

FY2012 General Fund Mid-Year Update



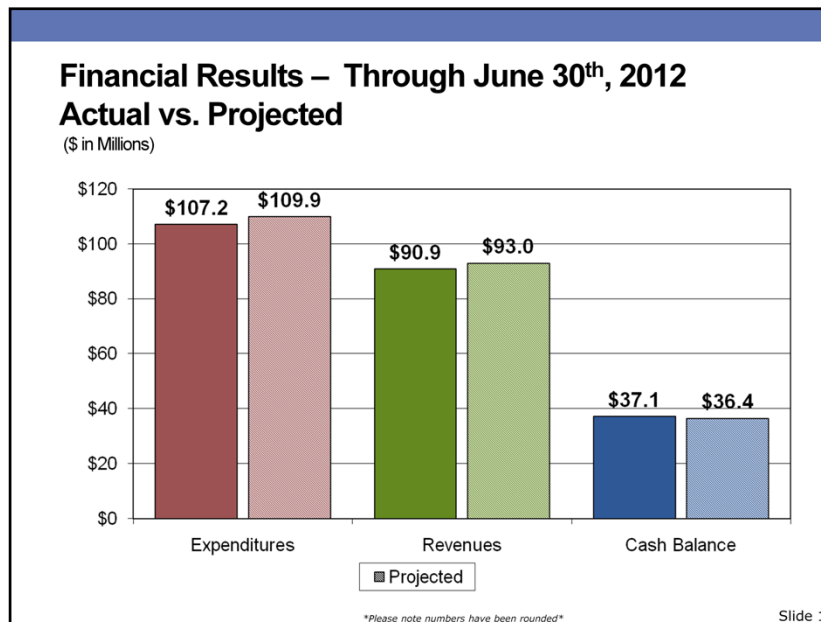
July 24, 2012

This FY2012 Financial update reviews General Fund financial performance, from December 1, 2011 through June 30, 2012.

The report compares revenue & expenditures to modeled projections based on the adopted FY2012 Financial Plan, with any approved modifications through June.

The General Fund is the County's chief operating fund with nearly two thirds of all County staff employed in General Fund Departments. The General Fund covers the majority of all public safety, and judicial activities within the County. Additionally, government support units, campus capital costs, and subsidies to various other special revenue programs are all funded through the General Fund.

Today's report provides additional detail on key trends which have impacted the first half of the year. These trends will help provide financial direction as the County enters the second half of fiscal year 2012, and begins to develop the FY2013 Financial Plan.

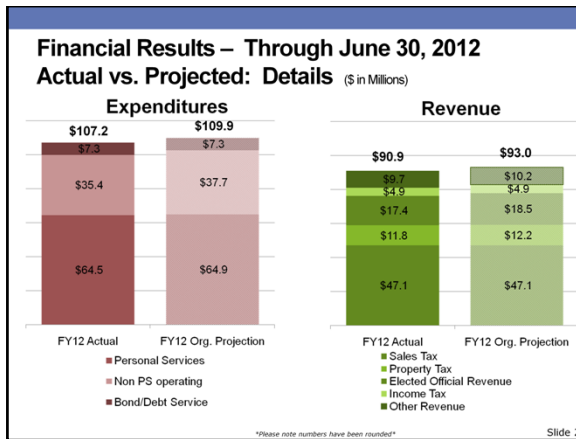


Through June, spending (expenditure) of \$107.2 million is \$2.7 million below the projected level of \$109.9 million. These totals include interfund transfers. As will be detailed in the following slide, spending in all major categories is running at or below projected levels. FY2012 spending has also compared favorably to the prior year. Through May, the fiscal year midpoint, overall General Fund spending was \$1.3 million less than the comparable 2011 period. Spending this past June was higher than the previous June only because last month was a 3 payroll month.

Unfortunately, revenue performance is not as positive. Revenue of \$90.9 million is \$2.1 million below the \$93 million anticipated for the period. Although revenue will be discussed in the following slides, one general feature has become clear: in contrast to last year, economic resources are not over performing and offsetting under performing revenues in other areas.

It should be noted that through June of any given fiscal year, spending is always expected to be higher than revenues, as property taxes only come due in June and September. It is normal for spending to exceed revenue at this point in the year.

Cash on hand reflects the net difference between actual cash spending versus projected spending and between projected revenues and actual revenue. Through June, cash on hand is about \$700 thousand better than had been projected. Although this is currently a favorable position, caution is warranted on the revenue side.



Spending in both personnel and non-personnel categories came in under projections. Debt service payments were in line with projections. Debt service in FY2012 increased by \$1 million to account for the first full year of RZ/BABS bond debt service payments.

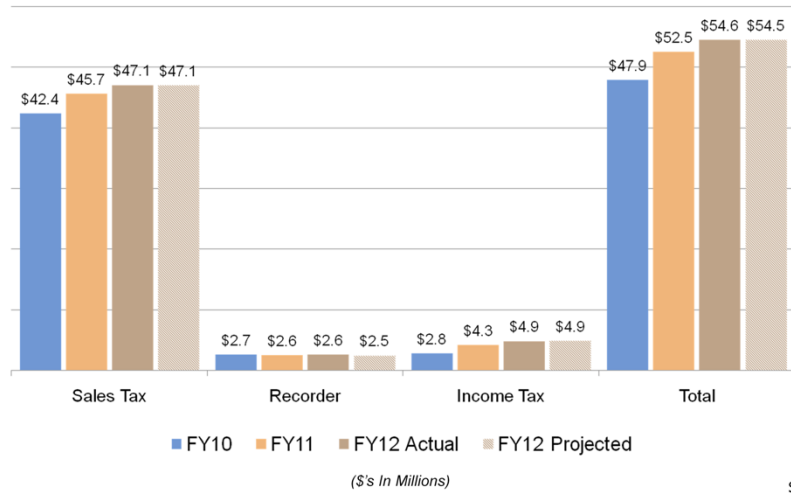
Personnel services costs cover payrolls for full, part-time, and temporary help, health insurance and employee payouts. Within the General Fund, it does not include IMRF and Social Security, which have been historically treated as contractual subsidies. In total, through June personnel costs ran \$.4 million under projections. This is due in large measure to an average on board headcount of 1,488 running below budgeted levels of 1,533. Employee health insurance pay –in has also been somewhat under projections. Finally, after heavy December spending, employee payouts lightened considerably, and are pretty much in line with budget.

Non-personnel spending of \$35.4 million was \$2.3 million less than anticipated. These costs cover contractual, commodities, capital, interfund transfers (other than transfers for debt service), and include lapse period spending. Contractual spending of \$26.3 million is \$1.4 million under projections. Approximately 40% of contractual spending has been for IMRF and Social Security payments; unlike previous years, there has been no abnormal pressure on these lines. Major utilities also appear to have run somewhat lighter, perhaps due to a fairly mild winter. Spending for inmate medical, due primarily to higher utilization, is the one area of contractual pressure. Commodities spending of \$3.3 million has run \$.3 million under projections, although price spikes have impacted motor fuel costs. Capital expenditures of \$1.2 million are also \$.3 million under anticipated spending levels. Finally, interfund transfers of \$4.6 million were \$.4 million less than projected, although \$.3 million is simply lagged timing of transfers.

On the revenue side, nearly 52% of General Fund income is derived from sales taxes. Through June, sales taxes of \$47.1 million were on track, even if receipts were choppy compared to the previous year as well as to budget. Income tax distributions of \$4.9 million were also on target, although timing of receipts from the state are always a hit or miss affair. Surprisingly, property tax receipts of \$11.8 million were \$.5 million under projected levels. This was partially redressed by July deposits. We anticipate that property tax shortfalls will be made up by November, when the annual tax sale occurs.

Areas of revenue concern fall within Elected Officials income and within Other Revenues. The \$1.1 million underperformance in Elected Officials is attributable to declining income collected through the Circuit Clerk’s office, while lower than expected SAO fines account for most of the \$.5 million shortfall in Other Revenues. Both areas are adversely affected by a significant falloff in traffic ticket volume.

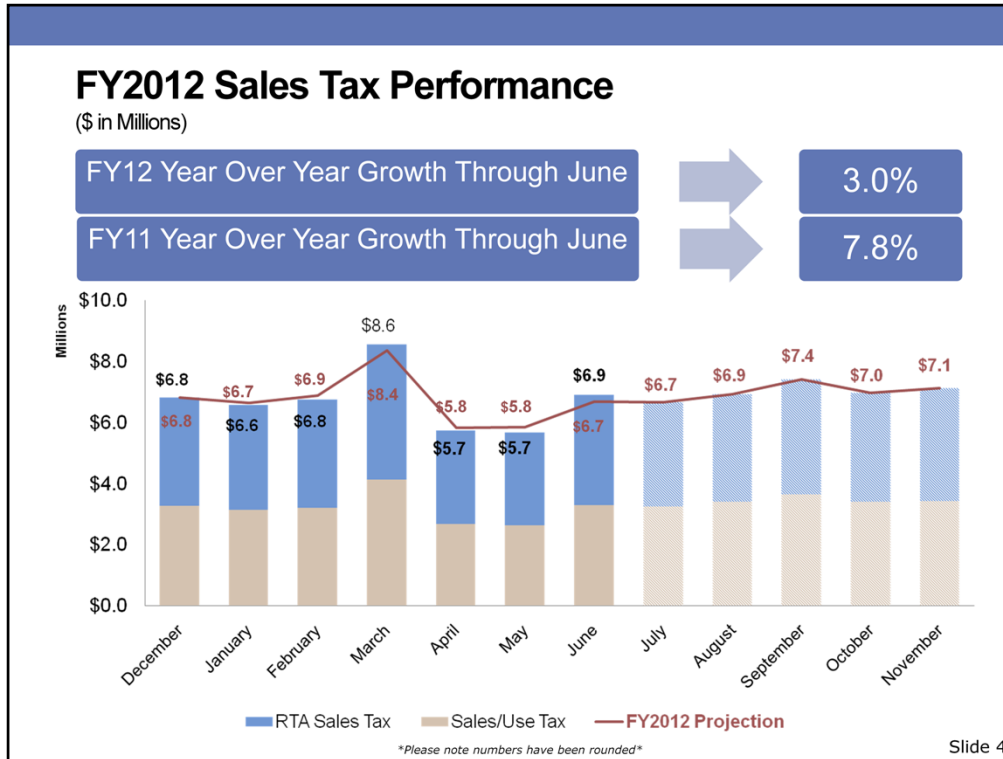
Economically Driven Revenue Source Comparison Year-to-Date, Through June 30, 2012



Slide 3

Over half of General Fund income comes from three direct economic sources: sales taxes, including use tax; income taxes through a State revenue sharing program (which does not include any of the recent State income tax increase); and Recorder income from fees and taxes based on real estate transactions. Year to date through June 2012, these three sources have accounted for 60% of General Fund receipts.

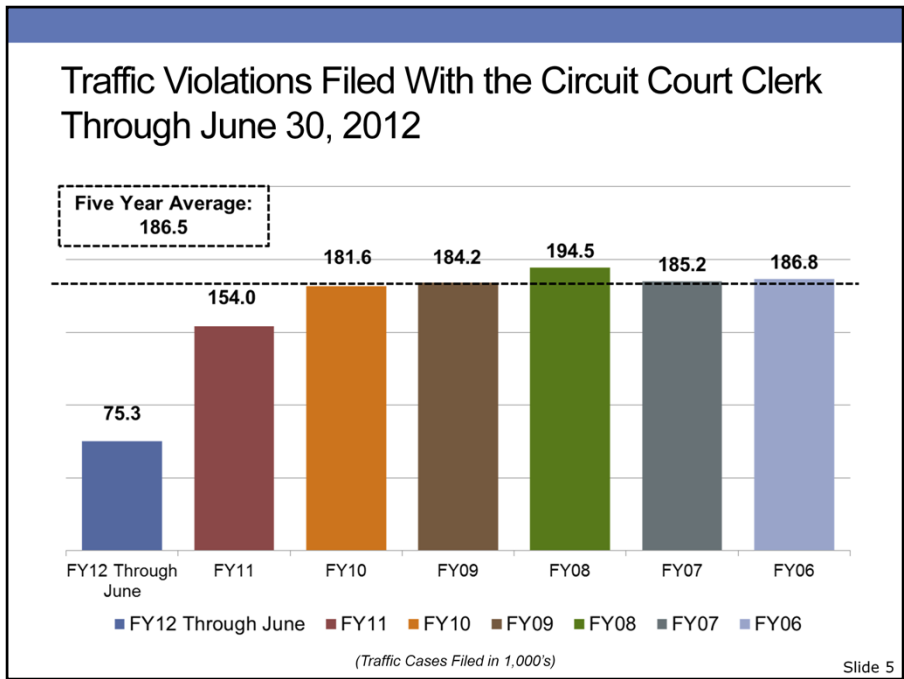
As the graph shows, each of these three sources is performing at anticipated levels, but none is over performing. The graph also shows an initial bounce experienced between 2010 and 2011, as the recovery took hold. By the same token the graph shows a slowdown in recovery between 2011 and 2012 year to date, with only sales tax showing a mild increase. This situation basically mirrors the general economic picture for the first half of the year, where recovery has slowed to a crawl, especially hiring and retail sales. For example, unemployment in DuPage County, at 7.1% in May, really has not changed much in the last several months. Ironically, the housing market may be regaining some legs, and real estate income may tick up slightly in the latter half of the year. Any increase in this revenue will be relatively small.



A more detailed look at sales taxes reveals the major change that occurred in sales taxes over the past year. Through June 2011, sales tax growth was running at a torrid 7.8% annual pace. Although a cooling off was inevitable, sales tax growth has slowed considerably. During FY2012 through June, sales taxes are running just 3% over last year. The FY 2012 budget projected 3.5% sales tax growth, but as the 2012 beginning sales tax base was higher than anticipated, the result is that sales taxes are right on target.

Monthly receipts have been somewhat erratic, varying between 5.9% over prior year in April to May's receipts which were 1.1% under the previous May. This ended a 2 year run of continuous year over year increase in sales tax receipts. Relative to budget, monthly performance has also been variable, with 4 months running close to, but under projections. Two months –including March, when taxes for most of the Christmas period sales are received – came in above projections to balance to the budget target of \$47.1 million for the year through June.

The variable performance of the sales tax, even if within a fairly narrow band, indicates volatility in the progress of the recovery. In the interest of full disclosure, some of the variation may be due to how the taxes are collected and distributed by the state. Nevertheless, the trends clearly indicate a slow down in growth.



This graph indicates recent history of traffic violations volume coming through the Circuit Court. Between 2006 and 2010, the number of traffic cases remained above 181 thousand, averaging 186.5 thousand during that period. County General Fund income from these traffic violations averaged \$10 million annually between 2008 and 2010, the first full years of receipts from a traffic ticket income sharing approach with municipalities within the County and with the State.

Traffic ticket case volume abruptly dropped by over 15% - nearly 28 thousand cases- during 2011. Volume through the first half of the year is on pace to match last year. History provided in the graph indicates that this large drop off over the past 1 ½ years is not due to major behavioral changes on the behalf of drivers. What is inducing the drop off is not clear, and there may be a variety of factors, including a reluctance to actually issue tickets as opposed to issuing warnings. Regardless the cause, this drop off has had a significant impact in revenues from this source. Circuit Clerk income from traffic violations dropped \$.5 million in 2011 as a result of reduced volume, although lagged collections meant this was not a full impact. Through June, Circuit Clerk income from traffic violations is \$5 million, indicating full year income could fall between \$8.5 million and \$9 million, well below the \$10.1 million projected. The declines also impact State’s Attorney’s fines which are under projected levels by 20-30%.

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Observations and Conclusions

Through seven months of FY2012, spending appears to be generally well controlled, with no major pressure areas. Employee benefit payouts, a source of major fiscal impact last year, are currently within budgetary limits. Retirements are on pace to hit the projected average of 60 (half of these in General Fund). Also payments for employee health insurance, another source of pressure in previous years, are currently running slightly below projections. Overall headcount is also down. Likewise, non-personnel services spending has also run under projected levels, with only some issues, such as inmate medical and motor fuel costs causing relatively minor spending pressures.

On the other hand, revenues to date indicate a need to exercise caution as the FY2013 budget is developed. Although most revenues, particularly economic sources, are performing at projected levels, income due to traffic fines are substantially lower than expected, due to volume falloff. There is nothing to offset this. In particular, the surge in sales taxes that dominated FY2011 revenues has slowed significantly. Economic news does not suggest an immediate reversal of the situation.

Adding to this cautionary tone are State actions taken in the Spring General Assembly which did away with the county share of the inheritance (or estate) tax, eliminating that source from future revenue projections. Although not enacted, other proposals by State lawmakers concerning sales taxes, income tax distributions, or personal property replacement tax distributions could further reduce revenues to the County. Cuts in these revenue sources would force deep operational cuts, property tax increases, or reduction in cash on hand, weakening the County's ability to withstand another adverse economic event.