

WASHTENAW COUNTY, MICHIGAN

**PRELIMINARY REPORT ON THE
FINANCIAL STATE OF THE COUNTY**

Board of Commissioners
January 16, 2013

Current Reality – The Good News

◎ Solid Financial Foundation

- AA+ Bond rating
- Projected contribution over \$2.0M to F/B for FY 2012; For FY 2011 used \$791K in F/B over \$2.2M less than planned
- Annual General Fund Surplus of \$250+ (2004-2010)
- Building of General Fund Reserves above 8% policy
- Low Debt Ratio of .96% with allowable level of 10%

Building Upon Past Changes

⦿ Reductions Over Past Several Years

- We've been managing reductions since 2002 due to State reductions and Property Tax Decline
- Most departments have been reduced by at least 20%
- Few targeted areas have been without reductions due to nature of work
- Increased support to some mandated services and some targeted community impact areas

Building Upon Past Changes

- Union Concessions & Reductions to Non Union
 - 0% Across the Board Salary Increase for 2012 and 2013, along with frozen step increases for 2013
 - Other concessions negotiated in contract through December 31, 2013
 - Waving salary increases with banked leave days
 - Medical premium sharing for non union and some unions
 - Agreements with POAM and COAM through 2014/15 for estimated savings of \$5.6M

Our Realities – Changing Times

Externally

- Revenue Sharing
- Personal Property Tax – Repeal & Replacement
- Evolving Economy & Real Estate Market
- Health Care Reform
- Increased Community Need

Internally

- New Board
- Transition Continues throughout Organization

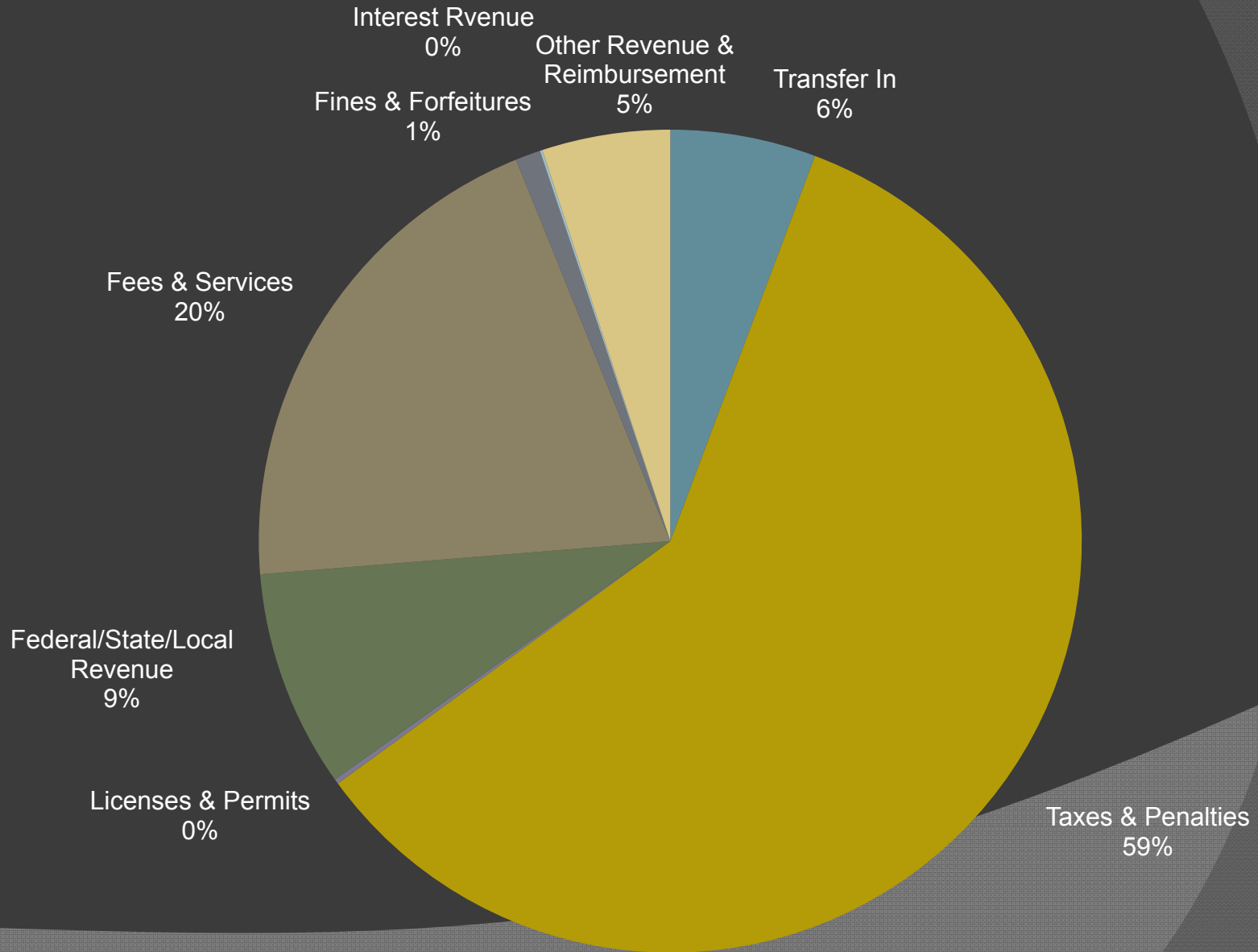
Stabilizing Revenues

Some GF Revenues are still Stabilizing

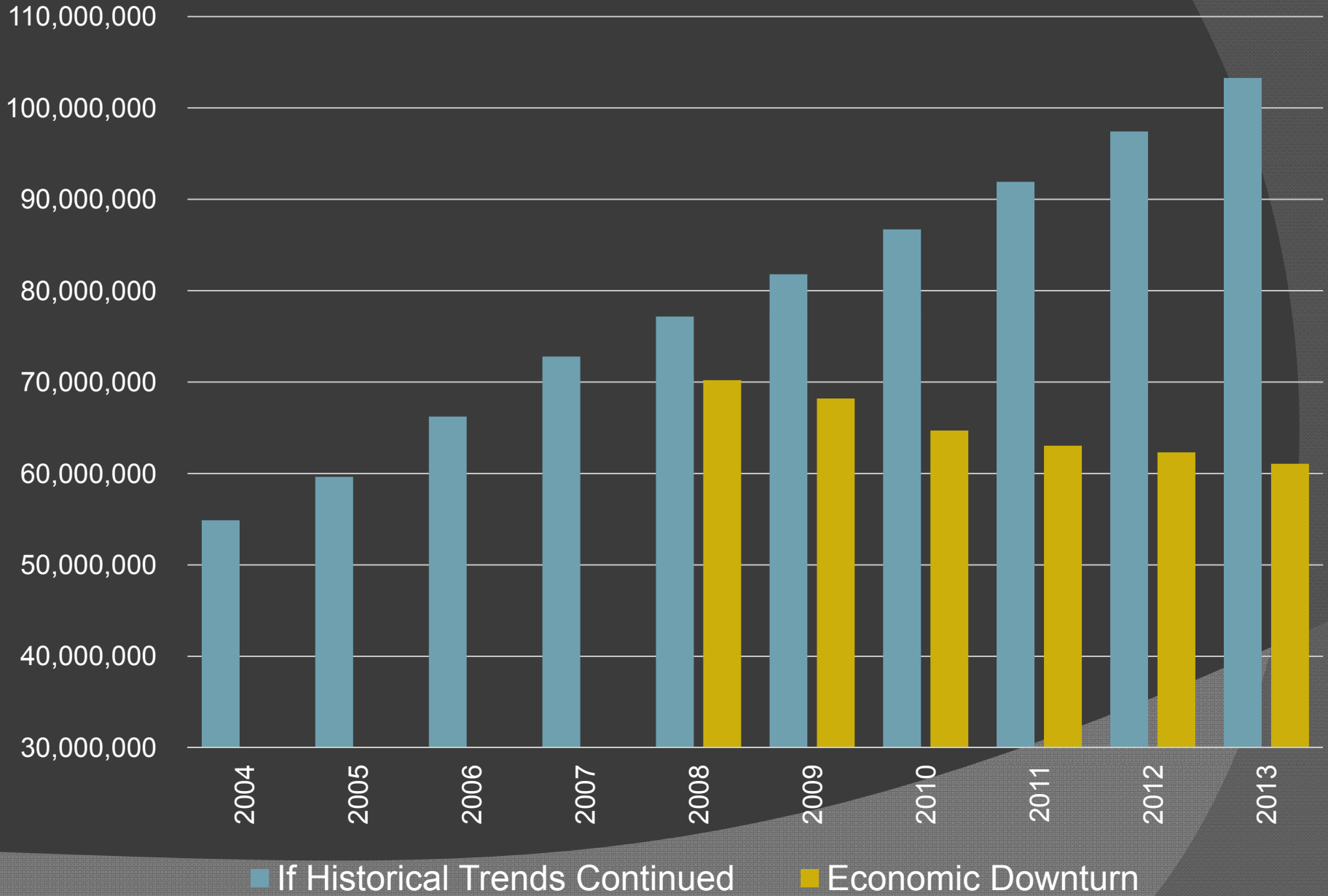
- ⦿ Property Taxes (long-term compounding effect)
- ⦿ Revenue Sharing (long-term plan has emerged)

Significant Unknowns with Federal/State funding in Non General Fund Programs

2013 General Fund Revenues by Source



General Fund Property Tax Revenues



Growing Expenditures & Liabilities

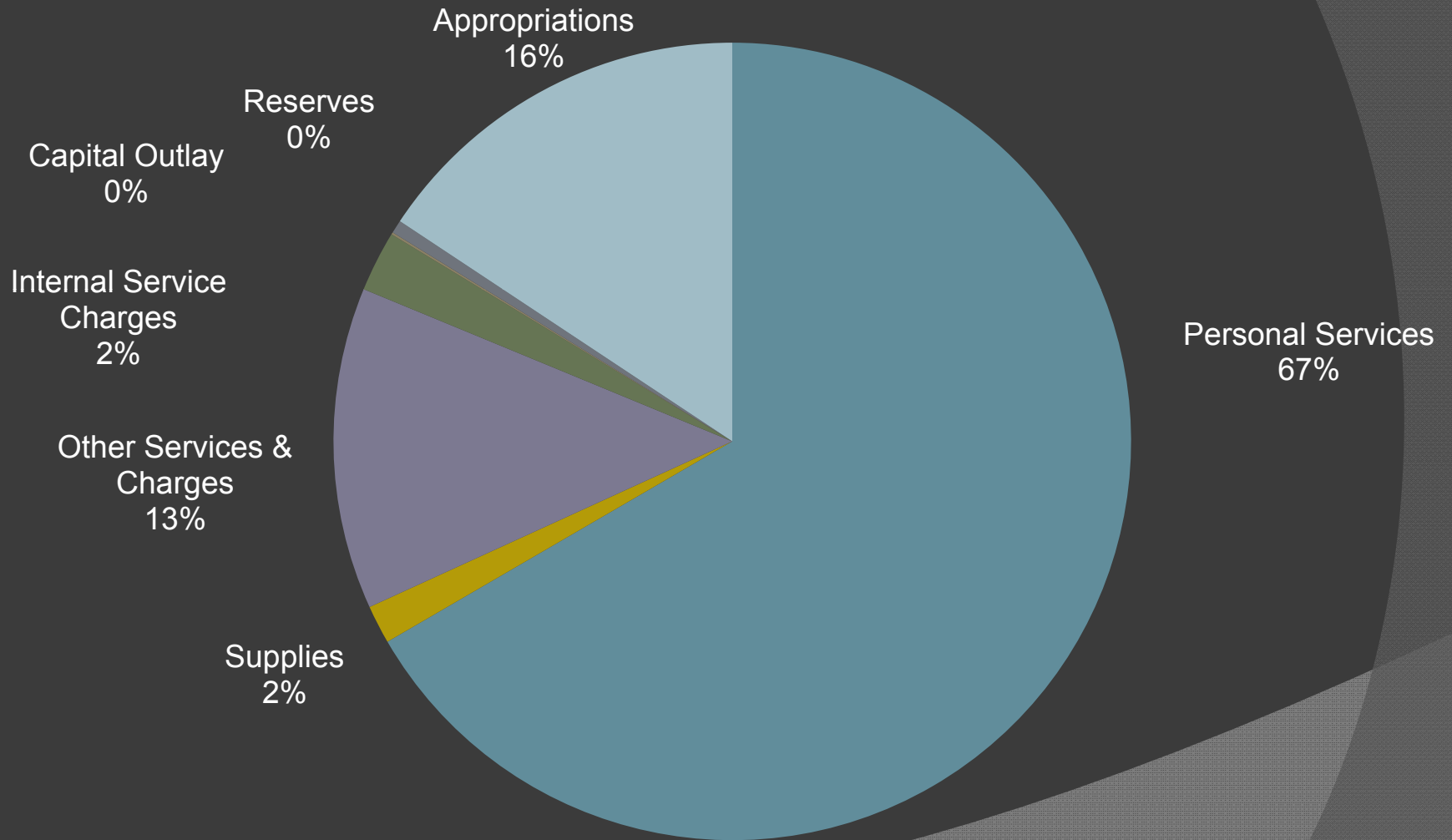
Personnel comprises 67% of General Fund Budget

- General Fund spends \$65M on personnel; approximately half of total payroll
- Fringe benefits now equal 66% of salaries on avg
- Health care is estimated to increase 8%+ annually (statewide average)

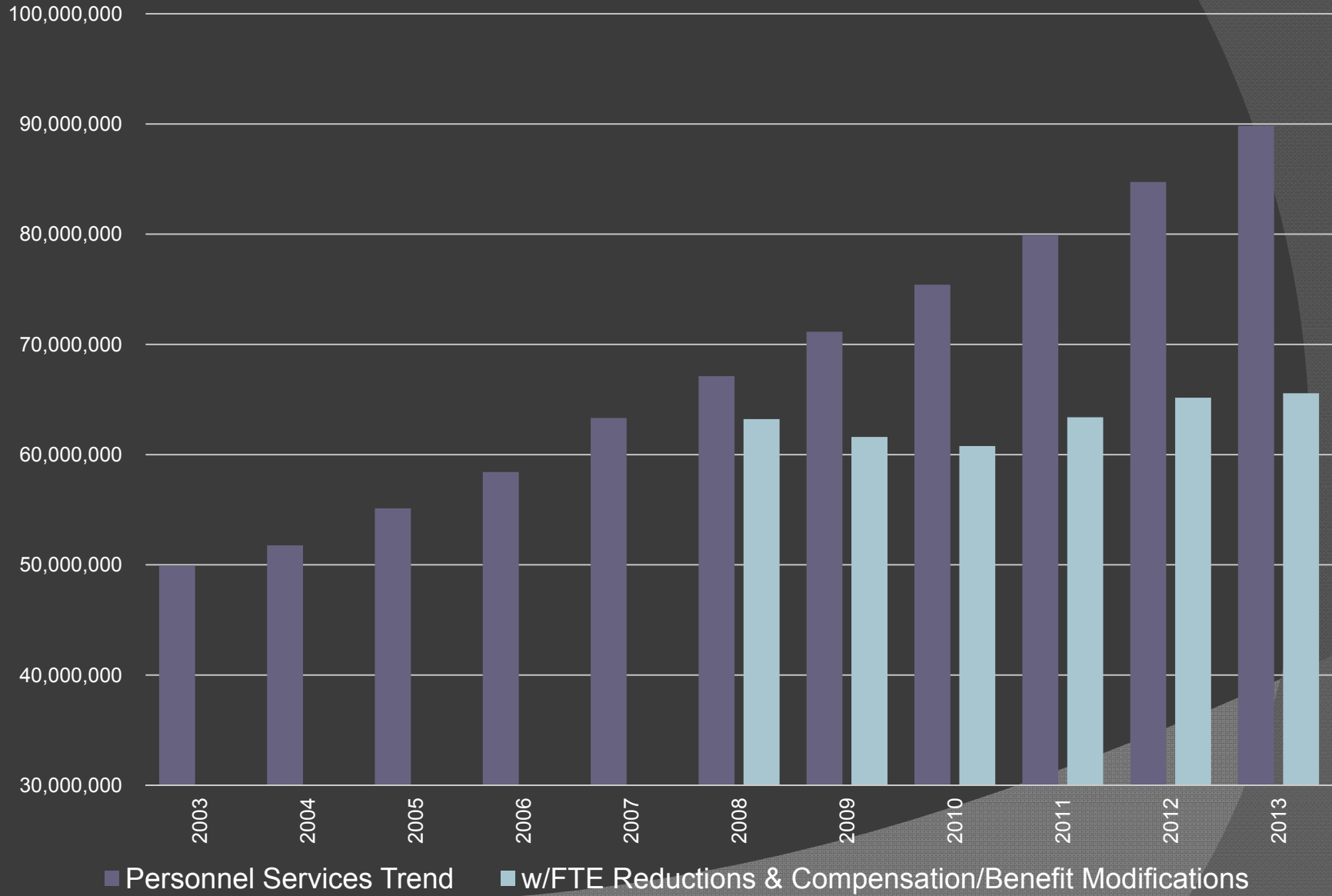
Over \$1M Liability for Tax Appeals, growing

Over \$17.5M reductions in 2012/13 budget, not all were structural

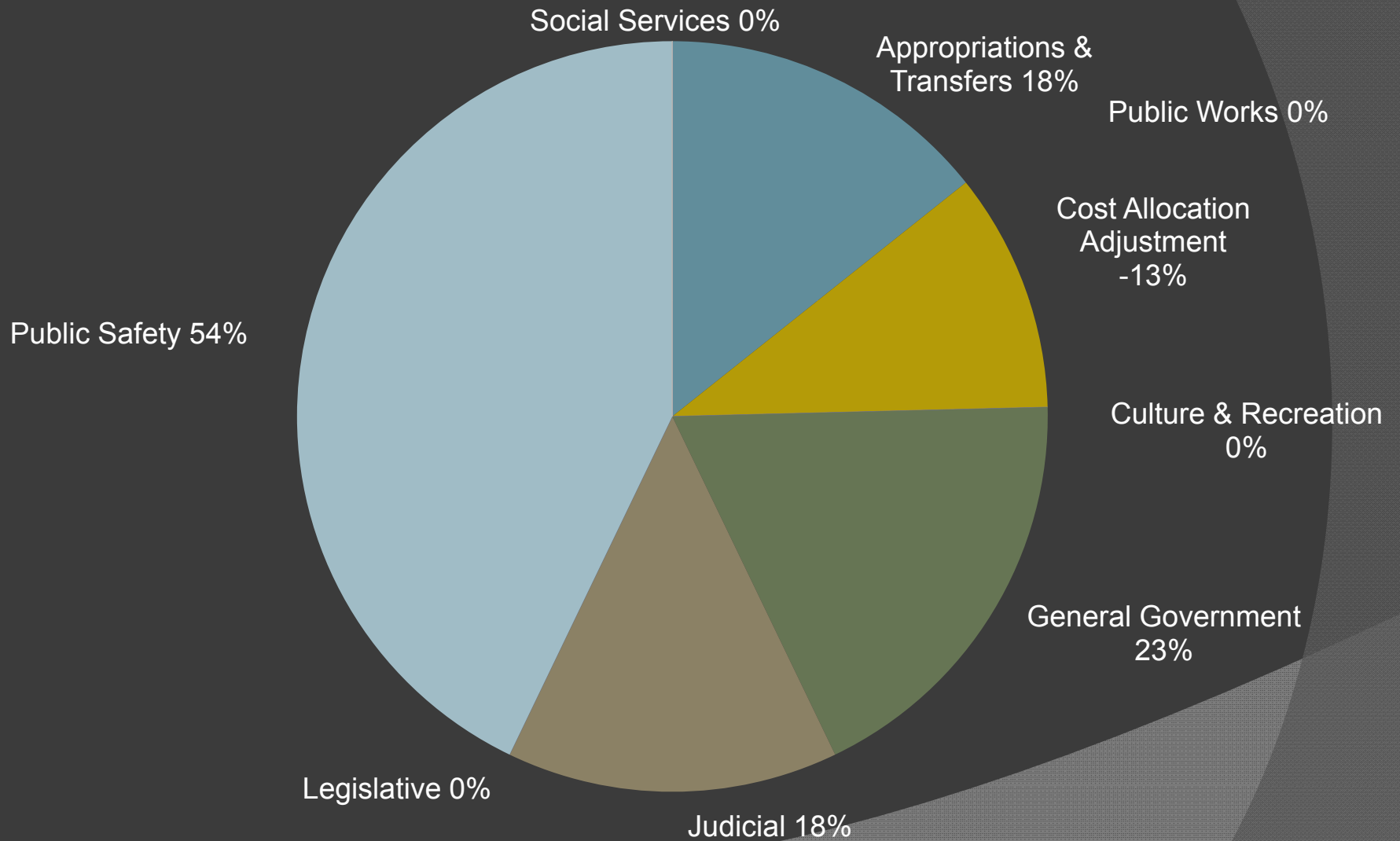
2013 General Fund Expenditures by Category



General Fund Personnel Costs



2013 General Fund Expenditures by Function



Current Priorities

- 72% of General Fund is Public Safety & Justice with Sheriff, Trial Court, District Court, Prosecuting Attorney and Public Defender
- Appropriations to NGF are 16% with significant reductions over the past few years
- Approximately 70% of our services are mandated, but how we do them & serviceability is at our discretion

Preliminary General Fund Projections

Preliminary Estimate

2014 - 2017 General Fund

	2014	2015	2016	2017
Projected Deficit	(\$3,934,580)	(\$4,879,498)	(\$6,556,284)	(\$9,271,397)
FTE Reduction	45.9	56.9	76.4	108.1

Major Assumptions

Property Tax Revenue	2013=-2%, 2014=1%, 2015=1%, 2016=1%, 2017=1%
Revenue Sharing	\$5.4M per year in 2014-17 – 20% contingent on CIP
Police Services	1% increase in both 2015 and 2016, 0% in 2016 and 2017
Clerk/Register of Deeds Fees	In line with current 2012 levels
Court Fines & Fees	In line with current 2012, lower levels
Personnel	0% Salary Increase with no furlough/banked leave days; fringe growth 8% annually
Other	Other appropriations to NGF remain flat except where mandated

Estimates are Preliminary

- The exact number of the deficit will continue to change as more information becomes available
- Bottom-line is we know we have a structural deficit which we must repair over the course of the budget cycle
- We will update projections and bring the Final Financial State of the County in May which will include:
 - Impact from Changes at State
 - 2013 Equalization Report
 - Updated Fringe Rates

Economy Improving Slowly

- History no longer predictor of future
- Anticipating stabilization in property taxes but any increases will likely be minimal
- Anticipating reduced but stable State revenues, this could change and impact service areas
- Some signs economy is slowly recovering
- Other concerns are we could have a “double-dip” recession

Key Revenue Assumptions

- ⦿ Taxes & Penalties
 - 1% tax revenue increases annually
- ⦿ State Revenue Sharing
 - Reinstated at 75% of previous levels
- ⦿ Fees & Services
 - Current Police Services Contracts increase 1% in 2014 and 2015, 0% in 2016 and 2017
 - District Court Revenues stabilize at new lower amount
 - Deeds revenues remain at new lower level, though signs of improvement are increasing

Key Revenue Assumptions (Continued)

⦿ Transfers In

- Revenue Sharing Reserve depleted in 2013 (no transfers in for 2014 and beyond)
- E911 Surcharges estimated to be at previous levels
- Property foreclosure funds
 - Assuming no transfer in pending additional information from the Treasurer

⦿ All other revenues estimated at 2013 levels

Key Expenditure Assumptions

⦿ Personal Services

- 0% across the board increases
- Step increases and longevity
- Continuation of current fringe benefit package

⦿ Supplies

- 3% increase annually
- Even year projections (2014 & 2016) include ballot printing

Key Expenditure Assumptions (continued)

⦿ Other Services

- \$2.5M in 2013 for Consultants & Contracts with 3% escalation in subsequent years
- \$1.5M with 10% escalation for IT Maintenance Contracts
- Reductions in Tax Refund Budget
- Outside Agencies projected to continue at current levels

Key Expenditure Assumptions (continued)

- ◎ Internal Services
 - 5% increase for fleet annually
 - CAP allocation consistent with current levels
- ◎ Contingencies
- ◎ Appropriations/Transfers to NGF Services
- ◎ All Other Expenditures
 - Estimated to Remain at current 2013 levels

Our Response

Must Face the Reality

Structural changes are still needed
within the organization.

Some things must still change

Focus on Future Impacts &
Investments

Budget Principles

- Stay conservative
- Find long-term structural solutions
- Define core services
- Focus on targeted community impact areas
- Seek out opportunities for collaboration
- Determine most efficient & effective organizational structure
- Reduce personnel costs, including fringe benefits
- Find balance between reducing # positions vs. reducing employee compensation costs
- Be creative yet fiscally sound

Changing the Culture

- ⦿ Can no longer be everything to everyone – focus our efforts and have ability to say no
- ⦿ Previous “needs” may now be “wants” – evaluate all resource allocations to ensure critical to carry out services
- ⦿ Increase accountability for budget management

BOC Defines Impacts

- ⦿ Critical that BOC guides organization in this time of change
- ⦿ We need to define our core services and determine what community impact we are attempting to make
- ⦿ Ensure operations and budget allocations are in alignment with BOC priorities
- ⦿ Define what we are going to do and do it in a “World Class” way

Establish Budget Targets

- ⦿ Get down to business – set expectations early to provide some “predictability” for organization
- ⦿ Not an across the board reduction – equity in process, not in budget allocations
- ⦿ Establish targets for Departments and Elected Offices based on review of past reductions, serviceability levels, options for modifying service delivery, and priority of services we can no longer afford to provide

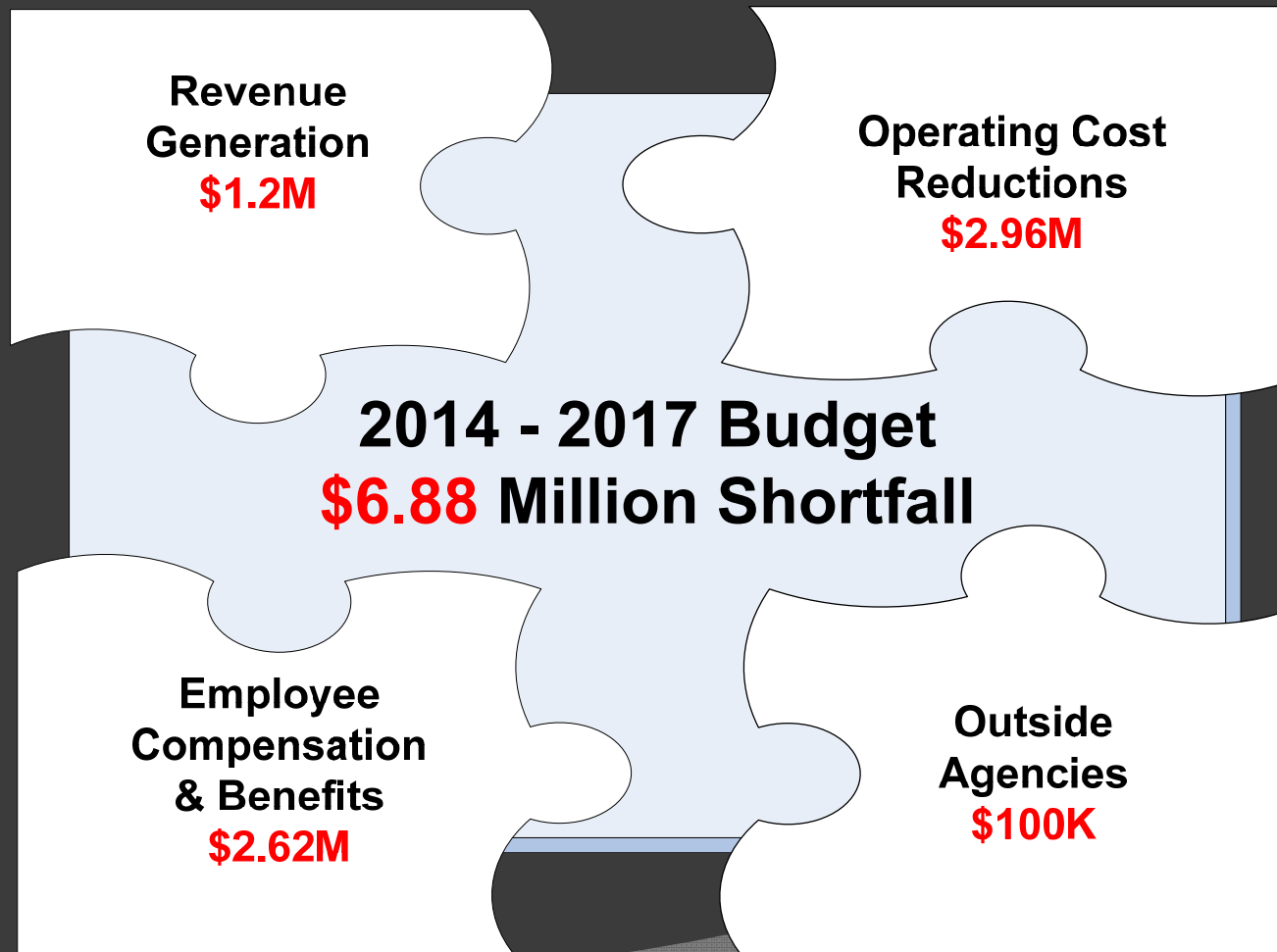
Approaches to Shape the Future

2014 - 2017

\$6.88M

All Structural

Approaches to Shape the Future



Revenue Generation

- ⦿ Limited ability due to laws governing county government
- ⦿ Areas of organization are collaborating on ways to maximize revenue collections
- ⦿ Continue to seek out alternative service delivery models which may be revenue generating
- ⦿ Maximizing outside funding where possible

Organizational Changes

- ⦿ Detailed review of line item budgets and contracts
- ⦿ Seeking all opportunities for reorganization, collaboration, and consolidation
- ⦿ Discussions with community partners on services county can shift to others
- ⦿ Eliminate services county can simply no longer afford

Employee Compensation & Benefits

- Focus by Federal and State to reduce benefits to government employees
- Washtenaw County offers excellent salaries and benefits compared with other government units and private organizations
- Currently 327 FTEs have federally defined “Cadillac Plan” for health care which will impose a 40% tax if not changed by 2018

Next Steps

Proposed Calendar

- ⦿ Kick Off: January
 - Preliminary Financial State of County
 - BOC adoption of Calendar and Guidelines
 - BOC & Administration Define Future Impacts & Investments
- ⦿ Organizational Planning: January – April
 - BOC Planning Retreat on Future Impacts & Investments
 - Organization Updates Business Plans

Proposed Calendar (continued)

- ◎ Budget Development: March – August
 - Budget Preparation with Finance & Organization
 - 2013 Equalization Report
 - Revised Financial State of the County Presentation
 - Meetings with Administration, Finance, and Organization to Review Business Plans, Budget Materials, and Define Budget Targets
 - Development of Administrator's Recommended Budget
 - BOC Preliminary Budget Review Sessions

- ◎ BOC Review & Adoption: September – November

Next Steps

- BOC Planning Retreat on Future Impacts & Investments
- Town Hall Meetings with Employees
- Begin Labor Discussions
- Internal Analysis of Budgets by Department
- Internal Development of Budget Options

Questions for Consideration as BOC Defines Future Impacts & Investments

- Do current budget allocations have the impact you desire?
- Should the General Fund respond when there are federal/state revenue reductions in Non General Fund programs?
- What community area(s) can we least afford to impact any further?

Discussion

Questions

Commissioner Input