

**THE BOARD OF COUNTY COMMISSIONERS
DURHAM, NORTH CAROLINA**

Wednesday, October 28, 2009

8:30 A.M. Budget Workshop

MINUTES

Place: East Durham Regional Library, 211 Lick Creek Lane, Durham, NC

Present: Chairman Michael D. Page, Vice-Chairman Ellen W. Reckhow (arrived at 8:53 a.m.), and Commissioners Joe W. Bowser (arrived at 9:08 a.m.), Becky M. Heron, and Brenda A. Howerton

Staff: Mike Ruffin, County Manager; Lowell Siler, County Attorney; Wendell Davis, Deputy County Manager (arrived at 8:48 a.m.); Carolyn Titus, Deputy County Manager; Deborah Craig-Ray, Assistant County Manager; Drew Cummings, Assistant County Manager for Special Projects; Laura Jenson, Assistant to the County Manager; Kim Connelly, Budget Analyst; Keith Lane, Senior Budget Analyst; Pam Meyer, Budget and Management Director; George Quick, Finance Director; Minora Sharpe, Budget Analyst; Kim Simpson, Tax Administrator; Marqueta Welton, Human Resources Director; and Yvonne Jones, Acting Clerk to the Board

Call to Order

Chairman Page welcomed everyone to the October 28, 2009 Budget Workshop. He recognized County Manager Mike Ruffin to facilitate the meeting.

Purpose of Workshop

County Manager Ruffin introduced the budget staff to the Board. He stated the purpose of the workshop, explaining that staff would highlight budget data from the past and current fiscal years as well as anticipated budget data for FY 2011. County Manager Ruffin emphasized his desire to stay on time as Commissioner Howerton wished to leave early. He noted that time had been allotted for Commissioner Remarks at the end of the presentation; however, Commissioners may ask questions during the presentation.

The FY 2009 Budget—A Look Back

County Manager Ruffin presented on the FY09 budget as follows:

- Final 2008 Levy—Budgeted Versus Actual

<u>08-09 Budgeted</u>	<u>08-09 Actual</u>
\$198,485,693	\$202,091,136

- Final 2008 Collection Percentage—Budgeted Versus Actual

<u>08-09 Budgeted</u>	<u>08-09 Actual</u>
98.50%	98.34%

Pam Meyer, Budget and Management Director, presented the following data:

- Historical Revenue Trends

Revenue	06-07 Budget	06-07 Actual	Diff.
Sales Tax	\$50,229,670	\$55,347,250	\$5,117,580
Property Tax	\$177,453,172	\$180,977,868	\$3,524,696
ROD Rev.	\$3,300,000	\$3,959,790	\$659,790
Total	\$230,982,842	\$240,284,908	\$9,302,066

Revenue	07-08 Budget	07-08 Actual	Diff.
Sales Tax	\$53,500,579	\$56,069,488	\$2,568,909
Property Tax	\$189,900,301	\$198,307,123	\$8,406,822
ROD Rev.	\$4,045,000	\$3,769,370	-\$275,630
Total	\$247,445,880	\$258,145,981	\$10,700,101

Revenue	08-09 Budget	08-09 Actual	Diff.
Sales Tax	\$50,540,284	\$47,108,208	-\$3,432,076
Property Tax	\$200,985,693	\$203,413,241	\$2,427,548
ROD Rev.	\$3,826,428	\$2,413,816	-\$1,412,612
Total	\$255,352,405	\$252,935,265	-\$2,417,140

- FY 2008-09 Sales Tax
 - Total sales tax collected was \$3.4 million under budget
 - Over \$2 million of that loss was Article 40 and 42 sales tax which is collected throughout the state and distributed per capita
 - Article 39 sales tax (the local sales tax) was only \$194,000 under budget
 - The current interlocal agreement with the City of Durham (58/42 split) yielded \$6.25 million, under budget by \$470,000, but important in offsetting lost Article 44 sales tax
 - Article 44 sales tax lost close to \$500,000 from budget
 - The last three months of the fiscal year, which were not available at the time the FY 2009-10 budget was approved were worse than expected
- 10 Year Sales Tax Collection (minus Interlocal)—Chart

Commissioner Questions/Comments

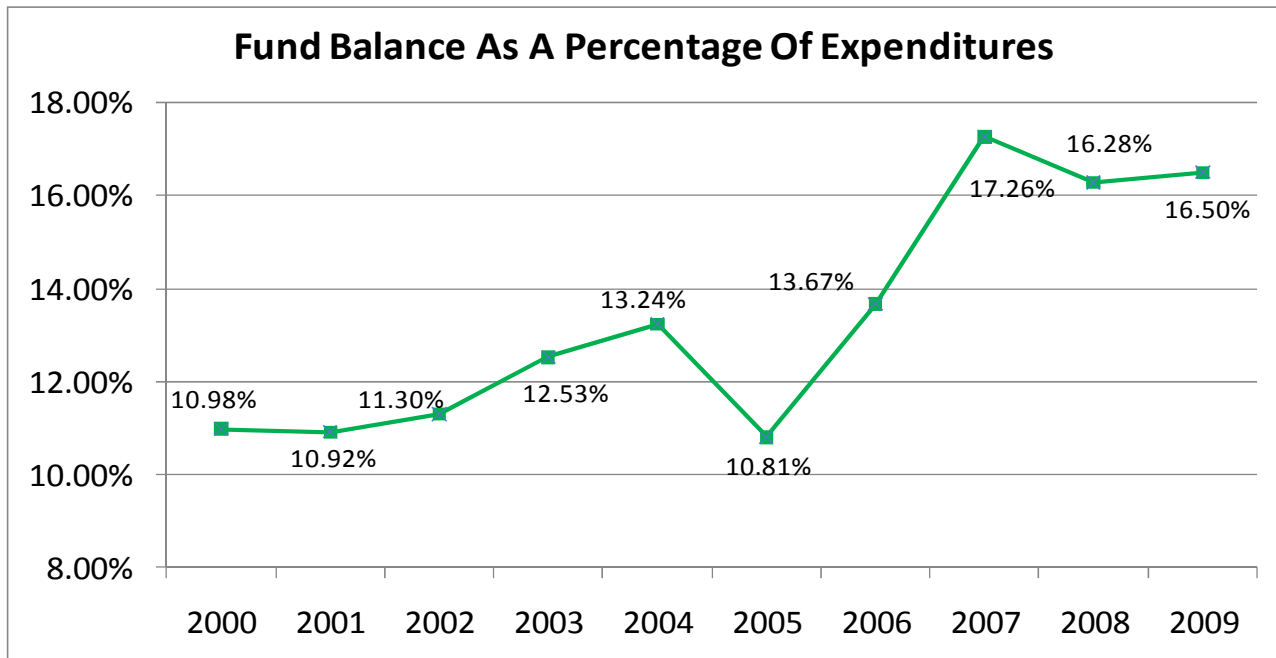
Vice-Chairman Reckhow—relay the issue of sales taxes on Internet sales

County Manager Ruffin assisted Mr. Quick with the following data:

- Fund Balance Comparison

**General Fund Balance:
 Comparison of FY2008 Actual
 and FY2009 Actual**

	FY2008 Actual	FY2009 Actual	Anticipated Change	FY09 Estimated	Difference FY09 Actual & FY09 Projected
Total Fund Balance	\$ 95,112,980.00	\$ 92,187,744.00	\$ (2,925,236.00)	\$92,234,197.56	\$ (46,453.56)
Less:					
Reserved by state statute	\$ 23,804,558.00	\$ 21,970,076.00	\$ (1,834,482.00)	\$23,900,000.00	\$ (1,929,924.00)
Reserved by state statute-MH	\$ 1,566,417.00	\$ 1,214,112.00	\$ (352,305.00)	\$ 1,566,417.00	\$ (352,305.00)
Reserved for encumbrances	\$ 3,185,443.00	\$ 1,320,643.00	\$ (1,864,800.00)	\$ 3,185,443.00	\$ (1,864,800.00)
Reserved for encumbrances-MH	\$ -	\$ -	\$ -	\$ -	\$ -
Reserved other purposes	\$ 5,778,885.00	\$ 5,830,176.00	\$ 51,291.00	\$ 5,278,885.00	\$ 551,291.00
Net Unreserved	\$ 60,777,677.00	\$ 61,852,737.00	\$ 1,075,060.00	\$58,303,452.56	\$ 3,549,284.44
Designated for mental health	\$ -	\$ 129,335.00	\$ 129,335.00	\$ -	\$ 129,335.00
Designated for social services	\$ 499,849.00	\$ 609,104.00	\$ 109,255.00	\$ 499,849.00	\$ 109,255.00
Designated for subsequent years	\$ 17,548,466.00	\$ 7,592,000.00	\$ (9,956,466.00)	\$ 7,500,000.00	\$ 92,000.00
Designated for risk management	\$ 4,285,668.00	\$ 4,285,668.00	\$ -	\$ 4,285,668.00	\$ -
Designated for debt service	\$ 2,489,378.00	\$ 2,718,074.00	\$ 228,696.00	\$ 2,757,793.66	\$ (39,719.66)
Designated for OPEB	\$ 4,778,407.00	\$ 10,409,715.00	\$ 5,631,308.00	\$ 6,811,455.23	\$ 3,598,259.77
Undesignated	\$ 31,175,909.00	\$ 36,108,841.00	\$ 4,932,932.00	\$36,448,686.67	\$ (339,845.67)
LGC Recommended 8% Minimum	16.28%	16.50%	0.22%	15.54%	0.96%



County Manager Ruffin proceeded with the presentation as follows:

- Estimated FY 2008-09 Shortfall
 - \$14,242,687 Under Realized Revenue
 - \$8,951,100 Trended Expenditure Savings
 - \$5,291,587 Estimated Shortfall
 - County Manager Requested More Expenditure Cuts From County Departments
- FY 2008-09 Reductions Made

Department	Requested Cut	% Cut
Durham Public Schools	\$(3,081,862)	3%
Durham Technical Comm. College	\$(144,136)	3%
NC Museum of Life & Science	\$(43,370)	3%
APS Contract	\$(18,347)	3%
Nonprofits	\$(28,415)	3%
Contracted Services	\$(9,990)	3%
Departmental Operating Reductions	\$(1,415,467)	6%*
County Contribution (Open Space)	\$(550,000)	100%
Total	\$(5,291,587)	

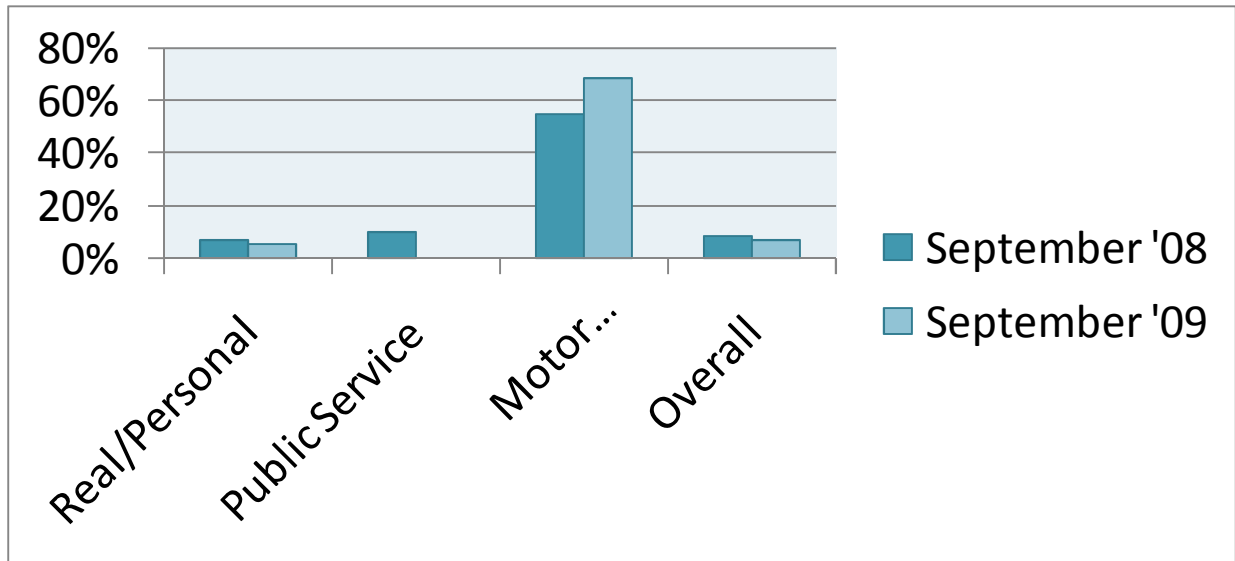
- FY 2008-09 Cost Savings Results
 - Departmental reductions met
 - Outside agency reductions met
 - Trended expenditure savings larger than expected
 - Revenue losses larger than expected
 - Sales Tax revenue
 - Prior Year Property Tax
 - Register Of Deeds revenue
 - Interest Income

The FY 2010 Budget—A Look Now

County Manager Ruffin introduced Kim Simpson, Tax Administrator, to present the following information:

- Collection Rate—September 2008 vs. September 2009

September	2008	September	2009
Real/Personal	6.69%	Real/Personal	5.71%
Public Service	10.00%	Public Service	0%
Motor Vehicles	54.52%	Motor Vehicles	68.71%
Overall	8.23%	Overall	7.02%



- FY 2009-10—Collection Percentage Budgeted

<u>09-10 Budgeted</u>	<u>09-10 Actual</u>
97.75%	?????

- Payment Plan Update (Affecting FY 2009-10)
 - For 2008 taxes –
89 receipts totaling \$84,841 still due
 - For 2009 taxes –
308 receipts totaling \$237,719 still due
 - Total unpaid taxes in payment plans –
\$322,560

- Accounts in Bankruptcy (Affecting FY 2009-10)
 - For tax year 2007 – 378 receipts, \$128,919
 - For tax year 2008 – 717 receipts, \$322,053
 - For tax year 2009 – 547 receipts, \$567,682
 - Total – 1642 receipts, \$1,018,674

- Statutes Affecting Tax Base FY 2009-10
 - Section 42 Housing- Change required this class of property to be valued as special class of property.
Total Loss in Assessed Value (2008 vs. 2009)
- Total number of Section 42 Parcels - 132
- \$ 136,740,894 – 2008 Market Value
- \$ 129,464,904 – 2009 Section 42
- =====
- \$ 7,275,990 – Assessed Value Loss

Commissioner Questions/Comments

Commissioner Heron—penalty on tax payment plans

Ms. Meyer briefed the Board on the following:

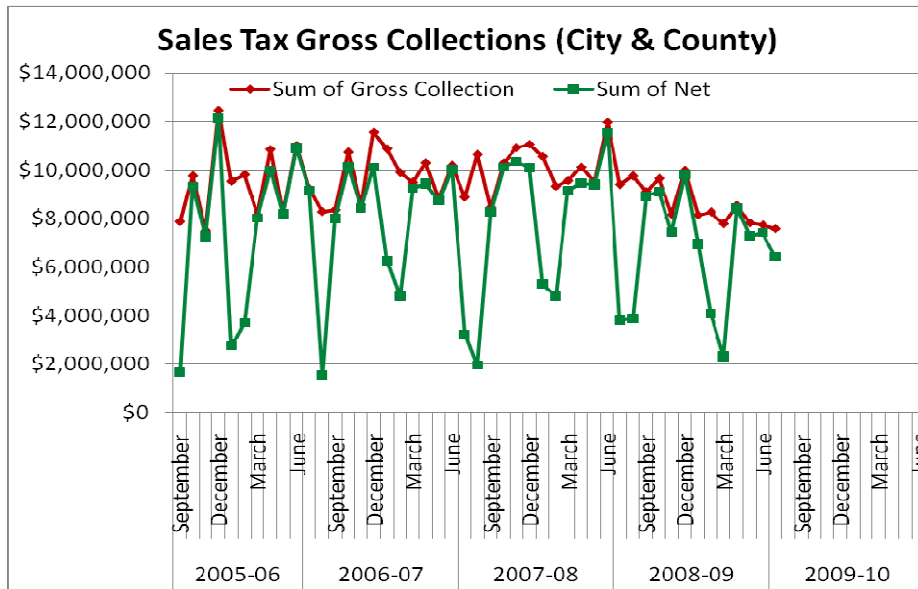
- Historical Revenue Trends

Revenue	08-09 Budget	08-09 Actual	Diff.
Sales Tax	\$50,540,284	\$47,108,208	-\$3,432,076
Property Tax	\$200,985,693	\$203,413,241	\$2,427,548
ROD Rev.	\$3,826,428	\$2,413,816	-\$1,412,612
Total	\$255,352,405	\$252,935,265	-\$2,417,140

Revenue	08-09 Budget	09-10 Budget	Diff.
Sales Tax	\$50,540,284	\$44,620,142	-\$5,920,142
Property Tax	\$200,985,693	\$202,668,589	\$1,682,896
ROD Rev.	\$3,826,428	\$2,800,000	-\$1,026,428
Total	\$255,352,405	\$250,088,731	-\$5,263,674

- FY 2009-10 Sales Tax

- Only one month of actual collections for FY 2009-10
- First month collections better than estimated by \$800,000
- Due to lower than estimated actual collections for the last three months of FY 2009, reaching the budgeted sales tax could be a challenge if the economic landscape does not improve.



- Register of Deeds Revenue (1st Quarter Comparison)

Actual Collections	July	August	Sept.	Total	% Collected
2006-07	\$324,494	\$346,780	\$283,809	\$955,083	24.1%

2007-08	\$434,840	\$417,777	\$342,478	\$1,195,095	31.7%
2008-09	\$251,839	\$232,308	\$232,737	\$716,884	29.7%
2009-10	\$239,185	\$201,921	\$187,214	\$628,320	22.4%

2006-07 Actuals	\$3,959,790
2007-08 Actuals	\$3,769,370
2008-09 Actuals	\$2,413,816
2009-10 Budget	\$2,800,000

First quarter ROD collections for FY 2009-10 show no indication of economic recovery.

County Manager Ruffin provided the following data:

SWAP PAYMENTS

FISCAL YEAR	PAYMENTS RECEIVED
2005	\$ 327,068.00
2006	\$ 541,750.00
2007	\$ 835,800.00
2008	\$ 1,253,817.00
2009	\$ 1,205,274.00
2010	\$ 1,268,178.00
TOTAL	\$ 5,431,887.00

FIRST PAYMENT ONLY

PAYMENTS ARE RECEIVED IN MARCH AND SEPTEMBER

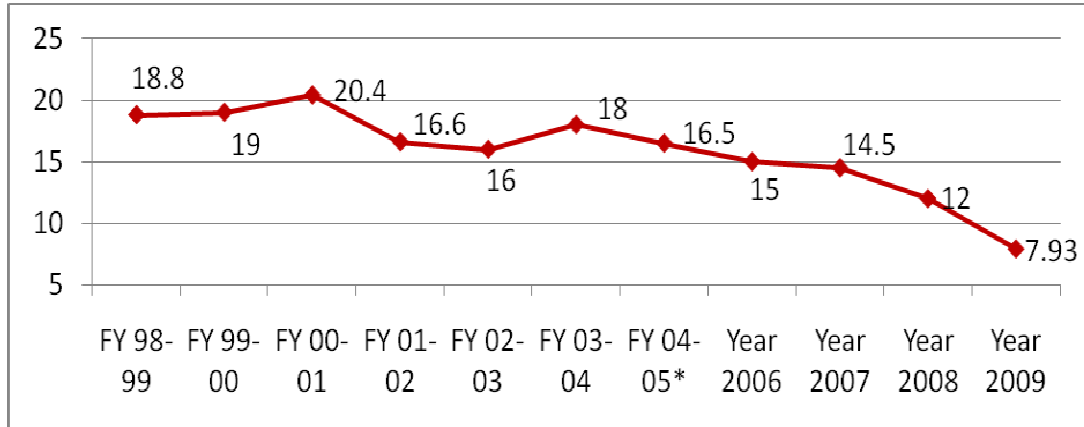
ON SEPTEMBER 1, 2009 THE SWAP WAS MODIFIED AND INCREASED FROM \$125,810,000 to \$186,365,000

Ms. Meyer provided the following information on FY 2009-10 Expenditures:

- Current year expenditures appear on track with prior year for first three months
- First quarter expenditures & encumbrances at 23.3%, slightly below 4 yr average of 24.9%
- First quarter expenditures FY2010 vs. FY2009 = 23.3% vs. 23.5%
- Staff will continue to monitor expenditure trends closely

Marqueta Welton, Human Resources Director, highlighted the following data on Human Resources issues:

- Turnover and Vacancy Trends
 - Since 2004, the employee turnover rate has steadily declined:



- From 2008 to 2009, we experienced a notable decrease in turnover attributable to the overall state of the economy. However, the hiring freeze and net positions lost led to a slightly higher vacancy rate.

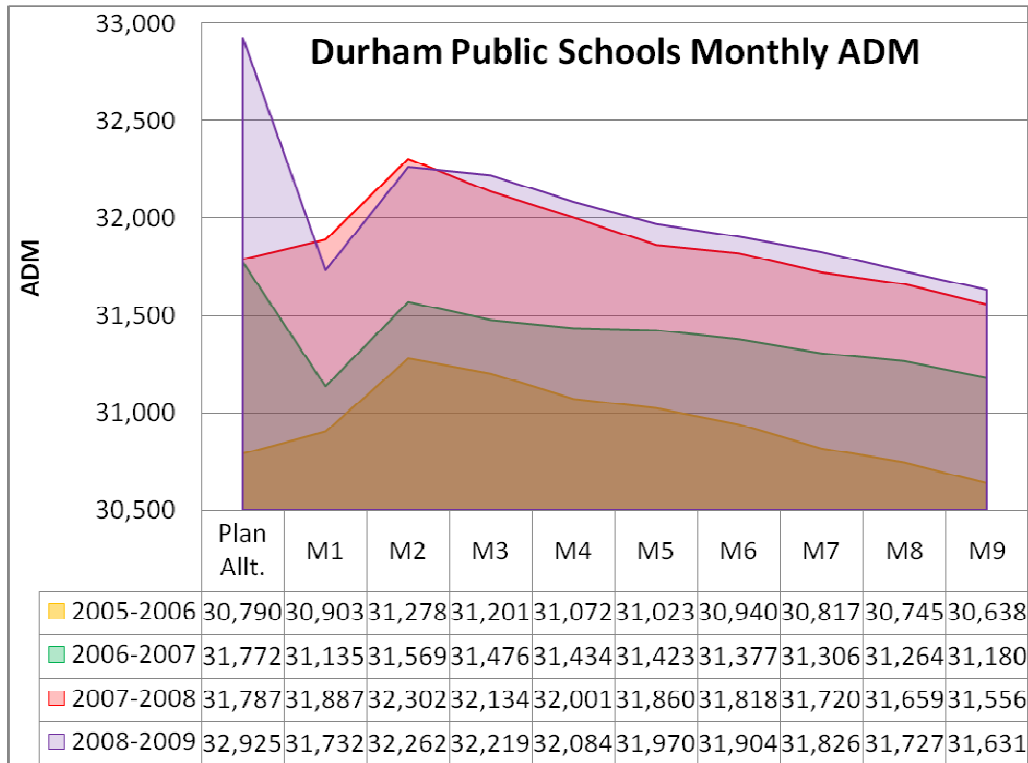
<u>TURNOVER</u>	(through 9/30/09)	(through 9/30/08)
	<u>2009</u>	<u>2008</u>
	7.93%	10.12% (12% total '08)

<u>VACANCY RATE</u>	(as of 10/20/09)	
	<u>2009</u>	<u>2008</u>
	8.7%	7.3%

Commissioner Questions/Comments

- Chairman Page—high turnover rate in the Sheriff’s office and the Department of Social Services
- Commissioner Heron—vacant grant-funded positions; how many positions are now vacant due to the grant period ending?

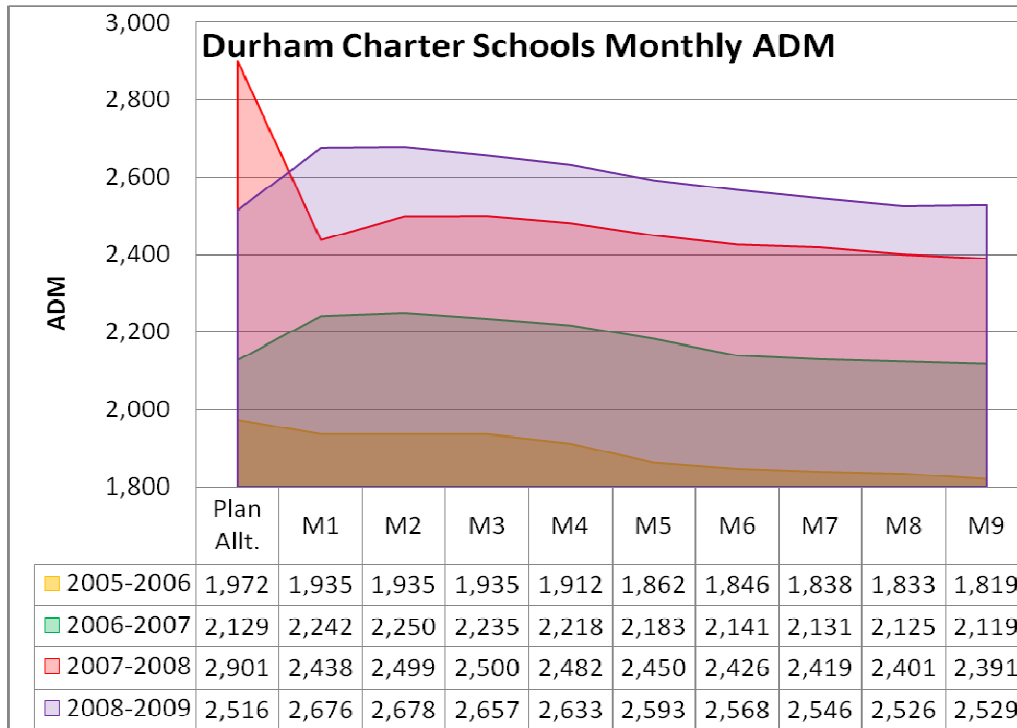
County Manager Ruffin and Keith Lane, Senior Budget Analyst, presented the following chart on Durham Public Schools:



Commissioner Questions/Comments

- Vice-Chairman Reckhow
 - “Plan Allt.”=Planning Allotment (numbers provided by DPI [Department of Public Instruction])
 - decrease in ADM (due to dropout?)
 - talk to superintendant about the average between month 2 and month 9
 - report on performance of the charter schools (present at December 14)
- Commissioner Bowser
 - out-of-county student payments
 - percentage difference between DPS adm and Charter Schools adm
 - accountability of Charter School students and payments
 - do local monies follow students?
- Commissioner Howerton—what happens when students are expelled for a long period of time; what happens to the money?
- Commissioner Heron—provide a list of questions and requests for DPS

County Manager discussed information on the following chart:

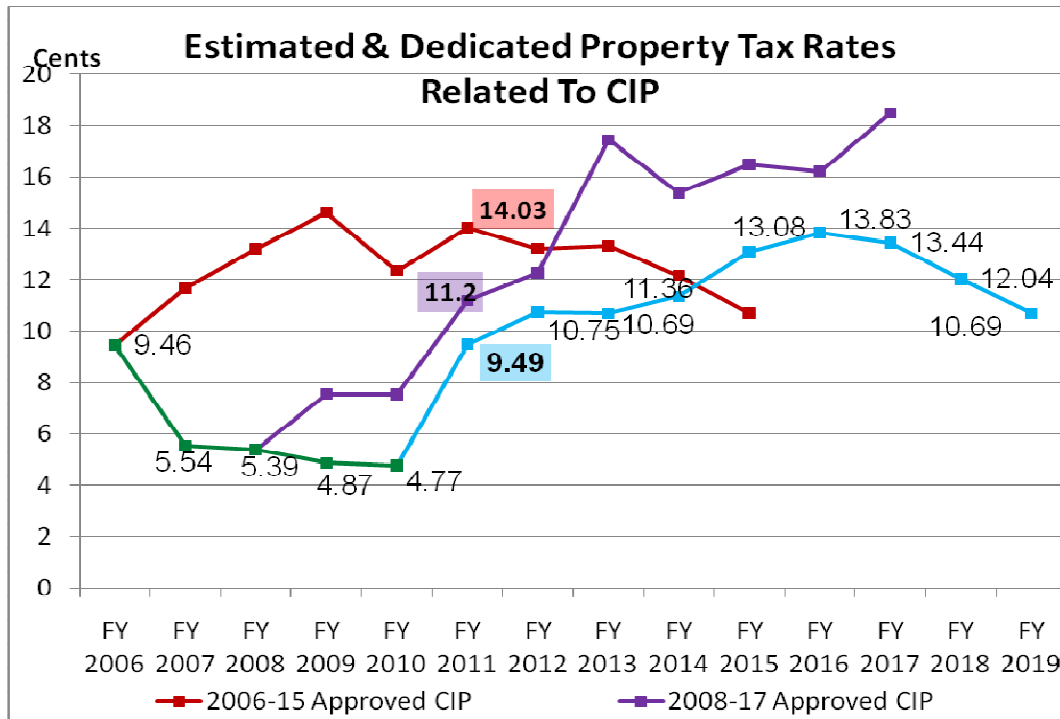


The FY 2011 Budget—A Look Forward

Mr. Lane displayed and discussed a chart on the Capital Finance Model (FY 2010 & FY 2011). He provided the following explanations:

- Existing debt decreases \$2.5 million, but new debt increases \$6.8 million for an overall debt increase of \$4.3 million (1.47 cents).
- New debt increases are due largely to 2007 GO Bond support (DPS mostly) and COPS funding for the New County Courthouse and other smaller projects.
- Growth in these revenues is limited and potentially volatile in this economic climate. Estimates will be revisited and revised throughout the fiscal year.
- Capital Financing Plan Fund fund balance and Debt Service Fund Balance Appropriations both decrease from FY 2010 to FY 2011. This was expected and planned. A loss of \$1.5 million (0.5 cents).
- Several one-time revenues are used in FY 2010 to keep tax rate flat. A loss of \$7.56 million (2.59 cents).
- Public School Building Funds are used to support approximately \$2 million in County debt service support annually. The state has retained these funds.
- Lottery funds support both DPS construction (\$2 million) and County debt service (\$1 million) annually.
- Debt service expenditure increase \$4.37 million from FY 2010 to FY 2011 while revenues decrease \$9.80 million for a net gain in property tax needed of \$14.17 million (4.72 cents).

County Manager Ruffin explained the following graph:



Commissioner Questions/Comments

- Commissioner Howerton
 - requested a larger version of the Capital Finance Model (FY 2010-FY 2011) chart
 - what is included in debt service payments?
- Commissioner Bowser
 - how much debt service for American Tobacco South Parking Deck?
 - how much would be saved if construction halts (including the new courthouse and new DPS construction issuance)?
- Vice-Chairman Reckhow
 - revenues to pay debt service
 - halting DPS construction may cease local jobs and miss construction savings
 - debt issuance for new courthouse construction
- Commissioner Heron—why \$1 million from lottery funds for DPS
- Chairman Page—clarification of halting new courthouse construction

Ms. Meyer presented the following:

- FY 2010-11 Revenue Projections
 - Too early to project any real growth in sales tax with only one month collected for FY 2009-10 (July)
 - Sales tax related to capital project financing was estimated to grow at 3% (Article 40 and 42)
 - Occupancy tax growth related to capital project financing was estimated to grow at 2%
 - Interest earnings likely to remain flat until some change in rates
 - Register of Deeds revenue will be reviewed as the year continues to determine if any upward trending

- State “Hold Harmless” reimbursement –estimates from the state in the spring of 2010
- FY 2010-11 Potential Budget Impacts
 - Stagnant revenues (little to no growth)
 - Continued loss of state funding
 - Opening and full-year staffing of new libraries
 - Capital projects debt service payments
 - DPS student population growth
 - Vehicle & equipment replacements
 - One time savings for FY 2009-10 that may not be available for FY 2010-11
 - COPS funding for Sheriff positions (17 FTE)
 - JAG funding for Warrant Control Office
 - State revenue for 60-90 state inmates at County Jail

Ms. Simpson provided the following information:

- Statutes Affecting Tax Base FY2010-11
 - Durham Community Land Trust—Working with DOR to understand the impact this statute will have on Durham County Tax Base for FY 2010-11
 - Builders Inventory – Estimated 1.5 million will be deferred for FY2010-11.

Commissioner Questions/Comments

- Commissioner Heron—current tax rate
- Vice-Chairman Reckhow—expressed interest in seeing a target of decreasing the tax rate
- Commissioner Bowser—Durham County property tax rate during recent revaluation
- Chairman Page—dollar amount in terms of home tax rate percentage

County Manager Ruffin discussed the following guidelines and asked for input from the Board:

- Fiscal Year 2010-11 Budget Guidelines
 - Recommended property tax rate shall not exceed 75.53 cents
 - Recommended appropriation from undesignated fund balance shall not exceed an amount that would create an undesignated fund balance percentage of less than 15%
 - No funding recommendations may be forwarded that would reduce state maintenance of effort requirements
 - Any reduction in appropriations to outside organizations shall be comparable to the average reduction in appropriations for County departments.
 - Consolidation and reorganization of County services shall be considered where costs can be reduced and/or efficiencies can be realized due to duplications of effort.
 - No new services or increases to existing service level shall be considered. Existing County services and services levels should be examined for continued need, effectiveness, costs, etc.
 - Any strategies that would result in a reduction in force, layoffs or furloughs shall follow established policies and procedures

The Commissioners offered the following changes and/or comments on the FY10-11 Budget Guidelines:

- Bullet No. 4—Commissioner Bowser expressed discomfort with comparing County departments with outside organizations.
- Bullet No. 6— ~~No new services or increases to existing service level shall be considered.~~ **Request for new services or increases to existing service level shall be evaluated.** Existing County services and services levels should be examined for continued need, effectiveness, costs, etc.

Commissioner Questions/Comments

- Chairman Page—additional funding for nonprofits; raises for nonprofit employees vs. lack of raises for County employees
- Vice-Chairman Reckhow—DPS to receive stimulus funding
- Commissioner Bowser
 - requested a printout of the \$15 million debt service
 - consider what tax increases the City may implement

County Manager Ruffin inquired about the Board’s desire to hold “Conversations with Commissioners”, which are discussions with the community to receive input on the upcoming budget fiscal year. The Board reached a consensus to hold three Conversations in 2010 at the following locations: White Rock Baptist Church, East Durham Regional Library, and North Regional Library.

The Commissioners discussed the following budget calendar and suggested changes:

- FY 2010-11 Draft Budget Calendar
 - January 2010—BOCC Annual Retreat
 - Hold “Conversations with Commissioners” after the retreat
 - Jan 6—Distribution of Nonprofit Application
 - ~~Jan 25~~ **Feb 8**—Advance Public Comments FY 2010-11 Budget
 - Mar 17 – 31—Dept. Budget Presentations with County Manager
 - Apr 5—Nonprofit Information Session with BOCC
 - May 24 **17** (at 5:00 p.m. or earlier due to the City Council’s meeting)—Recommended Budget to BOCC
 - May 27 – June 16—BOCC Budget Work Sessions
 - Staff to poll Commissioners on potential dates
 - June 14—Public Hearing on Recommended Budget
 - June 28—Budget Adoption by BOCC

Chairman Page mentioned that he would be out of town during the last week of January 2010.

Commissioner Remarks

Commissioner Howerton expressed appreciation to the County Manager for facilitating the workshop and keeping on task.

Vice-Chairman Reckhow asked staff to search the County real estate inventory to determine if there are any properties not needed anymore.

Chairman Page informed the Board that a joint meeting with Durham Public Schools (DPS) would be held on December 14, 2009 at 4:00 p.m., prior to the Board's Regular Session.

Chairman Page asked that Commissioners forward questions to him regarding DPS budget or any general Schools concerns.

The Commissioners held a brief discussion regarding the following:

- Testing, suspensions, and dropouts
- Salaries
- Building a relationship with DPS

Commissioner Bowser emphasized his desire to receive precise answers from DPS.

Adjournment

Chairman Page thanked the County Manager and staff for the thorough presentation. There being no further business, he adjourned the meeting at 11:50 a.m.

Respectfully submitted,

Yvonne R. Jones
Acting Clerk to the Board