



MONTGOMERY COUNTY
ADMINISTRATION BUILDING

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COUNTY COMMISSIONERS

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COUNTY ADMINISTRATOR

Deborah A. Feldman

MEMORANDUM

TO: Board of County Commissioners
FROM: Deborah A. Feldman, County Administrator 
DATE: August 3, 2010
RE: 2010 General Fund Mid Financial Report and Year-End Projections
2011 General Fund Budget Projections

August brings with it the beginning of the County's budget process, and the continued challenge to maintain operations within a difficult revenue picture. In preparation for the 2011 budget process, the Office of Management and Budget has completed its 2010 midyear report of actual revenues and expenditures, prepared a revised year-end projection for 2010 and a preliminary 2011 budget projection. It is on the basis of these analyses that we recommend to you the 2011 budget parameters.

Mid Year Report and 2010 Year End Projections

The serious national recession, as well as, the ongoing impact locally of the loss of manufacturing jobs, continues to have a negative effect on the County's revenues. The sales tax, our largest General Fund revenue source, is projected to fall \$2.3 million or 4% below our 2010 estimate. The decline in the sales tax reflects the overall trend in consumer spending, as well as, the opening of the new Outlet Mall in Warren County. In a review of sales tax collections for Greene, Butler, Warren and Montgomery Counties, Warren County (home of the Cincinnati Premium Outlets) is the only county experiencing any significant sales tax growth. Property Taxes, Investment Income and the Local Government Fund are projected to meet 2010 expectations. Other Intergovernmental Revenue is estimated to be \$1 million below the 2010 budget estimate. (see discussion below related to the Sheriff contracts for township policing). At the midyear, the financial projection reflects an \$800,000 deficit; however, we are anticipating that this shortfall can be closed through aggressive management of spending over the remainder of the year.

Budget Projections and parameters for 2011

Two critical factors must be considered as we plan for the 2011 budget.

- The first is the continued difficult economy. Although there are signs of recovery, all forecasts from national, as well as local experts, project a slow and uncertain economic future. Unemployment remains high in the Dayton region and consumer spending (a critical metric for the County's revenues) is anticipated to remain weak. Most concerning to the County's revenues is the projection that the Federal Reserve will keep the interest rate extremely low over the next year due to the fragile economy.

- The second, critical factor impacting our 2011 budget projections is the anticipated \$6-8 billion deficit facing the State of Ohio and the uncertainty that it poses to the County's budget. Montgomery County receives over \$20 million in revenue from the State of Ohio. The largest source of that revenue is the Local Government Fund, but it also includes reimbursements for the homestead and rollback, the phase out of the tangible personal property tax and for the public defender/assigned council. As the state fiscal year does not begin until July 1, we will not know the impact of its budget decisions until halfway through our fiscal year.

OMB is projecting an initial budget shortfall for 2011 of \$4.5 million.

Revenues

This deficit is due primarily to a revenue estimate of \$136.6 million or \$4.7 million below 2010. As outlined above, the primary reasons for this drop in estimated revenues are weak sales tax collections and low interest rates. The sales tax estimate for 2011 assumes little rebound in consumer spending patterns and therefore the estimate is only slightly higher than the 2010 projection. The investment income projection reflects the reality of reinvestments which must be made within the county treasury at much lower interest rates, as well as, the significant reduction in overnight investment income from a high in 2006 of \$6.9 million to a low projected in 2010 of \$400,000. The 2011 projection for Other Intergovernmental revenues is approximately \$1 million below the 2010 budget. The *2010 Budget Balancing Framework* included the recommendation that the Sheriff increase his billings to the township contracts by \$1 million. This increased billing has not occurred in 2010, and has not been included in the 2011 estimate. In discussions with the Sheriff, he has indicated that he anticipates that these billings will increase by \$500,000 in 2011. This increased billing was a recommendation of the *General Fund Financial Planning Committee* which strongly urged that the County ensure that it is reimbursed fully for all non-mandated services provided to other jurisdictions. Once amended contracts are received by the County, the 2011 revenue estimate will be revised upward. All other revenues are projected at 2010 levels.

Expenditures

The expenditure side of the budget reflects continued tight financial controls, as well as the implementation of many of the recommendations from the *General Fund Financial Planning Committee*. Due primarily to the successful Voluntary Separation Plan implemented at the end of 2009, the number of positions in the General Fund has been reduced by 150. The most troubling expenditure line item is health insurance which is expected to grow over \$2 million between 2010 and 2011 reflecting a 15.6% increase. Despite, numerous plan design changes and increases in the employees' premium share, the cost of health insurance continues to grow at a significant rate. It is critical that we find a strategy to reduce the growth in this important employee benefit. A county-wide task force will be established this fall to explore options; with the goal of presenting recommendations before next year's open enrollment. On the positive side, the county's safety and risk management initiatives are paying off in two important ways. First, and most importantly, we have seen a reduction in employee accidents. Secondly, we are able to take advantage of the self insurance funding model resulting in a \$1 million savings to the general fund.

Despite the tremendous efforts on the part of our elected officials, department heads and all county employees to reduce costs, the initial 2011 budget projections result in a \$4.5 million deficit.

Recognizing the Commission's commitment to a balanced budget, we recommend a 3% targeted budget reduction for all offices in the general fund. This reduction is estimated to save \$3.5

million. Additional cuts in several non-departmental line items, including the child support subsidy, public assistance mandated share, investment income transfer and contingencies, will make up the remaining \$1 million shortfall.

Implementation of these recommendations will result in a 2011 balanced budget, however, they do not account for the impact of any state budget cuts which may come in July 2011. We will continue to watch events in Columbus very closely over the next nine months and will be in active discussion with our state delegation.

We recognize that these further budget reductions will be difficult. As a result of reductions made over the last two years, the 2011 projected budget is \$21 million or almost 14% below 2008 actual expenditures. These budget reductions have not been easy and they have taken the unwavering cooperation of the Montgomery County's elected officials and judges. These are truly unprecedented times for county government. However, we remain confident that through innovation, service prioritization, and a dedicated workforce we will continue to meet our mandates and provide valuable public services to the citizens of Montgomery County.

DAF:dmr