

# **Washtenaw County, Michigan**

## **2012/2013 General Fund Preliminary Budget Estimate**

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### *Major Assumptions as of January 2011*

The county's commitment to long-term fiscal stability has been challenged over the past several years due to the economic downturn and loss of property tax revenue, which currently comprises 60% of the General Fund (GF) budget. The county has responded well, as reflected in the unanimous approval of a balanced budget for 2010/11, the retention of AA+ bond ratings and a projected year end surplus for fiscal year 2010.

This document contains the preliminary forecasts for fiscal years 2012 and 2013, including key focus areas and accompanying assumptions. It will become clear when reviewing the major revenues that there is much uncertainty, especially relating to how the county will be impacted by the state's \$1.8 Billion projected deficit, as well as by the continued decline in property tax revenue. It is critical that these projections be considered preliminary, as they will continue to evolve as more information becomes available. An updated forecast will be publicized in May 2011 as part of a formal update to the Financial State of the County. By May, these preliminary forecasts can be updated to reflect the first decisions of the new Governor, and the latest taxable value data from the 2011 Equalization Report.

It is important to realize that the projections represent the estimated size of the budget deficit, assuming that all county services remain at their current service levels with existing staff and operating budgets. Projections include cost escalations for expenditures to accurately represent the reality the county will face if no further budget modifications are made. The County Administrator will bring a Recommended Balanced Budget to the Board of Commissioners in September 2011.

Any questions regarding the projections or accompanying assumptions can be directed to County Administration or the Finance Department.

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Washtenaw County General Fund 2012/13 Projections - Preliminary Estimate As of January 2011	2012 Projected Budget	2013 Projected Budget	2014 Projected Budget	2015 Projected Budget
<b>REVENUES:</b>				
Taxes & Penalties	\$56,246,551	\$55,122,254	\$54,571,349	\$54,571,349
Licenses & Permits	\$199,650	\$199,650	\$199,650	\$199,650
State & Local Revenues	\$5,242,675	\$5,242,675	\$5,242,675	\$5,242,675
Fees & Services	\$17,856,803	\$17,856,803	\$17,856,803	\$17,856,803
Fines & Forfeits	\$1,012,100	\$1,012,100	\$1,012,100	\$1,012,100
Interest Income	\$124,400	\$124,400	\$124,400	\$124,400
Other Revenue	\$1,818,107	\$1,818,107	\$1,818,107	\$1,818,107
Transfers In	\$7,704,215	\$5,394,358	\$1,100,866	\$1,100,866
<b>TOTAL REVENUES</b>	<b>\$90,204,501</b>	<b>\$86,770,347</b>	<b>\$81,925,950</b>	<b>\$81,925,950</b>
<b>EXPENDITURES:</b>				
Personal Services	\$64,307,825	\$68,278,074	\$73,861,757	\$79,974,902
Supplies	\$1,765,472	\$1,641,204	\$1,815,677	\$1,692,915
Other Svcs. & Charges	\$14,720,635	\$14,933,279	\$14,663,674	\$14,913,471
Internal Service Charges	\$2,352,378	\$2,445,941	\$2,544,183	\$2,647,336
Capital Outlay	\$13,625	\$13,625	\$13,625	\$13,625
Contingencies	\$550,000	\$550,000	\$550,000	\$550,000
Appropriations/Transfers Out	\$19,446,289	\$19,805,530	\$20,036,176	\$20,289,333
<b>TOTAL EXPENDITURES</b>	<b>\$103,156,223</b>	<b>\$107,667,652</b>	<b>\$113,485,093</b>	<b>\$120,081,583</b>
<b>PROJECTED DEFICIT</b>	<b>(\$12,951,723)</b>	<b>(\$20,897,305)</b>	<b>(\$31,559,143)</b>	<b>(\$38,155,634)</b>
<b>Deficit as % of Total Revenue</b>	<b>-14.36%</b>	<b>-24.08%</b>	<b>-38.52%</b>	<b>-46.57%</b>
<b>Estimated FTE Reduction</b>	<b>(131.7)</b>	<b>(207.4)</b>	<b>(298.2)</b>	<b>(343.2)</b>

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#### **General Fund Revenues**

The county follows the state guidelines and separates revenues into eight categories, including:

- v Taxes & Penalties
- v Licenses & Permits
- v Federal, State and Local Revenues
- v Fees & Services
- v Fines & Forfeitures
- v Interest Earnings
- v Other Revenue & Reimbursement
- v Transfers In

When reviewing revenues, the county frequently focuses on General Fund only. This is not to understate the importance of the Non General Fund (NGF) revenues, but to demonstrate the alignment between all of the funds. Revenue issues in the NGF program areas are typically included in discussions about the level of General Fund support contained with the expenditure category titled Appropriations and Transfers.

Approximately 95% of General Fund revenue is comprised of 15 revenue line items, the largest being property taxes. Understanding the trends and variables within these revenue sources allows for a strategic and proactive response to any changes in available funding. Below is an overview of the major assumptions within the Revenue Categories.

<b>Revenues by Source:</b>	
Taxes and Penalties	For years the county realized an annual growth in property tax revenue of 6% on average, with some years in the double digits. Our expenditures kept pace with these revenue growth rates. In 2008, the increase dropped down to 3%, and in 2009 the county realized its first ever reduction of -2.5%. This downward trend continued in 2010 with a further decline of -5.5%. The question on the minds of most economists is whether or not we have hit bottom. Some leading indicators are demonstrating a positive shift. These upward trends are not consistent across all sectors and are very premature to assume as we move forward. In addition, some economists are suggesting the possibility of a double dip recession. It is currently estimated that 2011 will be the steepest reduction with a -8.5% taxable value. <b><i>The General Fund</i></b>

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	<b><i>projections for 2012/13 assume a property tax reduction of -5% in 2012 and -2% in 2013, then stabilizing at 0% in 2014 and 2015.</i></b>
State Revenues	<p>The State of Michigan is currently projecting a \$1.8 Billion deficit in the coming fiscal year. A new Governor was inaugurated this month and will take some time to determine the appropriate course of action to balance the state budget. Some of this is estimated to impact the county's General Fund, predominately through Revenue Sharing. A larger portion will most likely impact the county's Non General Fund program areas. <b><i>The Board will have to decide how to respond to reductions in these NGF programs, and the level of General Fund impact, if any, they are willing to accept. This will be reflected through our Appropriations &amp; Transfers Out under Expenditures, which are currently projected to remain flat and not absorb any estimated reductions in State Revenues.</i></b></p> <p>The largest General Fund state revenue, Revenue Sharing, has been recorded under the Transfers In category as the county continues to use its Revenue Sharing Reserve Fund, as directed by the state. The 2010 allocation was \$6.5M. It is assumed an inflationary factor will be applied for 2012. The county will then exhaust the reserve fund with a partial payment being available in 2013 estimated at ~\$4M. <b><i>The General Fund projections assume that the state will not reinstate revenue sharing for the county in 2013 when the reserve fund is gone, resulting in a shortfall of \$2.5M.</i></b></p> <p>Other major state revenues are assumed to remain at previous levels. The largest of these includes the State Liquor and Cigarette Taxes, the State Court Fund and reimbursement for Judges' salaries and fringes.</p>

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Fees & Services	<p>Approximately 65% of this revenue category consists of contracting entity payments for police services contracts. The current contracts expire at the end of 2011. Historically, the annual contract price has been adjusted anywhere from 0 – 4%. The Board of Commissioners will undertake this policy issue during 2011, determining the price per Police Service Unit as well as the length of the contract. <b><i>The General Fund projections assume the current 2011 price continues into the future.</i></b></p> <p>Court Costs and Register of Deeds Fees are the next two largest revenues within this category. Both of these have had significant reductions over the past several years. The District Court ended 2010 with a \$500K revenue shortfall, in line with revenue collections for 2009. <b><i>The projections assume District Court revenues stabilize and the budget had been adjusted to reflect these new lower amounts.</i></b> Register of Deeds peaked at the height of the housing market in 2003 with total revenues over \$5M. These are now just under \$2M. <b><i>The budget assumes Deeds revenues remain at this lower level, although there are some signs revenues may be increasing.</i></b></p>
Transfers In	<p><b><i>The largest revenue and change within the Transfers In category is Revenue Sharing.</i></b> More about this revenue line item is outlined above in the State Revenues category. The decline between 2012 and 2013 demonstrates that only a partial year of revenue sharing is available from the reserve fund in 2013. The reserve fund is then depleted, resulting in no transfer in for 2014 and beyond.</p> <p>Other Transfers In include the E911 surcharge reimbursement for Central Dispatch and a transfer from the Delinquent Tax Fund for reimbursement of an eligible portion of the Treasurer and Deputy Treasurer. These are estimated to remain at previous levels.</p> <p>Any transfer from the property foreclosure funds would be determined as part of the Treasurer’s annual report on status of these funds. The projections assume no transfer takes place pending additional information by the Treasurer.</p>
All other Revenues	<b><i>All other revenues are estimated to remain at current 2011 budgeted levels.</i></b>

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#### General Fund Expenditures

The county follows the state guidelines and separates expenditures into eight categories, including:

- v Personal Services
- v Supplies
- v Other Services & Charges
- v Internal Service Charges
- v Capital Outlay
- v Contingencies / Reserves
- v Appropriations / Transfers Out

Reviewing the General Fund budget by category merges line items between all General Fund departments together to understand the type of expense being allocated regardless of service area. The county also frequently reports on the expenditures by functional unit to demonstrate where the dollars are being allocated between services. The assumptions and trends outlined below attempt to provide information from both perspectives.

Expenditures by Category:	
Personal Services	<p>Personnel is the county's largest General Fund expense at 62% of the budget. The projections used the county's 2011 salary projections for each position as a baseline. It is assumed all current active positions continue into the future. The adjustments to wages and benefits will partially be the result of labor negotiations that will occur during 2011 for contracts beginning on 1/1/2012.</p> <p><b><i>The General Fund projections assume 0% across the board salary growth, with an estimated annual increase for the impact of currently negotiated step and longevity increases. The projections also assume no furlough or banked leave days continue, as these will be subject to negotiation.</i></b> Our Sheriff unions, POAM and COAM, have recently settled contracts extending through 2014 and 2015 respectively, with a 0% wage increase for 2011 and 2012 followed by 1% for 2013 and 2014. COAM then has a 0% wage adjustment in 2015.</p> <p>Fringe benefits are also subject to labor negotiation for union employees and Board approval for non union employees. <b><i>The projections assume that the</i></b></p>

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	<p><b><i>current benefit package continues, which is estimated to grow by 12% annually.</i></b></p> <p>For 2011, the county allocates over \$11,500 per employee into its medical fund. Since the county is self-insured, the actual costs won't be known until after claims are submitted. However, it is estimated by our carrier that medical will grow by 12% annually as a statewide average.</p> <p>The county currently offers a Defined Benefit (DB) plan to all non-Sheriff employees with an eight year vesting requirement. The employer contribution for 2011 is 8.67%. By current union contract, the employer rate will be capped at 10% if the rate increases, which will then be followed by the employee rate increasing to a maximum of 10% before a new agreement is reached.</p> <p>The county has realized a growth in our Severance and Unemployment costs due to increased number of people exiting the organization. These trends are estimated to continue and are included in the projected 12% growth rate for all fringe benefits.</p>
Supplies	<p><b><i>Minor cost escalations are included in supplies, with the predominate adjustment being within the Printing &amp; Binding line item to coincide with an every other year major election cycle and the printing of ballots.</i></b></p>
Other Services	<p><b><i>The largest line item in this category is Consultants &amp; Contracts, which is estimated to remain at current \$2.5M budget levels.</i></b> A thorough review of all contracts will be part of the 2012/13 budget development, with a review to determine if cost containment or reductions can take place. This line item is used by many departments but the largest budget allocation is for medical and food services within the county's Jail.</p> <p><b><i>IT Maintenance Contracts are also included in this category with an estimated \$1.6M budget in 2012 and an annual cost escalation of 10% based on industry standards.</i></b> The budget assumes all current contracts remain in place to support all existing software within the county, although these too will be reviewed in detail as part of the 2012/13 budget development.</p> <p>The county has the potential liability of \$4M+ due to tax appeals, not counting residential. This continues to grow as more agencies and homeowners appeal their taxable values. The county responded by increasing this budget from \$100K in 2008 to \$500K in 2009 to \$1,500,000 in 2010. <b><i>The projections assume the budget for tax refunds of \$1.5M continues for 2012/13 and then drops to</i></b></p>

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	<p><b>\$1M for 2014/15.</b></p> <p>This category contains the county's allocations to Outside Agencies. <b>All General Fund allocations to Outside Agencies are projected to continue at current levels into the future.</b></p>
Internal Services	<p>This category includes Fleet Charges and Cost Allocation Plan (CAP). <b>The projections assume fleet costs increase 5% annually. It is assumed that the CAP allocation will remain consistent with current levels.</b></p>
Contingencies	<p><b>The budget assumptions include the following for Reserves:</b></p> <ul style="list-style-type: none"> <li>\$100K in Unearmarked Reserves to be used at BOC direction</li> <li>\$200K for Community Supportive Housing to be used at BOC direction</li> <li>\$250K planned contribution to fund balance</li> </ul>
Appropriations & Transfers Out to Non GF Services	<p>The 2010/11 budget included the reduction of many appropriations. Most of the county's allocations to infrastructure were reduced for these years although it was known these reductions may not be sustainable into the future. <b>The projections assume all infrastructure allocations return to their previous levels, and the 1/8<sup>th</sup> Mill building fund aligns again with the county's estimated taxable values.</b></p> <p><b>All other appropriation reductions are assumed to be structural, resulting in these appropriations remaining consistent with the 2011 budget.</b> As part of the 2010/11 budget, the Board of Commissioners revised the previous policy for the General Fund to automatically adjust these appropriations for personnel cost growth, except where mandated. <b>There are assumed increases for the county's required allocation to the Child Care Fund and Friend of the Court based on assumed personnel cost growth, pending any budget modification discussions with the Trial Court.</b></p> <p>As outlined under the State Revenue category, the county is anticipating that many of our Non General Fund services will realize revenue reductions from the budget modifications at the state. More information on specific state reductions will be available over the coming months. These will be closely monitored, and any new information will be included in the May Financial State of the County. It remains a policy question for the Board of Commissioners as to how the county should respond to funding and service level reductions in these NGF units.</p>
All other Expenditures	<p><b>All other revenues are estimated to remain at current 2011 budgeted levels.</b></p>