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COUNTY MICHIGAN

L. BROOKS PATTERSON, OAKLAND COUNTY EXECUTIVE

TO: Board of Commissioners
Michael Gingell, Board of Commissioners Chairperson
Michael Bouchard, Sheriff
Lisa Brown, Clerk / Register of Deeds
Jessica Cooper, Prosecuting Attorney
Andrew Meisner, Treasurer
James Nash, Water Resources Commissioner
Honorable Nanci Grant, Circuit Court Chief Judge
Honorable Linda Hallmark, Probate Court Chief Judge
Honorable Julie Nicholson, 52nd District Court Chief Judge

FROM: L. Brooks Patterson, County Executive

SUBJECT: Budget Projections for FY-2016 - FY2021 (Long-Range Fiscal Plan)

DATE: April 28, 2016

Attached is the recently completed "Oakland County Long-Range Fiscal Plan - Summary of Future Operating Issues and Related Resolution" dated April 25, 2016. The Long-Range Fiscal Plan Summary report identifies and discusses potential financial issues facing the County and proposes means to resolve those issues. The Fiscal Plan Summary is an update of significant events and business issues, which quantifies the estimated impact on the County's General Fund operating budget and equity through Fiscal Year (FY) 2021.

The Fiscal Plan serves as the preliminary basis for the development of the County Executive's Recommended Triennial Budget for FY-2017 through FY-2019 which will be presented to the Board of Commissioners by July 1. I am pleased to report that the FY-2016 through FY-2021 Fiscal Plan analysis indicates that, as of today, it will not be necessary to assign budget tasks to our operating departments for the current budget development cycle. This represents the fifth year of consecutive budget cycles that budget reduction tasks have not been requested of the County's elected officials and department heads.

Significant economic challenges in prior years, caused by the Great Recession and events largely out of the control of Oakland County government, required the allocation of significant, remedial "budget tasks" to County operating departments to insure fiscal stability. Oakland County's public officials met those challenges and, acting together as partners, weathered the fiscal storm. The continuing collaboration between the county-wide elected officials, the Board of Commissioners and our dedicated employees in sharing the economic burden for the betterment of the County is a qualitative asset of immense value.

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As a result of our collective efforts, I am pleased to report that the Fiscal Plan is balanced through FY-2021. While this Fiscal Plan demonstrates continued declining use of General Fund equity to support General Fund operations, our challenge is not yet over. Longer-term, the County's budget must become structurally balanced which is defined as the point when ongoing annual operating revenues are in balance with ongoing annual operating expenditures without reliance on use of fund balance. Given our proven track record as a team of committed leaders and our focus on long-range proactive planning, I am confident that together we will achieve structural balance within the next few years. Also, we will be able to continue providing high-quality services that our constituents not only expect, but deserve.

I look forward to your continued leadership and cooperation in the future.

OAKLAND COUNTY LONG-RANGE FISCAL PLAN

SUMMARY OF FUTURE OPERATING ISSUES AND RELATED RESOLUTION
Fiscal Year 2016 through Fiscal Year 2021

OAKLAND COUNTY, MICHIGAN

April 25, 2016

SUMMARY SCHEDULE - GENERAL FUND FUTURE FIVE YEAR FISCAL PLAN
OAKLAND COUNTY, MICHIGAN
April 5, 2016

			Fiscal Year (000s)					
			Adopted			Proposed	Proposed	Projected
	Description	**Notes**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
	Adopted Budget - FY-2016 to FY-2018:							
	Revenues - total	A	$ 401,292	$ 407,703	$ 416,536	$ 423,885	$ 431,172	$ 431,172
	Expenditures - total	A	(430,655)	(438,884)	(443,382)	(445,690)	(447,998)	(447,998)
1	**Planned Use of Equity**		(29,363)	(31,181)	(26,846)	(21,805)	(16,826)	(16,826)
	Beginning Equity at October 1 - net, see below reconciliation*	A	242,189	212,826	181,645	154,799	132,994	116,168
	ENDING EQUITY AT SEPTEMBER 30 BEFORE ADJUSTMENTS		**$ 212,826**	**$ 181,645**	**$ 154,799**	**$ 132,994**	**$ 116,168**	**$ 99,342**
	Projected Adjustments to Operating Budget							
	Operating Revenue Adjustments:							
	Property value adjustments in comparison to adopted budget:	B						
	FY 2016, net change after personal property manufacturing exemption		$ (2,690)	$ (2,690)	$ (2,690)	$ (2,690)	$ (2,690)	$ (2,690)
	Offset: state reimbursement for personal property exemption		2,400	2,400	2,400	2,400	2,400	2,400
	FY 2017, no change in assumed growth rate of 4%		-	-	-	-	-	-
	FY 2018, +1% for revised assumed growth rate of 5%		-	-	1,900	1,900	1,900	1,900
	FY 2019, no change in assumed growth rate of 4%		-	-	-	-	-	-
	FY 2020, +1% for revised assumed growth rate of 4%		-	-	-	-	2,000	2,000
	FY 2021, +4.0% over FY 2020		-	-	-	-	-	8,000
	Convention Facility Liquor Tax	C	1,250	1,250	1,250	1,250	1,250	1,250
	Subtotal - Revenue Adjustments		$ 960	$ 960	$ 2,860	$ 2,860	$ 4,860	$ 12,860
	Operating Expenditure Adjustments:							
	Proposed salary increase, increase to 2% in FY 2018*	D	$ -	$ -	$ (2,300)	$ (2,300)	$ (2,300)	$ (4,700)
	Estimated ARC for DB pension (effect of 2015 & 2016 market)	E				-	(2,000)	(5,000)
	Reduction in fringe benefit rate	F	5,500	-	-	-	-	-
	Facilities and technology projects	G	(5,500)	-	-	-	-	-
	Subtotal - Expenditure Adjustments		$ -	$ -	$ (2,300)	$ (2,300)	$ (4,300)	$ (9,700)
2	**Subtotal - Projected Net Adjustments to Operating Budget**		**$ 960**	**$ 960**	**$ 560**	**$ 560**	**$ 560**	**$ 3,160**
	Non-budgeted Items/Assignments Impacting Fund Balance							
	General favorability/turnover	H	12,000	8,000	8,000	8,000	8,000	8,000
	Security enhancements (agove non-departmental annual appropriation)	I	(2,170)	(2,174)	(3,569)	(2,715)	1,015	1,015
	Helicopter engine rebuild	J	(350)					
	Technology projects	K	(1,065)	(11,008)	(11,500)	-	-	-
	Transfer to debt service fund	L	(7,000)	-	-	-	-	-
	Small business microloan program	M	(200)					
	Resentencing hearings for juveniles serving life sentence	N	(600)	(600)				
	Water quality monitoring/enhancements	O	(500)	(1,500)				
	Tri-party road project funding	P	(2,900)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
	Local road project funding (non-county roads)	Q	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
3	**Subtotal - Non-budgeted Items/Assignments Impacting Fund Balance**		**$ (3,785)**	**$ (10,282)**	**$ (10,069)**	**$ 2,285**	**$ 6,015**	**$ 6,015**
4	**Net Adjustments to Planned Use of Fund Balance**		**$ (2,825)**	**$ (9,322)**	**$ (9,509)**	**$ 2,845**	**$ 6,575**	**$ 9,175**
(items 2+3 above)								
	ESTIMATED ENDING EQUITY AT SEPTEMBER 30 AFTER ADJUSTMENTS:							
	Adjusted Beginning Equity at October 1	*	$ 242,189	$ 210,001	$ 169,498	$ 133,143	$ 114,183	$ 103,932
From 1 above	Budgeted Use of Fund Balance as Adopted on 9/20/2015		(29,363)	(31,181)	(26,846)	(21,805)	(16,826)	(16,826)
From 4 above	Net Adjustments to Planned Use of Fund Balance		(2,825)	(9,322)	(9,509)	2,845	6,575	9,175
	REVISED ESTIMATED YEAR-END FUND BALANCE PROJECTION		**$ 210,001**	**$ 169,498**	**$ 133,143**	**$ 114,183**	**$ 103,932**	**$ 96,281**
	Targeted Equity at September 30, 2021 (20% of Expenditures)							$ 91,540
	Projected Amount Above (Below) Targeted Fund Balance							$ 4,741

Beginning equity as of Oct. 1, 2015, as reported	A	$ 260,204
Restrictions of General Fund Equity:		
Land sales operations	A	(15,191)
Prepaid expenses and inventory	A	(490)
Carry-forward amounts	A	(2,334)
Total Restricted Equity Unvavailable for Discretionary Operations		(18,015)
Beginning equity available for future operations	*	**$ 242,189**
Projected fund equity as of September 30, 2021		**$ 96,281**
Estimated use of fund equity, FY 2016 - FY 2021		**$ (145,908)**

NOTE - See footnote and report covering the approach, content and other comments relating to the above Summary Schedule.

Adopted budget included a 2% general salary increase in FY 2017, 1% in FY 2018 through FY 2020

LONG-RANGE FISCAL PLAN FOR OAKLAND COUNTY'S FUTURE: SUMMARY OF OPERATING / BUDGETARY SHORTFALLS, BUSINESS ISSUES AND RELATED RESOLUTION

OAKLAND COUNTY, MICHIGAN
April 25, 2016

The "Long-Range Fiscal Plan for Oakland County's Future: Summary of Operating Issues and Related Resolution" ("Fiscal Plan") dated April 5, 2016 is presented in this document. It is the first step in the process of recommending adjustments to the approved amended budget for FY-2016 through FY-2018 and preparing the budget recommendation for FY-2019 and beyond for General Fund / General Purpose operations. This Fiscal Plan has been prepared using data from:

- the closure of Oakland County's accounting records for FY-2015;
- the first quarter forecast for current FY-2016 operations;
- the Equalization Report for property valuations as of December 31, 2015;
- recent discussions pertaining to the recommended general salary increase;
- recent State Legislative actions;
- Governor's recommended operating budget for FY-2017;
- recent economic reports; and
- other events having occurred since the approval of the FY-2016 to FY-2018 operating budgets in late September 2015 by the Board of Commissioners.

SUMMARY

Based on the projections and assumptions cited later in this Fiscal Plan, it is projected that budget tasks will not be necessary for the development of the County Executive Recommended Budget for FY-2017 through FY-2019. This represents the fifth year of consecutive budget cycles that budget reduction tasks have not been requested of the County's elected officials and department heads.

As of September 30, 2015, General Fund equity was $260.2 million. After deducting $18.0 million of restricted General Fund equity, $242.2 million of unrestricted equity remains available on a limited one-time basis to support future operations until the County once again attains structural balance when annual ongoing operating revenues are sufficient to support annual ongoing operating expenditures.

The budget plan approved by the Board of Commissioners in September 2015 includes deliberate use of General Fund equity through FY-2018 in a planned manner to mitigate future projected operating shortfalls, all while leaving an acceptable level of equity in the General Fund (and all related operating funds that impact the General Fund) as of September 30, 2018. Using the adopted budget for FY-2016 through FY-2018 as the starting point, this long-term

Fiscal Plan includes the current FY-2016 budget and the next five-year period of FY-2017 through FY-2021, including adjustments for current business issues.

During the current FY-2016 and the subsequent five-year forecast period covered in this Fiscal Plan, the General Fund is anticipated to use $145.9 million in equity to balance the operating budgets through FY-2021, bringing the ending unrestricted equity to $96.3 million, which is above the equity target of $91.5 million as of September 30, 2021. The equity target represents approximately 20% of estimated FY-2021 expenditures, in conformance with the Fund Balance Policy as adopted by the Board of Commissioners with Miscellaneous Resolution # 15175. The target fund balance amount is designed to meet best practice recommendations identified by the Government Finance Officers Association (GFOA). This practice has helped the County in retaining the coveted 'AAA' bond rating.

The projected $96.3 million fund balance as of September 30, 2021, is $4.7 million above the minimum 20% target. The cumulative projected "favorable variance of excess equity over target" is positive news after several years of fiscal uncertainty surrounding the period of the Great Recession. However, given that the cumulative total amount of estimated operating expenditures over the next five years is approximately $2.2 billion, that $4.7 million of projected favorable equity averages slightly less than $1 million annually and represents only approximately .2% of marginal favorability when compared to total expenditures over the next five years.

Viewed another way, if the General Fund operating budget were to experience something unexpected that resulted in an ongoing annual negative budgetary impact of about $1 million or more, there would be no "favorable variance of excess equity over target" and adjustments to the budget and fiscal plan would be required. These adjustments could require delaying, reducing, or eliminating future one-time capital projects; severe unexpected budgetary impacts could potentially require reductions in ongoing operations as well. Given recent demands for State funding and other issues outside of the County's control (discussed more fully later in this document), such uncertainties could have a negative impact on funding provided by the State to the County or require increased expenditures by the County, which would likewise negatively affect the Fiscal Plan presented herewith.

The Fiscal Plan projections demonstrate that, overall, there is a decreasing reliance on planned use of available General Fund balance for ongoing operations. Use of fund balance should be considered to be a one-time resource that once spent is no longer available and is only replenished when there is an annual operating surplus. It is projected that fund balance will be available to fund some limited one-time projects, primarily capital in nature and in lieu of issuing long-term debt to fund these proposed capital projects. Oakland County's ability to use a limited amount of General Fund equity is the result of planned budget reductions during the Great Recession in order to balance the budget over a longer term.

In order to sustain the long-term fund balance minimum targeted amount, the County's budget must become structurally balanced which is defined as the point when ongoing annual

operating revenues are in balance with ongoing annual operating expenditures without reliance on use of fund balance. The future five-year Fiscal Plan demonstrates that new budget tasks are not required at this time. Budget projections for the future are moderately improving when compared to past years' forecasts which were prepared during and subsequent to the Great Recession.

This report describes the favorable and unfavorable operating results for FY-2015 in the General Fund and for those operations impacting the General Fund leading up to the ending fund equity positions as of September 30, 2015. When complete and with the fulfillment of the assumptions described, the General Fund equity position should be no less than the targeted equity amount of $91.5 million at September 30, 2021, or roughly 20% of FY-2021 projected expenditures.

BUDGETARY GOALS

The County's budgetary goals have been achieved continually by the early adoption and implementation of management actions by all operating departments. The cooperation of County-wide elected officials has been one of the most important distinguishing qualitative assets contributing to the success of Oakland County's long-range fiscal strength. Continued cooperation between County-wide elected officials is critical to maintain these goals.

The budgetary goals expressed by the County Executive, with demonstrated support by the Board of Commissioners and the other county-wide elected officials, include:

- Retain stable and essential services to the public while minimizing involuntary employee separations.

- Avoid increasing taxes and fees on County residents and businesses whenever possible.

- Manage grant funded programs within the limited amount of special revenue provided for those programs. Grant programs no longer funded at prior year levels by grantors are restructured, reduced, or eliminated as needed consistent with reductions in special revenue grant funds. Alternatively, if an operating department aspires to continue such a grant program, specific alternative sources of funding shall be identified and approved by the Board of Commissioners, such as allowable and sustainable reductions in other program expenditures within the affected department or new revenue sources so that there is no net increase in demand for General Fund appropriation. This grant funding practice is designed to prevent assumption of new program obligations within the General Fund that could potentially "crowd out" other necessary services which are dependent upon general County resources.

- Retain the County's financial strength in stable fund equity and cash positions in all operating funds; provide adequate cash flows throughout the year to meet operating needs.

- Maintain low outstanding bonded debt.

- Restrict the use and reliance on equity and other 'one-time' budget "sources" in solving ***structural*** operating shortfalls.

- Rely heavily on strong accounting, budgeting and other business practices in achieving long-range planning efforts.

- All new major capital and technology projects are to undergo a rigorous return on investment analysis before they are launched. Capital projects are to be funded out of current operations to the extent feasible.

- Provide continuous communication with County-wide elected officials and the public concerning the status of the operating budget. If and whenever expenditure reductions are needed, the County-wide elected officials are encouraged to resolve their share of operating shortfalls in order to avoid unwanted interference from County administration and the Board of Commissioners.

- Address adverse budgetary situations on a timely basis with actions that serve to mitigate the budgetary impact on current and future operations.

- Provide residents and businesses with meaningful open access to County records, forms and other information via the County's web site and through public forums.

To date, these goals have been embodied in operating budgets adopted by the Board of Commissioners and honored by Oakland County's elected officials. Over the past several years, all County-wide elected officials have restructured operations and met allocated budgetary tasks when needed such that Oakland County is one of only a few governmental units with balanced multi-year, line-item, operating budgets that are adjusted frequently on a 'rolling' basis for known events to benefit current and future operations.

The bond rating firms, which have objectively analyzed the County's financial condition, have recognized the County's strong business practices and have awarded the County with coveted AAA bond ratings in prior debt issuances even as their rating standards criteria have become more strict.

Oakland County successfully weathered the fiscal storms of the last decade and met each of the budgetary goals. Presently, as outlined in the Fiscal Plan, Oakland County's budget is balanced, including some adjustments that will be included with the County Executive's Recommended

Triennial Budget for FY 2017 – FY 2019, and with the expectation that an appropriate level of equity can be maintained between now and September 30, 2021.

SUMMARY SCHEDULE

The attached Fiscal Plan schedule entitled "Summary Schedule – General Fund Future Five Year Fiscal Plan" (Summary Schedule) and this related explanatory report are presented based upon financial analyses created by the Fiscal Service and Equalization Divisions of Oakland County's Department of Management and Budget with input from other departments and economic forecast reports. This Fiscal Plan is a high-level financial planning and strategic report that summarizes the results of Oakland County's budgeting process, identifies known budgetary exposures, and assists in setting fiscal and fund equity targets as the starting point for the preparation of the recommended triennial FY-2017 through FY-2019 operating budgets and the longer term five-year forecast.

In last year's Fiscal Plan, the three years of adopted budgets / plans were included with the proposed next two years' forecast. The current Fiscal Plan includes an additional year (e.g. FY-2021) for consideration by the County Executive in developing his budget recommendations, due to the Board of Commissioners on July 1.

The Fiscal Plan and related analyses rely on:

- the closed September 30, 2015 accounting records which have now been audited and the Comprehensive Annual Financial Report for the year then ended released,
- the FY-2015 through FY-2018 County operating budgets and plans as adopted by the Board of Commissioners in September 2015, which are continually monitored and amended as needed,
- analysis of fiscal matters arising after the Board's adoption of the County's FY-2016 through FY-2018 operating budget,
- projections for the future property values used in calculating property tax revenues, and
- other financial information.

The FY-2019 and FY-2020 projections are based on the five-year forecast contained within the County Executive's budget message and included in the budget document that was adopted in September 2015. The FY-2020 forecast assumptions have then been rolled over as a starting point for FY-2021 for the extension of an additional year in the long-term forecast. Then, all fiscal years affected by this Plan, including the current FY-2016 and the future five years of FY-2017 through FY-2021, have been modified with macro adjustments for revenue and expenditure items.

Over most of the past decade, General Fund equity grew as planned as a result of budget adjustments that were initiated in advance of forecasted potential budgetary shortfalls. During the year ended FY-2015, the equity increased as well, arising from various actions taken as outlined subsequently, even as the prior Fiscal Plan indicated a reduction in equity. The

accumulated growth of General Fund equity over the past decade allows for the declining use of that equity during the FY-2016 through FY-2021 period. It is projected that planned use of General Fund equity will decrease from approximately $32.2 million in current FY-2016 to $7.7 million by September 30, 2021. *This planned use of equity that has been acquired in excess of targets allows the County to provide stable services to the public, provides employment security for County employees necessary for the execution of those services, mitigates fee and tax increases, and otherwise allows departments to fulfill the operating goals cited in this Fiscal Plan.*

Proceeds from the planned growth of General Fund equity in prior years are being used to help cover any remaining structural operating shortfalls through FY-2021. An operating budget shortfall means the County is annually projected to spend more than the annual revenue levels alone will support. As reflected in the budget adopted in September 2015, amounts budgeted in use of fund equity to balance annual operating shortfalls through FY-2020 were $29.4 million in FY-2016, and are $31.2 million in FY-2017, $26.8 million in FY-2018, $21.8 million in FY-2019, and $16.4 million in FY-2020. The combined total for use of fund equity to support ongoing annual operations over that five-year period is $126.0 million based on the budget adopted in September 2015.

For current FY-2016, the first quarter results in a forecasted favorable variance of $12.0 million for General Fund operations. However, it is anticipated that $15.8 million of available General Fund equity will be used or committed during FY-2016 for one-time purposes, primarily for additional major capital projects as will be discussed in more detail in this report. These capital projects are in addition to the annual appropriations already provided for in the adopted budget for maintenance of existing capital assets. As of the date of this report, the net effect is an anticipated reduction in General Fund equity of $32.2 million in FY-2016 for both ongoing operations and additional one-time major capital projects.

The use of the planned growth in the General Fund equity and the process used to ensure the stability of services to the County's residents is highly dependent upon the continued cooperation of the County's elected officials to rise above individual departmental needs for the betterment of the solid fiscal condition of Oakland County. This cooperation is the cornerstone of the retention of the AAA bond rating and the fiscal respect held by Oakland County in the region and State.

As has been the case for decades, Oakland County's administration continually monitors the budget and actual results of both the current year and future years' budgets on a monthly, quarterly and annual basis. Budgetary adjustments for all fiscal years are proposed at every Finance Committee of the Board of Commissioners to reflect changes in operations and / or budgetary assumptions subsequent to the adoption of the operating budgets from the prior September (hence, the process is often referred to as a 'rolling budget'). This updated Fiscal Plan reflects only those business issues having a <u>new net impact</u> on the operating budgets as reflected on the Summary Schedule and discussed as follows.

NOTES TO SUMMARY SCHEDULE

The footnote references included on the attached "Summary Schedule – General Fund Future Five Year Fiscal Plan" (Summary Schedule) are explained below.

Note A – General Fund Equity Prior to Recommended Adjustments

As reflected in the Summary Schedule, the General Fund equity as of September 30, 2015 is the starting point in determining whether projected equity is sufficient to offset any projected operating shortfalls accumulated for the periods FY-2016 through FY-2021. These amounts are based on the budget as adopted in September 2015 and then adjusted for subsequently identified issues which are quantifiable and have either a positive or negative impact on the budget or General Fund equity position. In brief summary, the ending General Fund equity as of September 30, 2015 is stronger than the amount projected in the Fiscal Plan dated March 31, 2015, which the adopted budget was based on, for the following reasons:

- The most significant reason why the equity position increased over previously set projections is the continued prudence by operating departments to voluntarily control spending. Also, the County maintains a strong position control and position budgeting system and adheres to the practice of budgeting for full employment. Should vacancies occur or if positions are filled at a level lower than authorized, the resulting favorable variance falls to fund balance. In total, General Fund expenditures were 7.91% under budget for FY-2015 resulting in approximately $35.1 million of expenditure favorability.

- Total operating revenues were also favorable, with nearly $11.4 million in favorable revenue variance or 2.82% more than budgeted. The revenue favorability was primarily attributed to full restoration of State shared revenue sharing and charges for services related to real estate activity, including land transfer taxes, mortgage and deed recordings, and sales of tax-foreclosed properties.

- The County used approximately $13.9 million of its fund equity during FY-2015 for one-time type of expenditures.
    - $7.4 million of restricted fund balance was provided to the Community Mental Health Authority for substance abuse programs. These programs were formerly provided by the County's Health Division but a change in the State law transferred responsibility for substance abuse service delivery to the local mental health authority.
    - $6.5 million of unrestricted fund balance was appropriated primarily for capital projects (technology, building security enhancements, Tri-party road projects, and Sheriff helicopter maintenance) and expenditure appropriations that were carried forward from FY-2014 to be spent in FY-2015.

Although the FY-2015 amended budget included the planned use of approximately $40.3 million of fund balance to support operations, it was not used as planned because total

operations were favorable by $46.4 million in total for revenue and expenditures. The end result was an operating surplus in FY-2015 which increased General Fund equity by $6.2 million. More details regarding the County's operating results for FY-2015 are included with Board of Commissioners Miscellaneous Resolution #15315, Fiscal Year 2015 Year-end Report and Budget Amendments.

To determine how much of the fund equity is available for future operations, the total ending equity as of September 30, 2015 has been reduced for those components that are restricted by law or other commitments in the amount of $18.0 million. The General Fund equity restrictions include matters such as: land sales transactions (formerly a separate fund), encumbrances (expected to be spent directly after year end), prepaid expenses, inventory, and carry-forward amounts. Because these dollars cannot be used for other discretionary General Fund operations, the amounts have been eliminated in the reconciliation of available General Fund equity in the Summary Schedule. The reconciliation results in an adjusted beginning net equity amount of $242.2 million as of October 1, 2015 for use in resolving operating shortfalls in FY-2016 and beyond as noted previously.

Note B – Property Tax Revenue Adjustments

The 2015 Equalization Report published last year on April 23, 2015, reported a 10.39% increase in County-wide assessed value, the largest increase since 1999. However, because of State constitutional tax limitations, County-wide taxable value increased by only 3.69% in FY-2015.

Now that property values are increasing above the rate of inflation, the Headlee Constitutional Amendment of 1978 in general results in a required rollback for the County's maximum allowable tax rate. Last year, the required rollback reduced the County's maximum allowable tax rate by .0072 mills for a maximum authorized rate of 4.2168 mills. Prior to last year, a rollback had not been required for the prior 10 years, since 2005. To be proactive in this matter, Oakland County has always levied a millage rate below the maximum authorized rate. The County Executive Administration monitors the variables that impact the Headlee rollback calculation in order to foresee the potential for constraint on the millage in the future. (A full discussion regarding the different variables that impact the Headlee rollback calculation is included in last year's memorandum dated March 31, 2015 regarding the Fiscal Plan.)

Based upon the County Executive's recommendation, the Board of Commissioners approved two recent reductions in the millage rate. Last year for the July 2015 levy, the millage rate was reduced from 4.19 mills to 4.09 mills. The July 1, 2016, property tax levy for FY-2016 general County operations will be reduced further from 4.09 mills down to 4.04 mills. The current millage rate of 4.04 mills is well below the recently rolled back maximum authorized rate of 4.1868 for 2016. As anticipated, if the County had not proactively reduced its millage rate which used to be 4.19 mills prior to last year, the Headlee provision would have required the County to reduce the millage rate. Based on current economic conditions, including projected future changes in the consumer price index, it is not anticipated that the County needs to reduce its millage rate below the current 4.04 mills. The County Executive Administration will

continue to monitor the affected variables to stay ahead of Headlee rollback requirements in the future.

The budget as adopted in September 2015 and the five-year forecast included in the budget message provided for an estimated 3% increase in taxable value for FY-2016, an annual increase of 4% from FY-2017 through FY-2019, and a 3% increase in FY-2020.

Calculating property values and tax revenue has now become a bit more complicated for local governments as a result of personal property exemptions. For 2016, the second phase of newly implemented personal property tax exemptions has noticeably impacted assessed and taxable values. The Michigan Legislature approved a series of bills in 2012 and 2014 to phase out and eventually eliminate industrial and commercial personal property tax (PPT), which voters approved by statewide vote in August 2014. The intent of the legislature is to eventually reimburse local communities for the reduction in property tax revenue resulting from the PPT exemptions.

The first phase of the PPT plan took effect on January 1, 2014, with the small taxpayer exemption (STE) for business owners with combined personal property valued at less than $80,000 (taxable value of less than $40,000). The State reimbursed only cities in 2015 for lost tax revenue resulting from the STE. Counties were not reimbursed, but the impact did not result in a reduction to the County's budgeted estimates since the STE was considered when those estimates were developed.

The second phase took effect in 2016 which provides an exemption for eligible manufacturing personal property (EMPP) acquired before 2006 or after 2012 (personal property older than 10 years and new personal property). If an EMPP taxpayer files an affidavit for this exemption, then the taxpayer must pay an alternative Essential Services Assessment (ESA) to the State. In theory, beginning in 2016 all local governments are eligible for 100% reimbursement resulting from the STE and EMPP exemptions. Counties will receive reimbursement in September 2016. For 2016, local governments are being told that sufficient funding is available for 100% reimbursement.

However, the amount of reimbursement is dependent on the amount provided by the ESA each year. If ESA funding becomes limited in future years, reimbursements will be based on prioritized tiers. For example, debt obligations of tax-captured districts and specific millages for "essential services" (such as law enforcement millages) would be considered high priorities, and those reimbursements would be paid first. The lowest priority would be operating millages used for "non-essential service" losses. The reimbursement formula, and its application, is very complicated which creates uncertainty regarding the future financial impact to the County as a result of the new PPT exemptions.

The impact of the EMPP in 2016 is a reduction in personal property values, -12.20% in assessed value and -12.22% in taxable value. This results in a reduction in property tax revenue of approximately $2.4 million which is offset by the expected $2.4 million of State reimbursement

resulting in a neutral impact on the County's budgeted amount for the PPT exemptions. However, it is more difficult to articulate the annual overall percentage change in assessed and taxable values since there has to be an adjustment now for the PPT exemptions when comparing to the prior year's data.

County-wide taxable value increased by 1.72% in FY-2016, which includes the -12.22% reduction from the personal property exemptions. Excluding personal property, real property taxable value increased by 2.84%, slightly less than the 3.0% that was budgeted (approximately $290,000 less property tax revenue when compared to the estimate developed a year ago). Assessed values increased by 7.04% which includes the -12.20% reduction from personal property exemptions; real property assessed value increased by 8.35%.

One of the variables that suppressed the taxable value increase for 2016 is the low .3% increase in the Consumer Price Index (CPI) for the period October 1, 2014 through September 30, 2015 which sets the capped limit on the taxable value increase for existing properties without a transfer of ownership. Based on data presented to the State Revenue Estimation Conference held in January 2016, the consensus economic forecast includes the following estimated changes in CPI by calendar year: .1% in 2015, 1.6% in 2016, 2.3% in 2017, and 2.4% in 2018.

Based on the projected change in CPI and other economic conditions, the Fiscal Plan includes an estimated change in County-wide *taxable value* as follows for the period FY-2017 through FY-2021 (quantified in the summary schedule):

- FY 2017: +4.0%, (same as adopted budget)
- FY 2018: +5.0%, (1.0% improvement over the adopted budget)
- FY 2019: +4.0%, (same as adopted budget)
- FY 2020: +4.0%, (1.0% improvement over the adopted budget)
- FY 2021: +4.0% (new year added beyond adopted budget period)

Note C – Convention Facility Liquor Tax Distribution

The State collects liquor tax which is deposited in the State Convention Facility Development Fund for redistribution back to the counties. State law requires that half of the liquor tax revenue received by the County must be used to fund substance abuse programs (which subsequently gets transferred to the Oakland County Community Mental Health Authority as the provider of those services on behalf of the County). The other half is retained in the County's General Fund. Liquor tax revenues collected by the State have increased steadily over the past two decades. Based on the past several years' experience which resulted in increased liquor tax distributions paid to the County, the budget as adopted in September 2015 included a conservative increase of $1.0 million for this revenue source. The current Fiscal Plan recognizes an additional net $1.25 million annually to the County's General Fund (after 50% transfer to the mental health authority).

Note D – Proposed Salary Increase

Included in the Adopted Triennial Budget for FY-2016, FY-2017 and FY-2018 operating budgets are general salary increases of 3.0%, 2.0% and 1.0%, respectively for all County employees. With the anticipated need to recruit (due to retirements) and retain (due to competition in the labor market), it is imperative that the County's "total compensation" package be competitively positioned. Based on the County's history of cuts in wages and benefits, the County's package will not "lead" the market but it must remain within striking range. As the traditional lure of public sector employment, namely employee benefits, begins to look more and more like private sector (e.g., defined contribution pension plans, a retiree health care savings plan, higher health care contributions, etc.), the benefit package distinction diminishes and competitive salary becomes a more critical component of total compensation. Competition in the labor market is evident and it is becoming more of a challenge to recruit and retain experienced, high-quality employees.

The Fiscal Plan includes an adjustment to the proposed general salary increase above what is included with the budget that was adopted in September 2015 with an additional 1% in FY-2018 (for a total general salary increase of 2%). The recommended salary increase for FY-2017 at 2% is unchanged from the adopted budget. At this time, an annual 1% general salary increase assumption is included for FY-2019 through FY-2021 which will be revisited and addressed in future fiscal plans as the County strives for continued improvement in the operating budget as has been demonstrated in the past.

Note E – Pension Contribution

As of September 30, 2015, the Defined Benefit (DB) pension system is 103.3% funded based on the actuarial value of assets. **Exhibit A** to this Fiscal Plan includes financial projections for the pension system from FY-2016 through FY-2025. Market volatility has resulted in less than expected investment performance for FY-2015 and also for FY-2016 thus far. The financial assumptions and projections included in Exhibit A , discussed as follows, indicate that an annual required contribution (ARC) payment could be required beginning in FY-2020.

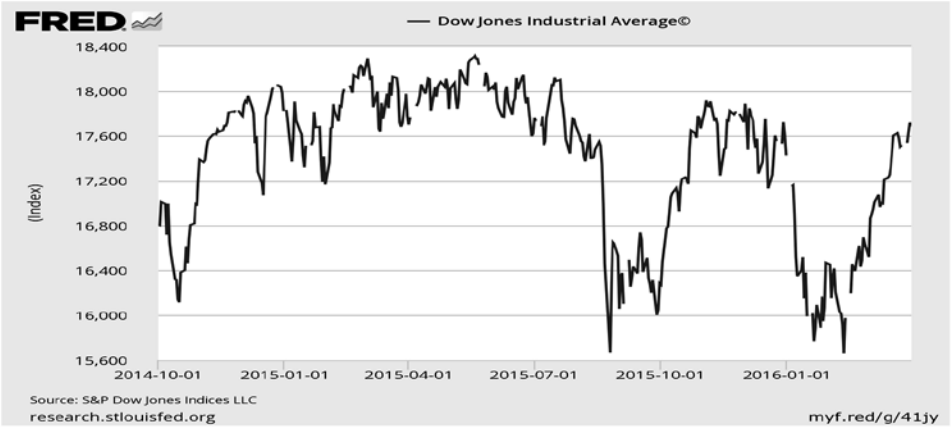
There are three basic components that drive the projected required pension contribution for the County's defined benefit pension plan: market value of the investment portfolio, benefits paid and the actuarial accrued liability (complete with the assumptions used by the actuary to formally calculate the amount).

Comments on each of the three components follow:

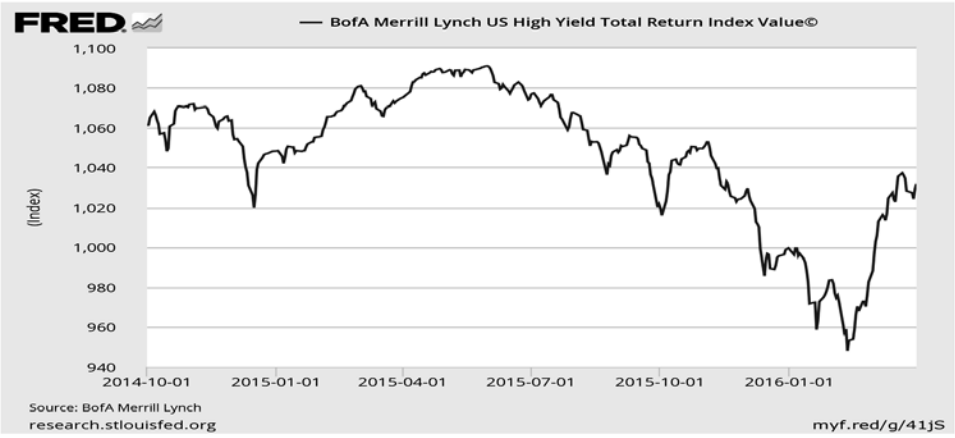
- **Investment Portfolio Value.** The net assets of the pension system portfolio as of September 30, 2015, was $745.7 million, a decrease of $42.2 million after deducting $47.0 million in non-investment net cash outflows (benefit payments offset by employer and employee contributions). Investment income was $4.8 million for FY-2015, yielding a market value return of only .63% during the fiscal year, which is less than the long-

term assumed rate of 7.25%. While the actual investment earned is less than the assumed rate of return, the loss is mitigated in any individual year by the County's 5-year smoothing of investment gains and losses.

For FY-2016, the assumed asset value estimated as of September 30, 2016 is based on the actual valuation of assets at $728.9 million as of January 31, 2016, plus 2% assumed investment growth through the remainder of the fiscal year. This is believed to be a conservative estimate - it recognizes the reduction in asset values since September 30, 2016, and the 2% assumed growth is less than half of the pro-rated growth rate of 4.8% for the remaining eight months of the fiscal year that would be expected if the plan were earning the assumed 7.25% rate. As can be seen from the below charts for the period October 1, 2014 through March 31, 2016, the markets have been very volatile over the past year, which warrants using a conservative approach in estimating the value of the pension system assets as of September 30, 2016 for FY-2016 actuarial purposes (rather than using the assumed long-term growth rate assumption of 7.25%).



(This chart reflects recent equity market volatility.)



(This chart reflects recent bond market volatility.)

For FY-2017 through FY-2025, the increase in net assets is based on the 7.25% assumed long-term rate of return less the amount of non-investment net cash flow.

- **Non-Investment Net Cash Flow.** The non-investment net cash flow represents the pension benefits paid less employee and employer contributions.

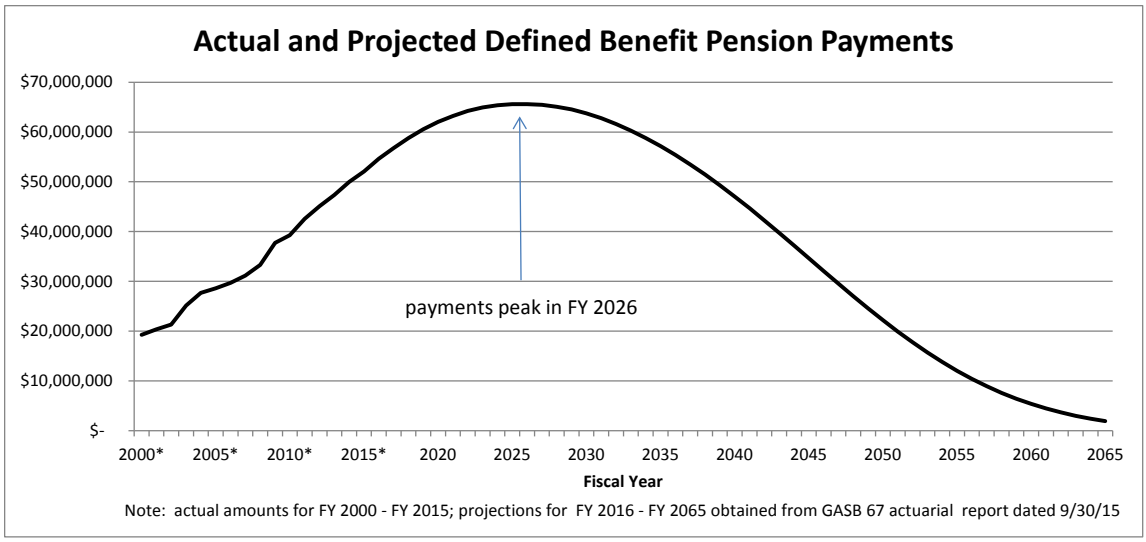
- **Actuarial Accrued Liabilities (AAL).** The most subjective projection relates to the AAL representing the net present value of future pension contributions to be paid to retirees. In the past, the County's projections of this liability have been reasonably accurate, but because of its sensitivity in the calculation of current pension contribution requirements it is a critical input to Exhibit A. The AAL increased by approximately $18.0 million, a sizeable increase in just one year with the most recent FY-2015 actuarial report. Primarily, this increase is the result of a new actuarial assumption study in 2015 with the results of the revised assumptions now reflected in the most recent actuarial report valued as of September 30, 2015. There were three changes in assumptions.

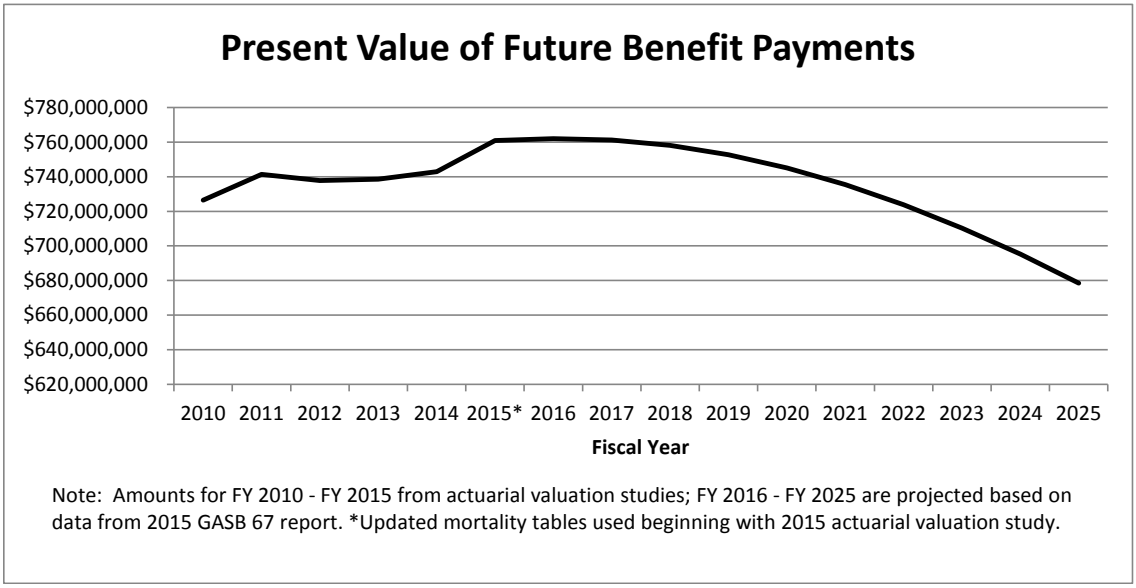
  - The wage inflation assumption decreased from 4.5% to 3.25% annually. This reflects a lower assumed rate of future annual salary increases for current DB-eligible employees for the remainder of their active employment with the County. This change in assumption has the effect of lowering the AAL, but not enough to offset the overall increase in the AAL.

  - The mortality tables were updated based on statistics developed in 2014. Prior to this change, the mortality tables used were based on 1994 data. Life expectancies have increased, so pension payments for the average retiree will continue for a longer period, resulting in an increase to the AAL. This was the most significant assumption change for the overall increase in AAL.

  - The actuarial cost method changed from the aggregate method to the individual entry-age method. This basically changes how the AAL is amortized over future funding periods and reduces the amount of work required to meet the requirements of new accounting and actuarial standards.

  Using the base AAL as of September 30, 2015 ($760.8 million), the estimate for FY-2016 includes a slight increase in the AAL to $762.0 million. Thereafter, future years' estimated AAL includes a projected continued decline. The analysis for the projected future decline in AAL is illustrated in the following charts, which is based on future projected DB payments provided by the actuary and the present value of those projected payments. Payments to DB plan retirees are anticipated to peak in FY-2026 since the DB plan has been closed since 1994; currently only 9.7% of active employees are enrolled in the DB plan, and the other 90.3% of active employees are enrolled in the Defined Contribution plan.



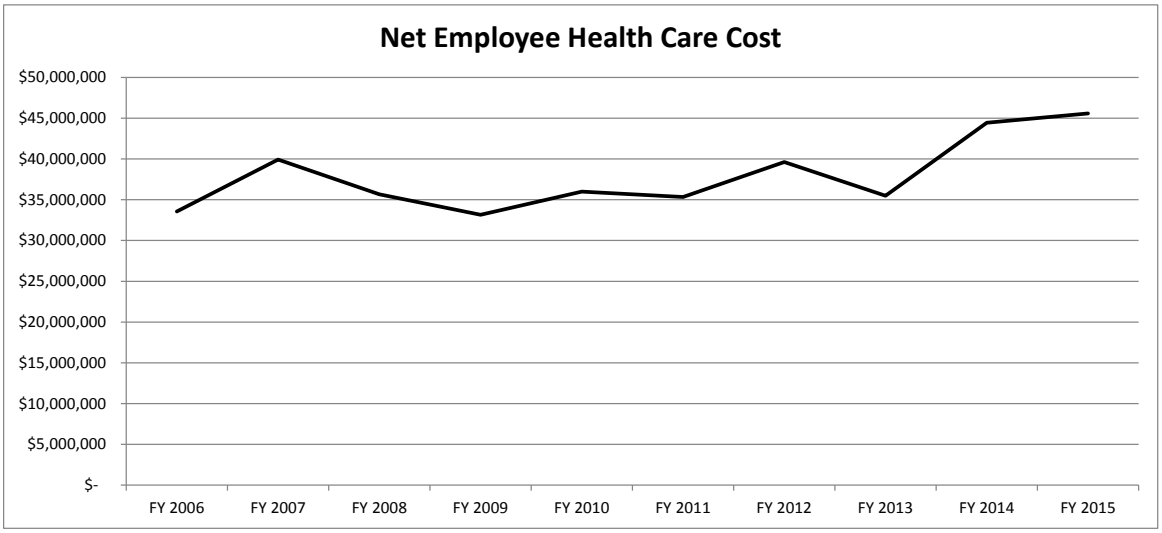


Unless market conditions improve significantly, an ARC payment is expected to be required beginning in FY-2020 as shown in Exhibit A. If market conditions deteriorate or are significantly unfavorable on the fiscal year-end specific measurement date of September 30, an ARC payment could be required sooner than the FY-2020 period. Note: there is a two-year lag between the valuation date of the actuarial report and the actuarially-recommended pension contribution. For example, a projected unfunded position as of the fiscal year ending September 30, 2018, would require an ARC payment in FY-2020.

Notes F and G – One-time Fringe Benefit Rate Reduction/Funding for One-time Facilities and Technology Capital Projects

The operating results for the Fringe Benefit Fund have been favorable, particularly for employee health care costs. The County is self-insured for most of its employee health care

costs. In contrast to premium-based plans, self-insured plan costs tend to fluctuate more from year to year, depending upon the timing of actual utilization. As shown in the chart below, the experience in FY-2013 and FY-2014 are good examples of how the costs can fluctuate.



In FY-2013, costs decreased by $4.2 million or -10.4% when compared to the prior year, but then went up by almost $9.0 million or 25.1% in FY-2014. However, when smoothed over that two-year period of FY 2013–FY 2014, the average annual cost increase was $2.4 million or 6.0%, equal to the anticipated rate of increase budgeted in those years. Of particular note, there was a new cost in FY-2014 of approximately $934,000 for taxes recently imposed by the State and Federal governments on employer medical plans designed to fund Medicaid and health care provided under the Affordable Care Act. The County has no control over those imposed costs.

From FY-2008 through FY-2013, annual average employee health care costs (net of employee contributions and prescription rebates) remained flat, primarily the result of: implementation of a wellness program, a reduction in full-time workforce, an increase in employee contributions, drug formulary changes, and co-pay adjustments. Prior to these changes, health care costs were increasing at a 15.6% average annual rate. Since FY-2007 through FY-2014, the annual increase in health care was only 1.7% on average. The FY-2015 budget included an annual increase of 6% for employee healthcare, however, the actual costs only increased by approximately 2.6%.

With the Board of Commissioners' approval of the FY-2016 First Quarter Forecast resolution, an amendment was included to reduce the Fringe Benefit Fund budget by $8 million, facilitated by a one-time reduction in the fringe benefit rate for FY-2016 only. The benefit to the General Fund from the reduced fringe benefit rate is estimated to be $5.5 million, which will be used to fund major one-time capital facility and technology projects. As discussed subsequently with Note K, $3.5 million of the total $5.5 million will be requested for the replacement of the County's digital imaging system.

Note H – General Favorability/Turnover

Since the County budgets for all positions on a "full employment" basis, it is typical for actual operations to result in surplus each year from employee turnover savings. As a result, a provision to reflect anticipated annual budgetary favorability due to 'turnover' has been included in the Fiscal Plan.

As noted earlier in this document, FY-2015 General Fund expenditures were 7.91% under budget resulting in $35.7 million of expenditure favorability, much of that being the result of employee turnover savings. The Fiscal Plan includes approximately $12.0 million of expenditure favorability for FY-2016 based on the projections included in the first quarter forecast. The amount of estimated favorability becomes more conservative for future years at $8.0 million annually.

It should also be recognized that the favorability from employee turnover savings as a result of the County's practice of budgeting for full employment provides a built-in "safety net" if needed. Such safety net can be used to address unknown operating issues or unanticipated capital needs that might arise during the year and will continue to be required to provide flexibility if needed.

Note I – Security Enhancements

The Facilities Management Department along with the Sheriff's Office conducted a building security review, which identified needed enhancements. The FY-2015 budget included an initial annual non-departmental appropriation of $2.9 million for additional law enforcement staff and capital improvements to harden the County's facilities. Specific security projects and new security staffing approved by the Board of Commissioners since FY-2015 have been funded by transferring the required amount from the non-departmental budget to the affected departments. The budget as adopted in September 2015 includes approximately $2.1 million appropriation remaining in the non-departmental security reserve account for continued security enhancements.

Above and beyond the annual $2.1 million appropriation, it is estimated that the following amounts are needed from General Fund equity for additional related capital improvements related to security enhancement: $2.17 million in each FY-2016 and FY-2018, $3.57 million in FY-2018, and $2.72 million in FY-2019. It is expected that all phases of security enhancements will be completed during FY-2019. After that, it is anticipated that the remaining unspent amount of the non-departmental security reserve annual appropriation can be relieved and returned for other County uses, which is estimated to be $1.02 million annually beginning in FY-2020.

Note J – Helicopter Engine Rebuild

With the closing of the accounting records as of September 30, 2015, the General Fund equity included an assigned fund balance in the amount of $877,055 dedicated for the maintenance of two helicopters utilized by the Sheriff's office. In February 2016, the Board of Commissioners authorized an appropriation of $350,000 from this fund balance assignment for a complete engine overhaul for one of the helicopters, which is mandated by the Federal Aviation Administration after 3,600 hours of flight time.

Note K – Technology Projects

Also included in General Fund equity is an assignment in the amount of $18.5 million for the general replacement of aging technology systems, and there is also an additional assignment of $10 million specifically for the replacement of the County's financial and human resources system. Below is an estimated cost summary of major technology projects identified for replacement over the next several years followed by a brief description for each of these projects.

Funding Plan for Major Technology Projects

	(in thousands)			
	FY 2016	FY 2017	FY 2018	Total
Imaging system replacement	$ 3,500			$ 3,500
Offset from one-time fringe rate reduction	$ (3,500)			$ (3,500)
Sheriff Kronos project	274			$ 274
Fire Records Management project	716			$ 716
Esinet project - Sheriff's allocation		358		$ 358
PeopleSoft replacement		5,000	5,000	10,000
Universal communications	250	6,500	3,500	10,250
Offset with available bond funding	(250)	(550)		(800)
Offset with Telephone Communications fund equity		(2,000)		(2,000)
Virtual application desktop infrastructure VDI			2,250	2,250
Identity and access management	75	1,000	750	1,825
Network operations center		700		700
Total needed from General Fund assigned equity	$ 1,065	$ 11,008	$ 11,500	$ 23,573

Imaging System Replacement - This project will implement a new system that is used to capture digital images of paper documents that are then electronically filed and are used in many different work processes across many different departments and divisions. Electronic storage instead of paper provides improved workflow, improved document security and significantly reduced cost of storage. Some of the present and future users of this system include Circuit and Probate Courts, Friend of the Court, Clerk/Register of Deeds, Prosecutor, Medical Examiner, Community Corrections, Payroll, and Human Resources. The current system was implemented in 2007 and its technology is beyond its useful life. The new system will provide the most up-to-date features for document management, imaging and business process management.

Sheriff Kronos Project – This project is to replace the employee scheduling system for the Sheriff's office with the Kronos Telestaff software. Kronos is currently already being used by Children's Village and Facilities Maintenance & Operations. The Board of Commissioners approved use of General Fund equity for this project in February 2016.

Fire Records Management Project – The Fire Records Management System (FRMS) supports the day-to-day management of 36 fire departments with over 2,000 employees. In December 2015, the Board of Commissioners approved an appropriation in the amount of $716,252 from the General Fund equity assigned fund balance for technology replacement. This project is to replace the third-party vendor fire program with a comprehensive suite of enhanced products (modules to include: Inspections, Hydrants, Training, Personnel, Rosters, Vehicles and Equipment) with full functionality that will meet and exceed the federal, state, and local fire service reporting requirements and give the fire departments valuable tools to make their communities a safer place.

Esinet Project, Sheriff's Allocation – The County will be replacing the legacy 9-1-1 copper network with a regional ESInet (Emergency Services IP Network) to prepare for Next Generation 9-1-1 (NG9-1-1). The legacy 9-1-1 network is technology from the 1960's and is not capable of supporting the data of current and future communications and emergency location identification requirements. NG9-1-1 is a national project envisioned as a "network of networks", connecting regional ESInets and State ESInets to national ESInets, with substantially improved redundancy in the event of PSAP dispatch center failures. This will enable 9-1-1 calls to be routed using GIS coordinates instead of the current tabular database created in the 1980's for landlines, and will allow callers to be "eyewitnesses" at emergency scenes with not only voice calls, but photographs, videos, in-car crash systems, and so forth.

When the ESINet is constructed and launched, the funding needed for this capital project will be required over a three-year period. That funding will most likely be secured through a combination of the County's operating surcharge with potential reimbursement through the implementation vendor's access to the State's operating surcharge pool of funds. However, individual dispatch centers will be responsible for the replacement cost of their call processing equipment that will network with the new ESInet. The amount included in the fiscal plan represents the equipment cost specifically for the Sheriff's dispatch center.

PeopleSoft Financial and Human Resources System Replacement - This project will identify and implement new enterprise-wide systems for Human Resources and Financials, which includes modules for Accounting, Financial Planning, Receivables, Payables, Purchasing and Vendor Management. The County's existing PeopleSoft system was installed in two phases: the HR system was implemented in 1998 and the financials in 2006. In addition, both systems have been maintained but not upgraded to new functionality for the last five years. Given their ages, both systems lack many of the work process improvements offered by modern systems.

Analog Telephone System Replacement - Unified (Universal) Communications - This program will link all County facilities and includes the following:

- Converting the County's existing analog phone network to a digitally based Voice Over Internet Protocol (VOIP). This will allow all communications, both voice and data, to use the same physical network.
- It will provide campus wide wireless access for employees and guests (a wireless cloak).
- It will enable the use of video calling to/from all devices on the network.
- It will greatly expand the use of instant messaging between employees.
- It will expand the capacity of the network to allow faster communications between all participants.

Today, the County has two important systems, voicemail and the telephone system, that have reached end-of-life and need to be replaced over the next 24 months. Instead of a like-for-like upgrade, this project will transform the way employees communicate and collaborate with each other as well as with the public. It will provide additional features not currently available including peer-to-peer video conferencing and establish private wireless access to enable mobility.

Virtual Desktop Infrastructure (VDI) - VDI is the practice of running a user desktop inside a virtual machine that lives on a server in the datacenter. The benefits of VDI are not based in cost but in the features it provides. The most valuable benefit of a VDI deployment is increased security and control. A VDI structure also enables easier support, better availability, more appropriate systems for task works and enabling new workforce strategies. The new workforce strategies include remote work and Bring Your Own Device (BYOD). Launching these new workforce strategies will help us transform our working environment and improve team member satisfaction while enhancing our technical security and operational performance as well as reducing administrative and hardware costs in the future.

Identity and Access Management (IAM) - IAM comprises people, processes and products to manage access to Oakland County's IT systems. An IAM will improve the user experience in terms of sign-on management while improving security and reducing complexity in our environment. Today, we have over 20 different authentication methods. A single process and tool will reduce the number of passwords users need to access all of the systems they use to do

their work as well as improving security by allowing smaller applications align to our County standards.

Network Operations Center Monitoring (NOC) - A NOC is a central focal point for monitoring all IT services ensuring up-time and maximizing performance. The key features will include end-to-end service performance reporting, centralized alert management, grouping network elements, customizing network diagnostics, mapping device topology and unifying network management platforms. Currently, the County uses several different technologies to create insights into the technological environment. A NOC will bring a single, real-time, integrated view into all the different critical monitoring that will allow the County to proactively respond to issues before they become problems. This will increase IT service availability and reduce downtime.

Note L – Transfer to Debt Service Fund

In November 2015, the County issued $15.5 million of long-term bonds to fund a new 30,500 square-feet Animal Control facility to be located on the County's main campus in Pontiac. With the FY-2015 year-end closing, $7 million of General Fund equity was assigned for the first seven years of debt service for this project, which has since been transferred to the Debt Service Fund. After the first seven years, the remainder of the debt service is expected to be funded with proceeds from the sale of property where the current facility is located in Auburn Hills and funding from the Delinquent Tax Revolving Fund which will become available when past debt commitments for capital projects are paid in full, beginning in FY-2023 with full repayment of past debt by FY-2025.

Note M – Small Business Microloan Program

Since 2010, Oakland County has had a Microloan program in partnership with the Small Business Administration (SBA) and managed by the Center for Empowerment and Economic Development (CEED) Lending. This program offers a number of other programs and services for small businesses. Since the program's inception, the SBA has matched Oakland County's initial $200,000 investment into the CEED Microloan program which leveraged 41 loans to Oakland County small businesses totaling $923,300, creating 115 new jobs and retaining another 126 jobs. The Board of Commissioners is currently considering a resolution which, if approved, would appropriate an additional $200,000 from General Fund equity assigned specifically for this program.

Note N – Juvenile Resentencing Hearings

In 2012, the US Supreme Court ruled that juveniles serving life sentences after being convicted of murder is "cruel and unusual punishment." This will require resentencing hearings for potentially 49 prisoners who were sentenced in Oakland County. Some of these cases are very old, and some of the original investigators and witnesses may be retired, deceased, or difficult to locate. It is expected that it will require significant financial resources for these resentencing hearings required for the investigations, expert testimony, locating witnesses, and additional

prosecuting attorneys that may be needed. The Governor is recommending that $1.1 million be appropriated to fund the State Appellate Defenders Office to comply with the Supreme Court ruling, but there are costs to local governments as well. The current rough estimate is that it could cost the County approximately $1.2 million which is likely to be incurred beginning with the current fiscal year and extending at least into next fiscal year for these resentencing hearings.

Note O – Water Quality Monitoring/Enhancements

The recent water crisis in Flint has raised awareness throughout the state and nation regarding the potential for high levels of lead and copper in public/private water supplies and also from those metals being present in pipes and fixtures located within older systems and buildings. The County Health Division is working with the Water Resources Commissioner and Oakland Schools to assist in developing methods to enhance the assessment and monitoring of water quality. State and federal regulators are also developing new monitoring and reporting rules. Since the County through the Water Resources Commissioner operates several water supply systems and the Health Division inspects and monitors others as part of their statutory duties, it is anticipated that additional resources may be needed for these County officials to perform their mandated functions.

Note P – Tri-Party Road Project Funding

If adequate equity is available in the General Fund, it has been the practice for the Board of Commissioners to provide funding to the Road Commission for the Tri-Party Road Funding program to assist with improvements on County roads. The Tri-Party arrangement leverages County dollars (1/3) with an equal match amount from the Road Commission (1/3) as well as the participating local community (1/3). The County Commissioners have indicated that they will authorize $2 million annually for new road improvement projects from General Fund equity, which will leverage a total of $6 million for local road improvement projects. The Fiscal Plan includes the assumption that the Board of Commissioners will continue to authorize $2 million annually for new road improvement projects from General Fund equity in support of this local road funding program.

Note Q – Local Road Project Funding (Non-County Roads)

There have been recent discussions between a select workgroup from the Board of Commissioners and the County Executive Administration regarding road maintenance needs for local non-County roads. A resolution has been introduced at the Board of Commissioners for consideration of a new Bi-Party Road Funding program between the County and participating local cities and villages (township roads are maintained by the County's Road Commission and thus are included in the Tri-Party Road Funding Program). Communities that wish to attract, retain and grow business, retain jobs and encourage community investment, need a safely maintained road infrastructure. This road infrastructure must include both residential and commercial roads as workers and consumers need to get to and from work, shopping, schools

and recreation. In a fiscally prudent and limited manner, the County wishes to help its local communities accomplish this objective by test-piloting a new local road improvement matching fund program which will leverage $1 million of County funds for local road improvement projects with a total benefit of no less than $2 million. The Fiscal Plan includes $1 million annually beginning in the current fiscal year and continuing through FY-2021.

Other Issues Not Included in Fiscal Plan Financial Projections

One of the risks with preparing long-term financial plans is that there is less certainty in being able to forecast longer term economic and market-driven issues and their resulting impact. This Fiscal Plan includes quantifiable amounts for items within the County's control and other known likely issues which can be planned for at this point in time. This is why the County has a rolling multi-year budget process with frequent amendments so that the Fiscal Plan can be updated for issues that have significant impact on the long-term budget as new information becomes known.

Some of the major broader risks that could negatively impact the estimates included in this long-term Fiscal Plan include: uncertainty caused by foreign and domestic monetary policies; military conflicts around the globe; uncertainty regarding inflation; and other such events beyond our control and which could impact the entire state, nation, or world.

Specifically within Michigan, there are concerns about increasing demands for State resources, particularly for state-wide infrastructure needs such as deteriorating roads and bridges as well as aging water and sewer systems. Also, Michigan imposes several types of taxes/fees on health care plans, providers and self-insured employers, and the revenues from those various taxes/fees are used by the State for the required match to receive Federal Medicaid funding. However, after December 31 of this year, the Federal government will no longer allow revenue from two sources of use taxes to be used for the State required match, which could create a $700 million shortfall in the State's General Fund budget unless the legislature approves supplanting the disallowed taxes with an increase in the allowed Quality Assurance Assessment Program (QAAP) tax imposed on hospitals, nursing homes, and ambulance companies.

There is also concern about future mandated costs that could be imposed on local units of government as a result of the newly established Michigan Indigent Defense Commission. The commission has been charged with setting minimum standards for indigent legal defense delivery systems. The financial impact of this effort is unknown, so it is not yet quantified or included in the Fiscal Plan. It is something that the County Executive Administration and the County's courts are monitoring. To quote 55th District Judge Thomas Boyd who serves on the Michigan Indigent Defense Commission (emphasis added):

> "There are 111 district courts within those 83 counties, 58 circuit courts, each of them has a different way to do this. There is no consistency across the system. So what the legislature intends to do, and what Gov. Rick Snyder intends to do, is to ***establish a layer of minimum standards that every system needs to rise up to***."

SUMMARY

The long-term General Fund Future Five Year Fiscal Plan for FY-2017 through FY-2021 is balanced and at this time does not require imposition of new budget tasks. The Fiscal Plan relies upon the planned use of General Fund balance to support operations totaling $145.9 million for the current fiscal year and for the next five years, which is available as a result of the deliberate advance budget reductions implemented over the past several years and which now allows for use of accumulated General Fund equity available above the sustainable target amount. The targeted amount of General Fund equity as of September 30, 2021, is $91.5 million which represents 20% of annual expenditures. Based on the projections included in this Fiscal Plan, General Fund equity is estimated to be $96.3 million as of September 30, 2021, or $4.7 million above the sustainable target amount.

Although expected use of General Fund equity to support ongoing operations declines over the timeframe of the Fiscal Plan, continued improvements in revenue or reductions in expenditures are needed to ultimately achieve structural balance. Structural balance is defined as the point when budgeted ongoing revenues are sufficient to support budgeted ongoing expenditures and when budgeted use of available accumulated fund balance is no longer needed to support ongoing operations.

PENSION PROJECTIONS - DEFINED BENEFIT PLAN
OAKLAND COUNTY, MICHIGAN
Updated: April 1, 2016

EXHIBIT A

	*Marked to Market						Estimated					
	2014*	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
A. Funding Value Beginning of Year	$ 716,944,068	$ 787,896,080	$ 786,151,565	$ 776,423,056	$ 762,920,902	$ 746,018,053	$ 725,714,373	$ 714,840,247	$ 706,718,391	$ 699,793,509	$ 693,362,284	$ 686,428,451
B. Market Value End of Year	787,896,080	745,659,829	743,478,000	738,832,030	731,776,727	722,241,040	714,501,015	711,173,839	708,641,692	705,200,590	699,023,008	690,014,176
C. Market Value Beg of Year	764,270,787	787,896,080	745,659,829	743,478,000	738,832,030	731,776,727	722,241,040	714,501,015	711,173,839	708,641,692	705,200,590	699,023,008
D. Non-investment Net Cash Flow	(43,662,997)	(47,038,887)	(54,000,000)	(56,500,000)	(58,500,000)	(60,400,000)	(60,000,000)	(58,200,000)	(58,200,000)	(58,900,000)	(60,300,000)	(61,600,000)
E. Investment Income:												
E1 Market Total (B-C-D)	787,896,080	4,802,636	51,818,171	51,854,030	51,444,697	50,864,313	52,259,975	54,872,824	55,667,853	55,458,898	54,122,418	52,591,168
E2 Assumed Rate of Income (I)	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%
E3 Amount for Immediate Recognition I x (A+D/2)		55,417,306	55,038,488	54,242,547	53,191,140	51,896,809	50,439,292	49,716,168	49,127,333	48,599,904	48,082,891	47,533,063
E4 Amount for Phased-In Recognition (E1-E3)	787,896,080	(50,614,670)	(3,220,317)	(2,388,517)	(1,746,443)	(1,032,496)	1,820,683	5,156,656	6,540,520	6,858,993	6,039,527	5,058,105
F. Phased-In Recognition of Invest. Income												
F1 Current Year (E4 / 3); (E4/5 2010 & beyond)		(10,122,934)	(644,063)	(477,703)	(349,289)	(206,499)	364,137	1,031,331	1,308,104	1,371,799	1,207,905	1,011,621
F2 First Prior Year		-	(10,122,934)	(644,063)	(477,703)	(349,289)	(206,499)	364,137	1,031,331	1,308,104	1,371,799	1,207,905
F3 Second Prior Year		-	-	(10,122,934)	(644,063)	(477,703)	(349,289)	(206,499)	364,137	1,031,331	1,308,104	1,371,799
Third Prior Year		-	-	-	(10,122,934)	(644,063)	(477,703)	(349,289)	(206,499)	364,137	1,031,331	1,308,104
Fourth Prior Year		-	-	-	-	(10,122,934)	(644,063)	(477,703)	(349,289)	(206,499)	364,137	1,031,331
F4 Total Recognized Investment Inc.	-	(10,122,934)	(10,766,998)	(11,244,701)	(11,593,989)	(11,800,489)	(1,313,418)	361,977	2,147,784	3,868,871	5,283,276	5,930,760
G. Funding Value End of Year (A+D+E3+F4)	787,896,080	786,151,565	776,423,056	762,920,902	746,018,053	725,714,373	714,840,247	706,718,391	699,793,509	693,362,284	686,428,451	678,292,274
H. Difference - Market & Funding Value	-	(40,491,736)	(32,945,056)	(24,088,872)	(14,241,326)	(3,473,333)	(339,232)	4,455,448	8,848,184	11,838,306	12,594,557	11,721,902
I. PV of future benefit payments, less PV of employee contributions - net	742,877,320	760,839,312	762,000,000	761,181,000	758,072,000	752,682,000	745,103,000	735,437,000	723,830,000	710,359,000	695,200,000	678,511,000
Less valuation of assets (G)	787,896,080	786,151,565	776,423,056	762,920,902	746,018,053	725,714,373	714,840,247	706,718,391	699,793,509	693,362,284	686,428,451	678,292,274
Assets > Accrued Benefits	**$ 45,018,760**	**$ 25,312,253**	**$ 14,423,056**	**$ 1,739,902**	**$ (12,053,947)**	**$ (26,967,627)**	**$ (30,262,753)**	**$ (28,718,609)**	**$ (24,036,491)**	**$ (16,996,716)**	**$ (8,771,549)**	**$ (218,726)**
PROJECTED CONTRIBUTION	**$ 5,770,835**	**$ 4,554,832**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 2,000,000**	**$ 5,000,000**	**$ 6,000,000**	**$ 6,000,000**	**$ 5,000,000**	**$ 4,000,000**
Transfer in from General Employee Pool	-	-	-	-	-	-	-	-	-	-	-	-
NET CONTRIBUTION*	**$ 5,770,835**	**$ 4,554,832**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 2,000,000**	**$ 5,000,000**	**$ 6,000,000**	**$ 6,000,000**	**$ 5,000,000**	**$ 4,000,000**
Adopted Budget Amount for ARC	**$ 5,771,000**	**$ 4,555,000**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Adjustment based on revised projections	-	-	-	-	-	-	2,000,000	5,000,000	6,000,000	6,000,000	5,000,000	4,000,000
PROJECTED PENSION CONTRIBUTION	**$ 5,771,000**	**$ 4,555,000**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 2,000,000**	**$ 5,000,000**	**$ 6,000,000**	**$ 6,000,000**	**$ 5,000,000**	**$ 4,000,000**

NOTE - See enclosed report for explanation of the above schedule and projection of pension contributions for FY-2016 through FY-2020.

Major assumption adjustments:

1. Actuary recommended ARC is paid two fiscal periods after the valuation period; for example, ARC payment required in FY 2019 will be based on Actuary Report for Period Ended 9/30/17

2. Item D (non-investment net cash flow) higher outflow in FY 2016 reflects that there is no inflow from an ARC payment beginning in that fiscal year; beginning in FY 2019 the total outflow is partially offset by the estimated ARC payment

3. Item I (PV of future benefit payments): Adjusted in FY 2015 for changes in actuarial assumptions/experience study: updated mortality tables, wage inflation of 3.25%, entry age actuarial method (10 year amortization of UAAL beginning with FY 2015) - amount is based on GASB 67 report received on 11/24/15

4. Item B for 2016 (market value end of year) is equal to estimated market value as of January 31, 2016 plus 2% growth for remainder of fiscal year; future years in 2017 and beyond is based on assumed long-term rate of 7.25%