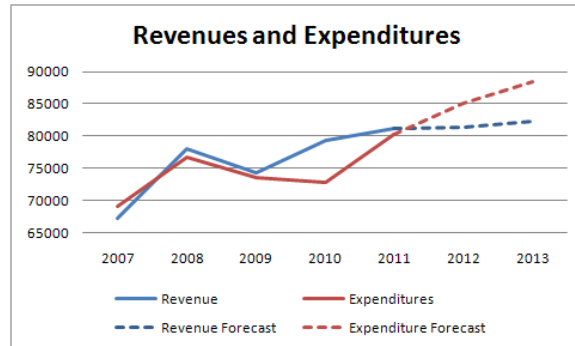
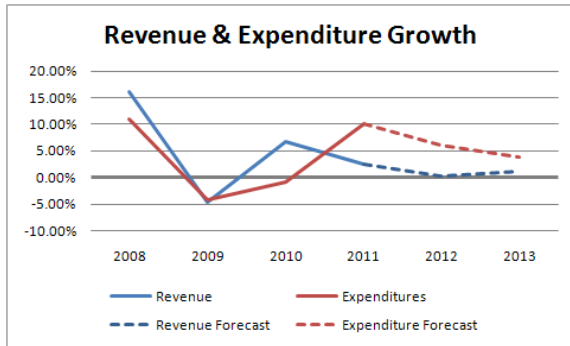


2012 Budget Development

Maintaining Adequate Fund Balance in the General Fund

Issue: Although we anticipate ending 2011 with a healthy balance in the general fund, in future years revenue will not grow as quickly as expenditures necessary to maintain current services. The most recent forecast predicts an ending fund balance in 2013 of only \$4.5 million.



	2007	2008	2009	2010	2011	2012	2013
Revenue	\$67,182	\$77,935	\$74,272	\$79,250	\$81,152	\$81,424	\$82,278
Expenditures	\$69,126	\$76,660	\$73,487	\$72,849	\$80,255	\$85,139	\$88,361

Revenue Growth

The following four categories are the major sources of revenue for the general fund. Although the other revenue sources combined add up to 28% of the general fund income, individually they do not have significant impact on the fund.

Property Tax Growth Limit: Property tax income is 39% of general fund revenue. Property tax growth is limited to 1% of the current property tax levy plus the increase for new construction. New construction has dropped dramatically, from \$1 billion in 2008 to \$334 million in 2010.

Sales Tax Growth: Sales and use tax income is 14% of general fund revenue. Sales tax growth is dependent on consumer spending. Year-to-date, the 2011 growth rate is 3.8%. With state employee lay-offs and furloughs, as well as other economic pressures, the growth rate in sales tax is expected to drop, although we do not expect negative growth.

Sales Tax Growth		
2005	10,610,549	9.12%
2006	11,791,634	11.13%
2007	12,222,018	3.65%
2008	11,799,441	-3.46%
2009	10,707,667	-9.25%
2010	11,015,800	2.88%

Transfers from Other Funds: Transfers from other funds is 9% of general fund revenue. Transfers must be used for specific purposes – Detention Sales Tax for corrections, Treatment Sales Tax for mental health and substance abuse, and the Roads Diversion for traffic safety. At this time, transfers in 2012 are assumed to be the same amount as in 2011.

Federal and State Grants: Federal and state grants are 10% of general fund revenue. Grants must be used for the specific purpose of the grant. If federal and state grant amounts are reduced the programs they fund are expected to end and expenditures would be reduced by the same amount as the grant.

2012 Budget Development

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Expenditure Growth

Salary and Medical Benefit Increases: The single largest driver in expenditure increases are personnel costs. Salaries are 49% of total general fund expenditures; benefits are 18%. The terms of collective bargaining agreements include cost of living adjustments (COLAs), salary step increases and benefits. The COLA in 2012 is a 2.7% increase. Salary step increases average 3% per year. Growth in the cost of medical benefits is anticipated to be 10%. Similar increases are expected in future years.

Interfund Payments: Interfund payments are 14% of the expenditure budget in the general fund. Payments are mainly to Central Services for building space, utilities, communications, technology, vehicles, insurance and other basic costs of doing business. Interfund payments are anticipated to grow approximately 6% in 2012. The main driver for the increase is personnel costs in Central Services.

Options to Maintain Adequate Fund Balance

An adequate fund balance is defined as enough money in the general fund to meet cash flow needs, or approximately \$9 million. We are currently projecting that in 2012 the ending fund balance will be a little over \$10 million. However, in 2013 the ending fund balance is projected to be closer to \$5 million. To sustain an adequate fund balance, the board could implement any of the options below for the 2012 or 2013 budgets. The advantage of taking steps now that would be implemented in 2013 is time to plan on strategic action. The disadvantage of waiting to implement expenditure reductions or revenue increases is the increased risk of the economy souring and needing to take more drastic steps to meet cash flow needs.

Decrease Expenditure Growth Drivers: Since personnel costs are the largest expense in the general fund, the only significant way to decrease expenditure growth drivers is to decrease COLAs, step increases and/or benefit costs. The county recently signed contracts with 9 of the 10 unions; the 10th contract is anticipated to go into arbitration. Changing the terms of the contracts would require re-negotiating the contracts. Potential savings would depend on agreements. A 1% COLAs is approximately \$500,000. If employees paid \$100 per month towards medical benefits, the county would save approximately \$650,000.

Increase Revenue: Three alternatives are presented for consideration.

Transportation Benefit District: A TBD could be established. Collecting taxes to support transportation infrastructure would enable the county to continue to divert road money into the general fund without impairing transportation projects. If the large cities do not agree to participate in a regional district, the county could establish a district only for unincorporated areas. Road fund revenue is estimated to increase by approximately \$3 million.

Levy Lid Lift: The board could put a property tax levy increase on the ballot for public vote. A levy increase could be for general purposes or the increase could be restricted for a specific use, such as law and justice. Property tax levy increases of 1% increase revenue by approximately \$330,000.

2012 Budget Development

Maintaining Adequate Fund Balance in the General Fund

Sales Tax 3/10 of One Percent: The board could put up to a 3/10 of one percent sales tax increase on the ballot for public vote. Cities are entitled to 40% of an increase in the sales tax. At least a third of the increase in revenue must be spent on law and justice costs. In 2011, 1/10 of one percent in sales tax is generating approximately \$4 million in revenue. If the public affirmed a sales tax increase of 3/10 of one percent, the county's share of the revenue would be \$7.2 million.

Across-the-Board Budget Reductions: The board could direct all offices and departments to implement budget reductions. These reductions would need to be in addition to anticipated under-expenditures, which have been approximately \$3 million per year. However, some offices and departments are unable to sustain budget reductions due to rising workloads. A 3% across-the-board reduction would reduce expenditures by approximately \$2.6 million. This is not a preferred option.

Strategic Budget Reductions: The board could direct all offices and departments with general fund budgets of more than \$5 million to implement budget reductions. In this alternative, all general government offices and departments except for the Auditor would be exempt from reductions; most law and justice offices would be included. A 5% strategic reduction would reduce expenditures by approximately \$3 million.

Law and Justice Workgroup: In October the report from the ARC consultant will be available for review. The report is anticipated to have recommendations on ways the county could change practices in law and justice that would save money. Once the report is available, the county could form a law and justice workgroup to discuss recommendations from the consultant and other possibilities for savings. The group would collaborate on a strategy to save what would amount to a 5% reduction in their combined budgets, approximately \$3 million. The reductions would not need to be taken equally in each office.

Eliminate Services: Most of the services paid by the general fund are legislatively mandated. The board could review those services that are optional, and choose to eliminate selected services. The potential savings are unknown but are assumed to be minimal. Many optional services would be reduced or eliminated through proposals under either of the above reduction alternatives.

Efficiency Workgroup: Budget reductions can be thought of in two ways – reducing staff and services, or reducing inefficiencies. The county could form an efficiency workgroup where ideas could be generated for streamlining tasks, making the most of technology, collaborating more effectively, regionalizing services and other concepts that would lead to savings. It is possible that some up-front funding would be needed in order to achieve long-term savings. The workgroup could include participants from outside of county government.

Timing of Decisions

If the board decides to implement a budget reduction in 2012, the decision would need to be announced as soon as possible. Office and department budgets are due on September 2. In order to have information available for the preliminary budget release and board consideration, reduction proposals would need to be submitted mid-September. Elected officials and managers would need the maximum time available to consider what could be cut.

2012 Budget Development

Maintaining Adequate Fund Balance in the General Fund

If the board decides to plan for revenue increases or a budget reduction in mid-2012 or in 2013, the decision would not need to be made immediately. The board would have time to discuss alternatives with other elected officials. There would be additional time to assess economic conditions. A mid-year reduction could be part of the 2012 2nd Quarter budget amendment. Changes for 2013 would be part of the normal budget process.

Structural Imbalance Not Addressed

It should be noted that none of the alternatives offered address what is believed to be the fundamental underlying problem: revenues increase at a slower rate than expenditures, which are driven by inflation. This is a structural imbalance inherent in revenue growth limitations. The only way to address this issue is through state legislation.