



**Auditor of State
Betty Montgomery**

MAHONING COUNTY FINANCIAL FORECAST

AUGUST 17, 2004



**Auditor of State
Betty Montgomery**

To the Citizens, Commissioners, and Auditor of Mahoning County:

The Mahoning County (the County) Commissioners and Auditor requested that the Auditor of State (AOS) develop a five year financial forecast of the County's General Fund. As a result, an engagement was subsequently initiated on April 22, 2004. The County has been proactive in approaching AOS for assistance in developing a forecast of its General Fund which will allow the County to assess its financial condition in future years and begin to identify strategies to avoid potential financial difficulties.

This report provides a forecast of the General Fund's revenues and expenditures from 2004 to 2008. In order to present a reliable forecast of revenues and expenditures, detailed assumptions for each major revenue and expenditure category were developed by analyzing significant variances in actual revenues and expenditures from 1999 to 2003, and the budget for 2004. Input was obtained from appropriate County personnel throughout the audit process. Because the assumptions and corresponding methodologies are based upon information existing at the time the forecast was developed, the County is encouraged to update the financial forecast when changes occur to the circumstances and conditions assumed in the projections.

This report includes the following sections: project history; objectives, scope and methodology; background; and the financial forecast. This report has been provided to the County Commissioners, and its contents discussed with appropriate County officials. The County is encouraged to use the forecast as a tool to continually assess, communicate, and improve its financial condition.

Additional copies of this report can be requested by calling the Clerk of the Bureau's office at (614) 466-2310 or toll free at (800) 282-0370. In addition, this report can be accessed online through the Auditor of State of Ohio website at <http://www.auditor.state.oh.us/> by choosing the "On-Line Audit Search" option.

Sincerely,

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
AUDITOR OF STATE

August 17, 2004

Financial Forecast

Project History

Mahoning County (the County) engaged the Auditor of State's Office (AOS) on April 22, 2004 to develop a five year financial forecast of the County's General Fund. The County has been proactive in approaching AOS for assistance in developing a forecast of its General Fund, which will allow the County to assess its financial condition in future years and begin to identify strategies to avoid potential financial difficulties. The Auditor of State and staff express appreciation to the County for its cooperation and assistance throughout this project.

Objectives, Scope & Methodology

The overall objective of this project is to develop a five year forecast (2004 to 2008) of the County's General Fund. In order to present a reliable forecast of revenues and expenditures, detailed assumptions for each major revenue and expenditure category were developed by analyzing significant variances in actual revenues and expenditures from 1999 to 2003, and the budget for 2004, as well as obtaining input from appropriate County personnel. The auditors gathered and assessed available data and documentation provided by the County and other applicable sources, and conducted interviews with various County personnel.

This project involved information sharing with the County to obtain input and feedback on the forecasting methodology and corresponding assumptions, including preliminary information and drafts of the report. Furthermore, AOS informed the County of overall project status and key issues impacting the forecasting areas throughout this engagement. The County also provided written comments in response to this project. Finally, this project was conducted in accordance with Generally Accepted Government Auditing Standards, and field work was conducted between May and July 2004.

Background

County Structure and Governance

Mahoning County comprises 257,555 citizens and 415.3 square miles. The County operates under the governance of a locally-elected three member board of commissioners, with each commissioner serving a four year term. Under the current organization, and in accordance with Ohio Revised Code (ORC) Chapters 305, 307, 319 and 321, the commissioners, the auditor and the treasurer are elected

positions, and the appointed administrator reports directly to the commissioners. County financial governance is completed by three county commissioners, the treasurer, and the auditor. County commissioners make up the general administrative body for county government, while the auditor is the chief fiscal officer and the treasurer is the banker.

Also elected to a four year term, the county auditor is the legally designated fiscal officer for the County. As the chief fiscal officer, the auditor is responsible for keeping the official record of all county receipts and disbursements. Additionally, the auditor is the appraiser of real property, ensuring that every parcel of land, buildings and improvements are fully and uniformly appraised, and then assessed for tax purposes. The treasurer is the county banker in charge of billing and collecting taxes on real and personal property, estates, vendors and cigarette licenses. When the auditor issues a warrant for the payment of a county obligation, the treasurer redeems the warrant and posts it to the proper account. According to the County, the auditor, prosecutor, and treasurer comprise the budget commission and certify to the county commissioners an estimate of available revenue that they may appropriate for county agencies and departments.

Overview of General Fund Revenues and Expenditures

The County's General Fund can be used for any purpose, provided the expenditure is made according to the laws of Ohio, specifically ORC Chapter 5705. The General Fund accounts for all financial resources except those required to be accounted for in a separate fund. The General Fund is used to support all or a portion of general government, public safety, judicial, human service and administrative activities.

The General Fund's primary funding sources are sales taxes, local property taxes, local government distributions and fees charged for services. The County has two sales taxes, both levied at 0.5 percent. Each levy is separate and must be enacted and approved by the County Commissioners, and renewed by a vote of the citizens every five years. The first 0.5 percent sales tax was effective January 1, 2000 and will expire December 31, 2004, with 25 percent of revenues earmarked and transferred to special revenue funds. The remaining sales tax revenues are credited to the General Fund and provide for financing of current operating expenditures. The County intends to seek renewal of this 0.5 percent sales tax in November 2004, after failing to receive voter approval in March 2004. The second 0.5 percent sales tax was effective January 1, 2003 and will expire December 31, 2007. All corresponding revenues are credited to the County's general fund and provide for financing of current operating expenditures.

Table 1 reflects the number of counties at each applicable tax rate as of October 1, 2003.

Table 1: County Sales Tax Rates

Total Rate (in Percents)	Number of Jurisdictions (Counties)
2.0	1
1.5	31
1.25	10
1.0	35
0.75	7
0.5	4

Source: Ohio Department of Taxation

Note: Excludes the current State sales tax rate of 6.0 percent.

Most counties in Ohio impose a 1.0 sales tax rate, similar to Mahoning County. However, if the sales tax levy does not pass in November 2004, the County will become one of only five counties with a 0.5 percent sales tax.

Property taxes are levied on a calendar year basis against the assessed value of real (residential/agricultural and commercial/industrial), public utility, and tangible (business) personal property located within the County. Assessed values equal 35 percent of appraised market values for residences and 65 percent for businesses. All real property is required to be reappraised every six years. Property tax reappraisal is accomplished through a visual inspection and is based upon the physical condition and improvements to the property. To avoid large increases in property taxes every six years, a triennial update occurs three years after a reappraisal to update the market value of all real property. A property tax reappraisal for the County occurred in 1999, with the associated collections beginning in 2000. A property tax update took place in 2002, with related collections commencing in 2003.

Table 2 presents Mahoning County's property tax values as a result of recent reappraisals and triennial updates.

Table 2: Property Tax Values

	Reappraisal 1993	Update 1996	Reappraisal 1999	Update 2002
Real Property	\$2,354,632,450	\$2,612,824,170	\$3,281,374,300	\$3,394,781,600
Tangible Property	\$281,282,586	\$328,254,680	\$331,190,930	\$348,147,510
Total	\$2,635,915,036	\$2,941,078,850	\$3,612,565,230	\$3,742,929,110

Source: Mahoning County Auditor's Office

Table 2 shows that the total property tax value in Mahoning County increased by 11.6 percent from 1993 to 1996, 22.8 percent from 1996 to 1999, and only 3.6 percent from 1999 to 2002. According to the County Auditor, the increase in 2002 is due solely to new construction.

The Ohio Constitution (Article XII, Section 2) establishes a limit on the tax which can be assessed on property for State and local governmental purposes. ORC Section 5705.02 indicates that property

may not be taxed in excess of 1 percent, or 10 mills, of its market value without voter approval. In other words, all State and local governments, combined, may not place a total tax on property in excess of 10 mills without voter approval. Amounts under the ten-mill ceiling are commonly referred to as inside millage, while those in excess of the ceiling are referred to as outside or voted millage. Mahoning County has 2.1 mills of inside millage. Outside millage takes into account inflationary increases and mitigates increases in the tax bill when a reappraisal or an update occurs. A tax credit factor is then applied whereby the dollar amount generated by the levy remains unchanged from the date collection begins. Effective millage is the amount of the millage that is actually paid by taxpayers on the approved levies. Over time, as a result of exclusions, new property definitions, tax determinations and certifications as set forth in ORC Section 319.30.1, the effective millage drops as property values increase due to inflation.

Property tax revenues are used by the County to satisfy debt service payments prior to their deposit into the General Fund. **Table 3** provides the County's historical debt service payments and the debt service payments required for 2004 and 2005.

Table 3: Debt Service

	2001	2002	2003	2004	2005
Fiscal charges	\$135,103	\$39,305	\$73,605	\$41,500	\$100,000
Principal	\$3,609,084	\$4,703,287	\$4,411,270	\$2,166,569	\$6,185,866
Interest	\$1,938,830	\$1,922,713	\$1,636,800	\$538,297	\$995,442
Total	\$5,683,017	\$6,665,305	\$6,121,675	\$2,746,366	\$7,281,308

Source: Mahoning County Auditor's Office

According to **Table 3**, debt service payments vary each year because of the different types and durations of the County's outstanding debt. The 2004 budget for debt service payments is significantly less than all of the prior years due to the County restructuring its debt, thereby enabling debt service payments to be deferred to 2005. As indicated in **Table 3**, debt service payments are expected to increase significantly in 2005, by approximately \$4.5 million.

Local government distributions represent revenue received from the State based on six state-imposed taxes, and are distributed to counties and municipalities based upon statutory formulas that account for property values and population within each of the 88 counties. Uncodified law located in Section 140 of H.B. 40 (effective March 7, 2003) provided the State with the authority to reduce local government distributions to address its budgetary shortfalls experienced in 2003. As authorized by uncodified law located in Section 93 of the biennial budget, H.B. 95 (effective June 26, 2003), the State froze local government distributions at 2002 levels for 2004 and 2005. Future distributions of local government revenues are uncertain.

General fund revenue is used to financially support many of the services provided throughout the County. **Table 4** presents the General Fund expenditures for general government, judicial, public

safety, human services, and other services in 2003, including the percentage that each represents of these total expenditures.

Table 4: General Fund Expenditures by Activity/Function in 2003

Activity/Function	Expenditures	% of Total
General Government	\$11,153,070	25.8%
Judicial	\$14,013,797	32.4%
Public Safety	\$16,182,317	37.4%
Human Services	\$901,401	2.1%
Other	\$1,057,543	2.4%
Total Expenditures	\$43,308,128	100.0%

Source: Mahoning County Auditor's Office

As indicated in **Table 4**, public safety and judicial expenditures represent 69.8 percent of the total expenditures. The following illustrates the departments that comprise the majority of the related activity's expenditures:

- **General Government:** Facilities Management (\$2.0 million), Data Processing Board (\$1.5 million), Prosecutor – Criminal (\$1.4 million), Board of Elections (\$1.2 million), and Auditor's Office (\$1.0 million).
- **Judicial:** Juvenile Court (\$5.3 million), Common Pleas Court (\$3.3 million), and Clerk of Courts – Legal (\$1.2 million).
- **Public Safety:** Sheriff's Office (\$13.2 million) and Jail Medical Operations (\$1.6 million).
- **Human Services:** Soldiers Relief (\$688,000) and Veterans Services (\$213,000).
- **Other:** General Fund Administration (\$1.0 million).

The Sheriff's Office, Juvenile Court, and Common Pleas Court comprised 50 percent of the total activity/function expenditures in 2003.

Financial Forecast

Table 5 presents the financial forecast of the General Fund, and includes three years of historical data (2001 through 2003) and five years of projected data (2004 through 2008). Assumptions are provided for each revenue and expenditure category of the forecast to explain significant variances and methodologies used in developing projections. Five years of actual results (1999 to 2003) were also reviewed and analyzed in developing the assumptions and supporting methodologies, and are presented within the detailed assumptions following **Table 5**. When appropriate, the budget for 2004 is used as a basis for developing the projections in select categories, particularly for expenditures. Since total actual expenditures were only slightly lower than the final budgets in 2001, 2002 and 2003, using the 2004 budget in the forecasting methodology, when substantiated, is assumed to provide a reliable and conservative projection of future expenditures. In 2001, 2002, and 2003, total actual expenditures were 3.6, 2.4, and 3.5 percent lower than the final budgets for the respective years.

The assumptions disclosed herein were developed by AOS with input from County personnel, including the assistant administrator, auditor, and other department managers. Because circumstances and conditions assumed in projections frequently do not occur as expected and are based upon information existing at the time projections are prepared, there will usually be differences between projected and actual results.

Table 5: General Fund Forecast (000s)

	Actual 2001	Actual 2002	Actual 2003	Forecast 2004 ¹	Forecast 2005	Forecast 2006	Forecast 2007	Forecast 2008
Revenues								
Sales Tax	\$25,170	\$25,980	\$26,425	\$26,950	\$17,180	\$14,019	\$14,300	\$14,586
Property & Other Taxes	\$2,834	\$6,777	\$5,547	\$8,038	\$2,216	\$4,382	\$5,082	\$5,344
Intergovernmental	\$7,679	\$7,360	\$7,313	\$7,597	\$7,609	\$7,739	\$7,753	\$7,767
Fees	\$5,617	\$5,866	\$5,915	\$6,069	\$6,226	\$6,389	\$6,555	\$6,725
Fines	\$1,611	\$1,725	\$1,837	\$1,929	\$2,025	\$2,126	\$2,233	\$2,344
Investment Income	\$4,364	\$3,215	\$1,862	\$2,011	\$1,330	\$1,308	\$1,355	\$1,386
All Other Revenues	\$2,034	\$805	\$928	\$688	\$688	\$688	\$688	\$688
Operating Transfers In	\$264	\$399	\$131	\$0	\$0	\$0	\$0	\$0
Total Revenues	\$49,573	\$52,127	\$49,958	\$53,281	\$37,275	\$36,651	\$37,964	\$38,839
Expenditures								
Personal Services	\$27,749	\$29,632	\$27,560	\$27,533	\$28,634	\$29,779	\$30,971	\$32,209
Healthcare	\$3,514	\$5,132	\$3,586	\$4,789	\$5,411	\$6,115	\$6,909	\$7,808
Workers Compensation	\$2,308	\$0	\$181	\$1,054	\$1,221	\$1,331	\$1,451	\$1,582
Materials and Supplies	\$1,806	\$1,954	\$1,940	\$1,891	\$1,947	\$2,006	\$2,066	\$2,128
Contracted Services	\$6,769	\$6,730	\$6,817	\$8,139	\$7,327	\$7,547	\$7,774	\$8,007
Travel	\$275	\$228	\$260	\$336	\$276	\$285	\$293	\$302
Utilities	\$1,745	\$2,038	\$1,987	\$2,011	\$2,191	\$2,385	\$2,598	\$2,829
Capital Outlay	\$1,939	\$766	\$618	\$1,193	\$1,116	\$1,149	\$1,184	\$1,219
Other	\$1,221	\$665	\$358	\$213	\$220	\$226	\$233	\$240
Transfers Out	\$5,618	\$6,409	\$6,971	\$6,716	\$3,378	\$3,479	\$3,584	\$3,691
Total Expenditures	\$52,944	\$53,555	\$50,279	\$53,876	\$51,722	\$54,303	\$57,062	\$60,015
Excess of Revenues Over / (Under) Expenditures	(\$3,371)	(\$1,428)	(\$321)	(\$595)	(\$14,447)	(\$17,653)	(\$19,098)	(\$21,176)
Beginning Fund Balance	\$6,004	\$3,697	\$2,906	\$2,464	\$1,853	(\$12,594)	(\$30,246)	(\$49,344)
Prior Year Encumbrances Appropriated ²	\$4,665	\$3,601	\$2,963	\$3,084	\$0	\$0	\$0	\$0
Current Year Encumbrances ²	(\$3,601)	(\$2,963)	(\$3,084)	(\$3,100)	\$0	\$0	\$0	\$0
Ending Fund Balance	\$3,697	\$2,906	\$2,464	\$1,853	(\$12,594)	(\$30,246)	(\$49,344)	(\$70,520)

Sales Tax Levy Revenue from November Election (Cumulative Effect) ³					\$10,308	\$24,328	\$38,628	\$53,213
Additional Investment Income (Cumulative Effect)					\$381	\$900	\$1,429	\$1,969
Adjusted Fund Balance if sales tax levy passes					(\$1,904)	(\$5,019)	(\$9,288)	(\$15,338)

Source: Mahoning County and AOS assumptions

Note: Calculations may not be exact due to rounding.

¹ Because the County's budget for 2004 includes potential encumbrances to be carried forward to 2005, encumbrances for 2004 are estimated by applying the three year (2001-2003) percentage of expenses encumbered in each applicable category (materials and supplies, contracted services, travel, utilities, capital outlay and other). The original budgeted amounts for these categories have been adjusted accordingly.

² Since the impact of prior and current year encumbrances in 2003 to 2004 is close to zero, they are not projected from 2005 to 2008.

³ If the sales tax levy passes in November 2004, total sales tax revenues are projected to be approximately \$27,488,000 in 2005, \$28,038,000 in 2006, \$28,600,000 in 2007, and \$29,172,000 in 2008.

Table 5 shows that Mahoning County has projected deficits from 2005 to 2008, regardless of the outcome of the November 2004 sales tax levy. If the levy does not pass in November 2004, the deficit is projected to reach approximately \$70.5 million in 2008, compared to approximately \$15.3 million if the levy passes. In addition, the County could qualify for a fiscal watch designation in 2005 if the sales tax levy does not pass, because the projected General Fund deficit of approximately \$12.6 million exceeds one-twelfth of the preceding year's forecasted revenues (\$4.4 million). This is one of the conditions constituting grounds for fiscal watch, as defined in ORC Section 118.022(A)(4). Furthermore, the County could qualify for fiscal watch in 2006 even if the sales tax levy passes, as the projected General Fund deficit of approximately \$5.0 million in 2006 exceeds one-twelfth of the projected revenues for 2005 (\$4.0 million). For Mahoning County to avoid these projected deficits, it will need to make difficult management decisions regarding potential means for increasing revenues and reducing expenditures.

Revenues

- Historically, *sales tax* revenues represent the largest revenue stream for Mahoning County, accounting for approximately half of all revenues for 2003. **Table 6** presents five years of actual revenues collected from sales taxes and annual percent changes.

Table 6: General Fund Sales Taxes

	1999	2000	2001	2002	2003	Budget 2004
Sales Taxes	\$12,340,520	\$21,901,775	\$25,170,289	\$25,979,801	\$26,424,593	\$26,950,000
Percent Change	N/A	77.5%	14.9%	3.2%	1.7%	2.0%

Source: Mahoning County Auditor's Office

Table 6 shows that collections from sales taxes increased at a relatively high rate from 1999 to 2001, primarily due to the County only having one 0.5 percent sales tax levy during 1999 as voters did not renew the other sales tax levy in 1998. The County enacted, and the voters approved, a second sales tax levy which became effective on January 1, 2000. Because of the timing lag for distribution of collections by the State to the County, the County received nine months of revenues from the sales tax levy effective on January 1, 2000. This explains the 14.9 percent increase in 2001, when the County experienced its first full year of receiving revenues from two 0.5 percent sales tax levies. From 2001 through 2003, sales taxes increased minimally, with an annual average increase of 2.5 percent.

The auditor conservatively budgeted sales taxes to increase only by 2.0 percent in 2004, which appears reasonable based on historical trends in 2002 and 2003 and considering that Mahoning County's unemployment rate has remained fairly constant from 2003 (7.8 percent) to June 2004 (7.6 percent). In addition, although the County's per capita personal income increased at rates

similar to the State average from 2000 to 2002, its population is projected by the Ohio Department of Development to decrease to 252,664 in 2005 and 245,757 in 2010. Consequently, the sales tax revenues are forecasted to increase by 2.0 percent per year from 2004 through 2008.

Sales tax projections are reflected in two different lines within the forecast. The first line represents the revenue stream from the levy expiring on December 31, 2007 and three months of the levy expiring on December 31, 2004 because actual receipts from this levy will cease at the end of March 2005. This is due to the timing lag for distribution of collections for the last three months of 2004 by the State to the County. The revenues from the new sales tax levy are shown after the ending balance in the forecast because voters need to approve the levy in November 2004. Only nine months of collections are reflected in the forecast for 2005, again attributed to the time lag in receiving the collections from the State.

- Collections from *property and other taxes* include permissive taxes and transfers, real estate and personal property taxes, and other miscellaneous property taxes. **Table 7** presents historical trends for property and other taxes by type.

Table 7: Property and Other Taxes by Type

	1999	2000	2001	2002	2003	Average Annual Percent Change
Permissive transfer taxes	\$489,473	\$497,558	\$510,077	\$538,442	\$588,378	
Percent Change	N/A	1.7%	2.5%	5.6%	9.3%	4.8%
Permissive taxes	\$1,442,360	\$1,451,320	\$1,491,180	\$1,589,732	\$1,739,593	
Percent Change	N/A	0.6%	2.7%	6.6%	9.4%	4.8%
Real estate taxes¹	\$5,081,094	\$6,037,104	\$6,108,683	\$6,064,833	\$6,331,526	
Percent Change	N/A	18.8%	1.2%	(0.7%)	4.4%	1.6% ²
Personal property taxes¹	\$716,031	\$662,008	\$861,417	\$654,869	\$768,459	
Percent Change	N/A	(7.5%)	30.1%	(24.0%)	17.3%	1.8% ³
Other taxes	\$911	\$1,069	\$1,947	\$9,140	\$6,937	
Percent Change	N/A	17.4%	82.1%	369.3%	(24.1%)	111.2%
Total	\$7,729,869	\$8,649,059	\$8,973,304	\$8,857,016	\$9,434,893	

Source: Mahoning County Auditor's Office

¹ Real estate taxes and personal property taxes are based on the actual collections instead of GF reported collections to accurately show a revenue trend.

² Total real estate property tax collections average annual percent change excludes the percent change from 2000, as it is due to the reappraisal in 1999.

³ Due to the volatility of the annual variances, the average annual percent change is calculated by dividing the difference between 2003 and 1999 collections by 1999, then dividing by four years.

Permissive taxes and transfers represent taxes collected from the transfer of real property or the transfer of interest in real property within the County. The relatively high increases in permissive

transfer taxes and permissive taxes in 2002 and 2003 appear to be due to reductions in mortgage interest rates, thereby causing more residents to refinance loans and others to buy homes in the County. While the annual average mortgage interest rates increased from 7.43 percent in 1999 to 8.06 percent in 2000, they decreased to 6.97 percent in 2001, 6.54 percent in 2002 and 5.82 percent in 2003. However, the Federal Reserve Board increased the interest rate in June 2004 to 6.3 percent. Therefore, coupled with the considerable reduction in the interest rate for 2003 to an historical low which likely caused a one-time dramatic increase in revenues for 2003, permissive taxes and transfers are projected for 2004 at 2002 levels. Based on the two-year average increase in 2000 and 2001, and in an effort to be conservative due to the unpredictability of future increases and decreases in interest rates, permissive taxes and transfers are projected to increase by 2.0 percent annually thereafter.

Collections from *real estate taxes* increased 18.8 percent in 2000, as a result of the 1999 reappraisal. Collections during 2001 and 2002 were fairly stable. Collections increased 4.4 percent in 2003, primarily attributable to the triennial update that occurred in 2002. In accordance with historical collection trends, and to provide a conservative forecast, real estate revenues are forecasted to increase by 1.5 percent annually with the exception of 2006, when a 15.0 percent increase will be applied to account for the reappraisal period.

Personal property taxes are levied upon property used in business such as machinery, equipment, inventory and furniture. Personal property taxes decreased in 2000 because the State reimbursement for the personal property tax exemption of approximately \$57,000 for December 2000 was received in January 2001. While property tax revenues fluctuated significantly from year-to-year, which may be due to one-time occurrences, economic conditions, and collection practices, they increased an average of 1.8 percent annually from 1999 to 2003. In addition, ORC Section 5711.22(E) indicates that the taxable rate of underlying assets will be reduced by one percentage point in 2002, 2003 and 2004, and two percentage points in 2005 and 2006. For 2007 and thereafter, the taxable rate shall be reduced by two percentage points until it is eliminated. However, the reductions from 2002 to 2006 are subject to changes in total statewide collections of tangible personal property taxes. Therefore, coupled with other factors that could cause personal property taxes to increase (e.g., economic condition and collection practices), personal property taxes are projected to appreciate by 1.8 percent annually from 2004 to 2008.

Other taxes include mobile home conveyance, mobile home transfer fees, and mobile home permissive taxes. Due to the historic volatility and unpredictability of other taxes, they are forecasted to remain constant at 2003 levels.

Historically, property tax revenues from *real estate, personal property, and rollback taxes (see other governmental)* appear in the County's financial statements net of debt service obligations. **Table 8** reveals total forecasted property tax revenues, net of debt service obligations and including the balance in the debt service fund as of December 31, 2003.

Table 8: Property Tax Revenues Net of Debt Service Obligations

	2004	2005	2006	2007	2008
Real estate Tax	\$6,426,499	\$6,522,896	\$7,501,331	\$7,613,851	\$7,728,059
Personal Property Tax	\$782,291	\$796,373	\$810,707	\$825,300	\$840,155
Debt Service Payments	(\$2,746,366)	(\$7,281,308)	(\$6,150,785)	(\$5,622,183)	(\$5,534,615)
Debt Service Fund Balance As of 12/31/2003	\$1,440,000	N/A	N/A	N/A	N/A
Total Property Taxes Available for General Fund	\$5,902,424	\$37,961	\$2,161,253	\$2,816,967	\$3,033,599
Permissive Transfer Tax	\$538,442	\$549,211	\$560,195	\$571,399	\$582,827
Permissive Taxes	\$1,589,732	\$1,621,527	\$1,653,957	\$1,687,036	\$1,720,777
Other Taxes	\$6,937	\$6,937	\$6,937	\$6,937	\$6,937
Total Permissive & Other	\$2,135,111	\$2,177,674	\$2,221,089	\$2,265,372	\$2,310,541
Total Property, Permissive, and Other Taxes for the General Fund	\$8,037,535	\$2,215,635	\$4,382,342	\$5,082,339	\$5,344,140

Source: Mahoning County Auditor's Office and AOS assumptions

- From 1999 to 2003, *intergovernmental revenues* have fluctuated widely within each of the major revenue sources, excluding roll back taxes. **Table 9** presents five years of actual collections from intergovernmental revenues, and annual percent changes.

Table 9: Intergovernmental Revenues

	1999	2000	2001	2002	2003	Average Annual Percent Change
Housing prisoners¹	\$915,221	\$383,459	\$1,075,616	\$715,794	\$935,184	
Percent Change	N/A	(58.1%)	180.5%	(33.5%)	30.6%	29.9%
Local government	\$5,770,078	\$5,925,068	\$6,130,251	\$5,753,590	\$5,583,182	
Percent Change	N/A	2.7%	3.5%	(6.1%)	(3.0%)	(0.7%)
Public defenders	\$372,106	\$422,456	\$375,909	\$305,868	\$398,989	
Percent Change	N/A	13.5%	(11.0%)	(18.6%)	30.4%	3.6%
Roll back taxes²	\$675,663	\$803,567	\$814,519	\$826,975	\$838,867	
Percent Change	N/A	18.9%	1.4%	1.5%	1.4%	5.8%
Tax Loss Reimbursement	\$0	\$0	\$0	\$13,731	\$13,731	
Percent Change	N/A	N/A	N/A	N/A	0%	N/A
Total Intergovernmental	\$7,733,069	\$7,534,550	\$8,396,295	\$7,615,958	\$7,769,952	
Percent Change	N/A	(2.6%)	11.4%	(9.3%)	2.0%	0.4%

Source: Mahoning County Auditor's Office

¹ Although this includes revenues collected due to housing City of Youngstown prisoners, the vast majority of these revenues are due to housing federal prisoners.

² Roll back taxes are based on actual county collections. While roll back taxes are impacted by debt service obligations, they are shown here since the County classified them as intergovernmental revenues.

Revenues collected from *housing federal prisoners* in the County's jail have dramatically varied during the previous five years, which could be attributed to fluctuations in the number of inmates, changes in rates charged to house prisoners, and billing and collection practices. For instance, the Sheriff's Office, which oversees the operations of the jail, indicated that the per diem rate to house federal prisoners increased in 2003, which could partially explain the significant increase in revenues for 2003. According to the Sheriff's Office, the inmate population has been increasing each year since 2001. In addition, the Sheriff's Office anticipates increasing the number of federal inmates housed in the County's jail by increasing capacity and maximizing the use of available space in the jail. However, since the Sheriff's Office is unsure as to when these increases will occur, and considering the significant fluctuations in prior years' revenues, the forecast for 2004 will be based on a three year average from 2001 through 2003 (\$908,864) and held constant thereafter.

Local government revenues are based on population and property tax assessments within Mahoning County. Therefore, the reduction in local government funding of 6.1 percent in 2002 may be due to changes in the County's population as a result of the 2000 Census and property values, as compared to State-wide changes. Additionally, State-wide reductions in local government funding could contribute to the slight reductions in local government revenues for 2003. According to the Ohio Department of Taxation, uncodified law in the biennial budget (Section 93 of H.B. 95) dictates that the distribution to local governments for 2004 and 2005

should be the same amount received during August 2002. The Auditor conservatively estimated local government revenues for 2004 to slightly decrease from 2003 levels to \$5,475,000, which appears to be due to timing differences as Mahoning County operates on a calendar year basis. Therefore, the County Auditor’s estimate for 2004 is considered reasonable. Since the State has not made any decisions beyond 2005, local government revenues are held constant at \$5,475,000 for all years of the forecast.

Public defenders revenues and tax loss reimbursements are received from the State of Ohio. According to the Assistant County Administrator, the indigent defense reimbursement from the State has been reduced for the remaining portion of 2004, from 34 percent to 29 percent. As a result, the Auditor’s budget of \$350,000 appears reasonable. Future forecast years will be held constant due to the considerable variances in prior years and uncertainty in future State funding for reimbursements. Tax loss reimbursements are minimal and will also be held constant at the Auditor’s 2004 budget level of \$13,000 for the forecast period.

Rollback taxes are a form of tax relief provided to low-income homeowners who are at least 65 years old, permanently or totally disabled, or a surviving spouse. This tax reduction is equal to the gross millage rate multiplied by a reduction in taxable liability of 75, 60 or 25 percent, determined by the income of the owner and the spouse, which can not be over \$23,000 in order to qualify (ORC Section 323.152). Revenue losses attributed to rollbacks are reimbursed by the State to local governments, as are tax losses incurred by the homestead exemption. Collections from rollback taxes have increased at a similar rate from 2001 to 2003. The large increase in 2000 appears to be due to the reappraisal, which also caused real estate revenues to increase 18.9 percent – similar to the increase in rollback taxes. In accordance with historical collection trends and to provide a conservative forecast, rollback taxes are forecasted to increase by 1.4 percent annually with the exception of 2006, when a 15.0 percent increase will be applied to account for the reappraisal.

- **Table 10** presents the actual *fees* collected from 1999 through 2003, and annual percent changes.

Table 10: Fees

	1999	2000	2001	2002	2003	Average Annual Percent Change
Total Fees	\$4,071,641	\$4,057,265	\$5,616,908	\$5,865,946	\$5,915,085	
Percent Change	N/A	(0.4%)	38.4%	4.4%	0.8%	10.8%

Source: Mahoning County Auditor’s Office

Table 10 indicates that fees increases 38.4 percent in 2001, largely due to the increase in revenues collected through costs charged back to other County departments (charges – cost allocation). The County Commissioners Office stated that prior to 2001, these charge backs were not collected in a timely manner. Collections from charges-cost allocation were approximately

\$1.2 million in 2001, \$1.1 million in 2002, and \$1.3 million in 2003. Also contributing to the increase in 2001 was the one-time grant of \$157,000 received by the Juvenile Court. Fees increased only slightly in 2003 because the Clerk of Courts’ fees decreased due to closing out and collecting on many open cases during 2001 and 2002. According to the Clerk of Courts, the office is current on collections and cases. In addition, inmate processing fees were eliminated in 2002 due to the elimination of the “pay-to-stay” program.

Because charges – cost allocation caused a one-time increase in fees in 2001, and based on the overall consistent trend from 2001 to 2003, the two year average increase in fees of 2.6 percent from 2001 to 2003 is used to appreciate revenues from 2004 to 2008. The County also anticipates increases in the inmate population at the jail and caseloads within the courts. Both of these factors could potentially increase fees collected beyond this projection.

- *Fines* represent revenues collected by the various courts in Mahoning County. **Table 11** presents the overall trends in fines from 1999 to 2003.

Table 11: Fines

	1999	2000	2001	2002	2003	Average Annual Percent Change
Total Fines	\$1,514,965	\$1,543,742	\$1,611,243	\$1,724,536	\$1,836,723	5.0%
Percent Change	N/A	1.9%	4.4%	7.0%	6.5%	

Source: Mahoning County Auditor’s Office

Based on the consistent trend exhibited in **Table 11**, fines are projected to increase by 5.0 percent annually during the forecasted period. Furthermore, using the average annual percent change provides a conservative estimate of future fines, as the annual increases in 2002 and 2003 were more than 5.0 percent.

- *Investment income* is earned from monies held in the County Treasury which are pooled for the purpose of investment management. Earnings on the pooled investments are distributed to those funds eligible to receive investment income. The County maintains a cash and investment pool that invests all available funds. **Table 12** details the General Fund investment income, the total General Fund revenue available for investment, and the percentage of investment income comprising total available revenues from 1999 to the 2004 budget.

Table 12: General Fund Revenue & Investment Income

	1999	2000	2001	2002	2003	2004 Budget
Investment Income	\$3,612,172	\$4,647,275	\$4,363,903	\$3,214,975	\$1,861,584	\$2,011,000
Total Revenue	\$28,544,427	\$48,911,861	\$45,208,624	\$48,911,861	\$48,096,219	\$49,830,018
Beginning Fund Balance	\$14,708,647	\$8,337,040	\$6,003,716	\$3,697,132	\$2,905,869	\$2,464,000
Total Available To Invest	\$43,253,074	\$57,248,901	\$51,212,340	\$52,608,993	\$51,002,088	\$52,294,018
Investment Income as a % of Available Revenue	8.4%	8.1%	8.5%	6.1%	3.7%	3.8%

Source: Mahoning County Auditor's Office

Table 12 illustrates that from 2001 to 2003, investment income as a percent of total revenue decreased significantly, which appears primarily due to a decrease in the average annual return on investment. The County Auditor budgeted for a slight increase in 2004, in anticipation of more instruments maturing. Although the economy may improve in the future and subsequently cause the return on investment to increase during the forecasted period, **Table 13** projects investment income from 2005 to 2008 based on a 3.7 percent return of available revenues in the General Fund.

Table 13: Forecasted General Fund Revenue & Investment Income

	2005	2006	2007	2008
Total Available To Invest	\$35,944,871	\$35,342,863	\$36,609,549	\$37,453,475
Investment Income as a % of Available Revenue	3.7%	3.7%	3.7%	3.7%
Investment Income	\$1,329,960	\$1,307,686	\$1,354,553	\$1,385,779

Source: AOS Assumptions

Note: Based on AOS projections, the County would not maintain positive beginning balances from 2006 to 2008. Although the County is projected to begin 2005 with a positive fund balance, it is excluded in **Table 13** to provide a conservative projection.

According to **Table 13**, investment income is projected to remain fairly stable during the forecast period. While the County has historically allocated the majority of its investment earnings to the General Fund, the amount allocated in future years can not be accurately determined because of the potential changes in other County funds that could subsequently impact the amount of funds invested in the future. Therefore, with the potential of the economy improving, investment income could be more than projected in **Table 13**. Furthermore, if the sales tax levy passes in November 2004, the County would realize additional investment income (see **Table 5**).

- *All other revenues* are comprised of revenues received by the County from reimbursements, license fees, sale of assets, royalties from the payphone at the jail, and other miscellaneous

sources. This revenue stream is very unpredictable and includes many one time occurrences. According to the County, workers compensation reimbursements of approximately \$1.4 million caused the large increase in other revenues in 2001 and one-time miscellaneous reimbursements comprised the majority of reimbursements in 2003. Therefore, these occurrences and other items included in similar account codes for 1999, 2000 and 2002 have been identified in **Table 14** to account for revenues that appear to be one-time in nature.

Table 14: Other Revenues

	1999	2000	2001	2002	2003
Total Other Revenue	\$844,458	\$888,814	\$2,034,472	\$804,931	\$928,360
One-Time Revenues	(\$210,455)	(\$162,985)	(\$1,394,458)	(\$21,266)	(\$274,015)
Total Without Workers Compensation	\$634,003	\$725,829	\$640,014	\$783,665	\$654,345
Percent Change	N/A	14.5%	(11.8%)	22.4%	(16.5%)

Source: Mahoning County Auditor's Office

Even when accounting for the likely one-time revenues, other revenues have dramatically fluctuated from year-to-year. Due to the unpredictable nature of this revenue stream, other revenues are forecasted at \$687,571 from 2004 to 2008, which is based on the five year average excluding potential one-time occurrences.

- *Operating transfers-in* are permanent funding transfers that are not required to be paid back. Eighty-six percent of operating transfers-in has historically been used to close out grants when the original grant obligation was met. Since these are considered one time revenues, they are not anticipated to continue through the forecast period.

Expenditures

- *Personal service expenditures* represent the salaries and wages paid to elected officials and County employees, retirement costs, Medicare, life insurance, unemployment compensation, and other benefits arising from negotiated agreements. In 2003, personal service expenditures represented 55 percent of the total County expenditures. Since healthcare costs and workers' compensation are not directly related to salaries and have been rising at a considerable pace in recent years, healthcare and workers' compensation costs are projected and analyzed apart from all other benefits. Although life insurance, unemployment compensation, and other miscellaneous benefits are not directly impacted by salaries, they have at most only comprised 1.5 percent of total personal service expenditures from 1999 to the 2003. As a result, they are included in the personal services analysis and projection. **Table 15** illustrates historical trends in personal service expenditures, including the budget for 2004.

Table 15: General Fund Personal Service Expenditures

	1999	2000	2001	2002	2003	2004 Budget	Average Annual Percent Change
General Government	\$5,733,117	\$6,235,402	\$7,117,371	\$7,616,793	\$7,172,365	\$6,865,398	4.0%
Percent Change	N/A	8.8%	14.1%	7.0%	(5.8%)	(4.3%)	
Judicial	\$7,161,947	\$7,305,696	\$8,059,863	\$9,197,074	\$9,597,417	\$9,488,500	5.9%
Percent Change	N/A	2.0%	10.3%	14.1%	4.4%	(1.1%)	
Public Safety	\$10,018,619	\$10,043,492	\$12,102,721	\$12,590,195	\$10,368,124	\$10,719,220	2.1%
Percent Change	N/A	0.2%	20.5%	4.0%	(17.6%)	3.4%	
Human Services	\$353,880	\$365,853	\$345,015	\$193,129	\$419,082	\$454,587	15.8%
Percent Change	N/A	3.4%	(5.7%)	(44.0%)	117.0%	8.5%	
Other	\$192,478	\$357,090	\$123,751	\$34,669	\$3,084	\$5,000	-16.2%
Percent Change	N/A	85.5%	(65.3%)	(72.0%)	(91.1%)	62.1%	
TOTAL	\$23,460,041	\$24,307,533	\$27,748,721	\$29,631,861	\$27,560,072	\$27,532,705	3.5%
Percent Change	N/A	3.6%	14.2%	6.8%	(7.0%)	(0.1%)	

Source: Mahoning County Auditor's Office

Overall, the fluctuations exhibited in **Table 15** were caused by annual cost of living adjustments (COLAs) and staffing changes. For instance, the dramatic increases in general government, judicial, and public safety personal service expenditures from 2000 to 2001 were due to staffing increases. In addition, the 14.1 percent increase from 2001 to 2002 in judicial was directly related to staffing increases in the common pleas, juvenile and probate courts. Furthermore, the decrease in personal service expenditures from 2002 to 2003 was mostly attributable to the decrease in staffing within the Sheriff's Office.

The County has 13 major collective bargaining units which historically provided 3.0 percent cost of living increases. However, to account for possible staffing hires in the future and the potential for negotiated COLAs, and considering that personal service expenditures have decreased in 2003 and 2004, they are forecasted to increase by 4.0 percent annually from 2005 to 2008 based on the budget for 2004.

- **Table 16** presents *health insurance expenditures* for the last five years, the amount budgeted for 2004, and annual percent changes.

Table 16: General Fund Health Insurance Expenditures

1999	2000	2001	2002	2003	2004 Budget	Average Annual Percent Change
\$2,005,557	\$2,998,445	\$3,513,792	\$5,132,060	\$3,585,731	\$4,788,630	23.2%
N/A	49.5%	17.2%	46.1%	(30.1%)	33.5%	

Source: Mahoning County

Health insurance expenditures have historically fluctuated due to the County changing from full insurance to self insurance, insurance claim variances, and staffing changes throughout the five year period. On April 1, 2002, the County converted from fully insured to self insured. The 46.1 percent increase in 2002 represents a one-time deposit of approximately \$1.7 million that the County paid to begin the self insurance program with Medical Mutual. In addition, the County required employee contributions and mandatory generic drug use for its prescription drug coverage for all employees. As a result, the County was able to control overall increases in healthcare for 2003. The amount allocated to the self insurance reserve fund could also impact the historical variances and future projections. However, an analysis on the self insurance reserve fund could not be performed because the information was not readily available at the time of this audit.

For 2004, the County budgeted 120 percent of the prior year's claims as recommended by Medical Mutual to ensure adequate funding for the program in the future, contributing to the 33.5 percent increase. By excluding the additional 20 percent for 2004, healthcare costs increased 6.8 percent from 2003 to 2004. However, since the County has only experienced one year of actual results in the self insurance program and due to the lack of information on the adequacy of the self insurance reserve fund, health insurance costs are forecasted to increase 13.0 percent annually from the 2004 budgeted amount. This is based on the State Employment Relations Board (SERB) reported average increase of 12.9 percent for single and 13.0 percent for family coverage in 2003 for counties exceeding 150,000 residents, which is also similar to the State-wide reported average of 12.8 percent. Furthermore, the County is seeking to require all employees to contribute toward healthcare premiums by 2006. While employee contributions would result in cost savings, the savings may be needed to help sufficiently fund the self insurance fund and are subject to negotiations. As a result, the potential impact of employee contributions is not included in the forecast.

- As illustrated in **Table 5**, *workers compensation* expenditures in the General Fund have fluctuated significantly from 1999 to 2003, primarily due to the County switching programs, and receiving discounts and rebates. For instance, the General Fund did not incur any workers compensation expenses in 2002 because of a 75 percent discount and the existence of a sufficient balance in the fund, according to the County. In 2001, the County switched to a retrospective rating program. The retrospective rating program is a discounted program in which the employer pays a designated percentage of the premium. In return for this discount, the employer pays the

actual claims costs on all losses within the policy year up to a certain limit. In short, the retrospective rating plan allows an employer to assume a portion of the risk in return for a possible reduction in premiums. The greater the assumed risk, the greater the potential reduction in premiums.

To provide a clearer understanding of prior years' workers compensation costs for the County's current program, **Table 17** details the total County expenses (all funds) for workers' compensation and the amount of discounts and rebates received by the County from 2001 to 2003. Under the retrospective rated program, an employer is responsible for a claim for up to 10 years after it was initiated. However, the BWC indicated that most claims are settled and paid within a four to five year period.

Table 17: Workers Compensation Costs for the Retrospective Rated Program

	2001	2002	2003	Average Annual Percent Change
Actual Costs	\$1,692,063	\$2,473,631	\$2,834,325	30.4%
Percent Change	N/A	46.2%	14.6%	
Discounts	\$409,379 & 75%	50%	20%	N/A

Source: Mahoning County

As illustrated in **Table 17**, actual workers compensation costs increased significantly each year, mainly due to retrospective claims costs which are the claims incurred in the years since the County implemented the retrospective rated program. As the County began the retrospective program in 2001, it only includes costs related to claims filed in 2001. According to the Human Resources Director, the retrospective claims costs should continue to increase for one more year to allow the County to have four years of retrospective rating and then should begin to level off. This appears reasonable based on the prior three year trend and because it is substantiated by the Bureau of Workers Compensation (BWC).

Since the budget for 2004 appears to be based on claims incurred in 2003 for the General Fund, it appears reasonable. According to the BWC, in a letter dated May 29, 2003, the discounts and dividends are not anticipated to continue beyond 2004. Therefore, projections for 2005 to 2008 are based on the actual costs incurred in 2003 and increased by 9.0 percent per year to reflect the average increase in premium costs noted by the BWC. The projection for 2005 is further increased by \$400,000 from the budget for 2004 to account for the anticipated appreciation in retrospective claims costs. Moreover, 35 percent of these total costs are forecasted to be incurred by the General Fund, as 35 percent of County employees are funded by the General Fund. Since the County's premium costs have remained stable from 2001 to 2003 and considering that retrospective claims costs should level off in 2004, this methodology provides a conservative forecast of future workers compensation costs.

- **Table 18** presents actual expenditures for *materials and supplies* for the last five years, the amount budgeted for 2004, and annual percent changes.

Table 18: Materials and Supplies

	1999	2000	2001	2002	2003	2004 Budget	Average Annual Percent Change
General Government	\$608,809	\$803,289	\$609,696	\$607,128	\$470,395	\$548,284	0.3%
Percent Change	N/A	31.9%	(24.1%)	(0.4%)	(22.5%)	16.6%	
Judicial	\$191,690	\$316,814	\$467,461	\$490,130	\$523,108	\$497,529	23.9%
Percent Change	N/A	65.3%	47.6%	4.8%	6.7%	(4.9%)	
Public Safety	\$605,476	\$591,631	\$682,787	\$818,924	\$894,285	\$766,015	5.6%
Percent Change	N/A	(2.3%)	15.4%	19.9%	9.2%	(14.3%)	
Human Services	\$35,777	\$44,489	\$37,994	\$35,704	\$49,268	\$76,682	19.5%
Percent Change	N/A	24.4%	(14.6%)	(6.0%)	38.0%	55.6%	
Other	\$4,503	\$2,701	\$7,732	\$2,568	\$2,739	\$2,110	12.6%
Percent Change	0.0%	(40.0%)	186.3%	(66.8%)	6.7%	(23.0%)	
TOTAL	\$1,446,255	\$1,758,924	\$1,805,670	\$1,954,454	\$1,939,795	\$1,890,619	5.8%
Percent Change	N/A	21.6%	2.7%	8.2%	(0.8%)	(2.5%)	

Source: Mahoning County Auditor's Office

Table 18 indicates that materials and supplies expenditures increased 21.6 percent from 1999 to 2000, and continued to increase until 2003. The increase from 1999 to 2000 in general government is primarily due to the Board of Elections requiring more materials and supplies related to the presidential election year, which also contributes to the increase of 16.6 percent in the 2004 budget. In addition, the County had only one 0.5 sales tax levy supporting operations in 1999, thereby potentially causing expenditures for materials and supplies to be considerably lower in 1999 relative to the other years. Voters passed a second sales tax levy in 2000, which resulted in increased revenue to support operations. From 2000 to 2001, the County changed its accounting method for postage. Previously, postage for all departments was included in general government. In 2001, however, postage was accounted for separately within each function, which reduced this expenditure within general government and increased all other departments' expenditures. Furthermore, **Table 18** shows that public safety expenditures increased 19.9 percent in 2002, due to the increase in the inmate population and corresponding expenditures (e.g., food services).

As indicated in **Table 18**, materials and supplies increased by an annual average of 5.8 percent from 1999 to 2004. However, since 1999 represents a year in which County spending was at a lower level than in the more recent past and because it had only one sales tax levy for that year, the increase from 1999 to 2000 is excluded in the forecasting methodology. Therefore, materials

and supplies are projected based on the 2004 budget and increased annually by 3.0 percent per year to account for inflation. Considering that the average increase from 2000 to 2004 was only 1.9 percent, this provides a conservative projection of future expenditures for materials and supplies.

- *Contracted services* include professional services primarily related to the PeopleSoft system, maintenance agreements, board of elections poll workers, and liability and casualty insurance. **Table 19** details the historical expenditures and the 2004 budget for contracted services for all functions, including annual percent changes.

Table 19: Contracted Services

	1999	2000	2001	2002	2003	2004 Budget	Average Annual Percent Change
General Government	\$909,751	\$1,262,692	\$2,378,552	\$1,582,914	\$1,288,730	\$2,190,194	
Percent Change	N/A	38.8%	88.4%	(33.5%)	(18.6%)	69.9%	29.0%
Judicial	\$1,498,291	\$1,476,913	\$1,468,612	\$1,860,427	\$2,087,685	\$2,094,860	
Percent Change	N/A	(1.4%)	(0.6%)	26.7%	12.2%	0.3%	7.4%
Public Safety	\$1,386,728	\$1,541,504	\$1,545,639	\$1,945,479	\$2,220,904	\$2,223,617	
Percent Change	N/A	11.2%	0.3%	25.9%	14.2%	0.1%	10.3%
Human Services	\$299,938	\$456,326	\$476,923	\$412,897	\$367,690	\$361,501	
Percent Change	N/A	52.1%	4.5%	(13.4%)	(10.9%)	(1.7%)	6.1%
Other	\$611,677	\$725,151	\$899,523	\$928,163	\$852,400	\$1,268,924	
Percent Change	0.0%	18.6%	24.0%	3.2%	(8.2%)	48.9%	17.3%
TOTAL	\$4,706,385	\$5,462,586	\$6,769,249	\$6,729,880	\$6,817,409	\$8,139,096	
Percent Change	N/A	16.1%	23.9%	(0.6%)	1.3%	19.4%	12.0%

Source: Mahoning County Auditor's Office

Table 19 shows that County-wide expenditures for contracted services increased significantly in 2000 and 2001, remained fairly constant in 2002 and 2003, and are budgeted to dramatically increase in 2004. In 2000, general government expenditures increased 38.8 percent, primarily due to the Board of Election's increased expenditures for more poll workers as a result of the presidential election. A presidential election also contributed to the increase in general government for 2004. Expenditures for general government increased notably during 2001 due to the County-wide implementation of PeopleSoft. Upgrades to PeopleSoft, and the tax software used by the Auditor and Treasurer are the primary factors contributing to the significant increase in the 2004 budget for general government. Judicial increases from 2002 through the 2004 budget are due to increased numbers of indigent individuals requiring legal representation. Public safety increases since 2002 are due to increases in medical expenses at the jail. According to the County, the large increase in other costs for the 2004 budget is due to an increase in

reimbursements by the County to the Ohio Department of Health for diagnostic and treatment services provided to residents who are potentially or actually medically handicapped.

Considering that the County-wide trend from 2001 to 2003 remained fairly consistent and captures increases in judicial and public safety that appear to be recurring, and to account for possible one-time expenses in the future (e.g., additional upgrades to PeopleSoft or other systems and cyclical increases in Board of Election’s expenditures), the four year average of expenditures from 2001 to 2004 is used as the basis for the forecast. In addition, the four year average is increased by 3.0 percent annually to account for inflation.

- **Table 20** presents five years of actual expenditures, the 2004 budget, and annual percent changes for *travel*, which includes seminars and conferences, organizational dues, gasoline and vehicle maintenance.

Table 20: Travel

	1999	2000	2001	2002	2003	2004 Budget	Average Annual Percent Change
General Government	\$76,986	\$175,543	\$96,642	\$75,525	\$91,709	\$168,689	33.3%
Percent Change	N/A	128.0%	(44.9%)	(21.9%)	21.4%	83.9%	
Judicial	\$34,844	\$39,581	\$34,129	\$46,971	\$49,287	\$62,845	14.0%
Percent Change	N/A	13.6%	(13.8%)	37.6%	4.9%	27.5%	
Public Safety	\$88,982	\$79,510	\$140,922	\$101,291	\$113,785	\$89,324	5.9%
Percent Change	N/A	(10.6%)	77.2%	(28.1%)	12.3%	(21.5%)	
Human Services	\$4,642	\$6,272	\$2,683	\$4,476	\$5,011	\$15,328	52.5%
Percent Change	N/A	35.1%	(57.2%)	66.8%	12.0%	205.9%	
Other	\$426	\$3,328	\$920	\$0	\$0	\$0	N/A
Percent Change	N/A	681.2%	(72.4%)	(100.0%)	0.0%	N/A	
TOTAL	\$205,880	\$304,234	\$275,296	\$228,263	\$259,792	\$336,186	12.9%
Percent Change	N/A	47.8%	(9.5%)	(17.1%)	13.8%	29.4%	

Source: Mahoning County Auditor’s Office

Table 20 shows that travel expenditures dramatically increased for general government during 2000, which was attributed to the beginning of the PeopleSoft training. The 2004 budget for general government is considerably higher because it includes County-wide training that has not been completed yet from the initial PeopleSoft implementation and anticipated training for the upgrade. Given the lack a consistent historical trend, travel expenditures from 2005 to 2008 are forecasted based on the six year average (1999 to 2004) and increased by 3.0 percent annually to account for inflation. This should capture any additional training necessary for future software or computer system upgrades.

- **Table 21** presents five years of actual expenditures, the 2004 budget, and annual percent changes for *utilities*, which includes natural gas, electric, telephone, and garbage services.

Table 21: Utilities

	1999	2000	2001	2002	2003	2004 Budget	Average Annual Percent Change
General Government	\$458,597	\$515,771	\$698,358	\$999,940	\$795,391	\$877,406	16.2%
Percent Change	N/A	12.5%	35.4%	43.2%	(20.5%)	10.3%	
Judicial	\$258,958	\$310,976	\$316,410	\$267,230	\$386,150	\$390,160	10.4%
Percent Change	N/A	20.1%	1.7%	(15.5%)	44.5%	1.0%	
Public Safety	\$602,651	\$619,084	\$706,030	\$735,664	\$780,051	\$711,744	3.6%
Percent Change	N/A	2.7%	14.0%	4.2%	6.0%	(8.8%)	
Human Services	\$11,196	\$14,212	\$11,736	\$9,381	\$11,122	\$21,495	20.3%
Percent Change	N/A	26.9%	(17.4%)	(20.1%)	18.6%	93.3%	
Other	\$0	\$0	\$12,654	\$25,571	\$14,402	\$10,686	8.1%
Percent Change	N/A	0.0%	N/A	102.1%	(43.7%)	(25.8%)	
TOTAL	\$1,331,402	\$1,460,043	\$1,745,188	\$2,037,786	\$1,987,116	\$2,011,491	8.9%
Percent Change	N/A	9.7%	19.5%	16.8%	(2.5%)	1.2%	

Source: Mahoning County Auditor's Office

In general, prior year increases in utilities appear to be due to increases in telephone, internet, gas and electric utilities, specifically due to increases in overall utility rates (e.g., gas and electricity). Additionally, in 2001, several departments moved into the facilities annex building. Based on the average annual change from 1999 to 2004, utilities are forecasted to increase 8.9 percent annually from the 2004 budget. Because the County has less control over utility costs, 1999 is included in projections of future utility expenditures.

- **Table 22** presents five years of actual expenditures, the 2004 budget, and annual percent changes for *capital outlay*, which includes the purchasing of computer software and hardware, facilities maintenance, repairs, and remodeling.

Table 22: Capital Outlay

	1999	2000	2001	2002	2003	2004 Budget	Average Annual Percent Change
General Government	\$397,371	\$708,173	\$892,833	\$563,251	\$415,377	\$925,604	32.8%
Percent Change	N/A	78.2%	26.1%	(36.9%)	(26.3%)	122.8%	
Judicial	\$179,873	\$217,135	\$768,666	\$127,072	\$95,946	\$194,120	53.8%
Percent Change	N/A	20.7%	254.0%	(83.5%)	(24.5%)	102.3%	
Public Safety	\$77,360	\$139,649	\$271,480	\$74,494	\$78,389	\$46,533	13.4%
Percent Change	N/A	80.5%	94.4%	(72.6%)	5.2%	(40.6%)	
Human Services	\$19,685	\$26,448	\$1,853	\$1,612	\$17,250	\$26,828	190.8%
Percent Change	N/A	34.4%	(93.0%)	(13.0%)	970.1%	55.5%	
Other	\$17,966	\$197,807	\$4,620	\$0	\$11,450	\$331	176.6%
Percent Change	N/A	1,001.0%	(97.7%)	(100.0%)	N/A	(97.1%)	
Total	\$692,255	\$1,289,212	\$1,939,452	\$766,429	\$618,412	\$1,193,417	30.0%
Percent Change	N/A	86.2%	50.4%	(60.5%)	(19.3%)	93.0%	

Source: Mahoning County Auditor's Office

As shown in **Table 22**, capital outlay expenditures have been very volatile. General government costs increased significantly in 2000, mainly attributable to remodeling the administration building and courthouse, and purchases of new technology equipment. In addition, expenditures for the Board of Elections increased considerably because 2000 was a presidential election year. Remodeling costs related to the annex caused general government costs to increase 26.1 percent in 2001. According to the Facilities Management Director, this project is approximately 50 percent complete and currently on-hold due to funding issues. Furthermore, capital outlay costs for judicial increased significantly in 2001 because the juvenile court purchased an HVAC system. The 2004 budget includes costs that were anticipated to occur in 2003, and computer system updates and upgrades, contributing to the dramatic increase in budgeted capital outlay costs for general government. In order to ensure a sufficient level of funding to address capital outlay needs in the future (e.g., completion of the annex building, equipment for technology upgrades, and overall facility maintenance), capital outlay expenditures from 2005 through 2008 are forecasted based on a six year average of expenditures (1999 – 2004) and are increased by 3.0 percent annually for inflation.

- *Other expenditures* consist of funding for the County airport and other miscellaneous expenditures. **Table 23** presents actual expenditures, the amount budgeted for 2004, and annual percent changes.

Table 23: Other

	1999	2000	2001	2002	2003	2004 Budget	Average Annual Percent Change
General Government	\$46,512	\$47,908	\$67,345	\$50,628	\$55,798	\$98,527	21.1%
Percent Change	N/A	3.0%	40.6%	(24.8%)	10.2%	76.6%	
Judicial	\$10,000	\$0	\$1,262	\$6,592	\$15,665	\$3,504	96.5%
Percent Change	N/A	(100.0%)	100.0%	422.3%	137.6%	(77.6%)	
Public Safety	\$39,536	\$34,328	\$206,146	\$49,331	\$97,810	\$22,771	86.6%
Percent Change	N/A	(13.2%)	500.5%	(76.1%)	98.3%	(76.7%)	
Human Services	\$0	\$0	\$0	\$0	\$21,296	\$24,255	22.8%
Percent Change	N/A	0.0%	0.0%	0.0%	100.0%	13.9%	
Other	\$526,377	\$1,193,395	\$945,825	\$558,760	\$167,812	\$64,429	(13.3%)
Percent Change	N/A	126.7%	(20.7%)	(40.9%)	(70.0%)	(61.6%)	
TOTAL	\$622,425	\$1,275,631	\$1,220,578	\$665,311	\$358,381	\$213,485	(6.3%)
Percent Change	N/A	104.9%	(4.3%)	(45.5%)	(46.1%)	(40.4%)	

Source: Mahoning County Auditor's Office

The historical fluctuations in other expenditures are due to changes in this function. These expenditures are used to help meet the County's obligation to its airport. During 2003, the funding arrangement was changed from the airport being primarily supported by the General Fund to the airport receiving a portion of the bed tax historically reserved for the Mahoning County Visitors and Conventions Bureau. From 2005 to 2008, other expenditures are increased by 3.0 percent annually for inflation. Since other expenditures have consistently declined from 2000 to 2004, this represents a conservative projection of future expenditures.

- Historically, *transfers out* of the General Fund were largely comprised of local grant matches and 25 percent of the expiring sales tax levy earmarked to special revenue funds for economic development. **Table 24** compares the changes in ending fund balances from 1999 – 2003 to the sales taxes transferred to the special revenue funds. **Table 24** also shows the adjusted fund balances if these revenues remained in the General Fund, assuming that they would not have been appropriated and subsequently spent.

Table 24: Ending Fund Balances & Transfers to Special Revenue Funds

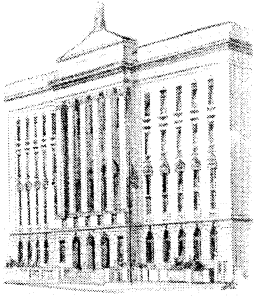
	1999	2000	2001	2002	2003	Total
Ending Fund Balance	\$8,337,040	\$6,003,716	\$3,697,132	\$2,905,869	\$2,464,000	N/A
Change in Fund Balance	N/A	(\$2,333,324)	(\$2,306,584)	(\$791,263)	(\$441,869)	(\$5,873,040)
Transfers to Special Revenue Funds	N/A	\$2,289,192 ¹	\$3,146,593	\$3,238,715	\$3,291,015	\$11,965,515
Change in Fund Balance as a % of Transfers	N/A	101.9%	73.3%	24.4%	13.4%	49.1%
Effect of Maintaining Transfers in the General Fund						
Adjusted Fund Balance (Cumulative)	\$8,337,040	\$8,292,908	\$9,132,917	\$11,580,370	\$14,429,515	N/A
Change in Fund Balance	N/A	(\$44,132)	\$840,009	\$2,447,453	\$2,849,146	\$6,092,476

Source: Mahoning County Auditor's Office

¹ Transfers are considerably lower in 2000 because of the timing lag for distribution of collections by the State to the County, related to the sales tax levy that became effective on January 1, 2000.

As indicated in **Table 24**, the transfers to the special revenue funds in 2000 correspond to the change in fund balance from 1999 to 2000. Additionally, the change in fund balance from 2000 to 2001 comprised 73 percent of the transfers to special revenue funds in 2001. As a result, the transfers to the special revenue funds appear to contribute to the declines in the fund balances for 2000 and 2001, assuming that these transfers would not have been appropriated and subsequently spent. However, the change in fund balances from 2001 to 2002 and 2002 to 2003 comprised only 24.4 and 13.4 percent of the respective transfers to the special revenue funds in 2002 and 2003. Moreover, if all of the transfers to special revenue funds would have remained in the General Fund unspent from 2000 to 2004, **Table 24** shows that the ending fund balances would have been considerably higher, reaching approximately \$14.4 million in 2003.

Based on the 2004 budget, approximately half of the total transfers will be to the special revenue funds. However, the sales tax stipulating transfers to the special revenue funds for economic development will expire in December 2004. Furthermore, the new levy proposal (Resolution 99-311) does not earmark funds for special revenue purposes. The assistant county administrator also indicated that these funds will no longer be earmarked for these purposes. Rather, the new levy will be used entirely for General Fund purposes if it passes. As a result, only transfers for local grant matches and other miscellaneous activities are forecasted from 2005 to 2008, based on the budget for 2004 and excluding the 25 percent transfer from the previous sales tax levy. Amounts are increased by 3.0 percent annually for inflation.



Board of Mahoning County Commissioners

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County Commissioners

Dave Ludt • Edward J. Reese • Vicki Allen Sherlock

Clerk of the Board
Nancy M. Laboy

Assistant County Administrator
Joseph F. Caruso

August 6, 2004

James Penning, Chief Auditor
Performance Audit Section
Auditor of State of Ohio
Lausche Building
615 Superior Ave., NW 12th Floor
Cleveland, Ohio 44113-1801

Dear Mr. Penning:

On behalf of Mahoning County, I would personally like to thank you and your very professional staff in their development of a five-year financial forecast for Mahoning County. We have reviewed the report that has been independently compiled and analyzed by your staff and believe that it will be of great assistance to the County.

While its findings do not present a bright future for Mahoning County finances, it provides an insightful yet bleak picture of the financial stability of our County. With this said, the elected leadership of Mahoning will now more than ever be required to work collaboratively toward a brighter future.

Again, we thank you for your assistance and hope that this report will provide the understanding of the County's financial situation not only to the local elected officials but also to the Community as a whole.

Sincerely,

A handwritten signature in black ink, appearing to read "Edward J. Reese", written over a horizontal line.

EDWARD J. REESE, President
Board of Mahoning County Commissioners

cc: Board of County Commissioners
Joseph F. Caruso, Assistant County Administrator

EJR:jfc