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TO: Board of Allen County Commissioners
DATE: August 2, 2011
FROM: Becky Saine
RE: State of Ohio's Final FY2012/FY2013 Biennial Budget Analysis

As you recall, per my memo to you dated March 29, 2011, I had predicted a $2.95 million budget deficit for Allen County's 2012 General Fund budget assuming the $1.267 million reserve fund was left intact and not used for operating purposes. The goal of this memo is to provide you with an update on that forecast now that the final version of the State's budget was recently passed. My suggestion is that you read this carefully and keep it handy to refer back to in the future as it contains very useful information and important figures.

I have read through the State of Ohio's Final FY2012/2013 Biennial Budget in detail and offer the following to you as an analysis of how it will affect Allen County's budget specifically for calendar years 2012 and 2013. I wish to note that my analysis does not reflect any of your views or philosophies but is an unbiased interpretation of the actual budget bill along with a projection of next year's budget based on actual financial data and information, as well as any known decisions already made by you as a board, in relation to the budget.

According to the County Commissioners Association of Ohio, asked how local leaders should view the budget, Senate president Tom Niehaus (R-New Richmond), said, "We cannot continue doing business the same old way. We've got to rein in spending, and that's at every level of government. And I hope it will foster increased interest in local governments working together." I don't believe they could have used a better quote in regards to this budget.

The stated goal of the Governor's budget ("budget") is job creation and there were 5 key areas cited: Medicaid Transformation, Education Reform, Higher Education Reform, Local Government Relief and Reform, Prison and Sentencing Reform, and Creating a Permanent Commitment to Job Creation. While the Medicaid transformation, education and higher education reforms, and the job creation piece will affect our community, I do not feel that they will have any kind of material monetary effect on our general fund operations. The other pieces of the budget that will affect the general fund operations are discussed below in more detail below.

Prison and Sentencing Reform

Under the Prison and Sentencing Reform, the State proposes a $6.6 million savings by selling five prisons by competitive bid to private operators. Those five facilities are in Ashtabula, Lorain, and Marion Counties. The budget states that Ohio counties will benefit from increased tax revenue from the sale of the prisons; however, it is unclear exactly how Allen County will benefit from a sale that takes place in another county. Additionally, four prison camps will be closed across the state, none of which are in Allen County.

The sentencing reform will divert low-level offenders to community based programs, although the budget does not define what those "community based-programs" are. They could be halfway housing programs or they could be county jails. Until this is explained further, it is unclear if this piece will affect Allen County's budget. Obviously, if low-level offenders are committed to our jail, it could have a significant impact on our budget since prisoner housing costs are paid from the County's General Fund. This is one area we will definitely need to keep our eye on and work with the Sheriff's Office and jail administration to monitor and identify any potential increases in jail staffing and related inmate housing expenses.

Local Government Relief and Reform

The most powerful part of this piece in regards to Allen County's General Fund budget is the reduction of Local Government Funding. While we were to receive an estimated 3.5 percent increase in Local Government Funding in FY2011 (July 1, 2010 through June 30, 2011), the Executive budget called for a proposed 21 percent decrease during FY2012 (July 1, 2011 through June 30, 2012) and an additional proposed 36 percent decrease during FY2013 (July 1, 2012 through June 30, 2013). As the State budget passed through the House and Senate, it picked up some other pieces to the puzzle. The County Commissioner's Association has stated that the final version of the State budget enacts a 28.6 percent decrease during the last 11 months of FY2012 (August 1, 2011 through June 30, 2012) and an additional decrease of 11.1 percent of FY2012 funding during FY2012 (July 1, 2012 through June 30, 2013), however it isn't as simple as applying these percentages to our historic amounts due to other factors in the equation. I have attached CCAO's outline of LGF changes at the end of this report. Based on CCAO's calculations, the proposed reductions will affect our calendar year budget figures as outlined below.

Allen County General Fund Local Government Funding

Actual CY2009	Actual CY2010	Estimated CY2011	Estimated CY2012
$1,626,638	$1,631,776	$1,538,427	$991,274
% of change ----->>	0.32%	(5.72%)	(35.57%)
$ of change ----->>	$5,138	($93,339)	($547,153)

We have already budgeted for a 15 percent reduction in Local Government Funding for CY2011 and, based upon the Auditor's original estimate of $1,381,850 for CY2011, we should collect an estimated $156,577 over what was originally estimated this year. However, as you can see above, our main concern comes next year where I estimate a $547,153 reduction in revenue in Local Government Funding alone, which would be equivalent to a 2.13 percent reduction in our current original appropriations.

Other Local Government Provisions

Publication of Legal Notices and Advertisements

Allows local governments to advertise mandatory publications in places other than strictly in a "newspaper of general circulation". As best as I can determine from our accounting system, a minimum of $20,000 is spent annually on advertisement for the General Fund, and I estimate that we could save at least one-half of that amount due to this change.

Commercial Advertising on State Agency and Political Subdivision Web Sites

Basically allows political subdivisions to adopt resolutions to authorize commercial advertising on their websites according to rules pre-determined by the resolution. This element could increase revenues for the General Fund but I do not see those increased revenues being significant.

Modified Work Week for Employees of Local Governments

Permits appointing authorities to modify exempt employees' work week by reducing the number of hours worked in a week by up to 50% of the hours they were working on a regular basis immediately before the adoption by the appointing authority of this policy. After June 30, 2013, a modified work week is able to be implemented again if the county is in a fiscal emergency. While this measure appears to provide the ability to save a significant amount of personnel expense, I do not believe it is practical for Allen County since departments already have decreased staffing. That, in combination with the employee whose work week is reduced most likely applying for and qualifying for unemployment benefits, I do not see the ability of this measure to save our county much money.

Mandatory Cost Savings Programs

Extends, through June 30, 2013, the authority for a county appointing authority to establish a mandatory cost savings program (furlough) in which its exempt employees must participate. "Exempt employee" means a permanent full-time or permanent part-time county employee who is not subject to a collective bargaining agreement between a public employer and an exclusive representative. As of today's date, to my knowledge, there is only one department who has implemented a mandatory cost savings program and that is the Board of Commissioners whose employees paid from the General Fund are required to take ten days (80 hours) unpaid off each year. Additionally, even though there is sufficient appropriation available to pay Commissioner's employees a full 80 hours despite a 21% reduction in appropriation since 2009, the employees are still required to take 80 hours unpaid per year. Only one elected official, namely Commissioner Sneary has volunteered to reduce his pay at the same rate as his employees. Other departments have been able to adapt to their decreased budgets without furloughing their employees. With that in mind, it is possible for all other general fund departments to also require their staff to take 80 hours of unpaid leave per year. While it is obvious that doing so will result in less work and/or less timely work being done for taxpayers and would certainly further erode the already low employee morale, it is a possibility. My responsibility is not to make a decision for you, but to simply present you with the information needed so that you can make a decision. Based upon 2011 salary appropriations, if all other general fund departments furloughed employees and if the remaining elected officials reduced their pay by the same percentage as their employees, savings to the general fund would amount to approximately $267,500.

County Centralized Services
This provision under O.R. C. 305.23 authorizes a board of county commissioners to require county offices to use centralized purchasing, printing, transportation, vehicle maintenance, human resources, revenue collection, and mail operation services. You have already reduced the General Fund departmental budgets for office supplies by 10% in order to encourage centralized purchasing of copy paper, envelopes without the elected officials' name on them, etc. While the other expense components in this section could likely create significant savings for some larger counties, I do not believe there would be much in the way of savings for Allen County. We already have our own vehicle maintenance garage for the Sheriff's Office who has the majority of vehicles in the General Fund, and we already process our mail operations in-house. There could be potential savings by hiring a part-time human resource attorney who could handle all union and non-union personnel legal issues such as union grievances and terminations instead of hiring outside legal firms such as Downes, Hursh and Fishel and Clemans Nelson Associates. That is one area that I recommend for further investigation in order to determine if there could be a savings.

Leaseback Agreements for County Buildings
O.R.C. 307.093 authorizes a county board of commissioners to enter into a sale and leaseback agreement in which a board agrees to convey a county-owned building to a purchaser. It requires the sale and leaseback agreement to obligate the lessor to make improvements to the building to improve functionality and reduce operating costs. Counties that exercise this authority will obtain capital from the sale of assets and incur ongoing costs for leasing the asset from the buyer, all depending on the terms of the lease agreements.

County Automatic Data Processing Boards
Permits a board of county commissioners to adopt a resolution requiring the Data Processing Board to assume the duties of the County Records Commission and County Microfilming Board. Also authorizes the Data Processing Board, with the approval of the board of commissioners, to contract with other political subdivisions, federal or state agencies, and other county automatic data processing or microfilming boards to provide services to one another. Centralizing data services under the County Automatic Data Processing Board could lead to operating efficiencies and savings and I recommend that this provision be further investigated.

Court Filing Fees

Requires that expenditures of funds by judges received for computerized legal research be subject to appropriation by the board of county commissioners. According to the Legislative Service Commission, the fiscal effect of these provision could result in some change in the amount of and purpose for which these moneys will be spent from what would otherwise have occurred under current law and practice. The appropriated amounts could be for greater or lesser than would have otherwise occurred or could be allocated for a different mix of purposes.

County Coroner Deposition or Testimonial Fees

Should a coroner or deputy coroner be subpoenaed to testify at a trial, hearing, or deposition as an expert, the party that requires the testimony to pay to the county treasury a "deposition fee" or a "testimonial fee" which shall be deposited into the general fund of the County. I do not believe that these fees will be measurable or material in any way to the County.

County Quarterly Spending Plans

O.R.C 5705.392 authorizes a board of county commissioners to adopt a quarterly spending plan the second half of the fiscal year for a county office, department, or division that has spent or encumbered more than six-tenths of the amount appropriated for personal services and payroll during the first half of the fiscal year. Also provides that a board of county commissioners may adopt a spending plan or amended spending plan during any fiscal year, setting forth separately a quarterly schedule of expenses and expenditures of appropriations from any county fund, for any county office, department or division that, during the previous fiscal year, spent 110% or more of the total amount appropriated by the board of the annual appropriation measure for payroll and payroll expenditures. Requires the plan to stay in effect for two fiscal years, or until the county officer of the office for which the plan was adopted is no longer in office, whichever is later. According to documentation obtained from the Auditor's Office, several General Fund departments have given their employee(s) a pay raise this year (Building and Grounds - $13,520 for 2 employees, Common Pleas Court - $2,080 for 1 employee, Domestic Relations Court – $18,491 for 5 employees, Clerk of Courts - $9,152 for 11 employees, Board of Elections – $1,040 for 1 employee, Sheriff - $2,600 for 2 employees, Veterans Services - $5,387 for 4 employees, County Engineer Tax Map - $5,512 for 2 employees,) but have not asked to have an increase to their original payroll appropriations and I do not anticipate that they will spend more than they are allowed.
However, since the departments do grant raises on their own merit, it becomes obvious why this provision can be important in controlling expenses as it gives the board of commissioners more control over the budgets of offices, departments and divisions who would spend more than they have been appropriated for payroll related expenses.

Construction Reform

The construction reform piece of the State's budget has many elements to it that I don't feel need to be outlined in this analysis as I do not feel they would greatly impact the General Fund at this time, however, the Legislative Service Commission states that the flexibility in construction delivery methods may enable state agencies and local governments to achieve savings on public improvements.

Retirement Systems Contribution Rates

The Governor's original executive budget proposal called for a decrease in employer contributions rate for PERS by 2% (from current 14% to proposed 12%) and increased the employee contribution rate by 2% (from current 10% to proposed 12%). This provision has been removed from the final budget. Had it passed, the county could have saved approximately $260,000 in retirement contributions that would have been passed on to the employees.

Local Government Integrating and Innovation Committees

With this provision, the State has made it more financially feasible for local governments to establish shared services and I anticipate that there will be much more of that happening with all forms of government operating on reduced budgets, however, it is impossible to say at this point what effect that will have on the County's general fund.

County Delinquent Tax and Assessment Funds

Allows the County Treasurer and County Prosecutor to suspend the crediting of delinquent tax collections to the respective delinquent collections funds should the balances in those funds reach specified thresholds. This provision allows it, but does not mandate it, therefore, I do not feel it will affect the general fund.

In conclusion, there is nothing in the Governor's biennial budget that should come as a surprise to us and we are definitely going to face challenges in budgeting for CY2012. The next page shows you what our 2012 budget looks like at this time based on current year appropriations and other factors as shown. This calculation is showing an anticipated deficit at December 31, 2012 of $2.924 million, or 11.4 percent of our current original appropriations for 2011. Unfortunately, this deficit forecast is not much different than the $2.95 million deficit I forecasted for you in March. Included in my forecast is the estimated revenue as prepared by the Allen County Budget Commission. While Sales Tax revenue is coming in slightly higher than anticipated and departments are being frugal in spending, those two factors do not appear at this point be enough to erase my projected deficit. Fortunately, the Reserve Fund remains fully funded at $1.27 million, however, assuming we inject 100 percent of that into next year's budget, you are still faced with large cuts to be made next year and likely in the following year as well. Again, my suggestion, as it was in March, is that we immediately begin to examine areas in which budget reductions and/or elimination of expenses can be made now instead of waiting to shoulder the entire 11.4 percent estimated 12-month time period. Since several of the General Fund offices are still operating on a 21 percent reduction and two departments are already on furlough, an additional 11.4 percent is going to be extremely difficult to bear.

Should you have any questions or comments, please feel free to discuss them with me.

Allen County, Ohio
Summary of 2012 Budget

GENERAL FUND ONLY

*ESTIMATED CASH BALANCE AT JANUARY 1, 2012 PER COUNTY AUDITOR	$2,299,753
CASH NEEDED AT DECEMBER 31, 2012 FOR JANUARY 2013 OPERATIONS	(2,000,000)
ESTIMATED CARRYOVER ENCUMBRANCES AT DECEMBER 31, 2012	(125,000)
SET ASIDE 1/4 OF AMOUNT NEEDED FOR 27TH PAY IN 2014	(135,000)
*ESTIMATED REVENUE BY BUDGET COMMISSION FOR 2012	22,960,764
TOTAL ESTIMATED AVAILABLE FOR APPROPRIATION IN 2012	23,000,517
APPROPRIATIONS AT 2011 ORIGINAL LEVELS	(25,725,952)
6% INCREASE ON UTILITIES	(57,000)
5% INCREASE ON HEALTH INSURANCE	(73,200)
5% INCREASE ON LIABILITY INSURANCE	(38,500)
CASA INCREASE	(30,000)
ESTIMATED DEFICIT AT DECEMBER 31, 2012	(2,924,135)

*THE COUNTY AUDITOR HAS INCREASED THE PROJECTED CASH BALANCE AT 12/31/11 TO BE APPROXIMATELY $300,000 MORE THAN WAS PREVIOUSLY ESTIMATED AT THE END OF 2010. THE COUNTY AUDITOR HAS ALSO DECREASED THE ESTIMATED REVENUES FOR 2012 BY APPROXIMATELY $300,000 SINCE THE END OF 2010.

NOTE THAT THE $1.267 MILLION IN THE RESERVE FUND IS NOT INCLUDED IN THE FIGURES ABOVE.