



**Durham County Government**  
**Budget Overview in Preparation for FY 2020-21 Budget Development**

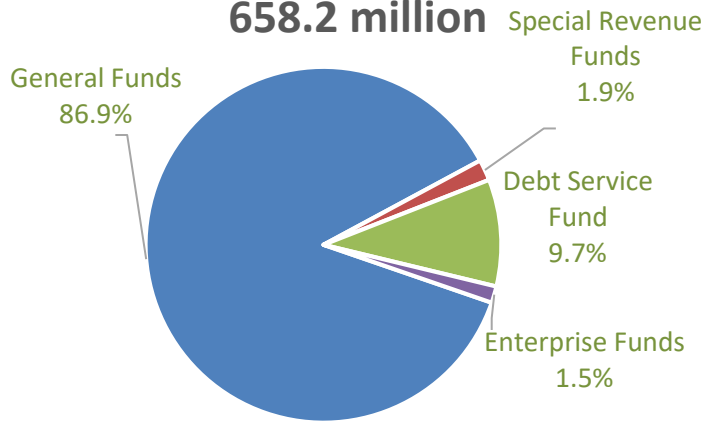
**Budget Overview**

Durham County Government's Approved FY 2019-20 budget totals \$658.2 million from the General, Debt Service, Enterprise, Special Revenue and Trust funds. Almost 87 percent of the budget is maintained within the General Funds, which include the following categories, or sub funds: General, Risk Management, SWAP, Capital Finance, Reappraisal Reserve, Leo Separation, and Benefits.

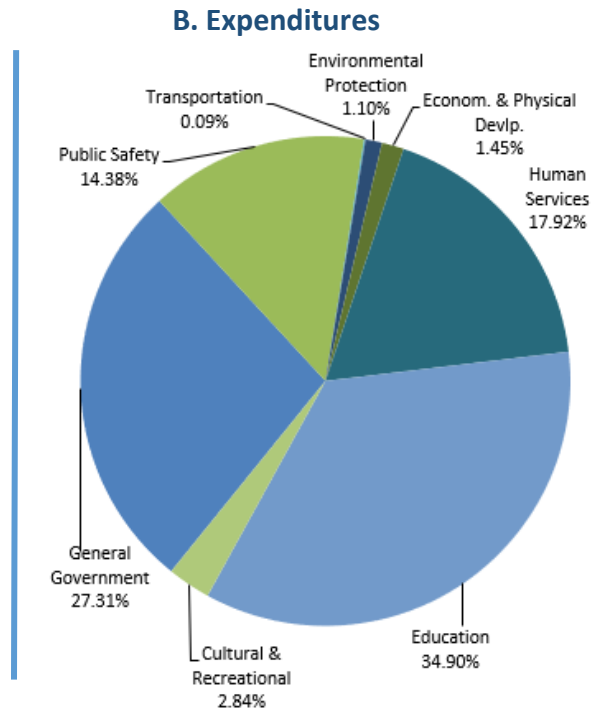
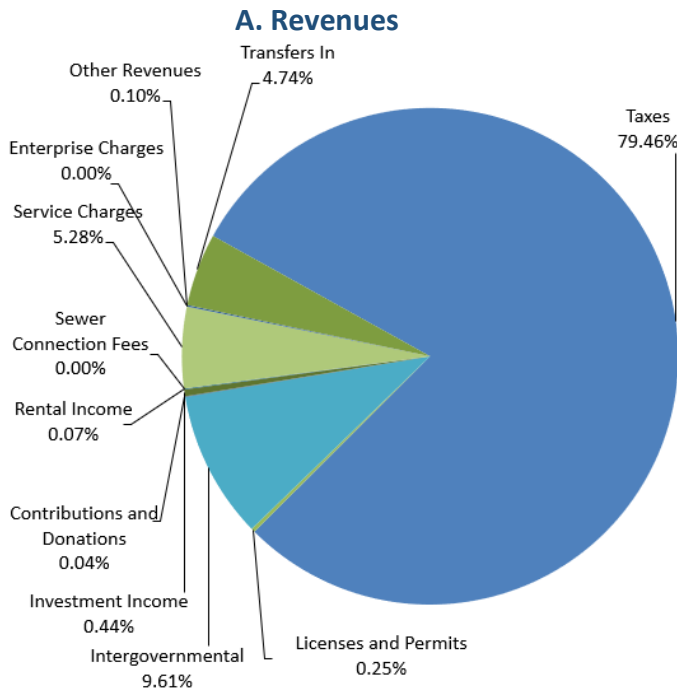
The General Fund is where most department budgets reside and where the major focus of annual budget deliberations occur. The Capital Finance Fund is where various sources of funding are collected to support annual debt service payments. The Risk Management and Benefits funds are self-funded insurance funds. The below overview highlights the General Fund budget activities.

**Durham County Total Budget**

**658.2 million**



**General Fund 101: \$456.8M**



\*Note: 55.7% of General Government is made up of transfers to other funds to support debt service payments, benefits and other expenses.



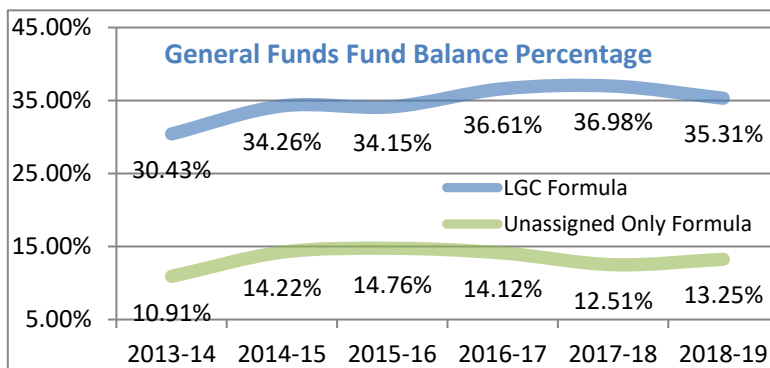
## General Fund

### Revenues

Several revenue sources support the General Fund, with 79.46 percent funded by property, sales, occupancy and other local taxes. The next significant revenue sources are the federal, state and local intergovernmental revenues, which comprise 9.61% 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.

Revenues			
CI - Item Category (sorted)	FY 2018-19 Approved Budget	FY 2019-20 Approved Budget	Fiscal Year % Difference
<b>Taxes</b>	\$341,369,595	\$362,977,603	6.33%
<b>Licenses and Permits</b>	\$1,052,000	\$1,124,500	6.89%
<b>Intergovernmental</b>	\$44,948,614	\$43,908,719	-2.31%
<b>Contributions and Donations</b>	\$65,093	\$191,678	194.47%
<b>Investment Income</b>	\$950,000	\$2,010,000	111.58%
<b>Rental Income</b>	\$253,470	\$297,937	17.54%
<b>Sewer Connection Fees</b>	\$5,000	\$5,000	0.00%
<b>Service Charges</b>	\$22,226,423	\$24,139,175	8.61%
<b>Enterprise Charges</b>	\$14,000	\$14,000	0.00%
<b>Other Revenues</b>	\$513,391	\$466,257	-9.18%
<b>Transfers In</b>	\$23,355,367	\$21,652,990	-7.29%
<b>Total</b>	<b>\$434,752,953</b>	<b>\$456,787,859</b>	<b>5.07%</b>

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 & Poor's) to obtain the highest designation agency thresholds. These thresholds have increased over the years due to overall economic climate changes. In the above table, Fund Balance Appropriated is



folded up in the "Transfers In" revenue grouping and accounts for \$17.37 million of the total \$21.65 million shown.

For more than 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 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, fund balance reserves have increased in recent years to meet rating agency fund balance targets. The triple A designation affords Durham County the best lending rates for



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short and long-term debt, which ultimately saves taxpayers money and increases overall County buying power to address the County’s capital needs.

### Expenditures

Nearly 35 percent of the General Fund expenditure budget supports the Education function, with Durham Public Schools (\$145.1M) and Durham Technical Community College (\$7.10M) 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 (\$40.70) and employee benefits (\$26.35 M). As noted in the previous pie chart, 55.7% 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 include the Register of Deeds, Tax Administration, Information Technology and County Administration.

The Human Services function totals 17.92% of the General Fund budget. Within the Human Services function, the Department of Social Services (\$47.95 M), Public Health (\$26.52 M) and Mental Health (\$6.3 M) expend majority of the funds.

The Public Safety function totals 14.38% of the General Fund budget with, \$38.78 million allocated to support patrol and detention services for the Sheriff’s Office. Emergency Medical Services (\$16.91 M), Fire Marshal (\$2.24 M) and Criminal Justice Resource Center (\$4.84 M) are the other major public safety expenditures.

The final highlight is the Cultural and Recreational function. This function is 2.84% of the General Fund budget with majority of the funds supporting Durham Library operations at \$11.16 M. The below table reflects summary expenditures by function.

Expenditures			
Functional Area Name	FY 2018-19 Approved Budget	FY 2019-20 Approved Budget	Fiscal Year % Difference
General Government	\$115,885,679	\$124,755,964	7.65%
Public Safety	\$62,370,410	\$65,703,543	5.34%
Transportation	\$512,500	\$412,500	-19.51%
Environmental Protection	\$5,054,486	\$5,035,563	-0.37%
Econom. & Physical Devlp.	\$7,204,000	\$6,616,072	-8.16%
Human Services	\$80,560,102	\$81,859,393	1.61%
Education	\$150,213,073	\$159,419,265	6.13%
Cultural & Recreational	\$12,952,703	\$12,985,559	0.25%
<b>Total</b>	<b>\$434,752,953</b>	<b>\$456,787,859</b>	<b>5.07%</b>

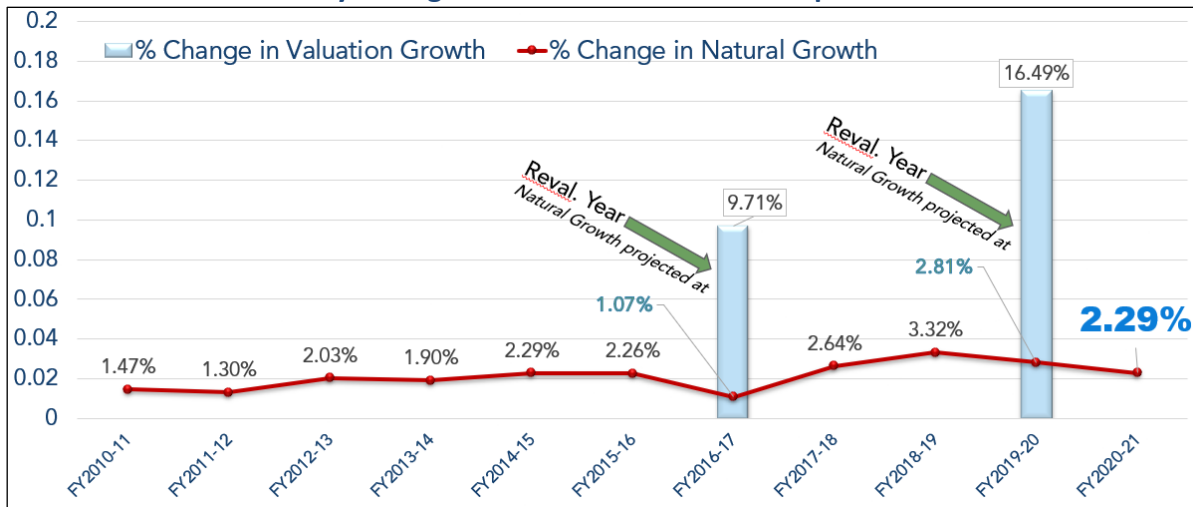


### Looking Ahead

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 has been slowed revenue growth in the major revenue categories including property taxes, sales taxes and intergovernmental revenues.

The below tables show the growth patterns in three major revenue categories. 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. FY 2020-21 growth estimates are slightly lower than previous years, at 2.29%.

Durham County - Budgeted Valuation Growth Compared to Prior Year



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.

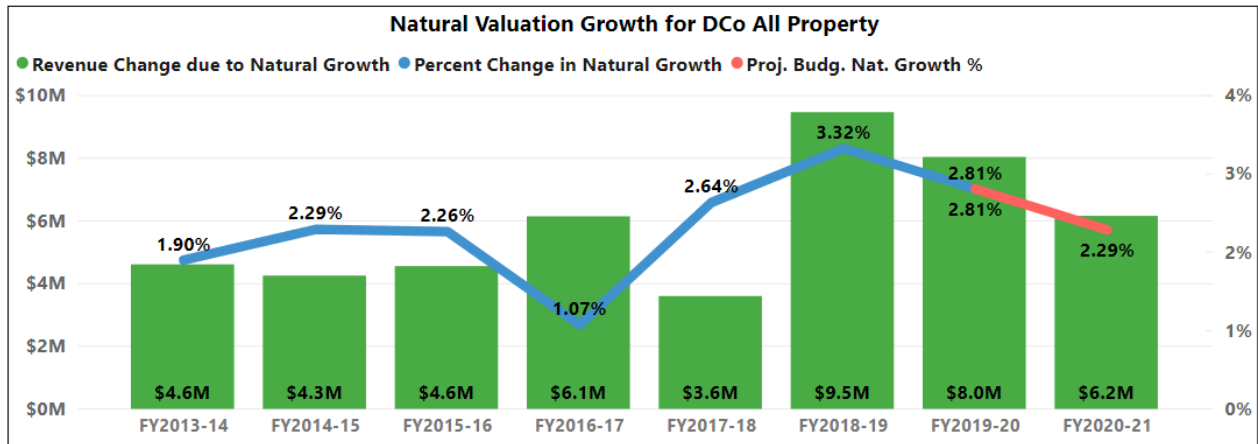
It should be noted that a significant amount of property valuation growth over the last two years has come from the downtown Durham area and large portions of that growth have been residential in nature. And while property valuation growth is a positive in relation to property tax collected, the cost of supporting residential needs (people vs. structure) will be felt in the near future by Durham County government.

Higher growth in property valuation results in higher growth in property tax revenue, without a property tax rate increase. The amount of new “natural growth” property tax revenue is shown in a graph on the next page.



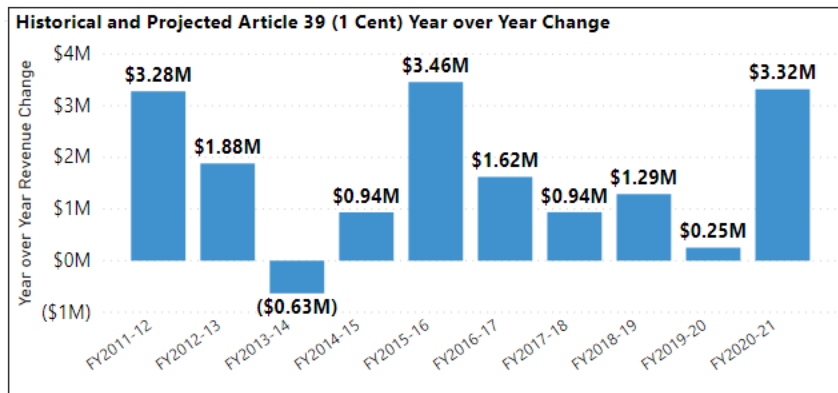
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### General Fund - Natural Growth Property Tax Revenue (No Tax Rate Increase)



Another significant revenue source is sales tax. This revenue 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 chart shows growth patterns for historical fiscal years. FY 2019-20 sales tax revenue actuals for the first quarter are significantly higher than previous years due to much lower refunds to nonprofit entities compared to FY 2018-19. We will adjust revenue estimates accordingly in outlying years.



Intergovernmental revenues continue to shrink as a percentage of the total General Fund budget, while related expenditure costs continue to rise. We anticipate similar or slowing patterns of revenue growth as we plan for FY 2020-21 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 the current year (FY 2019-20), Medicaid compliance rules are forcing unplanned expenditure increases in our Social Services department,



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with additional expenditure increases planned for FY 2020-21. This example points 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 variable 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 2020-21 Budget Development Framework

#### Request must align with BOCC Strategic Plan

- 1. 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
  
- 2. Seek to limit property tax increase as a solution versus process improvement and strategic reallocation of existing funding**
  
- 3. Draft Revenues Assumptions (preliminary)**
  - a. Significant Natural Growth in Property Tax
  - b. Slow Sales Tax Growth
  - c. Potential continuing sales tax reallocation changes by the State legislature
  - d. Minimal intergovernmental revenue growth
  - e. Minimal charges and fee growth
  
- 4. Draft Expenditure Assumptions (preliminary)**
  - a. Significant support of Durham Public Schools
  - b. Continued funding increase in support expanding Pre-K services
  - c. Federal and/or State policies that may shift local service burden
  - d. Benefits Increases
  - e. State mandated increase in Retirement funding for County Employees
  - f. Appropriate departmental support