

Presentation to
White Lake Citizens League

August 25, 2010
White Lake Township Hall, 7 p.m.

Oakland County Budgeting Practices
and Long-Term Financial Outlook

Laurie Van Pelt, Oakland County Management and Budget Director

Oakland County

Presentation Overview

- Economy's Impact on Local Government Resources
- County's Long-term Approach to Budgeting, Examples of Specific Actions
- County's Long-term Financial Outlook
- Impact on Governments Without Long-term Budget Plans

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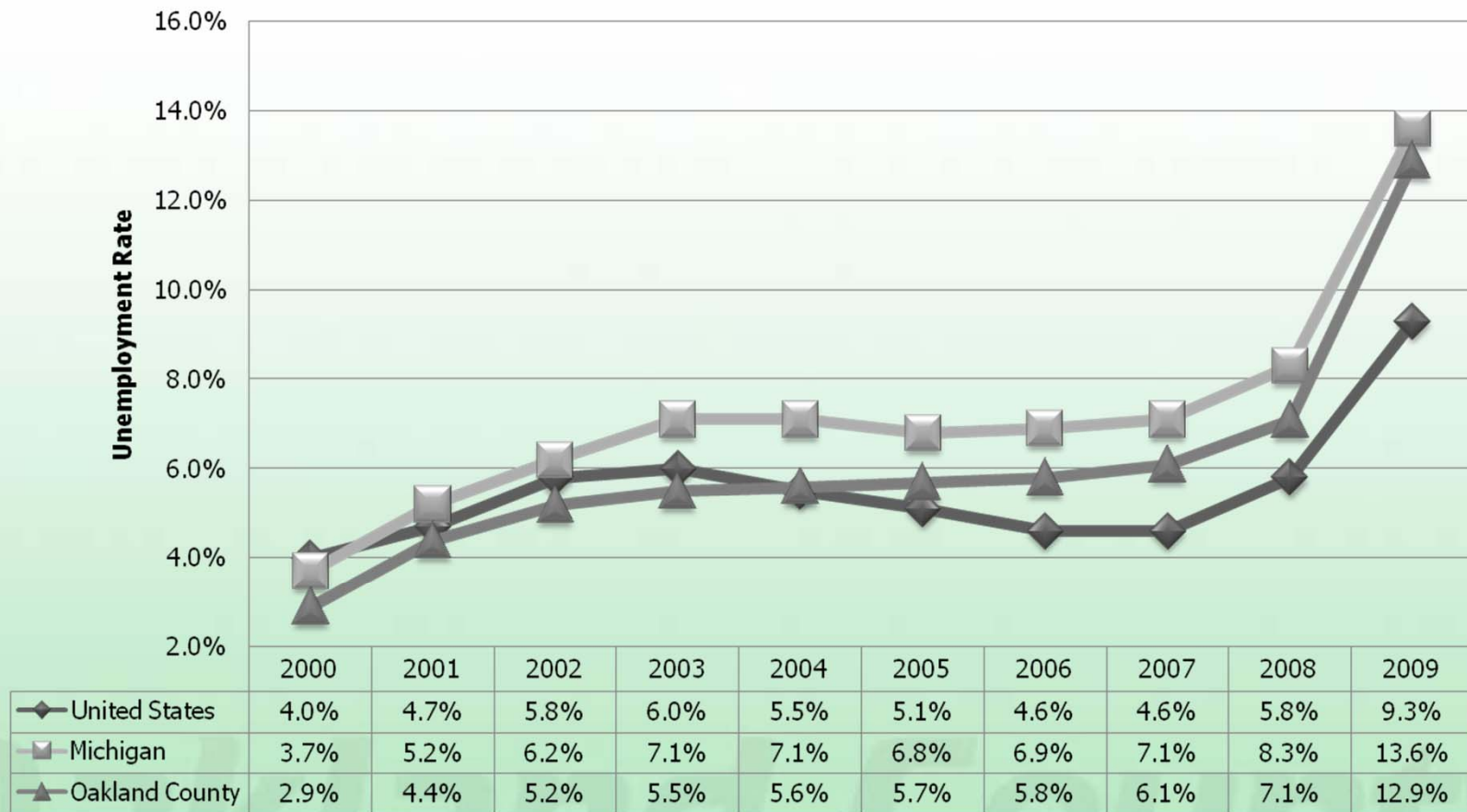
An Unprecedented Past Decade

- From an economic perspective, 2009 was the worst year of the worst decade
 - Job losses
 - High unemployment
 - Companies failing or relocating out of state
 - Bankruptcies: General Motors, Chrysler, auto suppliers
 - Massive housing foreclosures

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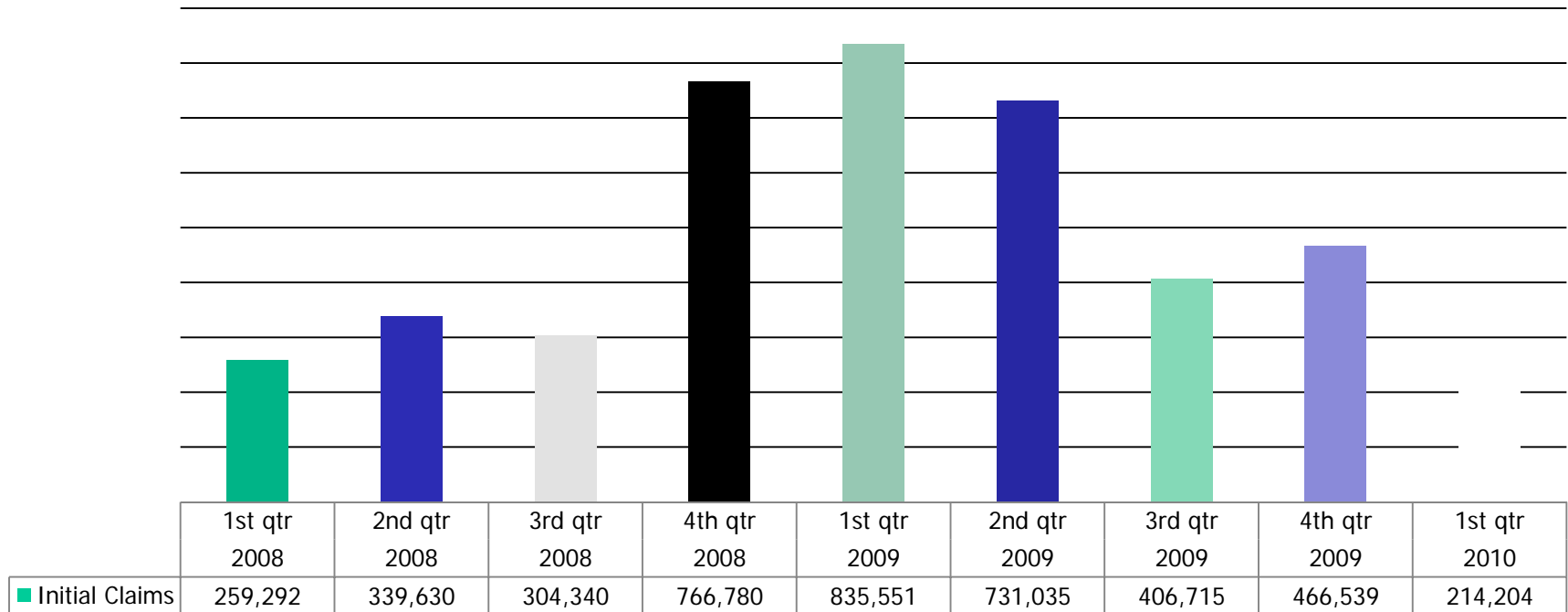
Unemployment Remains High

Annual Unemployment Rates, 2000 through 2009



Source: US Department of Labor, Bureau of Labor Statistics

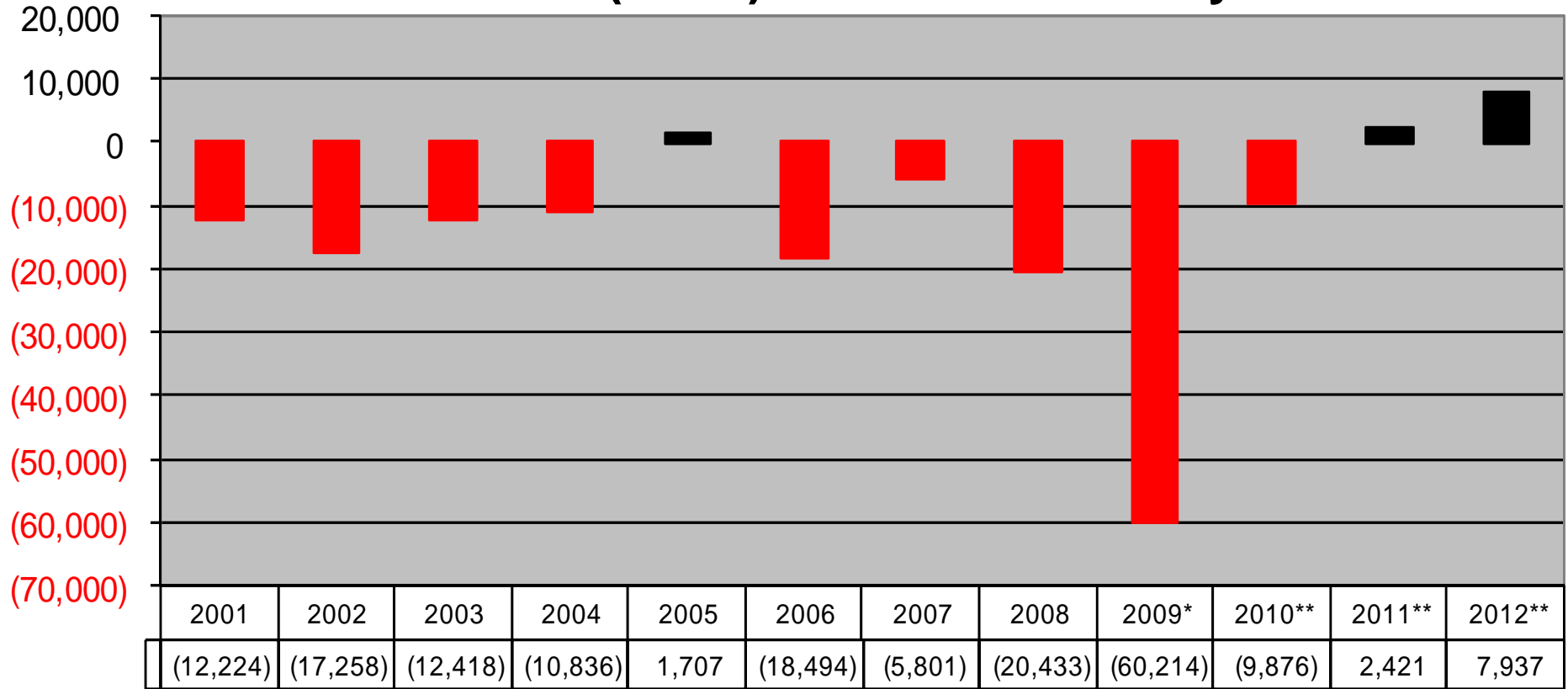
National Mass Layoff Experience



Source: U. S. Dept. of Labor, Bureau of Labor Statistics

The two sectors with the most mass layoffs in 2009 were construction and transportation equipment manufacturing.

Job Growth (Loss) in Oakland County

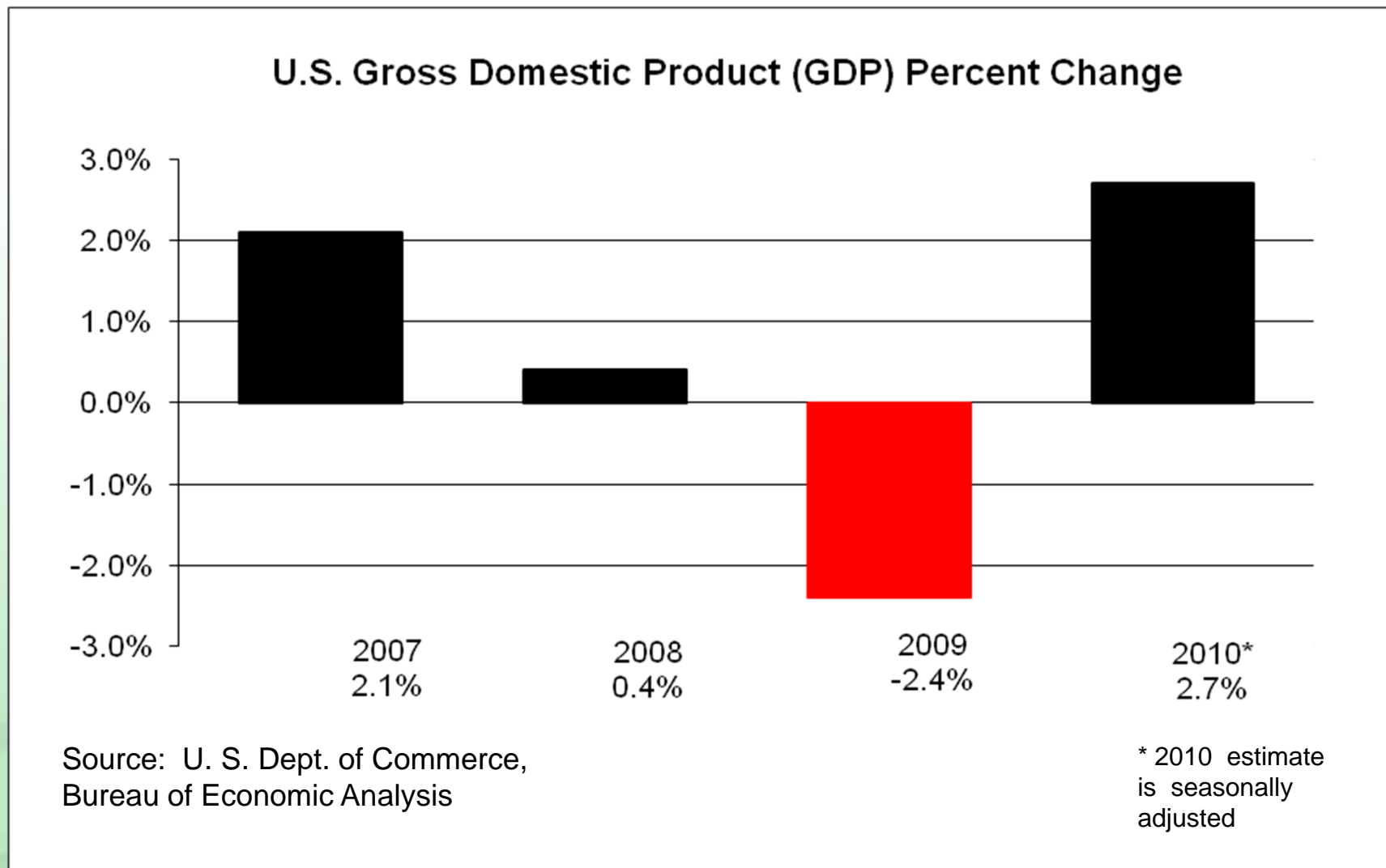


Data source: George Fulton and Donald Grimes, University of Michigan

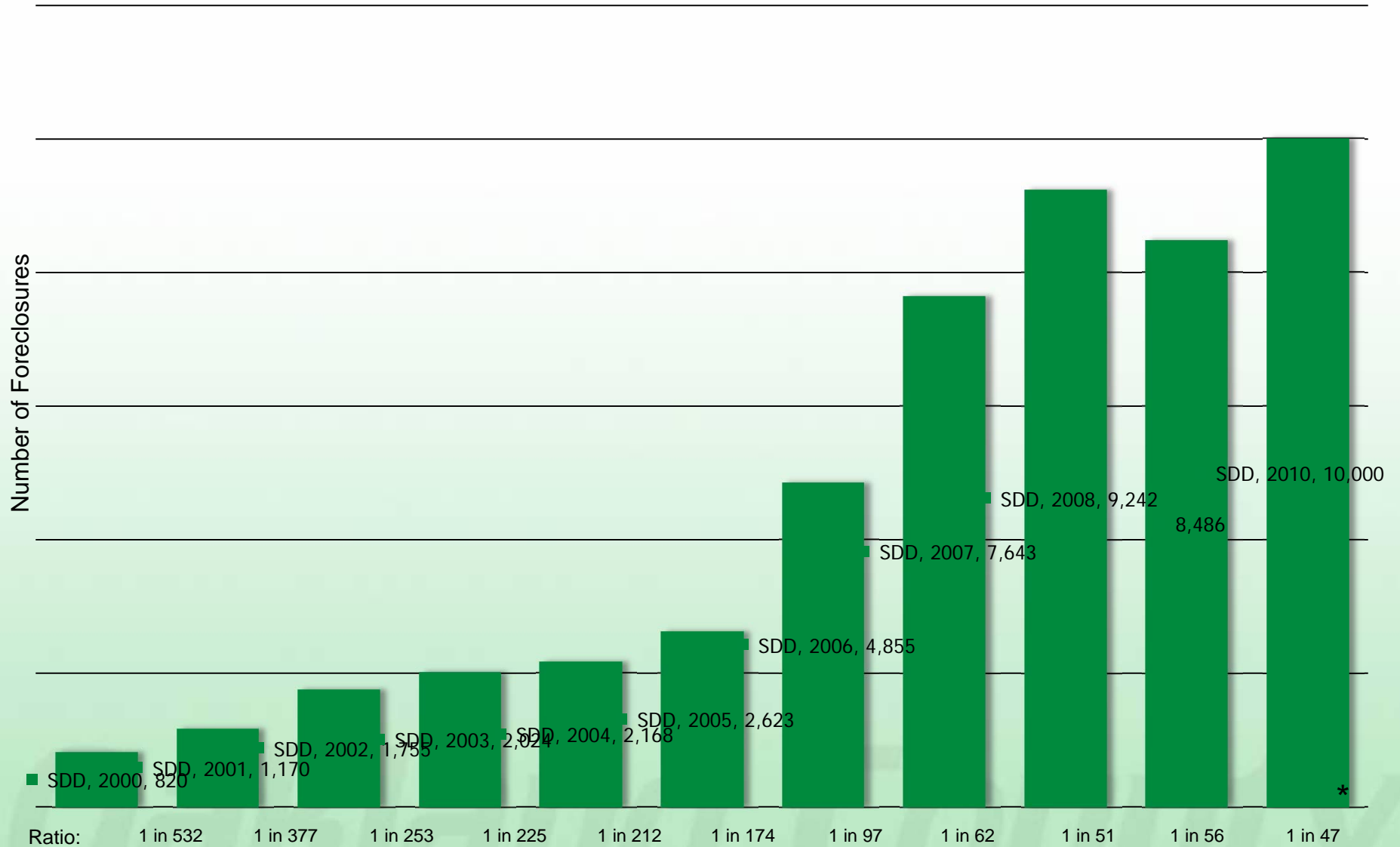
*estimated
**forecasted

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National GDP Reflects Slow Recovery



Oakland County, MI Sheriff Deeds - Foreclosures



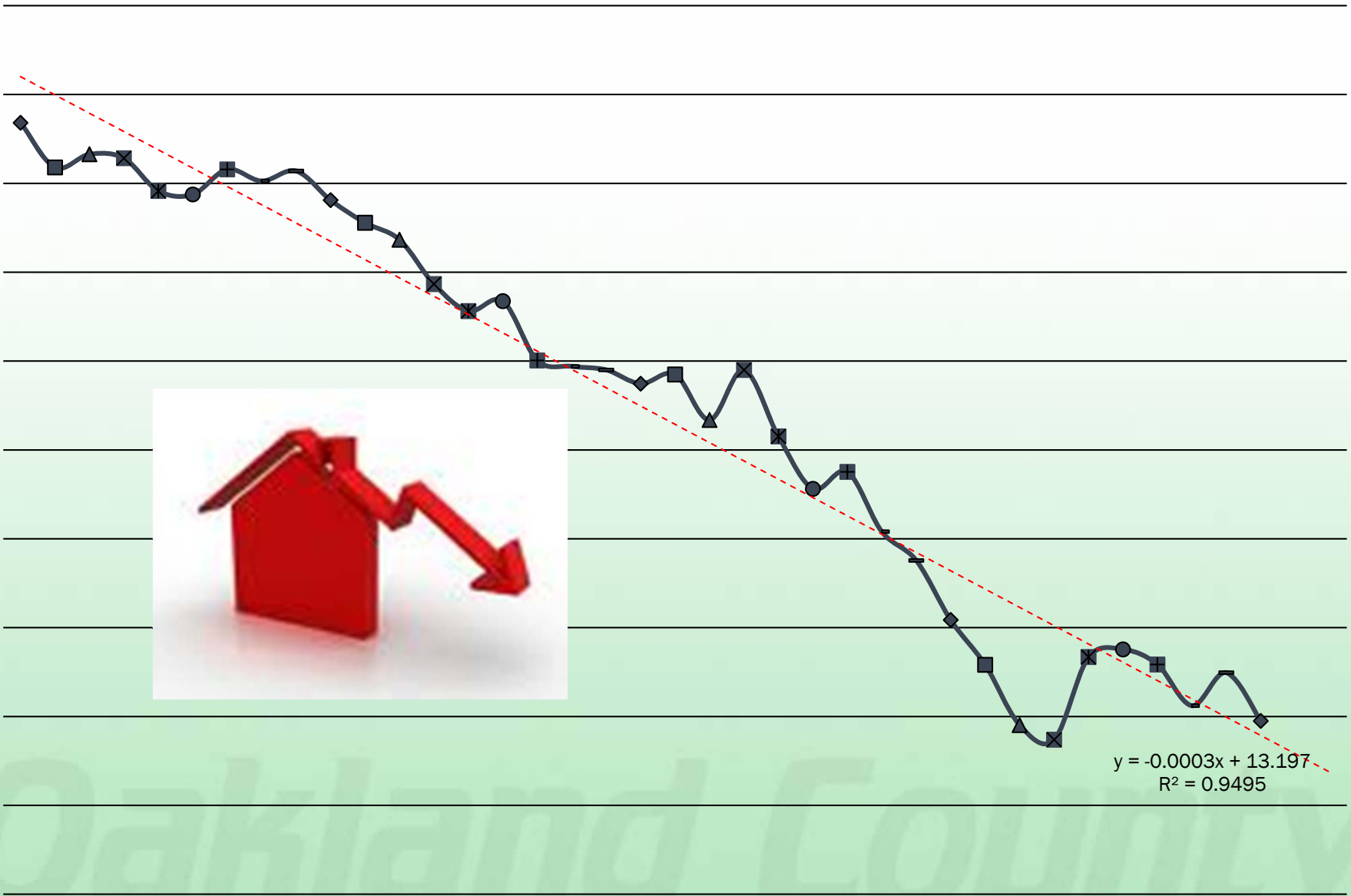
Sheriff Deed totals retrieved from the Oakland County Register of Deeds office.
* 2010 Count is estimated using the first 5 months of actual sheriff deeds.

Tax Foreclosures

- Beyond mortgage foreclosures (shown on previous chart), the number of tax foreclosures are increasing.
 - In Oakland County, there were approximately 1,000 tax foreclosed properties offered at auction recently.
 - Wayne County has about 13,000 tax foreclosed properties up for auction.
- Some of the tax foreclosed properties have outstanding mortgages, indicating that the market value of these properties are worth less than the outstanding tax obligation – banks are letting these properties go.

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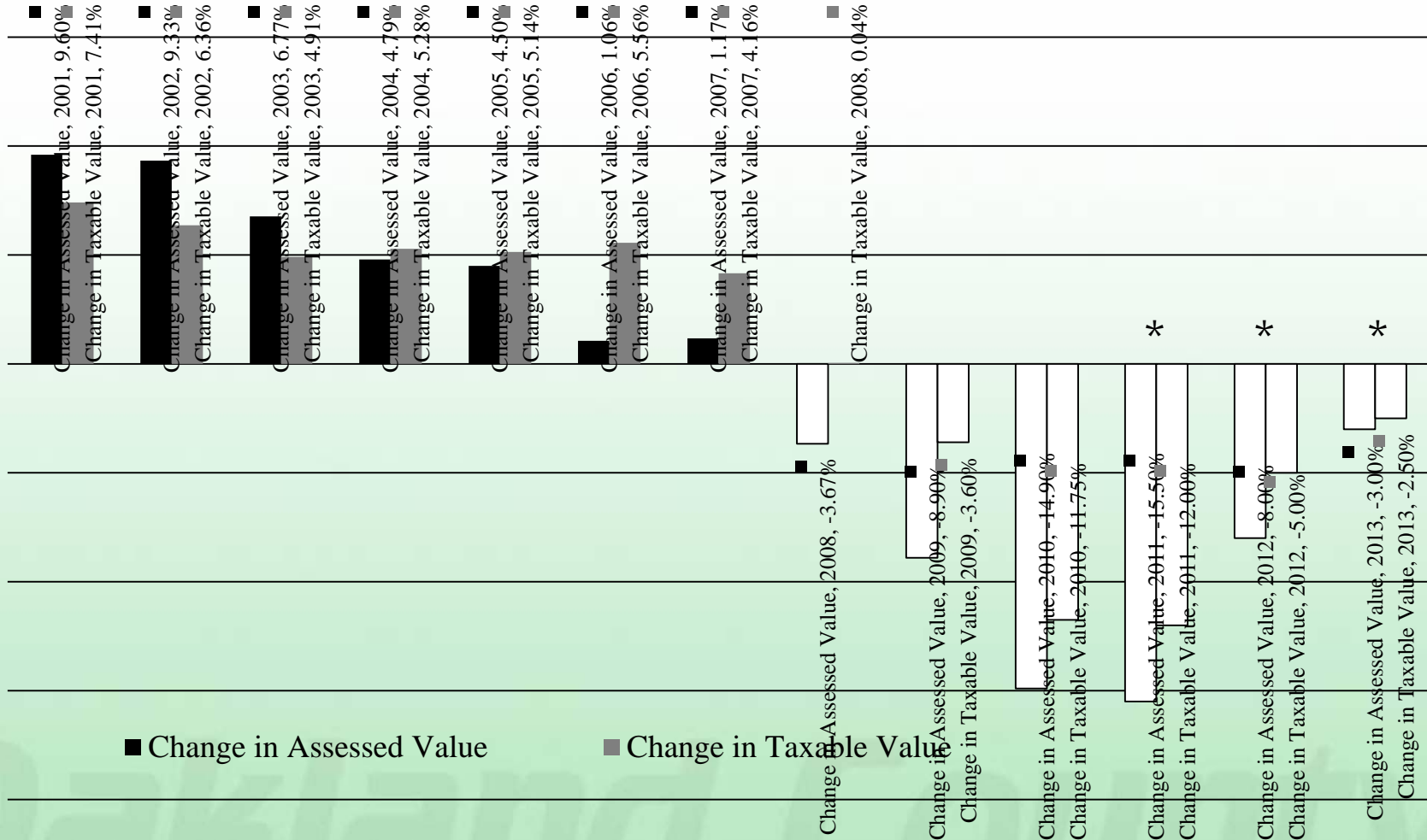
Oakland County Real Estate Market Sales Price Trend



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Oakland County, MI

Percentage Change in Assessed and Taxable Values



* 2011 - 2013 Taxable and Assessed Percentages Estimated by the Oakland County Budget Task Force.
 2001 - 2010 information from annual Equalization Reports

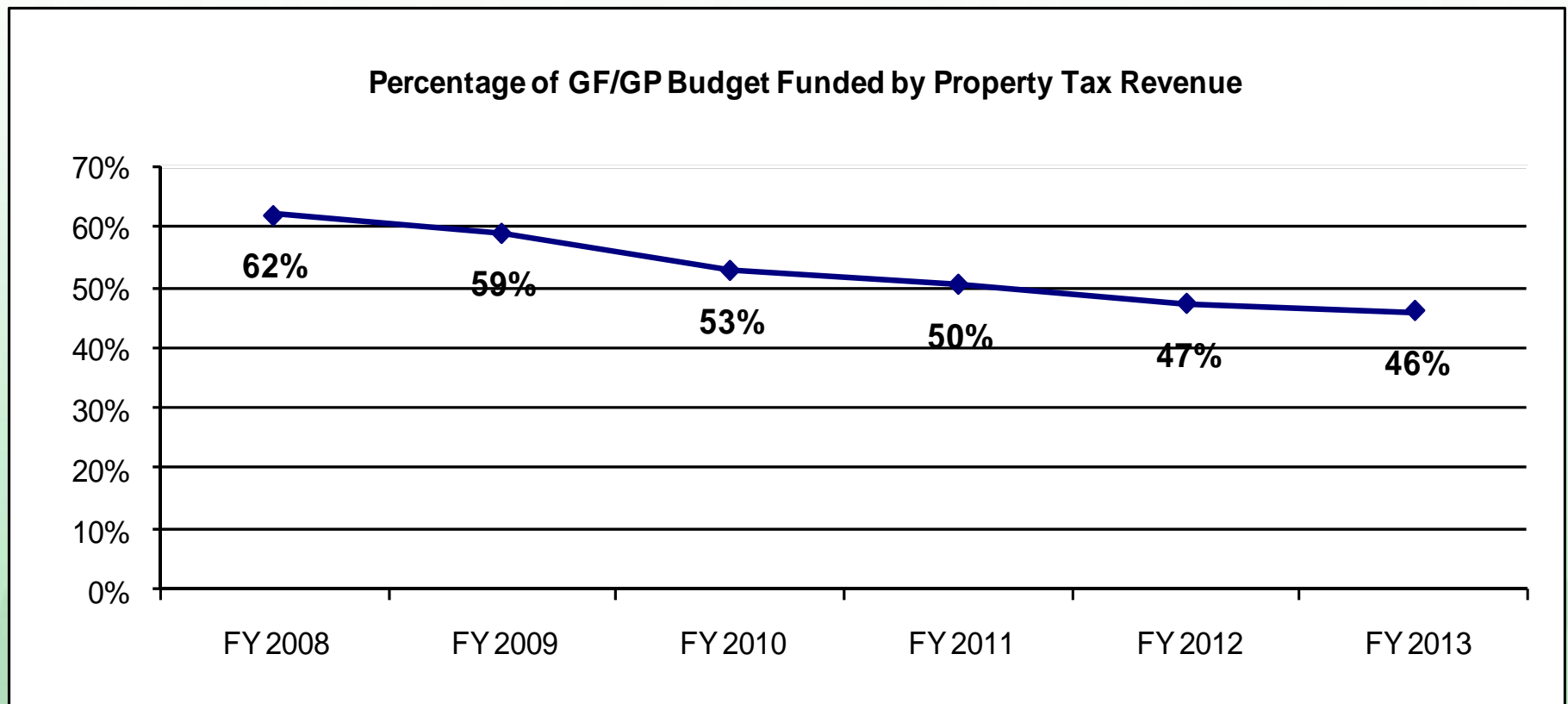
Oakland County's Equalization Reports, from 1980 through 2010, are available on the internet.

These reports highlight the annual change in assessed and taxable values for each community.

2010 OAKLAND COUNTY EQUALIZATION COMPARISON OF ASSESSED AND TAXABLE VALUES						
TOWNSHIPS	2009 ASSESSED	2010 ASSESSED	% CHANGE ASSESSED	2009 TAXABLE	2010 TAXABLE	% CHANGE TAXABLE
ADDOSON	400,752,800	342,167,221	-14.82%	333,414,710	298,640,880	-10.43%
BLOOMFIELD	4,115,224,310	3,485,078,600	-15.31%	3,878,712,400	3,404,549,880	-12.22%
BRANDON	577,402,804	479,908,190	-16.87%	524,810,242	452,110,988	-13.85%
COMMERCE	2,201,477,990	1,882,803,010	-14.48%	2,023,849,170	1,794,388,830	-11.33%
GROVELAND	272,032,520	212,760,850	-21.79%	241,158,000	197,211,140	-18.22%
HIGHLAND	878,814,590	759,343,130	-13.59%	796,399,990	721,540,430	-9.29%
HOLLY	380,803,320	307,529,400	-14.78%	313,143,420	278,077,710	-11.20%
INDEPENDENCE	1,793,803,370	1,529,981,400	-14.71%	1,627,952,280	1,443,197,370	-11.36%
LYON	1,017,824,870	854,884,200	-16.03%	832,258,690	739,210,940	-11.16%
MILFORD	1,084,898,480	889,839,850	-18.42%	974,343,140	842,553,190	-13.53%
NOVI	10,039,710	8,859,420	-11.76%	9,985,250	8,838,280	-11.32%
OAKLAND	1,282,444,730	1,077,081,240	-14.86%	1,193,187,370	1,030,519,980	-13.36%
ORION	1,799,098,535	1,538,843,330	-14.59%	1,723,524,795	1,498,867,900	-13.03%
OXFORD	919,825,180	790,853,570	-14.12%	813,724,840	723,477,370	-11.59%
ROSE	317,982,384	249,977,469	-21.38%	280,898,787	223,090,224	-14.43%
ROYAL OAK	60,885,570	49,977,050	-17.81%	48,048,510	42,280,370	-8.18%
SOUTHFIELD	1,212,721,430	1,037,083,550	-14.48%	1,096,153,070	884,083,330	-19.14%
SPRINGFIELD	701,448,900	609,103,700	-13.16%	653,004,120	583,980,020	-10.57%
WATERFORD	2,913,133,370	2,356,728,670	-19.10%	2,848,487,790	2,260,548,870	-14.65%
WEST BLOOMFIELD	4,169,867,060	3,507,563,250	-15.88%	3,988,224,170	3,421,492,980	-13.73%
WHITE LAKE	1,313,341,370	1,069,591,370	-18.56%	1,207,408,400	1,032,589,270	-14.48%
TOTAL TOWNSHIPS	27,383,347,083	23,838,819,270	-16.81%	26,182,240,184	21,984,228,830	-12.83%
CITIES						
AUBURN HILLS	2,377,102,820	2,032,385,020	-14.50%	2,222,364,040	1,964,450,490	-11.61%
BERKLEY	595,450,680	524,003,230	-12.00%	524,179,820	468,650,310	-6.78%
BERMINGHAM	2,370,175,785	2,088,267,900	-11.89%	2,024,142,830	1,878,120,360	-7.21%
BLOOMFIELD HILLS	847,655,860	860,927,490	0.15%	848,145,070	807,342,590	-4.92%
CLARKSTON VILLAGE	55,526,240	47,281,000	-14.89%	46,029,340	44,143,080	-8.09%
CLAWSON	440,890,250	370,803,040	-15.89%	400,519,920	359,873,780	-10.19%
FARMINGTON	414,589,100	351,858,180	-15.18%	406,024,900	350,052,990	-13.79%
FARMINGTON HILLS	4,297,748,050	3,685,790,890	-14.24%	4,165,008,570	3,619,896,470	-13.09%
PENTON	227,300	224,800	-1.10%	130,100	129,790	-0.24%
FERNDALE	795,225,850	683,950,950	-13.99%	648,328,070	598,997,910	-7.61%
HAZEL PARK	398,089,000	291,211,030	-27.10%	320,742,860	276,887,130	-13.64%
HUNTINGTON WOODS	394,081,030	340,021,750	-13.72%	325,711,090	306,037,730	-6.04%
KEEGO HARBOR	119,847,840	100,782,950	-15.91%	108,400,370	95,486,730	-11.93%
LAKE ANGELES	93,948,840	80,428,170	-14.39%	88,874,810	68,558,680	-8.91%
LATHRUP VILLAGE	173,890,140	137,867,300	-20.83%	187,738,890	135,343,980	-19.31%
MADISON HEIGHTS	1,270,328,750	1,053,897,770	-17.04%	1,192,371,700	1,036,478,240	-13.16%
NORTHVILLE	159,348,680	136,984,654	-14.05%	157,868,013	136,424,544	-13.47%
NOVI	3,742,061,910	3,321,184,600	-11.25%	3,554,943,830	3,204,568,420	-9.86%
OAK PARK	814,778,470	844,199,820	0.24%	714,687,650	623,819,490	-12.71%
ORCHARD LAKE	417,149,560	358,400,300	-14.00%	382,288,720	343,685,340	-10.10%
PLEASANT RIDGE	162,968,800	137,481,830	-15.64%	133,742,660	122,945,410	-8.07%
PONTIAC	1,874,413,280	1,338,878,320	-28.98%	1,377,212,650	1,177,478,710	-14.50%
ROCHESTER	807,488,870	703,311,890	-12.90%	742,062,730	672,038,980	-9.44%
ROCHESTER HILLS	3,728,995,735	3,238,195,190	-13.16%	3,800,917,135	3,194,861,270	-11.28%
ROYAL OAK	2,808,167,535	2,462,441,170	-12.31%	2,441,787,175	2,262,868,380	-7.34%
SOUTHFIELD	3,985,507,832	3,296,257,830	-17.88%	3,658,828,252	3,105,202,030	-16.06%
SOUTH LYON	387,587,240	344,381,090	-11.15%	382,812,480	329,801,120	-8.15%
SYLVAN LAKE	118,116,520	101,057,010	-14.44%	100,825,050	94,084,460	-6.23%
TROY	5,838,889,259	4,888,518,313	-16.56%	5,458,779,908	4,843,613,012	-11.29%
WALLED LAKE	285,843,580	225,238,230	-21.21%	238,842,670	211,637,430	-11.76%
WYOM	888,942,310	784,469,210	-11.80%	853,931,820	748,780,880	-12.32%
TOTAL CITIES	40,496,839,068	34,708,267,237	-14.29%	37,264,438,711	33,087,478,668	-11.18%
TOTAL COUNTY	87,880,888,149	87,746,076,607	-14.80%	82,418,678,896	65,081,707,688	-11.76%

Declining Property Taxes Impact on County Budget

- The ability of property tax revenue to support General Fund/General Purpose operations has decreased dramatically, increasing reliance on other revenue sources.



Oakland County's Long-Term Focus

Multi-Year Budget

- Oakland County relies on long-term budgeting
 - Biennial budgets since 1987
 - Expanded to triennial budget in 2009
- Two periods within the past decade required intense action
 - 1) Early 2000's recession
 - 2) 2007 with the start of the real estate market decline

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Oakland County's Long-Term Focus

- Over the years, continuous attention on long-term financial planning has resulted in a culture of reinventing government service delivery.

Thoughtful Management vs. Crisis Management

- Anticipates and plans for financial challenges in advance.
- Provides for a stable operating environment for programs to citizens and support of the local governmental units.
- Provides advance notice to citizens regarding future changes in service delivery.
- Provides advance notice to employees regarding changes in salary, benefits, and staffing levels.

County Executive's Recommended Budget FY 2011 through FY 2013

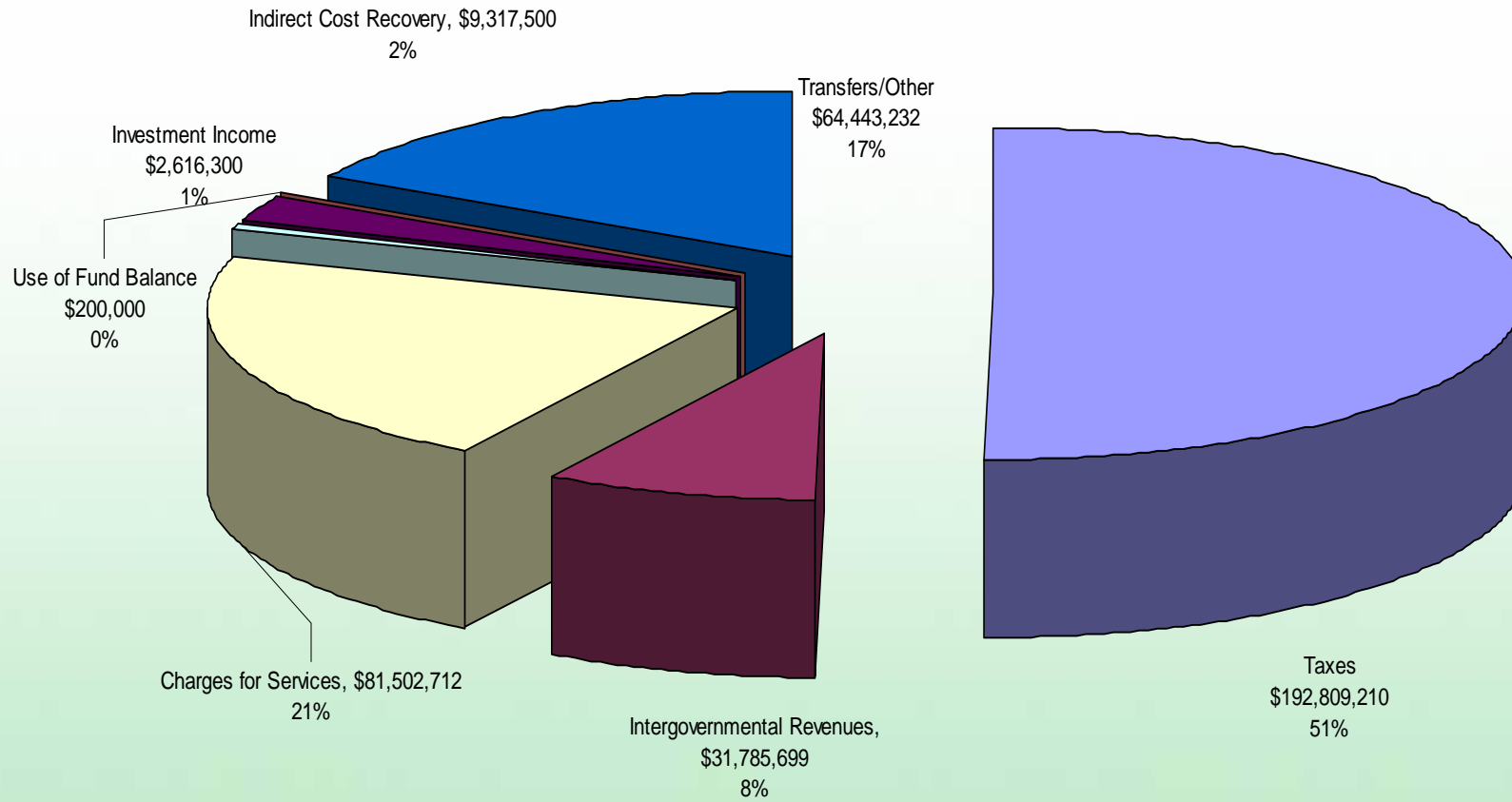
The Recommended Budget is balanced for the next three fiscal years.

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
General Fund/General Purpose	\$382,674,653	\$387,521,687	\$387,314,505
Special Revenue & Proprietary	<u>\$380,891,296</u>	<u>\$378,960,285</u>	<u>\$364,433,654</u>
Total All Funds Recommended Budget	<u>\$763,565,949</u>	<u>\$766,481,972</u>	<u>\$751,748,159</u>

FY 2011, FY 2012 & FY 2013
County Executive Recommended General Fund / General
Purpose Budget

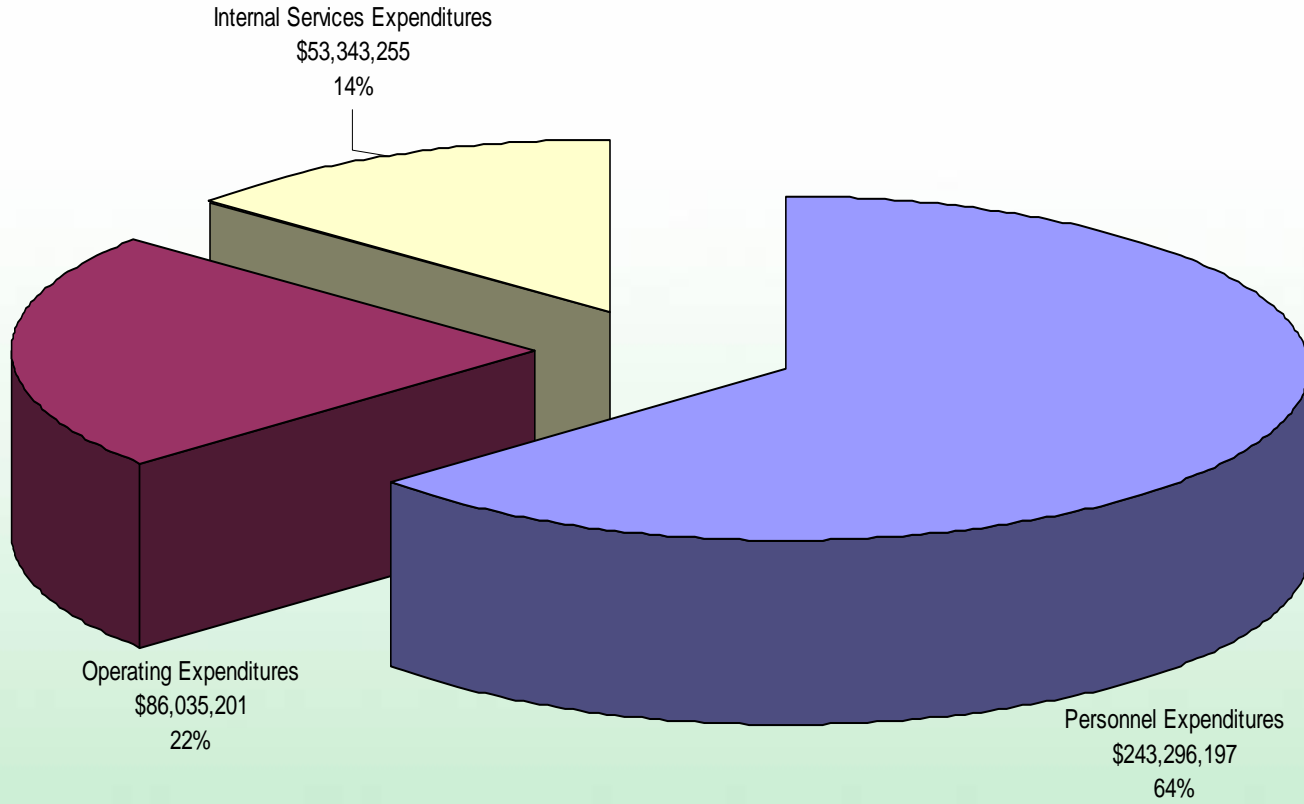
- FY 2009 Actual Expenditures \$422,536,238
- FY 2010 Amended Budget \$413,980,490
- FY 2011 Recommended Budget \$382,674,653
- FY 2012 Recommended Budget \$387,521,687
- FY 2013 Recommended Budget \$387,314,505
- Total Net On-Going Expenditure Reductions since
FY 2009 = **\$35,221,733**

Oakland County FY 2011 Executive Recommended General Fund / General Purpose Revenues by Source

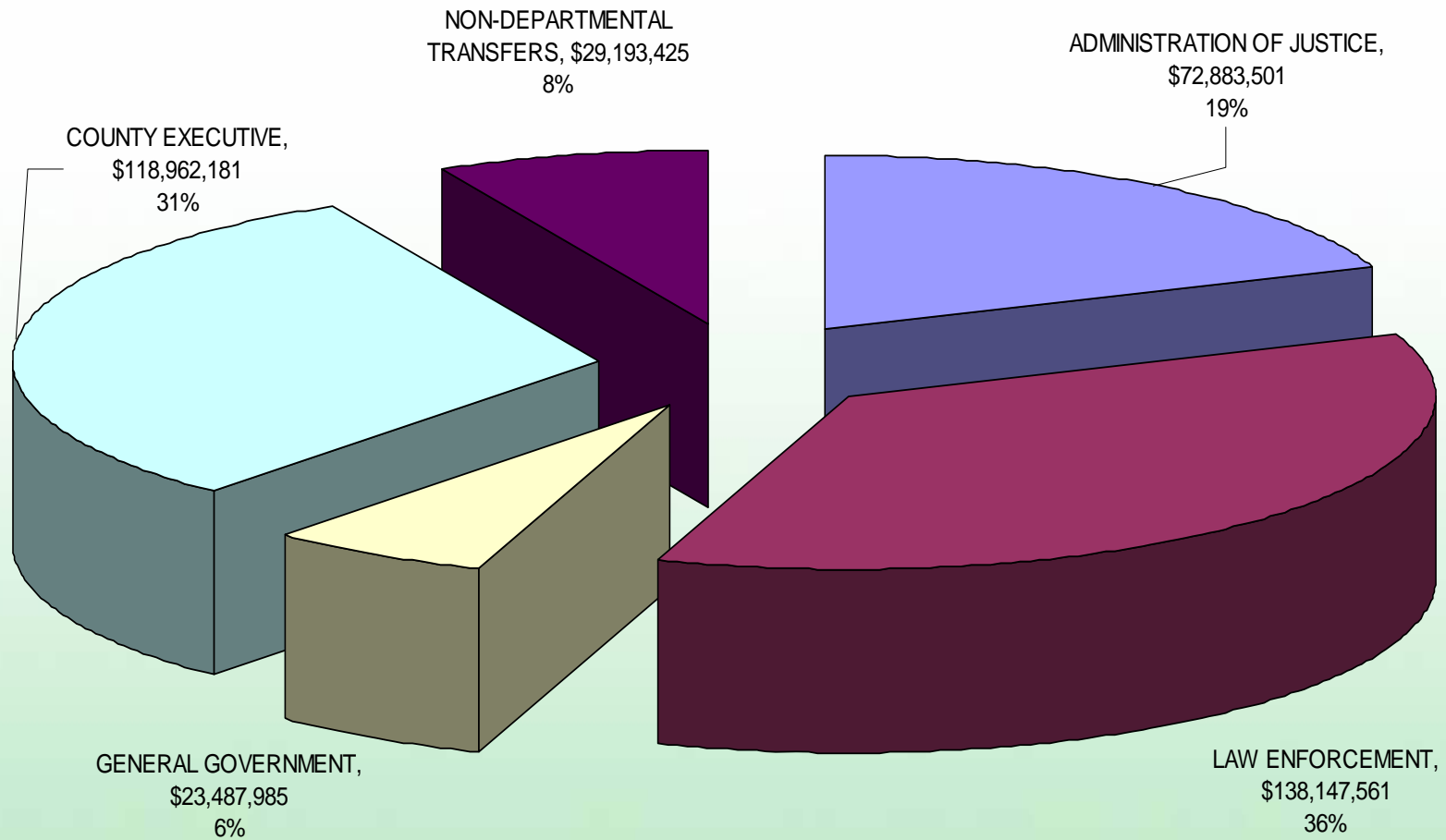


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Oakland County FY 2011 Executive Recommended General Fund/General Purpose Expenditures by Category



Oakland County FY 2011 Executive Recommended General Fund/General Purpose Expenditures by Function



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Decisions Becoming More Difficult

- Oakland County has been continually reducing the budget since 2002.
 - The “low hanging fruit” has been picked.
 - The budget reduction decisions are becoming progressively more difficult.
 - Even with a long-term triennial budget plan and the efforts to date, there is much more that needs to be done to retain financial stability in the long-term.

Decisions Becoming More Difficult

- What else is required beyond long-term financial planning to retain financial stability?
 - Leadership and the willingness to make difficult and sometimes unpopular decisions.
- Oakland County's elected officials have balanced the budget without raising taxes while preserving core essential services.

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Specific Reductions in Sheriff's Office

- Before ending the County's enhanced subsidy to the State's Marine grant:
 - The popular Boot Camp program was closed.
 - The Trusty facility was closed.
 - The Work Release program was closed.
 - The Southfield jail satellite facility was closed.
 - The helicopter patrol program was cut in half.
 - The Jail Commissary was privatized.
- The above are only several examples of the many difficult decisions that have been made in just the past few years.

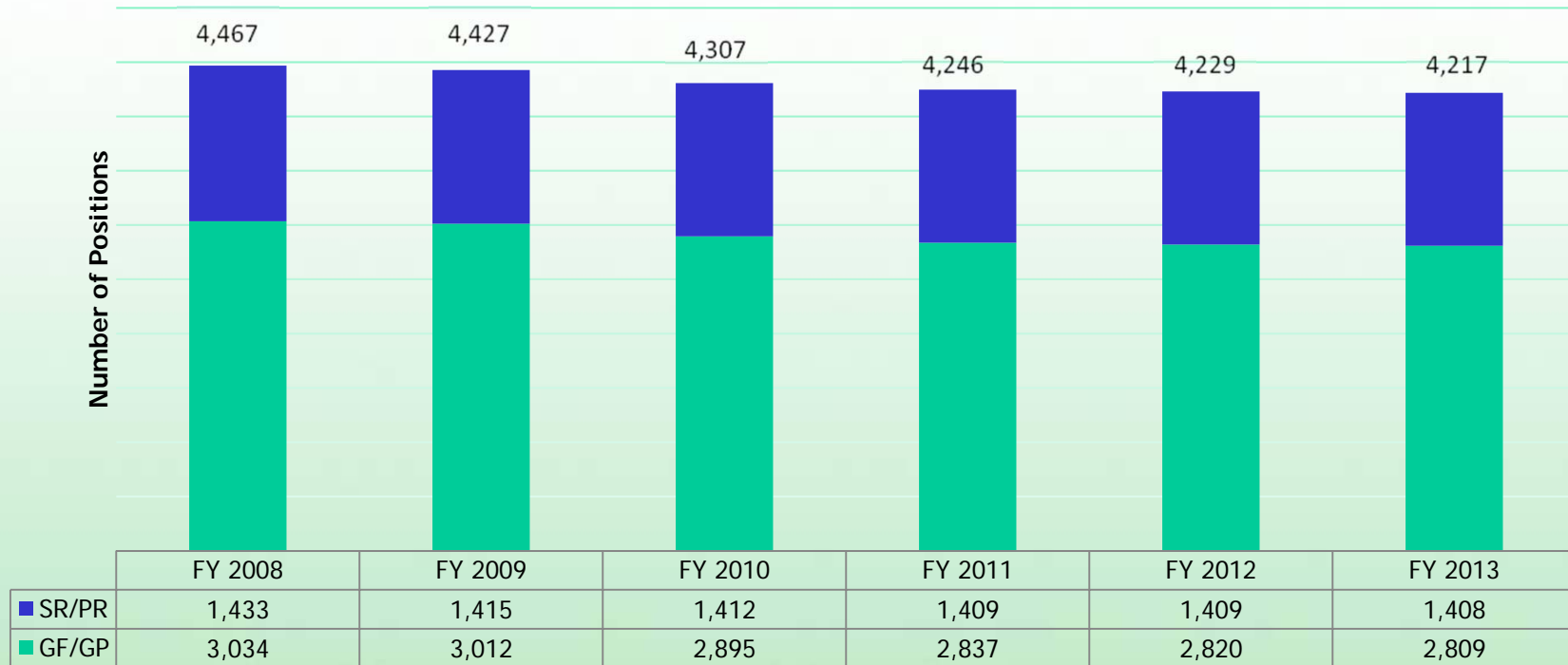
General Salary Reduction

- Employees received a 2.5% general salary reduction, including elected and appointed officials in FY 2010.
- The Recommended Budget includes an additional 1.5% salary reduction for FY 2011.
- No salary change proposed for FY 2012 & FY 2013.

Reduced County Workforce

There are 250 fewer County positions from FY 2008 – FY 2013.

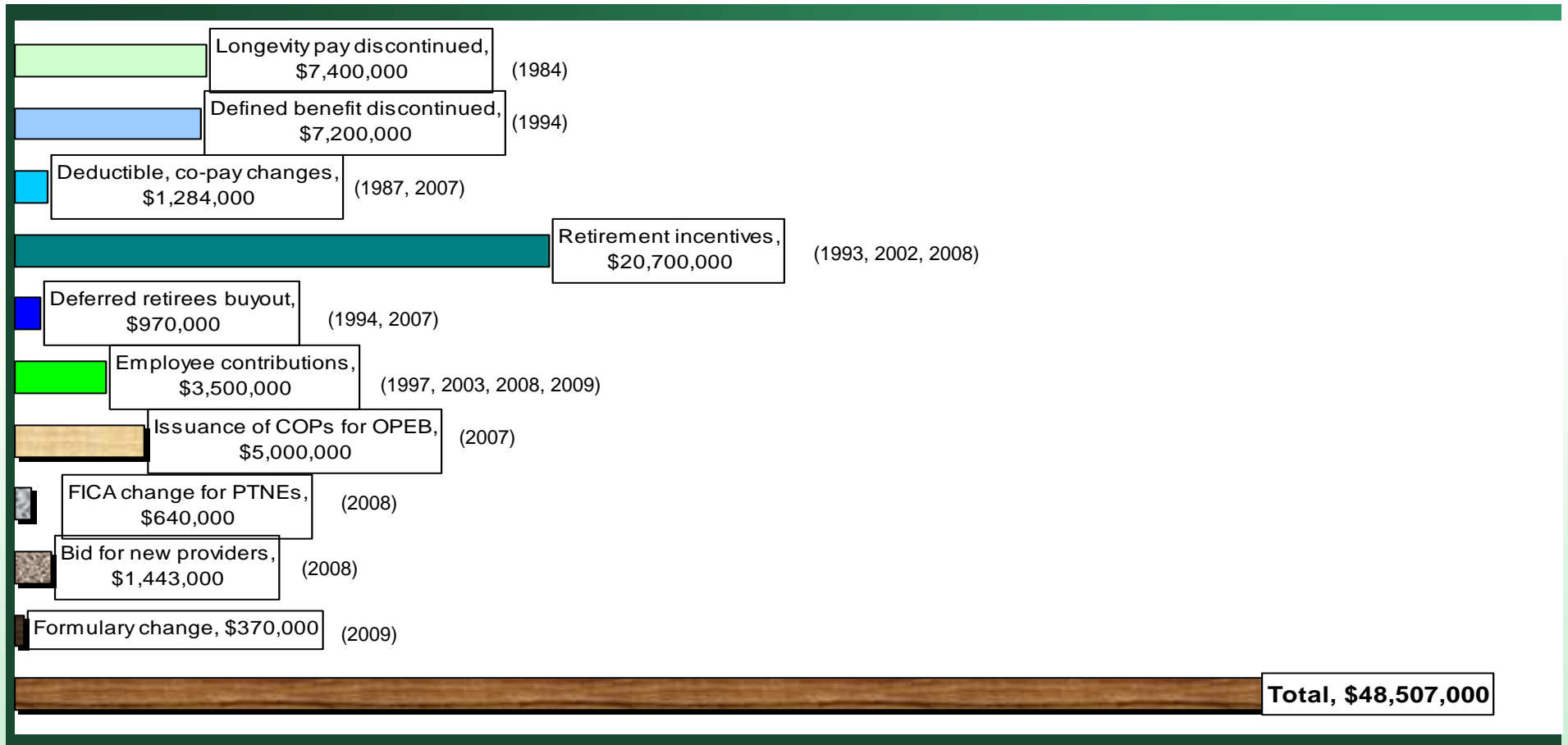
Number of County Positions



Based on Adopted Budget for FY 2008-FY 2010, Recommended Budget for FY 2011-FY 2013

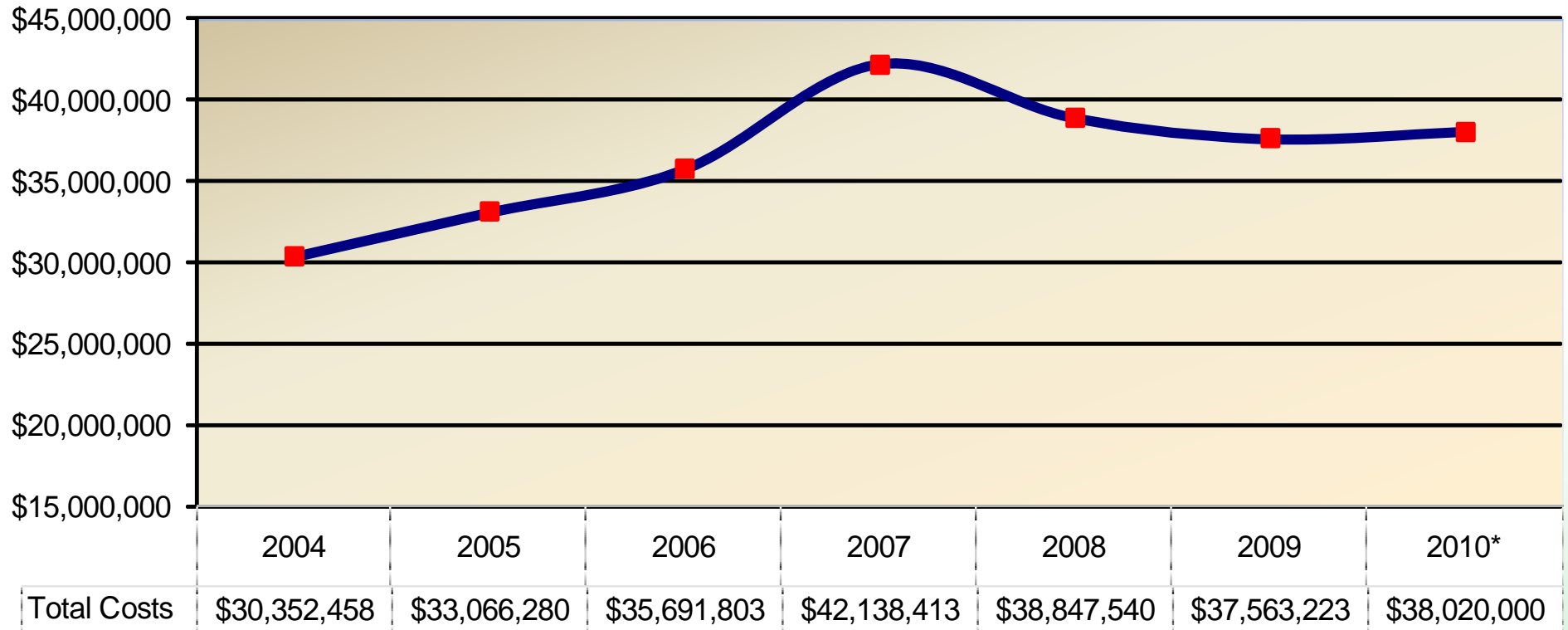
GF/GP = General Fund/General Purpose
 SR/PR = Special Revenue/Proprietary

Estimated Annual Savings from Benefit Changes



- The total annual amount of \$48.5 million saved from the listed benefit changes equates to 606 full-time County jobs and is equivalent to .93 mills.
- These amounts do not reflect all savings efforts in this area – for example, this does not include savings in the annual required contribution for retiree health care as a result of several changes to the vesting schedule over the years and elimination of retiree health care for new hires effective January 1, 2006.

Historical Healthcare Cost for Active Employees



*FY 10 is estimated amount

- Recent changes in health care benefits have proven effective for controlling cost.
- 2008 costs were reduced by 8% from prior year's costs and reduced by another 3% in 2009. In comparison, according to the National Coalition on Healthcare, employer-based premiums rose an average of 5% in 2008.
- Prior to the reduction in 2008, the average annual increase was 13% for the period 2004 through 2007.

General Restructuring Efforts

- Over the past decade, significant budget savings has been achieved through various actions
 - Technology enhancements
 - Retirement incentives
 - Privatization of services
 - Adjustments to salaries and fringe benefits
 - Hiring freeze
 - Restricted capital purchases
 - Competitive bidding and renegotiation of existing contracts

Privatization Savings Since 1993

- Total cumulative savings of \$43.4 million
 - Annual recurring savings of \$6.9 million
- Reduction of 194 positions
- Maintained high-quality service delivery
- Examples of privatized services:
 - Jail food service
 - Materials management
 - Dental services for low-income citizens
 - Long-term medical care facility
 - Law Library

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More Work to be Done

CAVEAT: THE COUNTY'S BALANCED TRIENNIAL BUDGET PLAN IS ACHIEVEABLE ONLY IF THE FUTURE ECONOMY IS NOT WORSE THAN CURRENTLY FORECASTED.

- Assumes that real estate value declines slow down and begin to stabilize by the end of this year.
- Property tax revenue will not be restored to 2007 levels until approximately 2025-2030.
- Assumes no significant State budget cuts
 - Oakland County's General Fund receives approximately \$60 million in annual State funding.

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State/Federal Budgets Impact Local Government Budgets

- Unresolved future State budget shortfall could be \$2 billion, continuing to challenge local government and education.
 - State budget problems impact local government budgets. Examples:
 - Revenue sharing cuts.
 - Push-down of State costs, such as recent attempt by DHS to charge Counties a per diem for court-ordered juvenile institutional placements .
 - An estimated \$1 million+ impact for Oakland County placements which is not budgeted.

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State/Federal Budgets Impact Local Government Budgets

- The County receives approximately \$185 million in Federal and State grants (Special Revenue Funds, not General Fund dollars).
- Special Revenue Grant Fund reductions are balanced with grant expenditure reductions (County's general grand fund policy, referred to as the "Gosling" clause).
 - For decades, the County allowed a rare exception to this grant policy for Marine patrol, subsidizing the State's average grant amount of \$250,000 with nearly \$1.3 million of General Fund dollars.
 - As County services are being reduced which benefitted the general population, the County can no longer afford subsidized enhanced services for select segments of the population.

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Maintaining Financial Stability

- Long-term budgeting has become even more critical as a result of continued declining revenues and continued economic uncertainty.
- The financial challenges facing government entities will endure even after the economy recovers.

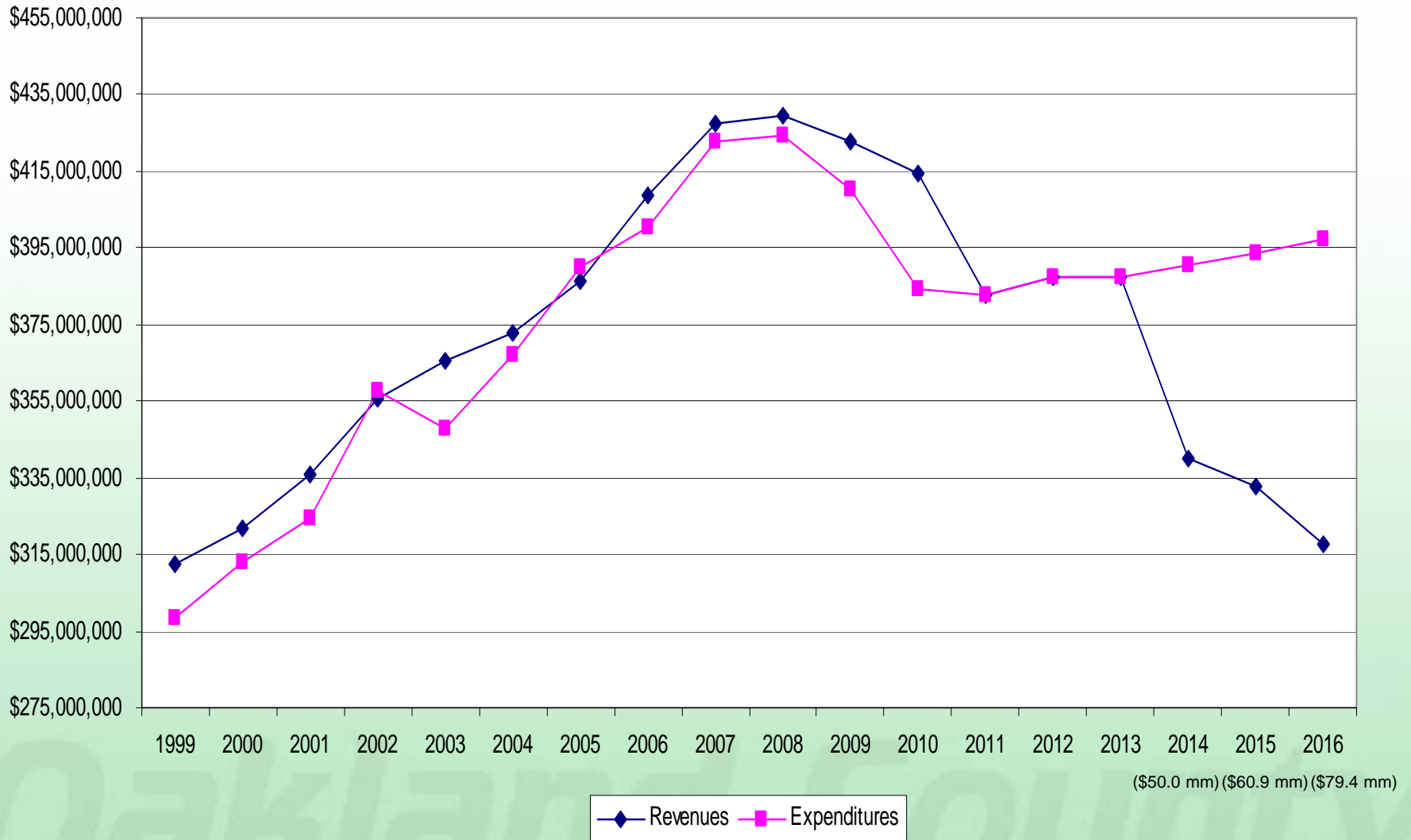
Use of Tasks/Incentives

- Budget reduction tasks assigned to each elected official and department head.
- “Credits” given for early reductions.
 - Credits are one-time in nature and can be used to offset future years’ tasks if needed.
 - This approach has resulted in implementing structural reductions sooner rather than later.

Use of Tasks/Incentives

- Surplus savings from early implementation of reductions by the County's elected officials enabled the budget to be balanced through FY 2013.
- The current surplus savings from these earlier efforts are a one-time source of funds and will not be sufficient to sustain the current level of operations beyond FY 2013.
- Oakland County's leaders must remain diligent in planning for future budget reductions.

Oakland County General Fund / General Purpose Revenue & Expenditure Growth (Actual 1999-2009 Projected 2010-2016)



Continued Vigilance Required

- While it appears as though the nation's economy has begun recovery, economists project growth will be slow.
- There is concern that this recovery will not generate the substantial numbers of new jobs that are needed.
- Some economists are worried about a double-dip recession.



Continued Vigilance Required

- Despite economic recovery, governments will remain financially challenged.
- The recent real estate value declines have permanently reduced the threshold of property tax revenue for governments in Michigan.
 - Constitutional tax limitations do not permit taxable values for existing property to rise greater than the rate of inflation or 5%, whichever is less.

Impact on Other Governments

- There are many other governments, specifically in Michigan, that are struggling.
- They lack a multi-year budgeting process.
- They have not prepared a long-term financial outlook.
- Their elected officials are not working cooperatively to prepare for what is yet to come which is getting progressively worse.
- Such governments may be operating in crisis mode, which results in sudden disruption of services to citizens and immediate layoffs of employees.

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Impact on Other Governments

- Examples of the impact from difficult budget reductions in other governments:
 - Effective this year, the State Fair no longer exists.
 - Waterford Township reduced its police force by 25% with further reductions expected in the future.
 - Pontiac has reduced its police force from 175 officers in 2005 to only 69 currently. Pontiac is currently planning to lay off 51 employees.

Impact on Other Governments

- Schools are continuing to lay off teachers.
 - As part of her proposal to balance the budget, the Governor just announced her plan to transfer \$208 million from the School Aid Fund to the State's General Fund.
 - The School Aid Fund has a negative cash balance.
- Voters have rejected proposed millage increases.
 - Communities are engaged in heated debates over potential closures of libraries and senior centers.

Impact on Other Governments

- Governments who fail to reduce their budgets soon enough:
 - Have deficits (liabilities exceed assets)
 - May be in Act 72 and under an Emergency Financial Manager
 - May be a severe credit risk and have difficulty securing additional debt
 - May run out of cash

Impact on Other Governments

- Pontiac is in Act 72 and has a deficit in its General Fund of \$5.6 million as of 6/30/09. The deficit will grow until the city's projected budget shortfall is resolved.
 - 2011: \$10 million projected shortfall
 - 2012: \$19 million projected shortfall
 - 2013: \$31 million projected shortfall
- If Pontiac cannot secure additional debt, the City may run out of cash, potentially as soon as early 2011.

Impact on Other Governments

- Wayne County recently announced an estimated accumulated deficit of \$266 million projected for the year-end on 9/30/10.
 - Operating shortfalls are on pace to add \$100 million to Wayne County's deficit annually.
 - Wayne County elected officials are fighting over scarce budget resources with at least two lawsuits between county-wide departments.

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Impact on Other Governments

- Detroit's General Fund deficit as of 6/30/09 was \$332 million.
 - Entity-wide (all funds on a full-accrual basis), Detroit's deficit was \$957 million.
 - Detroit's deficit is likely worse with unresolved operating shortfall in FY 2010 (fiscal year just ended) and in their current FY 2011 which began on July 1.
 - If Detroit is not able to borrow additional money, the City could soon be out of cash (same problem as in Pontiac).

Impact on Other Governments

- Detroit Public Schools is in Act 72
 - As of 6/30/09 the school district had a deficit of \$219 million.
 - The deficit has increased during its 2010 fiscal year which just ended.
 - The deficit will increase during the 2011 year which began on July 1 as operating shortfalls continue.

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Continued Uncertainty

- Governments across Michigan (and throughout the country) must change in order to survive.
- The question is: what will the change be with a new incoming Governor and new legislature?
- What is certain: Oakland County will continue long-term advanced financial planning with further budget reductions required for at least several more years
- We are not done yet.

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