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To: Board of County Commissioners

From: Jeff Aluotto, Interim County Administrator

Subject: 2017 County Administrator's Recommended General Fund Budget

Date: November 14, 2016

It is my pleasure to present the County Administrator's recommended General Fund Budget for 2017. The recommended budget for 2017 totals $217.8 million, which constitutes an increase of 5% from the 2016 budget and a 1% decrease from projected 2016 year-end expenditures (including one-time expenses).

Developing and balancing a County budget in Ohio is a challenging endeavor for multiple reasons:

1. The vast majority of services provided by the County are mandated under the Ohio Revised Code.
2. Ohio law restricts the manner in which a county can obtain revenue, or modulate existing revenue sources, to fund mandated services.
3. Approximately 80 percent of the County's general fund expenditures occur under the authority of independent offices.

Each of these challenges impacts the County's ability to develop a revenue and spending framework which balances true needs with available resources. The County has been successful in this regard, over the years, through conservative budgeting and, in no small part, through the cooperation of those County departments, agencies, and independent offices which have partnered with the Board to operate in accordance with existing resources.

The 2017 recommended budget responds to the above challenges in a manner which allows the County to maintain core services and make progress on key policy priorities while placing the County in a more favorable position as it relates to maintaining structural balance into the future. While a significant portion of the budget message that follows relates to the mechanics of balancing a particularly challenging budget, it should be noted that the 2017 recommended budget offers a **fiscally sound** approach for maintaining the progress on various strategic initiatives begun in prior years while identifying a path for prudently **advancing new efforts to address Board priorities**.

Maintaining Structural Balance

The ultimate goal of any county or local government budget is to ensure a long-term structural balance while providing basic community services and addressing the policy priorities of the governing body and the community. Structural balance, or the ability for ongoing revenues to fund ongoing expenditures, is one of the signature metrics of financial health for a local government and is one of the most important variables ratings agencies review when the County looks to issue general obligation debt to finance major capital improvement projects (of which several are planned over the next year or two). Over the past several years, the Board has prudently attempted to adopt budgets which limit the growth of expenditures to available resources. While this strategy was successful for several years, 2016 saw a continued trend of expenditure growth among general fund departments and agencies which will likely spur a year end operating deficit.

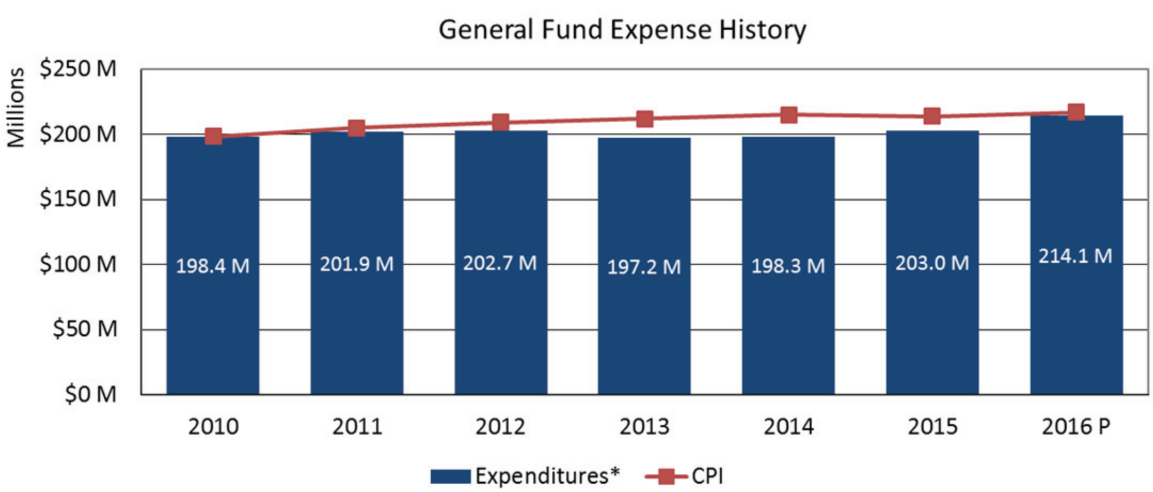
Maintaining structural balance in the County budget will be an increasingly difficult challenge given various fiscal and operational pressures including:

- The ongoing efforts of County departments to meet the public's demands for services (many times resulting in increased staffing levels),
- Increased capital costs associated with deferred maintenance as aging equipment is now beginning to fail. This resulted in approximately $2 million in supplemental appropriations for 2016,
- Inflationary costs associated with purchased goods and services (e.g. utilities, contractual services, etc.) and planned obsolescence of critical IT equipment and infrastructure,
- The need to adequately compensate and maintain an appropriately sized workforce,
- The continued loss of State funding including potential changes to the sales tax base,
- The need to redeploy personnel from restricted funds to the general fund, and
- Continued stagnant or slow revenue growth.

While the Board has influence over some of these variables (e.g. staffing levels and compensation under Board departments, levels of proactive capital investment, etc.), others are less predictable or are less controllable. In the end, like any private business, a local government has only so many options for balancing revenues and expenditures. It can reduce costs (through operational efficiencies, reductions in force, or by shifting expenses out of the general fund), it can raise revenues (in the form of taxes, fees or grants), or it can remove itself from individual lines of work. Growing revenues organically, through continued development, is an additional option yet one that is complicated by the nature of tax abatements and exemptions designed to attract this growth. The County has utilized all of these strategies, to varying degrees, over the past several years. The following paragraphs provide a brief summary of expenditure and revenue trends over the last six years.

Revenue and Expenditure Trends 2010 - 2016

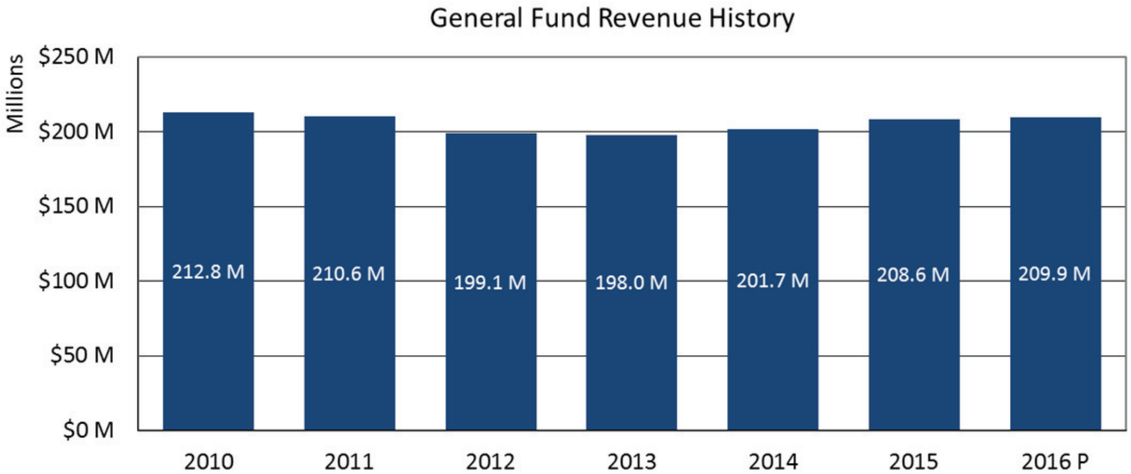
Since 2010, total general fund expenditures have increased by 10.8%, or 1.7% per year. This increase includes end-of-year projections for 2016, during which a significant volume of one-time expenditures were incurred to address capital maintenance and to fund unique economic development opportunities. The Board and County departments, on the whole, have done a commendable job of controlling cost increases over this time period. However, the lack of concurrent revenue gains makes it difficult to accommodate even this modest level of expenditure growth. As detailed later in this document, the Administration projects a relatively flat revenue scenario in the coming years which has the potential to spur a sustained structural imbalance if not addressed through additional revenues or expenditure reductions.



** The above chart removes major one-time expenditures and controls for both township patrol and casino pass-through items. Expenditure differential from 2015 to 2016 includes: $3.1 million in presidential election expenses, $1.7 million increase related to health insurance costs, and market rate salary adjustments and collective bargaining increases across various departments/agencies*

At its lowest point, the economic impacts of the Great Recession reduced total County revenue by 20%. The losses were broad based. While we tend to focus on a few line items (interest earnings, sales tax, local government fund, property taxes, etc.), the impact extended across most operations, including substantial losses to fines and fees, court reimbursements, and indirect cost recovery. While some of the County's revenue streams have recovered since the recession, the County did not reach its lowest revenue levels until two years after the downturn ended, and many revenues have remained suppressed or fallen further even as the economy has rebounded.

While we have seen recovery in many of the major categories (sales tax, Public Defender reimbursements, transfer taxes, building permits, and even property tax to a modest extent since 2012), other revenues have followed an inverse trend—especially those related to state and federal revenues. Total projected revenue in 2016 is virtually level with 2010. While expenditures have increased at a relatively modest pace, revenues have remained stagnant, making it increasingly difficult to structurally balance future budgets.



The above chart controls for both township patrol and casino pass-through items.

The seemingly counter-intuitive dynamic of sluggish revenue performance in the face of an overall economic recovery is informative to what drove the recession, how government responded, and how the economy has recovered. The recession was driven, in part, by the real estate collapse, and real estate-related revenues saw the first and largest reductions, followed by sales tax and interest earnings, beginning in 2008. Sales tax bottomed out quickly, following the timeline of the recession, in 2009, and has grown every year since. Transfer tax and recording fees fell through 2011, but began to recover in 2012.

The second phase of the County's revenue loss was spurred by the state and federal response to the recession, most notably in the cut to the Local Government Fund (LGF) which drove the County to its lowest revenue level in 2012. The LGF fell $9.6 million between 2008 and 2012, and has lost another $3.1 million since. While it grew in 2015, it is projected at a loss of $275,000 in 2016. In addition to the local government fund, intergovernmental revenue losses include court reimbursements (-$4.8M in Juvenile, Probate and Domestic Relations), personal and public utility property tax reimbursements (-$5.5M), and inheritance tax fees (-$600K). Indirect cost reimbursements also fell $7 million as the result of reductions to restricted fund agencies, including the closing of 237 William Howard Taft.

Finally, there are those revenues, such as interest earnings, and fees and fines, that have continued to stagnate and fall even during the recovery. It took a number of years for the full impact of interest rate reductions to work their way through our investment portfolio, resulting in a loss of $16 million between

2007 and 2014. Fines and fees have fallen $1.3 million since 2008 and continue to fall, suggesting that the economic recovery has not improved the financial status of many who incur these penalties.

Even the County's strongest performing revenue source faces headwinds. The Federal government's instruction to the State of Ohio that it discontinue the application of sales tax to Medicaid Managed Care Organizations could well cause a substantive regression in sales tax performance in 2018 absent State action to counter this impact. The 2017 sales tax projection contemplates a strategy for avoiding a revenue shock in 2018 due to this dynamic.

Recommended Balancing Framework

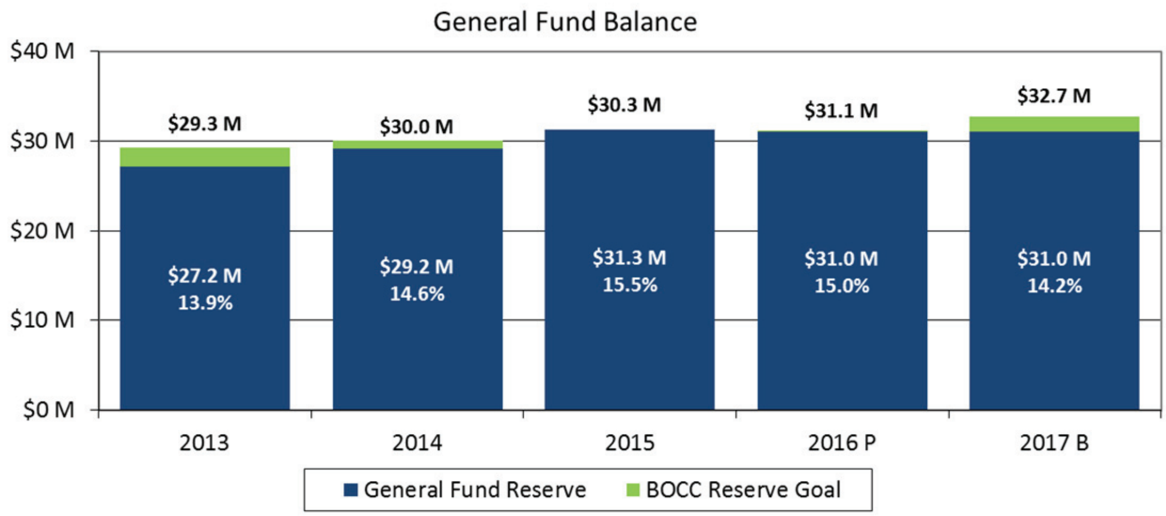
While certainly complex, the revenue/expense environment described above is not atypical to local government operations—particularly county government in Ohio. To address the above challenges and to ensure a structurally balanced budget in 2017, while accommodating departmental service needs, the Administration is proposing the following balancing framework:

- Departmental expenditure requests have been reduced by a total of $13.2 million. Total General Fund expenditures are recommended at $217.8 million which represents a decrease of 1% relative to projected 2016 end-of-year expenditure levels. As indicated above, expenditure growth has been relatively limited over the past several years; and while available revenues have continued to restrain investments in the workforce and infrastructure, suppression of expenditures naturally will continue to be a part of any balancing framework.
- Revenues have been forecast utilizing historic trends with the exception of sales tax which has been normalized to account for the potential loss of up to $6 million in 2018 due to the Medicaid Managed Care issue.
- The 2017 Recommended Budget accounts for casino revenue in the General Fund given the expiration of the formal Board policy directive on inclusion of those funds in the Sales Tax Fund. The Board may wish to reconsider the deployment of casino revenues, toward other policy priorities or needs once a State solution to the MMC issue is determined and the County assesses the results of the new property reappraisals in 2018. Until that time, however, it is recommended that those revenues be utilized as a general fund resource, to facilitate basic service provision.
- The 2017 Recommended Budget accounts for revenue from a 1 mill increase to the Property Transfer Tax, as an interim funding mechanism for the Hamilton County Communications Center, until a permanent funding source can be initiated. This mirrors the strategy recommended by the Administration to the Board in April of 2016.
- Finally, the 2017 Recommended budget accounts for a technology implementation fee of 5% on permits in the County's Department of Planning and Development to finance the initiation of a web-based permitting system. The net increase, however, will be ameliorated by a proposed

switch to the CPI for escalating permit cost increases—as opposed to the currently used Engineer News Record's Construction Price Index.

In total, when comparing departmental requests to available resources, the recommended strategy for achieving balance in the 2017 budget relies upon $13.2 million in reductions from proposed expenditures or cost shifts from the general fund, and $15 million in additional revenues. I believe this to be a practical approach for balancing the 2017 budget which combines expenditure restraint with modest revenue enhancements.

Presuming the above balancing framework, the following graphic details recent trends and projections for the general fund reserve.



Alternative Balancing Framework

The Administration is prepared to assist the Board with alternative balancing strategies should it be determined that the proposed framework is inconsistent with its policy goals. It should be noted, however, that the primary goal in recommending the above framework is to achieve sustained structural balance in a year which will be marked by a significant number of revenue and expenditure stresses. As such, there are significant implementation risks associated with a balancing strategy focused entirely on expenditure reductions.

Addressing Strategic Priorities

Annual budgets also represent a moment in time when strategic goals of an organization can be framed and prioritized. Despite concerted challenges, the 2017 Administrator's Recommended Budget achieves structural balance while making progress on a host of key priorities as discerned from the Board's 2015-2016 Policy Agenda. (A full update of progress against the policy agenda is included as Attachment B.)

Providing for Basic Services

Hamilton County provides a multitude of basic services to the population of the County which strengthens the fabric of the community and improves the quality of life for its residents. These services include but are not limited to:

- Maintaining critical law and order infrastructure in the County including operation of the County Court system, Prosecutor's Office, Public Defender's Office, Crime Lab, and Sheriff's Department which includes both a patrol and correctional (Justice Center) division.
- Administering elections for County residents.
- Managing the fiscal, financial, and treasury operations of the County.
- Managing the recording of property rights in the County through deeds and records.
- Operating a 9-1-1 Center to ensure fast and effective response to emergency situations.
- Overseeing emergency management planning for the County and its communities.
- Ensuring effective building and development occurs in the County through community planning work as well as building and zoning reviews and inspections.
- Engaging in economic development activities to retain, attract and develop new business and investment activity in the County.

The general fund budget is the primary source of funding for these and other basic operations of County government. Despite the challenges detailed in the sections above, the recommended budget seeks to maintain and where possible, enhance, the provision of basic services throughout the County. Budget requests from County departments totaled $231 million at the initiation of the budget process. The recommended budget attempts to size departmental budgets at a level which allows them to retain existing staffing levels, fund certain critical staffing additions, and maintain existing contractual service levels. Unless offset through other funding mechanisms, or funded within past appropriation levels, the budget does not contemplate major service expansions or introductions of new service lines.

Economic Development/Transportation

In past years, it has been difficult for the County to identify funding for economic development initiatives (outside of providing resources to the County's key partners in the Port Authority, HCDC, and REDI) without detracting from the provision of basic services. It has become increasingly apparent, however, that there is a role for the County to play in partnering with local jurisdictions to spur development, retain jobs, and prepare sites for development by creating the infrastructure required to attract and retain investment within the County. In 2017, the Administration is recommending an approach that leverages available funding sources to address what has been an ongoing Board policy priority that has struggled to find a funding source in recent years. This approach includes:

- Seeding of a County Transportation Oriented Development funding pool utilizing $700,000 from strategic property sales, a small general fund reserve earmark, and unused County Engineer project balances. Funding to promote transportation-oriented economic development was a component of the 2016 recommended budget but was contingent upon adoption of a new revenue source. It is recommended that funding be utilized by the Transportation Improvement District as a means of leveraging additional state and federal resources to promote local transportation projects.

- Formation of a County Economic Development Pool utilizing $900,000 of CDBG and NSP funds. Similar to the NSP housing grants that were allocated in 2016, this fund would be overseen by the Planning and Development Department in cooperation with HCDC and would be offered on a competitive basis to facilitate transformative development projects in the County. This funding could seed various projects that will assist in site readiness efforts, blight removal, environmental remediation, business district or street scape improvements, and be used to create jobs. While this item will not be funded through the general fund, it is included as a component of the recommended budget given the significance of the policy priority and the offset it affords the general fund Economic Development department.

While the recommended budget provides seed funding in these areas for 2017, additional work will be needed to determine a sustainable strategy for 2018 and beyond. For example, it is anticipated that the Economic Development Pool could be sustainable in future years, albeit at a reduced level of $300,000-$500,000 annually.

<u>Heroin Response</u>

Since 2015, the Board of County Commissioners has led an effort to catalyze the community around the issue of heroin through the formation of the Hamilton County Heroin Coalition. In 2016, the Board appropriated $1.1 million for targeted heroin prevention and treatment strategies. The 2017 recommended budget continues this work by providing $700,000 to the Mental Health Recovery Services Board to address treatment needs associated with the heroin epidemic. As opposed to the entirety of this funding coming from the general fund, the recommended budget shifts this funding to the Family Services and Treatment Levy ($500,000) and to the Indigent Care Levy ($200,000). These funds will be targeted to local providers, in combination with funding from local health providers, to enable the provision of opiate detox, treatment, and recovery services. It is also anticipated that an additional $300,000 in funding for this effort will be provided from UC Health which continues to be a valuable partner in this effort. In addition, the County will continue to provide for administrative costs associated with the operation of the Heroin Task Force – the law enforcement collaborative associated with the Hamilton County Heroin Coalition.

Additionally, concurrent with the work described above, the Administration recommends convening a working group to develop a strategy for initiating a medication assisted detox program associated with the Justice Center in concert with available treatment providers and/or the County's inmate medical services provider.

Capital Infrastructure

Addressing the significant capital needs of the County will be a continuing theme of this and future budgets. The County's recently completed facility master plan indicated that the County faces over $160 million in deferred maintenance over the next 20 years. In 2017, the County will continue progress in addressing the County's strategic and most basic capital priorities including:

- $500,000 to continue the interior capital repairs of the Hamilton County Courthouse.
- Continued work, in 2017, on the siting, planning, and development of a new County crime lab.
- Development of a consolidated courthouse server room.
- Repair of the fire alarm system at the County Courthouse.
- Closeout of current roof repairs at 800 Broadway and the County Courthouse.
- Replacement of the central control system at the Juvenile Court Detention Center.

The above initiatives will be included as either debt financed components of the capital improvement plan (Attachment C) or as earmarks against the County's general fund reserve. So while these items are not formal components of departmental operating budgets, they each have a significant impact on liabilities which otherwise would fall to the general fund or will ultimately impact debt service, which is an operational expense.

Public Safety

The Board has, time and again, stressed that public safety is its top priority. The 2017 recommended budget continues investment in this area on multiple fronts. These include:

- $50,000 in Facilities to study space utilization within the Justice Center to promote efficiency of operations and effective use of space to accommodate judicial sentencing.
- An earmark of $250,000 in the general fund reserve to advance a pilot program for addressing jail population management and substance abuse treatment needs of the jail population.
- Exploration of Smart 9-1-1 system options to allow Hamilton County residents the ability to provide individualized information to first responders before arriving on the scene of an emergency.
- Replacement of 68 radios in the Sheriff's office to facilitate continued interoperability as current radio models are phased out. This effort will be addressed in 2016 through the utilization of available debt service appropriations; however, the replacement will likely occur in 2017 and will avoid the need for additional operating appropriations in that year.
- The 2017 budget recommends maintaining the 9-1-1 detail rate at $15.00, as set mid-year by the Board, in order to limit the impact of these charges to the public safety budgets of consortium communities. The Administration recommends that a resolution for funding the Hamilton County Communications Center, in 2018 and beyond, be deliberated and finalized in early 2017. The Administration's April report on funding alternatives for 9-1-1 is included as Attachment D.

Critical Systems

- The 2017 recommended budget provides $1.65 million to initiate the development of a new web-based building and development permitting system. The cost of this system will be borne by both the General Fund and Restricted Funds that will benefit from the system and largely reimbursed through initiation of a technology fee on development related permits.
- The 2017 recommended budget utilizes a one-time workers compensation payment holiday to set aside cash for the costs of replacing the Auditor's financial system. The workers compensation fund balance is otherwise healthy at 247% of annual expenses and can afford this break in contributions.
- The 2017 recommended budget continues to allocate bond proceeds for the upgrade and replacement of the Sheriff's records management and mug shot system.
- The 2017 recommended budget recognizes "go-live" of other critical systems including the County's new public website and maintenance for the Communication Center's Computer Automated Dispatch (CAD) system which was installed in 2016.
- Initiation of a cybersecurity threat assessment, utilizing prior earmarks, to ensure protection of the networked systems under the control of the Board of County Commissioners.

Investing in the County Workforce

In 2016, the General Fund budget accounted for a 1.5% salary adjustment for all County employees. An additional 1.5% was granted effective September 8th. This latter increase did not apply to those departments and agencies which independently increased salaries or provided market rate adjustments to employees through the course of the year. Recent analysis has shown that, on average, the compensation rates of County employees lag the market for comparable positions by 7-11%.

The issue of workforce compensation is reaching a critical point, with departments and agencies finding it extremely difficult to retain employees or attract qualified applicants without making offers significantly higher than the minimum of current ranges. When this occurs there are, of course, equity impacts for existing employees.

For context, each 1.5% merit increase has a general fund impact of approximately $1.2 million. Additionally, a general market rate adjustment designed to significantly advance employees into the market assessed ranges (on a position by position basis) would cost the general fund between $2.5 and $5.7 million. Recommending a strategy for workforce compensation in 2017 is complicated by numerous factors including stagnant ongoing revenues, as detailed above, and the anticipated revenue pressures in 2017 and 2018. As such, while it is understood that an adjustment to employees' base salary is probably more appropriate, the Administration is recommending a 1.5% one-time salary adjustment (or bonus) to be paid in early 2017. Options for implementing this payment, within existing financial constraints, will be discussed with the Board during the budget deliberation process.

In conclusion, the Administrator's recommended budget represents a prudent approach toward balancing revenues and expenditures for 2017 while maintaining basic services and making deliberate gains toward Board policy priorities. The remainder of this budget transmittal includes:

- A description of the 2017 budget process, and
- A discussion of budget risks

2017 Budget Process and Balancing Measures

In addition to accounting for the Board's policy priorities, the budget takes into account the priorities of eight other elected offices, the judiciary, and independent boards and commissions via their annual budget requests. The budget staff place all of those requests within the framework of available resources to produce an annual recommendation that is structurally balanced and as responsive as possible to the needs of all departments.

For the 2017 budget, Administration continued the process of asking departments for budget requests, and found the result to be in line with previous years: requested expenses out-weighed enumerated revenues by $28 million. Balancing the general fund exercises three basic budgeting tools:

First, reductions are made to expenses based on historical spending levels, current payroll data, and departments' justifications for items that exceed these parameters. The budget office provided a number of tools to fiscal staff to help them explain those requests above current expense levels. These tools were particularly important for recommendations related to capital equipment and other non-personnel items. $6.25 million of reductions were made to non-personnel requests. Capital equipment requests are recommended at just under $2 million in 2017, in line with the 2016 budget, in an attempt to maintain an adequate annual investment in replacement of computers, cars, and other necessary equipment. Personnel-related adjustments (e.g. new FTE requests, vacancy rates, and employee benefit changes) resulted in reductions of $5.4 million, including an increase to medical insurance of $2.5 million.

Next, restricted fund interactions were taken into account. For departments with capacity in restricted funds, expenses were moved to those funds (which a careful eye to draw only upon operating surpluses – not reserve balances). To that end, the 2017 recommendation maintains the Auto Title fund transfer to general Clerk of Courts operations, and removes Court personnel from the Automation fund in favor of restricted funds with annual surpluses. Conversely, the 2017 recommendation absorbs $200,000 in expenses in the Treasurer's office due to the exhaustion of its restricted funds, and provides additional subsidies to the 9-1-1 call center and the Dog Warden to maintain balances in those operations. Across the entire general fund, reductions of $1.6 million were made to department requests related to restricted fund interactions.

Finally, the budget office evaluates department revenue estimates and works with fiscal officers to revise them as feasible. Revisions to department revenue estimates closed the budget gap by $6.7 million, including several stretch estimates that go beyond the budget office's typical approach. To that end property taxes and interest earnings are both estimated in excess of the Auditor and Treasurer estimates; building permits and transfer taxes both assume some level of large-scale settlements in addition to regular activity; and sales tax is projected as high as possible while keeping the it in-line with a 2018 partial solution to the Medicaid managed care issue. (Detailed revenue analyses are developed for all major revenue lines and are available for review upon request.)

Even with all of these gap-closing measures, Administration is proposing use of casino revenue ($4.58 million) and a new mill of transfer tax ($3.67 million) to finally close the 2017 budget gap.

Budget analysts are encouraged to work closely with departments as they make revisions to budget requests, and during development of the 2017 budget Administration allowed departments to see working revisions within the budget modules at any time. Departments were able to respond to first-round budget reductions during meetings with the Commissioners in September, and will have another opportunity during public budget hearings in a few weeks.

Budget Risks

For 2017, Administration has proposed a structurally balanced budget that makes progress on some key policy priorities and uses non-recurring resources prudently for identified capital needs. While the recommendation perhaps includes less risk associated with the use of one-time resources and personnel vacancy than recent budgets, the 2017 budget still entails both short-term and long-term risks. Variations on long-term structural balancing risks are outlined in the five-year plan in Attachment A.

Among the areas of concern related to the 2017 recommended budget are the following:

- *Departmental Overspend/Workforce Compensation.* While in previous years departmental overspending was a risk because of aggressive budget targets or employee vacancy assumptions, the overspending risk for 2017 is associated with departments granting salary increases above recommended levels, on-boarding new personnel, or addressing specific programmatic issues (those in the Sheriff's office may be among the most pressing and are discussed further below). While the actions of departments over the last two years related to salary and market adjustments are defensible, and even in line with our own HR department's recommendations, they have exceeded the pace of the County's revenue growth, and they remain a substantial risk until we reconcile revenue issues and prudent, ongoing investment in the County workforce.

  The flipside of departmental overspending is workforce compensation. While a number of departments have addressed market compensation inequities in their offices over the last year, there has been no capacity to move forward with a countywide approach to market adjustments, or even to reestablish consistent, annual compensation adjustments. The result is increasing difficulty hiring personnel in a number of County departments and often pay inequity among senior employees and new hires into the same positions.

The extension of these risks is the potential for ongoing deficit spending. 2016 projections still indicate a year-end operating deficit (though it is still possible to close it by year end). Continued movement in the same direction as 2016 – departmental overspend for employee compensation with no off-setting revenues – is a very difficult fiscal situation made worse by the pending issuance of a substantial amount of general obligation debt in early to mid-2017 for a Coroner's lab. This dynamic, if not addressed comprehensively, could ultimately impact the cost associated with major County capital projects and will likely be noted in annual rating agency surveillance calls.

- *Deferred Capital.* A perennial risk in the County operating budget is under-investment in building infrastructure. While we have begun to turn the tide on this item, there are substantial building infrastructure needs ahead, with general obligation debt service projected to grow by over $1 million by 2018. While retirement of existing debt absorbs some immediate needs, the backlog of $130+ million in facility improvements entail continued debt growth after 2019.

  A more immediate risk associated with deferred capital is system failures. While our facilities department tries to prioritize the most pressing needs, they cannot predict all system failures, and we had several issues in the last year (most substantially, the fire alarm system in the Courthouse) that require us to re-prioritize building needs on the fly.

- *Sheriff's Office Patrol and Justice Center Issues.* Two on-going operating issues in the Sheriff's office remain a risk as we enter 2017: patrol services and reimbursements, and Justice Center capacity.

  The Sheriff's office has spoken recently about various dynamics related to patrol services. While these services may be an excellent solution for some local jurisdictions, it should be noted that patrols are not a state-mandated function of the Sheriff's office, except as they may be necessary for the Sheriff to preserve the peace. While we have made progress on the issue of reimbursements in recent years, there remain unresolved issues. Of particular note, the Sheriff's 2017 budget request for rover cars and four corporals (none of which are to be reimbursed) requires additional discussion in the context of an overall solution to this issue that is consistent with Board policy and the Sheriff's statutory duties to preserve the peace. The Administration looks forward to working with the Sheriff in 2017 to establish parameters around patrol funding that are simple, equitable, complete, and collaborative for contracting jurisdictions.

  The Sheriff's office continues to see increases to the inmate population within the Justice Center. This overcrowding has resulted in increased general fund costs, both within the Sheriff's budget and County Facilities due to increased utility and maintenance costs. These population increases are due to several factors including increased opioid abuse, mental illness, recidivism, and longer sentences due to higher level offenders. Just as the overcrowding issue has been driven by a variety of factors, the solution will require a broad response. The Administration is working collaboratively with the Sheriff, Prosecutor, Common Pleas, and Municipal Courts to collectively address these concerns while maintaining public safety. Costs of solutions remain unknown until the available data on inmates is fully analyzed and determinations are made on where capacity currently exists within corrections facilities, and if broader decisions on electronic monitoring and treatment programming need to be addressed as a part of the solution.

- *Juvenile Court.* Juvenile diversion from state corrections have increased across the state resulting in decreased allocations of RECLAIM funding for counties, like Hamilton, that have not had a marked increase in diversion. The statewide pool of funds for RECLAIM has also not increased in recent years. At the same time, the state is mandating state detention for youth gun convictions. The result of these policies is reduced state funding for those courts with the most active and most violent dockets. In 2016, the result was $1.6 million in over-budget expenses in the general fund for the Juvenile Court. This scenario begs for a common sense legislative response from the state. Until then, the loss of Juvenile Court funding remains among the largest post-recessionary revenue issues in the County.

- *Sales Tax on Medicaid Managed Care Plans.* The state expansion of the sales tax base to Medicaid managed care plans at the end of 2009 will need to be revised in the next state biennial budget (in mid-2017) per the direction of the federal government. Until the state works through the details of addressing the federal mandate during the biennial budget process, the impact of revisions is unknown. Should the state do nothing to replace the lost sales tax revenue, the impact on the County general fund could be as much as $6 million.

- *9-1-1 Funding.* The 2017 recommended budget includes a temporary transfer tax initiative to support 9-1-1 call center operations. A permanent funding solution for this operation is still necessary to maintain the consortium of communities that participate in the shared emergency dispatch center.

Next Steps

The County Commissioners will hold three public hearings in the community to receive comment on the 2017 recommended budget. Residents of Hamilton County are encouraged to take part and offer their feedback on the recommended budget.

Public hearings on the 2017 County Administrator's Recommended General Fund Budget are scheduled for the following times:

- Monday, November 28, 6:30 p.m.
  Colerain Township Administration Building, 4200 Springdale Road, 45251

- Wednesday, November 30, 11:30 a.m.
  County Administration Building, 138 East Court Street, Room 603, 45202

- Thursday, December 1, 6:30 p.m.
  Hamilton County Development Company, 1776 Mentor Avenue, 45212

Adoption of the 2017 general fund budget, as well as all 2017 budget appropriations, is scheduled for Wednesday, December 14.

Later this month, County Administration will present restricted fund budget information to the Board. The Metropolitan Sewer District budget, sewer rate recommendations, and capital plans will also be briefed in November.

Conclusion

When drafting this budget proposal, the Administration attempted to adhere to Board policy in several respects:

- Assuring structural balance of the County's finances
- Maintaining needed levels of core services for the benefit of County residents
- Addressing key policy priorities of the Board and community, and
- Suppressing the tax burden on County residents

I believe the budget, as recommended, prudently balances these priorities in a very challenging environment. However, I look forward to working with the Board to ensure the budget, as ultimately passed by the Board, is one that adequately reflects its vision for 2017 and the future.

In conclusion, I wish to thank the staff of the Office of Budget and Strategic Initiatives for its many hours of work in balancing a very challenging budget. In particular, I wish to thank Budget Director John P. Bruggen for his dedication and effort in leading this process and all of the staff, department heads and elected and independent offices who contributed to the effort. Finally, thanks to the current, and past, Boards of County Commissioners, Administrators, and employees who have provided a legacy of sound financial management and dedicated public service.

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