Washtenaw County, Michigan

2014 - 2017 General Fund Update Budget Estimate

Major Assumptions as of May 2013

The new normal of our economy has forced Washtenaw County to re-think how we conduct business. Reduced property tax revenues, changes in State funding levels and increased demands for services caused significant and painful decisions to be made in our 2010/11 and our 2012/13 budgets. Through honest communication and hard work with our partnering departments and elected officials, we were able to reduce expenses while maintaining serviceability levels. While these challenging times remain uncertain, economic indicators are hinting that a gradual recovery may be on the horizon.

The time is right then, to focus on the long term view for our financial future. As stewards of Washtenaw County, we are all responsible for its fiscal stability and helping to leave a strong legacy for future generations of citizens and employees alike. 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 59% of the General Fund (GF) budget. The county has responded well, as reflected in the approval of a balanced budget for 2012/13, the retention of AA+ bond rating, a GF unreserved fund balance amount above Board of Commissioner adopted policy, and a year-end surplus for fiscal year 2012.

This document contains the updated forecasts for fiscal years 2014 through 2017, including key focus areas and accompanying assumptions. The projections will continue to evolve as more information becomes available. The 2013 Equalization Report, which determines the county's property tax revenue, provided some good news. Taxable value increased by 1.35 percent, resulting in $2.3M in additional property tax revenue each year.

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 2013.

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

2014 - 2017 General Fund Update Budget Estimate

Major Assumptions as of May 2013

Washtenaw County General Fund 2014-2017 Projections - Updated Estimate As of May, 2013	2014 Projected Budget	2015 Projected Budget	2016 Projected Budget	2017 Projected Budget
REVENUES:				
Taxes & Penalties	$63,929,610	$64,561,974	$65,194,338	$65,826,702
Licenses & Permits	$263,334	$263,334	$263,334	$263,334
State & Local Revenues	$11,362,663	$11,362,663	$11,362,663	$11,362,663
Fees & Services	$20,842,234	$20,976,412	$20,976,412	$20,976,412
Fines & Forfeits	$919,760	$919,760	$919,760	$919,760
Interest Income	$75,419	$75,419	$75,419	$75,419
Other Revenue	$1,797,626	$1,797,626	$1,797,626	$1,797,626
Transfers In	$1,974,278	$1,974,278	$1,974,278	$1,974,278
TOTAL REVENUES	**$101,164,924**	**$101,931,466**	**$102,563,830**	**$103,196,194**
% of revenue change over the prior year	-1.27%	0.76%	0.62%	0.62%
EXPENDITURES:				
Personal Services	$71,680,383	$73,019,953	$75,251,263	$77,642,183
Supplies	$1,952,821	$1,803,056	$2,028,124	$1,874,801
Other Services & Charges	$13,230,416	$13,469,161	$13,473,601	$13,745,047
Internal Service Charges	$2,762,973	$2,867,287	$2,976,818	$3,091,824
Capital Outlay	$88,625	$88,625	$88,625	$88,625
Contingencies	$1,850,000	$1,850,000	$1,850,000	$1,850,000
Appropriations/Transfers Out	$15,864,520	$16,064,616	$16,270,715	$16,482,997
TOTAL EXPENDITURES	**$107,429,738**	**$109,162,698**	**$111,939,145**	**$114,775,477**
% of expenditure change over the prior year	4.94%	1.61%	2.54%	2.53%
PROJECTED SURPLUS / (DEFICIT)	**($6,264,814)**	**($7,231,232)**	**($9,375,315)**	**($11,579,283)**
Deficit as % of Total Revenue	**-6.19%**	**-7.09%**	**-9.14%**	**-11.22%**
Estimated FTE Reduction	**(73.0)**	**(84.3)**	**(109.3)**	**(135.0)**

Major Assumptions as of May 2013

General Fund Revenues

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

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

When reviewing revenues, the county frequently focuses on GF 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 GF support contained with the expenditure category titled Appropriations and Transfers.

Approximately 96% of GF revenue is comprised of 19 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.

Revenues by Source:	
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 has continued through 2012 with a further decline of -5.5% in 2010, -2.8% in 2011, and -.77% in 2012. 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. In addition, some economists are suggesting the possibility of a double dip recession. The 2013 Equalization Report revealed an increase of 1.35% in taxable value resulting in additional property tax revenue of $2.3M per year. ***The General Fund projections for 2014 - 2017 assume property tax revenue increases of 1% per year.***

Major Assumptions as of May 2013

	Personal property tax reform has been an ongoing discussion for State legislatures for most of 2012. Currently, personal property tax revenue makes up \$5.6M or 8.2% of GF revenues. Current versions of the tax repeal bills include reductions for commercial and industrial property in the amount of \$390K starting in 2014 with a potential for reimbursement from the State for up to 80% of the loss. ***The General Fund projections for 2014 – 2017 include personal property tax revenue of \$5.5M, a reduction of \$78K assuming the State reimburses the county for 80% of the loss. A milestone will occur in August 2014 when the reform proposal is brought before the voters.***
State Revenues	The largest GF state revenue, Revenue Sharing, has been recorded under the Transfers In category since 2004 as the county continues to use its Revenue Sharing Reserve Fund, as directed by the state. The county will exhaust the reserve fund with a final partial payment of \$4.0M in 2013. The state's 2012/13 and 2013/14 budgets include revenue sharing/county incentive program payments at 75% of previous revenue sharing levels. The county will receive a partial payment in the amount of \$2.7M for 2013. ***The General Fund projections assume that the state will reinstate revenue sharing/county incentive program in the amount of \$5.3M per year for 2014 – 2017. This amount is in alignment with the Governor's 2013/14 recommended budget allocation.*** The State of Michigan currently has a balanced biennial budget for 2012/13 and 2013/14. The Governor is over half way through his four year term. As he continues with his agenda to reinvent Michigan, and the State legislature continues to determine an appropriate course of action for reform, some of this is estimated to impact the county's GF. A larger portion will most likely impact the county's NGF program areas. ***The Board will have to decide how to respond to reductions in these NGF programs, and the level of GF support they are willing to provide. This will be reflected through our Appropriations & Transfers Out under Expenditures, which are currently projected to remain flat and not absorb any estimated reductions in State Revenues.*** 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 Equity Fund and reimbursement for Judges' salaries and fringes.

Major Assumptions as of May 2013

Fees & Services	Approximately 64% of this revenue category consists of contracting entity payments for police services contracts. The Board of Commissioners adopted the recommendations from the Police Services Steering Committee for police services 2012 - 2015 cost/price metrics as the agreed upon calculation for the total cost of a police service unit (PSU). The adopted price of a PSU for 2012 was at the 2011 price of $150,594, with annual 1% increases for subsequent years through 2015. ***The General Fund projections assume the current 2013 price to be increased 1% in both 2014 and 2015 and 0% for 2016 and 2017.*** 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 2012 with a $286K revenue shortfall, in line with revenue collections for 2009 – 2011 and 2013 revenue is estimated to be in alignment with 2012. ***The projections assume District Court revenues stabilize and the budget has been adjusted to reflect these new lower amounts.*** Clerk/Register of Deeds peaked at the height of the housing market in 2003 with total revenues over $5M. These are now just over $3.5M. ***The budget assumes Deeds revenues remain at this lower level, although there are some signs revenues may be increasing.***
Transfers In	The largest revenue and change within the Transfers In category is Revenue Sharing. More about this revenue line item was outlined above in the State Revenues category. As stated previously the county will exhaust the reserve fund with a final partial transfer of $4.0M in 2013. The reserve fund is then depleted, resulting in ***no transfer in for 2014 and beyond***. Other Transfers In includes 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 personnel costs. ***These are estimated to remain at previous levels.*** Any transfer from the property foreclosure funds would be determined as part of the Treasurer's annual report on the status of these funds. ***The projections assume no transfer takes place pending additional information from the Treasurer.***
All other Revenues	***All other revenues are estimated to remain at current 2013 budgeted levels.***

Major Assumptions as of May 2013

General Fund Expenditures

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

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

Reviewing the GF budget by category merges line items between all GF 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	Personnel expenditures are the county's largest GF expense at 67% of the budget. The projections used the county's 2013 salary projections for each position as a baseline. It is assumed all current active positions continue into the future. Adjustments to wages and benefits are a result of labor negotiations that occurred during February and March of 2013 for contracts beginning on 3/21/2013. The ten year agreements outline structural and nonstructural increases. ***The General Fund projections assumes salary growth in alignment with the union agreements, as well as estimated increases for the impact of negotiated step and longevity increases with no furlough or banked leave day reductions.*** All non-Sheriff unions have a 2% nonstructural wage increase for 2014, 1% structural salary increase for 2015, 2% structural salary increase for 2016 and 2% nonstructural wage increase in 2017. Our Sheriff unions, POAM and COAM, have settled contracts extending though 2014 and 2015 respectively, with a 1% wage increase for 2013 and 2014. COAM then has a 0% wage adjustment in 2015. Fringe benefits are also subject to labor negotiation for union employees and Board approval for non union employees. ***As negotiated the projections assumes the closure of VEBA retiree health and WCERS defined benefit plans as***

	of 12-31-13 and a shift to a defined contribution retirement and retiree health reimbursement account plans effective 1-1-14. Although this addresses the long-term legacy costs associated with these plans, the required contribution to VEBA and WCERS rises substantially the first few years following the closure. Municipal Financial Consultants Incorporated and Buck Consultants have provided contribution rates for 2014 - 2017 which are used in the projections. Furthermore, the county is exploring the possibility of bonding for its unfunded liabilities associated with these plans. At this time projections do not include any anticipated savings from bonding. ***All other percent fringe benefits (FICA, life and long-term disability insurance, employee liability and workers compensation) are estimated to remain flat***. For 2013, the county allocates over $10K per employee for non-Sheriff union groups and over $17K for Sheriff union groups into its medical fund. Since the county is self-insured, the actual costs won't be known until after claims are submitted. ***Therefore, 2014 medical costs are estimated to be in alignment with the 2012/13 Blue Cross Blue Shield renewal. However, it is estimated that medical will grow by 8% annually for 2015 and 5% annually for 2016/17.*** 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 decline and are ***included in the projections with a flat fringe benefit rate.***
Supplies	Minor cost escalations are included in supplies, with the predominate adjustment being within the Printing & Binding line item to coincide with an every other year major election cycle and the printing of ballots. ***The projections assume a 3% increase per year and even years (2014 & 2016) include ballot printing for elections and odd years (2015 & 2017) exclude these costs.***
Other Services	***The largest line item in this category is Consultants & Contracts, with an estimated $2.5M budget for the 2013 and an annual cost escalation of 3% per year for 2014 - 2017.*** A thorough review of all contracts will be part of the 2014 - 2017 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. ***IT Maintenance Contracts are also included in this category with an estimated $1.5M budget in 2013 and an annual cost escalation of 10% based on industry standards.*** 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 2014 - 2017 budget development. The county's tax appeal liability has continued to grow in recent years as more agencies and homeowners appeal their taxable values. The county responded by increasing this budget to $1.5M in 2010. ***The projections assume a reduction in the budget for tax refunds to $1.0M for 2014/15 and then drops to $750K for 2016/17.*** This category also contains the county's allocations to Outside Agencies. ***All General Fund allocations to Outside Agencies are projected to continue at current levels into the future.***
Internal Services	This category includes Fleet Charges and Cost Allocation Plan (CAP). ***The projections assume fleet costs increase 5% annually (2014 – 2017). It is assumed that the CAP allocation will remain consistent with current levels.***
Contingencies	***The budget assumptions include the following for Reserves for 2014 - 2017:*** $100K in Unearmarked Reserves to be used at BOC direction $200K reserve for Jail Medical Costs $250K reserve for Animal Control Services $300K reserve for Infrastructure Management $1.0M reserve for planned contribution to fund balance
Appropriations & Transfers Out to Non GF Services	The 2012/13 budget included the reduction of many appropriations. Most of the county's allocations to infrastructure have been reduced since 2010 although it was known these reductions may not be sustainable into the future. ***The projections assume all infrastructure allocations for capital equipment and projects, 1/8th mill and technology plan remain at the 2012/13 reduced levels. In addition, a reserve for Infrastructure Management, as listed above under Contingencies, has been established for 2014 – 2017.*** ***All other appropriation reductions are assumed to be structural, resulting in these appropriations remaining consistent with the 2013 budget.*** As part of the 2012/13 budget, the Board of Commissioners revised the previous policy for the GF to not automatically adjust these appropriations for personnel cost growth, except where mandated. ***There are assumed increases for the county's required allocation to the Child Care Fund, Friend of the Court – Cooperative Reimbursement and Prosecuting Attorney - Cooperative Reimbursement programs based on assumed personnel cost growth.*** As outlined under the State Revenue category, the county is anticipating that

	many of our NGF services may realize revenue reductions from state. More information on specific state reductions will become available over the coming months. In addition, we are continuing to monitor the impact federal sequestration will have on programs. Sequester cuts will begin to have some programmatic impact during the third quarter of 2013. More information will be shared on the magnitude and specific impacts as it is identified. 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.
All other Expenditures	***All other expenditures are estimated to remain at current 2013 budgeted levels.***