



**To:** Tuscola County Board of Commissioners  
**From:** Controller/Administrator, Michael R. Hoagland  
**Date:** November 26, 2013

**Regarding: 2014 Draft County Budget**

### **2008 to 2012 Financial Reductions**

It is important to note that 2008 to 2012 were four of the most difficult financial years in the history of Tuscola County. The general fund (GF) budget was reduced from \$12.6 million in 2008 to \$11.6 million in 2012. Projected 2013 GF expenditures are 12.3 million and the draft 2014 budget is 12.7 million. The 2014 budget is only slightly larger than it was six years ago in 2008 reflecting the difficult financial period.

### **Wind Revenue**

The county will receive revenue from the wind generators for 2013 and 2014 but the problem is the amount that actually will be received is still unknown. There are on-going appeals from wind companies forcing the need to escrow portions of the revenue received. This debate will most likely continue for several more years leaving our financial situation unpredictable and uncertain.

It is critical to remember that without wind revenue the County Equalization Director has predicted at best flat taxable value and at worst continued decline in taxable county value for the next several years. This is a critical budgetary consideration because property tax revenue accounts for approximately 45% of total revenue in the GF and certain special purpose millage funds are 100% dependent upon property tax revenue.

Simply stated, the county is heavily reliant on wind revenue to maintain current service levels. County officials are aware that under the current method of taxation the amount of wind revenue received declines with time. This situation will require careful financial management to prevent a level of dependency on this new revenue source that is greater than can be sustained long term. Unless there are more wind projects, the

amount of wind revenue the county receives will begin declining each year after 2015 in the general fund and after 2016 for special millage funds.

### **2013 Year-End Preliminary Estimates**

The continued careful and conservative financial position taken by commissioners, administrative staff and department heads along with certain favorable one-year circumstances are major factors in the projection that year-end 2013 GF revenues will likely exceed expenditures. This would result in the GF finishing the 2013 fiscal year in the black.

This was the first year the GF received revenue from wind generators. One of the important factors on the expenditure side of the budget creating the favorable financial situation for 2013 is the larger than normal staff turnover. The delays in refilling positions, particularly in the jail and road patrol, resulted in reduced staffing costs. Of course, this level of staff turnover and cost reduction cannot be expected on a reoccurring basis. It is anticipated that this positive 2013 situation will enable \$250,000 to \$300,000 to be transferred to the capital improvement (CI) fund. As you know, the CI fund has been significantly reduced over the past several years. Reserve levels need to be rebuilt to meet buildings and grounds maintenance needs, improve financial standing and to maintain the A+ bond rating.

### **2014 Financial Situation Becomes More Precarious**

Unfortunately, the 2014 county financial situation appears more precarious and challenging than 2013. There are several factors that are causing this concerning financial situation.

Probably of the greatest significance is the dramatic increase in costs for abused, neglected and delinquent children. At the beginning of 2013, \$175,000 in GF costs for the Department of Human Services Child Care Fund were budgeted. In September of 2013 these budgeted expenditures had to be increased to \$300,000. For 2014, \$366,000 has to be budgeted from the GF. Even more GF monies would have to be budgeted if the use of \$80,000 in the remaining child care fund balance was not included in the 2014 budget.

On average, one abused or neglected child costs the county \$120,000 per year to be placed in institutional care. There are currently four children in institutional care. By 2015, as much as \$450,000 may have to be budgeted for Department of Human Services Child Care costs if changes do not occur. Without question, this is a huge negative budget factor. Continued efforts must be made to review alternatives for cost reduction without jeopardizing quality of care. Considering both probate juvenile and human service the county is budgeted to spend a significant \$841,000 on abused, neglected and delinquent children in 2014.

Another major factor driving the 2014 financial challenges is the decline in indirect cost payment revenues. These are costs that are charged to certain millage and grant funded operations for central services such as providing accounting, payroll, building and grounds, etc. From 2013 to 2014, the County Cost Allocation plan indicates a GF revenue decline of approximately \$124,000. Over the last several years reductions in central service department expenditures were made. These staffing reductions result in a decrease in the amount of funds that are paid to the GF from millage funds, cooperative reimbursement programs and grant sources.

An important revenue factor in the 2014 budget is the changes that are occurring with the personal property tax. The first \$40,000 in value will be exempt and a public vote will occur to determine if a change from the personal property tax to the Use Tax will be allowed.

### **Summary of Draft 2014 Budget**

The draft GF budget balances revenue and expenditures at \$12,716,000. It is premised on the use of \$234,000 in general fund reserves. This is approximately 20% of available GF reserves. The 2012 county audit explains that the primary unassigned county reserves are: General fund \$1,024,000 and Capital Improvement fund \$1,390,000.

With the continued unresolved wind revenue situation, \$150,000 has been escrowed in the GF for 2014 in case portions of wind revenue have to be repaid pending wind company appeals (\$100,000 was escrowed for 2013). Also, all special millage funds have escrowed portions of wind energy revenue. The budget incorporates a 1.5% wage increase. Employee-employer share of health insurance and retirement costs remain unchanged from 2013. The 2014 budget does not provide for GF transfer to the CI fund which means any budgeted CI projects require the use of CI reserves or reserves from the GF. At the request of the courts, the three major court budgets have been combined into one court budget. Because 2014 is an election year, a cost increase of over \$80,000 is included in the GF budget. This is a cost obligation that occurs every other year.

GF transfers to the Road Patrol fund was eliminated for 2014. With wind revenue becoming available to this fund, the one year 2013 GF transfer is discontinued for 2014. Already discussed is the major increase in GF appropriation to the Department of Human Services for child care fund costs.

In summary, the overall financial situation for 2014 will in all probability be more difficult than 2013. A recap of the reasons for the more troublesome financial situation in 2014 is:

1. Taxable value (excluding wind revenue) remains flat or continues to decline
2. Headlee and Proposal A provision will prevent taxable value from increasing at the rate it decreased
3. Costs for abused, neglected and delinquent children have skyrocketed

4. Approximately \$234,000 (20% of total uncommitted GF reserves) in reserves is included for potential use to balance the 2014 GF budget
5. Amount of wind revenue remains in question
6. Amount of wind revenue received declines with time
7. Indirect cost revenue has declined
8. Although funds are anticipated to be transferred in 2013 to the CI fund, for 2014 it is not expected that a transfer can be made which would require use of CI fund reserves

### **Other Budget Comments**

1. Costs to house prisoners in other counties is expected to decline –11 beds added to the jail in 2013
2. Significant capital improvement needs and costs at the county jail
3. Cost increase for court appointed attorneys especially in District Court per new contract
4. Increased costs for soldiers and sailors relief fund
5. Animal shelter costs increased per amended agreement
6. Medical Care Facility \$7.6 million Small House Project to begin in 2014
7. Dispatch major equipment budgeted to be purchased for 2014
8. Mosquito abatement building addition for material storage and mechanic garage
9. Purchase of new recycling trailers
10. Combined court budgets for 2014
11. Accounting services cost increase
12. Prisoner medical costs are a major jail budget factor
13. Resolution of the Denmark water project and county payback unresolved
14. Friend of the Court Referee position restoration approved but GF appropriation remains the same at \$282,970 – may result in FOC use of fund balance
15. Health Department appropriation increase \$56,000 required to sustain current service base
16. Anticipated change to Huron Model for Medical Examiner Special Investigators - \$14,000