# MUSKEGON COUNTY
# MICHIGAN



August 20, 2020

Susie Hughes, Chair and Members
Muskegon County Board of Commissioners
990 Terrace Street
Muskegon, MI 49442

Dear Commissioners:

Sheryl Sandberg (Chief Operating Officer of Facebook) said to the Virginia Tech graduating class, “We build resilience into ourselves, we build resilience into people we love, and we build it together as a community.” That’s called “Collective Resilience and it is an incredibly powerful force.”

In the past six months, I have witnessed this very force building within each and every employee; from balancing working at home, childcare, kids learning online, caring for vulnerable parents, to finding creative ways to visit loved ones who are locked down in assisted living and nursing facilities. Employees are resilient and adapting.

At the same time our employees embody collective resilience when saying goodbye to their loved ones and risk their own health by reporting to work every day and serving others.

Every department is striving toward building a new-normal, and this resilience is shown in the very fiber of each action and decision. The proverbial belts have been tightened, all for the greater good. To the employees, thank you for your service and dedication to Muskegon County. We cannot do this without you.

With all the aforementioned in mind, it is our intent to present to you the proposed FY2021 Muskegon County Budget. This budget comes with the uncertainty of COVID-19 effects on state revenue sharing, personal property tax and the future revenue losses across all Departments.

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## FY2021 General Fund Budget

For the FY2021 budget a new method was introduced by our Director of Finance in an effort to achieve a more equitable way to balanced General Fund Budget. The department directors and elected officials were presented with the new approach to the budget in December 2019. The basis of the new method recognizes that although some General Fund departments do generate revenues, not all of them have that ability and even those that do, the revenues are not sufficient to cover their individual department expenditures. It is basically the **"Non-Department Specific Revenues" (NDSR)** such as property tax revenues, state revenue sharing, personal property tax reimbursement revenue and transfers from the delinquent tax funds which all appear in the Treasurer's budget that are used to support all of the departments operations within the General Fund as well as those that receive a General Fund appropriation. Therefore, the new method that was introduced was to select a base year which was determined to be the FY2020 original General Fund budget which was a balanced budget as Oct. 1st 2019, and determine what percentage each department required of those NDSR in order to balance their individual department budgets. After identifying what each department's percentage was of the base year, that same percentage would be applied to the NDSR projected for FY2021. The goal is to have each department's FY2021 budgeted support of the NDSR not exceed its allocated amount using the base year percentage. If there is a variance then the department would need to adjust its budget accordingly through either revenue enhancements or expenditure reductions.

Department directors and elected officials were receptive to the idea of trying this new method. The first step to the process was for all General Fund departments to submit projections of their FY2021 revenues. Those revenue projections were then built into the County's General Fund 5 year forecast model along with assumptions to project wages, fringe benefits and various other operating expenditures. This process took place during the months of January and February. By the end of February a preliminary FY2021 General Fund projection revealed a $3.2 million deficit. Then the NDSR percentages calculated using the FY2020 original budget base year was applied to the projected FY2021 NDSR to determine what each department's estimated target amount needed to be in order to eliminate this projected deficit. These target amounts were presented to the department directors and elected officials in mid February. By the end of April departments were able to re-engage in the FY2021 budget process after spending the months of March and April responding to the COVID-19 crisis. Budgets were due to be submitted by the end of May. Based on the budgets submitted the new projected FY2021 General Fund deficit was $4.0 million. Many of the departments had come up with ideas of how to meet their budget targets. In addition, those departments that participated in the Board approved Workshare Program for which employees were furloughed 10-60% hours per week from the end of May and some continuing through September did so with the understanding that those savings would carry over to FY2021. The estimated General Fund savings for the Workshare Program that occurred in FY2020 and allowed to be carried over to FY2021 is approximately $600,000. Therefore this amount would reduce the General Fund's unassigned fund balance.

After two months of meeting with department directors and elected officials regarding their FY2021 budget, many ideas were shared on how they could meet their targets. Some departments moved ahead with extending the Workshare program and furloughing of employees through December 2020. This resulted in a General Fund savings of $301,000 as of this writing. County-wide there is a total of 6 positions recommended for elimination in the FY2021 budget of which 1 is in the General Fund. Of these positions 1 is due to a retirement, 3 are due to the elimination of grant funding with the employees transferring into other vacant positions and the remaining 2 positions will result in layoffs. Other departments achieved savings through staffing reorganizations due to upcoming retirements or changes in funding for various positions. Some departments reduced operating expenditures within their budget.

Other more global changes that were incorporated were to reduce the original estimated increase in medical insurance assumption provided in January by the County's insurance broker of 15% to 11% based on updated information the broker received in July. This helped to reduce General Fund expenditures by $140,000.

In addition, initial FY2021 budget projections continued to include expenditures for contributions for the County's Other Post-Employment Benefit (OPEB) plan but at a reduced level due to the most recent actuarial valuation indicating that the OPEB actuarial accrued liability is 103.3% funded. Given the high level of funding already which is well above the 40% funding level the State requires before a corrective action plan is required, it is recommended to remove the remaining OPEB charges entirely from the FY2021 budget which resulted in an additional $198,000 is savings.

Also, the traditional salary savings estimate that was built into the budget of 2.75% of wages and fringes to account for vacant positions throughout the year was increased to 3.75% based recent historical trends. This change resulted in a savings of $237,000.

Revenue Enhancement Recommendations

- Some other revenue related changes included increasing a transfer from Delinquent Tax Revolving Fund (5100) by $300,000 based on an available fund balance.

- An estimated increase of $100,000 was added for the anticipated impact of the FY2021 cost allocation plan yet to be completed by the external consultant.

- An additional $100,000 was included as a conservative estimate of for recovery of uncollectible accounts receivable by a new debt collection agency that is currently in the request for proposal process to select this vendor.

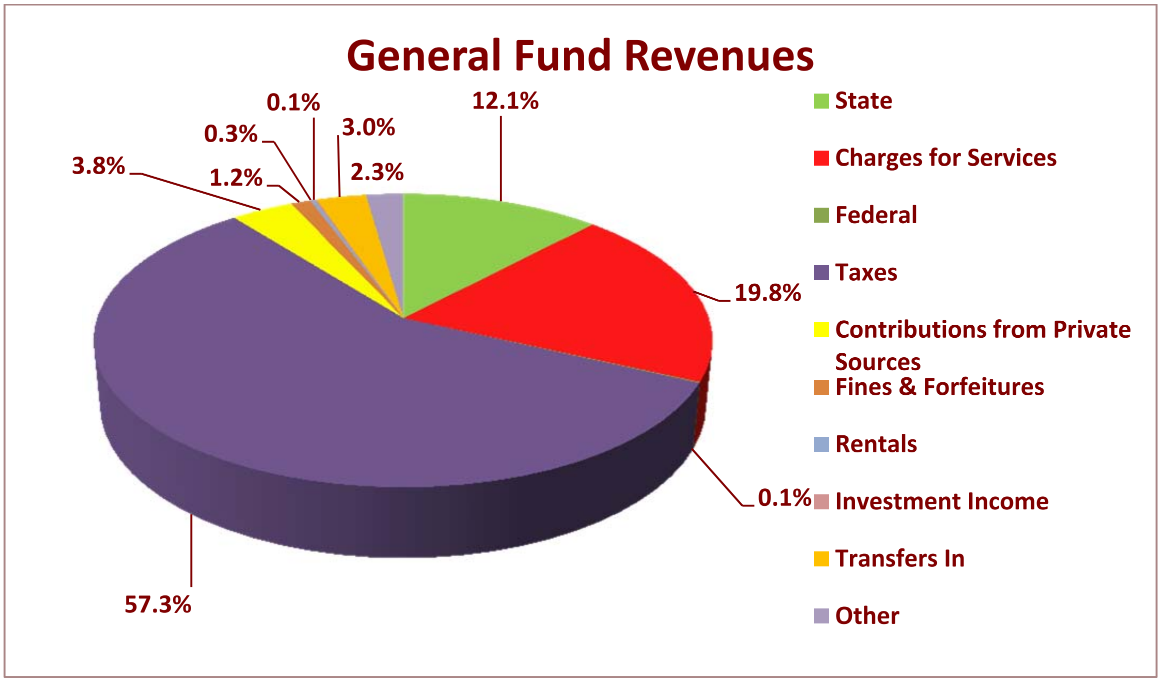
Given all of the changes proposed by departments as well as the other global changes, the FY2021 General Fund budget has decreased from an initial projected $4.0 million deficit to $1.2 million. Options for addressing the approximately $1.2 million remaining deficit include but are not limited to:

1) Continuation of furloughs - the courts have already committed to extending through December 31, 2020 (other departments would need to do the same)
2) Employee layoffs
3) Apply for additional state/federal funding if it becomes available
4) Consider millage options
5) Additional utilization of unassigned fund balance

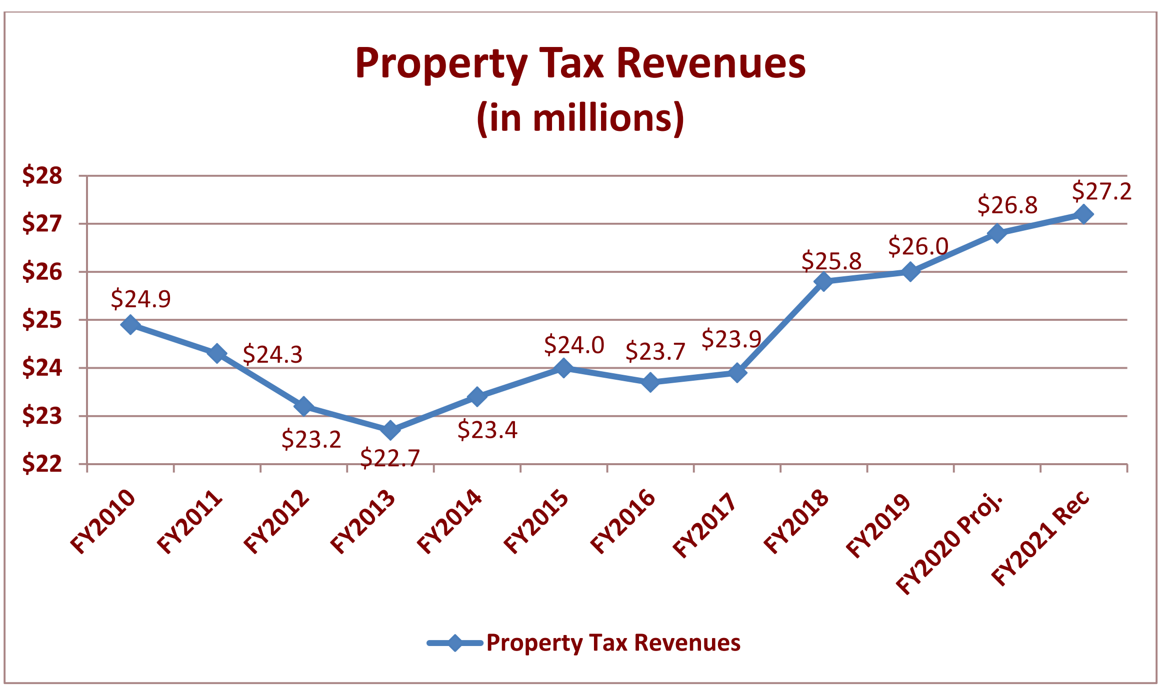
Preparing the FY2021 has been one of the most challenging years yet. Trying to determine the best way how to continue to operate county government during a global pandemic and to predict its impact on the County's finances has been complicated to say the least. There are many uncertainties ahead however County administration, department directors and elected officials are resilient to work together and with the Board's guidance and direction implement measures to protect the financial stability of the County.

**General Fund Revenues**

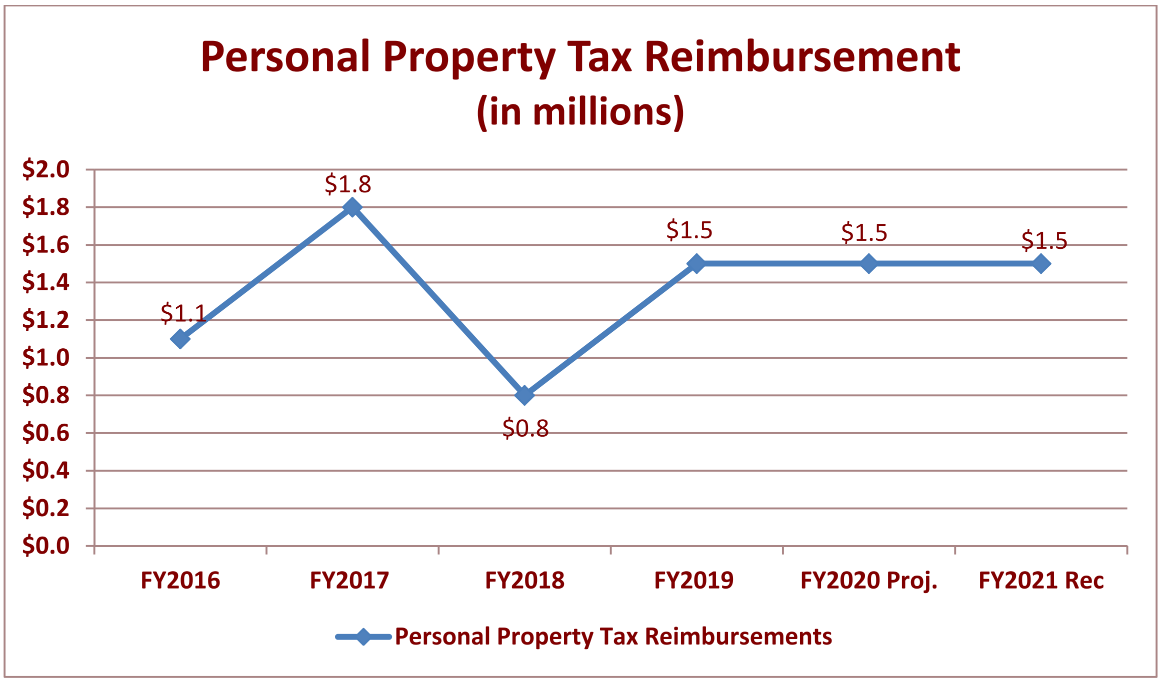
The General Fund's largest single source of revenue for the General Fund is tax revenue which represents 57.3% of total revenues. The remaining 42.7% of revenues consist of the state and federal grant revenues, charges for services, contributions from private sources, fines & forfeitures, rentals, investment income, transfers in and other revenues as shown in the graph below.



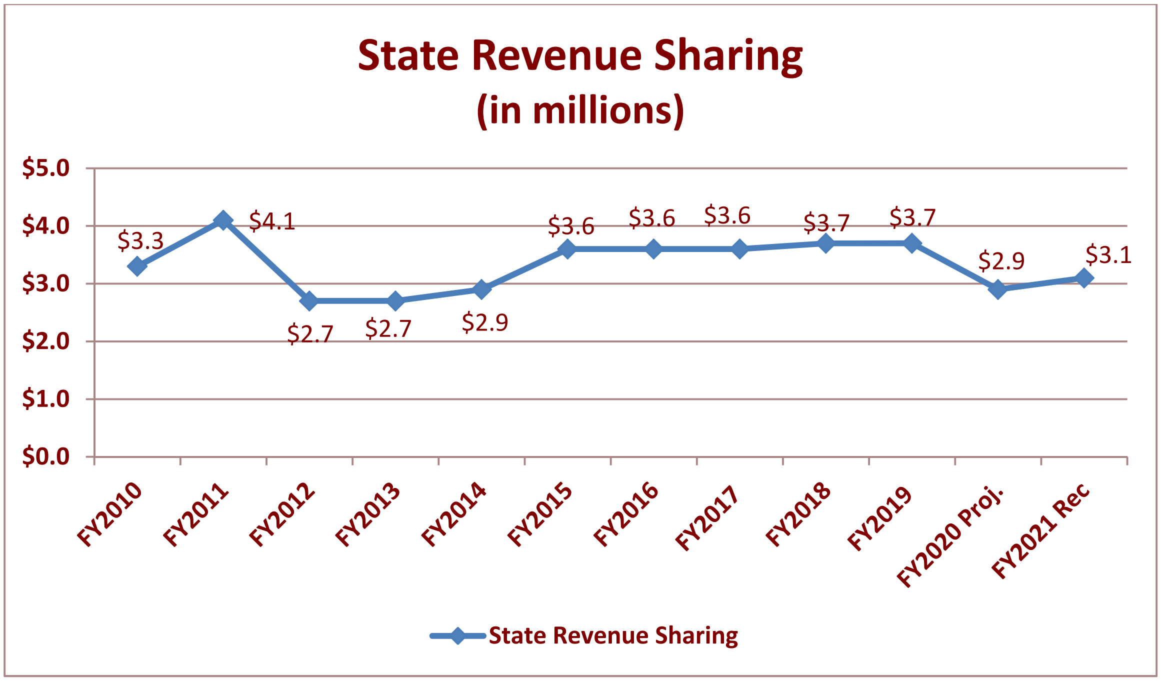

There are two components that comprise the rate of change in taxable values. Consumers Price Index (CPI) change from September to September is the first component which for FY2020 was 1.9%. The second component is the overall change in taxable valuation base which was still a positive 1.68% for FY2020. The two components combined resulted in a taxable value increase of 3.58%. The CPI has been trending up since September 2019 toward a 1.4% increase. The forecast for Muskegon County is to continue to see growth of 1.6% due to new housing, new business development and new expansions throughout the County for a total of 3% increase in taxable value for FY2021.



When Personnel Property Tax (PPT) Reform became law, the State indicated it would reimburse all municipalities for their lost revenue from these exemptions. The formula for reimbursement is complex and compares the loss in values between 2013, which is considered to be the base year, and the current year starting in FY2016. In FY2016 and FY2017 the State had accumulated additional funds to make those reimbursements and therefore issued payments to municipalities higher than their total PPT losses. The graph below shows the history of this revenue stream as well as the anticipated amounts expected for FY2020 and FY2021. The decrease in FY2018 was due to a change in the timing of distribution of the additional PPT funds causing there to be no recognition of the additional revenue for this fiscal year.




State revenue sharing is another component of the County's General Fund revenue representing 6.2% of total revenues and included in total State revenue category. The Governor's budget proposal issued in February 2020 included a 2.3% increase over the original FY2020 budgeted amount or approximately $85,000 to Muskegon County resulting in a total distribution of approximately $3,859,000 for FY2021. However due to COVID-19, the FY2020 State revenue sharing distributions to counties were reduced approximately 23% help balance the State's budget. The State is projecting over a $3 billion deficit for FY2021 which it still needs to address and reductions in revenue sharing distributions to counties are a possible option. Therefore, the amount budgeted for State revenue sharing for FY2021 is $3,087,000 which is 20% less than the amount in the original Governor's budget proposal. Although in FY2020 there was CARES Act funding available to offset the loss in State revenue sharing there is no guarantee that this funding will be available in FY2021.



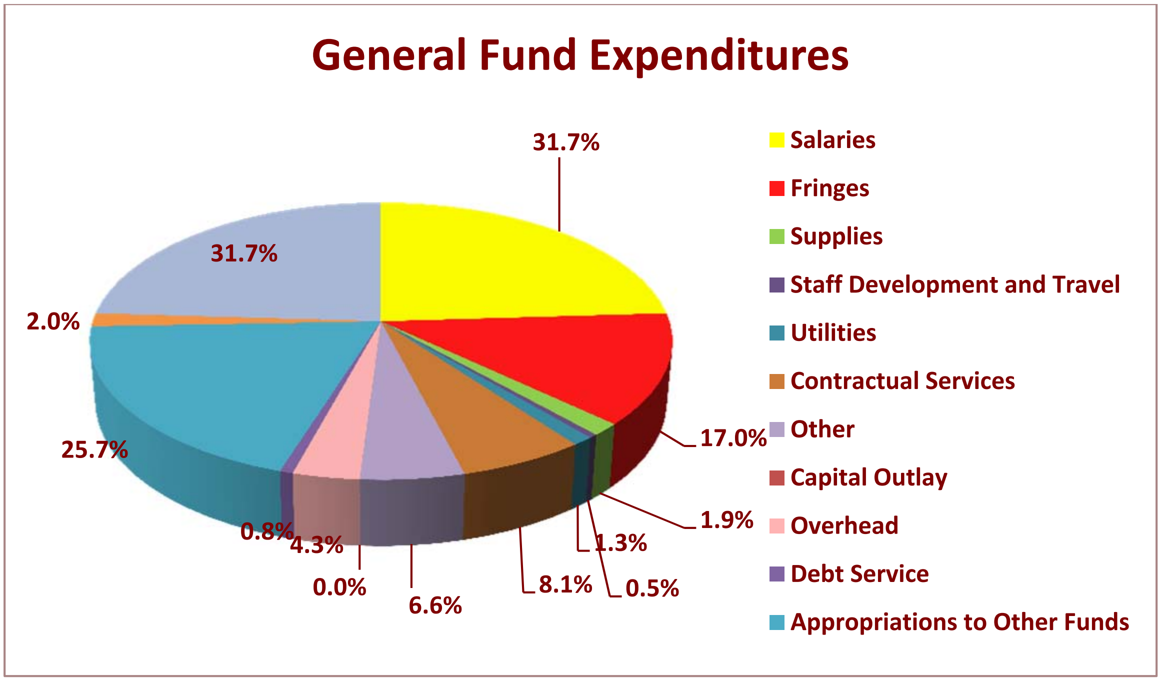

The graph on page T4 shows that Charges for Services comprise 19.8% of General Fund revenues at $9,771,000. Overall these revenues are anticipated to increase approximately $813,000 over FY2020. FY2020 experienced a significant reduction in revenues primarily in the courts and the jail due to COVID-19. The expectation for FY2021 is that these revenues will begin to return back pre COVID-19 levels for the majority of the fiscal year.

Contributions from Private Sources as depicted in the graph on page T4 represents revenue received from the DTE Test & Tune Program and are budgeted at $1,867,000 for FY2021. The County administers this program whereby low income homeowners can get new or "tuned up" furnaces and thermostats. DTE Revenue comes into the County and is expended for the equipment and installation. The County does keep a portion of the revenue for our administrative oversight. The revenue decrease of $217,000 over FY2020 is offset by a corresponding decrease in expenditures for the program costs being incurred. The net revenue impact of this service is anticipated to be $128,000 for FY2021.

The FY2021 budget includes a transfer from the Delinquent Tax Revolving Funds of $1,450,000. This revenue stream has been declining over the last few years due to the improving economy resulting less property tax delinquencies.

**<u>General Fund Expenditures</u>**

Personnel costs comprise nearly 48.7% of the total General Fund expenditures. The FY2021 budget does include the elimination of six positions (not all of them having a General Fund impact) as well as one day per week furloughs for a number of employees through December 2020. Total budgeted General Fund wages for FY2021 are $16,227,000 or 31.7%. The impact of the 2% general salary increase as well as merit increases is an additional cost to the FY2021 General Fund budget. This wage increase along with less employees participating in furloughs compared to FY2020 resulted in an overall increase of approximately $787,000.




Total General Fund budgeted fringe benefits for FY2021 are $8,727,000 or 17.0% as depicted in the graph above. This includes medical insurance premiums which are projected to increase 11% according to our insurance broker effective January 1, 2021. This increase is estimated to cost an additional $603,000 in the FY2021 budget for a total medical insurance cost of $4,471,000.

Also included in the fringe benefit category are pension costs. The total General Fund pension costs for FY2021 are $2,077,000. This a reduction in pension costs of $116,000 from FY2020. The County's most recent Other Post-Employment Benefits (OPEB) actuarial valuation indicated that the accrued liability for retiree medical and dental insurance benefits for those defined benefit employees is at 103.3% funded. Therefore, the FY2021 recommended General Fund budget no longer includes this fringe benefit cost in the departmental expenditures. This change resulted in a reduction of $416,000 in expenditures compared to FY2020. In addition, the FY2021 budget includes the continuation of using the workers comp reserve that has built up over a number of years in the Insurance Fund.

As depicted in the graph above, Appropriations to Other Funds represent 25.7% of total General Fund expenditures for a total of $13,175,000. One of which is to the Building Authority Jail/JTC debt service fund to cover the debt service payments for the Jail/JTC project for the debt amount of $2,662,000.

The Appropriation to the Child Care Fund is increasing to $4,231,000 which is $109,000 greater than FY2020. This increase is attributable to increased costs in the Juvenile Transition Center for school programming performed by the MAISD as the FY2020 costs for this programming were waived and replaced with a grant due to COVID-19. No waiver of these costs is assumed for FY2021.

The Appropriation to the Indigent Defense Fund is budgeted at $1,152,000. This represents the portion of the Public Defender's office operations that is not covered by the MIDC grant which the County began receiving in FY2021.
The Appropriation to Family Court of $1,532,000 which is only slightly higher than FY2020 as increases in wages and fringes are being offset by the continuation of one day a week furloughs through December 2020.

Appropriations to Public Health ($1,771,000) and HealthWest ($707,000) are slightly less than FY2020.

There is no Appropriation to the Airport budgeted for FY2021 compared to the FY2020 budgeted amount of $183,000. The Airport received over $1 million in a CARES Act grant to cover operational and capital costs for a two year period. This funding should be sufficient support the Airport and therefore not require an appropriation from the General Fund.

There is also no appropriation to Muskegon Area Transit System (MATS) in the FY2021 budget. Along with MATS implementing operational efficiencies beginning in FY2021 as the result of a route and operational study, it also received a $5.4 million CARES Act grant for to be used for operational support purposes. Therefore, there will be no need for a General Fund appropriation in FY2021.

Presented for your consideration is a General Fund budget with revenues of $49,446,671 and expenditures of $51,252,041.

Respectively Submitted,

Mark Eisenbarth
County Administrator