

**DURHAM COUNTY, NORTH CAROLINA
FY 2013-14 RECOMMENDED BUDGET**

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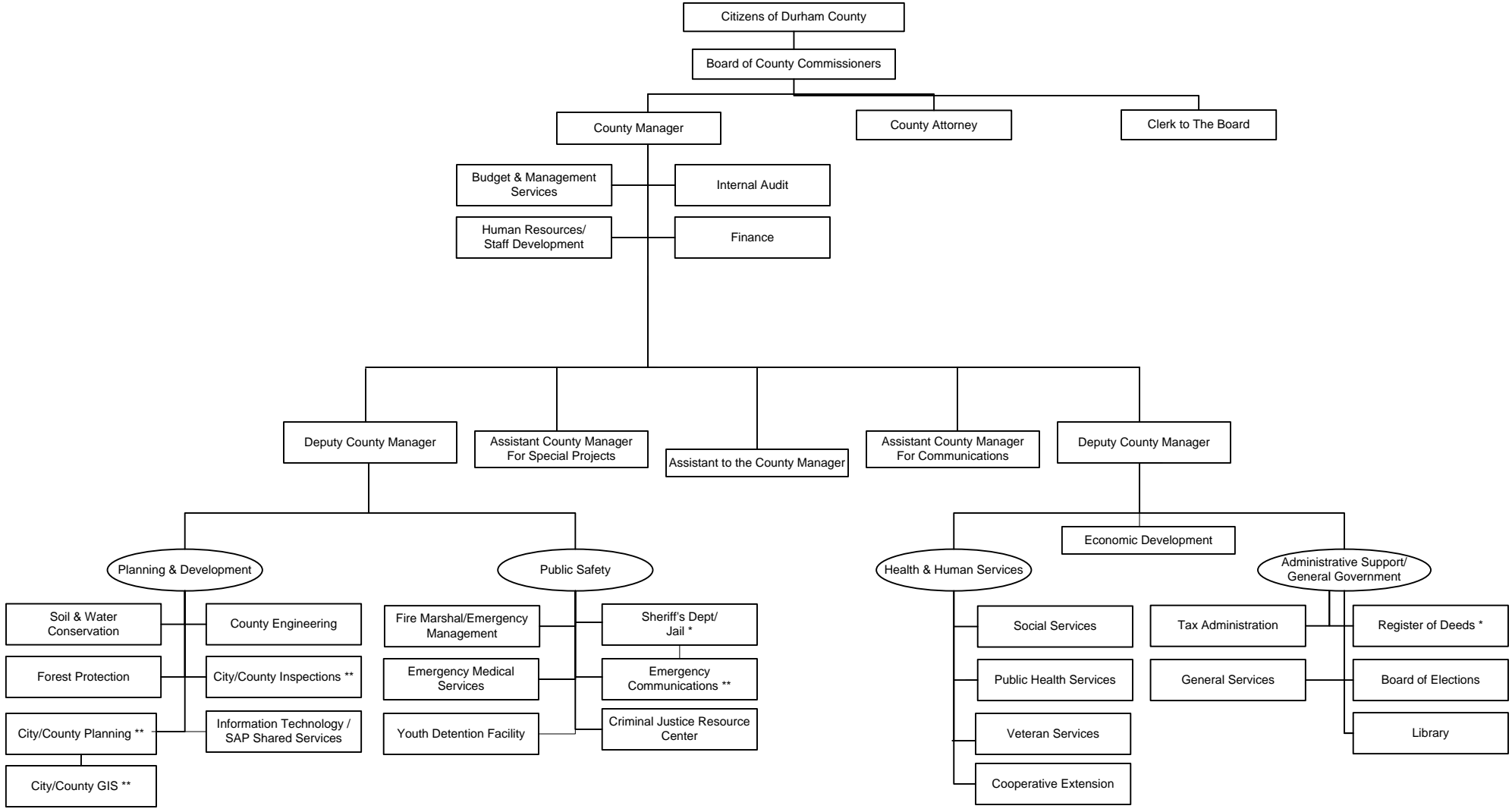
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Lee Worsley, Deputy County Manager
Lowell Siler, County Attorney
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George Quick, Finance Director

BUDGET AND MANAGEMENT STAFF:

Pamela Meyer, Director
S. Keith Lane, Senior Budget Analyst
Kim Connally, Budget Analyst
Bo Gattis, Budget Analyst
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Durham County, North Carolina General Administration Organizational Chart



* Elected Officials
 ** Joint City/County Departments



GOVERNMENT FINANCE OFFICERS ASSOCIATION

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READER'S GUIDE

This section is designed to help the reader understand the budget by explaining how the document is organized. This document is a financial plan for Durham County Government operations for the July 1, 2012 through June 30, 2013 fiscal year and shows how funds are allocated and how they will be spent.

FUND STRUCTURE

The Durham County operating budget is organized into funds with corresponding tabs in this booklet. The **General Fund** (Fund 1001010000) is the primary fund where the majority of county services are accounted. The General Fund is further divided into functional areas which include General Government, Public Safety, Transportation, Environmental Protection, Economic/Physical Development, Human Services, Education, and Culture and Recreation.

Each functional area is comprised of at least one business area which represents either a county department or a budgetary unit. Within each business area, there may be one or more fund centers in which funds are budgeted to show the expenditures and revenues associated with a particular program within a county department or activity within a budgetary unit. Each department or program summary contains a description, accomplishments of the past fiscal year, performance measures, a budget summary and the number of authorized personnel in Full-time Equivalent (FTE) positions. Departments with more than one program have a business area summary sheet that precedes the programs.

Each fund center is represented by a summary of appropriations in the following categories of expenditures:

- **Personnel Services**
Personnel Services in this document refer to the costs associated with personnel such as salaries and benefits.
- **Operating Expenses**
Operating Expenses in this document refer to the costs of daily operations such as office supplies, travel, telephone, etc., for a department or program.
- **Capital Outlay**
Capital Outlay refers to a fixed asset with an estimated purchase price of \$5,000 or more and a useful life of more than one year. These items typically include furniture, office equipment, automobiles and other capital equipment. Items in excess of \$100,000 with a useful life of 20 years, such as buildings, are included in the county's Capital Improvement Plan (CIP).

The remaining budgeted funds are described below.

Other General Funds

Risk Management (Fund 1001020000): This fund focuses on minimizing operational risks and promoting workplace safety.

SWAP Fund (Fund 1001030000): This fund represents a complicated financial agreement based on outstanding debt (see page 256 of the document) that brings in over \$1.5 million in revenue to the county each year. The revenue is used to offset yearly debt service payments.

Capital Financing Plan Fund (Fund 1001250000): This fund accounts for financial resources to be used for the acquisition, construction or improvement of major capital facilities. The capital projects fund also is used to accumulate funds to finance a CIP.

Benefits Plan Fund (Fund 1001500000): This fund represents the budget for the benefits offered to eligible county employees and retirees.

Debt Service Fund

The **Debt Service Fund (Fund 3003040000)** is used to account for the payment of principal, interest and related costs for all general, long-term debt other than debt issued for and serviced by proprietary funds.

Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources, other than major capital projects, that are legally restricted for specific purposes. The county budgets the following special revenue funds: **Bethesda Fire District (Fund 2002130000)**, **Lebanon Fire District (Fund 2002140000)**, **Parkwood Fire District (Fund 2002150000)**, **Redwood Fire District (Fund 2002160000)**, **New Hope Fire District (Fund 2002170000)**, **Eno Fire District (Fund 2002190000)**, **Bahama Fire District (Fund 2002210000)**, **Special Butner District (Fund 2002250000)**, **Special Park District (Fund 2002220000)**, and **Emergency Services Telephone System (Fund 2002240000)**.

Enterprise Funds

The **Sewer Utility Fund (Fund 6006600000)** is used to account for the revenues and expenses related to the provision of sewer service as well as the debt service for the fund.

Trust Funds

George R. Linder Memorial Trust Fund (Fund 7007050000): This private-purpose trust fund is used to account for resources legally held in trust specifically for the Library.

Law Enforcement Officer's Retirement Trust Fund (Fund 7007700000): The pension trust fund accounts for the activities of the Public Safety Employees Retirement System, which accumulates resources for pension benefit payments to qualified public safety employees.

Community Health Trust Fund (Fund 7007080000): This fund accounts for the financial resources acquired through the leasing of Durham Regional Hospital to Duke University and accounts for the earnings of these financial resources and ensures the financial resources are used for health-related operating and capital expenditures.

SUPPLEMENTAL SECTIONS

The **Summary** section provides a summary of sources of revenue and expenditures from the General Fund. An overview of revenue sources is included. This section also provides a brief account and graphs of all funds budgeted for the fiscal year beginning July 1, 2010. In addition, the section contains a summary of FTEs for all funds.

The **Appendix** contains supplemental information that includes the FY 2011-12 Budget Calendar and the FY 2011-12 Nonprofit budget request. The **Glossary**, also found in the Appendix, contains information to help the reader understand the terminology used in the budget document.

ADDITIONAL INFORMATION

In accordance with North Carolina General Statutes, the **basis of accounting and budgeting** for the county is **modified accrual**. This means that **Revenues** are recorded in the period in which they are **measurable** and **available**. Revenues are recognized when they are received in cash (example: licenses, fines, etc.) or when the collection of the amount estimated to be received in the near future (example: property taxes). **Expenditures** in a modified accrual basis are generally recognized in the period goods and services are received or liabilities incurred.

Capital projects, funded primarily by general obligations bonds, are presented in a separate document, the **Durham County Capital Improvement Plan**. This document is a ten-year plan that is updated biannually.

The annual operating budget includes information from the **Results Based Accountability (RBA)** initiative on departmental pages. Departments were asked to submit a graph, a two-year history, and strategies for improvement for two to three key performance measures.

This document was prepared by the Durham County Budget and Management Services Department and is available online at www.durhamcountync.gov. If further information is needed, contact Budget and Management Services at 200 East Main Street, 4th Floor, Durham, North Carolina 27701, by phone at (919) 560-0012, or by e-mail at budget@durhamcountync.gov.

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**DURHAM COUNTY
FY 2013-14 RECOMMENDED BUDGET**

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County Manager

May 28, 2013

The Honorable Members
Durham County Board of Commissioners
Durham County Administrative Complex
200 East Main Street
Durham, NC 27701

Dear County Commissioners:

Live, Grow, Thrive: When you stop and think about it, our new tagline very much embraces the goals of this budget, and I think it sums up the overarching goal of this organization, which is emphasized through our Vision: *"A thriving, vibrant, diverse community with abundant opportunity for all residents to live, work, learn, play and grow."*

Thirteen years ago we were largely known as a community of high crime. That's certainly no longer true about Durham, and over the last thirteen years the Board of County Commissioners and this administration have worked tirelessly to shape this community as one of promise and great hope. Just look at the accolades that have come our way this year alone. We were voted in April as Southern Living's Tastiest Town in the South; just this month, the Durham School of the Arts was recognized in U.S. News and World Report as the #1 Public High School in North Carolina. In January, the Durham Performing Arts Center was ranked 5th among the most attended theatres in the United States; and last July, Durham ranked 1st among America's leading "Creative Class" metropolitan areas. Also, in September, American City Business Journal ranked Durham as the 12th strongest economy in America; the Fourth Economy Community Index last December ranked us first in the category of Large Counties Best Positioned for Growth; and just a few months ago the Washington Post reported that we were 6th in America's Top 10 Cities for Small Business.

These distinctions are no accident. This County Government, this Board, previous Boards of County Commissioners, the City of Durham, and scores of community leaders and citizens have worked very hard to turn this community around, when it needed to be turned around. Durham has been misunderstood for years. Only now is the world beginning to see the community we really are.

But everything hasn't been in need of turning around. We've been doing great things in this community for decades. Merck, for example, certainly realized how special we are when it decided to build its vaccine manufacturing facility in Durham County in 2004. Indeed, we ARE

special and we've been special for years. I said it moments ago and repeat it now: We are THE place in the Triangle to live, grow and thrive.

I would like to thank Durham County's department heads, our senior management team, our Budget Director and her team of analysts, and members of my staff, without whom I could not so confidently propose this budget. Budgets like this one are not the product of one person. We have a strong team here, and far too much talent and wisdom in this organization for me to ignore. There has been debate, analysis, and consensus that is represented in the recommendation that is being put forward. All involved care very much about what this County does through their departments and agencies. They support this recommendation, and I cannot thank them enough for their wisdom, their support and their assistance. High-performing services like the ones we offer can only be provided by a high-performing workforce. I personally believe the employees we have and what they do for our citizens are second to none anywhere in this country. To those employees, thank you all for what you do for our citizens. As our team looked ahead, we recognized that the upcoming fiscal year posed some serious budget challenges:

- A sluggish economy is not producing sufficient revenue to allow for us to do very much beyond continuing our current service levels, despite an increased demand for services.
- Our public school system continues to ask this County to replace funds that are being taken by a very conservative legislature, looking for money to satisfy its own needs and goals.
- We need to demonstrate to the bond rating bureaus that we are serious about how we plan to manage our increasing debt service.

While we are in the best financial condition ever, the decisions we make with this budget and subsequent budgets will greatly shape our ability to maintain our strong fiscal condition. Let me provide a high level summary of next year's recommended budget.

- Our budget actually includes 18 different funds, and in total I am recommending appropriations of \$525.7 million.
- The recommended General Fund Budget, which is the home for most of our County services, is \$359.6 million, which represents a 3.23% increase.
- We currently have 1856.92 FTE's, or full-time equivalents, in this organization. For next year, I have proposed an additional 2.58 FTE's, for a total of 1859.50 FTE's. Parenthetically, I should point out that I have proposed the elimination of 21.17 positions and recommended that 23.75 new positions be approved. So while the net gain is slight, almost 24 new positions are proposed.

- Finally, I have recommended \$798,976 in nonprofit funding for 46 nonprofit organizations, slightly higher than last year's appropriation. This recommendation includes 11 new nonprofits.

In each of the following three functions – General Government, Health & Human Services, and Economic Development – Durham County is a leader in providing community services. Moreover, employees in each area excel in their respective professions. In fact, three of these department heads were recognized in 2012 for their outstanding work: Public Health Director Gayle Harris received the Duke University School of Nursing 2012 Distinguished Alumna Award; the North Carolina Tax Collectors Association recognized Tax Administrator Kim Simpson as 2012 Tax Collector of the Year; and the National Association of Community Extension Professionals recognized Cooperative Extension Director Delphine Sellars with the Distinguished Community Extension Development Service Award for the State of North Carolina. I would be remiss if I did not mention that our mental health provider The Durham Center, which has since merged into Alliance Behavioral Healthcare, received two statewide Programs of Excellence Awards from the North Carolina Council for Community Programs in 2012.

Social Services

In the 10 months since Michael Becketts was appointed to head our Department of Social Services, the agency has undergone and continues to experience a much-needed and very positive transformation. The department faced numerous challenges, including welcoming Mr. Becketts as its fifth director in just four years. As you might imagine, transitioning through 5 leaders in 4 years took a toll on staff and dampened morale, as each leader had his or her own management style and goals. This came at a tough time, when America was in one of the worst recessions in our history. Nevertheless, DSS employees continued their best efforts to do outstanding work for our community.

The stress of a harsh economy, uncertainty surrounding leadership transition, high staff turnover and understaffing was challenging enough. Add to that almost a quarter of a million service-related telephone calls handled in 2012 (a 70% increase since 2008), a 104% increase over four years in the number of families receiving Food and Nutrition Services, and a 54% increase in Medicaid rolls. These stressors have been further compounded by new Federal regulations and the introduction of the State's new computer system.

The North Carolina Department of Health and Human Services is moving to a new computer system referred to as NC FAST or North Carolina Families Accessing Services through Technology. NC FAST is mandated by the state and is intended to modernize the application and eligibility determination process for all public assistance benefits. The phased transition is a significant one, and the next phase will start in September. It is expected to take much of the next fiscal year to complete.

Over time, changes generated by NC FAST will build significant efficiencies within the department. For example, a client who now applies for and receives Food and Nutrition Services and Medicaid has two caseworkers and two eligibility cycles. The changes imposed by NC FAST will combine the work of both programs under a single caseworker with one eligibility cycle, thereby improving efficiencies.

Additionally, it is projected that approximately 6,000 people – mostly children – will become eligible for Medicaid due to full implementation of the Affordable Care Act in the upcoming fiscal year. This increase is in addition to the normal annual growth.

Without additional staff support to handle the growth, the department's ability to provide effective services will be in jeopardy. Hopefully, you can appreciate why the County Manager is recommending 13 new positions for the department to meet growing demand and obligations created by NC FAST. At least 50% of salaries for these positions will be offset by outside funds. Six of the positions are provisional, and the County's portion of these positions will be offset by lapsed salaries.

Public Health

Many of our DSS clients also receive services from Public Health. We have experienced annual increases in total clinic visits. In FY12, 38,479 patients accessed services for adult health, dental health, family planning, maternal health, STDs, immunizations, nutrition, and tuberculosis control. Some of these services have appointment wait times ranging from 3 weeks (for nutrition) to 6 months (for dental). The Family Planning clinic provides pelvic exams, breast exams, HIV testing, preventative care, and other services to low and moderate income patients. The clinic currently has a 10-week wait time. To improve access to this medical care, we recommend increasing a part-time Physician Extender to full-time status. And, because approximately 30% of patients accessing all Public Health clinics are Spanish speaking, we recommend increasing a part-time Spanish Interpreter to full-time status as well. This will greatly improve access to programs and provide better customer service for our Spanish-speaking clients.

The implementation of the new state Food Code requires staff to expend approximately 50% more on-site time in restaurant inspections. If you are like me, the first thing you do when you enter a restaurant is look for its health inspection score. To help keep an acceptable inspection compliance rate, we are recommending a new Environmental Health Specialist position. Although one new position will not completely address the increased volume of work, it is a step in the right direction to support Goal 2 of our Strategic Plan, which is health and well-being for all.

In August 2012, Durham County turned over a new leaf when the Durham County Board of Health Smoking Rule went into effect. The rule – which prohibits smoking on City and County

grounds, parks, trails, bus stops and sidewalks – is the most progressive and comprehensive in North Carolina to date. To help implement the smoking ordinance, we recommend funding a Public Health Educator position with Home Health sale proceeds.

Solid Waste

Goal 4 of the County's Strategic Plan is environmental stewardship. The Solid Waste Division of our General Services Department supports this goal through its mission to provide safe, efficient, and effective waste collection, disposal, and waste reduction. To carry out this mission, the County has four residential solid waste and recycling convenience sites for drop-off – Bahama, Redwood, Parkwood, and Rougemont. Through April of this fiscal year, these convenience sites averaged approximately 17,000 user visits per month. Solid Waste staff provided roadside recycling services for 13,997 households.

County residents currently pay an annual fee of \$105 for the use of convenience sites and curbside recycling. However, it costs the County approximately \$122 per household to provide these services, which means that County taxpayers subsidize the \$17 difference from our General Fund. To eliminate this subsidy and fairly allocate costs to actual users, it is recommended that the annual rate be increased to \$122 to cover the County's true cost of providing these services. We also recommend that the out-of-county fee be raised accordingly from \$165 to \$191 annually.

Looking forward, staff proposes beginning a system analysis for a recommendation to the Board to make Solid Waste an enterprise fund. In doing so, a separate accounting and financial reporting system would be established with its own performance measures to ensure that Solid Waste services remain self-supporting. To set an enterprise fund, staff will need to enlist the services of an experienced consultant.

Animal Tax

The Board of Commissioners will receive a recommendation to repeal the animal tax during the June 3rd Work Session. The Durham County Animal Ordinance requires every dog or cat owner to register their pet with the Tax Administrator within 30 days of bringing the pet into our jurisdiction. The annual tax is \$10 for each spayed or neutered dog or cat and \$75 for each unaltered dog or cat.

The Tax Administration Office has billed and collected the animal tax since late 2008 with collection rates ranging from 32% to 45%. As a point of comparison, the Tax Office has enjoyed an *overall* tax collection rate averaging more than 98% annually.

Our Tax Office estimates that for every \$10 animal tax billed, it costs Durham County \$10.55 to collect the tax. For various reasons the animal database for billing is full of errors, duplications,

and outdated account information. Consequently, hundreds of adjustments appear monthly before the Board of Commissioners due to improper billings caused by continued issues with the animal database. Even more significant is the amount of resources required to collect delinquent animal taxes.

If staff resources used to collect the animal tax were redirected to focus on pursuing unregistered motor vehicles, boats, jet skis, and manufactured homes, and more importantly, on the business division where roughly \$3.5 billion dollars in value is produced, the benefits of repealing the animal tax will far outweigh the net revenue gained from the tax. Let's focus on what we already do very well and continue to generate high levels of revenue through our business division. Currently, the Tax Office has two temporary employees under contract to assist in that division. Elimination of the animal tax would end the need for these temporary workers and allow regular employees to resume this more lucrative work.

Economic Development

Speaking of taxes, through the efforts of the Greater Durham Chamber of Commerce, over \$330 million in new and expansion business was announced in 2012. This increase to our tax base came with a bonus of more than 955 new jobs. Similar announcements were made in prior years. The Chamber worked with companies such as AW North Carolina, BASF, Cree, FIT, Merck, Sentinel Data Centers, and United Therapeutics, to name a few.

For over four decades, the Chamber of Commerce has partnered with us to provide business recruitment, expansion, and marketing services for the County. The County's tax base has grown substantially through Chamber-assisted investment in our community. Considering the millions in revenue gained from these investments, the cost to the County for the Chamber's services in generating new revenue has been nominal. The County's current contract with the Chamber is for \$140,000. Going to the Chamber with a \$140,000 check to purchase economic development services is like going to Nordstrom with \$140 and coming out with \$580 worth of merchandise. Somewhere between purchases, a credit line was granted. For Durham County, that credit was extended by the Chamber through its private sector investors.

The Chamber reported that it expended more than \$580,000 in FY13 to provide services associated with our contract. The shortage was offset with private funds raised. For the Chamber, this has been a consistent challenge for some time, and they simply cannot continue to use private funds in a 4:1 ratio to supplement work done on behalf of the County.

It is important to understand the services provided by the Chamber to fully appreciate the deal the County has enjoyed over the years. But, let me first mention that we contract with the Chamber in lieu of establishing a full-service economic development operation internally. On average, the Chamber manages approximately 52 projects per year to generate new business for Durham County. This number is up 50% from five years ago. While every proposed project is

different, it is not uncommon for the Chamber to expend 6 hours compiling data to complete a Request for Information (RFI), 25 hours hosting and touring a prospective business client around the county, 20 hours on site analysis, 20 hours on financing and incentive negotiations, and 10 hours on public hearings and filings. Again, we're talking per project. Along with staff time, the Chamber typically incurs costs associated with travel, food, transportation, site plans data analysis, and utility and permitting review. All expenditures associated with these services are incurred and paid for by the Chamber without any assurance that a prospective company will come to Durham County.

The competition we face for new business is strong. In addition to competing with sites in North Carolina and other states, we often compete with foreign countries such as China, Brazil, Singapore and India. The Chamber works tirelessly to keep Durham County as a top contender in the global marketplace. The demand for the Chamber's time and resources has grown significantly while the County's funding has not. The Chamber sorely needs additional staff devoted to economic development to help manage the ever-increasing service demands and to keep the County in contention for new investment and jobs. Given the changing economic development trends that require significant investment in new data collection, informatics, emerging clusters, and new services, additional support for the Chamber is necessary for the County to remain competitive. For these reasons, the Manager is recommending a \$55,000 increase to the County's contract with the Chamber.

I'd like to end by recognizing the Chamber's recent victory on an international stage. In April, the Chamber went to Qatar – the only U.S. chamber to compete as one of five finalists for the best “Unconventional Chamber of Commerce Project in the World.” I am proud to say that the Greater Durham Chamber of Commerce became the first United States chamber to win such an international award. If you have not already done so, stop by Beyu Caffè on Main Street to check out the Smoffice – it's the world's smallest office, and the Chamber project that put a worldwide spotlight on Durham – just one more way the Chamber is helping Durham thrive, innovate, and prosper.

Emergency Medical Services

Durham County Emergency Medical Services is a high-performing EMS System, but is extremely busy due to high call volume. Despite the demand, our EMS employees receive accolades on a regular basis for their compassionate, superior medical care. Durham County EMS' long history of outstanding cardiac care is just one example as we were recognized for cardiac care at three industry meetings. The STEMI Activation Program for cardiac patients was started in Durham in 2001. Other EMS systems did not follow Durham's lead until 2005. The STEMI Activation HOTLINE model was developed right here in Durham and has been adopted as the model for other states. Durham has also been a pioneer in 12 Lead Electro Cardiogram Studies and transmission of Electro Cardiograms from the field to our hospitals. The Durham cardiac care

model has been adopted by the American Heart Association as a standard that other systems use. Durham County EMS is quite simply an industry leader.

It is obvious that superior clinical care is an important component of a quality EMS system, but to those who need emergency medical care, a paramedic who is compassionate can make a horrible situation a little easier to get through. I can tell you, without hesitation, that compassion is a core value of Durham County EMS, and it is a joy to constantly receive copies of thank you letters addressed to our EMS employees.

Durham County EMS has been lucky to have Mike Smith working for our system since it started. Mike began working with Durham EMS on May 19, 1975, and is retiring as EMS Director on June 28. I wanted to take a moment to recognize Mike for his exceptional service to this community since 1975.

Our EMS employees deliver high-quality medical care at no cost to the property tax payers. Keeping this model in place will continue to be a challenge, especially as our population ages, call volume increases, and medical equipment costs rise.

Since Fiscal Year 2011, Durham County EMS has experienced an 8.5% increase in call volume and an 18.5% increase in the number of people transported to the hospital. The result is that we have EMS crews who spend much more time on calls, which means it is increasingly difficult for our EMS employees to rest between calls and complete required paperwork.

During the formulation of the County Manager's recommended budget, we took a hard look at what was needed to ensure that EMS continues to be a high-performing system that is self-sustaining. The budget recommendation includes some EMS fee increases to replace critical EMS equipment without relying on property tax dollars. Despite the proposed fee increase, Durham County still remains comparable to peer counties.

Our EMS leadership team is mindful of the expectations for efficiency set out in Goal 5 of the Strategic Plan. While adding EMS Units and personnel may be needed in the future to maintain acceptable response times, we want to make sure that we continue to maximize the resources we already have and do all we can to evenly distribute call volume among all EMS units. Technology has advanced so much in recent years that there are now GIS-based systems that can help predict the optimum staffing levels for each shift. The technology can even predict the best locations in the County to place EMS Units during the day to result in optimal response times. This Recommended budget includes funding to begin the implementation of one of these systems.

Sheriff's Office

One of the most important transitions that occurred in the Sheriff's Office during this fiscal year was the assumption of Animal Services. This transition has been completed, and I would like to thank Sheriff Andrews and his staff for their efforts during the year. The average response time for Animal Services has been less than 43 minutes from January through April of this year. Additionally, the Sheriff's Office has increased the on-duty hours for animal control officers. Animal Services officers are on duty Monday through Friday from 7 am until 10 pm, and from 11 am until 10 pm on Saturdays and Sundays. Officers are also "on-call" for emergencies after 10 pm.

Many Animal Services officers are sworn deputies, which means that they can provide law enforcement services when needed. There have been several instances during the past year where a sworn Animal Services officer has been the closest to a call. Recently, one of our animal services deputies helped the Durham Police Department capture a shooting suspect. Our Animal Services officers are also becoming trained as Crisis Intervention Team officers since an issue with an animal, at times, is an indicator of a larger crisis.

If you haven't seen the Sheriff's Facebook page, you should check it out. Almost 2,000 people are fans of the Facebook page. Since launching the Sheriff's Twitter page in December 2012, 560 people have become followers. The Sheriff's Office uses social media to engage in conversations with the community. A recent story about Sgt. LaBarre, who helped to deliver a baby, received 1,446 likes and was shared 94 times. In total, 35,200 people saw the post! The social media outreach also is helping solve crimes. One example was the identification of a breaking and entering suspect who was caught on surveillance video. Less than an hour after posting the video on Facebook, the Sheriff's Office received a tip from someone who identified the suspect in the video.

The launch of the "DCo" brand was a significant accomplishment this year. The Sheriff's Office has fully incorporated the County brand into the design of their new Dodge Charger patrol car. In fact, the new design has landed the Charger in the finals of Law and Order magazine's Vehicle Design Contest. If the Durham Sheriff's Office wins, it will be their second win, after a previous victory in 2003.

While these initiatives are important, the foundation of any law enforcement agency is officer safety. Currently, no patrol vehicles in the Sheriff's fleet have an in-car camera system. This technology is important for documenting what happens during a call for service or a vehicle stop. We are the only law enforcement agency in the area without these important systems. This Recommended budget will begin the process of outfitting our patrol cars with cameras.

Fire Service

Durham County provides fire protection, medical first response and rescue services through contracts with seven non-profit contract fire departments. These departments are made up of dedicated full-time and volunteer firefighters who take great pride in serving their communities. But as we all know, Durham County has grown significantly in recent times, and we are evaluating how we provide fire services. In April of 2012, the County Manager received the unanimous support of the County's fire chiefs to launch a study of the County's fire districts and services. The study is underway, and we expect to have recommendations prepared for the Board of Commissioners for the November worksession.

The County Manager's recommended budget includes recommendations for fire district tax rates. Rates for two of the districts, Eno and New Hope, traditionally follow the rates set by the Orange County Board of Commissioners. A rate increase of half a cent is recommended for the New Hope Fire District, and a 2-cent increase is being recommended for the Eno Fire District. I wanted to mention efforts to preserve our outstanding fire service in the Bethesda Fire District. Since 1964, the Bethesda Fire Department has provided high-quality fire, rescue, and medical first response services to their community. In February of this year, the Board of Directors of the Bethesda Fire Department requested that Durham County assume operations of their Fire Department in July. Residents and businesses in the Bethesda Fire District will see no change in the high-quality services that they currently receive, but a tax increase is necessary to maintain current service levels. If fire taxes are not increased, services will have to be reduced, resulting in significant homeowner's insurance increases for residents in the district. All property owners in the Bethesda Fire District have been notified of the proposed changes, and a public hearing on this issue will be held at the Board of County Commissioners' June 10th meeting.

Triangle Wastewater Treatment Plant

Our Engineering Department operates the Triangle Wastewater Treatment Plant, which serves the Research Triangle Park and surrounding areas. The Wake County portion of Research Triangle Park and western Cary are also served by the plant through an interlocal agreement with the Town of Cary, which expires in 2014. The plant serves a total of 10,700 users, is widely recognized as a high-performing operating plant, and is designated by North Carolina's Department of Environment and Natural Resources as an "Exceptionally Performing Facility." Additionally, the plant is the only municipal plant that currently meets the nitrogen and phosphorous limits put in place by the Jordan Lake Rules.

It is important to note that all operations at the Triangle Wastewater Treatment Plant are fully supported by its users. No property tax dollars are used for plant operations or capital needs. The Board of Commissioners has incrementally increased sewer rates in order to make sure that the plant will remain self-sufficient once the interlocal with Cary expires. The

recommended budget includes a modest 1.8% fee increase. Even with this recommended rate increase, the County's sewer bill remains the lowest in the area.

Technology

I would also like to mention recent efforts in Technology. In order to have a more efficient and effective Technology operation, the Information Technology and SAP Shared Services Departments have merged to form a single department.

One of the most exciting initiatives being developed involves the concept of Open Data and engaging the public to solve challenges facing the community through the joint development of technology applications. Because Durham is recognized nationally as a hub of technology and innovation, this initiative gives us the opportunity to engage in our community's talent pool to address local problems.

Community events, where the public sector and private sector team up to brainstorm solutions to solve local problems, are beginning to emerge across the country. One of these events is about to happen in Palo Alto, California. CityCamp Palo Alto will begin on June 1 and has a festival-like atmosphere with food trucks, bands and other activities for the community. Our staff will continue to work on this concept and look forward to working with other stakeholders to try and replicate this experience in Durham.

In the past five years, the majority of the computer applications used in County government operations have been modernized, making the data housed in them easier to access and manipulate, easier to share with other entities, and easier to store and protect. This modernization effort is complex and has created a heavy workload for the single Professional Database Administrator (DBA). The workload of the DBA already exceeds industry standards and is expected to grow. Therefore, it is imperative the County IT Department add an additional Database Administrator to effectively manage and maintain the critical underpinnings of the county's data systems.

I want to spend just a few more minutes reviewing our progress over the last year in bringing new jobs and new investment to Durham County. While our tax base is growing ever so slowly, imagine what it would be without the healthy business climate Durham County currently enjoys.

This would be a very different budget without the \$330 million in new investment and the 955 new jobs we gained just in the first nine months of 2012. Are there other measures that can assess how our community is doing? Yes, and I believe a falling unemployment rate, rising real estate activity and a growing property tax base are strong indicators of how our local economy is improving. After peaking at 8.6% in 2010, Durham County unemployment continues to decline as more people go back to work. In addition, the number of building permits in the city

and county is increasing. Meanwhile, data from our Register of Deeds office show more deeds are being recorded, which is evidence that the local market is improving. In addition, property transfer tax revenue is increasing and the County's property tax base continues to steadily climb. With these indicators, we see improvement, but we aren't out of the woods yet. We still have a ways to go before I could honestly stand before you and say that the effects of a deep recession are over. They aren't, and those lingering effects are why we have a slow-growing property tax base. Next year, we project a total valuation of \$30.6 billion, an increase of only 1.93%.

When I came to Durham County 13 years ago, then Chairman MaryAnn Black and Commissioner Ellen Reckhow came to me concerned about the fact that the County's fund balance was only 11%. The team of employees in this room and their management teams deserve a lot of credit for the fact that we are projecting a year-end fund balance of over 30%. We are in the best financial shape in the history of our County. Very few of our peer Triple-A counties can boast a growing fund balance over the last several years, and very few of them have 30% fund balances. Is it too high? No. We have built it over the years because we need it to maintain our Triple-A bond rating, and we have a judgment looming on an IBM appeal that could amount to as much as a \$9.9 million refund. If and when that judgment is finalized, demand for payment will be immediate. We knew we had to prepare for this day, and our team has deftly put us in a position where we don't have to raise taxes or deplete our fund balance to accommodate a large refund of property taxes and where our bond rating will not be jeopardized.

Despite what may happen with the IBM appeal, our County will continue in a strong financial position. However, I must caution you that our Triple-A credit rating is based upon economic and demographic conditions, some that we can control and some that we cannot. Earlier this year, we sent a delegation to New York to review our financial condition with Moody's and Standard & Poor's. The Triple-A credit rating we enjoy is much more than just a credit rating for a loan. We win this credit ranking partly from how our organization is governed and how it is managed.

Credit rating agencies, as our financial advisor Doug Carter reviewed with you in March, review a number of metrics to determine what bond rating we deserve. They compare us to our peers in this state and across the country. Some of these metrics are ones over which we have little or no control, such as local economic measures and demographics and our area wealth. They are what they are, and there is virtually nothing we can do to improve upon them.

But, there are other metrics that we can control. How well do we manage our organization? Does our annual management letter that our independent auditor issues have major findings that have gone unattended? Do we have sufficient reserves to accommodate the unexpected financial needs of our organization? Do we have a capital improvement program that carefully lays out and plans for needed improvements? How well do we govern? Why haven't we

implemented the tax rate increase to pay for debt that we have shown in our capital plans for years? That was a critical question that our finance team was asked about in New York just a few months ago.

Our debt has grown considerably and yet our tax rate for debt has shown little or no increase. We have met with the rating agencies several times over the last few years. I've told them, our Chief Financial Officer has told them, and just recently, Susan Tezai, Deputy Chief Financial Officer, explained to them that our adopted capital improvement program includes a tax rate increase for FY 13-14 to pay for increased debt.

I spoke to Doug Carter, our financial advisor, last Friday to make sure I was not over-stating the importance of this 3-cents increase in our tax rate. He said to me, "Durham County has the best laid out plan and perhaps the least funded when it comes to debt of any of the Triple-A's I've seen."

The 3-cent increase I am recommending for debt management is absolutely critical. Bond rating bureaus expect to see Triple-A counties demonstrably address debt when it is growing at the levels that our debt is growing. We have repeatedly disclosed to the rating agencies that we planned a tax rate increase as a way to fund capital improvements. If we don't implement what our adopted plan calls for, we are placing ourselves in jeopardy with respect to our credit rating.

The good news is the rating agencies are convinced that we are effectively managing this organization. Our growing fund balance, pension liabilities, budget performance, and risk management metrics are outstanding. What they want to see now is an elected board with the political will to take the action it has said it planned to take – with this fiscal year's budget. And with all due respect, trimming expenses to manage debt is not what they want to see. Why? Because those expenses simply trickle back in to expense budgets over time. And to handle these "trickle backs," local governments slowly raise taxes to pay for them – for schools, for public assistance, for whatever. You may not agree with this point of view, but it's their point of view, and when it comes to credit rankings, it's the one that matters.

Incidentally, did you notice that Wake County, a Triple-A county, announced that its upcoming \$940 million bond referendum for schools will require a 5.53 cents increase in its tax rate – an increase to taxpayers of \$12.14 a month? Bond rating bureau expectations are no different for them. Their Republican-majority board realizes that they, too, must increase property taxes to pay for debt.

We give our citizens great value for the taxes they pay. And we don't have one of the highest tax rates among North Carolina's 100 counties. When I walked in the door 13 years ago, we were in the top five. This year, we're 24th. A 3-cent increase on a home with a \$150,000 tax value in Durham County is \$45 a year, which is less than one dollar per week.

I know we have a county where 20% of our citizens live in poverty, and I realize that we have a growing elderly population with limited incomes. But we also provide a broad range of services for these populations, and more services are offered to them than our peer counties offer. Many of our service levels are also deeper because the need here is greater. These services cost – a lot. But they provide far more in benefits than what we’re asking our residents to pay. I want to turn our attention to my recommendations for public education. First, for Durham Technical Community College: I have to say I take my hat off to Dr. Ingram and the Durham Tech Board and staff. Since 2009 and up to the current fiscal year FY 2012-13, Durham Tech’s appropriation for Current Expense – minus new Article 46 funding – has decreased 1.34% compared to the 4.76% increase in Current Expense that DPS has seen over the same time period. But their student population over the same period of time has increased dramatically – 483 students – an 18% increase in student growth.

Our community college is one of the finest in North Carolina and is a very important part of our strategy to help our citizens raise their standard of living by getting the education they need to compete for jobs in the 21st century.

I was particularly proud of our Board when it dedicated \$881,000 of the Education Sales Tax to provide financial assistance for Durham residents to return to school and secure the needed skills to get the jobs that we are bringing to Durham County. This is innovation at its best, and I don’t know of another county in the country that has stepped up in such a big way. It’s making a difference; without “Durham ConnectFunds,” many of our residents would not be able to continue their education, raise their standard of living, and compete for tomorrow’s jobs. Thank you. The Board of County Commissioners’ decision is making a huge difference in the lives of Durham residents.

I continue to be a strong advocate for Durham Public Schools, and I don’t want the recommendation I am putting forward to detract from that commitment in any way. Our school board has asked you to appropriate \$4.8 million in current expense funding. Dr. Becoats provided them with three alternatives: flat-rate funding, a \$2.4 million increase, and a \$4.8 million increase. They chose the latter.

I think Dr. Becoats expected to bring forward a request for an additional \$2.4 million. I am recommending flat funding for DPS and asking the School Board to fund its current expense increase from its fund balance. I believe, and our CFO and his team after an extensive analysis agree, that sufficient reserves exist for them to accommodate their own increase next year. If by chance, their reserves drop below \$4 million, I recommend that we back stop them from our fund balance to make any difference up in the fall when their annual audit is complete. But we would only fill in the gap up to \$2.4 million, which I believe is a more than sufficient amount for the school system to operate next year.

Listen, we have an outstanding record of supporting funding for DPS, but it is unrealistic for our school system to think that we can continue to make up large deficits in their budget created by federal and state reductions. It's a revenue model that cannot sustain itself over time. DPS simply must develop a funding model that grows only as the County's revenue stream grows. Otherwise, the County's property tax rate is going to soar over the next few years.

My point is this: We're already funding schools at very high levels. Durham County's per pupil expense for FY 13 is \$3,165, the highest by far of North Carolina's ten most populous school systems - \$811 more than the second highest funded system in the top ten – Guilford County. But look at this: If we were to fund current expense for DPS at the average of what the top five most populous school systems fund their schools, we could reduce current expense funding by \$39.5 million – \$1,080 per pupil – next year. Of course, you're not going to consider that level of reduction, but it has to beg the question of how much is enough?

I want to discuss some other important initiatives included in my budget recommendation:

1. **Possible Closure of Durham County's Youth Home:** I continue to believe the Youth Home should be closed. Research performed by the Annie E. Casey Foundation supports this conclusion. In a 2007 study, *"The Dangers of Detention: The Impact of Incarcerating Youth in Detention and Other Secure Facilities*, the report states, "The increased and unnecessary use of secure detention exposes troubled young people to an environment that more closely resembles adult prisons and jails than the kinds of community and family-based interventions proven to be most effective." The report concludes that detention increases recidivism and is not cost effective; that congregating delinquent youth together negatively affects their behavior and increases their chances of re-offending; that detention pulls youth deeper into the juvenile and criminal justice system; that formerly detained youth have reduced success in the labor market; and that alternatives to detention can curb crime and recidivism better than detention.

Keeping our Youth Home open is no longer the best strategy. Opponents to closing our Youth Home have offered no research to support their point of view. Why? Because there is no present-day research in support of keeping our Youth Home open. I'm not saying we close it and do nothing. But if we keep it open, we're going to have to spend \$3 million to \$4 million to renovate it because it is in poor condition.

We need to review the literature in a thoughtful and constructive way with the stakeholders in this community who serve these youth, and look at creating and funding the alternatives to detention that just simply serve these kids better and offer them brighter futures. The Annie E. Casey Foundation has a model available to undertake this study. You absolutely need to look at this issue before you spend \$4 million on renovations for a service that, according to clear research findings, does not work! We will bring this issue before you during your August or September worksession.

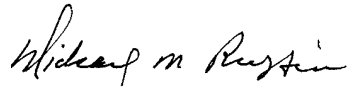
2. **Classification and Compensation Study**: Ask any department head or manager in this room and they will tell you that in order to retain the great workforce we have, we must compensate them fairly for what they do. We have not comprehensively undertaken an analysis like this since 1986. We know from our annual salary surveys we conduct every year that 70% of our positions are 2.5% or greater below comparable markets. And I think that number is actually much higher because we don't survey the right markets for our positions. Many years ago, our Board stipulated that we were to survey the same 13 counties and cities for each position. We need to redefine our markets and then survey our salaries against them. For example, we don't lose public health Nurses and database administrators to Buncombe County. We lose them to employers that we don't survey. If you were to survey the department heads across this County as to the one thing we desperately need to do to hang on to good employees and recruit new ones, they would state that we need to conduct a comprehensive evaluation of our classification and compensation system. Everything needs to be evaluated – not just classification and compensation, but also our performance evaluation system and how we mete out annual raises. We need to review best practices in both the public and private sectors and ensure that we have a classification and compensation strategy that makes sense for today's workforce.

3. **Review of Effectiveness of City-County Departments and Fairness of Financial Rates of Participation**: Durham City Manager Tom Bonfield and I have agreed to review how well the arrangements we have in place for jointly provided services are actually working. The Board of County Commissioners and I have concerns that we're paying far too much for planning services. Perhaps there are services and service levels provided by jointly funded departments that we should reconsider. This fall, City and County staffs will conduct wholesale analyses of all of these jointly funded services, from Keep Durham Beautiful, our least expensive service, to Joint City-County Planning, our most expensive service. We will return to you later this calendar year to review our findings and recommendations for the FY 2015 Budget Year.

4. **Elimination of Desktop Inkjet and Laser Printers**: Goal 5 in our Strategic Plan calls for greater efficiencies. Next year we will eliminate all inkjet and laser printers on employee desks and rely solely on network printers for all printing needs. It may sound like a small efficiency, but this change will result in the elimination of hundreds of printers and save \$25,000 per year in ink refills alone. These printers will be sold at auction. As always, the proceeds from this sale will be used to help defray General Fund expenses. We continue to explore efficiencies throughout our organization.

The public hearing for citizens to weigh in on the proposed budget will be held on June 10th at 7 pm in this room. Commission worksessions are scheduled for May 29th from 11:30 am to 2:30 pm, May 30th from 11:30 am to 4 pm, June 3rd from 1 pm to 3 pm, June 10th from 4 pm to 6 pm, and June 11th from 9 am to 11 am. Final adoption of the budget will be placed on your June 24th Meeting Agenda. All of these meetings will be held here in the BOCC chambers. I look forward to working with you. Thank you for allowing me to present my recommendation.

Sincerely,



Michael M. Ruffin
Durham County Manager

Cc: Michelle Parker-Evans, Clerk to the Board
Lowell Siler, County Attorney

FY 2013-14 BUDGET HIGHLIGHTS

- The tax rate will increase from 74.44 cents to 77.44 cents/\$100 valuation, a 3 cent increase, for debt service.
- Property tax collection percentage stays at 98.8%, with overall valuations increasing 1.91% from last year's budgeted values.
- Sales taxes, including an Interlocal Agreement with the City of Durham, are estimated to decrease 0.10% from the current year primarily due to increasing reimbursements to area non-profits. See the Revenue Highlights page for more detail.
- Various fee increases in these departments: General Services-Solid Waste, Public Health, EMS and the Enterprise Utility Fund.
- Net General Fund increase of 2.58 FTEs for FY 2013-14.
- Adding 23.75 new General Fund FTE's.
- Eliminating 21.17 FTEs.
- Increase in the participation rate for the County contribution to the Local Government Employees Retirement System (LERS) from 6.74% to 7.07% for local general class and from 6.77% to 7.28 % for LEO class, approximately \$310,000.
- Continued pay-for performance salary increases for employees for FY 2013-14.
- The General Fund fund balance appropriation decreases from \$8.38 million to \$7.42 million.
- \$3.95 million in Community Health Trust Fund annual lease revenues will be transferred to the General Fund to support health care related expenditures.
- Funding of \$191,910, slightly less than prior year, to implement second year strategic plan initiatives.
- Funding to Durham Public Schools stays flat at \$117,166,662; no increase in capital outlay funding. Article 46 sales tax (and includes Article 46 sales tax funding of Pre-K programs) stays flat as well.
- Durham Technical Community College funding increases by 7.1% or \$400,000. Article 46 sales tax support for student scholarships and tuition costs stays flat.
- North Carolina Museum of Life and Science current expense funding increases 2.66%
- Vehicle and equipment loan supports 54 vehicles (new (2) and replacement (52) vehicles) for the EMS, General Services, Library and Sheriff, and new equipment for General Services, EMS, and the Sheriff. (detailed on the Vehicle & Equipment page in the document).
- Open Space Matching Grants funding remains at \$77,175.
- 67 nonprofit agencies applied for funding with requests totaling \$2,359,263; 46 agencies are approved for funding in FY 2013-14 for a total of \$798,976.
- Reduction in the County share of the Durham Convention Center subsidy by \$98,768.
- Funding for Durham County's participation for 37 slots in the Durham Youth Works Internship Program \$62,280.
- Debt Service increases to \$59.87 million, with property tax dedicated to support debt service increasing 3 cents to 8.94 cents to support the debt service payments. Additional funding from SWAP funds, Lottery funds, and Article 46 sales tax also support debt service needs for FY2013-2014.