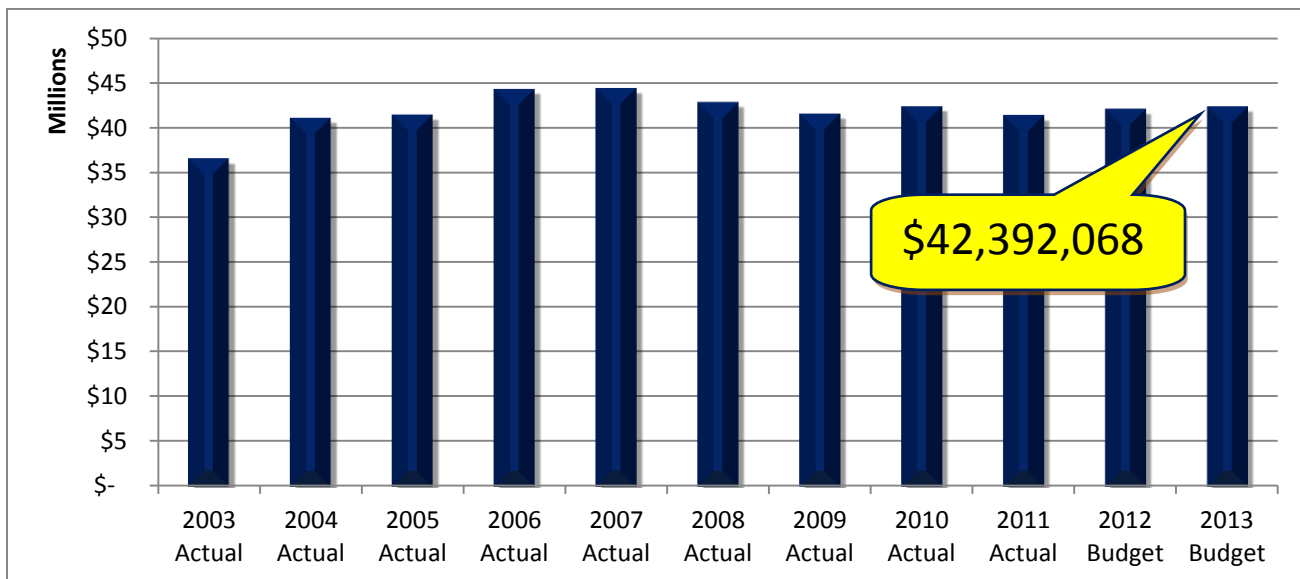


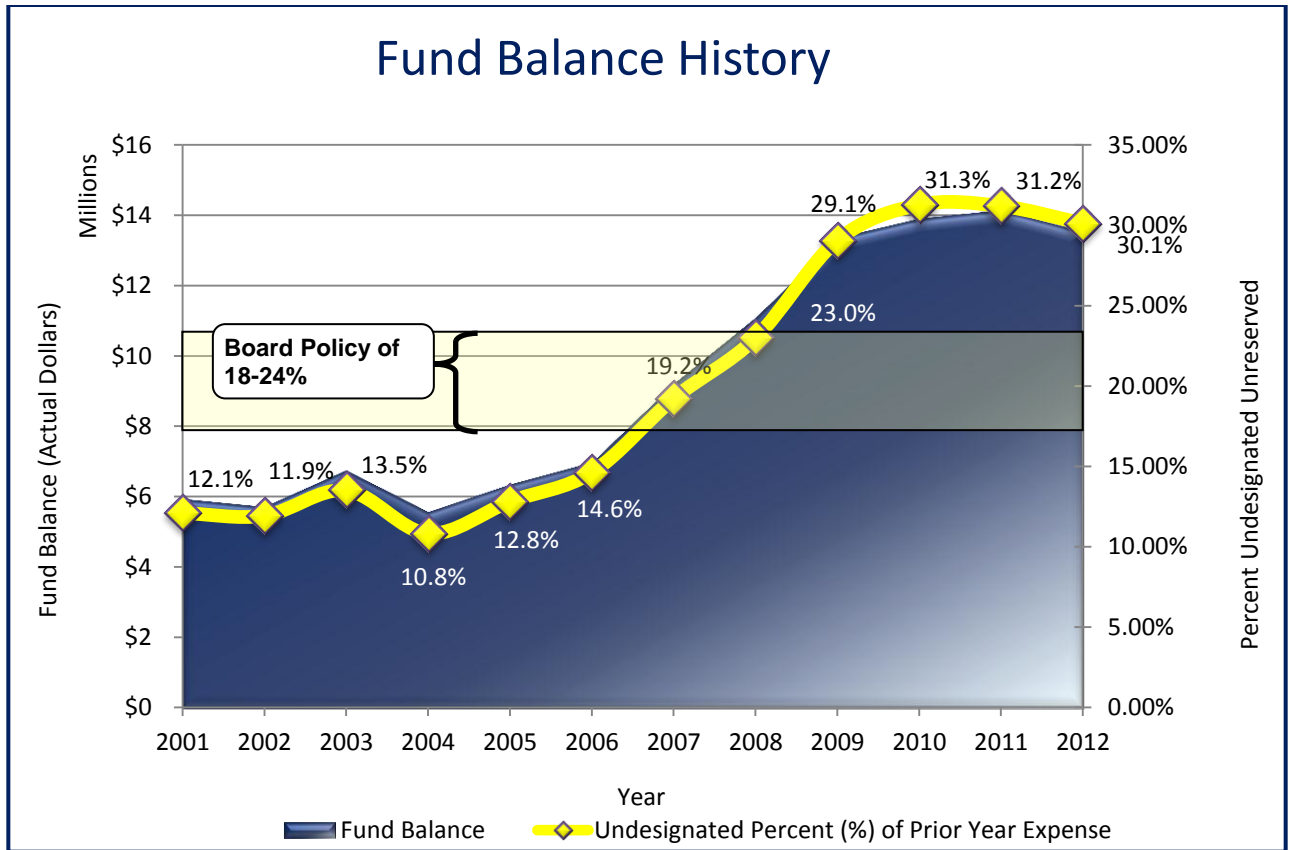
General Fund Budget History

The following graph shows a 11 year history of the general fund budget for Jackson County. The recommended budget for Fiscal Year 2013 is \$42,392,068 which constitutes a 0.62% increase from the 2012 Budget.



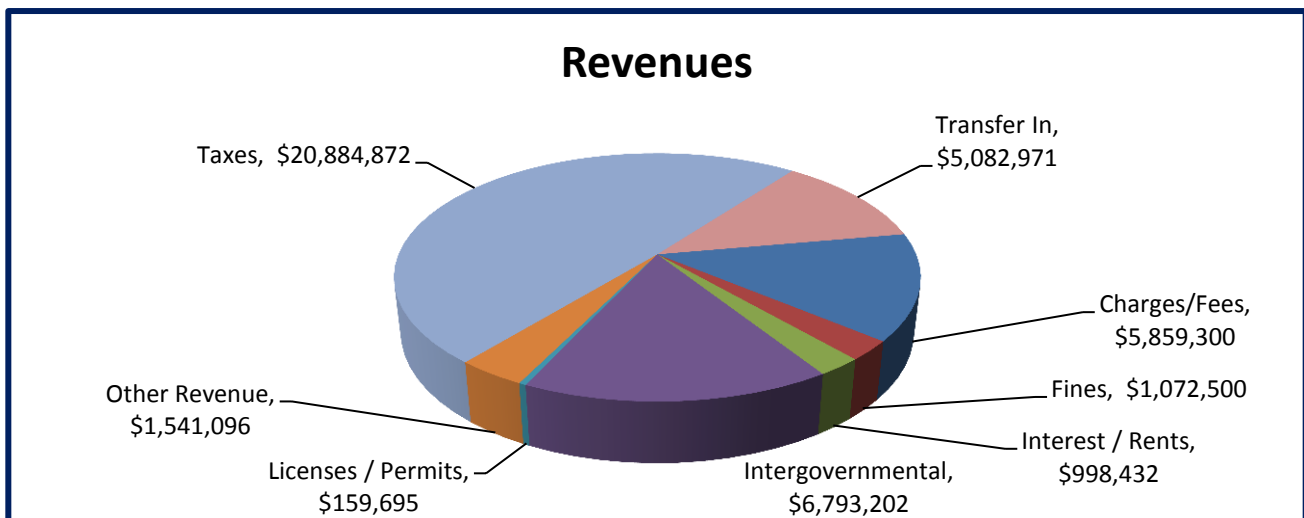
Despite increasing costs and maintaining a level budget from year to year, the county continues to maintain a strong fund balance within the guidelines established by the Board of Commissioners. Board policy defines the fund balance as the percent of the annual audited expenditures and transfers out of the previous fiscal year that is undesignated and unreserved. The projected fund balance at the end of 2013 is 29.2%, which exceeds the Boards policy of a fund balance between 18% and 24%. A strong fund balance is appropriate for two reasons. First, property taxes for the current fiscal year are not collected by the county until several months after the fiscal year starts. Consequently, a high fund balance ensures adequate cash flow. Second, a strong fund balance helps the county respond to a rapidly changing economic environment. This strong fund balance was one of the factors that helped to improve the county's bond rating in the spring of 2010 from A+ to AA.

Budget Analysis

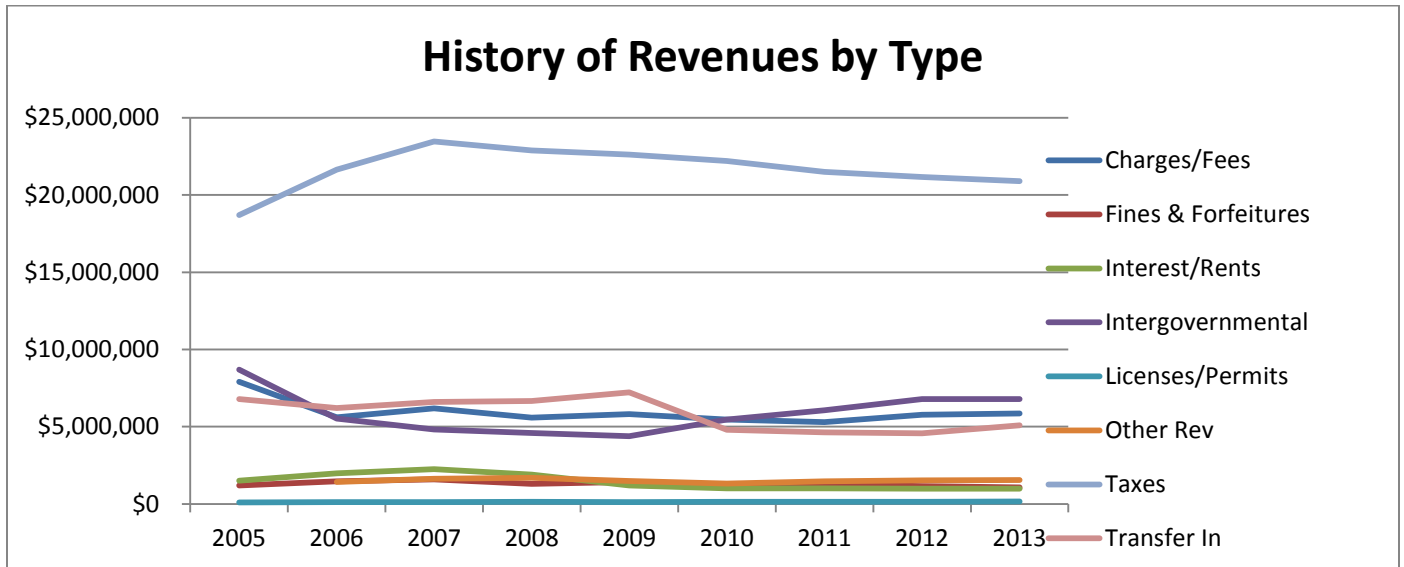


Revenues

As can be seen below, Jackson County is primarily reliant on real and personal property taxes for over half of its revenue. As such, the county budget is extremely vulnerable to market real estate fluctuations. The 2013 budget anticipates a reduction of 1.5% in taxable real estate value.



The following chart shows a 9 year history of revenues by the type of revenue. The most significant losses of revenue have been in taxes, which is the largest source of revenue as previously discussed.



Major Revenue Sources

Source	Description	Trend	Amount	% of Total Budget
Property Taxes	General county millage on real & personal property	Down	\$20,043,872	47.3%
District Court Fines/Fees	Court costs, ordinance fines and costs, civil fees, probation oversight, and public defender	Stable	\$3,428,946	8.1%
Revenue Sharing	Revenue from State of Michigan for general services	Up	\$2,541,500	6.0%
Jail Millage	Tax on real property for County Jail	Down	\$1,915,825	4.5%
DOA Millage	Tax on real property for Department on Aging	Down	\$977,120	2.3%
State Court Funding	State support of Circuit Court activities	Down	\$960,000	2.3%
Interest Income	Investment Income	Stable	\$800,000	1.9%
Administrative Reimbursement	Reimbursement for costs associated with administration of Child Care and Resource Recovery Facility	Stable	\$700,000	1.7%
State Revenue, Liquor Tax	State revenue shared with county governments by formula	Stable	\$807,089	1.9%

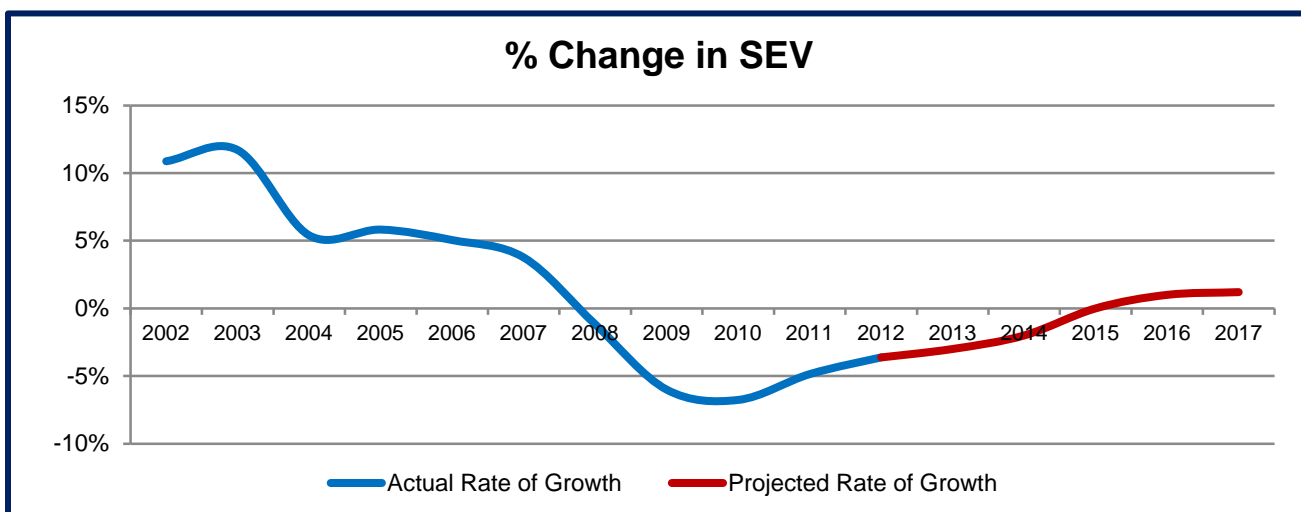
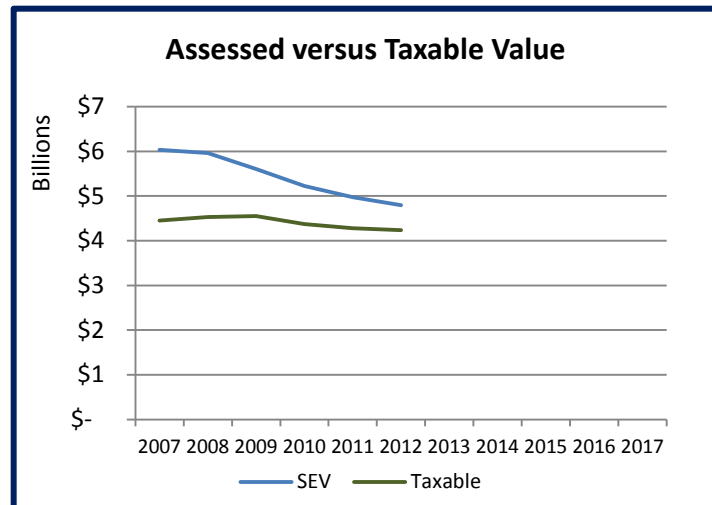
Property Tax

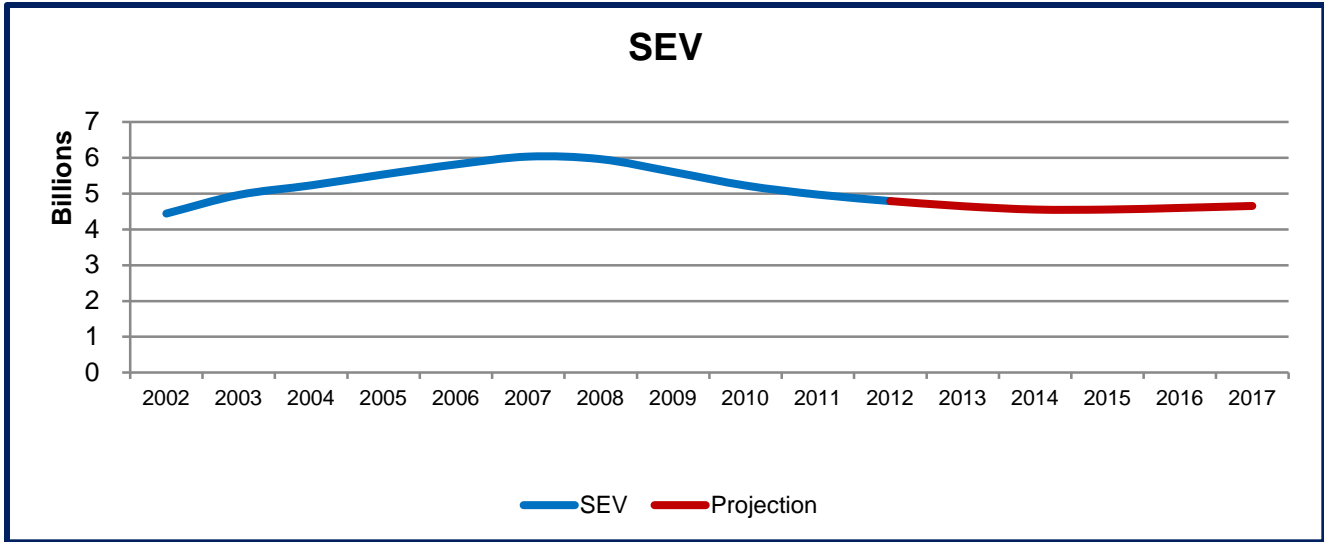
The County uses a Revenue Committee to estimate the largest revenue source, property tax. Members of the Revenue Committee are the County Administrator/Controller, Deputy Administrator, Finance Officer, Treasurer, Deputy Treasurer, Equalization Director, Deputy

Budget Analysis

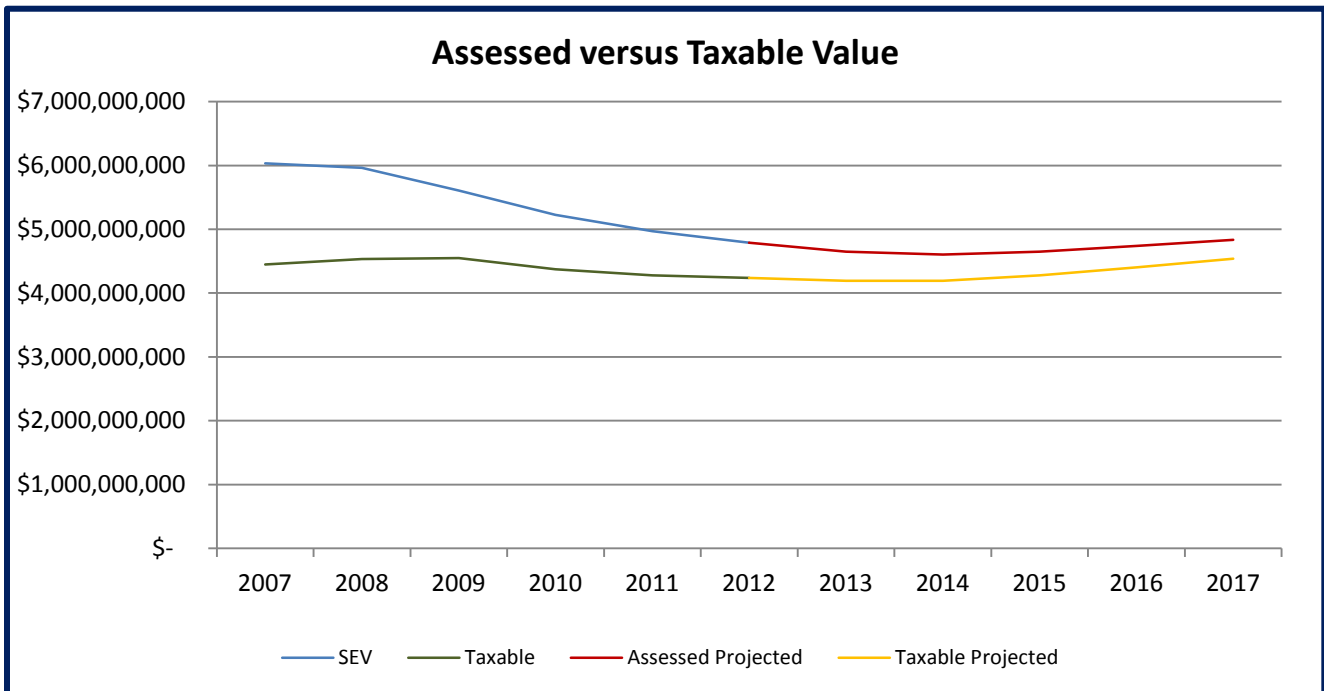
Equalization Director, and the Register of Deeds. The revenue committee analyzes statistical data, public and private economic outlook reports, and feedback from community and business partners. The revenue committee uses trend analysis to help create and support its recommendation.

The revenue committee's analysis for the 2013 Budget focused on the gap between assessed and taxable value shown to the right. As of 2012 there was a 12% gap between assessed and taxable value. County property tax revenues have not dropped proportionally to market values because of this gap. The past use of regression analysis to trend property tax revenue has proved inadequate with the recent precipitous decline in values. Trend analysis was not as strong a predictor as in the past. Combined with regression analysis and trending of the property values by types, the revenue committee agreed first on a forecast of the percent change in market value. The committee agreed on two more years decelerated loss followed by a slow recovery over three more years. From that, we extrapolated the actual assessed value based on previous years as shown below.





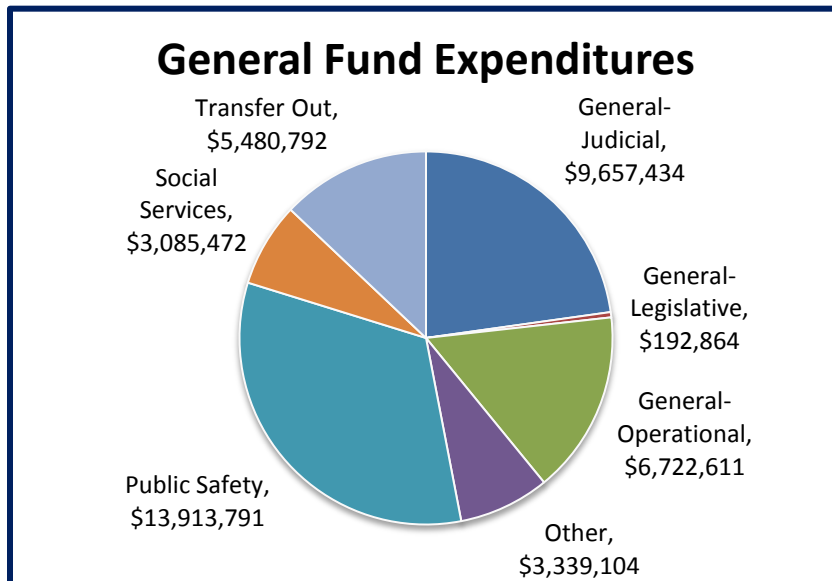
The revenue committee’s forecast remains similar to last year. For the five-year plan, the final step is to compare the new assessed value curve to the taxable value curve. According to the market value forecast the assessed value should not reach the taxable value within the next five years (shown below). The implication is that the property tax revenue will continue to decline at rates slower than the market values. In 2013 property tax revenue dropped approximately 1.5%. We anticipate that 2013 property revenue will drop approximately 1.5% again.



Budget Analysis

Expenditures

The chart below shows budget expense by group. Groups are defined by the State of Michigan and are defined in more detail at the bottom of the page.



Expenses can also be viewed, as shown below, by category. The personnel costs category accounts for the largest portion of the county budget. Jackson County negotiates wages and benefits with ten collective bargaining units. Non-union employee wages and benefits are set by the Board of Commissioners. The 2013 budget anticipates a 2% cost of living adjustment for union and non-

union employees. This 2% increase in cost of living is offset by an additional 5% cost share in health insurance premiums by all employees.

Expenditure Groups

Public Safety - Sheriff, Road Patrol, Lawnet, Marine Law Enforcement, Emergency Dispatch, County Jail, Chanter Road Jail, Community Corrections, Emergency Management, Truancy Grant, Animal Shelter, Animal Control

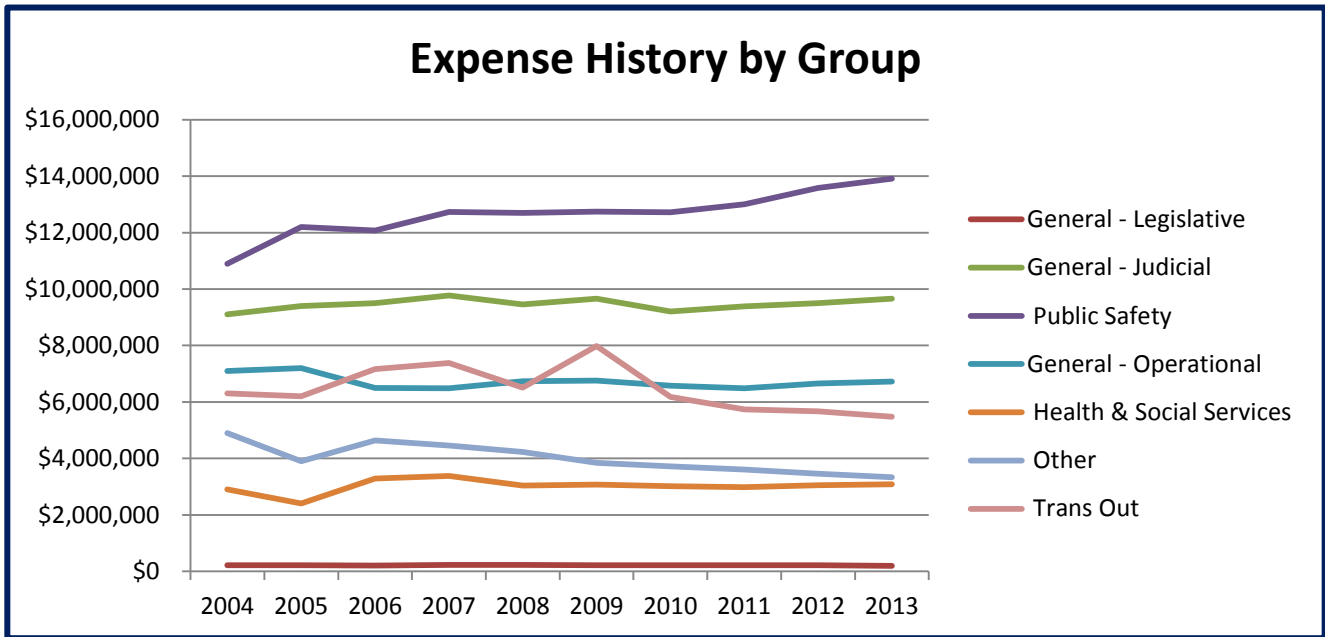
General Government - Public Elections, Administrator/ Controller, Clerk, GIS, Administrative Services, Equalization, Register of Deeds, Remonumentation, Treasurer, MSU Extension, Information Technology, Maintenance, Fleet, Drain Commissioner

Judicial - Circuit Court, Jury Commission, 12th District Court, Circuit Court Probation, Prosecuting Attorney, Public Defender, Prosecuting Attorney Family Division, Prosecuting Attorney Victims Rights, District Court Intensive Probation

Legislative - Board of Commissioners

Social Services - Abstinence Program, Medical Examiner, In-Home Services, Senior Center, Senior Citizens Program, Home Delivered Meals, Congregate Meals, Grandparents Program, Geriatric Mental Health, Veterans Burial, Veterans Affairs

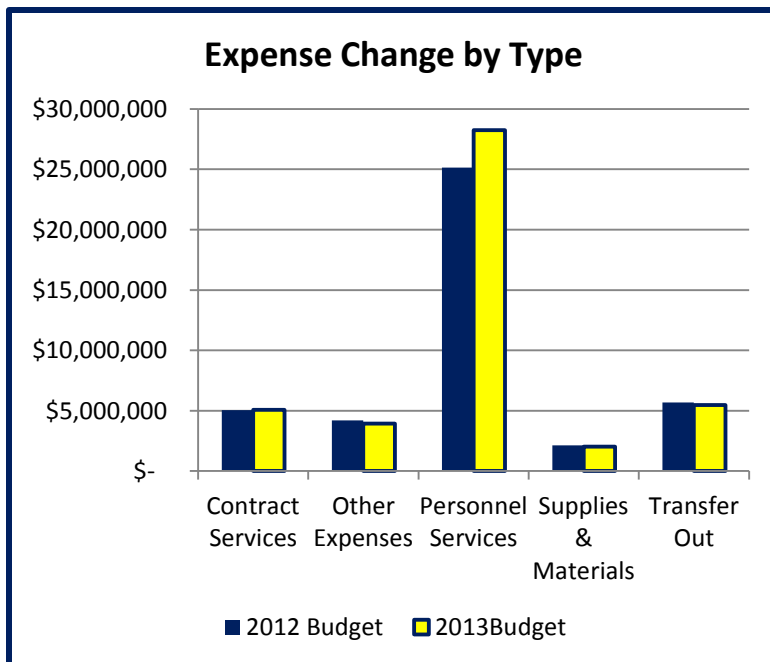
Other



OPEB (Other Post-Employment Benefits)

In our preparation for the Board retreat, staff was made aware of upcoming shortages to the OPEB trust fund. In 2013 the OPEB trust fund will be \$578,000 short of covering expenses. In 2014 the trust fund will be around \$1 million short of covering expenses. Capacity to address these shortages will have to be addressed in upcoming budgets. Staff is also analyzing ways to pre-fund the OPEB liability.

This will reduce the future exposure. Retiree health has been nearly eliminated from all contracts and we expect to be totally eliminated by the end of contract negotiations. We have switched employees to a retiree health savings plan at much less cost to the County and with no long-term liability. Given these changes, the challenge will not be long term.



Retirement Contributions

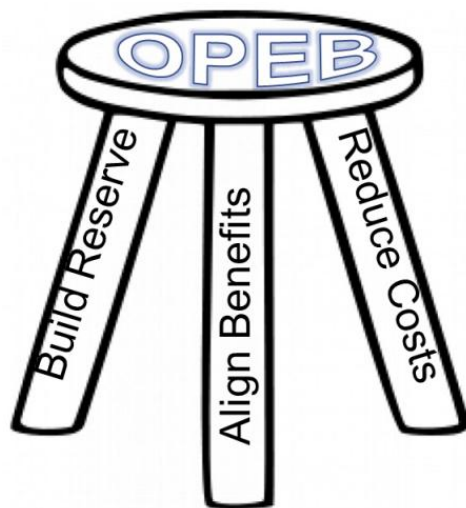
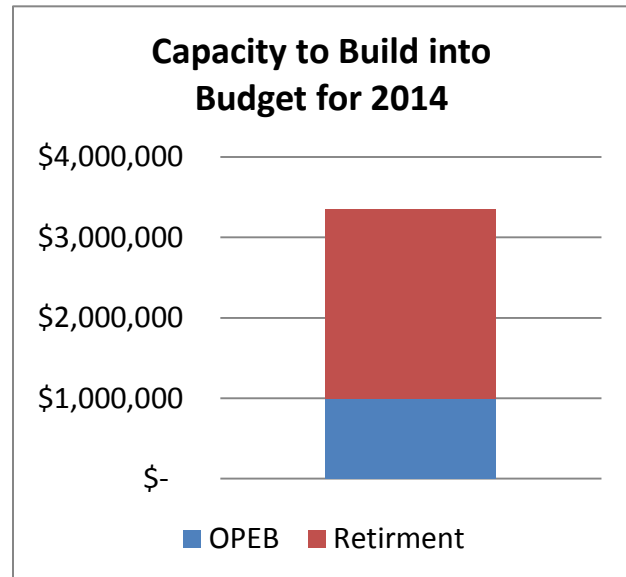
Personnel costs have been impacted dramatically by increased employer contributions to the defined benefit plan. Last year's increase was

Budget Analysis

from 13.5% to 16.2%. In actual dollars, last year's contribution to the pension system was approximately \$3 million. New actuaries performed the evaluation this year and changed methodology for calculating the county's contribution due to the defined benefit plan being closed. The actuaries determined the county's Annual Required Contribution (*ARC) to be \$5.35 million, an unprecedented 76.7% increase. According to the actuary, the declining number of contributors to the pension system will require not only an increase in the percent of the employee's salary contributed to the system by the employer each year, but a significant increase in actual dollar contributions. The actuaries do not expect this level of contribution to change as significantly in 2014 as it did this year. We anticipate the possibility of a short time increased employer contribution until a greater number of employees switch from the defined benefit plan to the defined contribution plan over the next five years.

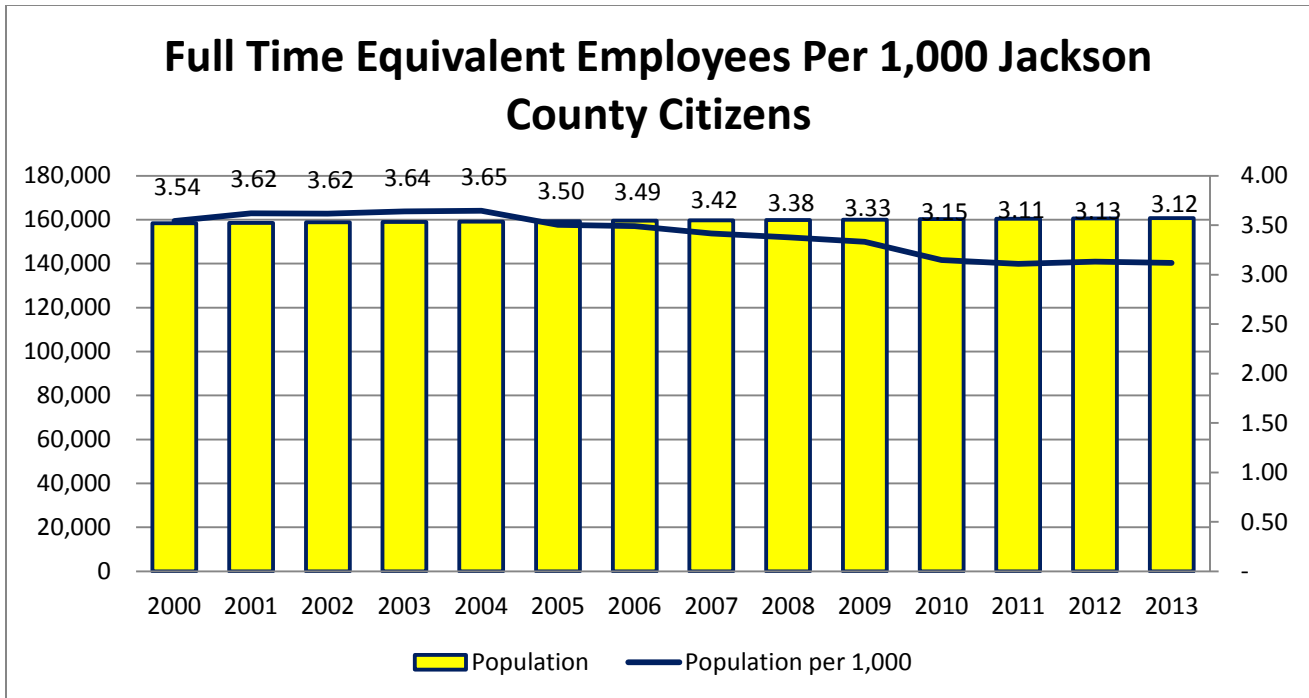
Plan of Action

Without additional revenues to support these increased costs we will rely on reserves in other funds to make it through 2013. During 2013 we will need to remove approximately \$3 million from our budget to return to a structural balance by 2014. Several fund balances exist outside the general fund that will assist with 2013. Contributions to the Human Services fund can be eliminated for 2013 so that the fund balance can be spent down. Health Fund balance can be directly transferred in to the General Fund budget.



The Administrator/Controller's Office will work with staff to determine a long term solution to address the deficit. Other strategies will be explored to address annual OPEB costs such as aligning benefits of retired employees with those of active employees and finding ways to infuse the OPEB trust fund with cash.

Because wages and benefits account for 73% of the budget, significant expenditure cuts cannot be made without reducing the number of staff.



Cuts to county staff have outpaced population losses within the county as shown in the figure above. FTE's have gone down from 3.65 FTE's for every 1,000 residents in 2004 to 3.12 FTE's for every 1,000 residents in 2013. The challenge for county employees is to continue to meet the needs of residents whose demands on service have not changes proportionally.



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