General Fund Five Year Budget Projections

Overview

The County of Ottawa Strategic Plan of 1993 promoted multi-year projections as a tool to prioritize immediate and long-range needs to develop a stable financial base. Subsequent strategic plans and updates have confirmed the necessity of this process. Budget projections are useful for planning purposes to give the general direction of County finances based on trends. However, it is important to realize that the figures projected are based on trends and pertinent information known at the time and are not guaranteed funding levels as several factors (e.g. legislation, economy, population, etc.) affect funding. The historical trend of expenditures is a good starting point as most of the County's costs, especially in the General Fund, are ongoing; projections were formulated based on the following assumptions:

Revenues

Property Tax – The County believes the housing market has bottomed out. However, it will take several years for the taxable value to recover due to Proposal A of 1994 which limits the amount the taxable value can increase in a given year. Based on the most recent trend data available the County is projecting the following changes in taxable value:

	2015	2016	2017	2018	2019
Taxable Value Assumption	3.0%	2.5%	3.0%	3.0%	3.0%

The slight decrease in 2016 reflects 2012 legislation which provides exemptions for most industrial and commercial personal property beginning December 31, 2015. Although the County anticipates a substantial reduction in revenue from personal property taxes, the County believes much of the lost revenue will be reimbursed by the State. Methods of partial reimbursement of lost revenue were included in the package of bills, and revisions to the methods of reimbursement are currently in the works.

Intergovernmental Revenue – The County has seen many State funding sources stay flat over recent years. Consequently, the County is using a 0% increase for most intergovernmental sources, However, the County has reached an agreement with the State of Michigan regarding reimbursements for the expedited Survey and Remonumentation program. The County anticipates $180,000 per year for 10 years beginning in 2015.

Charges for Services – Charges for Services are also a significant revenue source. The County is projecting this revenue source to increase by 2% per year. Housing of out of County prisoners has been decreased by approximately $240,000 per year. The collections through 2014 are higher due to an agreement the County has with Kalamazoo County to house some of their prisoners. The County anticipates this to end near the end of 2014.

Investment Income – Since Investment Income depends in part on the investment environment, it is difficult to make projections. For all but the Ottawa County, Michigan, Insurance Authority (blended component unit), the County is limited in the types of investments it may purchase under Public Act 20 of 1943. Most of the County's portfolio is comprised of certificates of deposit and treasuries. The County anticipates return rates to remain quite low.

Rental Income – Rent revenue is based on actual expenditures in the specific building cost center (variable portion) as well as certain fixed charges. Revenue shows a decrease in 2015 and more prominently in 2016 as most of the fixed charges of the Probate Court/Jail facility expire.

Operating Transfers In – Projections for transfers in to the General Fund for subsequent years reflect the same transfers to assist in balancing the 2014 General Fund budget. Analysis has been completed to ensure the sources identified can contribute these amounts without unacceptable repercussions.

Other Revenues – The remaining revenue sources were increased 2% – 3% per year.

<u>Expenditures</u>

Salaries – County employees generally receive a cost of living adjustment which may be based on the consumer price index and available funds. Newer employees also receive step increases for five years. After the five years, the employees receive only the cost of living adjustment. To cover both the cost of living adjustment and the step increases, the projections increase salaries by 2.6% to 3.1% per year.

Since 2010, several departments agreed to keep certain positions vacant to assist in balancing the budget. These positions have not been included in the 2014 budget nor the five year projections, and no new positions have been added to the projections. In addition, the 2014 budget reflects approximately $365,000 in vacancy savings, and these are also reflected in the projections.

Fringe Benefits – Certain fringe benefits, the largest being social security tax and retirement contributions, are based on salaries. Based on salary projections, these fringe benefits are also projected to increase by 2.6% to 3.1% per year. With regard to retirement contributions, it is difficult to determine the cost of Governmental Accounting Standards Board (GASB) statements 67 and 68. Further complicating the estimate is the change in retirement plans from defined benefit to defined contribution for new hires effective 1/1/12. Although some funds have been set aside in the DB/DC Conversion fund, it is unclear what increases the County can expect. In addition, although the GASB does not set required funding levels, many of the provisions of statements 67 and 68 are expected to increase the contributions of all government entities. As a result, the estimate for retirement is increasing 10% per year for 2015 – 2019.

Other fringe benefits for health, dental and optical insurance are not based on salaries. The County is estimating a 10% increase per year for health insurance. The increased is based on conversations with the County's insurance consultant. The County assumes an 8% increase per year for dental insurance and a 5% increase per year for optical insurance. The County is implementing a health management program, but determining the impact on costs, particularly within a five year window, is difficult. Consequently, no impact is included in these projections. The effect, if any, of the national health care program is not reflected in the projections as the information available is not sufficient to estimate it.

Supplies and Other Services and Charges – In most cases, these expenditures are projected to increase by 2% per year. However, certain adjustments have been made. Liability and vehicle insurance are projected to increase 3% - 5% per year. Utilities projections include estimated savings in connection with the Qualified Energy Conservation bond project. Specifically, the County anticipates savings of approximately $185,000 - $210,000 per year. Adjustments have also been made to reflect election costs in election years and other situations needing special handling.

Operating Transfers Out - In general, Operating Transfers reflect the County (local) portion of programs funded by the State and Federal government. For the major recipients of General Fund transfers, a complete analysis like the one done for the General Fund has been completed to determine the projected transfer. These funds include the following:

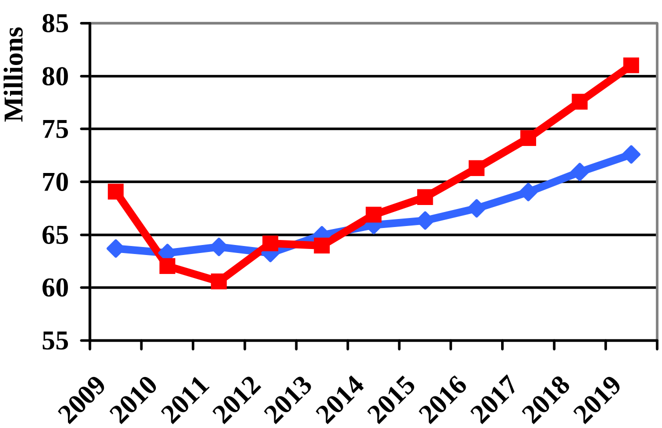
Health (2210) Friend of the Court (2160) Child Care (2920)

Contingency – The County's financial policy suggests a contingency amount of .5% - 2% of the most recently audited General Fund expenditures. Consequently, the projections show contingency of .5% for 2015 – 2019.

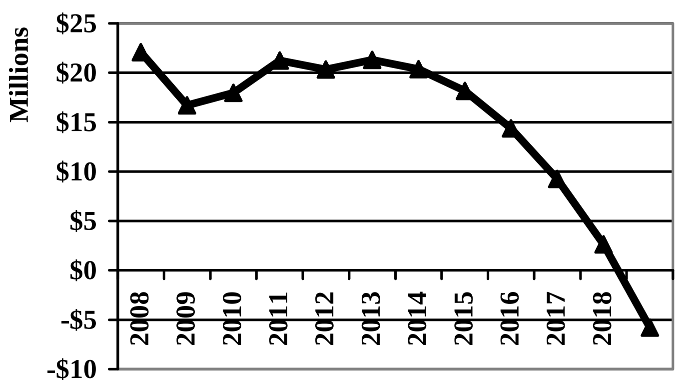
<u>Results</u>

Revenues Expenditures Total Fund Balance

General Fund Revenues and Expenditures



Fund Balance - General Fund



The graphs above show an increasing gap between revenue and expenditures that widens to as much as $5.8 million, and total fund balance shows a deficit by 2019 if revenue and expenditure assumptions prove true and no additional changes are made to operations. These results are much better than last year's projections which indicated a deficit of $10.9 million by 2018. Several other options and combinations of options exist and will be explored for consideration by the Board of Commissioners. The Board is committed to maintaining or improving the financial status of the County.

County of Ottawa
Five Year Budget Projections
General Fund

	2010 Actual	2011 Actual	2012 Actual	2013 Estimated	2014 Budgeted	2015 Projected	2016 Projected	2017 Projected	2018 Projected	2019 Projected
			Projected change in State Revenue Sharing:			**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
			Projected change in taxable value:			**3.0%**	**2.5%**	**3.0%**	**3.0%**	**3.0%**
Revenues:										
Taxes	$39,169,886	$38,175,450	$37,712,537	$38,101,409	$39,194,734	$40,483,016	$41,436,925	$42,656,400	$43,934,565	$45,251,046
Intergovernmental	$4,741,105	$10,238,891	$7,916,620	$7,493,682	$8,120,261	$7,974,502	$7,976,305	$7,976,332	$7,974,859	$7,972,372
Charges for services	$9,340,046	$9,895,843	$13,479,437	$13,895,230	$12,792,106	$12,810,501	$13,087,582	$13,370,983	$13,660,835	$13,957,315
Fines & Forfeits	$1,051,277	$1,094,561	$79,085	$72,300	$84,200	$85,714	$87,258	$88,833	$90,440	$92,079
Interest on investments	$367,273	$307,310	$247,952	$168,165	$168,160	$274,400	$330,400	$372,800	$525,440	$566,000
Rental income	$2,916,852	$2,846,765	$2,968,758	$3,101,218	$3,249,046	$2,813,119	$2,567,350	$2,647,140	$2,734,823	$2,830,760
Licenses & permits	$222,794	$370,595	$352,601	$427,050	$369,000	$366,580	$361,447	$361,202	$354,927	$352,669
Other	$569,966	$483,168	$505,767	$512,015	$609,227	$446,629	$553,176	$458,907	$567,770	$471,807
Operating transfer in	$4,904,581	$428,585	$7,172	$1,170,937	$1,125,000	$1,125,000	$1,125,000	$1,125,000	$1,125,000	$1,125,000
Fund balance reserve use	$0	$0	$0	$4,848	$222,044	-$27,894	-$27,894	-$27,894	-$27,894	-$27,894
Total Revenue	$63,283,780	$63,841,168	$63,269,928	$64,946,854	$65,933,778	$66,351,567	$67,497,549	$69,029,704	$70,940,764	$72,591,154
% change over prior year	-0.60%	0.90%	-0.90%	2.70%	1.50%	0.60%	1.70%	2.30%	2.80%	2.30%
Expenditures:										
Salaries	$21,167,653	$20,883,245	$20,827,533	$21,588,035	$22,191,166	$22,767,702	$23,359,227	$24,024,489	$24,708,710	$25,474,162
Fringe benefits	$10,122,778	$9,009,549	$8,876,822	$10,180,651	$10,809,130	$11,775,916	$12,845,353	$14,043,036	$15,370,080	$16,858,840
Supplies	$2,276,665	$2,107,471	$2,303,475	$2,317,258	$2,324,541	$2,230,575	$2,408,766	$2,320,629	$2,503,292	$2,414,319
Other services & chg	$18,251,124	$18,479,117	$19,643,240	$20,439,391	$21,191,943	$20,869,907	$21,180,693	$21,629,726	$22,196,289	$22,704,428
Contingency	$0	$0	$0	$0	$295,121	$296,378	$315,782	$324,589	$337,801	$351,682
Debt service	$0	$0	$0	$0	$538,719	$533,915	$530,057	$523,926	$515,957	$506,366
Capital outlay	$23,856	$223,342	$183,477	$14,800	$0	$0	$0	$0	$0	$0
Operating Transfers	$10,175,164	$9,873,475	$12,332,004	$9,437,834	$9,533,588	$10,082,299	$10,645,547	$11,272,055	$11,948,022	$12,693,092
Total Expenditures	$62,017,240	$60,576,199	$64,166,552	$63,977,969	$66,884,208	$68,556,692	$71,285,425	$74,138,449	$77,580,151	$81,002,890
% change over prior year	-10.20%	-2.30%	5.90%	-0.30%	4.50%	2.50%	4.00%	4.00%	4.60%	4.40%
Revenue over (under) expenditures	$1,266,540	$3,264,969	-$896,624	$968,885	-$950,430	-$2,205,125	-$3,787,876	-$5,108,745	-$6,639,387	-$8,411,736
Unassigned Fund Balance	$9,656,964	$10,596,305	$12,055,123	$13,019,160	$11,846,686	$9,669,455	$5,909,473	$828,622	-$5,782,871	-$14,166,712
Total Fund Balance	$17,979,501	$21,244,490	$20,347,872	$21,316,757	$20,366,327	$18,161,202	$14,373,326	$9,264,581	$2,625,194	-$5,786,541

Note: Assumes the following levies: 2014 = 3.6 mills, 2015 = 3.6 mills, 2016= 3.6 mills, 2017 = 3.6 mills, 2018 = 3.6 mills, and 2019 = 3.6 mills

Note: Assumes health care costs increase by 10% per year for 2015 - 2019.

Assumes none of the positions temporarily suspended with the 2014 budget are filled.

Assumes annual COLA and step increases as follows: 2014 = 2.60% , 2015= 2.60%, 2016 = 2.85%, 2017 = 2.85%, and 2018 = 3.10%.

Assumes contingency of .5% of prior year expenditures.

Assumes transfers of $625,000/yr from the Delinquent Tax Revolving fund (DTRF) and $500,000/yr from the Insurance Authority.

Assumes inmate phone commissions stay in the General Fund through 2019 and the reassignment of rent of $300,000 per year from the Public Improvement Fund continues through 2019.