Whether it's Business, Family, or Pleasure……
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County Executive

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Annual Budget and Forecast
Fiscal Years Ending
December 2014-2016

July 11, 2013

Historical Review:

Revenue Challenges

Revenue Challenges

- The General Fund is funded primarily by two revenue sources
  - Property Taxes
  - State Shared Revenue
- Both sources of revenue declined
- Placing tremendous stress on governmental budgets

State Shared Revenue

- State of Michigan continuously cut revenue transferred to communities in an effort to balance its own budget
- Cuts in State Revenue Sharing began placing pressure on community budgets in the early 2000's

Property Tax Revenue

- Tax Revenue is the largest source of revenue for the General Fund
- Tax collections are based on the taxable value of property which is dependent on inflation as well as property values
- In 2007- downturn in the national economy began reducing property values

Property Tax Revenue

- Property values plummeted- decreasing the amount of property taxes collected
- In many cases 20 years of market value appreciation was lost in just 2 or 3 years
- Placing further pressure on the

  county budget

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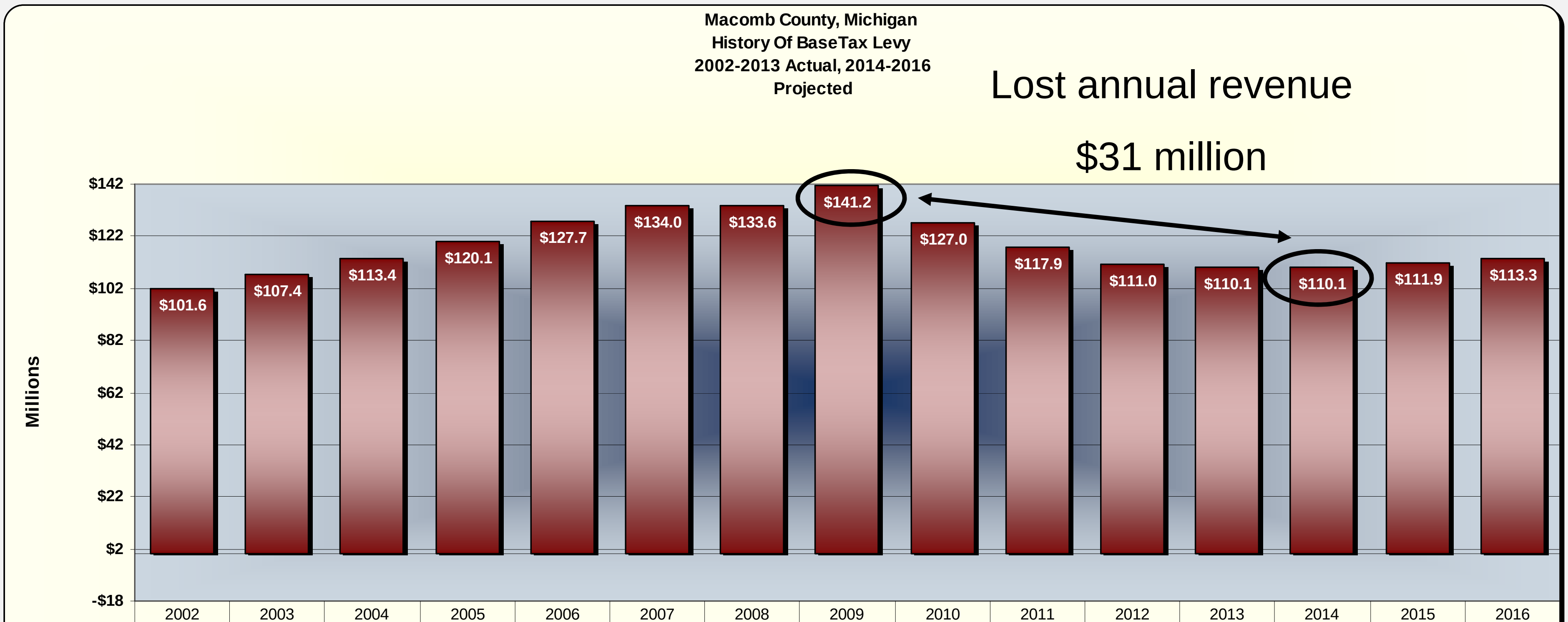
Property Tax Revenue



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
TAX LEVY	$101.6	$107.4	$113.4	$120.1	$127.7	$134.0	$133.6	$141.2	$127.0	$117.9	$111.0	$110.1	$110.1	$111.9	$113.3

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Summary

- Unexpected decreases in property taxes as well as State Shared Revenue created a perfect storm
- County was forced to make permanent structural changes in order to balance the budget
  - Cuts in spending
  - Reinvent how services are delivered

v1

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2014 Budget

General Fund

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v1 That brings us to 2012

pprove, 11/5/2011

2014 Budget Summary

- 2014 Revenue Increases:
  - Economy and housing market stabilizing
    - Increase in recording fees
    - Increase in transfer tax
    - Taxable values will remain flat
    - Increase in State Revenue Sharing
    - Increase in Liquor Tax Collections

2014 Budget Summary

- 2014 Revenue Decreases:
  - Personal Property tax revenue expected to decline due to new law
    - $750,000 in 2014
    - $1,000,000 in 2016

2014 Budget Summary

- 2014 cost increases:
  - Healthcare inflation for retirees expected to be 8% or $1.2 million
  - Pension Contributions increased $2.2 million
  - Elimination of furlough days $3 million

2014 Budget Summary

- Balancing the budget required further cuts in spending to offset increases in fringe costs
- Revenue = Expenditures

2014 Budget Summary

- Additional Cuts in Spending
  - Departmental Restructuring
    - $529,000 saved in 2014
    - 19.5 net positions eliminated in 2014
  - 450 positions eliminated county-wide since 2006

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2014 Budget Summary

- Additional Cuts in Spending
  - Elimination of $4 million annual contribution to Capital Fund
    - Space utilization study is underway
    - Capital Plan will be updated
    - Transfer of previous years surplus and bond issue will be discussed

2014 Budget Summary

- Additional Cuts in Spending
  - $2.5 million reduction in health care charges as a result of the implementation of P.A. 152

2014 Budget Summary

- Additional Cuts in Spending
  - $1 million in juvenile detention placement costs
    - Decrease in costs associated with housing wards of the State
    - Court placing children in local treatment programs rather than private facilities

2014 Budget Summary

- Additional Revenue
  - $576,000 increase in State Revenue Sharing
  - $350,000 increase in projected Liquor Tax

2014 Budget Summary

- No utilization of Fund Balance
- No increase in the tax rate
- Continue to live within our means due to cuts in spending

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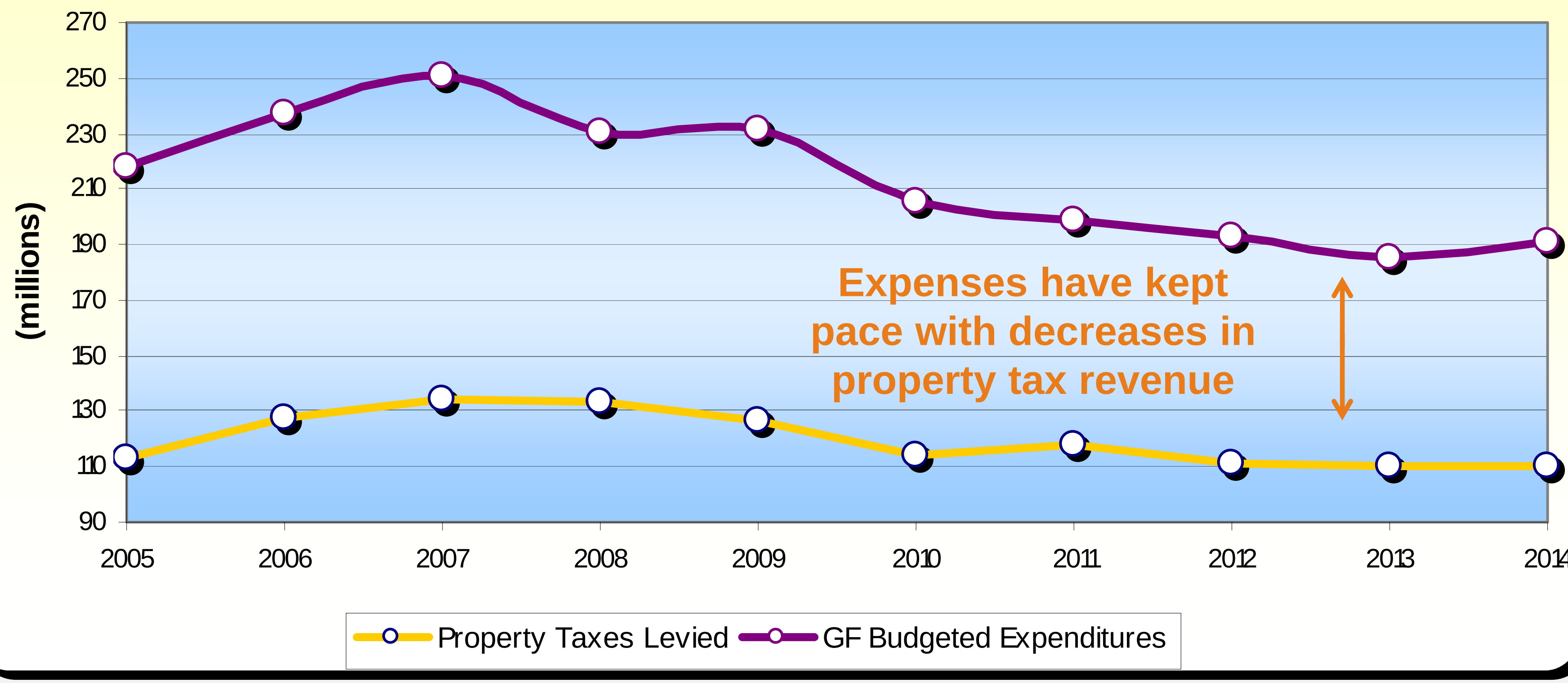
Macomb County, Michigan
General Fund Property Tax Levy and Budgeted Expenditures



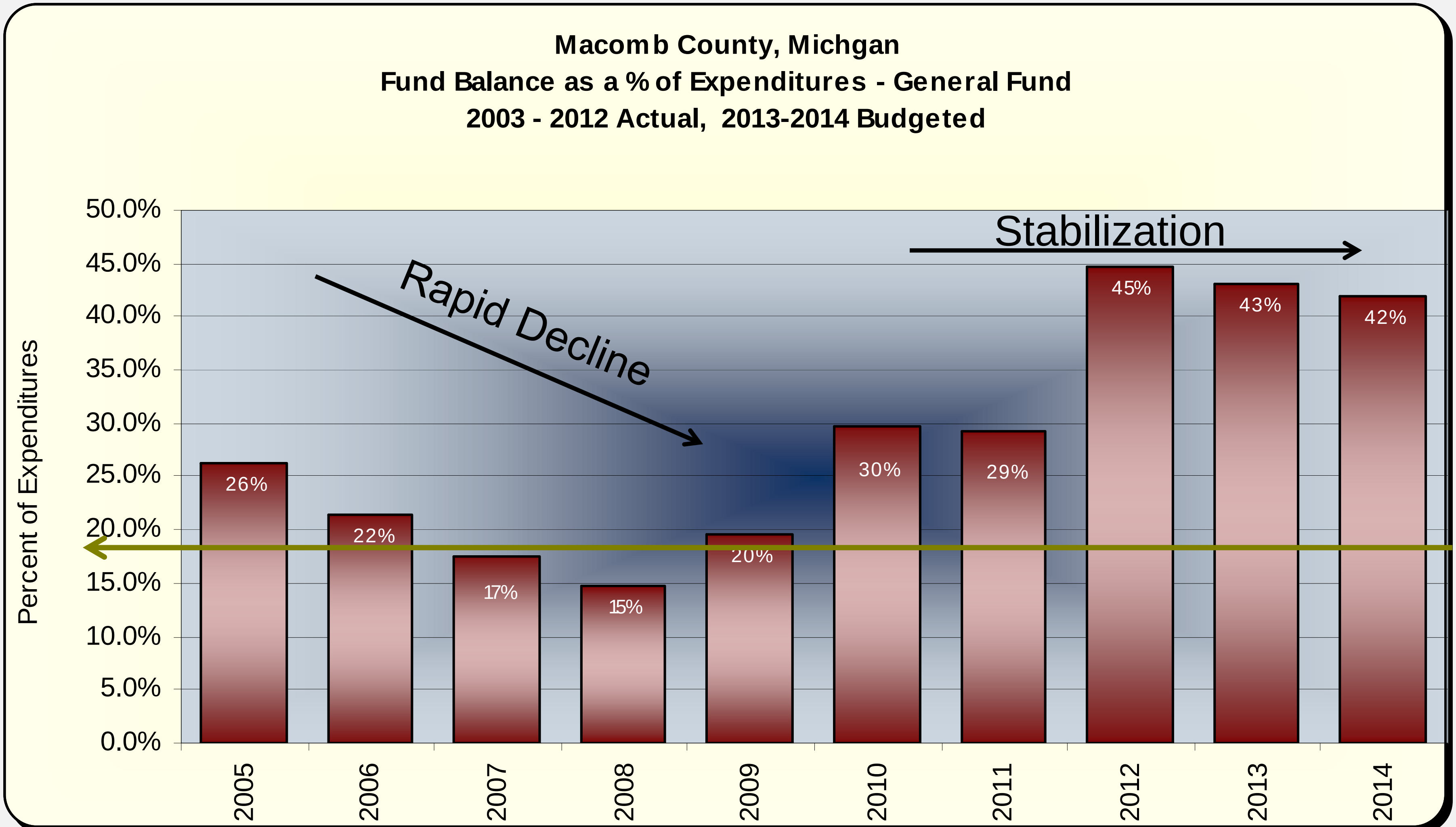
Update on Fiscal Health

- Results: 2011- 2014 had <u>$0 utilization</u> of Fund Balance
- Structural reform have been significant
    - 2011 adopted budget had $13 million gap
    - 2012 forecast had $23 million budget deficit
    - 2013 forecast had $16 million budget deficit
    - 2014 forecast had $9 million budget deficit
- <u>Over $60 million has been eliminated from the budget</u>

Update on Fiscal Health

- Fund Balance levels remain well above the recommended 10-15% of annual operating expenditures
- Maintaining our AAA rating with Standard and Poor’s

History of Fund Balance As a Percentage of Expenditures



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2015 and 2016

Forecast

Slide 24

v2 That brings us to 2012

pprove, 11/5/2011

2015 and 2016 Financial Forecast

- Recovery is taking hold
  - Property values are stabilizing
  - Growth in private sector businesses
  - Major new investments are driving growth in employment
  - Continued population growth is fueling local demand for goods and services

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2015 and 2016 Financial Forecast

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- Anticipating that property values:
  - Remain flat in 2014
  - Increase 1.5% in 2015
  - Increase 1.5% in 2016
- Reduction in Persn. Prop. Tax will lessen positive impact in 2016
- Proposal A will limit future growth in tax revenue
- Best case scenario- tax revenue will not be fully restored to 2008 levels until at least 2025

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2015 and 2016 Financial Forecast

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Macomb County, Michigan
Taxable Value of Property
2007 - 2025

2015 and 2016 Financial Forecast

- State Revenue Sharing:
  - Remains flat for 2015-2016

- Health Care Costs increase:
  - 4% per year for active employees
  - 8% per year for retirees

2015 and 2016 Financial Forecast

- Pension Contributions:
  - Remain flat in 2015-2016
  - Due to recent concessions that increased the vesting period
  - Monitoring closely- highly dependent on performance of the financial markets

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2015 and 2016 Financial Forecast

- Utilization of county Fund Balance without additional cuts in spending:
  - $4.8 million in 2015
  - $7.0 million in 2016
- Projected budget gaps significant but more manageable then the $20-$30 million gaps of previous years
- Need to hold the line on spending

Areas of Concern

- July 2010 Board of Commissioners estimated that County was on track to run out of cash by the end of 2012
  - ✓ Financial Condition has been stabilized

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Areas of Concern

- Retiree Health Care Fund
  - 2010 Actuarial Valuation

    -Plan underfunded $500 million
  - 2011 Actuarial Valuation (Roads)

    -Plan underfunded $67 million

Retiree Health Care Fund

- Changes are being made
  - Reduction in benefits
    - Vesting increased to 15 years
    - Coverage for spouses eliminated
    - Proposed DC Plan for new hires
  - Pay down liability
    - $3 million general fund contribution during 2015 and 2016

2015 and 2016 Concluding Thoughts

- The County's fiscal condition is stabilizing
  - A direct result of the efforts by department leaders, elected officials and county employees
- Need to hold the line on spending
- Will not regain lost ground on property values until at least 2025
- Hope for the future of our residents and employees

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