FY2011 General Fund Review & FY2012 Financial Plan

February 14, 2012
This review covers the FY2011 revenue and expenditure performance and provides a synopsis of FY2012 projected spending, income, and cash flow for the County’s General Fund. Combining these reports against a background of economic information allows for continuity in understanding recent financial trends and issues.

The General Fund is the County’s chief operating fund and the largest County fund. Nearly 2/3s of County full time staff are paid from the General Fund. 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.
FY11 General Fund Revenue Comparison: Total Revenues = $163.2

<table>
<thead>
<tr>
<th></th>
<th>Original Budget</th>
<th>Final Projection</th>
<th>Actual</th>
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<tbody>
<tr>
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($’s In Millions)
General Fund revenues deposited during FY2011 totaled $163.2 million, a $3.3 million, or 2% increase over the prior year. Revenues came in at 98.4% of original budget estimates, and 99.4% of the revised projections which were used to develop the FY2012 budget.

Sales tax receipts of $79.9 million ran strong throughout 2011, averaging 6.6% over the previous year. This was well ahead of the 3% increase projected in the original FY2011 budget.

Property tax of $28.1 million included receipts for the levy as well as delinquent payments, property tax sales, and associated penalty and interest. The County receipted $4.9 million in delinquent taxes and $.4 million in unclaimed duplicate tax payments the last day of the fiscal year.

Income tax distributions of $8.5 million to DuPage County compared to $6.4 million the prior year. The number of State distributions improved from 10 to 13, as the State worked down backlog.
Elected Officials earnings of nearly $31 million came in 7.2% under FY2010. Despite a significant increase in the cost in non-appearance traffic fines in the last quarter of FY2010, General Fund receipts from the Circuit Clerk dropped $1.1 million, due to a 15% drop in traffic cases. Sheriff Chancery sales of $8 million was significantly under a projected $1.3 million due to a slowdown by banks in foreclosure activity. Chancery sales had totaled $1.3 million in FY2010.

There were several major reasons for a $2.1 million shortfall from original budget in the other revenues category. State legislative changes essentially did away with inheritance taxes (an issue unknown at the time the FY2011 budget was being built); State’s Attorney’s fines dropped off; and state reimbursement for Probation was sluggish. The County did receive the first 2010 RZ bond program rebate of $1.1 million in June 2011.

Although somewhat of a mixed bag, strong sales tax receipts and improved income tax distributions nearly offset the areas of revenue shortfall, and indicated economic recovery was occurring.
FY11 General Fund Expense Comparison: Total Expenditures = $159.8

($’s In Millions)
During FY2011, General Fund cash expenditures and transfers totaling $159.8 million came in at 96.4% of original budget and 97.4% of our revised projections.

Personnel costs were on target with original projections, as savings from turnover, hiring lag, and vacancies help offset hefty employee benefit payouts totaling $3 million in General Fund alone (and nearly $4.9 million total funds). Full time on board headcount averaged about 1,505 compared to the 1,547 originally budgeted. General Fund health insurance expenditures of $11.9 million were also somewhat lower than projected.

Commodities spending of $4.7 million was in line with revised projections, while contractual spending of $35.9 million came in just below the revised projection and $3.6 million below the original budget. Lapsing Contractual line appropriations were spread throughout County Departments, but most lapse was in agency support programs, including $.5 million in electric and gas utilities line items.
Capital spending lapsed $1.3 million, of which $1 million was reappropriated into FY2012.

A $300 thousand anticipated interfund cash transfer for J-Route Mass Transit Project never materialized, as municipalities, under their own budgetary pressures, were generally not able to provide their share of costs. Debt service of $6.1 million included the initial $2.4 million of RZ debt service payments.

Since actual cash spending came in $3.4 million under cash receipts the County’s General Fund cash balance increased by a like amount to $53.4 million. During FY2011, the County authorized a $3 million interfund loan for construction of the Jeanine Nicarico Children’s Center. No loan distributions were made during FY2011.
General Fund: FY2012 Cash Revenue & Spending by Category

Total Revenue = $169.3M

Total Expenditures = $169.3M

($’s In Millions)
Revenues
FY2012 General Fund revenues are projected at $169.3 million in cash receipts. The Fund revenue picture does assume a continuing recovery of moderate proportions in the 3% range. The increase is led by sales taxes. Although continued recovery is assumed, it is highly unlikely that the exceptional FY2011 sales tax growth of 6.6% would be sustained. The FY2012 budget assumes a far more moderate 3.5% growth over 2011 revised sales tax projections.

General Fund property tax receipts include $23.1 million from the County’s 2011 levy. The budget did shift $150 thousand from the Youth Home levy to the Corporate Fund levy as a result of outsourcing Youth Home operations. Another $5.7 million comes from delinquent or late property tax payments, property tax sales, penalties and interest.

The budget projects $8.5 million of income tax distributions. If State catch up efforts continue, this revenue source could exceed projections once again. As of this report, the County has received $1.5 million and the State owes us $2 million.
Within the Elected Officials category, Circuit Clerk income of $23 million is anticipated: some turnaround in traffic cases will probably be required to meet this target. Smaller fee increases for the Sheriff and Clerk enacted in the second half of FY2011, were incorporated into the budget.

Other Revenues of $16.9 million are mainly in line with FY2011, but does reflect an RZ rebate increase of $.5 million to $1.6 million, and some reconstitution of inheritance tax receipts.

**Spending**
The $169.3 million in FY2012 General Fund appropriations and transfers is dominated by personnel costs. The $106.7 million covers salaries, issues such as overtime and holiday pay, health insurance, and employee benefits. Also included is a 2% COLA, the first County-wide base non-union compensation increase since 2009. IMRF and Social Security payments of $13.9 million are paid from Contractual line items. When added to the $106.7 million, General Fund personnel costs total $120.6 million or 71% of the entire General Fund budget.

Full time headcount was set at 1,533, a drop of 14 from the original FY2011 budget. (Overall Full time headcount for non-grant funded positions was reduced 46 to 2,234, including a reduction of 25 from the transition of Youth Home operations to Kane County.)

Significant Contractual and Commodities line item increases were driven primarily by a $1.2 million increase to the Board of Elections for upcoming costs of the 2011 general election, pension costs, and reinstatement of $1.1 million in contingencies.

The 2010 RZ bond debt service increased from $2.4 million to $3.6 million for the first full year of bond payments.
($'s In Millions) The FY2012 projected cash flow does not take into account the effects of a $3,000,000 interfund loan for the construction of the Children’s Advocacy Center.
This slide shows the anticipated interrelationship between revenues, spending and cash balance during FY2012. The General Fund budget is designed to be balanced or “break-even” with spending and revenue receipts equal at $169.3 million. Spending during the first half of the year exceeds revenue, while revenue exceeds spending in the second half, due primarily to receipt of property taxes. The projected end of month low point will be $28.9 million at the end of May.

Please note that the $3 million General Fund loan for the Children’s Center is not included. Amount and timing of loan activity into the Center Project Fund is unknown at this time. Project fund balance, $300 thousand in General Fund subsidy monies, as well as available grant monies will be spent prior to loan proceeds. It is anticipated that some, but not all of the loan will be made during FY2012, and this could impact the General Fund cash balance.

**Mini-Update through January (first 2 months of FY2012)**
Aggregate General Fund Spending of $42.4 million is just under the projected $42.8 million. Base payroll reflects an average 1,489 full time headcount, but employee benefits saw a mini-spike to $317 thousand in the second January payroll. Because of this, personnel costs came in $.2 million above estimate. These costs were more than offset by lower commodities and contractual spending.

On the other side of the ledger, General Fund revenues totaling $22.5 million were $.4 million higher than projected, led by Circuit Clerk and Other Revenues. Sales taxes performed almost exactly on budget. Thus, through January, cash balance of $33.4 million is approximately $.8 million higher than plan.
General Fund: Economically Driven Revenue Source Comparison

($'s In Millions)

<table>
<thead>
<tr>
<th>Source</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12 (Projected)</th>
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<tr>
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<tr>
<td>Recorder</td>
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<td>4.6</td>
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<tr>
<td>Income Tax</td>
<td>7.9</td>
<td>6.4</td>
<td>8.5</td>
<td>8.5</td>
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</tbody>
</table>
| Total        | 87.6 | 86.3 | 93.2 | 95.3             

($'s In Millions)
The County’s General Fund, and thus most of the County’s operations are heavily dependent on three economic revenue sources: sales taxes, income tax distributions, and Recorder income. These 3 revenue sources accounted for 57% of FY2011 General Fund revenues and at $95.3 million will account for 56.3% of FY2012 General Fund revenues.

County sales taxes are composed of: a ¼ cent county-wide supplemental Retail Occupation tax; another ¼ cent county-wide Retail Occupation 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.

Recorder’s income is made up of a real estate transfer tax charged on sales of property and a Recorder fee on deeds, reflecting the local real estate market.

Income tax distributions return a portion of state-wide personal income tax collections on a formula basis. The County’s portion is based on its unincorporated area population (but not the income of that particular population).

Taken from the FY2009 base line, which marked the first full year of RTA tax receipts, FY2010 was basically unchanged, except for the State lag in income tax payments. FY2011 marked a solid gain of 8%, driven by the exceptional year in sales taxes and income tax catch-up.
While the County is seeing good news in its economic sources of income, expectations need to be managed. Forecasted FY2012 General Fund growth for these 3 economic sources is positive, but more sedate at 2.3%, reflecting a still cautious business climate and very fragile state fiscal picture.

During adverse economic periods income from economic sources drop, sometimes significantly. A sales tax drop of 10% would mean about $8.2 million in lost income. Between 2008 and 2009 the supplemental sales tax dropped 13.7%, or about $5.2 million, while receipts from the unincorporated area 1 cent sales tax dropped 17%, another $.7 million.

Furthermore, history may not be prelude to the future for recorder income and income tax distributions. The 5 year outlook for County recordation and transfer fee income from home and commercial sales is virtually flat at $4.6 million annually, down about 50% from averages of just 5-6 years ago. The State has in the past attached legislative provisions to Recorder’s income, mandating increases to go to State housing programs. Currently proposed state legislation (House Bill 5252) would actually eliminate a portion of the Rental Housing fee that was retained by the County and the Recorder, at an annual loss of upwards of $.1 million.

Income tax distribution is actually a revenue sharing program controlled by the state. Counties and local municipalities saw no increases to their distributions in the recent income tax increase. There have been discussions at the state level to reduce or eliminate this source of income to local governments.

Finally, legislative efforts concerning sales taxes clarifications between point of sales and point of destination applications are still ongoing and could significantly impact tax receipts into the County.
Economic Indicator: Unemployment Rate Comparison

($s In Millions)
The unemployment rate provides another economic indicator. During the recent recession DuPage County saw the unemployment rate rise to 9.5% in early 2010. Although considerably better than the overall Chicago area, state, or nation, it was still far above historic levels. During the 10 year period from 1998 to the 2008 recession, DuPage County experienced an annual average unemployment rate of 4.2%. The unemployment rate has dropped although the County’s December unemployment rate was still 7.3%. Although the overall rate trend is downward, the going is slow.
Economic Indicator: Budget to CPI Comparison

Total Budget Appropriations

<table>
<thead>
<tr>
<th>Year</th>
<th>Total County Appropriations</th>
<th>10 Year Inflation (CPI) Impact</th>
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</thead>
<tbody>
<tr>
<td>2003</td>
<td>$603.00</td>
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<tr>
<td>2012</td>
<td>$749.7</td>
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Total General Fund Appropriations

<table>
<thead>
<tr>
<th>Year</th>
<th>Total General Fund Appropriations</th>
<th>10 Year Inflation (CPI) Impact</th>
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</thead>
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<tr>
<td>2003</td>
<td>$172.80</td>
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<td>2012</td>
<td>$214.8</td>
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($'s In Millions)
The Consumer Price Index (CPI) is a frequently utilized budgetary performance indicator, looking at inflationary growth as a parameter. A popular sentiment is that budget growth, especially of a maintenance nature, should not exceed inflation.

This slide compares the actual FY2012 overall County budget (sans grants) and the FY2012 General Fund budget to 10 year CPI inflated versions. In either case, CPI is based on the Census Bureau CPI number used to set PTELL growth limits. This CPI averaged 2.4% annually over the period.

As can be seen, actual budgets in either case track well below inflationary growth. In that regard, in 8 of 10 years, the County’s actual overall budget ran under CPI and is $315 million or 42% under CPI inflated levels. The actual FY2012 budget is nearly $169 million less than it was in 2003.

The General Fund also ran under CPI in 6 years and was at CPI in 4 other years. The FY2012 budget is 21% under the CPI budget driven level, and still slightly below the FY2003 actual budget level.
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Observations and Conclusions

FY2011 spending was held in check, while economic based revenues began to rebound, mirroring a slowly improving overall economic situation.

During the last decade, the County has steadily improved its General Fund cash balance, including setting $4 million into a strategic reserve. The County is in position to weather any short-term adversity during a somewhat fragile recovery.

Aside from improving short-term capacity, in FY2011 the County also undertook significant efforts to control future liability growth through personnel policy changes, improving long term sustainability as well.

The FY2012 budget demonstrates continued spending controls while embracing a cautiously optimistic outlook. The County needs to remain forward looking, alert to issues that no doubt will arise within its 5 year outlook horizon, and also take measures to project and meet the impact of ongoing demographic changes during the coming decade.