

**MONTGOMERY COUNTY
BOARD OF COMMISSIONERS**

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URI Z. MONSON
CHIEF FINANCIAL OFFICER

TO: Joshua D. Shapiro, Chair
Leslie S. Richards, Vice Chair
Bruce L. Castor, Jr., Commissioner
Lauren Lambrugo, COO

A handwritten signature in black ink, appearing to read "Uri Z. Monson", is located to the right of the recipient list.

RE: 2012 Quarterly Budget Update – Second Quarter (Q2)

Date: August 16, 2012

This report is based on information as of the end of the second quarter of 2012 – June 30, 2012.

The Quarterly Update Report is presented as follows:

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2012 Q2 Summary

While the County continues to project an annual operating deficit for 2012, efforts to narrow the gap have continued successfully. The first quarter (Q1) projected gap of \$3.1 million (down from the inherited nearly \$10 million gap identified in January) has been further reduced to a projected \$1.7 million deficit, which would leave the county with a year-end fund balance of \$22.3 million.

Revenues through June 30, 2012

The improved forecast comes despite a reduction in projected revenues of over \$1.2 million relative to First Quarter (Q1) projections. Overall, total revenues are projected to end the year nearly \$900,000 below the Adopted Budget figure.

- Tax revenue projections remain consistent with the Adopted Budget and Q1 projections.
- Departmental Revenues (including Parkhouse) project to finish the year approximately \$256,000 better than budget, a \$130,000 reduction from the Q1 projection.

- Grant Revenues project to finish the year over \$1.1 million below the Adopted Budget figure, a significant decline from the Q1 projection. These reductions are primarily in social services departments, and are based on the initial analysis of the new Commonwealth budget signed at the end of June. There will be further adjustments in revenue and expenditure assumptions in these areas as additional information is made available by the Commonwealth, and the County is able to identify corresponding spending reductions.

Expenditures through June 30, 2012

The County was able to reduce projected expenditures by over \$2.7 million relative to Q1 projections, more than compensating for the reduction in projected revenues. Overall, projected total expenditures are approximately \$807,000 over the adopted budget figure.

- Expenses were reduced despite a number of large leave payouts for eligible employees separating for the workforce (payment for accumulated sick, vacation, and compensatory leave time). The 2012 budget assumed total payments across the County of just over \$609,000; through June 30, 2012, the County had already paid out over \$1.1 million.
- Several Departments were able to identify savings during the quarter, and just a few budget areas continue to reflect projected expenditure overages of more than five percent of their adopted budgets:
 - Commissioners Office (\$159,216 or 6.5% of adopted budget)
 - Fleet (\$41,621 or 32.1% of adopted budget)
 - District Attorney's Office (\$1,210,400 or 9.5% of adopted budget)
 - Line item for outside legal fees (\$300,000 or 300% of adopted budget)

Other Key Financial Issues: TAN and Overtime Analyses

A summary of the Tax Revenue Anticipation Notes (TAN) issued by the County in January shows that the County ultimately utilized \$17 million of the available \$25 million in TAN funds.

- The County was able to end its reliance on the TAN funds by April 11, and no additional drawdowns from the TAN were required for cash flow purposes.
- Interest earned on the segregated principal is nearly \$14,000 as of June 30, and it is expected that total earnings for the year will nearly offset the \$36,262 in interest costs for the borrowing.

An analysis of County overtime across departments shows that most areas of County government are staying within budgeted overtime levels. County funded overtime usage is in line with the adopted budget.

- Overages related to security at the Human Services Center reflect a decision to expend overtime funds rather than hire additional staff while a sale of the building is contemplated.
- Corrections overtime expenditures were sharply higher in the second quarter due primarily to 42 officer days spent guarding prisoners in medical facilities.
- DUI overtime costs were sharply higher in the second quarter due a change in personnel classification required by the PA Department of Labor. While overtime costs will continue to increase, there will be a corresponding decrease in contracted services expenditures.