Whether it’s Business, Family, or Pleasure……
Make Macomb Your Home!

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 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
Macomb County, Michigan
History Of Base Tax Levy
2002-2013 Actual, 2014-2016 Projected

Lost annual revenue
$31 million

Property Tax Revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax Levy</th>
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<tbody>
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<tr>
<td>2013</td>
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<td>2015</td>
<td>$113.3</td>
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<td>2016</td>
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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
2014 Budget
General Fund
That brings us to 2012

prove, 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
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
Expenses have kept pace with decreases in property tax revenue.
Update on Fiscal Health

- Results: 2011-2014 had $0 utilization 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
- Over $60 million has been eliminated from the budget
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

Macomb County, Michigan
Fund Balance as a % of Expenditures - General Fund
2003 - 2012 Actual, 2013-2014 Budgeted

Percent of Expenditures

2005 22% 2006 26% 2007 17% 2008 15% 2009 20% 2010 30% 2011 29% 2012 45% 2013 43% 2014 42%

Rapid Decline
Stabilization
2015 and 2016 Forecast
That brings us to 2012
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
2015 and 2016 Financial Forecast

- 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
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
• 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
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 than 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
Areas of Concern

- Retiree Health Care Fund
  - 2010 Actuarial Valuation
    - Plan underfunded $500 million
  - 2011 Actuarial Valuation (Roads)
    - Plan underfunded $67 million
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