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Buncombe County Manager

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May 5, 2009

Dear Members of the Board of County Commissioners:

I respectfully present Buncombe County's Fiscal Year 2009-2010 (FY2010) Budget Estimate of \$313,306,357. This Estimate was prepared using our current 52.5 cent tax rate and includes a General Fund Budget Estimate of \$249,706,649 and Non-General Fund operating plans totaling \$63,599,708. This represents a \$5.9 million reduction in the General Fund budget over the FY2008/09 level of funding. This message focuses primarily on the General Fund portion of the budget.

For months we have lived with the knowledge that we are operating in uncharted waters, not only in Buncombe, but across the nation and around the world. We have seen: major financial institutions close or combine even with a \$300 billion federal investment; citizens' retirement accounts plummet; consumer spending patterns retract; and the federal government provide \$787 billion in American Recovery and Reinvestment funds.

We are grateful for the Recovery funds. The "percentage driven" funds such as Medicaid, community health clinics, transportation, housing, and job training are at work across the nation. The construction and capital funds are at various stages of readiness. Some federal departments are still writing rules and figuring out how to take applications for funding. Others have written the guidelines and we have submitted applications; however, these funds are not actually "on the ground." As we examine the Recovery funding, we are very cognizant that these are not recurring funds. With job loss and entitlement programs, we expect demands for service will be reduced as we put these economically challenging times behind us. Capital funds are proposed for one-time investments that are included in our 10-year capital plan. We are concerned about the perception that these capital projects will create sustainable jobs. Without question, short-term jobs will be created; and hopefully, the economy will turn and those employed on a short-term basis will be able to find sustainable jobs in the improved economy.

As the FY2009/10 budget process began, we required all directors to make a 5 percent reduction in the net County operating cost for their departments. They had to take the cut while still delivering the same or more core services. We increased our focus on

providing only those core services we are required to provide including direct service delivery and appropriate support services. Departments examined how to develop community partnerships to continue services that are not "core" to County government, but are essential to the community's economic vitality. We entered community partnership agreements to move our indigent health clinic and child care services to community non-profit management. In each case, we were able to leverage more service for our citizens' investment.

With full implementation of the Budget Estimate, we will reduce County staff by 86 positions. Departments eliminated 24 of those positions to achieve the required 5 percent reduction. We have operated under a hiring freeze since August of 2008 and were able to move any impacted employees who were not retiring to other vacancies. The County entered a community partnership with Western North Carolina Community Health Services (WNCCHS) that will reduce Public Health Clinical Services staffing by 46 positions no later than January of 2010. WNCCHS will hire 50 new employees to staff the indigent care clinic as the services are transitioned throughout the fall of 2009. We also entered a partnership with Irene Wortham Center to operate the Community Child Care Center, which reduced an additional 16 staff. Obviously, these were challenging and difficult changes to County operations; however, it was critical to our ability to reduce the budget, keep community services, and manage through our economic challenges.

As we move forward, we want to work with our community partners to develop the services our citizens need. Some we will provide, some we support other agencies providing, and some programs can and will be provided without government help or intervention. In the past, we have talked about "flagship" programs with a sense of pride. We want to be very creative in how we bring services to our citizens, and we have become very cognizant that sometimes "flagship programs" are not sustainable in a government environment. We have to review the financial practicality of our plans and focus on the County providing only those very difficult services where there is not a private provider or where the federal or state government requires the local government to actually provide the service.

Economically sensitive revenues and fixed/mandated expenditures have driven our budget process. Volatile and declining revenue sources like sales tax and real estate development fees are particularly sensitive to current economic fluctuations. That combined with contracted consumer spending make balancing the budget particularly difficult. Higher unemployment (Buncombe's rate has now topped 9%) will increase demand for human service expenditures.

There seems to be little relief in sight, and we do not know when we will see the needed break to turn this economy around. Rating agencies assume this operating environment

will prevail for the next 12-18 months. No one knows for sure, and that results in even greater tightening of consumer and business spending. We recognize that the economic situation could become more challenging before we begin to see relief. For us it is important to shift our thinking and recognize that no program is sacred, and work processes must continually be evaluated and changed to meet the challenges and take advantage of the opportunities available.

Following is information on revenues and expenditures specific to the FY2010 Budget Estimate:

Revenues:

Specific items that impact the FY2010 budget include: Medicaid relief; sales tax loss; excise tax and permit fee loss; reduced investment earnings; and social service caseload increases.

Medicaid Relief/Swap

July 1st marks the end of the County's participation in Medicaid claims costs. The North Carolina General Assembly passed Medicaid relief in the 2007-2008 budget. The 3-year phase-out is complete with the upcoming budget. Counties ceded $\frac{1}{2}$ cent of local sales tax to the state over a 2-year period. Medicaid relief includes provisions for counties to hold municipalities harmless for any sales tax loss they experience due to the Medicaid swap. That requirement negatively impacts County sales tax revenues in all future budgets.

Sales Tax

Consumer spending has contracted significantly. Buncombe is a retail center for Western North Carolina and as such depends on sales tax as one of the major funding sources in our annual budget. We are projecting a \$6.4 million reduction in sales tax revenue which is a combined loss due to Medicaid relief and reduced consumer spending.

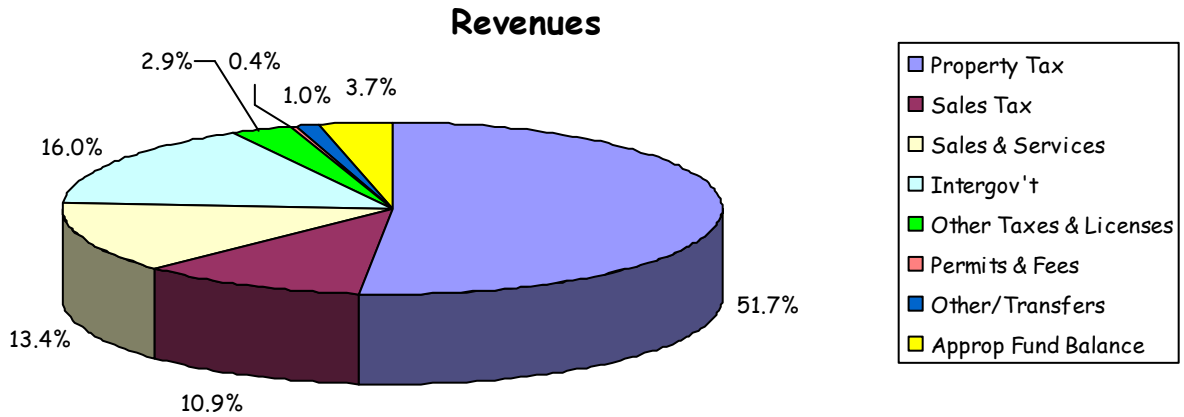
Construction Related Revenues

With the decline in housing construction and sales, our growth-related revenues (excise tax, recording fees, and building/storm water/erosion fees) are \$2.3 million less than in the FY2009 budget. We are already experiencing a shortfall in these revenues and have budgeted revenues based on actual FY2009 receipts.

Investment Earnings

Although rates for borrowing money remain higher than usual, rates paid on investments are down significantly. Therefore, we expect to earn \$1,350,000 less on our investments than we budgeted in FY2009. During FY2009, we have already seen a reduction in investment earnings.

General fund revenues are derived primarily from 3 sources: property tax, sales tax, and intergovernmental transfers (primarily for human services). Property tax represents over half of our general fund revenue. In North Carolina, counties can access only those revenue streams that the North Carolina General Assembly authorizes counties to use. The following chart reflects the sources of revenue included for the entire budget:



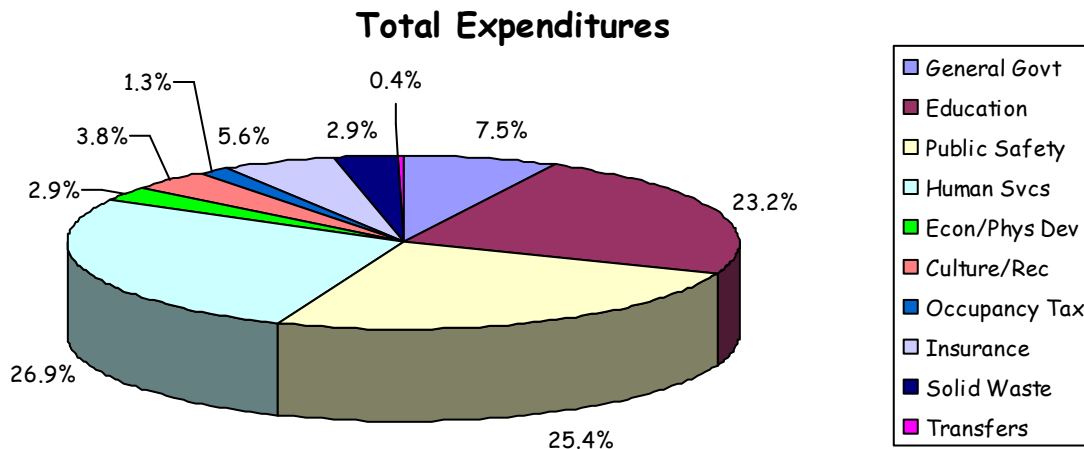
In the FY2010 Budget Estimate, over 97 percent of our revenues come from the combination of property tax, fees, intergovernmental revenues, sales tax, and fund balance. Composition of the County's General Fund Revenues is reflected in the following table:

Revenue Source	Revenues	% of Budget
Property Tax	\$147,547,562	59.1%
Intergovernmental	42,412,272	17.0%
Sales Tax	30,073,605	12.0%
Other Taxes & Licenses	4,446,000	1.8%
Permits & Fees	1,109,930	0.4%
Sales & Services	16,231,279	6.5%
Other Revenues	2,082,657	0.9%
Fund Balance	5,803,344	2.3%
TOTAL	\$249,706,649	100%

Expenditures:

Expenditures are reduced in all County departments and outside agencies that we fund, including Asheville Buncombe Technical Community College, City Schools and County

Schools. Like all North Carolina counties, our core businesses are education, human services and public safety. Core businesses include: social services, public health, transportation, aging programs, mental health; workforce development; detention center; civil process and court security; emergency management; emergency medical services; court support; juvenile detention; Buncombe County Schools, Asheville City Schools, and Asheville-Buncombe Technical Community College. The following chart reflects the division of expenditures by functional service for the entire budget:



Core business budgets consume 82.3 percent (\$205,632,063) of our FY2010 General Fund Budget Estimate. The history of core service expenditures are reflected in the following table:

Function	Expenditures		
	FY2008	FY2009	FY2010
Education	68,490,035	73,317,302	72,736,087
Human Services	86,628,269	83,799,047	77,220,659
Public Safety	49,013,772	54,100,528	55,675,317
Total Exp	204,132,076	211,216,877	205,632,063
% of Budget	83.2	82.6	82.3

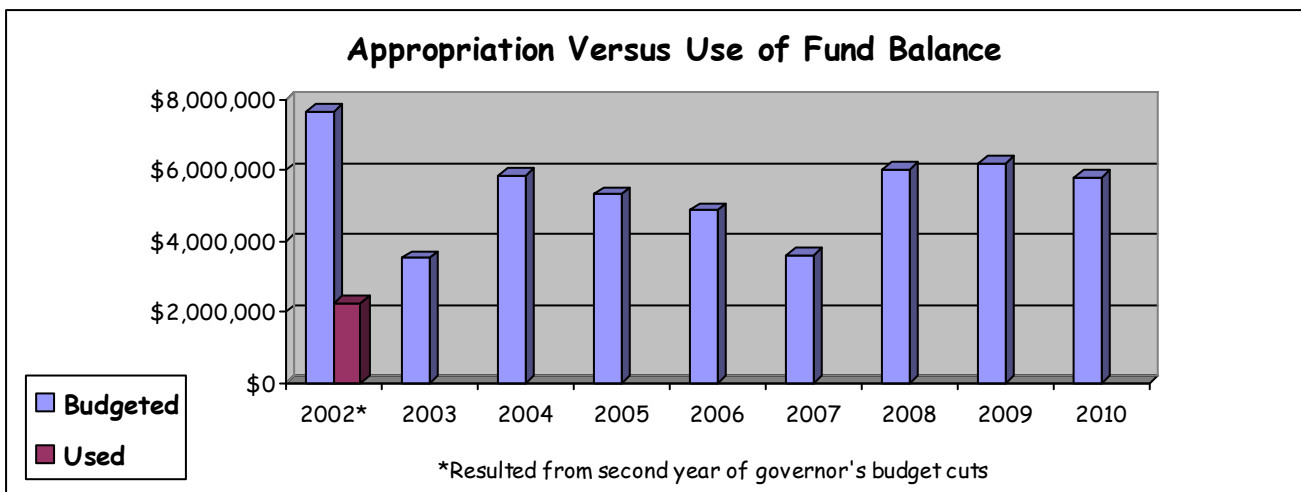
The balance of the General Fund budget includes services such as administration, information technology, finance, personnel, facilities, tax, election services, register of deeds, economic development, planning, permitting, recreation, and libraries. The following table reflects the expenditure breakdown for the General Fund:

Function	Expenditures	Revenues	Net County Cost	% of Total Budget
General Government	\$23,131,810	\$5,456,769	\$17,675,041	9.3
Education	72,736,087	9,164,639	63,571,448	29.1
Public Safety	55,675,317	8,994,150	46,681,167	22.3
Human Services	77,220,659	43,391,041	33,829,618	30.9
Economic/Phys Dev	7,908,929	951,874	6,957,055	3.2
Culture/Recreation	11,775,332	3,085,248	8,690,084	4.7
Capital/Transfers	1,258,515	0	1,258,515	0.5
TOTAL	249,706,649	71,043,721	178,662,928	100%

County employees are one of our most valuable resources. We continually ask them to do more and more with declining resources. Whether human services, public safety, libraries, recreation or other departments, we need a qualified, well-trained, stable workforce. Just a few years ago, social worker turnover exceeded 40 percent; detention officer turnover was well over 20 percent; we could not recruit a paramedic, nurse or environmental health inspector. Each of you knows that turnover is very expensive. We have worked diligently over the last 5-8 years to reduce the turnover rate and achieve stability in our workforce. Our ability to recruit and retain a qualified workforce significantly impacts the quality of work we provide to our citizens.

Balancing the Budget:

Fund Balance Appropriation is one means to help lower the burden on property tax owners. Each year we appropriate fund balance with the challenge to save the appropriated amount. Historically, we have been able to do that. The FY2010 Budget Estimate includes a fund balance appropriation of \$5,803,344. The following graph reflects the historical appropriation versus use of fund balance in our annual budgets:



Under the leadership of this Board, Buncombe County has maintained a strong financial position and our excellent Aa2/AA ratings from Moody's Investors Services and Standard and Poor's Corporation. We believe the FY2010 Budget Estimate continues our strong financial management of County resources.

Other Taxing Districts:

During our budget process, we also set rates for other taxing districts. The following schedule reflects the requested rates for the fire districts and Asheville City Schools. With the exception of the Haw Creek Fire District which will cease operations on July 1, there are no requests for any adjustments to the current tax rates.

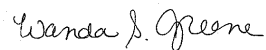
Buncombe County - Fire, Ambulance and Rescue Service Districts Ad Valorem Rates (in cents)		
District	FY2009 Tax Rate	FY2010 Requested Tax Rate
Asheville Suburban	8.5	8.5
Barnardsville/Barnardsville N.E.	15.0	15.0
Beaverdam/Beaverdam N.C.	11.0	11.0
Broad River	10.0	10.0
East Buncombe	9.0	9.0
Enka-Candler	7.5	7.5
Fairview	7.5	7.5
Fletcher	7.8	7.8
French Broad	12.0	12.0
Garren Creek	14.0	14.0
Haw Creek	9.0	0.0
Jupiter	9.5	9.5
Leicester/Leicester N.W.	10.0	10.0
N. Buncombe /N. Buncombe N.E.	10.6	10.6
N. Buncombe N. C.	10.6	10.6
Reems Creek/Reems Creek N.C.	12.0	12.0
Reems Creek N. E.	12.0	12.0
Reynolds	11.0	11.0
Riceville	11.0	11.0
Skyland/Skyland-S. Buncombe	7.8	7.8
Swannanoa	12.0	12.0
Upper Hominy/Upper Hominy S.D.	11.0	11.0
Woodfin/Woodfin N.C.	10.0	10.0
W. Buncombe/W. Buncombe N.W.	9.0	9.0
School District Ad Valorem Rate (in cents)		
Asheville City Schools	15.0	15.0

We appreciate the Board of County Commissioners' support and guidance as we serve our citizens. We are in the people business - and that includes a wide spectrum of services. With the economic challenges, we find our citizens need us even more than in years past. Every day most of our employees touch a person's life, often having a very significant impact on the person and our community. This budget focuses on maintaining quality in our core service areas that citizens need most.

It is our intention to SERVE our citizens well within the constraints that honor the need to hold costs down for all citizens while serving more citizens than have traditionally needed our services.

As always, Buncombe County Government is here to SERVE.

Respectfully submitted,

A handwritten signature in cursive script that reads "Wanda S. Greene".

Wanda S. Greene, Ph.D., CPA

County Manager

WSG/dm