



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: November 23, 2011

Subject: FY 2012 County Administrator/Controller's General Fund Budget Recommendation - FINAL

The 2012 Budget

I am pleased to present for consideration by the Board of Commissioners the 2012 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 The Uniform Budget and Accounting Act and Board policies. It is a result of an extensive process involving all departments and agencies, elected officials, judiciary, and with much dedication and support of the Budget Committee of the Board of Commissioners, led by Board Chair Art Kale. Despite a third year of declining property tax revenues and cuts in State Revenue Sharing, the recommended budget reflects our collective determined efforts to ensure the County's long-term financial stability, and to present a spending plan that maintains important services to Calhoun County's citizens.

SUMMARY

The recommended 2012 General Fund budget totals \$39.8 million in expenditures, a significant \$2 million reduction over two years, from the \$41.8 million spent in 2010. The Authorized Staffing Allocation list accompanying the 2012 Budget is further evidence of major spending cuts, with 32 fewer funded positions included in the budget than in 2010. I present a balanced budget for 2012 that includes necessary structural changes and continued efficiency measures. We were able to close a projected \$5.0 million deficit for 2012 because of the leadership throughout County government and our commitment to sound financial management policies and practices.

The proposed budget maintains the current level of reserves, with the General Fund balance slightly above 10% of annual operations, and includes a \$200,000 contingency line item to help protect against unexpected mid-year budget shortfalls. These reserves, along with moderate debt and effective budget management, will help us keep our solid 'AA-' bond credit rating and stable outlook, even during economic downturns. The budget also maintains our base line commitment of \$500,000 per year toward Capital Improvement Funding so that we can continue to invest in technology, replace vehicles and equipment, and take care of our physical assets in a responsible manner.

The 2012 Recommended General Fund budget utilizes a 2012 operating tax levy of **5.3779 mills**, which has been unchanged over the past several years. Our greatly reduced revenue base continues to be of primary concern, as is the challenge in attracting excellent employees and valuing their dedication while at the same time controlling compensation costs, which represent approximately 60% of the General Fund budget. Our long-term forecast is being updated and revised following the recent conversion of the County's financial software and will be presented in its new format upon completion. The figures are expected to continue to show, however, that the County will face structural deficits into the future without further change, due to the loss of revenues and escalating costs in areas such as employee health insurance.

Property tax revenues for 2012 are estimated to be approximately 1% below 2011 levels, showing a leveling off in the continued declines in property values, and an expected positive inflationary factor. This smaller decline is good news, following the expected 5% drop in property tax revenues in 2011 that has cut more than \$1 million out of annual operating revenues. Public Safety Revenues including jail bed rental revenue is anticipated to be approximately \$800,000 higher in 2012 than the 2011 budgeted level, helping to lower the net General Fund spending on Public Safety by approximately 8%. State shared revenue budgeted according to the currently enacted Public Act 63 of 2011 is down by 24%, bringing the expected 2012 amount to approximately the level the County received in 2005.

THE PROCESS

The 2012 budget process was even more difficult than last year's because of the continued decline in revenues and the fact that the 2010 and 2011 budgets already saw a total of \$2.7 million in reductions from 2009. Led by Pam Kline, Budget Analyst, the process this year utilized our New World Systems Logos software's Budgeting modules, just implemented with the hard work of Finance, Human Resources and Information Technology staff, and included the following:

- ✓ An **earlier start**, with the initial forecast for 2012 being set in February 2011;
- ✓ An initial meeting of the Executive Committee and Internal Budget Team consisting of Brad Wilcox, Kim Archambault, Richard Lindsey, Jeff Albaugh, Jon Bartlett and Tom Pope, to review the initial forecast and seek input on the proposed Budget Calendar, process and parameters;
- ✓ Monthly meetings of the **Board of Commissioners Budget Committee**, consisting of Board Chair Art Kale, and Commissioners Jim Haadsma and Steve Frisbie, who contributed valuable time and input to this more frequent meeting schedule;
- ✓ A more **centralized revenue forecasting** method, using financial models to develop initial revenue projections instead of requesting departmental input, and including a final review and confirmation by department heads, elected officials and the judiciary. This was designed to increase confidence in revenue forecasts and ensure conservative budgeting;
- ✓ A continued approach to setting departmental budget targets **considering fixed and contractual costs before determining proportions** each area was asked to cut;
- ✓ The request that each area complete a **"Key Functions" template** that included mandated vs. non-mandated categorization, as well as staffing and funding references for each key program or function within the departments (this material was collected during the 2012 budget process and will be analyzed and compiled for future decision making reference);
- ✓ **Budget Hearings** giving each elected official, department head and chief judge the opportunity to discuss budget submissions with the Board Budget Committee;

- ✓ **Transparency and Accountability** with budget communications to commissioners, employees and the public throughout the process, via sharing of Board Budget Committee minutes and materials, updates at regular meetings including Union Leadership Roundtables, Department Head/Elected Official meetings, Judicial Council, Board of Commissioners meetings and workshops, written updates in newspaper articles and emails, county website postings and an appearance on a “Be Scene On Air” segment by Access Vision television; and
- ✓ An **earlier target date of December 1, 2011** for Board of Commissioners adoption of the 2012 budget.

Highlights of the 2012 Budget

REVENUES

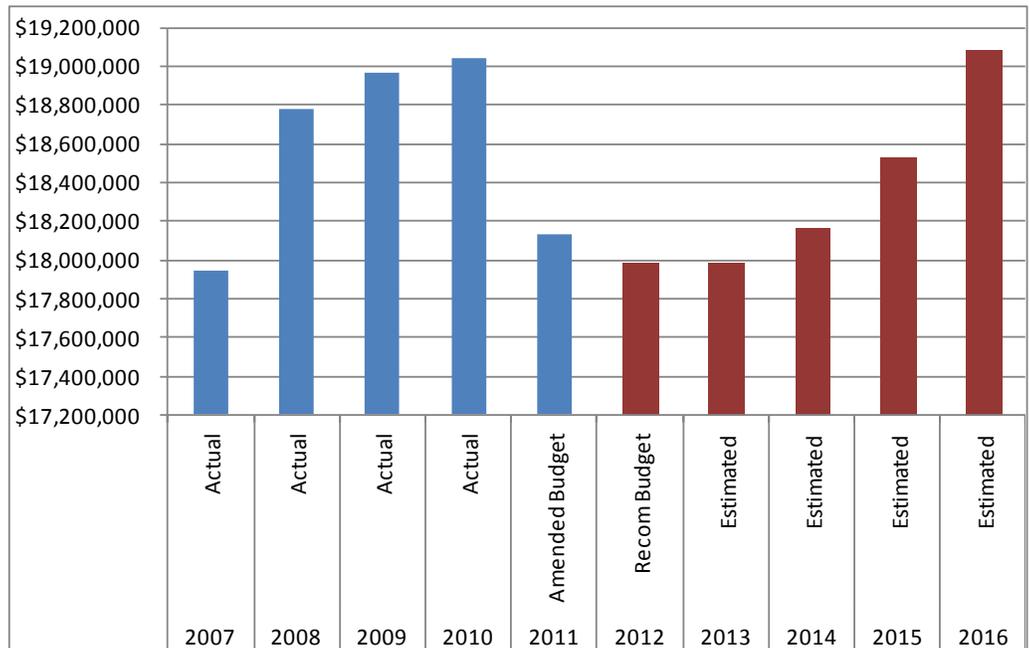
Total projected revenues of **\$39.9 million** include the following significant items:

- **Property Tax and Special Assessments** of \$17.98 million, comprising 45% of total general fund revenues.

Property Tax Revenues flattened out in 2010 and declined sharply in 2011, due to declining property values and very low inflation factors.

*For 2012, we expect to receive **\$1,000,000 less** than we had to operate with in 2010.*

The current forecast shows it will take until 2016 to rebound to 2010 levels of property tax revenues.

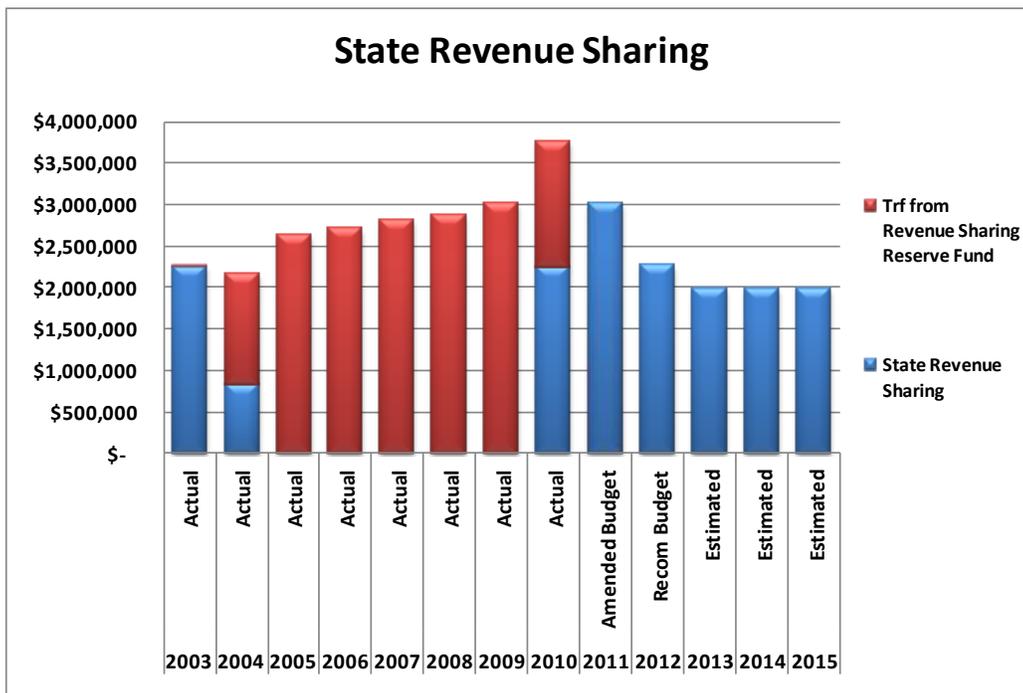


Property tax revenues increased by an average of 4.5% per year from 2005 to 2009, and then began to decline in 2011. The 2012 budget includes property tax revenues below \$18,000,000 for the first time since 2007.

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 \$2.3 million, which provides 6% 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.

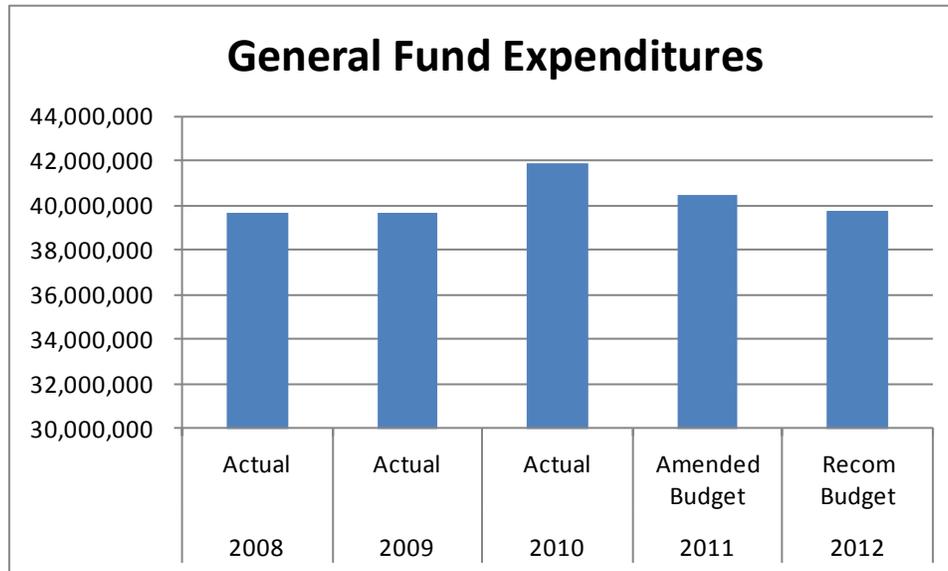
In 2011, funding was restored to \$3.0 million and installment payments were reinstated.

Current legislation for 2012 includes a 24% cut in State Shared Revenue, bringing it down to below the 2005 level.

- **Other Revenues** of \$2.9 million, including \$445,000 as the estimated distributions to the County from the FireKeepers Local Revenue Sharing Board, based on the same level as the prior year's "Net Win" from the casino's operations.
- **Charges for Services** of \$10.8 million, \$6.4 million of which comes from the correctional facility and offsets approximately 60% of the operational costs therein. This category of revenues also includes various charges within the courts, the clerk/register of deeds office and others. Some of these revenues are struggling due to poor economic conditions.
- The **Operating Transfer In** category includes \$1,800,000 operating transfer from the **Delinquent Tax Revolving Fund**, 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). Additional transfers in are budgeted from Buildings and Grounds-Toeller (\$325K), Inmate Concession (\$200K), and multiple Special Revenue Funds (\$127K).

EXPENDITURES

Total general fund expenditures of **\$39.8 million** are recommended, representing a decrease of nearly \$2.0 million from 2010 actual spending.



- **Salary and Benefit Changes**

Negotiations are currently underway with three County labor associations—Government Employee Labor Council (GELC), Assistant Prosecuting Attorney Association (APAA), and International Union of Operating Engineers (IUOE)—and so the budget impacts of those efforts are not included in the recommended 2012 budget.

As recommended by the Board of Commissioners Budget Committee, salaries for elected officials (excluding Judges) and County Commissioners for 2012 are included at the 2011 levels, with no increases. The 2012 Budget Resolution also recommends the pay scale for County non-union employees increase by 1%, but current employees will continue to be paid according to the 2011 pay scale. The Courts have limited Court non-union employee salary increases to 1% as consistent with increases negotiated for Court Union employees.

The budget reflects the Board of Commissioners’ resolution to comply with Section 4 of the recently enacted **Public Act 152 of 2011** (Publicly Funded Health Insurance Contribution Act), limiting to 80% the portion the County will contribute toward employee health care costs for 2012. The Act required an increase in employees’ payments toward illustrative health insurance premium rates, from 15% to 20% for the County’s “standard plan” and from 26.7% to 31.8% for the more expensive plan. In addition, compliance with the Act under Section 4 requires each elected official to pay 20% toward the high deductible plan premium costs, whereas other employees are not charged for premium costs under that plan choice. These changes were implemented with Open Enrollment for County and Court non-union employees and for represented groups whose contracts for 2012 and beyond were not executed before September 15, 2011. An expected \$100,000 savings from compliance with PA152 is included in the 2012 recommended budget. The net 2012 budget for employee health insurance reflects an 11% increase compared to the 2011 budget.

Other benefits changes included as budget savings include changing from a fully funded dental plan to a self funded plan, and switching pharmacy benefits management companies.

The 2012 budget recommendation includes approximately 480 funded full-time staff equivalent positions (FTEs), not including Health Department staff that were authorized with its FY 2011-12 Budget that began October 1, 2011.

The level of staffing included in the Recommended 2012 Budget equals 20 FTEs less than are funded in 2011 and 32 FTEs less than the 512 that were funded in the 2010 budget.

Many of these reductions have been achieved by maintaining vacancies that have occurred through normal attrition and the 2010 Early Retirement Incentive. The 2012 Recommended Budget does include, however, the following staffing reductions:

- Five staff layoffs to occur at the end of December, 2011;
- Two possible additional layoffs or eliminations during 2012;
- Four employees who have agreed to voluntary reductions in hours for 2012; and
- Five involuntary reductions in hours for 2012.

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

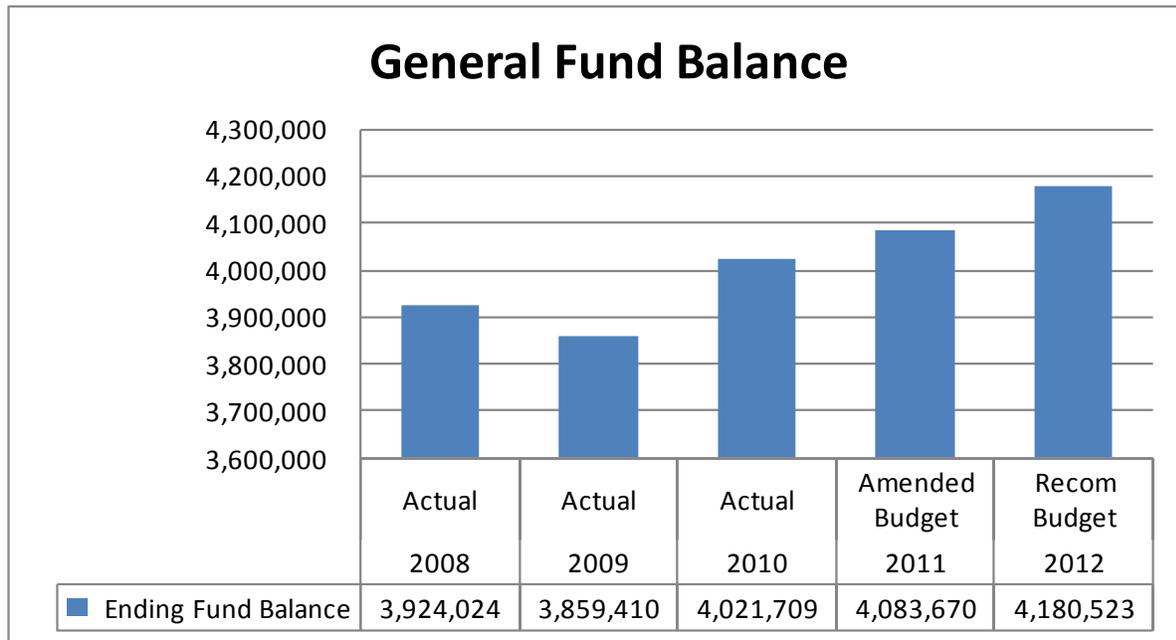
With approximately 60% of the County's general fund expenditures represented by salaries and benefits, cuts to other expenditure categories, including central service costs and Information Technology costs, were required to help achieve budget targets. Investments in technology and other innovative programmatic recommendations continue as long term strategies to reduce costs while improving services. Also included in this category for 2012 is \$359K in debt service for Series 2010 Bonds that funded the Honeywell Energy Performance Project and related capital improvements. Energy and operational savings are already being achieved at levels exceeding the expected savings, and will continue to accrue 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 2012 is maintained in the Recommended Budget.

- **Appropriations – Health Department**

The County reduced the appropriation from the General Fund to the Health Department by 8% with a \$742,607 transfer included in the County's 2012 Recommended Budget. This compares to appropriations of \$808,588 in the current amended 2011 budget, and \$863,345 actual for the County's fiscal year 2010. This allocation was previously approved by the Board of Commissioners within the 2011/2012 Health Department budget, which had an October 1, 2011 fiscal year start. Because of the differences in fiscal year dates, annual amounts differ between the Health Department budget and County General Fund budget.

- **General Fund Balance**

The Fund Balance at December 31, 2010 was \$4.0 million. We currently estimate that the FY 2011 year end fund balance will be \$4.1 million, or 9.8% of prior-year operating expenditures, which is within the 8% - 12% policy parameters established by the Board of Commissioners. The 2012 budget has been constructed to achieve a year end fund balance of \$4.2 million, or **10.3%** of prior year expenditures.



IN CLOSING

I am extremely grateful for the significant time and input from the 2011-12 Board of Commissioners Budget Committee and we appreciate the guidance offered by Board Chair Kale (committee chair), and Commissioners Frisbie and Haadsma. I 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 citizens 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. The data we collected as part of the 2012 budget process will be analyzed and summarized in order to provide additional management and decision making tools going forward. With the creative assistance of our Elected Officials, Judiciary, Department Heads 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, even with greatly reduced revenues.

Cc: Department Heads, Elected Officials and Judges