

County Revenues/Services Negatively Impacted by Inflation

Objective

The board chair and finance commissioners asked to prepare an analysis of the impacts of inflation on general fund (GF) revenues and county services.

Methodology

Annual inflation rates were obtained from the Michigan Tax Commission. Inflation rates were applied to actual audited GF revenue to determine the amount of revenue that should have been received each year to keep pace with inflation from 2001 to 2015. Actual and inflation adjusted revenue by year were then compared.

This process was also repeated to show the situation without wind turbine revenue which was first received in 2013. This was done because at some point in the future less revenue from wind turbines will be received based on the current method of assessing and taxing turbines. Without other changes, this will make the gap between actual and inflation adjusted revenue even greater.

Results

Actual GF revenue is significantly below the amount that should have been received to keep pace with inflation. For the 2001 to 2015 period, total actual GF revenue was approximately \$176 million compared to inflation adjusted GF revenue of approximately \$187 million. In other words, \$11 million more in GF revenue was needed to off-set the eroding impact of inflation. Without wind turbine revenue the actual and inflation adjusted revenue gap would have been even greater at over \$13 million.

In every year except the 2001 to 2003 period, actual GF revenue was well below inflation adjusted revenue. Since 2010, the gap in every year has exceeded \$1,000,000. Considering the most recent completed year of 2015, GF inflation adjusted revenue was \$14,118,716 compared to actual revenue of \$13,106,201 for a difference of \$1,012,515.

Conclusions

Clearly, GF revenue has not been sufficient to off-set the detrimental impacts of inflation. In order to adjust to this situation, county officials and residents have made many difficult decisions to deal with buying power erosion caused by inflation. Some of the adjustments made include: staffing reductions, special purpose millages, consolidation of services, health insurance changes, and retirement system changes. These adjustments have been ongoing for many years. Not only are we battling inflation, but we also have the disadvantage of a small allocated millage (3.9141 mills) and a very limited property tax base growth rate.

Budgetary pressures continue to mount with over-dependency on wind revenue, high staffing turnover rates, growing demands for multi-year union contracts, non-competitive wage structure in critical positions, new state and federal mandates, increasing regulations/requirements, etc.

Unfortunately, we are "caught between a rock and a hard place." Other than requesting millage increases, the state does not provide county government with taxing authority. Without authority from the state to raise revenue, the county cannot off-set inflationary increases. Without additional changes

the ability to continue to deliver state mandated services at current levels will not be possible. This breaking point is fast approaching.

With the exception of wind turbines, county tax base growth has been extremely limited. Wind development has produced some short term revenue. However, under the current method of assessing and taxing wind turbines the amount of revenue received declines substantially with time. This has already started and will make the financial situation worse. Financial planning needs to continue in 2017 to evaluate alternative solutions to avoid the breaking point.

