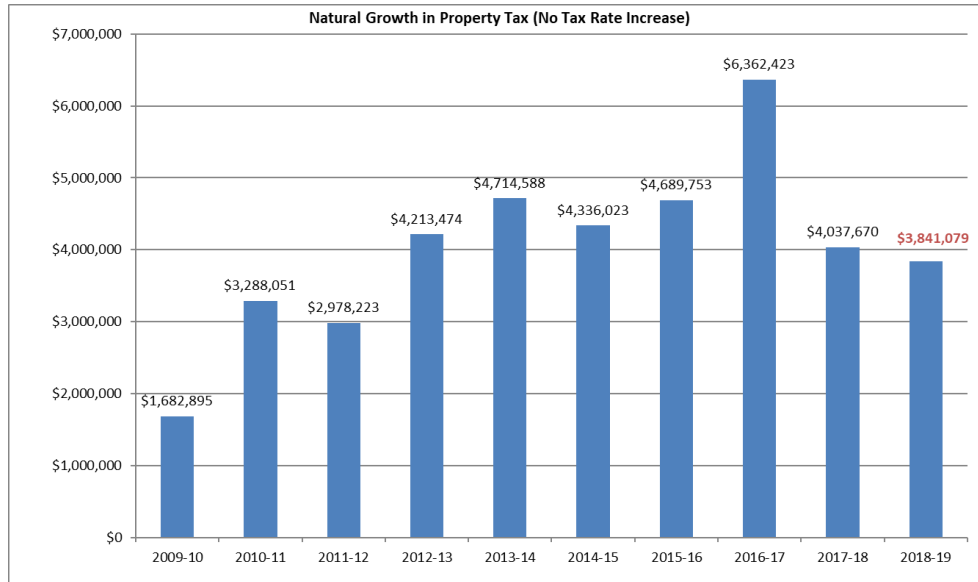
The below tables show the overall slowing patterns with the property base. The first table shows the impact of the change in property valuation from one year to the next. You will note peak percentages which capture years that revaluations occurred. Preliminary FY 2018-19 growth estimates were between 1.5% – 1.75%, but these numbers have been refined to 1.41% due to several factors including changing business use of property in such places as the RTP, additional state legislation (Builders exemption) that make certain valuation increases that were once available to the Tax department no longer available, and more generally, slowly changing types of commercial and industrial real estate assessed within the County.





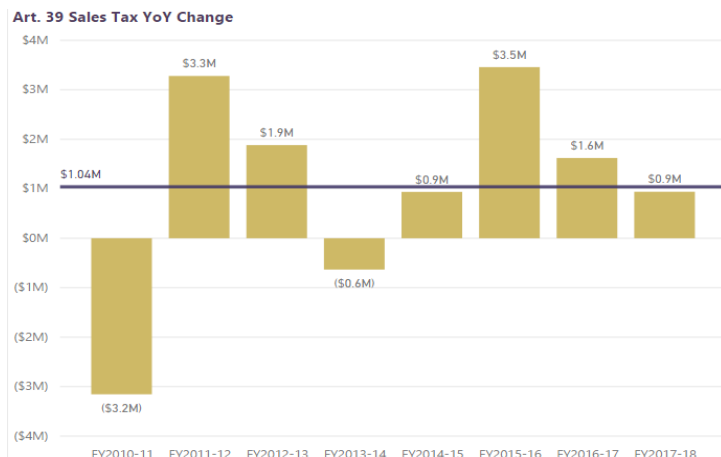
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As manufacturing becomes less of an economic driver in the County and is replaced by “intelligence” based jobs the physical assets needed to house such future work changes too. With much work now able to be done in distributed environments (even at home) and the only equipment needed to do the work is a laptop computer, the need to build new buildings with significant personal property (i.e. expensive equipment) decreases.



Another significant revenue seeing slower growth pressure is sales tax. This revenue source is highly dependent on overall economic health in the region, as people spend money when they generally have a job and/or job stability. This region has, better than most, weathered the “great recession” discussed earlier, with lower unemployment than the rest of the state, but the current state legislature has been concerned about what it deems “unequal distribution” of current sales tax laws and has been working to make changes to that process to help rural counties. Continuing with structural changes to local sales tax collection could significantly alter the growth outlook of this revenue for Durham County. Also, the economy, while growing slowly, has been on a very long growth streak, but at some point will experience another recession and the County must be prepared to see such a change coming and react accordingly.

Article 39 (1 cent) Sales Tax is the only available sales tax to support General Fund budget growth. Remaining sales tax revenues are dedicated to support debt service payments or designated expenses. The right chart shows growth patterns for historical fiscal years. The FY 2017-18 sales tax revenue actuals for the first quarter are lower than previous years. We will adjust rates accordingly in outlying years to adjust for slowed rates.





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From FY 2016-17 to FY 2017-18, intergovernmental revenues grew at a 4.1% growth rate. We anticipate similar or slowing patterns of revenue growth as we plan for FY 2018-19 and beyond. As with many counties, we have seen increased pressures on mandated services without the offsetting federal and/or state revenue to support the increased expenses. As an example, in FY 2016-17, DSS requested over \$1.8 million in new funding to cover increased cost associated with supporting children requiring foster care services. The County allocated \$400,000 to address this issue with a commitment to identify funds mid-year if a budget crisis in meeting family needs occurs. Another recent DSS budget challenge was a recent State notification to all counties that the state child care subsidy budget was significantly reduced. Durham County's reduction was estimated at \$1.8 million for FY 2016-17. These examples point out growing costs related to services provided without corresponding revenue to support those increasing expenditures.

The aforementioned revenue and expenditure examples show the challenges with projecting fiscal trends as well as estimating availability due to slowed revenue growth and the unpredictable patterns of federal and state funding trends. Despite these unknowns there is an overall commitment for measured, if slowing, growth. To achieve this, departments and agencies must carefully evaluate and possibly reallocate base budget dollars to mitigate increased tax pressures on our residents.

FY 2018-19 Budget Development Framework

- 1. Request must align with BOCC Strategic Plan**
- 2. Evaluate the Return on Investment (ROI)**
 - a. Are there opportunities to decrease, realign, or merge efforts?
 - b. For County Departments, there is an increased scrutiny of historical budget trends and evaluation of mandated services allocations compared to funding levels above peer amounts.
 - c. Identify operational efficiencies
- 3. Seek to limit property tax increase as a solution versus process improvement and strategic reallocation of existing funding**
- 4. Draft Revenues Assumptions (preliminary)**
 - a. Slowed Economic Growth
 - b. Flat Sales Tax Growth
 - c. Reduction of annual Community Health Trust Fund revenue starting in FY 2018-19
 - d. Potential continuing sales tax reallocation changes by the State legislature
- 5. Draft Expenditure Assumptions (preliminary)**
 - a. 1 cent property tax increase to support expanding Pre-K services
 - b. Federal and/or State policies that may shift local service burden
 - c. Deferred Maintenance
 - d. Compensation Evaluation
 - Public Safety Salary Competitiveness
 - e. Benefits Increases