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**TO:** Board of Commissioners

**FROM:** W. Burrell Ellis, Jr., Chief Executive Officer

**DATE:** December 15, 2009

**SUBJECT:** **2010 Executive Budget Recommendations**

In compliance with the Organizational Act, enclosed is the Executive Budget recommendation for a balanced budget for FY 2010 for the various funds of DeKalb County. This recommendation is the culmination of extensive analysis and review of the budgetary needs and the financial resources available within an extremely challenging economic environment.

Financial resources available for the FY 2010 Tax Funds Budget have declined and continue to be impacted due to the State and national economy. Specifically, the economy has impacted the County's anticipated revenue in three key areas: (1) a reduction in real property tax digest values; (2) a reduction in sales taxes; and (3) a reduction in Hotel/Motel taxes and fines and forfeitures. Additionally, the County's revenue continues to be impacted approximately $18 million per year due to a loss of taxes and fees resulting from the incorporation of Dunwoody.

**Reduction in the Real Property Tax Digest**

Current economic conditions have had a significant impact on real estate values nationwide. The Atlanta region, including DeKalb County, has not been immune to this trend. The 2010 Executive Budget is based on current forecasts of tax digest values. Exact values will be available in June 2010 when the Board of Commissioners adopts the final millage rate for FY 2010. The voters approved the homestead value freeze referendum (HB 595), for County taxes only, in November 2006. The revaluation of such properties, absent the referendum freeze, would have normally provided approximately $12 million for County services and debt service in 2007, 2008 and 2009. Additionally, in the 2009 legislature session, the General Assembly passed HB233, which froze assessments on all residential and commercial properties through 2011.

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**Reduction in Sales Tax Revenue**

Sales taxes collected in the County for the HOST program, which comprise approximately 15% of the total revenues in the Tax Funds, have declined 6.6% in 2009 compared to 2008.

In addition, residential building activity up to the last year in the County has substantially increased the financial requirement necessary to provide for a 100% Homestead Exemption. Sales taxes are projected to decrease from 2009 to 2010 by 1%, while the 100% Homestead Exemption requirement is projected to increase by 12.4% during the same time period. The following table illustrates this trend:

| Year | Sales Tax Collection | Funding Necessary to Provide Min. Legal Exemption | 100% Homestead Exemption |
|---|---|---|---|
| 2006 | $101,043,317 | $71,920,440 | $133,345,634 |
| 2007 | 100,632,759 | 80,834,654 | 133,010,712 |
| 2008 | 95,277,738 | 80,506,207 | 138,283,720 |
| 2009 est. | 89,000,000 | 76,222,190 | 151,477,292 |
| 2010 proj. | 88,300,000 | 71,200,000 | 170,321,246* |
| 2010 vs. 2009 | -1% | | 12.4% |

***Based on recommended millage rate and no Homeowners Tax Relief Grant Credit (HTRG)**

**Factors Contributing to Declining Revenues**

The decline in the Tax Funds fund balance is directly attributable to the following principal factors:

1. The State withholding $16.3 million in HTRG funds after the County had been directed by O.C.G.A. Section 36-89-4 to credit homeowners' tax bills in the same amount, which the State legally committed to reimburse the County in 2008. The State did not reimburse DeKalb County until mid-2009.

2. The cumulative annual impact of HB 595 "freezing" homestead values at the January 1, 2007 levels. As of the end of 2009, the estimated total impact for 3 years from this legislation was $12 million.

3. The first year's (2009) impact of the incorporation of Dunwoody, estimated at $18+ million, and its continued negative impact in FY 2010.

4. The continued and pervasive effect of the economic recession impacting the County's numerous revenue sources.

## Increased Demand on Services

During FY 2009, the County continued to deal with the population growth of the last decade and the commensurate increase in the demand for services. At the beginning of the last decade, the County's actual population was determined to be 553,800, according to the U.S. Census. During the second quarter of 2001, the County's 2000 population was officially restated at 665,865. **This constitutes a 20.2% growth factor, which validates the substantial growth in the demand for County services experienced in recent years.** At the end of 2009, the Atlanta Regional Commission estimates the County's population to be 731,200.

## FY 2010 Budget Summary

- Departmental requests for the FY 2010 Tax Funds Budget identified $639,322,116 in operating costs and $47,117,541 in capital costs, for a total 2010 budget request of $686,439,657. In order to balance the budget, the recommendation for FY 2010 is $582,742,150, before the inclusion of year-end encumbrances. Once the Oracle FMIS is closed, the encumbrance carry-forward amount will be added by amendment. This represents a reduction of $103,697,507 from departmental requests. This also represents a decrease of $24,007,875 from the mid-year adjusted FY 2009 Tax Funds Budget of $606,750,025, which includes encumbrances. It is presently estimated that after the inclusion of year-end encumbrances, there will be a budget decline of approximately $18,000,000 (-3.0%).

- The fundamental issue relative to the recommended "bare bones" budget of $582.7 million is that, without any millage increase, there is estimated to be available only $552.3 million. To recommend a balanced budget with this revenue shortfall eliminated completely by service cuts alone, would require an $83 million reduction from our 2008 budget level and, consequently, a substantial reduction in services at a time when there is an increased demand.

- Accordingly, in order to lessen the impact of service reduction on our citizens, and to mitigate the impact on taxpayers that reduced revenue has on the County's bond rating, I am proposing: (1) an early retirement incentive program designed to reduce the current labor force by more than 400 positions coupled with an abolishment or defunding of approximately 360 unfilled positions, and (2) a 1.25 millage rate increase dedicated to preserving Public Safety officers, along with an additional .61 of a mill to cover other recommended personnel expenses.

- The HOST Homestead Exemption has been included in the recommended Tax Funds Budget at the 95.0% use of funds level: The HOST requirement mandates that no less than 80% of the funds collected in the prior year be allocated to provide Homestead Exemption tax relief for qualified residential homeowners in the County. For three straight years, the County provided for a 100% Homestead Exemption (1999 thru 2001), and the FY 2002, FY 2003, FY 2004, FY 2005, FY 2006, FY 2007, FY 2008, and FY 2009 Tax Funds Budgets provided for an 86.8%, 60.58%, 59.07%, 54.64%, 56%, 60.8%, 58.3%, and 56.6% Homestead Exemption, **respectively.** The presently recommended Executive Budget, using 95% of the prior year HOST collections, provides for a Homestead Exemption of 49.08%. Under the recommended overall budget structure, the County will have available and has budgeted $4.4 million for capital projects in the Tax Funds funded by HOST.

  The HOST program continues to be impacted by two financial trends:

  1. The projected decline in sales tax collections in FY 2010 as reflected in the table on page 2. Sales tax collections decreased every year from 2000 ($87,658,299) through 2003 ($81,684,425). The actual 2009 collections were below 2008 collections by 6.6%. The 2010 budget assumes no growth in HOST sales tax collections based on indications of a continuing slowdown in 2010 in the State economy.
  2. The substantial increase (24,753 **from 1999-2009)** in the number of new owner-occupied residences in the County over the last 10 years. This increase has the effect of **reducing** the impact of the HOST Homestead Exemption because available HOST funds must be divided among more residences.

- It is estimated that the cash available Fund Balance at the close of business for 2009 in the County's Tax Funds will be approximately $15.2 million. Approximately $11.2 million in the Budgetary Reserve has been re-budgeted in the 2010 Budget. The County is targeting the end of FY 2011 to return the Tax Funds fund balance to the fiscal policy target of one month.

**Additional Considerations of the 2010 Budget**

- The recommended budget anticipates a net reduction of 400+ filled positions in the Tax Funds from the implementation of an early retirement incentive program in the first half of 2010. By utilizing an incentive-based program, we anticipate savings of approximately $2.7 million in unemployment claims. A recommended millage rate increase of 1.25 mills is dedicated to preserving sworn Public Safety officers, and will permit maintaining the staffing levels of essential public safety personnel in the departments of Police and Fire Rescue, and the offices of the Sheriff and District Attorney, at current levels.

- Salary savings and vacancy abolishments in the proposed 2010 Tax Funds Budget are anticipated at a level of $18.1 million. This level of salary savings and abolishment recognizes the previous high vacancy rate that exists in the Tax Funds Budget and assumes that, on average, approximately 360 positions will be considered in these categories during 2010.

- A pension contribution adjustment resulting from an actuarial recommendation of increasing the 2010 County contribution to 10% (of payroll) from 9.5% (of payroll) will impact the 2010 Tax Funds Budget by approximately $1.2 million. This adjustment is necessary primarily due to investment performance during 2008. An associated increase in the employees' contribution will increase the total deduction for employees to 5.0%. At the latest actuarial examination (4/2009), the fund was 72.1% funded. These contribution increases are actuarially determined to meet State funding requirements.

- With a substantially downsized workforce and increased pension contribution, it becomes increasingly important to set salaries at levels comparable to competing jurisdictions and to provide sufficient customer service training. I am, therefore, recommending a 1% merit increment for county employees remaining after the incentive-based Reduction in Force (RIF) and $375,000 for customer service training.

**Restructuring of DeKalb County Government**

The effective delivery of services with a downsized workforce will require continued efforts to restructure operational functions within county government. Accordingly, the 2010 budget provides for further consolidation of departments into groups as follows:

**Development**

- Consolidation of Community and Human Development departments, which will result in lower operating costs, greater coordination and efficiency. The outsourcing of all or sections of Development in the Planning and Development department is further projected to result in savings of more than $1.5 million.

**Infrastructure**

- Integration of project management, maintenance management, and environmental quality and compliance efforts will enable the reduction of more than 100 positions. Changes in 2010 also will allow for more intense focus on environmental sustainability and green initiatives.

**Administrative**

- Departments are conducting assessments to determine cost savings through process improvements, which will result in the elimination of 36 vacancies and salary saved positions. Surveys and online user group discussions signal a greater integration and utilization of technology to drive change and efficiency.

**Public Safety**

- There has been a complete operational reorganization of the DeKalb County Police Department following a relocation of the Emergency 9-1-1 Center, Code Enforcement, Animal Services and Enforcement, and Emergency Management from the DCPD. Oversight of the Recorders Court and the Medical Examiner's Office has also improved delivery of service to the public. As a result of this reorganization, the County has eliminated top-level commanders, streamlined operations, and is providing more efficient delivery of services.

**Executive Overview**

In developing the recommendations for the 2010 Budget, the Administration has had to accommodate, for the second year, the incorporation of Dunwoody. The legally required calculations for 2009 under the Special Services Tax District statutes produce a millage rate increase of 79/100$^{ths}$ of a mill in the unincorporated part of the County as a result of the incorporation of this new city. Final digest values, which will be known in May 2010, could well have an additional impact on Tax Funds millage rates.

By my recommendation of 95/5% use of funds for HOST, we are able to somewhat mitigate the impact of the recommended 1.86 public safety millage increase on the homeowner's tax bills for 2010.

Additional items considered within the 2010 Executive Budget are as follows:

- $11.8 million has been appropriated in this Budget to fund the 27$^{th}$ payday, which will impact the County in 2010. This amount is just for Tax Funds. Other funds will be handled in like fashion.

- A recommendation to increase Fire/EMS fees (along with the previously discussed Public Safety millage increase in the Fire District) to maintain funding for current Fire/EMS positions.

- Continued implementation of 2006 bond projects: The 2010 Budget will continue the emphasis on the completion of Transportation, Library, and Parks and Greenspace projects authorized in the 2006 Bond Program.

- I am recommending the continued suspension of the routine vehicle replacement program for 2010, and the deferral of vehicle replacement charges, with the exception of Fire and some Police replacements, and charges due to loan repayment for lease purchase.

- Continued focus on upgrading public safety facilities, equipment and capabilities: The budget recommendation includes $1.5 million to continue the process of converting all public safety communications (radios) to state-of-the-art digital platforms.

- I am recommending $1.1 million for technology improvement projects in Recorders Court to improve citation processing and facilitate the move to electronic ticketing.

- In an effort to maintain the efficiency of arts funding, I am recommending $225,000 for the art centers.

- I am also recommending the creation of an Office of Inspector General, which would report directly to an independent Board of Transparency & Accountability. This office would consist of approximately four positions. In order to make funding for this recommendation budget-neutral, I am recommending this office be funded from the anticipated savings from the early retirement incentive program and/or the transfer of equivalent positions from the Finance Department.

- Relative to the Development Fund, which is not in the Tax Funds, there is available funding for first quarter (2010) activity only, due to a precipitous decline in construction activity. Therefore, it is my intention to outsource these activities before the end of the first Quarter 2010.

Ongoing Challenges:

- Development of a long-range program to generate a revenue source to fund the County's ongoing capital infrastructure needs. Although I am recommending a 95/5% HOST utilization in this budget to mitigate the proposed millage increase dedicated to Public Safety, this only represents approximately $4.4 million available for capital projects. This is due to declining year-over-year sales tax collections.

- A related problem is the over-dependence of the County on residential property taxes in comparison with commercial property taxes. Currently, more than 56% of the County's tax digest (real property) is represented by homestead residential values. This reflects the effects of residential construction over the

last 8 years. In the long term, a relative balance between residential and commercial valuations should be sought. The County must take a more aggressive approach to encourage commercial and industrial development and redevelopment.

- During 2010, the Administration will maintain the same high level of control over the filling of vacant positions as in 2009 and managerial controls will be maintained to further control overtime.

- The State of Georgia has discontinued funding the Homeowner's Tax Relief Grant program.

**Summary**

The FY 2010 Executive Budget recommendation has been developed after comprehensive and careful analysis of the County's needs and resources. Such consideration has required difficult decisions during FY 2009. The Executive Branch, with the cooperation of the Board of Commissioners, hopes to continue to focus on the highest level of service delivery to address efficiency and effectiveness at the lowest cost to our citizens and stakeholders.

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