



Calhoun County

Office of the Administrator/Controller

"Building A Better County Through Responsive Leadership"

315 West Green Street
Marshall, MI 49068

Office (269)-781-0966
Fax (269)-781-0140

Memorandum

To: Calhoun County Board of Commissioners

From: Kelli D. Scott, Administrator/Controller 

Date: December 3, 2012

Subject: FY 2013 County Administrator/Controller's General Fund Budget Recommendation - FINAL

The 2013 Budget

I am pleased to present for consideration by the Board of Commissioners the 2013 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 fourth year of significantly reduced levels of property tax revenues and 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 – GENERAL FUND

The recommended 2013 General Fund budget totals \$39.8 million in revenues and \$39.6 million in expenditures, resulting in a balanced budget that provides for adequate reserves and a fund balance at 12/31/13 of \$4.5 million, or 11% of our annual operating budget. The 2013 budget reflects a flattening out of the revenue base, but nevertheless requires further reductions in spending, following the more than \$2 million already cut since 2010. The addition of the County Road Department as of November 1, 2012 is included in the 2013 recommended budget as a special revenue fund and thus there are no General Fund budgetary impacts included herein.

The Authorized Staffing Allocation list accompanying the 2013 Budget likewise continues to reflect a smaller county government, with 31 fewer authorized and funded positions than in 2010. I present a balanced budget for 2013 that includes necessary structural changes and continued efficiency measures. *We were able to close a projected \$4.5 million deficit for 2013, with fewer transfers from other fund reserves, because of the leadership throughout County government and our commitment to sound financial management policies and practices.*

Note Regarding New 911 Call for Service Formula Implementation

It should be noted that the 2013 budget as presented incorporates the new 911 Call for Service Formula Implementation and an estimated financial impact on the County's General Fund. Based on communications from the Calhoun County Consolidated Dispatch Authority (CCDA) and the County's agreements with the City of Battle Creek regarding rental of County jail beds, estimated amounts increase both revenues and expenditures (by \$405,000 and \$300,000, respectively) because these items had not previously been necessary to include in the County's budget. **Without these additional items, the recommended 2013 General Fund budget would total \$39.4 million in revenues (down \$1/2 million from 2012), and \$39.3 million in expenditures.**

Contingencies

The proposed budget includes a \$200,000 contingency line item to help protect against unexpected mid-year budget shortfalls, and both estimated costs and savings from changes currently underway to employee health insurance and pension plans. These contingencies and fund balance 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.

Cost to Taxpayers

The 2013 Recommended General Fund budget utilizes a 2013 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. The new voter-approved Veterans Millage of 0.1 mill will be levied in December 2013, and revenues collected will then be factored into the County's 2014 budget.

Long-Term Forecast

Our five-year financial model was updated during 2012 following the recent conversion of the County's financial software, and was used to guide the 2013 budgeting process. The figures show that the County will need to address structural deficits well into the future, with revenue expectations flat through 2017, and expenditures expected to grow by an average of 3.6% per year without further changes.

Property tax revenues for 2013 are estimated to be approximately 1% higher than the 2012 budget, showing a leveling off in real property values, and an expected positive inflationary factor. Starting with 2014, however, the proposed legislative elimination of personal property taxes may significantly reduce tax revenues for the County, depending on the final outcome of this pending legislation. Charges for Services including Public Safety Revenues from jail bed rentals are anticipated to be approximately \$588,000 lower in 2013 than the 2012 budgeted level (when the \$405,000 added from the impact of the new 911 Calls for Service Formula Implementation is subtracted out), reflecting recent downward trends in this area. State shared revenue budgeted according to the currently enacted Public Act 200 of 2012 is nearly the same as 2012, at \$2.3 million, which continues to get appropriated at a level \$700,000 less than our promised baseline annual amount. The expected 2013 amount remains at approximately the level the County received in 2005.

THE PROCESS

The 2013 budget process was similar to that of last year's, with continued cuts necessary because of the continued reduced level of revenues. Decisions were tougher, though, because the County had already made nearly \$3.0 million in reductions since 2009. Led by Pam Kline, Budget Analyst, the process this year again utilized our New World Systems Logos software's Annual Budget Processing module, and involved the hard work of Finance, Human Resources and Information Technology staff. The budget calendar included the following:

- ✓ An **early start**, with the initial forecast for 2013 being set in April 2012;
- ✓ 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;
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- ✓ **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 and Facebook postings, and use of our e-Alerts text messaging system; and
- ✓ On time schedule, with the **target date of December 6, 2012** for Board of Commissioners adoption of the 2013 budget.

Highlights of the 2013 Budget

GENERAL FUND REVENUES

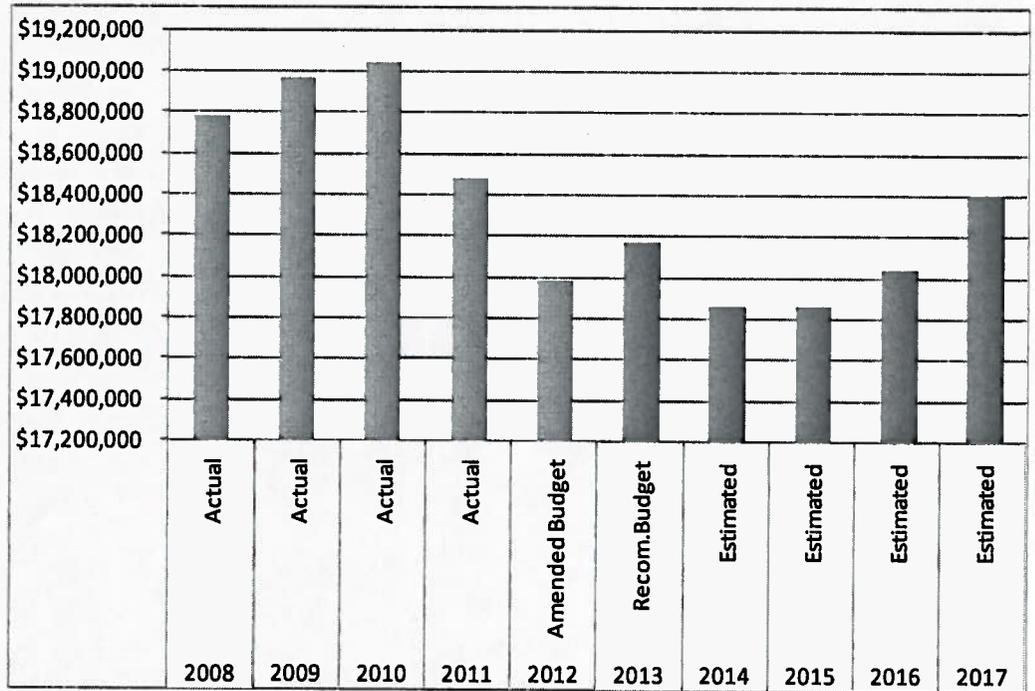
Total projected revenues of **\$39.8 million** include the following significant items:

- **Property Tax and Special Assessments** of \$18.2 million, comprising 46% of total general fund revenues.

Property Tax Revenues flattened out in 2010 and declined sharply in 2011 and 2012, due to falling property values and very low inflation factors.

For 2013, we expect the first slight increase since 2010, with property taxes still at \$1,000,000 less per year than we received in 2010.

The long term forecast shows real property values rebounding through 2017, and the proposed elimination (with partial reimbursement) of personal property taxes starting with 2014.

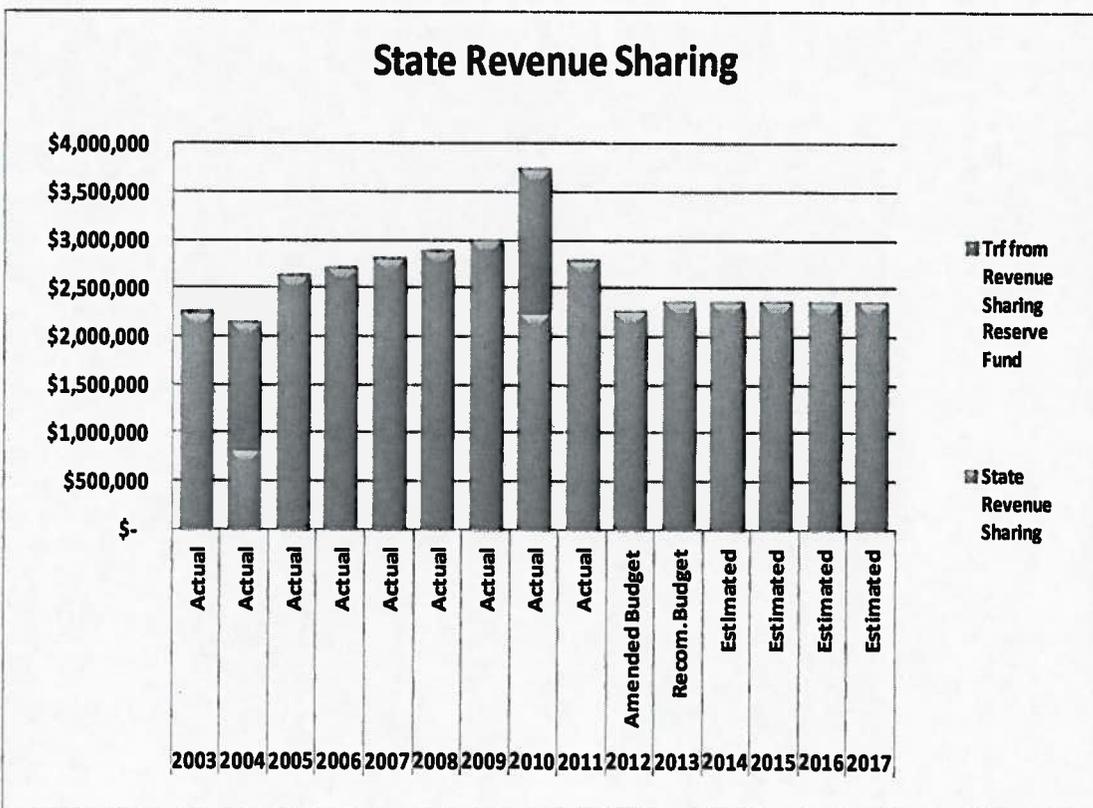


Property tax revenues increased by an average of 4.5% per year from 2005 to 2009, and then began to decline in 2011. The 2013 budget includes property tax revenues just slightly above \$18 million, similar to the level received in 2007. The County's Taxable Value of Personal Property in 2012 was \$559,187,903, generating approximately \$3 million in General Fund revenues per year. Legislation currently pending would eliminate personal property taxes in a phased approach starting with 2014. Depending on final language of the proposed bills, the financial impact to the County's operating funds could be as high as \$600,000 per year if 20% of our personal property tax revenues were unreimbursed by the state.

A new county-wide **Veterans Millage** was approved by voters on November 6, 2012, authorizing 0.10 mill to be levied from 2013 to 2022. The county's operating millage rate of 5.3779 has not changed in several years. In total, 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, Senior Services and Veterans Affairs):

Home Value (SEV):	\$ 100,000	
Taxable Value:	\$ 50,000	
	2013 Rate	Tax Bill
County Total Millage	6.4713 \$	319

- State Shared Revenue** (included in State Grants) of \$2.3 million, which provides 6% of total general fund revenues. Section 952(2) of the 2012 Public Act 200 created a new program called the **County Incentive Program (CIP)** to be implemented in fiscal year 2013. The CIP is broken into three categories: Accountability and Transparency, Consolidation of Services, and Employee Compensation. Each category has specific requirements that eligible counties must now fulfill in order to receive 20% of our total State Revenue Sharing appropriation, which was previously simply sent to us without strings attached. We have already met the Accountability and Transparency requirement with the creation of our Performance Dashboard, Citizens Guide to County Finances, and Budget Forecast Report, all of which are posted on our website. We intend to comply with the other two by the deadlines in order to secure 100% of the appropriated amount for Calhoun County.



County Revenue Sharing depends on legislative appropriations.

In 2010 the County began getting state appropriations again, after exhausting our Revenue Sharing Reserve Fund over 7 years.

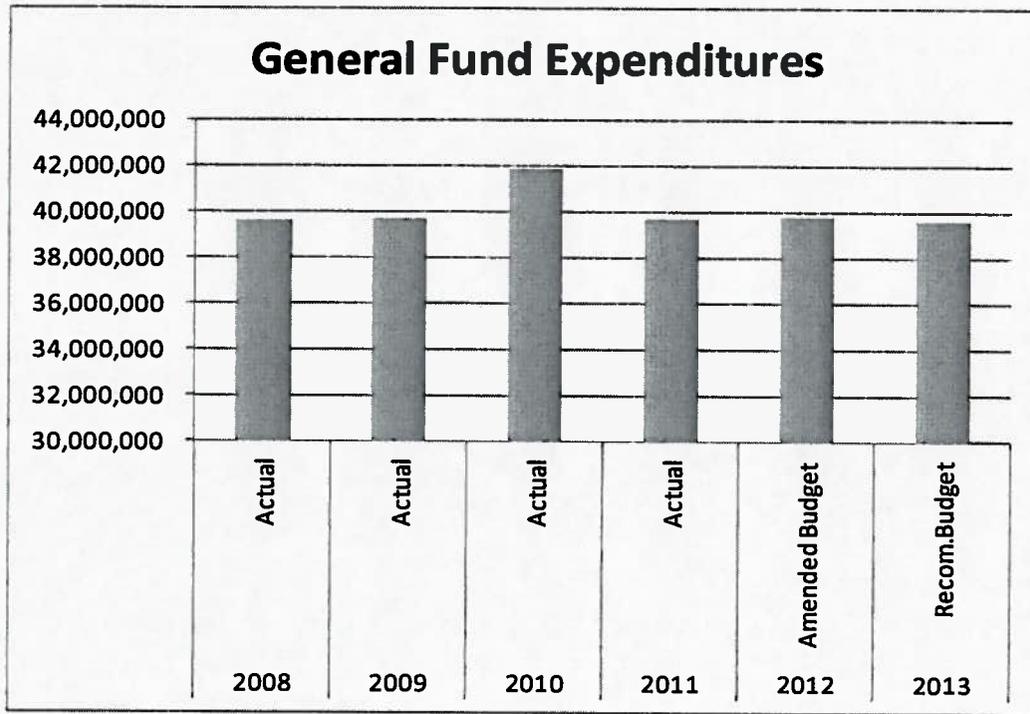
Current legislation for 2013 calls for County State Shared Revenue to remain approximately \$700,000 per year less than our base amount of \$3 million.

- Other Revenues** of \$2.8 million, including state payments covering judges' salaries and other miscellaneous revenues. For the past few years, the County has provided administrative services to the Consolidated Dispatch Authority, FireKeepers Local Revenue Sharing Board, and Land Bank, bringing in an additional \$75,000 to offset General Fund expenditures. The 2013 Budget includes \$420,000 in 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 \$10.7 million, \$5 million of which comes from the correctional facility and offsets approximately 40% 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 have been trending downward due to poor economic conditions. New for 2013, the budget includes \$405,000 in estimated revenues (and \$300,000 in estimated expenditures, included elsewhere) to account for the change in the County's payments to the CCCDA for dispatch services and related changes needed in the Jail Beds for Dispatch Agreement with the City of Battle Creek.
- The **Operating Transfer In** category includes a \$1,500,000 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).

GENERAL FUND EXPENDITURES

Total general fund expenditures of **\$39.6 million** are recommended, representing a decrease of over \$2.0 million from 2010 actual spending.



- **Salary and Benefit Changes**

Negotiations are occurring with five County labor associations whose contracts expire December 31, 2012, and so the budget impacts of those efforts are not included in the recommended 2013 budget.

The 2013 Budget Resolution recommends the salaries for Board of Commissioners and elected officials (excluding Judges), and pay scales for County non-union employees and Court non-union employees (as approved by the Courts, consistent with increases negotiated for Court Union employees) be increased by 1%.

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 2013. The Act required employees' payments toward illustrative health insurance premium rates, to increase to 20% for the County's "standard plan" and to continue to buy up to the more expensive plan. Starting with 2013, the County is also charging employees 15% of illustrated premium rates for the high deductible plan, and continuing to contribute 75% of the deductible into employees' health savings accounts (H.S.A.s). Compliance with the Act under Section 4 will again require each elected official to pay 20% toward the high deductible plan premium costs in 2013. These changes were implemented with Open Enrollment for County and Court non-union employees and for represented groups whose contracts for 2013 and beyond were not yet

finalized. The net 2013 projected cost for employee health insurance reflects a 7% increase over projected 2012 costs.

Other benefits changes included as budget savings include competitively bidding life and disability carriers, working with our benefits consultants to lower administrative fees to Blue Cross Blue Shield of Michigan, and minor plan design changes to two of the three health insurance plans offered to employees. We were able to improve benefits to employee vision coverage using part of these expected savings. ***The budgeted fringe benefit load within the General Fund is lowered from 41% to 39% from 2012 to 2013.***

The 2013 budget recommendation includes approximately 480 funded full-time staff equivalent positions (FTEs), not including Health Department staff that were authorized with its FY 2012-13 Budget that began October 1, 2012.

The level of staffing included in the Recommended 2013 Budget is similar to that of 2012 and 31 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 2013 Recommended Budget does include, however, the following staffing changes:

- Two layoffs and elimination of one vacant position in Circuit Court Family Division;
- One position not funded for 2013 in Office of the Prosecutor;
- Reduction of one position in Office of the Sheriff - Secondary Road Patrol;
- Transfer of two positions from Circuit Court Family Division to the Circuit Court Clerk's Office; and
- Addition of one Information Technology position and one Veterans Affairs position.

Road Department Addition

With the transition of the County Road Commission to the County Road Department on November 1, 2012, the Authorized Staffing Allocation Report for 2013 includes their current staffing level of 58, so that the Board of Commissioners will now exercise the same budgetary controls over staffing that the Appropriations Resolution outlines for all county departments.

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

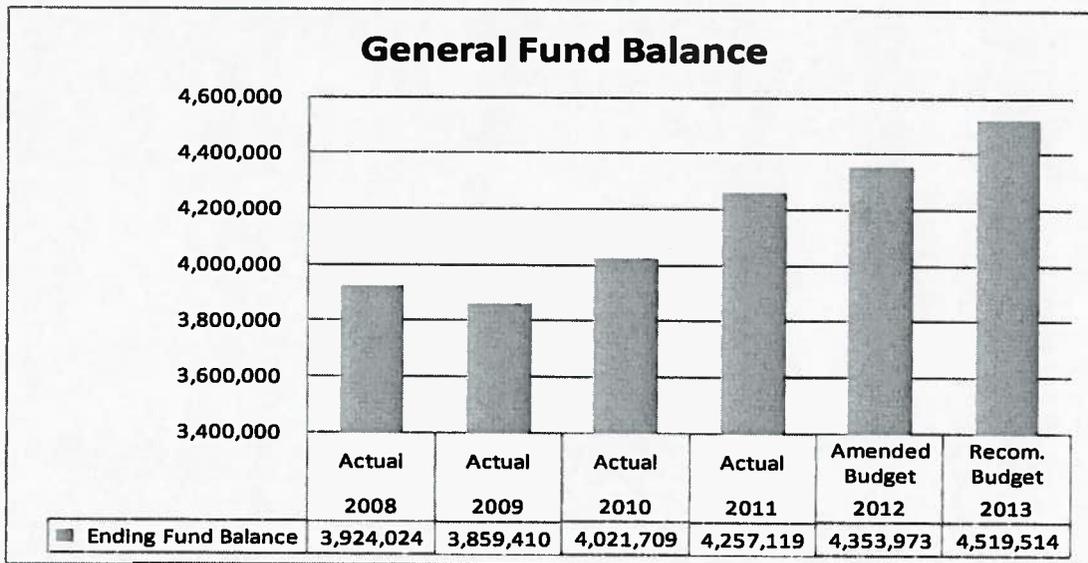
With approximately 60% of the County's general fund expenditures represented by salaries and benefits, cuts to almost all other expenditure categories are included as recommended by budget managers to help achieve budget targets. In fact, if we subtract out the added \$300,000 for the new 911 funding model implementation, ***the 2013 recommended budget for these other categories is 1.3% lower than the 2012 budget.*** Investments in technology and other innovative programmatic recommendations continue as long term strategies to reduce costs while improving services. ***Debt Service has declined for the past two years, with the 2013 budgeted amount down 1.5% from that of 2012.*** The planned General Fund contribution of \$500,000 toward the Capital Improvement Plan (CIP) fund for 2013 is maintained in the Recommended Budget.

- **Appropriations – Health Department**

The County reduced the appropriation from the General Fund to the Health Department by 4.4% with a \$725,040 transfer included in the County's 2013 Recommended Budget. This compares to appropriations of \$742,607 in the current adopted 2012 budget, and \$808,588 budgeted in 2011. This allocation was previously approved by the Board of Commissioners within the 2012/2013 Health Department budget, which had an October 1, 2012 fiscal year start.

- **General Fund Balance**

The Fund Balance at December 31, 2011 was \$4.3 million. We currently estimate that the FY 2012 year end fund balance will be \$4.4 million, or 11% of prior-year operating expenditures, which is within the 8% - 12% policy parameters established by the Board of Commissioners. *The 2013 budget has been constructed to achieve a year end fund balance of \$4.5 million, remaining at 11% of prior year expenditures.*



IN CLOSING

I am again extremely grateful for the significant time and guidance from the 2011-12 Board of Commissioners and especially the Budget Committee, chaired by Board Chair Kale, and including Commissioners Frisbie and Haadsma. I also thank the Internal Budget Team, the Finance Department, Executive Team, Judges, Elected Officials and Department Heads, our many Advisory Boards and Committees, and all employees who were given the opportunity to commit their expertise to the budget process. We could not have arrived collaboratively with a balanced budget proposal without this collective commitment to a true level of fiscal responsibility and accountability to the citizens of Calhoun County.

Fiscal constraints will remain our reality for several years, due to the long-term structural imbalance between reduced revenue sources and increasing operating costs, coupled with several legislative initiatives that have the potential to greatly impact our finances. We will, nevertheless, continue to manage our financial affairs confidently, implementing strategies already underway and looking for new ideas from our Elected Officials, Judiciary, Department Heads and other partners in the County. We will build a better Calhoun County (and better roads!) through responsive leadership.

Cc: Judges, Elected Officials, and Department Heads



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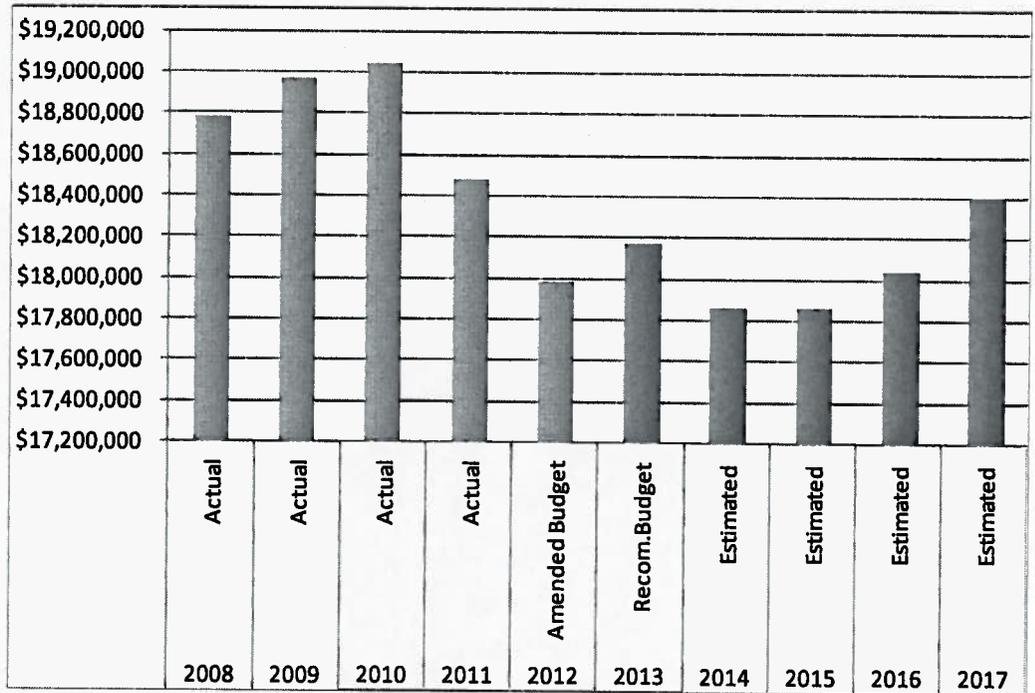
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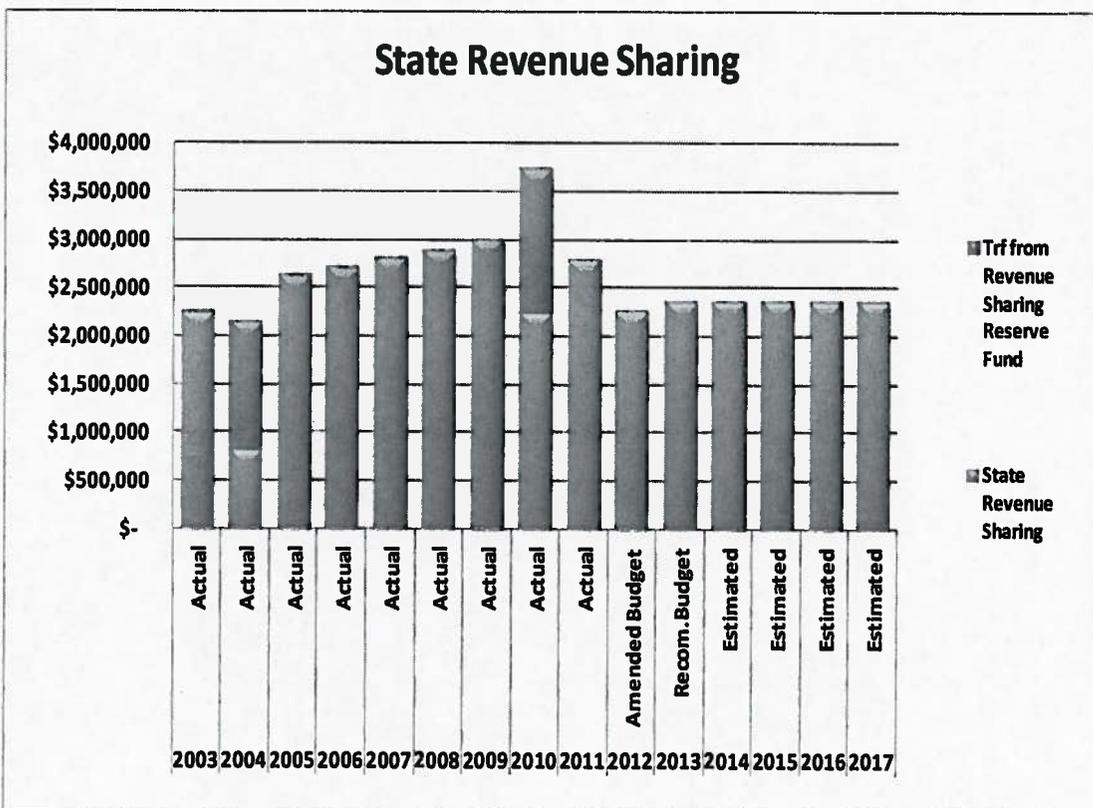


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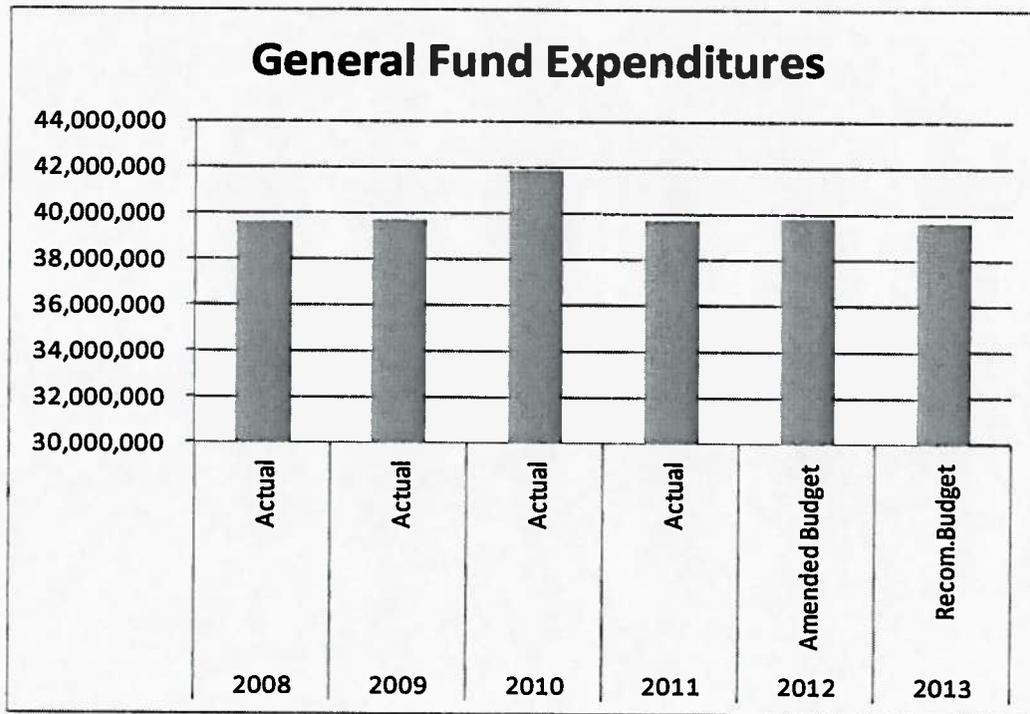
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The 2013 budget recommendation includes approximately 480 funded full-time staff equivalent positions (FTEs), not including Health Department staff that were authorized with its FY 2012-13 Budget that began October 1, 2012.

The level of staffing included in the Recommended 2013 Budget is similar to that of 2012 and 31 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 2013 Recommended Budget does include, however, the following staffing changes:

- Two layoffs and elimination of one vacant position in Circuit Court Family Division;
- One position not funded for 2013 in Office of the Prosecutor;
- Reduction of one position in Office of the Sheriff - Secondary Road Patrol;
- Transfer of two positions from Circuit Court Family Division to the Circuit Court Clerk's Office; and
- Addition of one Information Technology position and one Veterans Affairs position.

Road Department Addition

With the transition of the County Road Commission to the County Road Department on November 1, 2012, the Authorized Staffing Allocation Report for 2013 includes their current staffing level of 58, so that the Board of Commissioners will now exercise the same budgetary controls over staffing that the Appropriations Resolution outlines for all county departments.

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

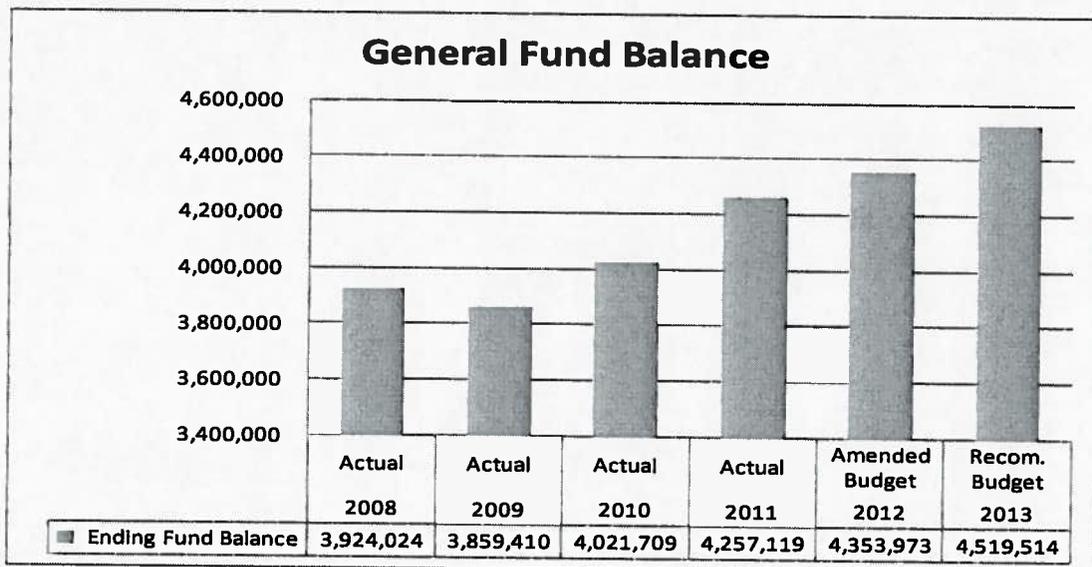
With approximately 60% of the County's general fund expenditures represented by salaries and benefits, cuts to almost all other expenditure categories are included as recommended by budget managers to help achieve budget targets. In fact, if we subtract out the added \$300,000 for the new 911 funding model implementation, ***the 2013 recommended budget for these other categories is 1.3% lower than the 2012 budget.*** Investments in technology and other innovative programmatic recommendations continue as long term strategies to reduce costs while improving services. ***Debt Service has declined for the past two years, with the 2013 budgeted amount down 1.5% from that of 2012.*** The planned General Fund contribution of \$500,000 toward the Capital Improvement Plan (CIP) fund for 2013 is maintained in the Recommended Budget.

- **Appropriations – Health Department**

The County reduced the appropriation from the General Fund to the Health Department by 4.4% with a \$725,040 transfer included in the County's 2013 Recommended Budget. This compares to appropriations of \$742,607 in the current adopted 2012 budget, and \$808,588 budgeted in 2011. This allocation was previously approved by the Board of Commissioners within the 2012/2013 Health Department budget, which had an October 1, 2012 fiscal year start.

- **General Fund Balance**

The Fund Balance at December 31, 2011 was \$4.3 million. We currently estimate that the FY 2012 year end fund balance will be \$4.4 million, or 11% of prior-year operating expenditures, which is within the 8% - 12% policy parameters established by the Board of Commissioners. *The 2013 budget has been constructed to achieve a year end fund balance of \$4.5 million, remaining at 11% of prior year expenditures.*



IN CLOSING

I am again extremely grateful for the significant time and guidance from the 2011-12 Board of Commissioners and especially the Budget Committee, chaired by Board Chair Kale, and including Commissioners Frisbie and Haadsma. I also thank the Internal Budget Team, the Finance Department, Executive Team, Judges, Elected Officials and Department Heads, our many Advisory Boards and Committees, and all employees who were given the opportunity to commit their expertise to the budget process. We could not have arrived collaboratively with a balanced budget proposal without this collective commitment to a true level of fiscal responsibility and accountability to the citizens of Calhoun County.

Fiscal constraints will remain our reality for several years, due to the long-term structural imbalance between reduced revenue sources and increasing operating costs, coupled with several legislative initiatives that have the potential to greatly impact our finances. We will, nevertheless, continue to manage our financial affairs confidently, implementing strategies already underway and looking for new ideas from our Elected Officials, Judiciary, Department Heads and other partners in the County. We will build a better Calhoun County (and better roads!) through responsive leadership.

Cc: Judges, Elected Officials, and Department Heads