



# Calhoun County

## Office of the Administrator/Controller

*"Building A Better County Through Responsive Leadership"*

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### Memorandum

**To:** Calhoun County Board of Commissioners

**From:** Kelli Scott, Administrator/Controller

**Date:** December 8, 2010

**Subject:** FY 2011 County Administrator/Controller's General Fund Budget Recommendation

### The 2011 Budget

I am pleased to present for consideration by the Board of Commissioners the 2011 Administrator/Controller's Recommended General Fund Budget for Calhoun County. The General Fund budget was prepared in accordance with Generally Accepted Accounting Principles and in compliance with budget laws and Board policies. It is a result of an extensive process involving all departments and agencies, elected officials, judiciary, and the Budget Committee of the Board of Commissioners. Despite a second year of declining property tax revenues, the recommended budget reflects our collective difficult and determined efforts to address the County's long-term objectives and stated priorities within the context of our financial limitations, and to present a spending plan that maintains important services to Calhoun County residents.

#### SUMMARY

The recommended 2011 General Fund budget totals \$40.3 million, which reflects almost no change from the 2010 amended Budget in spite of a projected revenue shortfall of over \$1 million. In attempt to allow the County to weather the economic storm for one more year, this shortfall is offset with several one-time transfers of accumulated fund balances from outside of the General Fund. The budgets for 2010 and 2011 are still, however, significantly down (by \$1.4 million) from the 2009 adopted budget of \$41.7 million.

The budget utilizes a 2011 tax levy of 5.3779 mills, which has been unchanged over the past several years. Our revenue stream continues to be of primary concern, with secondary concerns including unsecured capital improvement plan funding and employee health insurance costs escalating at rates far exceeding that which revenues can sustain. Our long-term forecast expects worsening conditions over the next few years.

Property tax revenues for 2011 are estimated to be approximately 2% below 2010 levels due to continued declines in property values, partially offset with a positive 1.6% inflationary factor applied to taxable values for 2010. Jail bed rental revenue is anticipated to be 7% lower in 2011 than the 2010 budgeted level. On the positive side, state shared revenue estimated under the currently enacted appropriations bill HB5880 is up approximately 5%, partially restoring the 11% cut to County revenue sharing we received in 2010.

The 2011 budget planning process was even more difficult than the 2010 process because of the continued decline in revenues and the fact that the 2010 budget already saw \$1.4 million in reductions from 2009. Thus, changes to the process this year included:

- ✓ An expanded Internal Budget Team to broaden the perspective and knowledge base from which our budget recommendations would come;
- ✓ More frequent budget meetings with all employees, union leaders, Commissioners and the public;
- ✓ A somewhat more surgical approach to setting recommended departmental budget targets using lists of mandated vs. non-mandated budget areas as a guide; and
- ✓ The implementation of an Early Retirement Incentive Program to create savings and more flexibility for departments to make difficult staffing decisions that may otherwise have required many layoffs.

Late in the process this year the budget picture got worse, with the deficit growing to over \$2.5 million after budgets were submitted and almost all departments had committed to meet recommended expenditure budget targets. New revenue projections indicated even steeper declines, and employee health insurance renewal rates indicated a 19% increase in costs for 2011—about triple the increase that had been built into the initial budget projection. These factors left us at the end of November 2010 with an approximate \$900K deficit for 2011 still to erase with only a month before the budget adoption was scheduled. In order to balance the budget, the list of positions that will be unfunded grew even more, a difficult recommendation to eliminate future benefits for County Commissioners came forth, and the \$500,000 annual contribution to the Capital Improvement Plan (CIP) Fund was reduced to only \$50,000 for 2011. This last item provides short-term savings, but will leave a larger hole in future funding for ongoing capital replacement and repair needs including vehicles, information technology, building and grounds, and equipment and furnishings.

The final recommendation does include a balanced Budget maintaining an approximate 10.6% or \$4.3 million General Fund Balance for Board of Commissioners adoption on December 16, and the use of supporting resolutions, policies and procedures to ensure proper budgetary controls throughout 2011.

# Highlights of 2011 Budget

## REVENUES

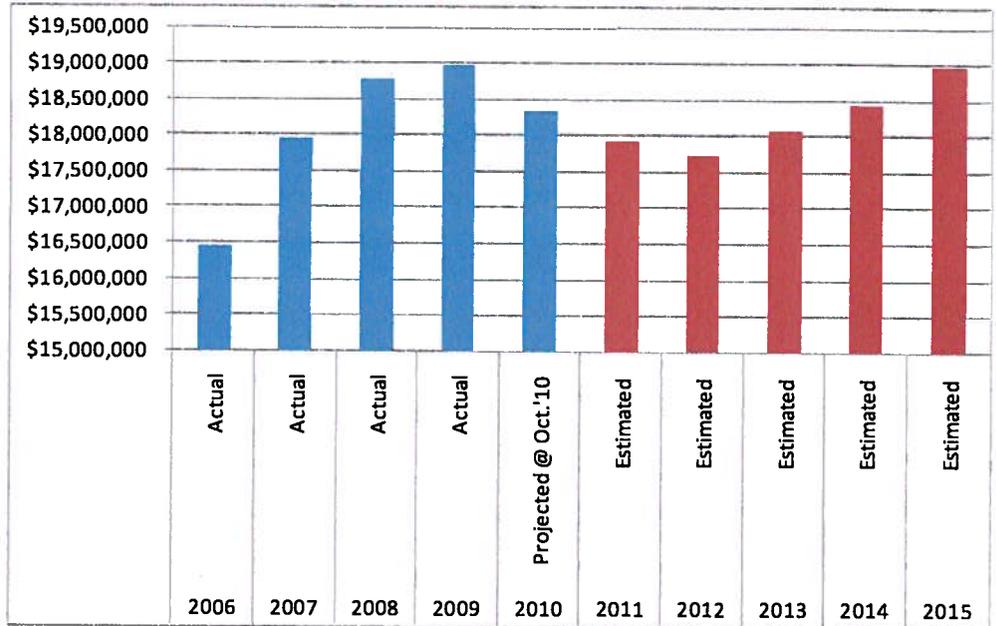
Total projected revenues of \$40.3 million include the following significant items:

- **Property Tax and Special Assessments** of \$17.9 million, comprising 44% of total general fund revenues.

*Property Tax Revenues made up 48% of the County's General Fund Revenues in 2009.*

*For the 2011 budget year, we expect to receive \$1,000,000 less than we had to operate in 2009.*

*The current forecast shows it will take until 2015 to rebound to 2009 levels of property tax revenues.*



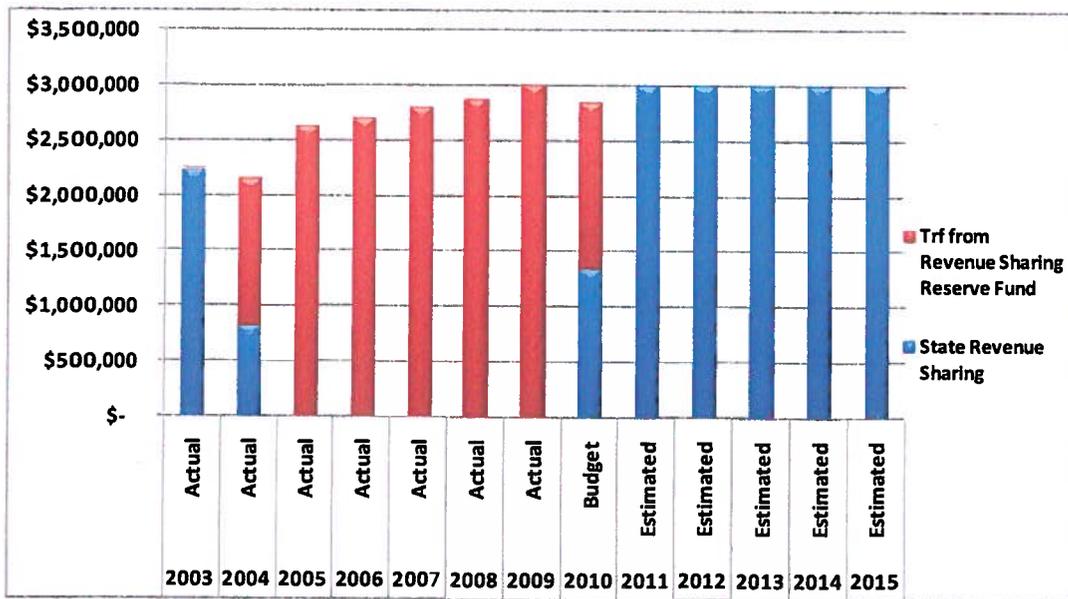
Property tax revenues increased by an average of 4.5% per year from 2005 to 2009. The 2010 and 2011 budgets include a 3.6% and 2% decrease in property tax revenues respectively, due to declines in property values along with a negative inflationary factor for 2010 taxable values.

The good news for County taxpayers is that a taxpayer with a home valued at \$100,000 (\$50,000 taxable value) will continue to pay approximately \$319 per year in property taxes to support Calhoun County government (including the Medical Care Facility and Senior Services):

Home Value (SEV)	\$	100,000
Taxable Value (50%)	\$	50,000

	Millage Rate	Tax Bill:
County	6.37	318.57

- **State Shared Revenue** (included in State Grants) of \$3 million, which provides 7% of total general fund revenues.



*County Revenue Sharing depends on legislative inclusion in the State's budgeting process.*

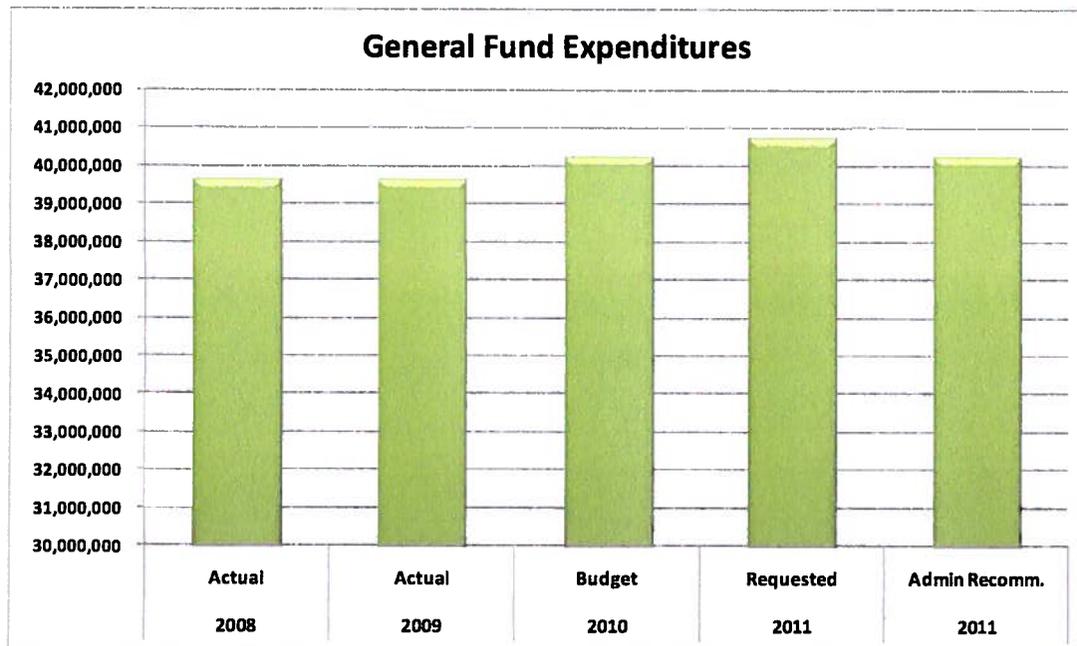
*We received an 11% cut in 2010, partially offset with our remaining reserve balance.*

*2011 assumes restoring funding to \$3,012,947 under HB5880.*

- **Other Revenues** of \$6.5 million, including Jail bed rental of \$5.3 million, which contributes 13% to total general fund revenues and offsets approximately half of the costs to operate the corrections facility. Rental income for housing out of county inmates in 2011 is projected to be significantly lower than 2010 budgeted figures, according to estimates provided by the Sheriff. During 2010 the County's Local Jail Population Management Committee was reinstated, focusing on the comprehensive review of systems used to manage the local jail population and also the impact of housing federal and state inmates as a method to offset the County's public safety costs.
- **Charges for Services** of \$5.9 million, comprising 15% of total general fund revenues. This category of revenues includes various charges within the courts, the clerk/register of deeds office and other. Some of these revenues are struggling due to poor economic conditions.
- **Other Financing Sources** include \$200K as the estimated Payment In Lieu of Taxes distribution from the FireKeepers Local Revenue Sharing Board based on the 2010 "Net Win" from the casino's operations. This is an expected increase of \$125K over the 2010 distribution, which came from the casino's first five months of operations after it opened in August 2009.
- \$1,800,000 operating transfer from the **Delinquent Tax Revolving Fund** (includes an additional one-time lump sum of \$300K to help with 2011 revenue shortfalls), accompanied by a \$240K transfer to help finance the financial management software (total expected contribution for the New World Systems project of \$1.2 million over 5 years)
- One-Time use of Retained Earnings from Buildings & Grounds Fund/CIP Fund Balance (\$495K); Health Dept Fund Balance (\$75K); and E911 Fund remaining Surcharge (\$61K)

## EXPENDITURES

Total general fund expenditures of \$40.2 million are recommended, an increase of only \$33K or .08% from 2010.



- **Salary and Benefit Changes**

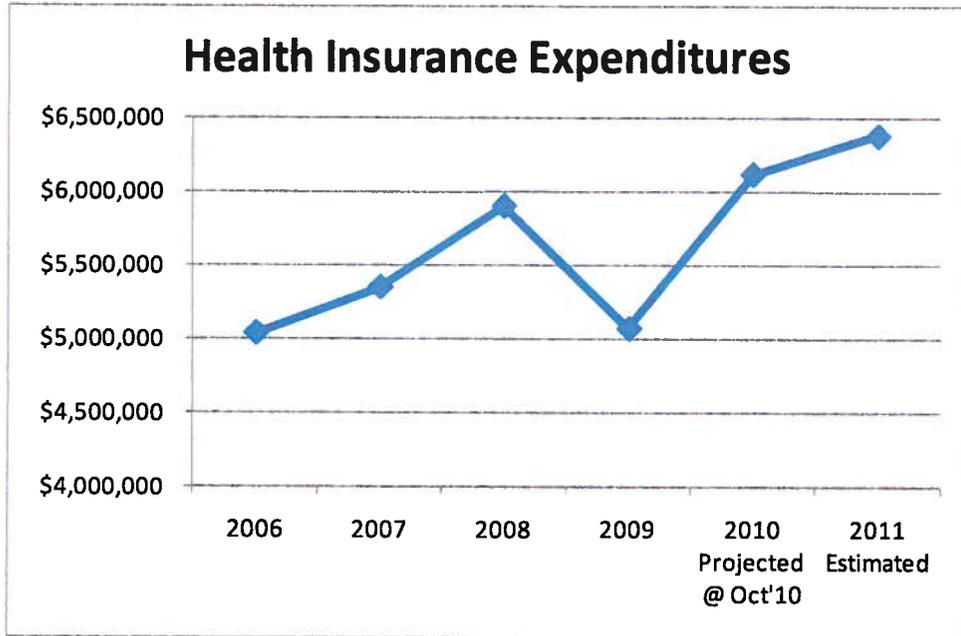
Negotiations are currently underway with the largest County union, Police Officers Association of MI (POAM), and so the budget impacts of those efforts are not yet known. Estimates of salary and benefit cost impact are included in the 2011 budget recommendation following the guidance the Board of Commissioners has provided to the administration and thus the County's bargaining teams.

Because of declining revenues, we limited the recommended salary increase to 1.0% for County non-union employees and most elected officials (excluding Judges and County Commissioners and) for 2011. The Courts have limited Court non-union employee salary increases to 1.0% for the top steps of their pay scales only. Salaries for 2011 for the Board of Commissioners are recommended at 2010 levels. The 2011 budget includes a recommended market adjustment for the Clerk/Register of Deeds position salary, based on salary studies for this position indicating it has been substantially below market. Per County Policy, this adjustment requires that the Deputy Clerk's salary also increases to remain at 90% of that of the Clerk/Register of Deeds.

As a result of ever increasing health care benefit costs, the budget reflects a 19% rise in total employee health insurance costs compared to the 2010 budget. Increased employee cost share amounts were necessary to bring the net cost to the County to a final budgeted net 13% increase.

The 2011 budget recommendation includes the elimination of benefits for new members of the Board of Commissioners and a phasing out of such benefits after 2012 for commissioners who have been participating in the plans. This move is estimated to save approximately \$45,000 for 2011 compared to 2010 costs for Commissioner benefits, and over the next 5-year forecast period will lower the County's budget by nearly \$500,000.

Even with the above changes, the County's expected 2011 cost for employee insurance is budgeted at a net of \$11,780 per employee.



*Employee and Retiree Health Insurance is projected to cost over \$6,000,000 for 2010 for all employees accounted for in all funds, an increase of \$1,000,000 over 2009 costs. Our benefits consultants are estimating a 19% increase for 2011 due to medical inflation, effects of federal health care reform, and increasing actual claims volume and cost.*

This budget recommendation includes approximately 33.6 full-time staff equivalents (FTE), General Fund portion=22.975, that are represented as unfunded for 2011. This means 11.5 additional FTE's (General Fund portion= 5.5) will not be funded compared to the 2010 amended authorized staffing allocations. Most of these reductions were achieved through holds on vacancies and normal attrition, with only one reported layoff.

The implementation of an early retirement incentive in May 2010 led to estimated 2011 budgeted savings in the General Fund of \$330K.

- **Supplies, Services and Other Expenditure Categories**

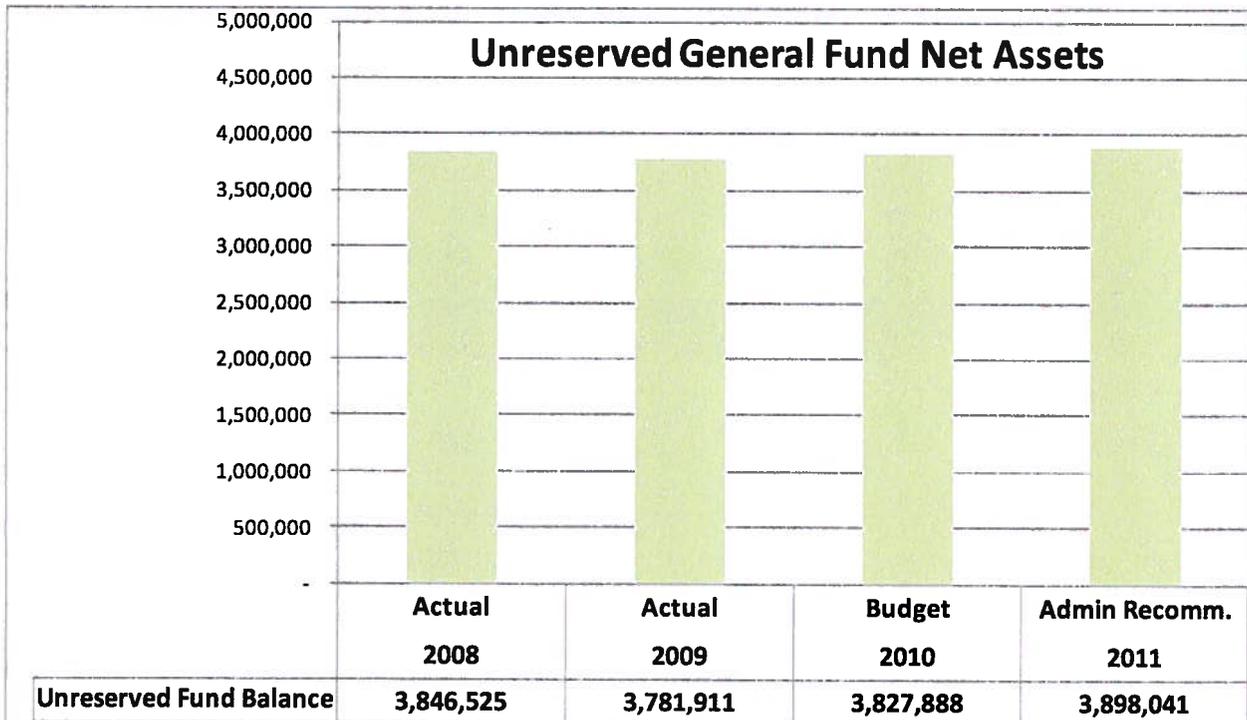
With approximately 60% of the County's general fund expenditures represented by salaries and benefits, cuts to other expenditure categories, including central service costs and janitorial contracts, were required to help achieve budget targets. Investments in technology and other innovative programmatic recommendations continue as long term strategies to reduce costs while improving services. Also included in this category for 2011 is \$361K in debt service for Series 2010 Bonds that funded the Honeywell Energy Performance Agreement and related capital improvements. Energy and operational savings will be available in future years to offset this debt service requirement from the General Fund. The planned General Fund contribution of \$500,000 toward the Capital Improvement Plan (CIP) fund for 2011 was reduced to \$50,000 as another one-time budget balancing step toward the end of the Budget process.

- **Appropriations – Health Department**

The County reduced the appropriation from the General Fund to the Health Department by 5% with an \$805,188 approved amount. This compares to an appropriation of \$847,264 in 2010 and \$822,586 for 2009. This allocation was previously approved by the Board of Commissioners from the General Fund for the 2010/2011 Health Department budget, which had an October 1, 2010 fiscal year start.

- **General Fund Balance**

The Fund Balance at December 31, 2009 showed \$3.8 million. We currently estimate that the FY 2010 year end fund balance will be \$4.2 million, or 10.5% of annual operating expenditures, which is within the 8% - 12% policy parameters established by the Board of Commissioners. The 2011 budget has been constructed to achieve a year end fund balance of \$4.2 million, or 10.5% of prior year expenditures.



## STRATEGIC PLANNING LINKAGE

This budget includes funding for continuing the important strategic priorities established by the Board of Commissioners in 2009. In June 2010 the Board of Commissioners adopted the 2009-10 Strategic Plan and Action Plan, reaffirming the Objectives adopted in 2009. In October 2010, the Board of Commissioners approved a set of Administrator/Controller's 2010-11 Deliverables that were incorporated into the Strategic Plan and Action Plan document. Several of the Strategic Objectives below were substantially completed during 2010, while several are expected to be complete during 2011 and many more will be ongoing.

<b>COMMISSIONER OBJECTIVES, adopted 6/24/09</b>	
<b>LONG TERM OBJECTIVE</b>	<b>SHORT TERM OBJECTIVE</b>
Intergovernmental collaborations	Website/electronic records
Youth/senior services plans	Grant writing- plan (options) hire
Sustainable plan of services (assessment)	Review approaches for studying sustainable services
Infrastructure maintenance	Assess County wide transportation to date
Economic/community development	Assess drainage issues & role
	Sheriff's department location
	GIS and 911 implementation
	Examine issues/options for Road Commission/Parks/etc

- **Financial Software Implementation (Strategic Objective = Website/electronic records)**

This large and complex project, which impacts all areas of the County, will be fully implemented during 2011. The project officially kicked off in February 2010 and the Financial Management application went live in November 2010. This project will be financed through a combination of Capital Improvement Funds, bond issuance, and annual debt services paid from the Delinquent Tax Revolving Fund. The completion of this project will allow for more effective decision making, streamlining of processes, and allow for further review of required staffing levels.

- **Geographic Information System (GIS) (Strategic Objectives = GIS Implementation and Intergovernmental Collaborations)**

As one of the most tangible examples of the focus on intergovernmental cooperation and collaboration, the County's GIS system was updated and a new internet based site was developed in 2009. A new GIS Coordinator was hired in 2010. We continue to work cooperatively with the City of Battle Creek and their GIS staff to share data and coordinate services, and efforts will continue throughout 2011 to explore opportunities to partner with local governmental units and other entities that will undoubtedly benefit from this project. GIS enhancements are being considered including new web features, streamlined data maintenance and on site hosting. The GIS is included in the 2011 budget recommendation as being funded both with revenues generated by the Equalization Department and dedicated revenue sources outside of the general fund.

- **Infrastructure Maintenance (Strategic Objective = Infrastructure Maintenance)**

Many deferred maintenance items, including replacement of the roof and carpeting at the justice center complex, and some additional needs for document imaging and other equipment, were included in a \$7,000,000 bond issuance in the spring of 2010. The project costs are being partially defrayed by interest rebates through the Recovery Zone Economic Bond program and

by future cost savings to be achieved through an energy performance contract with Honeywell, International, Inc. that was approved by the Board of Commissioners.

The initial budget proposal included a transfer of \$500,000 to the Capital Improvement Fund that was formed in 2010 with support by the County Commissioners of a new CIP Program and Policy. This new comprehensive plan forecasts capital needs for the next 7 years and compares them with secured funding for the needs to assess the gap in funding. A new CIP Advisory Committee was formed in 2010 to prioritize and recommend annual requests for capital outlay spending, which include building and grounds repairs and replacement, vehicle replacement, information technology and equipment and furniture items. Unfortunately due to the significant budget deficit facing the County for 2011, this final budget recommendation includes only \$50,000 in capital funding. It is hoped that conditions will change and the funding can be restored as necessary to maintain the County's physical assets and further our ability to serve residents in an efficient manner.

- **County Website (Strategic Objective = Website/Electronic Records)**

A complete redesign and restructuring of the County's website, [www.calhouncountymi.gov](http://www.calhouncountymi.gov), began in 2010 and is scheduled to go live early in 2011. Funding for this project was available through accumulated balances and ongoing revenues within special revenue funds. A new and improved website will enhance the e-government functionality for our citizens and provide opportunities for departments to provide additional online conveniences and transactions that could generate revenue and/or save costs.

- **Consolidated Dispatch (911) Authority (Strategic Objective = 911 Implementation)**

The Calhoun County Consolidated Dispatch Authority (CCDA) became fully operational in the spring of 2010 in the County Building in Marshall. Commissioner Mike Rae has served as the Board of Commissioners appointee on the Governing Board from 2009 to 2010. Lease and Administrative and Legal Services Agreements are in place between the Authority and the County to ensure all costs incurred by the County are reimbursed by the Authority, which is a separate legal entity. Those arrangements are reflected again in the recommended 2011 budget.

- **FireKeepers Local Revenue Sharing Board**

The new casino opened in August 2009. The FireKeepers Local Revenue Sharing Board (FLRSB) officially began operations in early 2010, under the leadership of Commissioner Mike Rae as its Chairman. This is truly an example of successful intergovernmental cooperation, as all votes concerning financial matters require unanimous agreement of the Board's six members representing the County, the Tribe, the Cities of Battle Creek and Marshall, and the Townships of Emmett and Athens. The FLRSB distributed to local governmental units approximately \$1.9 million from its first payment from the Nottawaseppi Band of Potawatomi Tribe reflecting 2% of the Net Win for the first partial fiscal year of the Casino's operations. The annual payment from the Tribe is due to the FLRSB in February 2011. The County's 2011 Budget recommendation includes an estimated \$200,000 in revenue from the FLRSB to reflect an expected increase in Payment in Lieu of Taxes distribution next year.

## IN CLOSING

The administration is grateful for the significant time and input from the Budget Committee and we appreciate the guidance offered by Commissioners Todd (committee chair), Rae, and Rocho. I want to also thank the Internal Budget Team, the Finance Department, Executive Team, Department Heads, Elected Officials and Judges, and all employees for their involvement in the budget process and commitment to be part of the County team in the budget process. We could not have arrived collaboratively with a balanced budget proposal without all of them. Finally I appreciate the increased interest and involvement of all Board members in this year's budget discussions. Your input and support has been critical, and demonstrates a true level of fiscal responsibility and accountability to the residents of Calhoun County.

We will continue to face fiscal constraints due to limitations of our own revenue sources—most of which are not directly within our control, and significant pressure at the State level. Further data gathering and evaluative methods will be explored in order to better delineate county services and related staffing and budgets that are mandated, those that are necessary, and those that are discretionary. These are hoped to give us better information to prioritize services and to base difficult funding allocation decisions on. With the creative assistance of our Department Heads, Elected Officials, Judiciary and other partners in the County I am confident we will be able to continue to provide the high level of service citizens have come to expect from Calhoun County.

Cc: Department Heads, Elected Officials and Judges