

FY2012 General Fund Review & FY2013 Financial Plan

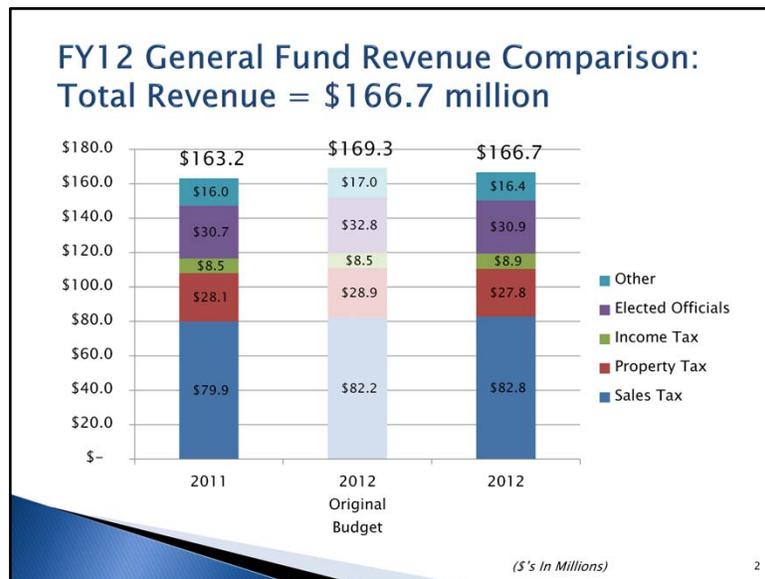


March 12, 2013

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This review covers the FY2012 actual revenue and expenditure performance for the County's General Fund. It also provides analysis of FY2013 projected spending, income, and cash flow for the fund. FY2013 1st Quarter performance is assessed as well.

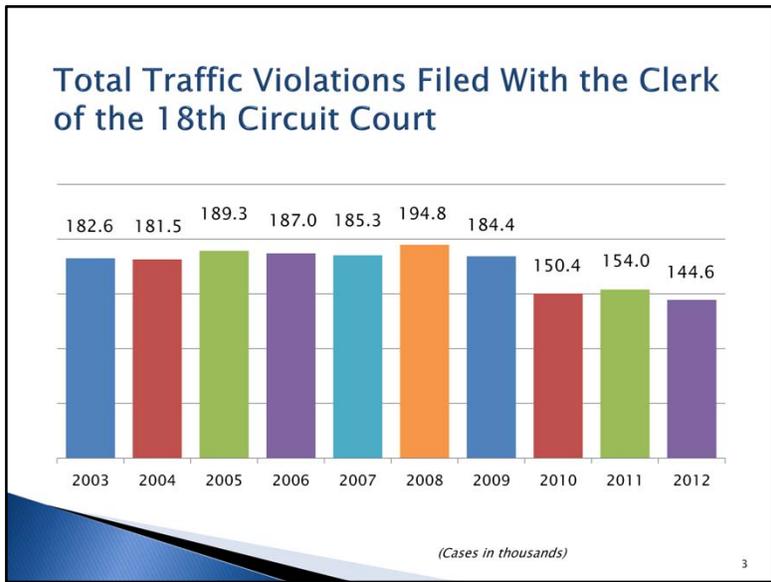
The General Fund is the County's chief operating fund and the largest County fund, accounting for over half of the County's annual income, excluding grants. Approximately 40% of projected County annual spending is from the General Fund. Nearly 2/3s of County full time staff are paid from the General Fund, including almost all public safety, support agency, and general government personnel. The majority of General Fund positions and resources are for public safety functions. However, other programs such as Stormwater, Convalescent Center, Human Services, and Economic Development draw upon General Fund resources to varying degrees.



General Fund revenue deposits in FY2012 totaled \$166.7 million, 98.5% of original budget estimates, and 2.1% over the prior year. Good performance by economic based sources (sales taxes, state income tax distributions, and monies from real estate transfers and recordation) were offset by underperforming non-economic revenues. Economic based revenues totaled \$96.9 million, \$1.4 million over projections, indicating a continuing, if slow, recovery.

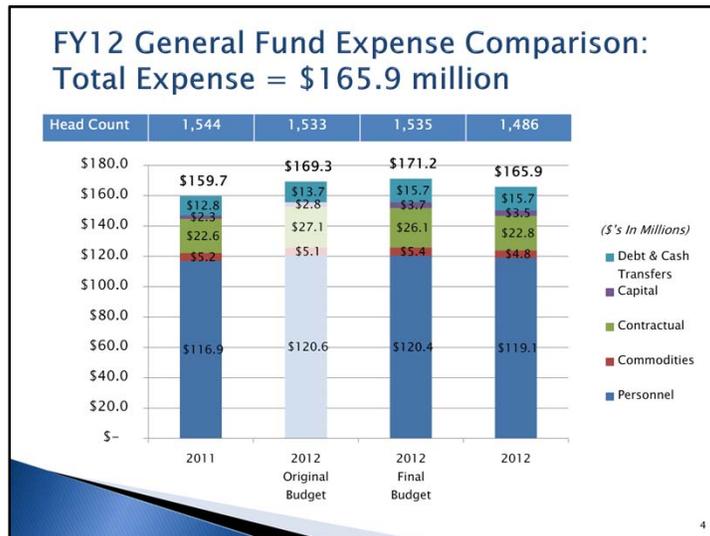
Within the property tax revenue category, current tax revenues of \$23.1 million were in line with projections. On the other hand, back taxes and penalties and costs totaling \$4.7 million came in \$1.1 million under the estimated \$5.8 million. Although income from these sources vary from year to year, annual back taxes and penalties and costs together have averaged over \$6 million over the 2 previous years.

The other major source of revenue loss comes through fees and fines collected by the Circuit Clerk (which is embedded in elected officials income).



Circuit Clerk income was a more significant area of revenue loss. Between 2008-2010, Circuit Clerk income averaged above \$23 million. Furthermore there had been fee increases in Court Security costs and for traffic fines. Yet income decline, first evident in 2011, accelerated in 2012, falling to \$20.3 million.

Despite a late FY2010 increase in non-appearance traffic violation fines increasing the General Fund's yield by \$10 per ticket, fund receipts from the Circuit Clerk have since dropped by \$2.5 million. The primary cause is a significant and continuing drop in traffic violation cases. Traffic cases, which averaged 186,400 annually between 2003 and 2009, averaged only 149,700 between 2010 and 2012, a 20% decrease. On average each ticket brings about \$174, of which the Clerk receipts 38.6%, or \$67, to the County General Fund, under a sharing between local municipalities and the State. Since first being raised in last year's midyear General Fund report, it is known that local police ticket writing has dropped, whether due to reduced police staff levels influencing priorities or other reasons. Lower traffic tickets have also reduced income from States attorney's fines substantially over the past 2 years.

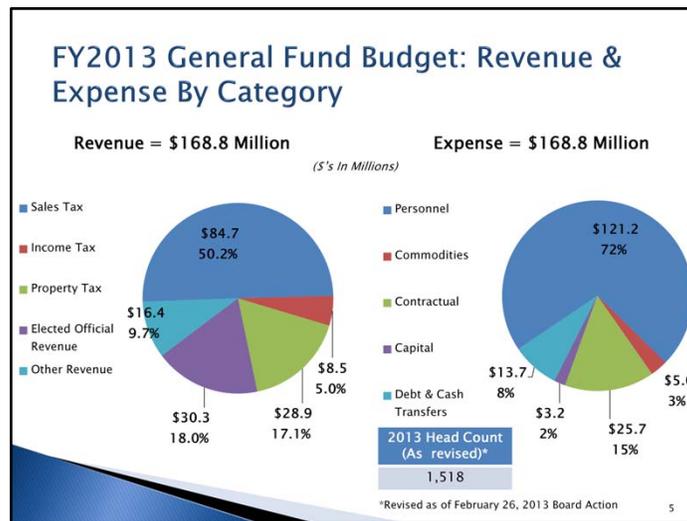


Revenue sets up the County’s General Fund aggregate spending level. The County predicates spending (appropriations and transfers) on estimated revenues to be deposited during the fiscal year. In accordance with County financial policies, the original budget spending total of \$169.3 million ,approved November 2011, equaled the original FY2012 revenue estimate of \$169.3 million. If all went according to plan, the FY12 Treasurer’s ending trial balance (the cash balance) would remain unchanged at \$53.4 million from the previous ending balance. The balance itself would vary up and down during the year, based on cash flow of monthly spending and income.

Spending of \$165.9 million during FY2012 consistently ran at or under projections in all the major appropriation categories. Personnel costs came in \$1.5 million under budget (including IMRF, Social Security, health insurance, and benefit payouts). Full time on board headcount averaged 1,486 compared to 1,533 budgeted. Employee benefit payouts of \$2.2 million were less than the \$3 million of FY2011, and came in about \$.3 million under projected. Lower than anticipated contractual spending for items such as repair and maintenance, utilities, printing, publishing, and postage, and professional services were spread over many departments.

As a highlight, Election Commission costs came in \$643 thousand under budget, a substantial amount during a national election year, in large part due to changes in early and mail in voting. This also reduced lapse period spending, as much of the Commission’s election costs were traditionally incurred in November and paid out in December, particularly staff and election judges.

Lower than projected spending activity plus relatively on track revenues led to passage of ordinance OFI-012-12 on November 27, 2012. The ordinance created an infrastructure fund and provided for additional transfers into the Stormwater fund, contingent upon reasonable assurance that the County would not end the year in deficit. Implementation of the ordinance was predicated on the County receipting \$4-5 million over the last 2 days of the fiscal year. Ultimately \$800 thousand of transfers were made into the infrastructure fund: \$400 thousand for Transportation, \$200 thousand for Drainage, and \$200 thousand for Facilities Management. Finally, a \$1.1 million transfer was made to Stormwater, keeping the Stormwater Fund solvent through the current 5 year outlook period. The total of \$1.9 million in transfers grew the “Final Budget” to \$171.2 million. The final trial balance in the General Fund finished at \$53.7 million, slightly higher than the beginning balance of \$53.4 million, maintaining a solid General Fund financial posture.



Revenues

FY2013 General Fund revenues are projected at \$168.8 million in cash receipts, 1.3% over FY2012 actual revenues. Sales tax receipts make up slightly more than 50% of projected revenues, with no other category exceeding 18%. Continued mild economic recovery is assumed, and at the time of budget development, FY2013 sales tax receipts were expected to grow 3%. This was tempered by flat or declining revenues in other revenue categories.

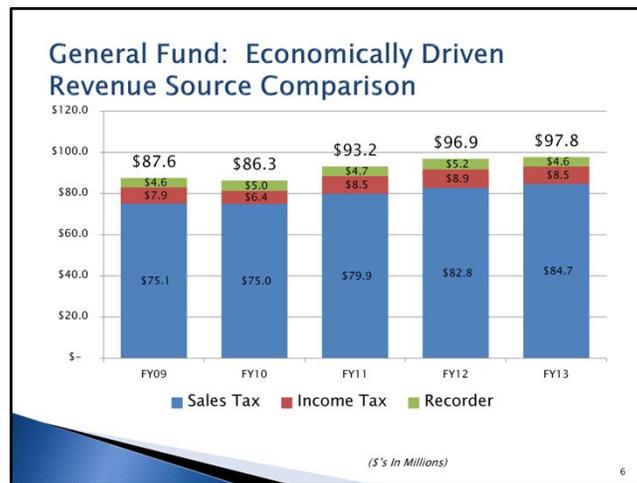
The 2013 General Fund budget addresses the downward trend in traffic volume, setting Circuit Clerk income in line with the Clerk's estimate at \$21 million, substantially lower than previous years. Nevertheless, this area will be closely monitored, since 2012 came in \$.7 million lower than the 2013 estimate. SAO revenue estimates from fines were also reduced. Last spring, state legislation removed Counties as middlemen in administration of inheritance taxes, eliminating a revenue source of \$.5 million. Bureau of Justice payments of \$.3 million to the Sheriff's Office were eliminated. The budget incorporates these revenue losses.

Income from the property tax levy, back taxes, penalties and cost are assumed to be the same as the 2012 budget. Flat income tax distributions of \$8.5 million were assumed at the time of budget development, although an unanticipated distribution on the last day of the 2012 fiscal year increased 2012 actuals to \$8.9 million.

Spending

General Fund spending is about personnel spending. 72% of General Fund spending covers salaries for over 1,500 fulltime positions, for part-time positions, temporary workers, and related items such as overtime, pension (IMRF and Social Security), health insurance, and benefit payouts for accrued vacation, sick, and retention. Related costs are sizeable, with IMRF and Social Security totaling \$14.5 million, while health insurance incorporating 3% inflationary growth is \$13.1 million. The FY2013 General Fund budget contains \$1.5 million for a 2% COLA, which was effective December 8, 2012. COLA is the main reason for overall personnel services increases. Controlling General Fund growth focuses on controlling personnel costs.

In total estimated spending drops \$2.4 million from the FY2012 final budget. Most of this results from netting out the one-time \$1.9 million of 2012 late year transfers under OFI-012-12. This aside, overall transfer levels are virtually unchanged. A \$250 thousand increase in transfers to Stormwater is offset by a \$200 thousand reduction in transfers to the Tort Fund, a \$50 thousand reduction in transfers to Choose DuPage, and reduction for a 2012 one-time transfer to Economic Development and Planning. Other non-personnel costs are generally lower than what was budgeted in FY2012. Contractual spending is also less than last year's aggregate budget, but higher than final spending. Some of this is due to utility costs, but IT costs increased \$.5 million to cover a multiyear Microsoft enterprise agreement.



Sales taxes, income tax distributions, and Recorder income account for over half of General Fund revenue. Since 2009, these 3 sources have occupied an increasingly greater portion of the General Fund, growing from 53% to 58% percent in FY2013. Most General Fund revenue growth has come from these sources.

Sales taxes for County use are derived from: a ¼ cent county-wide supplemental tax, another ¼ cent county-wide tax which is part of a larger RTA tax, a 1 cent tax confined to County unincorporated areas, and a use tax charged on out-of state and internet items. Sales taxes reflect local sales activity. Sales tax receipts account for 85% of all economically sourced income. Growth in sales tax receipts grew an average of \$2.4 million or about 3% annually since FY2009, and 4.3% from 2010. Receipts from this source are projected to grow 3% throughout the 5 year outlook. If recovery strengthens, there may be room for further growth, as pre-recession growth between 2003 and 2007 averaged about 4%.

Income tax distributions return a portion of state-wide personal income tax collections through a formula revenue sharing program. The County's portion is based on its unincorporated area population (but not the income of that particular population). FY2012 was a good year in which actuals of \$8.9 million came in \$.4 million over projections. If the current state monthly distribution pattern holds, this source may yield more than \$8.5 million in 2013, barring legislative action.

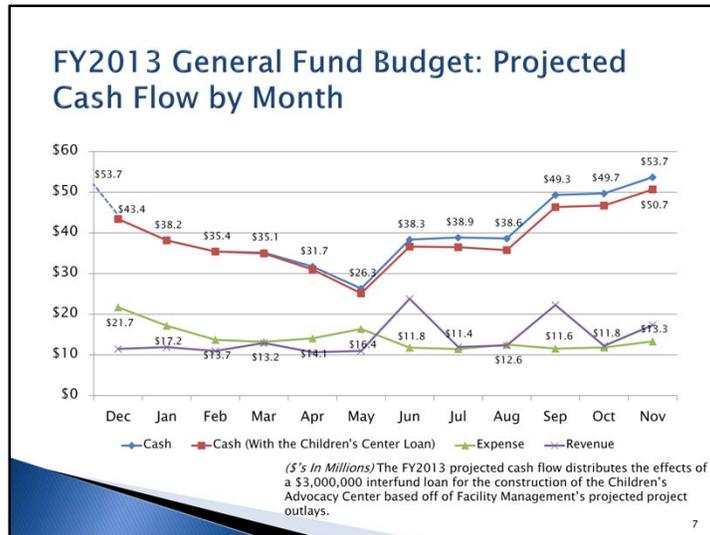
Recorder's income includes real estate transfer taxes charged on sales of property and a Recorder fee on deeds, reflecting the local real estate market. After 3 years of relatively little change in real estate, there was a definite uptick of nearly 26% in 2012 real estate transactions. Accordingly, 2012 Recorder income did well, coming in \$.5 million better than expected. This is another potentially bright revenue area.

While the County is seeing good news in its economic sources of income, there are reasons for caution. First, growth from the economic sources has been offset to some degree by decline in other areas. Revenue between FY2009 and projected 2013 only grew \$3 million in total. To be fair, \$5 million of FY2009 revenue resulted from the Treasurer moving up property tax penalty and cost deposits from January to November, resulting in 2 series of deposits that year. But even allowing for this, overall growth has not kept pace, due to declining traffic fees and legislative changes.

About 60% of monies coming into the General Fund are passed to the County via the State, and are subject to legislative changes. This includes sales taxes and income distributions, among others. Elimination of inheritance tax was previously mentioned. In addition there has been a small reduction in Personal Property Tax replacement taxes to counties and municipalities. For the past several years there has been General Assembly discussion of freezing, reducing, or even eliminating income tax revenue sharing – the Governor's proposed FY2014 budget calls for a reduction in distribution of as much as 20%. As another example of increasing encroachment on local revenues, a new bill, SB622 would "borrow" \$6.6 million from the Local Government Tax Fund (i.e. local sales taxes) to cover shortfalls. By the way, monies borrowed would be repaid over several years.

If carried through, federal sequestration will directly impact the General Fund. Under sequestration, the amount of federal rebate money for the 2010 Recovery Zone/ Build America Bonds will be cut at least \$70 thousand this year from a rebate total of \$1.6 million. The rebates were put into place in 2010 as a federal incentive to stimulate capital investment. This reduction was not contemplated in the budget. There are likely to be other pressures resulting from sequestration.

Finally, heavy dependency on economic resources means we must be ever mindful of economic downturns. Fitch noted this heavy dependency in last year's affirmation of the County's general obligation "AAA" rating, citing our "consistently elevated" general fund balance as an offset. Thus, there is pressure to maintain or improve our balance. During adverse economic periods, income from economic sources drop, sometimes significantly. A sales tax drop of 10% would mean about \$8.5 million in lost income. During the recent recession, base sales taxes receipts (i.e. not including the newly acquired RTA) dropped 16% from pre-recession levels, and still have not fully recovered. If base sales taxes hit the FY2013 target of \$41.1 million, they will be just above the 2005 sales tax level of \$40.9 million .



The projected FY2013 cash flow plan integrates anticipated revenues, approved spending limits and cash balance throughout the year. Since the General Fund budget is designed to be balanced or “break-even” between spending and revenue, prior ending and current year ending balances should be unchanged. In FY2013, a \$3 million interfund loan for construction of the Children’s Advocacy Center will be distributed over the course of the year. Since it is a loan, it is not deemed spending. The Center will be completed and open by mid-2013. Loan proceeds will be transferred from available cash to the Children’s Advocacy Construction Fund on an as needed basis, and thus will impact the General Fund cash balance by up to \$3 million. The loan, authorized by the County Board in 2011, will be repaid over 10 years by fees on various criminal and traffic cases designated for child advocacy.

In terms of usual cash flow, spending is higher during the first part of the year than the second, due mainly to lapse period spending and debt service transfers of approximately \$7 million made during the first quarter. Spending will generally exceed revenue in the first half of the year, primarily because property taxes are not due until June. On the other hand revenue will exceed spending in the second half, due to receipt of property taxes in June and in September, with late taxes, tax sales, and penalties in November. The projected end of month cash balance low point will be \$25.1 million in May, assuming loan proceeds are distributed as in the chart.

FY2013 General Fund 1 st Quarter Performance				
<i>(\$'s in thousands)</i>				
Expenditures	1st Quarter (Dec-Feb)			
	Actual	Plan	Difference \$	Difference %
FY2012 Lapse Spending	\$ 9,548.9	\$ 9,548.9	\$ -	0.0%
FY2013 Appropriated	\$ 43,008.0	\$ 43,084.9	\$ (76.9)	-0.2%
Personal Services	\$ 29,100.1	\$ 28,698.7	\$ 401.4	1.4%
Non PS operating	\$ 6,609.7	\$ 7,086.6	\$ (477.0)	-6.7%
Bond/Debt Service	\$ 7,298.3	\$ 7,299.6	\$ (1.3)	0.0%
Total Spending	\$ 52,556.9	\$ 52,633.8	\$ (76.9)	-0.1%
Revenues	1st Quarter (Dec-Feb)			
	Actual	Plan	Difference \$	Difference %
Sales Tax	\$ 21,434.4	\$ 21,330.6	\$ 103.9	0.5%
Income Tax	\$ 1,943.1	\$ 1,943.1	\$ (0.0)	0.0%
Property Tax	\$ 324.9	\$ 323.5	\$ 1.4	0.4%
Elected Officials Revenue	\$ 6,932.9	\$ 7,101.8	\$ (168.9)	-2.4%
Other Revenue Sources	\$ 3,820.9	\$ 3,645.2	\$ 175.6	4.8%
Total Revenues	\$ 34,456.2	\$ 34,344.2	\$ 112.0	0.3%
Cash Balance	\$ 35,588.6	\$ 35,399.6	\$ 188.9	0.5%
FY2012 Ending cash	\$ 53,689.2			
Headcount	1,473	1,518	(45)	-3.0%

First Quarter FY2013 tentative Update

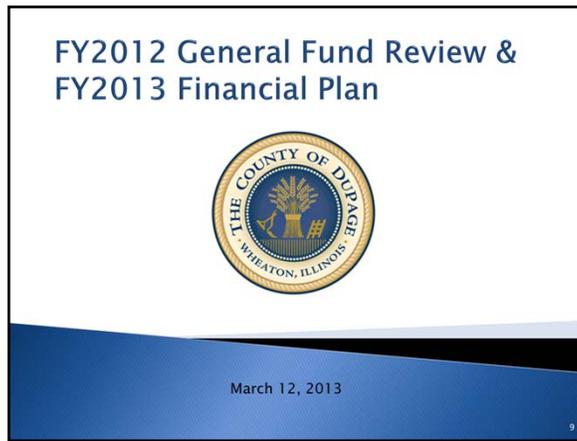
Since this report is somewhat later than usual, we are able to provide a tentative 1st Quarter performance report. The projected values (the "Plan") are a summary of the first three months shown in the previous cash flow plan slide.

First Quarter spending was at 99.9% of Plan. Personnel services shows as \$.4 million over plan, due to overpayments in IMRF and Social Security. These will be made up in subsequent months. Spending for non-personnel issues –commodities, contractual, and capital – came in \$.5 million under projections, with no specific trend identified. One particular area of monitoring is the Sheriff's personnel services budget, which at this point is trending towards a potential annualized shortfall of between \$300-500 thousand.

Revenues of \$34.5 million came in \$.1 million (.3%) over estimates. Drivers included a good quarter of sales taxes, and embedded within Other Revenues, solid personal property tax replacement tax receipts, probation reimbursements, and cable fees. On the down side, Circuit Clerk and SAO fine income continue to suffer, offsetting growth elsewhere.

As a result of Spending being under projections and revenue over projections, the 1st Quarter ending balance came in about \$.2 million above projections. Nevertheless, the balance dropped \$19.2 million from the end of November for the reasons cited in the previous cash flow discussion, and reflects the fact that this is a working cash balance.

Comparison to last year's 1st quarter is favorable. FY2013 spending is \$1.5 million less than 1st quarter 2012, while revenue is \$1.8 million more (mainly sales taxes). Average on board full time headcount of 1,473 is 16 below, reflecting both budgetary changes and current hiring status.



Observations and Conclusions

General Fund finances in 2012 and for 2013 year to date continue a theme from 2011. Positive revenue impact from a continuous – if lukewarm – recovery is being tempered by declining resources in other areas of Fund income.

Spending remains in check, and somewhat below revenues. In FY2012, this enabled the county to allocate additional resources for capital management and to alleviate significant near term financial pressure on Stormwater operations.

The County's current General Fund financial position is solid, with a healthy 2012 ending cash balance. Overall, Fund spending and income to date are slightly better than projected. So far, so good.

Yet the caution flag still needs to be out. As we have seen, the General Fund is heavily dependent on economic fortunes. And despite some very recent signs that recovery may be accelerating, uncertainty continues to put bricks on sustained job growth and investment.

Moreover, the county has already experienced some negative revenue fallout from federal and state legislative or budgetary changes. As the Feds and the General Assembly continue to confront massive, ongoing fiscal issues, the cascade effect in terms of both resource reduction and upward program pressure – in addition to normal pressures we would otherwise see - is likely to grow. Even if marginal, there will be impact, because current projected revenue growth is limited.