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**GUIDELINES FOR DEVELOPMENT  
OF THE COUNTY OF MONROE 2012 BUDGET**

**PREPARED FOR THE  
MONROE COUNTY BOARD OF COMMISSIONERS**

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Presented to Finance Committee April 26, 2011

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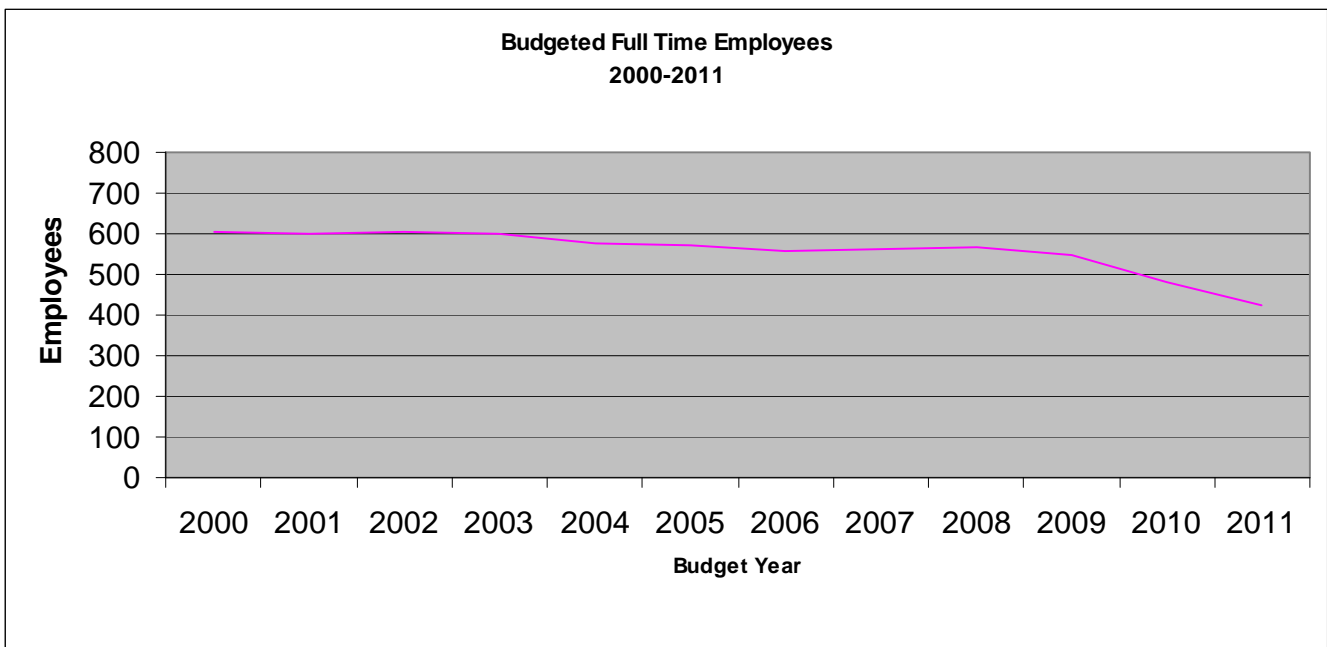
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# 1. OVERVIEW OF THE 2012 COUNTY BUDGET

As the County of Monroe prepares to begin formulating the 2012 budget, the Board of Commissioners will be faced with continued financial and operational challenges. The financial challenges are similar to those from prior years with more requests for funding than available resources, the allocation of limited resources, and the uncertainty of future of revenues. Of looming concern is Governor Snyder’s proposal of a 34% reduction in revenue sharing with the impact starting with the County’s 2013 budget. This will represent a reduction of \$1 million of revenue annually.

Operationally, there will be challenges to continue to achieve higher levels of efficiency and associated cost savings while providing the menu of public services. In addition, service sharing and consolidation with other municipal entities is part of the State’s strategy to shrink the number and size of local government and the State’s total outlay to fund or share revenues. To achieve this, the State is providing incentives and sanctions to encourage local governments to consolidate and share service delivery to lower overall costs. There will be operational challenges for the County to partner with other units of government beyond those services already engaged in. The County’s initial efforts have been to shed employees, consolidate and improve internal efficiencies.

These difficulties remain after staff reductions and layoffs and a clear trend of contraction in the number of employees as shown in the graph below:



## A. BUDGET/FINANCIAL CHALLENGES:

A short outline of major budget and financial challenges to consider and some comments about how the Board has developed strategies are outline in the following pages:

- Prior year actual results from operations have resulted in operating deficits in three (3) of the past five (5) years these years as follows:

2006	\$134,059
2007	(\$528,397)
2008	(\$3,412,980)
2009	(\$1,979,822)
2010	\$470,000*

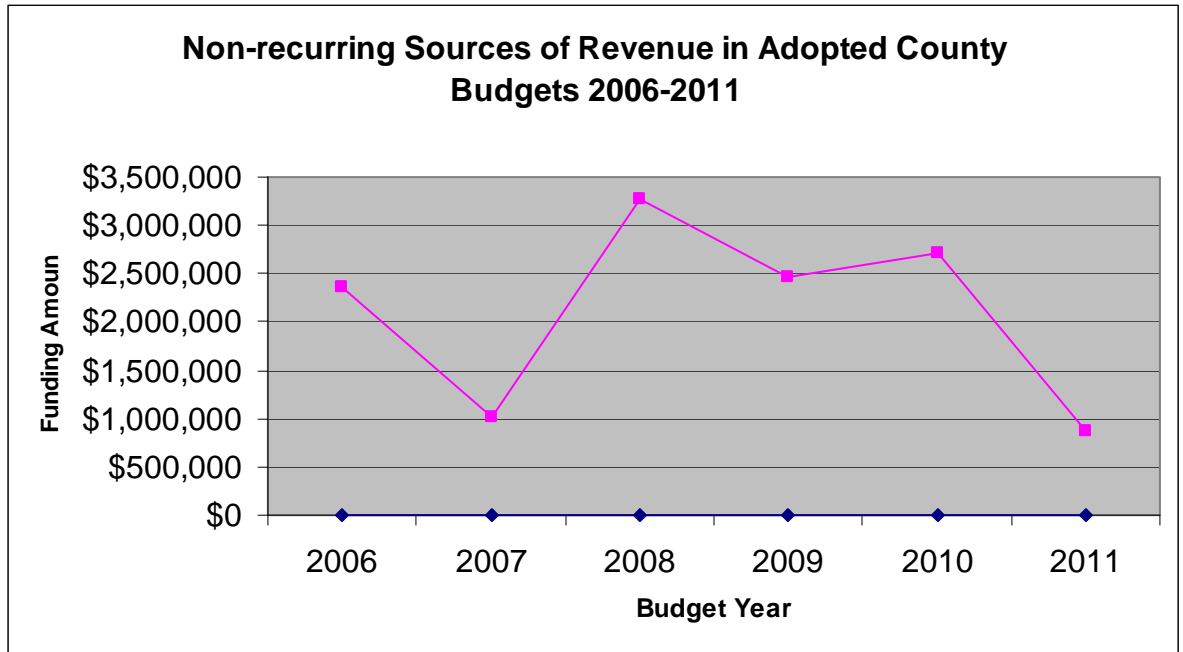
\*Projected subject to audit

The cumulative net result over this 5 year period is a reduction of general fund reserves by \$5,317,140 to cover these operating deficits.

- The delinquent tax revolving (DTR) fund reserves will not be used for a supplemental source of revenue. In prior years, the annual amount transferred to the General Fund has been \$500,000. In addition, prior year budgets have used up to \$200,000 from the property tax foreclosure fund and no amounts will be included from this fund in 2012. With the improvement in tax delinquencies, the benefit of building up the reserves in the DTR fund will be to self fund future year delinquencies and save on delinquent tax bonding costs.
- For the 2011 budget, two (2) employee groups received wage increase of 3% (Sheriff Deputies & Command) and other non-wage compensation increases. These increases were based on the terms of the collective bargaining agreements for these groups that expire on 12/31/2011. Associated wage based fringes for these groups also adjusted accordingly. No increase in wages for any group will be included in the 2012 budget.
- Required employer retirement contributions will be budgeted to increase by \$230,000 per year (for the next 20 years) to fund the 2010 Voluntary Employee Retirement Program (VERP). We are budgeting another \$387,446 to pay for the projected ordinary actuarial valuations based on the plan benefits and performance beyond the VERP. This is a total increase over the 2011 budget of \$607,446.
- Until the 2010 budget, developing prior year budgets have relied on one-time sources of revenue including use of reserves. Not only were one-time revenue sources used to balance budgets as transfers-in, but operating budgets ended in deficits (as noted above), requiring the use of reserves to cover the operating deficits. The County budgeted the use of non-recurring revenues, incurred deficits and then had to cover the deficit with reserves. The 2009 budget included \$2.673 million of this type of funding. The 2010 budget went further than previous efforts and did not rely on reserves to fill revenue shortfalls. However, Retiree Health Care expenses were paid by converting RHC Trust assets to pay obligations previously covered by the general fund. This continued to contribute to a budget structurally out of balance with current revenues matching current expenditures. This specific practice was not continued in the 2011 budget.

The County did continue to budget from non-recurring sources of revenues to balance the budget including \$863,468 of this type of non-recurring revenue. This is was an improvement over prior years but a gap remains. The chart and table below shows the pattern/practice over the past 6 budget cycles. The looming loss of State revenue sharing makes the need to match current expenditures to current or recurring revenues a major

budget objective for 2012.



- Although there was progress in funding Retiree Health Care expenses in 2011, long-term obligations for this other post-employment benefit (OPEB) have not been funded at the actuarially recommended contribution (ARC) level since 2008. This includes underfunding by \$3,005,251 in 2009 and \$2,483,098 in 2010. Progress came in reducing the under funding of the ARC by only \$584,382. The long-term preferred method to fund this obligation is at the pre-funded (ARC). This provides a more stable long term amount rather than a pay as you go method that is subject to long term increasing amounts correlating directly to increasing claims.
- Employee health care costs will rise by rates undetermined at this time. We do not expect the increase to be as high as those under the first year of the new federal health care program but again, much will depend on various aspects of the health care marketplace and rate data provided from Blue Cross/Blue Shield for illustrated premiums. At this time the County has retained healthcare expertise to assist in developing available options based on analysis of the market, County program costs and limitations.
- Interest earnings will remain flat to slightly lower than the 2010 budgeted amount of \$70,000. We will budget \$35,000 of interest earnings. This will be the lowest amount in the past 8 years and represents a decline of \$1,538,357 from the 2006 amount of \$1,573,357.
- The past four (4) budget cycles have not included capital budgeting appropriations. This will begin to be felt in the organization as capital needs become more obvious and funding is limited. Fortunately for the County, the 2009 Energy Efficiency Conservation Block Grant provided funding for some critical capital projects with all of the projects energy savers.

- Property tax revenues will face additional downward pressure as the 2011 Equalized value decreased 3.4% over the 2010 value.
- The County's unreserved/undesignated fund has been reduced by \$6,430,201 from years 2006 to 2010.

**B. BUDGET POSITIVES:**

The Board's actions in prior year budgeting and associated cost containment efforts will help meet some of the challenges in the 2012 budget and beyond. Highlights of these actions are noted below:

- Employment contracts will be held at \$0 wage increases for the duration of the agreements. The earliest any agreement expires is 12/31/2012. The action taken to hold wages flat for the life of the agreements will help contain overall budget expenditures and is an especially fiscal sound strategy considering 80% plus of expenditures are tied to employee costs.
- Employee/dependent cost sharing for health care has been accelerated going from 10% in 2011 to 15% in 2013. Additionally, as the County moves to require all eligible employees to contribute 3% of base wages to pre-fund RHC, this and other associated cost containment measures will provide relief to the general fund supporting these expenditures.
- At the time this document was drafted one year ago, the County was facing a budget deficit in the 2010 budget of \$1,913,217. No such problem exists for the 2011 budget as a result of some very difficult choices and decisions made during development of the current year budget. The 2010 contingency account, while budgeted at \$340,000, included a contra-contingency in the amount of (\$519,018), creating a negative balance of (\$219,018) and a requirement to erase this negative balance. In contrast, the 2011 budget has a contingency account budgeted at \$383,262. This is a significant financial improvement in the budget year over year and avoids past requirements to make major mid-year budget amendments as in 2009 and 2010.
- Continued reductions in employee staffing has cut into the general fund expenditure for the County's largest cost category. Departments and employees have found new methods to improve efficiencies, focus on their service priorities and manage operations with fewer employees who have become more productive.
- Prior to adoption of the 2011 budget, 11 employee groups settled collective bargaining agreements with the County. Agreements ratified by the Board of Commissioners prior to adoption of the 2011 budget were included in the budget. Agreements ratified after the budget was adopted will be reflected in budget amendments moving the differences into the contingency account and out of the departmental budgets. This will follow how agreements ratified prior to budget adoption were treated. The total preliminary value of these budget amendments is \$325,000 in savings primarily from employee cost sharing, selections of lower cost base health care plans and elimination of used sick time payments.

- The County identified additional revenue for the 2011 budget from the County Parking Ordinance and Public Act 88 funding. The parking ordinance revenue is expected to continue as funding in the 2012 budget while a decision on Public Act 88 will be a Board decision. No funding from Public Act 88 will be included in the proposed budget.
- Notwithstanding gasoline costs, energy costs may cost less due to lower utility costs for electricity and natural gas coupled with planned savings from lower consumption due to new equipment with energy conservation features.
- Liability claims and resulting litigation expenditures continue to trend favorably for the County. The County will also benefit from continued and improved pricing/distribution for property and liability rates through the County's group self-insurance pool. We are also seeing the lowest number of worker's compensation claims and related expenditures for this exposure. The value of the time and effort expended on this area in the past 3-4 years is yielding results in fewer incidents/claims, less employee time off and lower medical costs for worker's compensation. As excess reinsurance is placed, this performance will be valuable.
- Property tax revenues may not be as challenging as projected over the past 3 years. Delinquencies were down \$1.5 million 2010 over 2009 and total property tax revenues may not fall as much as originally estimated. As a major source of general fund revenue, this development may temper the rate of further cost reductions.
- For the longer term benefit to the County, most economic indexes are signaling an economic recovery is underway. Key indicators including the unemployment rate, housing foreclosures, tax delinquencies, auto sales, etc are all pointing to improving economic conditions. This economic activity is not a direct correlation to the County's financial position, but it is encouraging.
- Actuarially determined Retiree Health Care contributions are expected to increase following similar trends for health care costs. However, the budget will include a measure to fund Retiree Health Care at the actuarially recommended amount and will total just over \$100,000 more than 2011. This is accomplished in large part due to the County moving to require all eligible employees to contribute to the pre-funding of RHC. When the ARC is fully funded, the amount of employee contributions may be subtracted to arrive at the net employer contribution.

While prior year budget guidelines outlined some very daunting challenges for the Board of Commissioners, we do not see the same level of severity due in part to past constructive action taken. The 2010 budget was comprised of revenue resources near the level the County had in 2004. The 2011 budget has revenue resources near those from the 2002 budget. The projection for the 2012 budget is resources will be near those from the 2005 budget. This should provide some insight and perspective in terms of the strain to do more with less and a continuation of meeting needs with limited resources.

These guidelines are prepared to facilitate the preparation of, and to establish the parameters in preparing estimates for the 2012 budget. They outline the general direction the Finance Office will proceed with the preliminary budget and provide insight as the opportunities we will pursue and the challenges we will need to overcome.

Budgeting guidelines are defined as the Board of Commissioner's principle policies to be reflected in the annual appropriation process. In order to present a statement of budget policies, it is necessary to review the financial position of the organization and projections of this position for the next budget year. In short, the organization remains in a state of financial stress with moderate stability after severe stress from 2008-2010 budgets. All offices and departments should expect to see this financial position reflected in budget policy decisions.

The review includes an analysis of:

1. Current revenue performance and preliminary estimates of revenues for the upcoming budget year. Economic forecast of the taxable value of real and personal property is also considered.
2. Current expenditures versus budget and the probability of a surplus carry-over into the next budget year. Evaluating past budget year operating surpluses or deficits and understanding the primary factors that led to the financial outcome.
3. Inflation trends and local economic conditions.
4. Prospects for new taxes and fees or changes in current tax and fee rates.
5. Major non-recurring expenditures that fall due in the current budget year.
6. Major non-recurring revenue that will be realized during the budget year.
7. Demands for public and internal support services from the organization and resources available to provide these services.

The objective of this analysis is to define the financial parameters for the 2012 budget.

2. **OBJECT STATEMENT**

These guidelines are intended to present concepts for the preparation of the 2012 Budget. The County of Monroe continues to depend less and less on the State of Michigan for portions of its general fund revenues and support for other programs and services. As the next budget is developed, the State continues to experience significant financial challenges and is preparing to reduce its financial support to local units of government including the County. Our focus in working with department leaders will be to focus on the various state grant revenue line items in the budget and any other State supported programs to position the County to respond to reductions with equal service changes.

The State eliminated Revenue Sharing to all Counties and established the Revenue Sharing Reserve Fund as a way to offset this source of revenue. The balance of the Reserve Fund is \$9.8 million at year-end 12-31-09 and is projected to provide a source of funding through the 2012 budget. After that time, full funding from this source will be depleted as only a residual balance projected at \$973,368 will remain. Consequently, the County must continue to monitor actions at the State level and the impact those actions will have on the County.

All State funded programs must continually be monitored to insure that last minute changes do

not take place that can further negatively impact the County operating budget. Keep in mind the State budget begins October 1 while the County budget is calendar year. Changes at the start of the State budget can impact the County budget during the 4<sup>th</sup> quarter. The Board of Commissioners will rely on those department's receiving state funding to confirm the accuracy of projected funding for 2012 and those department managers shall be prepared to modify budgets should funding levels change.

Areas of particular concern relative to State funding that could affect the County's Budget and corresponding level of services to the community include the following:

1. Changes in court reform, State Police funding with related local support, Department of Corrections prisoner housing and prison closures.
2. Changes in child care funding and associated additional program requirements.
3. Changes in funding the Friend of the Court and associated additional program requirements.
4. Reductions in program funding/program reimbursements for Public Health services
5. Incentives and sanctions for progress on intergovernmental collaboration and service consolidation measures and transparency efforts in reporting.

### 3. **MULTI-YEAR BUDGETING**

The Board of Commissioners will consider financial commitments beyond the upcoming budget and weigh the longer-term impact. This process will require all departments to submit estimates for a two-year budgeting cycle for the fiscal year ending 2012 and 2013. These projections will not require a detailed evaluation of every line item, but will evaluate major revenues and expenditures to provide an assessment of what trends are forming. The trends will be used to provide a basis to proactively adjust operations to balance against resources prior to the next budget cycle for the 2013 budget. These estimates are modified on an annual basis to adjust amounts for unanticipated events. This has been difficult in past budgets as so much effort and energy has been devoted to the upcoming budget. But the value of projecting the future obligations and resources is very high and worth the effort. The County will continue to adopt a single annual budget in compliance with the Uniform Budgeting and Accounting Act.

### 4. **REVENUES**

The Taxable Valuation for 2011 decreased by 1.64% for a total decrease in the taxable valuation for budget year 2011 of \$95,123,046. The result will be to include net budgeted property tax revenues in the amount of \$26,027,132 for the 2012 Budget. Because of a declining real estate market, the gap between the State Equalized Values and the County Taxable Values has contracted dramatically over the past few years. New construction and new industry has declined significantly in Monroe County. It is estimated that the Taxable Value will decrease around 1.8% for 2012, but it could easily decrease by as much as 4% if the economy takes a turn for the worse. The rate of inflation is (unknown at this time but will likely have little or no positive impact because property assessments are likely to continue to decline slightly, which will negatively

impact taxable values.) estimated to be flat at 0%, which will impact taxable values negatively.

The tracking of Taxable value the last few years has produced a new trend of decreasing values, making it difficult to project at what rate future years will decline or flatten out. A reasonable estimate is a 1.8% decrease for 2012 and a 1.8% decrease in 2013 for Taxable value and to incorporate these estimates in the 2012 and 2013 budgets.

**B. SOURCES OF COUNTY PROPERTY TAX REVENUE**

**MAJOR TAXPAYERS**

The County’s top ten (10) taxpayers and their 2010 Taxable Values are as follows:

<u>TAXPAYER</u>	<u>PRODUCT/SERVICE</u>	<u>2010 TAXABLE VALUE</u>
DTE Energy	Power Plant/Utility	\$ 858,262,891
Consumers Power	Utility	\$ 74,978,255
Automotive Components	Auto Parts Supplier	\$ 27,744,266
Gerdau MacSteel	Steel Processing	\$ 24,354,400
International Transmission	Utility Transmission	\$ 21,029,065
Frenchtown Square Mall	Shopping Mall	\$ 20,602,910
Spartan Steel Coating	Coating/Engraving Steel	\$ 18,294,530
Good Will Co. (Meijer)	Retail Store/Warehouse	\$ 17,214,880
Guardian Ind. Corp	Glass	\$ 16,948,348
Monroe Bank & Trust	Banking/Homes	\$ 16,809,522
Cabela’s	Retail Store	\$ 16,827,768
<b>TOTAL</b>		<b>\$1,113,066,835</b>

**VALUATION COMPOSITION**

The County’s 2010 Taxable Value by class and use is as follows:

<u>BY CLASS:</u>	<u>2010 TAXABLE VALUE</u>	<u>PERCENT</u>	<u>General Fund Tax Revenue</u>
REAL PROPERTY	\$ 5,272,049,677.00	91.12	
PERSONAL PROPERTY	\$ 513,484,597.00	8.88	
TOTAL	\$ 5,785,534,274.00	100	
<u>BY USE:</u>			
AGRICULTURE	\$ 262,870,687.00	4.53	\$ 1,260,517.00
COMMERCIAL	\$ 707,528,688.00	12.23	\$ 3,392,741.00
INDUSTRIAL	\$ 949,252,080.00	16.41	\$ 4,551,853.00
RESIDENTIAL	\$ 3,328,247,685.00	57.53	\$ 15,959,613.00
DEVELOPMENTAL	\$ 24,150,537.00	0.42	\$ 115,806.00
PERSONAL	\$ 513,484,597.00	8.88	\$ 2,462,261.00
TOTAL	\$ 5,785,534,274.00	100	\$ 27,742,791.00*

\*Tax Revenue before Adjustments

C. ICE REVENUE (Immigration and Customs Enforcement Detainee Housing)

Since opening the Inmate Dormitory, billings from housing ICE detainees has been a source of revenue to help offset the cost of operating and maintaining the facility. The operations of the facility are recorded in a special revenue fund. ICE inmate housing revenue is a primary source of the fund’s revenue and as a result of initiatives in late 2009 and throughout 2010, revenues have increased year over year. However, from 2006 through 2008, the County general fund contributed a higher amount to operate the facility than did revenues generated from ICE housing and related facility revenues. From 2009 on, this trend changed and is shown the following three graphs and data table showing the historical performance of the fund.

The daily rate of \$74.96 per day charged for each detainee’s housing was adjusted in 2008 and the rate will remain for the 2012 budget. Increased costs to operate the facility including costs for staffing and operational expenses require continued oversight and fiscal control. But the financial performance of the fund shows declining support from the General Fund due to higher revenues and lower operating expenses in 2010 and projected as part of the 2011 budget. The Sheriff’s Office is also reporting higher inmate daily averages than budgeted for the 1<sup>st</sup> quarter of 2011 with 92 being the 1<sup>st</sup> quarter monthly average as compared to the budgeted monthly average of 80. This information is included monthly on the Finance Committee agenda.

YEAR	FT BUDGET EMP	INMATE DORMITORY REVENUES	NET G F CONTRIBUTION	ANNUAL EXPENDITURES
1998	-	\$891,159	\$0	\$295,104
1999	38	\$411,737	\$343,370	\$569,852
2000	44	\$733,279	\$646,767	\$1,847,775
2001	40.5	\$1,412,203	\$1,181,400	\$2,907,136
2002	42.5	\$2,163,427	\$1,100,755	\$3,059,563
2003	42.5	\$1,920,391	\$1,124,391	\$3,241,288
2004	43	\$1,851,101	\$1,289,465	\$3,206,594
2005	36.5	\$1,954,598	\$1,395,264	\$3,383,538
2006	35.5	\$1,669,037	\$1,720,132	\$3,557,890
2007	36.5	\$1,851,372	\$2,129,193	\$4,060,930
2008	36.5	\$2,018,374	\$2,124,293	\$4,202,382
2009	35.5	\$2,103,850	\$1,849,988	\$4,025,446
2010	32	\$2,699,036	\$1,411,659	\$3,801,450
2011	26.5	\$2,362,764	\$842,870	\$3,377,782
		\$24,042,328	\$17,159,547	\$41,536,730

**Legend/Notes:**

All Financial Data from Comprehensive Annual Financial Reports

Inmate Dormitory Fund Revenues: Housing revenues, Including: Sale of Meals,

Inmate Telephone \$, Meal Tickets, Food Rebates

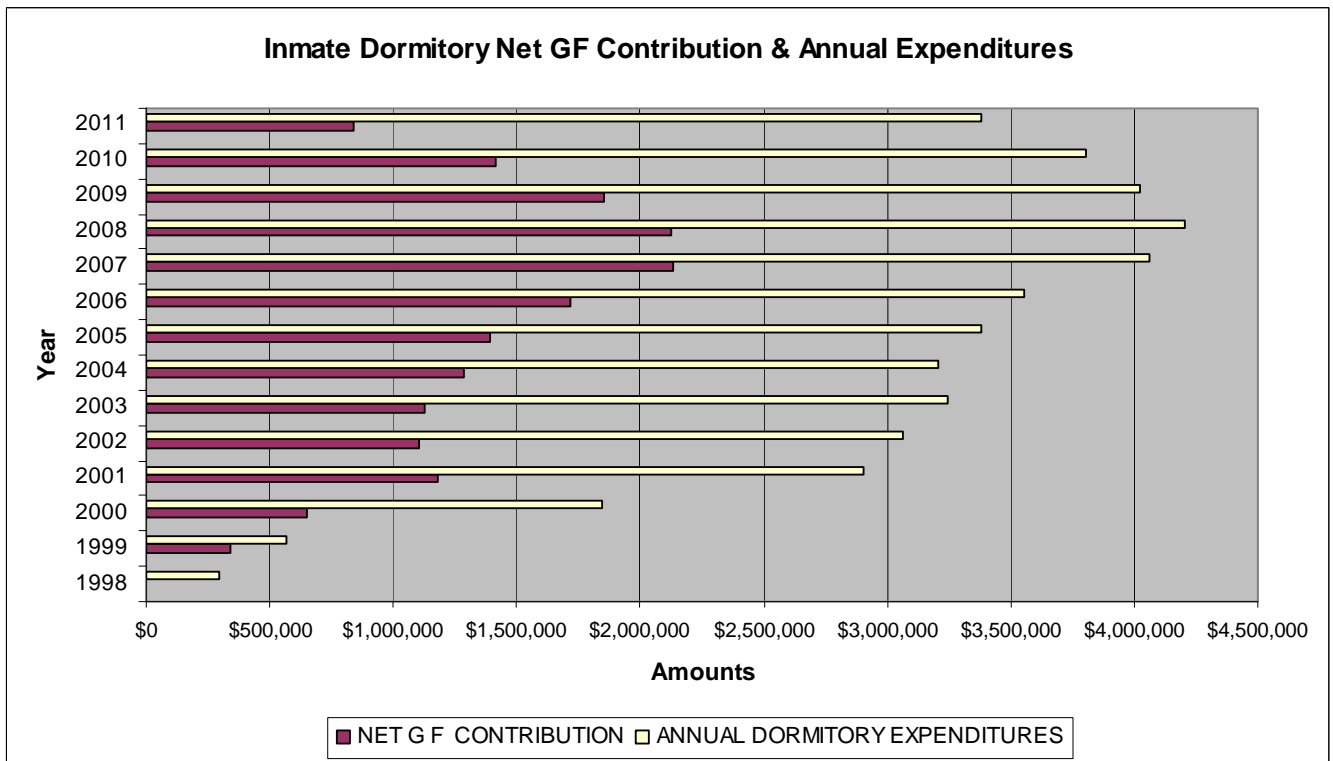
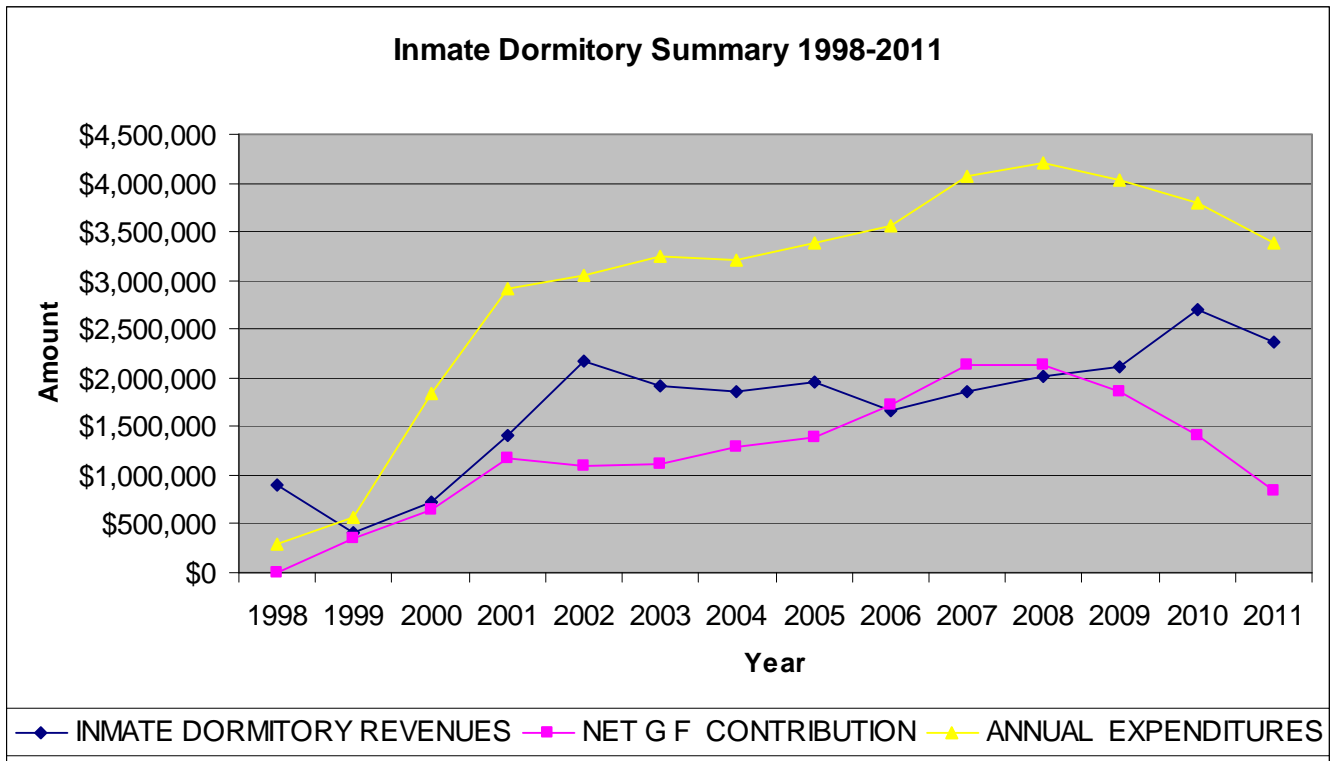
Net General Fund Contribution: General Fund Transfer In less Cost Allocation Plan

Total Annual Expenditures: Annual Total Expenses charged to Inmate Dormitory Fund

2010 Data is based on preliminary financial annual report

2011 Data is based on adopted 2011 Annual Budget w/ adjustments for CBA

Fund 251 Inmate Dormitory



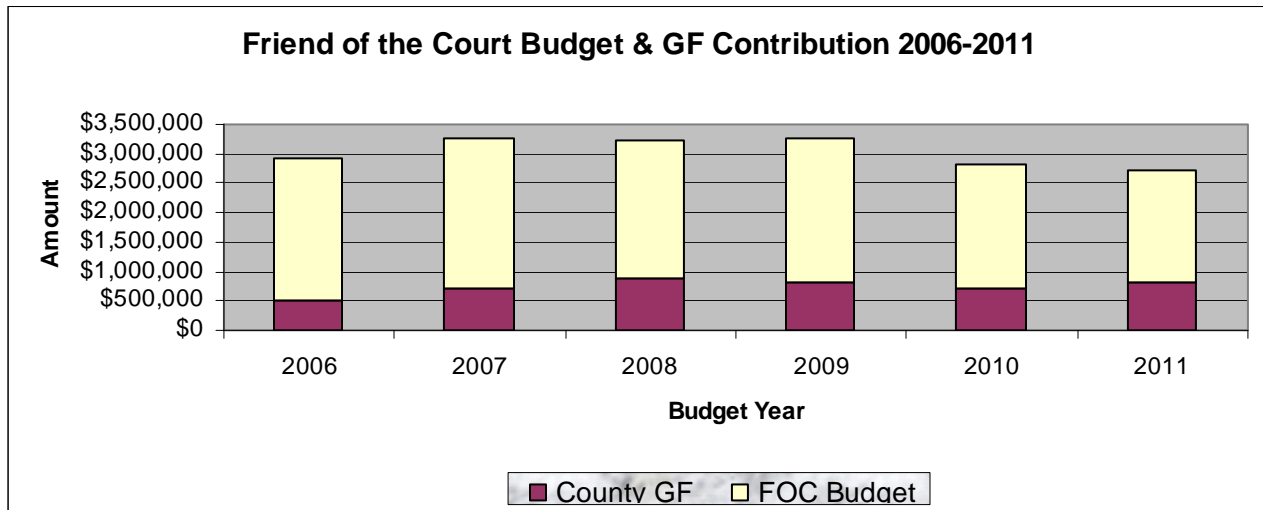
**D. COURT EQUITY FUND & FRIEND OF THE COURT**

The Court equity Fund, created by PA 374 of 1996, created new funding for all county trial courts. This legislation also established new responsibilities for local trial courts including the creation of the family division in the circuit court, development of local Citizen Advisory Committees, and expanded jurisdiction of the district court. Past amounts received by the County are as follows:

\$867,882	2007
\$865,616	2008
\$777,331	2009
\$890,000	2010
\$800,000	2011
\$800,000	2012 Projected for Budget

The other budget area of interest is the Friend of the Court (F.O.C.) Fund. It has ended in an operating deficit in each of the past four (4) successive years for a cumulative total of \$830,156 as follows:

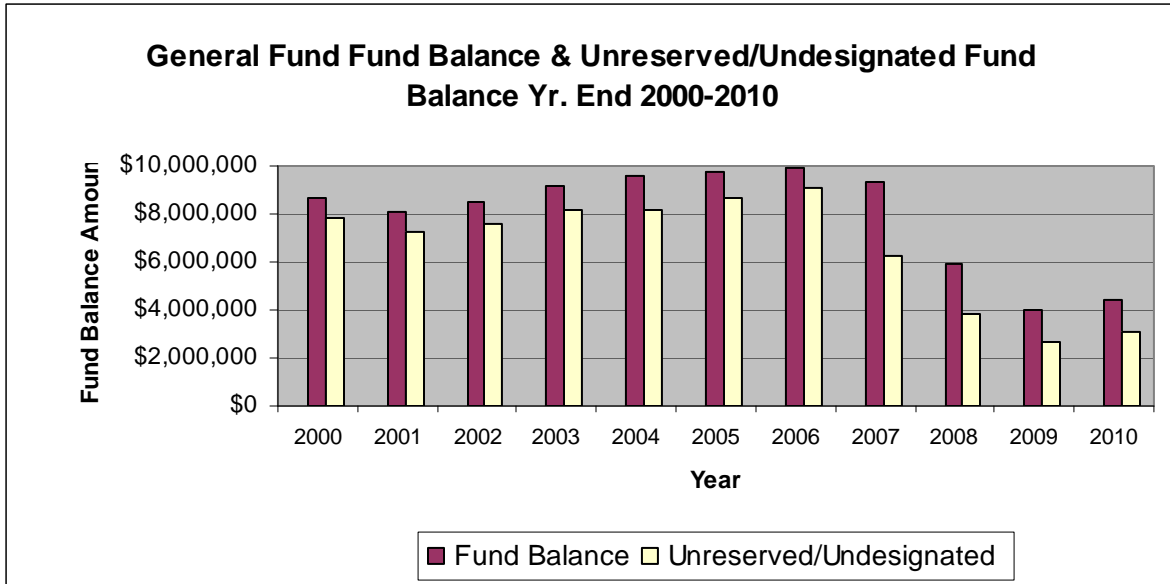
<u>Year</u>	<u>Deficit</u>	<u>Year</u>	<u>Deficit</u>
2007	\$240,000	2009	\$175,000
2008	\$351,288	2010	\$63,868
Total: \$830,156			



**E. FUND BALANCE & BUDGET STABILIZATION FUND**

The Unreserved/undesignated Fund Balance for year ended 2006, was \$9,067,005. Three (3) consecutive years of operating deficits lowered the unreserved/undesignated fund balance to \$2,636,804 at 12/31/2009. The preliminary year end balance at 12/31/2010 has increased to \$3,106,804 due to the County ending 2010 in a positive operating position. A summary of the general fund's fund balance along with the

unreserved/undesignated fund balance for the 2000-2010 year end balances are summarized on the following page:



There had been a steady decline in the County’s reserves but this trend ended with the 2010 year end preliminary financial report. The difficult cost cutting measures put in place in 2010 have at least for the most recent financial period stopped the run of 3 consecutive operating deficits. While this is positive, it should not be accepted as a trend as there are other financial constraints facing the organization.

A clarification is noteworthy concerning reserve funds. While reported as fund balance, generally, reserve funds are not readily available for operational uses. Fund balances do not recognize amounts unavailable due to loans or other current uses or encumbrances of funds. The true availability of fund balance is reported as the undesignated/unreserved amount. The amount of \$3,106,804 represents the available amount of reserves at this time.

The Budget Stabilization Fund was used to budget \$216,000 for the 2011 budget. With this transfer, the projected year end balance of the fund will be \$2,283,896.

Beyond the purposes for maintaining an appropriate level of fund balance as outlined in Policy 301, fund balance is the key element of financial flexibility because it describes the County’s resources available in reserve to meet unexpected needs. And as noted in the preceding paragraph, unreserved/undesignated fund balance provides the highest level of flexibility in meeting unexpected needs. With the 2011 Contingency Line item amount less than two (2) months of operating funds, the County has limited flexibility in meeting current year unforeseen needs.

F. STATE REVENUE SHARING

Revenue Sharing was eliminated as a revenue source for Counties for 2005. This source of revenue was replaced by new legislation that allowed Counties to move up the

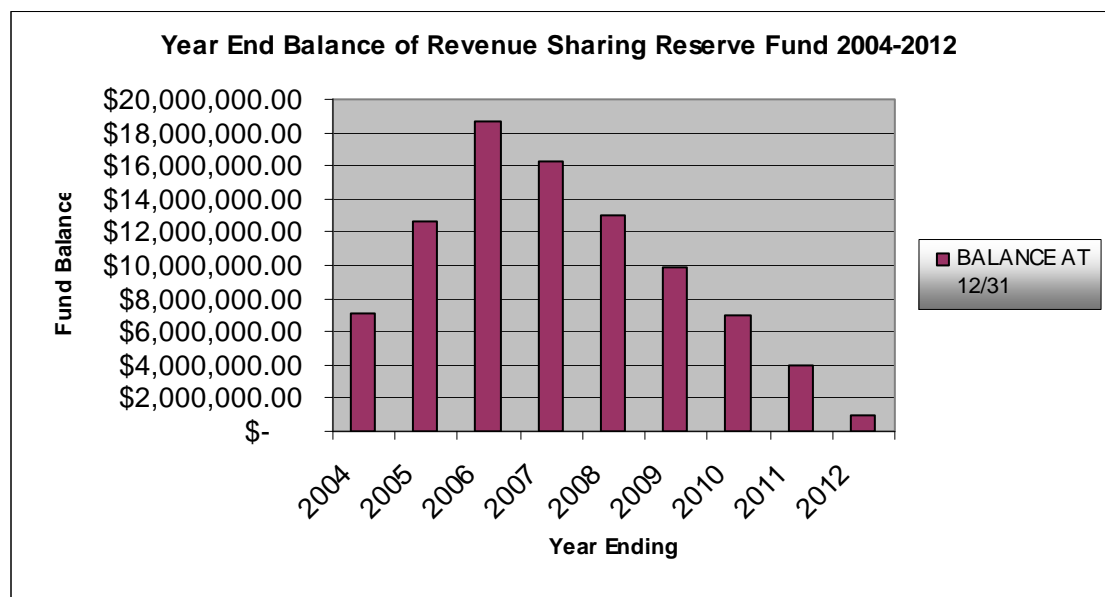
collection of property taxes and to place a portion of these tax levies in a separate designated fund called the Revenue Sharing Reserve Fund. Each year beginning in 2005, the County Board is allowed to appropriate an amount equal to the annual revenue sharing payment the County previously received from the State of Michigan (adjusted for inflation) to replace this source of revenue. Each year thereafter this amount can be adjusted for inflation and changed accordingly. After the total amount of the additional tax levy is expended, which is projected to be after drawing the final balance for the 2012 budget, the State is expected to begin restoring Revenue Sharing to Counties. At this point in time given the financial and economic conditions, this expectation should be cautiously tempered. The County was allowed to draw a total of \$2,934,160 for each of the 2009 and 2010 budgets and will draw \$2,986,791 for the 2011 budget.

The table and chart below summarize the history of this fund and the balances at years end:

YEAR	BALANCE AT 12/31
2004	\$ 7,140,573.00
2005	\$ 12,678,885.00
2006	\$ 18,619,729.00
2007	\$ 16,324,176.00
2008	\$ 13,010,325.00
2009	\$ 9,881,110.00
2010	\$ 6,946,950.00
2011	\$ 3,960,159.00
2012	\$ 973,368.00

\*Preliminary subject to audit

\*\*Projected based upon budgeted transfers



It is clear the County will be subjected to lower funding from revenue sharing in the future, beginning with the 2013 budget. This is when the County will have approximately \$973,368 remaining in the revenue sharing reserve fund to be budgeted for the 2013

budget and will need to begin receiving payments from the State of Michigan. Based upon the Governor’s budget recommendations for fiscal year 2012, the County can expect to receive 35% less in revenue sharing funds for its 2013 budget. A sampling of County’s who received revenue sharing payments in 2011 and the reduced amount for fiscal year 2012:

	<u>FY 2011</u>	<u>FY 2012</u>
Alger County	\$192,531	\$125,965
Lenawee County	\$2,050,006	\$1,336,382
Eaton County	\$2,211,299	\$1,135,643
Allegan County	\$2,244,008	\$1,193,138

These reductions should be expected and considered by the County as budget and expenditure decisions are made. You will note, some of the above reductions exceed 35% and some are as high as 48%. This will represent \$1 million in loss of revenue for the 2013 budget.

**G. BOND RATING & FINANCIAL RATING**

As a result of the deterioration in its financial condition, in October 2009, Moody’s Investors Service rating agency lowered the County’s credit rating for outstanding debt on certain long-term bonds. Moody’s lowered the rating from A1 to A2. The rating adjustment was made in September 2009. The reasons noted for the down grade are the operating deficits posted over the previous two (2) operating budgets totaling \$3.9 million and a corresponding reduction of reserves. On March 25, 2011, Standard and Poor’s returned a credit rating of AA- for a Howard and North Streets drainage project and confirmed its AA- rating for long-term County outstanding general obligation debt. The outlook on all ratings is stable.

Confirming this financial position, the Michigan Department of Treasury who issues fiscal indicator scores for all 1,856 local units of government, including the County of Monroe, scored the County lower in 2009 than in prior years. A summary of the County’s scores and associated information is outlined below:

<b>Year</b>	<b>Points from Scale</b>	<b>Category</b>	<b>State Action</b>
2006	0	Fiscally Neutral	No State Action Needed
2007	0	Fiscally Neutral	No State Action Needed
2008	0	Fiscally Neutral	No State Action Needed
2009	3	Fiscally Neutral	No State Action Needed

**Scale and Category Descriptions:**

<b>Points from Scale</b>	<b>Category</b>	<b>State Action</b>
0-4	Fiscally Neutral	No State Action Needed
5-7	Fiscal Watch	Unit of government is notified of the relatively high score & is placed on a watch list for the current & following year.
8-10	Fiscal Stress	Unit of government is notified of its high score, is placed on a watch list for the current & following year & receives consideration for review.

Fiscally Neutral - Local Units that score in this category are deemed to be managing its financial circumstances appropriately, but local units should not interpret a score in this category as an indicator that they are in anyway insulated from financial concerns. It is a snap shot of a local unit's financial condition. It is not an indicator of ability to pay. Local decisions that impact a local unit's finances or deviations from its current financial strategies may result in changes to future fiscal health scores.

Watch List - Local units that score in this category are considered to be in a financial circumstance that is cause for concern, but that can still be addressed by the local unit. Governing bodies of local units on the watch list should exercise added care when making financial decisions, and formulate a financial strategy to return to the local unit to a fiscally neutral score. Local units may request assistance from the Department of Treasury in developing financial strategies that will assist in returning its score to fiscally neutral.

Fiscal Stress - Local Units that score in this category are considered to be in poor financial condition. Governing bodies of local units that score in this category should take immediate corrective actions to improve the financial health of the local unit. Assistance and potentially intervention by the Department of Treasury is expected for local units scoring in this category

#### H. DEBT SCHEDULE

The County continues to benefit from a relatively low debt burden with a per capita debt at \$1,533. For 2012, the general fund will be required to contribute the principal, interest costs and agent paying fees for the following issue:

##### Monroe County Municipal Building Authority

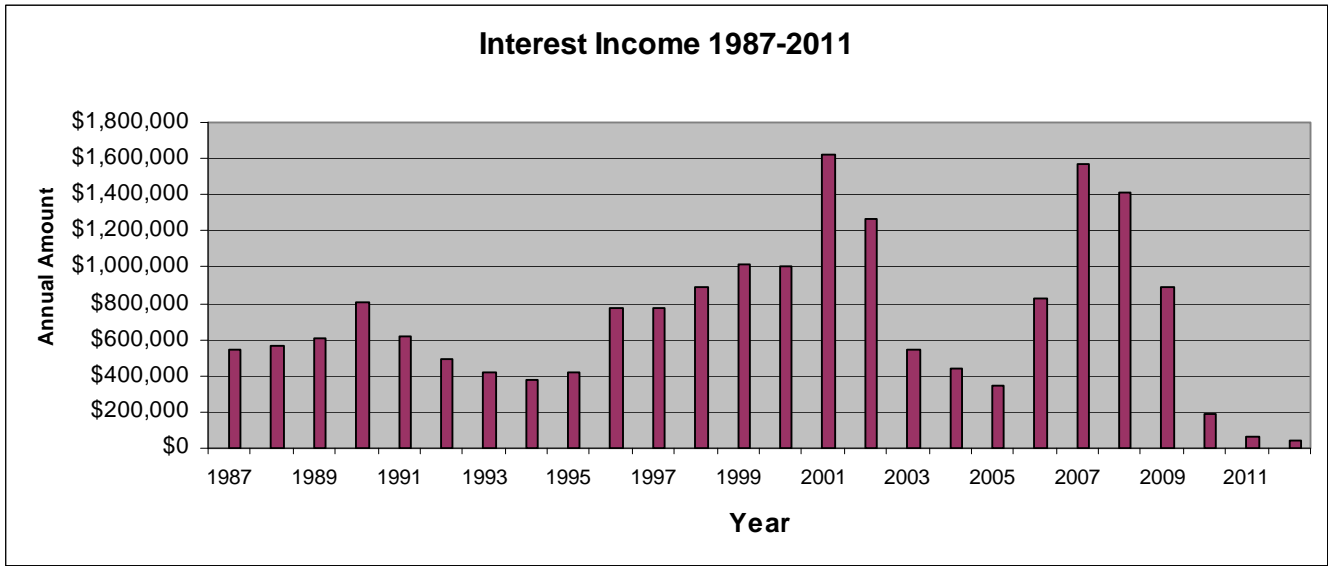
Debt on the Inmate Dormitory and Facility renovations from a 1998 issue for a total of payment of \$542,902. This debt service is lower over the prior year by \$24,397 due to the refinancing of this debt in 2010. The refinancing of this debt will save the County \$192,691 over the life of the remaining indebtedness through 2018.

#### I. INTEREST RATES/INCOME

Interest rates plummeted after the collapse of the financial markets in September 2008, and have remained low. Interest rates still average .50% or less on our investments. The FDIC's Temporary Liquidity Guarantee Program expired on December 31, 2010, in the hopes that confidence in the banking industry has strengthened. We now have a mix of uninsured funds, government money market funds (comprised of primarily U.S. Treasuries and Agencies), collateralized or insured CD's, and FDIC insured non-interest bearing checking accounts. With the economy recovering slowly, it is unlikely that there will be any sharp increases in interest rates anytime soon.

As banks struggle to make a profit while absorbing significant losses, they find it necessary to increase their fees for services provided. Monroe County has less available cash to invest, as reserves have been depleted. These factors, coupled with interest rates that are almost nonexistent, makes it difficult to break even, let alone earn revenue from interest.

Following is a chart illustrating the interest earnings of the County for the past twenty-five years:



Year	Interest Income	Year	Interest Income
1987	\$565,958	1999	\$1,004,898
1988	\$604,181	2000	\$1,619,561
1989	\$803,967	2001	\$1,262,204
1990	\$622,111	2002	\$542,811
1991	\$493,821	2003	\$441,302
1992	\$419,254	2004	\$341,112
1993	\$381,049	2005	\$831,828
1994	\$422,038	2006	\$1,573,357
1995	\$779,087	2007	\$1,412,662
1996	\$770,267	2008	\$891,263
1997	\$885,997	2009	\$187,709
1998	\$1,016,002	2010	\$59,044
		2011	\$43,000

**J. DELINQUENT TAX REVOLVING FUND**

The Delinquent Tax Revolving Fund is designed to be self-sustaining. Over time, the interest and fees earned on delinquent taxes can build up sufficient reserves to fund the purchase of the next years' delinquent taxes. As those taxes are collected, the tax, interest, and fees replenish the fund.

In 2010, the County borrowed \$12,000,000 to fund the delinquent tax pay-off. After just 10 months, the outstanding balance is down to \$3,010,000. In 2011, the County will borrow \$9,000,000 to cover what is necessary for the delinquencies.

This is primarily the result of our tax levy declining, which led to the actual delinquency amount declining over 2009 by \$1,500,000. Additionally, despite a struggling economy and housing market, the actual delinquency rate and number of parcels returned as delinquent, both declined.

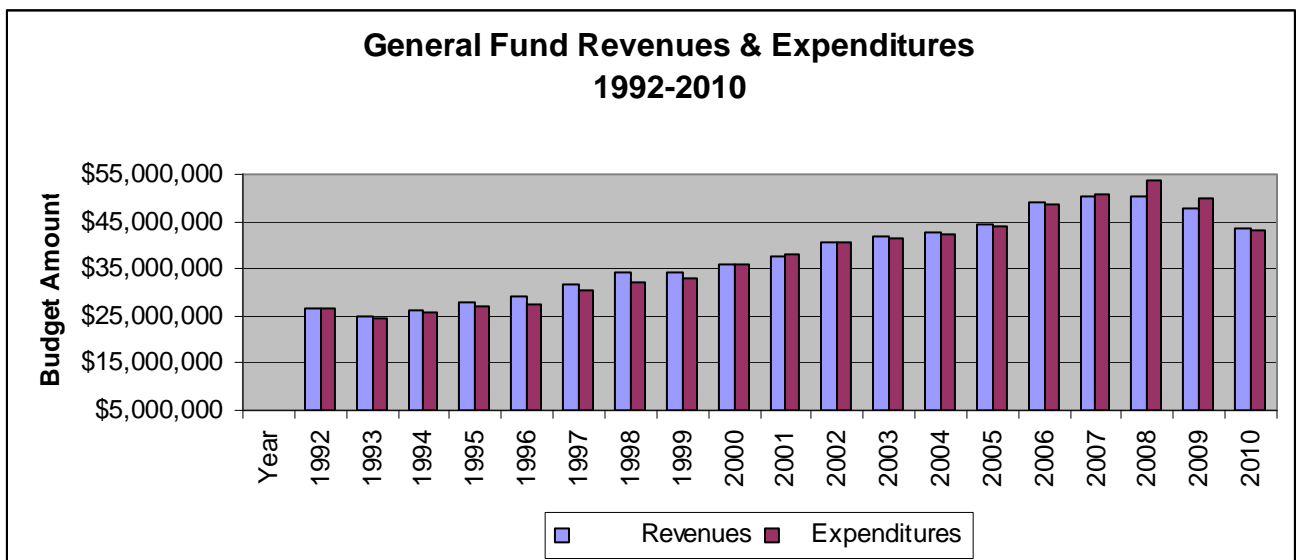
With the shift in collections of our tax levy to July, the County must find ways to fund its operations until July or August each year, when the tax levies begin coming in to the County from the local tax collecting units. This requires the County to operate over half of the year without a major source of revenue to fund our operations.

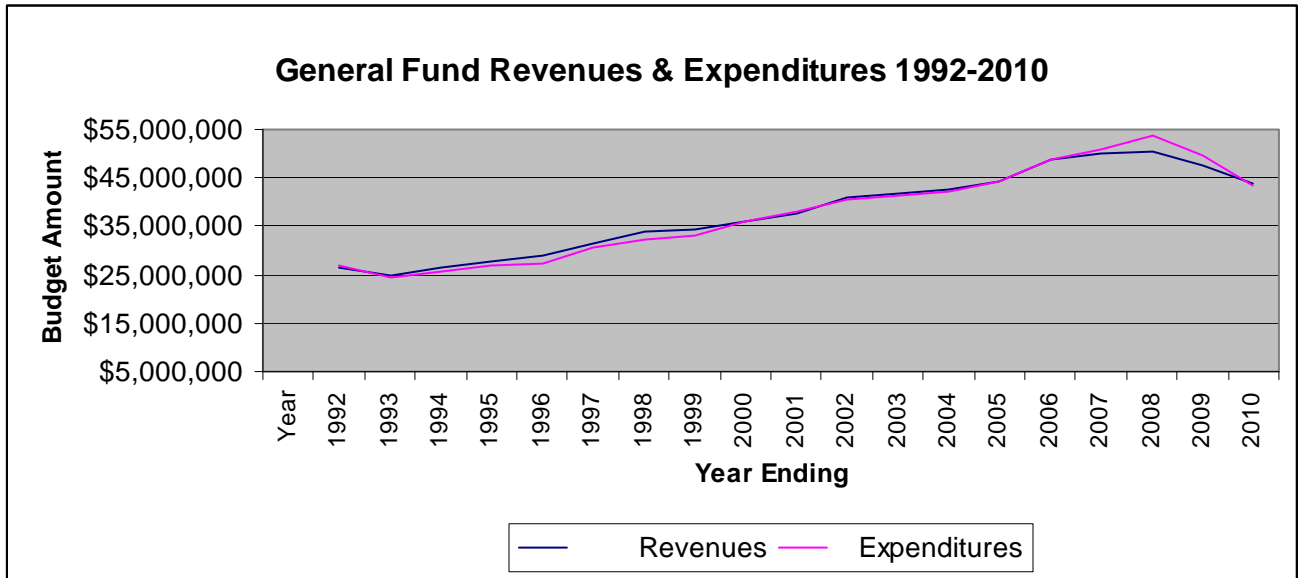
The Board of Commissioners has to be fully cognizant with the cash flow restrictions of this fund. Cash is needed to fund County operations for the first six months of the year until the first influx of tax revenue arrives in July. This amount will be roughly one half of the year's tax revenue, or in current budget, approximately \$13 million. The general fund reserves are \$5,390,700, meaning the County will need to rely on other cash balances for the first six months of the year until current taxes are collected in July.

**K. OTHER REVENUES & GENERAL FUND REVENUE/EXPENDITURES**

There are a number of miscellaneous fees and costs collected throughout the organization. These sources of revenue have fallen due to a number of factors. Beginning with a July 2009 adjustment, the County more fully recognized these revenue losses and these lower revenue rates have been incorporated into budgets since then. Annually, these revenues are looked at on a line item basis with each department/office in order to validate the revenue sources prior to budgeting. These are estimated amounts and based on past trends and current activities. However, we project the lower revenue amounts in the 2011 budget to hold through 2012-2013 and beyond unless demonstrated otherwise by user departments recommending adjustments. The goal is not to artificially lower revenues but we do not want to base expenditures on revenues that cannot be obtained.

A summary of the past nineteen (19) years of General Fund revenues and expenditures are illustrated in the graphs and tables that follow:





Year	Revenues	Expenditures	Variance	Restated Corrected Fund Balance	Reserved and Designated Fund Balance	Unreserved/ Undesignated Fund Balance	Percent of General Fund Budget
1992	\$26,465,197	\$26,788,257	(\$323,060)			\$605,816	2.26%
1993	\$24,999,077	\$24,392,116	\$606,961	\$1,721,405	\$550,909	\$1,170,496	4.80%
1994	\$26,304,307	\$25,793,521	\$510,786	\$2,054,435	\$371,274	\$1,683,161	6.53%
1995	\$27,757,534	\$27,035,848	\$721,686	\$2,829,030	\$602,314	\$2,226,716	8.24%
1996	\$29,037,410	\$27,442,155	\$1,595,255	\$4,462,058	\$642,052	\$3,820,006	13.92%
1997	\$31,600,747	\$30,524,058	\$1,076,689	\$5,538,747	\$821,833	\$4,716,914	15.45%
1998	\$34,030,554	\$32,119,233	\$1,911,321	\$7,425,558	\$830,115	\$6,595,443	20.53%
1999	\$34,262,670	\$32,949,023	\$1,313,647	\$8,739,255	\$874,401	\$7,864,854	23.87%
2000	\$35,976,936	\$36,086,685	(\$109,749)	\$8,629,506	\$758,406	\$7,871,100	21.81%
2001	\$37,493,798	\$38,004,698	(\$510,900)	\$8,118,606	\$869,901	\$7,248,705	19.07%
2002	\$40,790,859	\$40,409,970	\$380,889	\$8,499,495	\$934,307	\$7,565,188	18.72%
2003	\$41,946,523	\$41,259,809	\$686,714	\$9,186,209	\$989,832	\$8,196,377	19.87%
2004	\$42,535,537	\$42,098,749	\$436,788	\$9,622,997	\$1,473,466	\$8,149,531	19.36%
2005	\$44,283,698	\$44,150,770	\$132,928	\$9,755,925	\$1,121,283	\$8,634,642	19.56%
2006	\$48,918,205	\$48,784,146	\$134,059	\$9,889,984	\$822,979	\$9,067,005	18.59%
2007	\$50,142,670	\$50,671,067	(\$528,397)	\$9,361,587	\$3,089,434	\$6,272,153	12.38%
2008	\$50,341,465	\$53,754,446	(\$3,412,981)	\$5,948,606	\$2,125,127	\$3,823,479	7.11%
2009	\$47,748,536	\$49,728,358	(\$1,979,822)	\$3,968,784	\$1,331,980	\$2,636,804	5.30%
2010	\$43,722,050	\$43,252,050	\$470,000	\$4,438,784	\$1,331,980	\$3,106,804	7.18%

5. **EXPENDITURES**

A. RETIREE HEALTH CARE

When the County granted Retiree Health Care benefits for its employees, it did not establish a method to pre-fund this benefit as the employee earned the benefit. However this benefit is obligated to be pre-funded in contractual language in each of the collective

bargaining agreements. This benefit, until January 1, 1996, was funded 100% by County (employer) contributions and funded on a pay as you go basis. Effective January 1, 1996 all new employees, began contributing 1.5% to 3% of their pay towards funding of the Retiree Health Care program. Effective in the year 2002 members of the Sheriff Deputies and the Sheriff Command Officers unions also began contributing to the retiree health care fund. Effective October 28, 2003 through October 1, 2007 various employee groups with new hire employees no longer were eligible for Retiree Health Care benefits. The remaining exceptions are for new employees hired into the Sheriff Command and Deputy groups who continue to receive this benefit.

In the past three (3) budgets, the County has underfunded the contribution to the Retiree Health Care trust fund. The actuarially recommended contribution and the County's funded amounts are shown below:

<u>Budget Year</u>	<u>ARC</u>	<u>County Funded Amount</u>	<u>Difference</u>
2009	\$7,331,247	\$4,325,996	\$3,005,996
2010	\$6,427,335	\$2,483,098	\$3,944,237
2011	\$6,284,382	\$5,700,000	\$584,382

Retiree Health Care Contribution Rates

<u>Employee Group</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
General County Non-billable	40.66%	0%	17.02%
Billable	30.07%	27.70%	27.70%
Sheriff Non-billable	21.68%	0%	17.37%
Billable	18.21%	24.34%	24.34%
Central Dispatch	23.15%	27.39%	27.39%

(Above rates stated as percentage of payroll costs)

The past three (3) years of actuarially determined unfunded liabilities of the Retiree Health Care Trust Fund have been as follows:

<u>Effective Date</u>	<u>Unfunded Liability Amount</u>	<u>Funded Ratio %</u>
12/31/2007	\$69,121,363	23.7%
12/31/2008	\$60,805,196	30.2%
12/31/2009	\$60,333,662	31.5%

At quarter ending March 31, 2011, the Retiree Health Care Trust Fund market value investments were \$24,807,616 as compared to \$24,060,360 one year previously.

Governmental Accounting Standard Board (GASB) Statement 45 requires municipalities to report in their annual financial reports the amounts of the unfunded liability and the amount of the Actuarially Required Contribution (ARC). As reported previously, the County continues to underfund this liability over the past several budget cycles. This trend will need to be reversed if the County is going to meet its retiree health care obligations in the future. Continued underfunding of this obligation will cause further financial constraints over the long-term. As noted under Item 16, Financial Indicators-Per Capita Data, underfunding of long-term liabilities such as Retiree Health Care may provide a strong indication of insufficient resources to meet both current expenditure

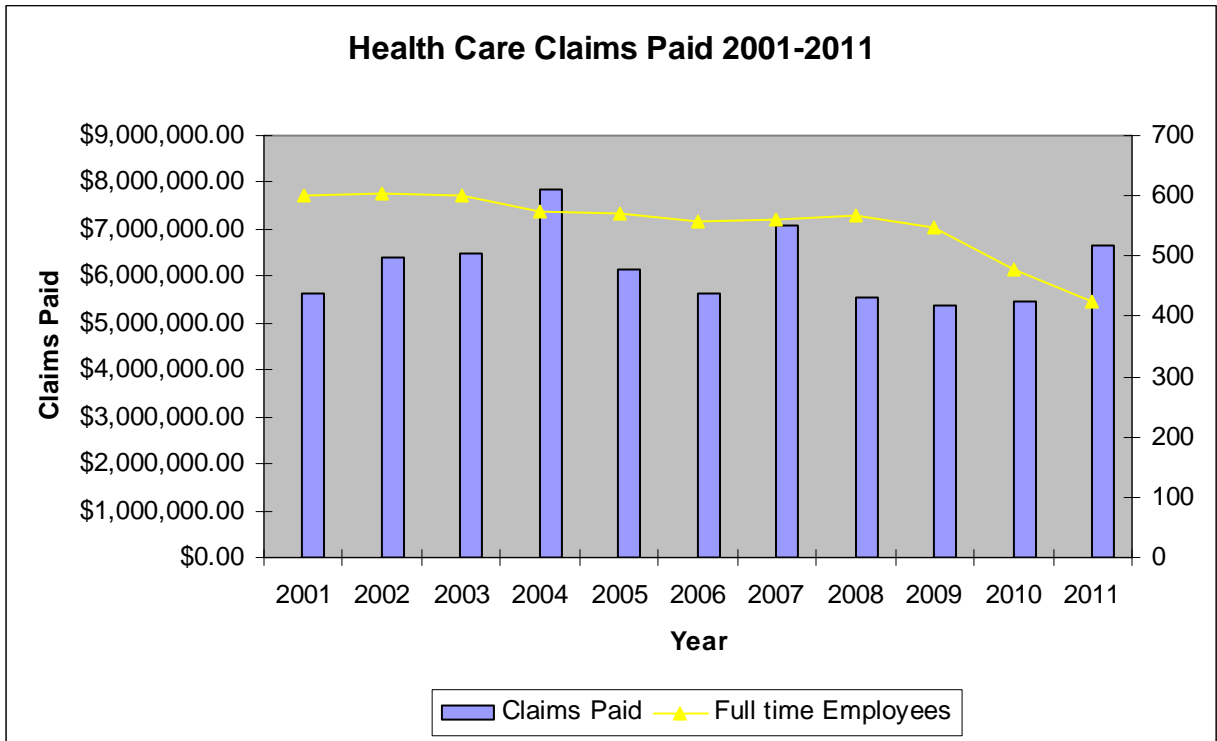
demands and also provide funding to long-term liabilities and obligations. The 2012 budget will include a full funding of the ARC achieved in part by realizing the benefit of all employees contributing the 3% rate of base pay toward pre-funding of their post employment health care benefit.

B. EMPLOYEE HEALTH CARE

The County provides its employees and eligible dependents with health care benefits including the following:

1. Health Care & hospitalization: All but 3 employee groups receive coverage through a Preferred Provider Organization –Blue Cross/Blue Shield of Michigan, 90% employer, 10% employee cost share of the monthly illustrated premium based on the PPO 3, 80%/20% plan health and drug. The cost share moves to 88%/12% in 2012 and 85%/15% in 2013. The 3 groups not on this plan, are on a PPO1 base plan with a 10% employee cost share. These are the three groups with CBA's expiring 12/31/2011.
2. Prescription Drug: 14 employee groups receive coverage through Blue Preferred Rx Prescription Drug-Blue Cross/Blue Shield of Michigan, \$10 co-pay for generic Rx and \$40 co-pay for brand Rx. 3 employee groups receive coverage through Blue Preferred Rx Prescription Drug-Blue Cross/Blue Shield of Michigan, \$10 co-pay for generic Rx, \$20 co-pay for preferred brand name Rx and \$30 co-pay for non-preferred brand name Rx.
2. Vision: All employee groups receive coverage through Blue Cross/Blue Shield of Michigan. This coverage is provided at no cost to the employee. This is a 24 month plan with co-pays applicable.

Budgeted 2011 expenditures for the above items is \$6,655,085. Should claims paid continue to trend as illustrated in the 2008-2010 period, then actual claims paid will be lower than the graph depicts as projected for 2011. The 2001 figure is the budgeted amount. If this occurs, the County will see a trend of relatively stable claims for a 4<sup>th</sup> consecutive year. This can be correlated to the lower number of employees and lower health care expenditures from employees and eligible dependents. This latter outcome may be due in part to higher levels of cost sharing and the County's efforts to include strategies linked to health care consumerism.



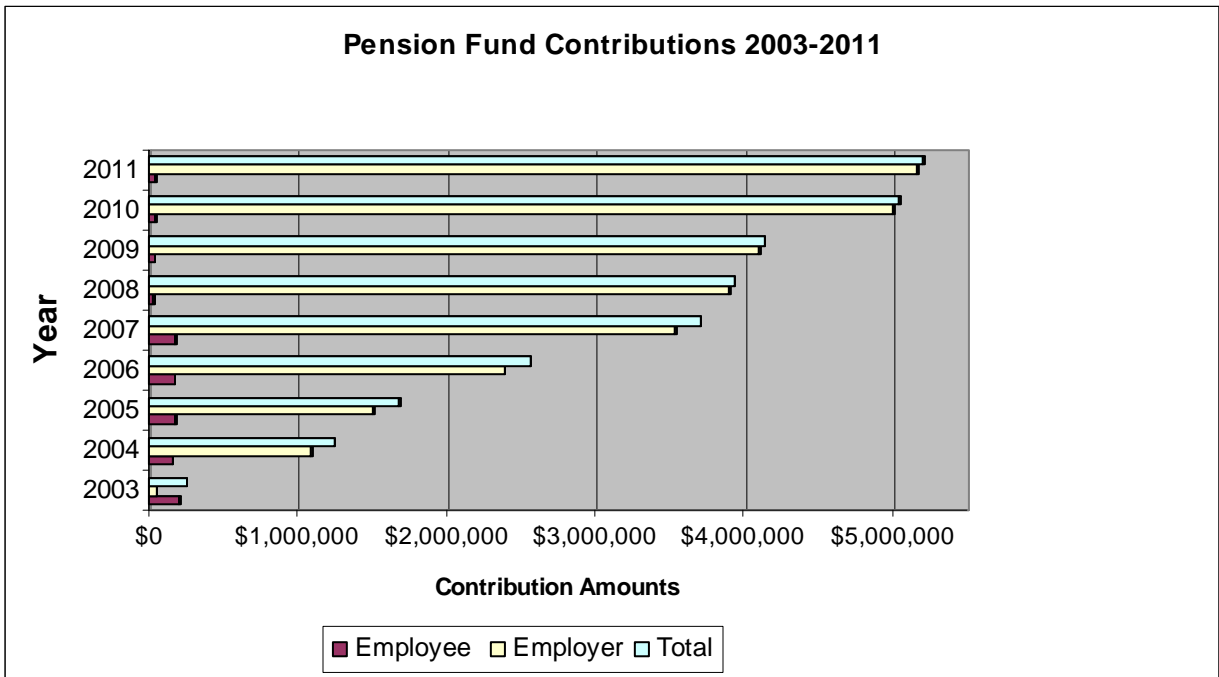
C. RETIREMENT

All Funds, including the General Fund will be required to make a larger contribution than the prior year to the Employees Retirement System. This is an increasing trend for the employer contribution over the past nine (9) years and is projected to continue with rates attributable to retirement incentive programs. Below is a ten (10) year look at the contributions:

<u>YEAR</u>	<u>COUNTY EMPLOYEE</u>	<u>EMPLOYER CONTRIBUTION</u>
2003	\$200,492	\$48,858
2004	\$155,992	\$1,089,517
2005	\$174,124	\$1,506,460
2006	\$171,245	\$2,387,449
2007	\$172,963	\$3,534,674
2008	\$176,431	\$3,900,511
2009	\$175,157	\$4,102,565
2010	\$170,359	\$5,004,692
2011		\$5,164,372
2012		\$5,764,372*
2013		

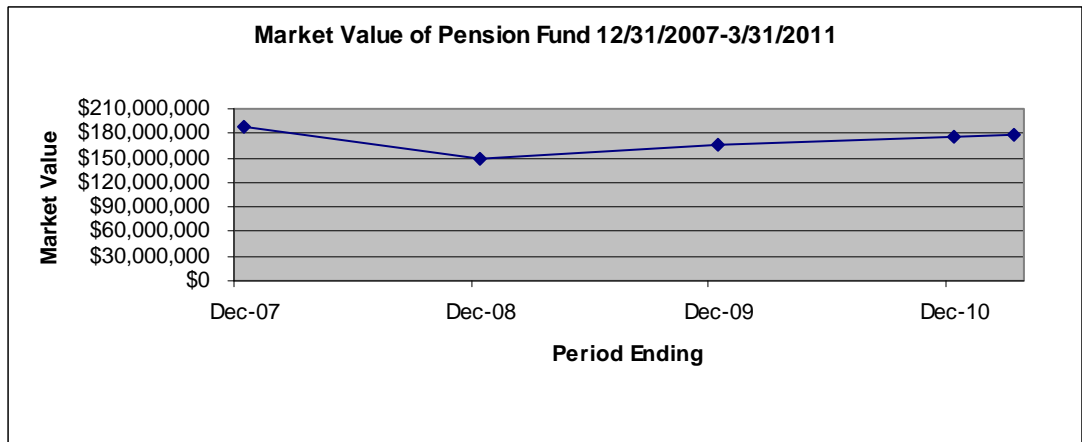
\*Estimated

\*\*Projected for 2012 budget



The employer contribution amount for 2011 was \$159,680 above the prior year. The amount projected for 2012 will be approximately \$600,000 higher. We also project 2013 will be approximately \$522,166 higher over the 2012 amount. The contribution rates (as shown below) and beginning for 2010 represent calculations based upon a 7-year smoothing analysis model. This takes into account the fund's market losses and gains over an extended period of time. As you will note, the fund has not fully recovered the value lost in the 2008 economic recession. The market value of the Monroe County Employee's Retirement System fund at the following dates:

<u>Date</u>	<u>Market Value</u>
12/31/2007	\$187,790,673
12/31/2008	\$148,763,117
12/31/2009	\$165,942,974
12/31/2010	\$176,755,310
3/31/2011	\$179,247,219



In February 2010, the Board of Commissioners approved a Voluntary Employee Retirement Program and accompanying Universal Purchase of Service Time Program. Based on the actuarial analysis, the VERP is projected to increase the annual Employer Contribution each year for 20 years by \$220,166. Combined with normal contribution rate increases, it is projected the employer contribution amount will increase over the 2010 amount by \$600,000 (\$220,166 + \$387,446/average increase for last 4 years). This amount is projected since the actuarial analysis is not due until 3<sup>rd</sup> quarter. The past four (4) year's employer's retirement contribution rates are noted below:

Employer Contribution Rates

<u>Employee Group</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
General County	17.29%	14.92%	13.26%	13.05%
Sheriff	20.50%	19.43%	17.58%	15.33%
Central Dispatch	19.09%	19.45%	18.79%	20.16%

(Above rates stated as percentage of payroll costs)

The historical investment returns of the fund are summarized in the chart below. The chart shows the employer contributions (all employers, ie. Road Commission, Library, County Agency), fund value, fund performance, policy index target and corresponding employer rates for each employee group:

Year	Employer Contribution \$	All Employee Contribution \$	Earnings \$	Deductions \$	Market Value at Year End	Fund Performance	Funded Ratio	Payroll % General	Rate/Employee Groups Sheriff	Employee Groups Dispatch
2000	\$319,997	\$506,694	\$7,144,735	\$4,223,901	\$159,336,452	5.14 vs. .16	136		-	2.24
2001	\$354,018	\$558,013	(\$6032526)	\$4,281,151	\$149,934,806	-3.28 vs. -1.66	129			-
2002	\$155,524	\$378,676	(\$10590775)	\$5,505,711	\$134,372,520	-6.55 vs. -7.17	118			2.52
2003	\$191,979	\$346,288	\$19292410	\$5,798,099	\$148,405,098	15.26 vs. 15.95	117			4.92
2004	\$1,563,370	\$310,286	\$11794715	\$6,384,505	\$155,688,964	8.87 vs. 6.88	108	1.6	8.54	14.62
2005	\$2,034,222	\$329,147	\$12459241	\$7,219,456	\$163,292,118	8.10 vs. 3.39	100	3.42	9.06	15.5
2006	\$3,170,195	\$359,559	\$18315996	\$7,605,618	\$177,532,250	12.04 vs. 9.86	97	7.11	12.72	19.43
2007	\$4,910,784	\$358,382	\$13707764	\$8,718,507	\$187,790,673	8.08 vs. 6.45	97	12.17	16.18	21.42
2008	\$5,391,367	\$218,038	(\$35945076)	\$8,691,885	\$148,763,117	-19.16 vs. -18.09	93	13.05	15.33	20.16
2009	\$5,547,369	\$175,157	\$21,216,280	\$10,076,634	\$165,646,246	15.50 vs. 15.71	89	13.26	17.58	18.79
2010	\$5,938,425	\$170,359			\$179,247,219(1)			14.92	19.43	19.45

(1) Market Value at 3/31/2011

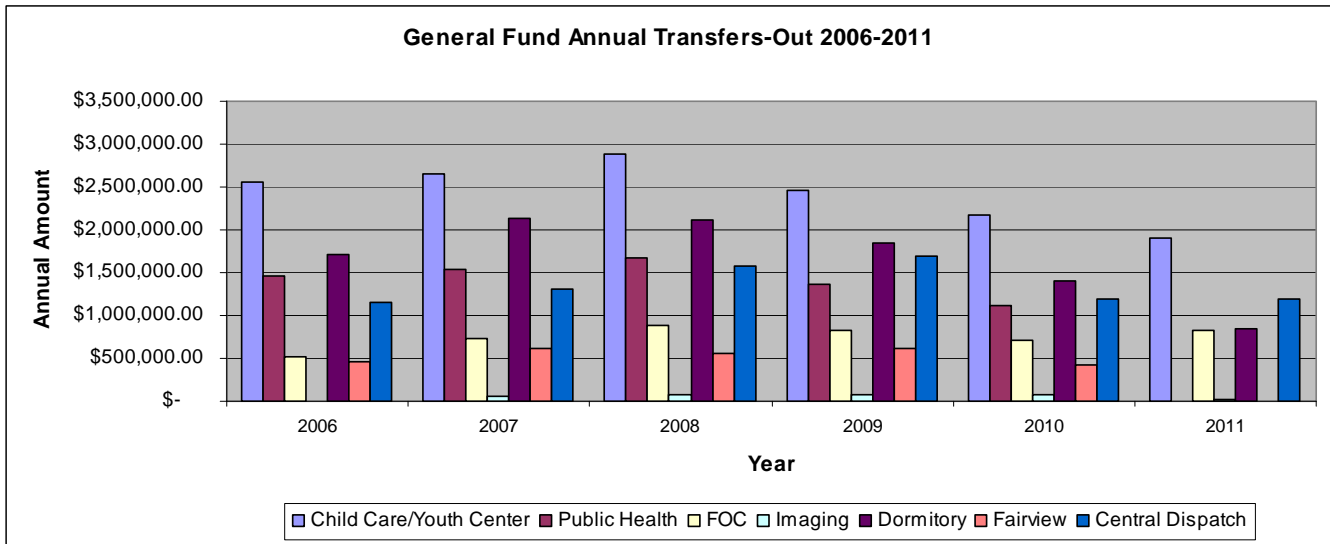
Balance of above data from following sources:  
 County of Monroe CAFR's & Financial Statements  
 Actuary Valuations  
 Investment Advisor Reports

**D. EMPLOYEE WAGES**

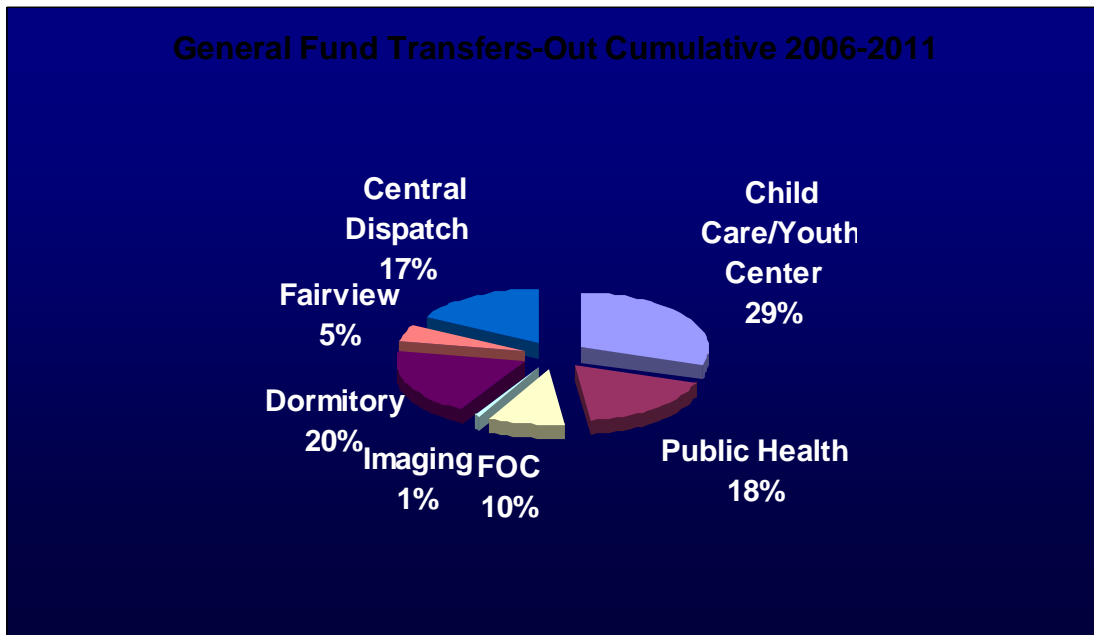
Employee wages negotiated in collective bargaining agreements are to remain flat for 2012 and 2013. This provision has not yet been included in the three (3) remaining collective bargaining agreements set to expire on 12/31/2011 for Sheriff Command Officers, Deputy Sheriffs and Assistant Prosecutors.

**E. GENERAL FUND TRANSFERS-OUT**

Annually, the General Fund includes amounts that are transferred-out and into various special revenue funds. The General Fund amount is the difference between the special revenue fund's income and its expenses. As these special revenue funds are able to either raise additional income/revenues and/or reduce expenditures, it has a direct correlation to the amount required from the General Fund. A comparative view of the major special revenue funds and the budgeted transfers out for the past six (6) years is shown below:



2006-2011 Cumulative Total of Transfers-Out (2011 is Budgeted Amounts)



E. OPERATING EXPENSES

As in past budgets, all departments will be requested to hold all operating expenses to the prior year amounts unless operations will be unsustainable. Line items will be reviewed as part of the budgeting process to allocate appropriate amounts for department programs and services. Additional reductions may be difficult given the reductions made in the 2011 budget and those prior budgets.

F. CAPITAL OUTLAY

Capital expenditure requests will be closely reviewed. As much as possible, capital expenses will be deferred and eliminated due to limited resources. ROI considerations and repair vs. replacement justifications will be necessary prior to establishing capital expense amounts.

G. CAPITAL IMPROVEMENT PROJECTS

Due to the financial constraints of the County, funding, if any will be limited for any CIP initiatives. Considerations for any facility or other critical emergency repairs may have to be funded from the contingency account if not appropriated separately. Projects submitted for funding under the CIP program, will be re-evaluated as part of the 2012 & 2013 budgets or beyond. The County was successful in obtaining grant funding for a number of energy efficiency capital projects under a Energy, Efficiency & Conservation Block Grant completed in early 2011. Total funding of \$612,543 will result in replacements of some significant capital equipment with goals of reducing energy related costs from more efficient equipment.

However, continued deferral of capital maintenance expenditures may lead to the need to fund more significant repairs later or event to prematurely replace specific assets. While deferral is a fiscal first aid technique, long-term lack of funding may, in some cases worsen the financial condition.

H. ENTERPRISE-WIDE COMPUTER NETWORK MAINTENANCE

Monroe County has made significant investments in technology infrastructure allowing a smaller workforce to manage increasing workloads. A complete network of over 450 workstations, 15 LANs, and a fiber optic backbone for a private countywide voice and data network are in place. This investment has improved the efficiency and productivity throughout the County. The organization continues to introduce new tools with goals of improving data sharing, data analysis and improved service to the public.

The concern to the County is that economic pressure may appear to stall critical technology development and enhancements. Resource allocation decisions must consider the real value of investing in technology projects to allow fewer employees to do the work previously completed with higher staffing levels. A related concern is the reliability of existing systems from deferring replacement and continuing with more expensive maintenance with less value for each dollar spent. As an example, the phone system is now 13 years old and is in need of upgrades by replacing the main and remote switches. Alternate funding options will be pursued for this mission critical support system. The proposed budget will maintain minimum funding at the prior year level of

\$340,000 for continued support of the enterprise-wide network.

**6. BUDGET GOALS**

With the preceding background, the Board of Commissioners presents the following goals regarding the 2012 County Budget.

1. Review existing efforts, resources and strategies to improve the focus, initiatives and programs offered for economic development activities in the Monroe community. An expanded economic base with tax revenues is vital in order to provide public services.
2. Provide County-funded services at prioritized and sustainable levels based on sustainable recurring revenues in balance with recurring and projected expenditures.
3. Seek opportunities to train employees in new technologies to provide quality services, to improve productivity and efficiency with an expanded focus on improving customer service skills/capabilities.
4. Maintain the unreserved/undesignated fund balance at current levels to maintain financial bond rating, to provide a safety net against future contingencies and unknowns, to provide sufficient cash flow and management and for flexibility in meeting short and long term critical obligations.
5. Balance workforce levels sustainable from available resources. Leverage the past two (2) year workforce reductions to strategically reorganize staff, processes and programs to meet highest public service needs.
6. Develop and implement alternative funding sources to provide public services. Continue to explore available sources and consider implementation without creating an excessive burden on local community resources. Include intergovernmental service consolidation and resource sharing beyond those pursued with the organization.
7. Consider exploring opportunities to reduce employer costs for employee and dependent benefits through appropriate and market based cost sharing models and programs.

**7. BUDGET POLICY GUIDELINES**

To implement these goals, the Board of Commissioners adopts the following guidelines:

1. All departments' operating expenses shall be held to \$0 increases over prior year amounts. Additionally, the Administrator/Chief Financial Officer along with Finance staff shall make detailed reviews of submitted line item amounts to verify the funding amounts are appropriate.

2. Departments shall prepare for staffing consolidation through reviews of services and processes and develop optional scenarios to provide necessary services after staff consolidations. The restructuring of selected functional services must be evaluated as a means to realize position reductions as a cost savings measure. This will be a focus for the balance of 2011 and also for the 2012 & 2013 budgets as the County prepares to absorb probable State reductions beyond revenue sharing.
3. The County of Monroe Budget Calendar is incorporated into these budget guidelines and will be followed as closely as possible in the preparation of the 2012 budget. Deviations to the budget calendar may be possible but the intent will be to adopt the 2012 budget within the calendar dates established.

**8. DEPARTMENTAL GOALS AND OBJECTIVES**

Each department shall submit realistic and achievable goals and objectives along with their line item budget requests. Departments and offices shall review all services provided and determine if each and every service still needs to be provided, and if so, must they continue to be provided under the existing service delivery model. If the service needs to be maintained, the department must explore alternatives to the services that will reduce its cost as directed by the Board of Commissioners. Departments and offices may be expected to provide information related to legal mandates for the service and funding sources other than General Fund as the source. Specific concern will be any program, program expenditures or personnel funded in whole or in part from non-general fund revenues and any reductions in funding. There will be no expectation to replace or supplement any loss of funding with General Fund amounts.

In addition to the above, the following items should be considered:

1. Efforts should be made to keep employees informed and updated on the fiscal issues that affect the County Government in order to better prepare them for necessary changes. The intent of this effort is to inform employees regardless of the nature of the information. The budget process is open to the public and accompanying discussions focus on alternatives and possibilities. Depending on one's perspective of the discussion, the information may be concerning. Until the final budget is adopted, various alternatives remain open for deliberation in public meetings and these may include staff and program eliminations, reductions, restructuring and partnerships, etc. The input, ideas and collaborative problem solving of employees should be sought and included by departments as they formulate goals, plans and service consolidation initiatives.
2. The County Board of Commissioners should continuously evaluate the organizational structure of the County Government and consider constructive changes such as consolidating departments to improve operations. Creativity should be used, and where appropriate, breaks with tradition in the interest of efficiency should be considered. Alternative service delivery methods should be considered if they provide needed public services and are the most appropriate means of delivering the public good or service. Finally, programs and services no longer valued or necessary should be shed or shifted from the County's program offering.
3. Full reimbursement to the County of all Administrative Costs for Grants and/or contractually provided services.

9. **BUDGET COMPLIANCE**

All budgets must be prepared and submitted in accordance with the Uniform Budgeting Act, Public Act 621 of 1978, as amended and the County Budgeting Policy.

10. **BASIS OF ACCOUNTING**

The County in measuring its financial position and operating results recognizes General Fund Revenues and Expenditures on the modified accrual basis. Revenue is to be recorded in the accounting period in which it becomes available and measurable. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

"Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenue, which usually can and should be recorded on the modified accrual basis, includes: property taxes; regularly billed charges, or other routinely provided services; most grants from other governments; inter-fund transfers where liability has been established and collection is assured; or losses which can be reasonably estimated.

11. **PRIOR YEAR BALANCES**

Monies appropriated, but not expended within a given fiscal year are carried forward into the next fiscal year as either obligated or surplus/(deficit) revenue.

General Fund monies are allocated each year in the County Budget to various departments, programs and activities. However, if those monies have not been expended at the end of each fiscal year, they automatically revert to the General Fund Unreserved Fund Balance, rather than being carried forward as a departmental or divisional surplus. Encumbered accounts are the only exception to this rule. Encumbrances are any unpaid expenses that are already obligated by contract or purchase order. They are carried forward into the next fiscal year as obligated rather than surplus revenue.

12. **CONTINGENCIES**

Budgeting for contingencies in each fiscal year is the Board of Commissioners responsibility. Departmental budget requests shall not include contingency amounts. Each annual budget contingency account shall be not less than 2% of total general fund expenditures and/or developed in accordance with the County of Monroe Policy #301, 2.4 as amended on March 23, 2010. The 2011 budgeted amount is \$383,262 with General Fund budget of \$42,375,635.

13. **PROGRAMS FUNDED BY OUTSIDE FUNDING SOURCES**

Changes in Federal and State programs and the process of appropriating funds may impact the amounts provided under various Federal and State grants and how the funds are administered by local units of government.

Departments that anticipate funding for new or existing programs should define how any new program appropriations and accompanying methods will affect their current operations and should also demonstrate if there will be any future potential impact on departmental operations if the anticipated funding sources are reduced or eliminated.

**14. INDIRECT COST CONCEPT**

Any new funding proposals for consideration in the budget shall include provisions for recovering indirect costs paid by the County. Departments shall continue to implement the practice of billing non-general fund programs for their allocated share of administrative and overhead costs incurred by the General Fund. This practice will continue with an emphasis on collecting the indirect cost amount as calculated by the County's annual Indirect Cost Allocation Plan.

The 2012 Budget will be prepared using 100% of the most recently completed Indirect Cost Allocation Plan based on audited 2010 amounts. Indirect costs are defined as overhead, benefit and administrative costs of support services used to administer a given grant or program. Indirect costs are recognized by Federal and State funding agencies as eligible costs for providing a given service and eligible for reimbursement to the County. No exceptions to eligible reimbursement to the County should be expected.

All grant requests shall be reviewed by the Finance Department to insure that the maximum allowable reimbursement for both direct and indirect costs is included. All departments submitting new proposals shall provide sufficient review time to fully consider allowable costs.

**15. FEES**

Every department shall annually evaluate fees charged for services provided, and establish fees equal to the cost of providing the service. As annual costs of providing services to the residents of the County increase, fees that are charged for the service should be adjusted accordingly. The concept of user fees for services shall be included in the departmental recommendations for review by the Board of Commissioners. Each department/office should prepare undated schedules of all fees charged as part of the annual departmental budget submittal.

**16. FINANCIAL INDICATORS-PER CAPITA DATA**

Financial indicators help an organization look inward and examine whether revenue and expenditure structures are or have been in balance. Such indicators help to show weaknesses or strengths in the organization's revenue/expenditure structures. A short description of each financial indicator is provided for a basis of understanding each:

Revenues per Capita: This describes revenues relative to population. As population increases, it is reasonable to assume a proportional increase in revenues will be necessary to continue existing levels of public services. On the contrary, declining revenues per capita could indicate insufficient resources to continue existing public services at the current levels and reductions may be necessary.

Expenditures per Capita: Increasing expenditures per capita may indicate the cost of providing public services is increasing beyond the County's ability to pay for the same, especially if there has not been a corresponding increase in revenue. Increasing expenditures per capita may also indicate declining productivity if there have not been significant additions of new programs or services. It is particularly helpful to compare this financial indicator with revenues per capita.

Employee per capita: This indicator compares what is typically the County's largest cost center to the population of the County. It is a proxy for the overall cost structure, with higher a ratio meaning less County employees per resident.

**REVENUES**

<u>Year</u>	<u>Population</u>	<u>GF Revenues &amp; Transfers In</u>	<u>Revenue Per Capita</u>	<u>FT Employees</u>	<u>Employee Per Capita</u>	<u>Employee/Rev Ratio</u>
2010	152,021					
2009	152,721	\$47,748,536	\$312.65	372	410.5	\$128,356
2008	152,870	\$50,341,465	\$329.30	381	401.2	\$132,129
2007	153,360	\$50,142,670	\$326.96	374	410	\$134,071
2006	153,310	\$48,918,211	\$319.08	376	407.7	\$130,101
2005	152,234	\$44,283,698	\$290.89	385	395.4	\$115,022
2004	151,043	\$42,535,537	\$281.61	381	396.4	\$111,641
2003	149,664	\$41,946,523	\$280.27	396	377.9	\$105,925
2002	148,583	\$40,790,859	\$274.54	399	372.4	\$102,232
2001	147,645	\$37,493,790	\$253.95	394	374.7	\$95,161

**EXPENDITURES**

<u>Year</u>	<u>Population</u>	<u>GF Expenditures &amp; Transfers Out</u>	<u>Expenditure Per Capita</u>	<u>FT Employees</u>	<u>Employee/Exp. Ratio</u>
2010	152,021				
2009	152,721	\$49,728,358	\$325.61	372	\$133,678
2008	152,870	\$53,754,445	\$351.64	381	\$141,087
2007	153,360	\$50,671,067	\$330.41	374	\$135,484
2006	153,310	\$48,784,152	\$318.21	376	\$129,745
2005	152,234	\$44,150,772	\$290.02	385	\$114,677
2004	151,043	\$42,098,749	\$278.72	381	\$110,495
2003	149,664	\$41,259,809	\$275.68	396	\$104,191
2002	148,583	\$39,367,166	\$264.95	399	\$98,664
2001	147,645	\$36,961,895	\$250.34	394	\$93,811

Sources: County of Monroe CAFR's  
SEMCOG Population Data-Monroe County Planning

PER CAPITA INCOME DATA

Area Name	<a href="#">2000</a>	<a href="#">2001</a>	<a href="#">2002</a>	<a href="#">2003</a>	<a href="#">2004</a>	<a href="#">2005</a>	<a href="#">2006</a>	<a href="#">2007</a>	<a href="#">2008</a>
Monroe, MI	29,133	29,119	29,384	30,852	30,656	31,147	31,957	33,111	33,397

Source: US Dept. of Commerce, Bureau of Economic Analysis. <http://www.bea.gov/regional/reis/drill.cfm>

SUMMARY OF NEW CONSTRUCTION ACTIVITY IN MONROE COUNTY, 2000-2010

<u>Year</u>	<u>Single Family</u>	<u>Two Family</u>	<u>Multi Family</u>	<u>Total Living Units</u>	<u>Public Semi/Public Units</u>	<u>Commercial Units</u>	<u>Industrial Units</u>	<u>Total New Units</u>	<u>Total Dollar Value</u>
2010	101	0	0	101	2	20	7	130	\$58,204,560
2009	72	0	0	72	3	8	3	86	\$21,022,810
2008	118	0	0	118	2	17	15	152	\$54,161,321
2007	297	4	50	351	13	24	10	398	\$119,588,238
2006	540	8	38	586	9	33	8	636	\$134,529,631
2005	763	20	106	887	2	39	12	940	\$206,522,526
2004	914	68	187	1169	4	25	2	1200	\$194,669,914
2003	924	32	122	1078	8	22	8	1116	\$206,978,338
2002	761	42	102	905	0	28	4	937	\$127,016,859
2001	613	30	90	733	8	37	6	784	\$132,981,834
2000	648	24	352	1,024	2	28	2	1,056	\$140,108,556

Source: Monroe County Planning 2010 Annual Building Activities Report

APPENDIX 1

**2012 Preliminary Budget Outline Scenario 1**

**Notes:** 2011 Budget balanced using \$863,468 from one-time non-recurring sources of revenues:

\$500,000	Delinquent Tax Revolving Fund
\$216,000	Budget Stabilization Fund
\$ 47,468	Excess unused self-help road funds
<u>\$100,000</u>	Interest from Revenue Sharing Reserve Fund
\$863,468	Total

- Consideration for use of \$500,000 in the DTR was to repay or defer this use due to budgeted savings from the settlements of collective bargaining agreements.
- Each budget outline scenario based on \$0 wage increase and \$0 wage based fringe rate increases except for two (2): Retirement-Employer Contribution & Retiree Health Care-Employer Contribution. RHC is presented with the ARC funded and net contribution after deducting employee contributions.
- No changes in staffing levels; no additional staff, no reductions in staff.
- Museum Funding not included in General Fund budget expenditures.
- All revenue line items level or flat at same amount as 2011 budget including the transfer in from Revenue Sharing Reserve Fund to General Fund.
- Budget projections illustrated as differences to 2011 adopted budget used for baseline.

**BUDGET OUTLINE**

A. Property Tax Revenue:

2011 Budgeted Property Tax Revenue	\$24,755,168	
2012 Projected Property Tax Revenue	<u>\$26,027,132</u>	
Difference		\$1,271,964

B. Revenue Sharing Reserve Fund Interest:

Preliminary balance at 12/31/2010 of Reserve Fund is \$6,894,319 and interest earnings have been depleted. No interest transfer-in to be included in 2012 budget. \$100,000 budgeted in 2011.		(\$100,000)
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C. Delinquent Tax Revolving Fund:

\$500,000 one time source of revenue not included in 2012 budget.		(\$500,000)
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D. Budget Stabilization Fund & Excess Self-Help Funds:

\$216,000 + \$47,468 one time source of revenue not included in 2012 budget.		(\$263,468)
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E. Retirement-Employer Contribution:

Effect of 2010 VERP and prior year Investment losses to be incorporated. \$387,446 average increase in employer Contribution over past 4 years. 2010 VERP estimated at \$220,166 for 20 years.		(\$600,000)
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F. Health Care-Employer Cost:

2011 budgeted at \$6,349,186. Gabriel Roeder assumes 8.25% increase in Health care. Less increase in employee contribution for 2012; \$6,349,186 x .0625= \$396,824 increase in Employer cost of employee health care. (\$396,824)

G. Retiree Health Care:

2011 ARC is \$6,284,382. County is funding \$5.7 million. Assume an increase in County's Employer contribution to new ARC of \$6,400,000.

Projected 2012 ARC	\$6,400,000	
Less Employee Contribution	<u>(\$593,228)</u>	
County Contribution	\$5,806,772	
Net Additional Employer Cost		(\$106,772)

H. Collective Bargaining Agreement Amounts  
Implemented in Amended 2011 Budget

\$325,000

I. Collective Bargaining Agreements Scheduled  
For implementation as part of 2012 Budget

\$530,000

(Only if CBA's ratified prior to budget adoption)

Summary:

Revenues/savings over baseline	\$2,126,964
Additional expenditures/less revenue	<u>(\$1,967,064)</u>

**Total Projected Preliminary 2012 Budget Surplus \$159,900**

Other 2012 Budget Considerations:

1. Cautious review of all State Grant Funding line items in General Fund and Special Revenue Fund revenue sources. State may look to these past various sources to begin making reductions in its budget deficit.
2. As the 2010 preliminary financial reports are prepared, we need to first compare the significant revenue line items against 2010 actual and incorporate into preliminary budget outline. Use the actual to establish a new baseline for the various source of significant revenue. There likely will be revenue adjustments due to fewer revenue generating operations.
3. The Board may consider budgeting less than the allowable amount from Revenue Sharing Reserve Fund (RSRF) if indications are the State is phasing out revenue sharing to Counties. At the County's current with transfer out rate, including a \$3 million transfer in the 2012 budget, the balance in the RSRF will be depleted going into the 2013 budget with only \$1 million available in the 2013 budget unless revenue sharing is restored by the State.

**2012 Preliminary Budget Outline Scenario 2**

**Notes:** 2011 Budget balanced using \$816,000 from one-time non-recurring sources of revenues:

\$500,000	Delinquent Tax Revolving Fund
\$216,000	Budget Stabilization Fund
\$ 47,468	Excess unused self-help road funds
<u>\$100,000</u>	Interest from Revenue Sharing Reserve Fund
\$863,468	Total

- Consideration for use of \$500,000 in the DTR was to repay or defer this use due to budgeted savings from the settlements of collective bargaining agreements.
- Each budget outline scenario based on \$0 wage increase and \$0 wage based fringe rate increases except for two (2): Retirement-Employer Contribution & Retiree Health Care-Employer Contribution. RHC is presented with the ARC funded and net contribution after deducting employee contributions.
- No changes in staffing levels; no additional staff, no reductions in staff.
- Museum Funding not included in General Fund budget expenditures.
- All revenue line items level or flat at same amount as 2011 budget including the transfer in from Revenue Sharing Reserve Fund to General Fund.
- Budget projections illustrated as differences to 2011 adopted budget used for baseline.

**BUDGET OUTLINE**

A. Property Tax Revenue:

2011 Budgeted Property Tax Revenue	\$24,755,168	
2012 Projected Property Tax Revenue	<u>\$26,027,132</u>	
Difference		\$1,271,964

B. Revenue Sharing Reserve Fund Interest:

Preliminary balance at 12/31/2010 of Reserve Fund is \$6,894,319 and interest earnings have been depleted. No interest transfer-in to be included in 2012 budget. \$100,000 budgeted in 2011.		(\$100,000)
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C. Delinquent Tax Revolving Fund:

\$500,000 one time source of revenue not included in 2012 budget.		(\$500,000)
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E. Budget Stabilization Fund & Excess Self-Help Funds:

\$216,000 + \$47,468 one time source of revenue not included in 2012 budget.		(\$263,468)
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E. Retirement-Employer Contribution:

Effect of 2010 VERP and prior year Investment losses to be incorporated. \$387,446 average increase in employer Contribution over past 4 years. 2010 VERP estimated at \$220,166 for 20 years.		(\$600,000)
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F. Health Care-Employer Cost:

2011 budgeted at \$6,349,186. Gabriel Roeder assumes 8.25% increase in Health care. Less increase in employee contribution for 2012; \$6,349,186 x .0625= \$396,824 increase in Employer cost of employee health care. (\$396,824)

G. Retiree Health Care:

2011 ARC is \$6,284,382. County is funding \$5.7 million. Assume an increase in County's Employer contribution to new ARC of \$6,400,000.

Projected 2012 ARC	\$6,400,000	
Less Employee Contribution	<u>(\$593,228)</u>	
County Contribution	\$5,806,772	
Net Additional Employer Cost		(\$106,772)

H. Collective Bargaining Agreement Amounts

Implemented in Amended 2011 Budget \$325,000

I. Collective Bargaining Agreements Scheduled

For implementation as part of 2012 Budget-Not all settled \$30,000  
(Effect if only 1 CBA is ratified and implemented)

Summary:

Revenues/savings over baseline	\$1,666,964
Additional expenditures/less revenue	<u>(\$1,967,064)</u>

**Total Projected Preliminary 2012 Budget Deficit (\$340,100)**

Other 2012 Budget Considerations:

4. Cautious review of all State Grant Funding line items in General Fund and Special Revenue Fund revenue sources. State may look to these past various sources to begin making reductions in its budget deficit.
5. As the 2010 preliminary financial reports are prepared, we need to first compare the significant revenue line items against 2010 actual and incorporate into preliminary budget outline. Use the actual to establish a new baseline for the various source of significant revenue. There likely will be revenue adjustments due to fewer revenue generating operations.
6. The Board may consider budgeting less than the allowable amount from Revenue Sharing Reserve Fund (RSRF) if indications are the State is phasing out revenue sharing to Counties. At the County's current with transfer out rate, including a \$3 million transfer in the 2012 budget, the balance in the RSRF will be depleted going into the 2013 budget with only \$1 million available in the 2013 budget unless revenue sharing is restored by the State.