

MUSKEGON COUNTY

MICHIGAN

August 26, 2021

Board of Commissioners

Robert Scolnik
Chair, District 4

Charles Nash
Vice Chair, District 6

Rillastine R. Wilkins
District 1

Marcia Hovey-Wright
District 2

Susie Hughes
District 3

Zach Lahring
District 5

Malinda Pego
District 7

Doug Brown
District 8

Kim Cyr
District 9

Robert Scolnik, Chair and Members
Muskegon County Board of Commissioners
990 Terrace Street
Muskegon, MI 49442

Dear Commissioners:

As our staff finalizes the FY2022 budget, we should take a moment to reflect on this past year to see how far we have come. Our staff have endured and overcome great challenges by working together through the restrictions brought on by the pandemic. They have learned to juggle remote work with home life, friends who have lost their jobs, and the loss of loved ones, due to COVID-19. Thank you is owed to our staff and their support teams whom have made the impossible possible.

As we move forward, Muskegon County is seeing an economic boom with businesses, housing and population. Over \$1.5 billion has been invested into new development in the County over the last three years. Proposed projects going forward include Museum of Art expansion, commercial port redevelopment, Mary Free-Bed, and the redevelopment of Hackley Hospital property. The housing development includes Foundry Square, Old Farmers Market Housing Development, Lakeview Lofts, Windward Pointe/DPZ Community, Hay Meadows, Harmony Lakes and several others. The 2020 census reported an overall growth in Muskegon County over the past 10 years. The table below illustrates the results;

Townships

Blue Lake 0.7%
Casnovia -0.4%
Cedar Creek 0.2%
Dalton 1.4%
Egelston 12.3%,
Fruitland 4.5%
Fruitport Charter 7.2%
Holton 2.8%
Laketon 0.8%
Montague -2.8%
Moorland 3.3%
Muskegon Charter -1.4%
Ravenna 2.0%
Sullivan 4.1%
White River 3.6%
Whitehall 1.7%

Cities

Montague 2.4%
Muskegon -0.2%
Muskegon Heights -8.6%
North Muskegon 8.1%
Norton Shores 4.3%
Roosevelt Park 8.9%
Whitehall 7.5%

Villages – Included in Townships Numbers

Casnovia
Lakewood Club
Fruitport
Ravenna

This growth in population and the significant economic development are both positive signs that translate into a higher revenue generating tax base needed to support the many services Muskegon County offers to its residents.

FY2022 General Fund Budget

As part of the preparation of the FY2022 budget, an updated projection of the status of the FY2021 budget was necessary. The original FY2021 budget was approved by the County Board with a deficit of \$1,829,087 that was to come out of the General Fund's unassigned fund balance. As part of the closing of FY2020, the FY2021 approved deficit was set aside in another category of fund balance called "Assigned". This left the General Fund with an "Unassigned" fund balance at the end of FY2020 of \$9,461,745 which represented 18.9% of prior year expenditures plus transfers out. The County's financial policy requires that it maintain an unassigned fund balance in the General Fund of 14-19% of prior year expenditures plus transfers out excluding extraordinary items.

Since the FY2021 budget was approved in September 2020, many changes have occurred that have significantly improved the projected outlook for FY2021. Two substantial changes occurred in February 2021 that amended the budget and improved the projected shortfall. One was the reinstatement of revenue sharing dollars which were originally assumed would be cut by the State by 20%. When the State approved their budget subsequent to the County's budget approval it included revenue sharing to counties back to their original FY2020 approved amount. This resulted in an increase in revenues of \$678,000 over what was included in the original approved FY2021 budget. In addition, the original approved budget assumed an 11% increase in medical insurance costs based on estimates provided by the County's insurance broker. The County went out for bid in the fall of 2020 and was able to achieve a 0% increase in medical insurance premium costs for FY2021. This resulted in a reduction in expenditures in the General Fund of \$330,000. The combination of these two changes alone improved the outlook for FY2021 by over \$1 million.

Another significant factor improving the FY2021 General Fund outlook was the continuation of departments participating in the Workshare furlough program. The original approved budget included participation in the program through December 2020. Many departments opted to continue participating in the program through the first week of September 2021 by having employees furlough one day a week. It is estimated that the additional savings to the FY2021 General Fund was \$693,000.

Another change impacting FY2021 was property taxable values increasing by 3.85% compared to the budgeted 3.0%. This resulted in an increase in budget property tax revenues of \$237,000. In addition, the County received \$140,000 that was not originally budgeted for distribution of taxes collected from recreational marijuana businesses within the County as required under MCL 333.27964 the Michigan Regulation and Taxation of Marihuana Act.

Many other changes impacted the FY2021 budget including lower revenues in both the Jail and Court budgets due to the continuing impact of COVID-19. These decreases were partially offset by an increase in revenues in the Register of Deeds office primarily in mortgage recording fees and transfer taxes.

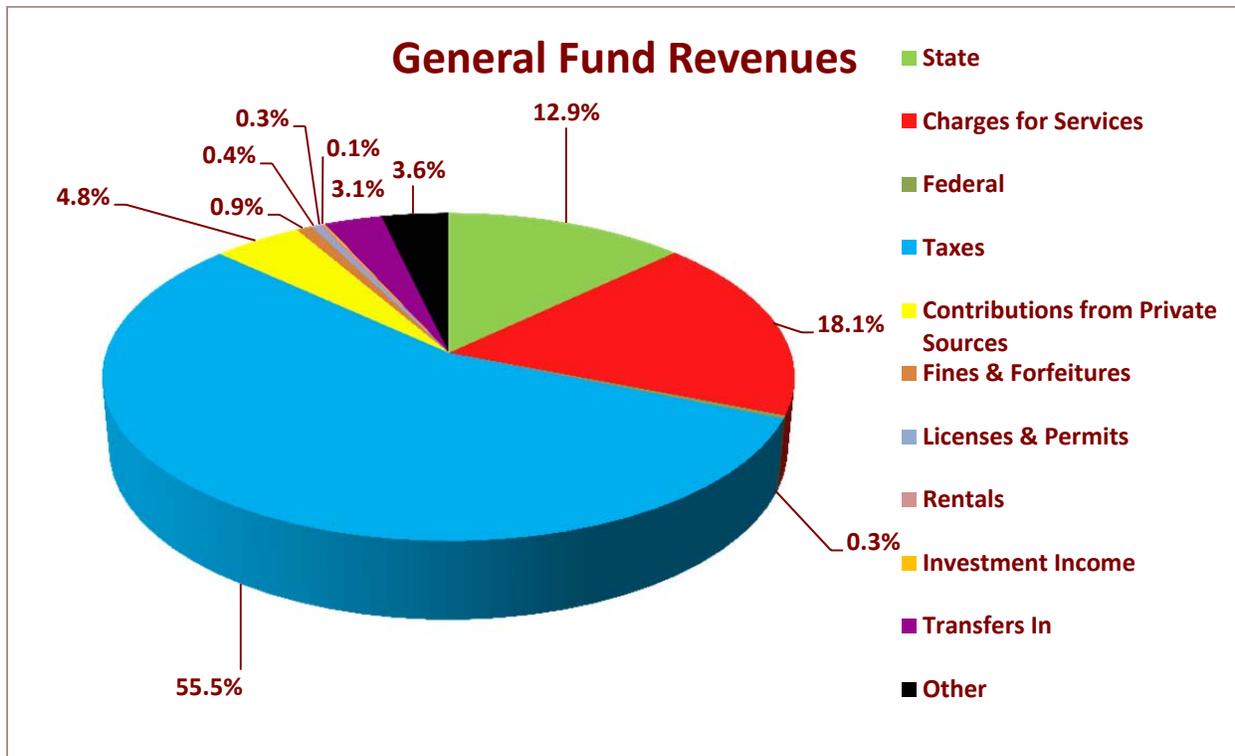
Expenditures are also projecting lower in the area of contractual services and general liability, property and auto insurance.

Factoring all of the changes mentioned above the latest projection for FY2021 as of this writing is a deficit of \$193,859. That is an improvement of over \$1.6 million from the budget originally approved last September.

Therefore as the FY2022 budget was prepared and is presented, the recommendation is to utilize the remainder of the funds that were designated and set aside at the end of FY2020 in the Assigned fund balance category to cover the projected shortfall for FY2022.

General Fund Revenues

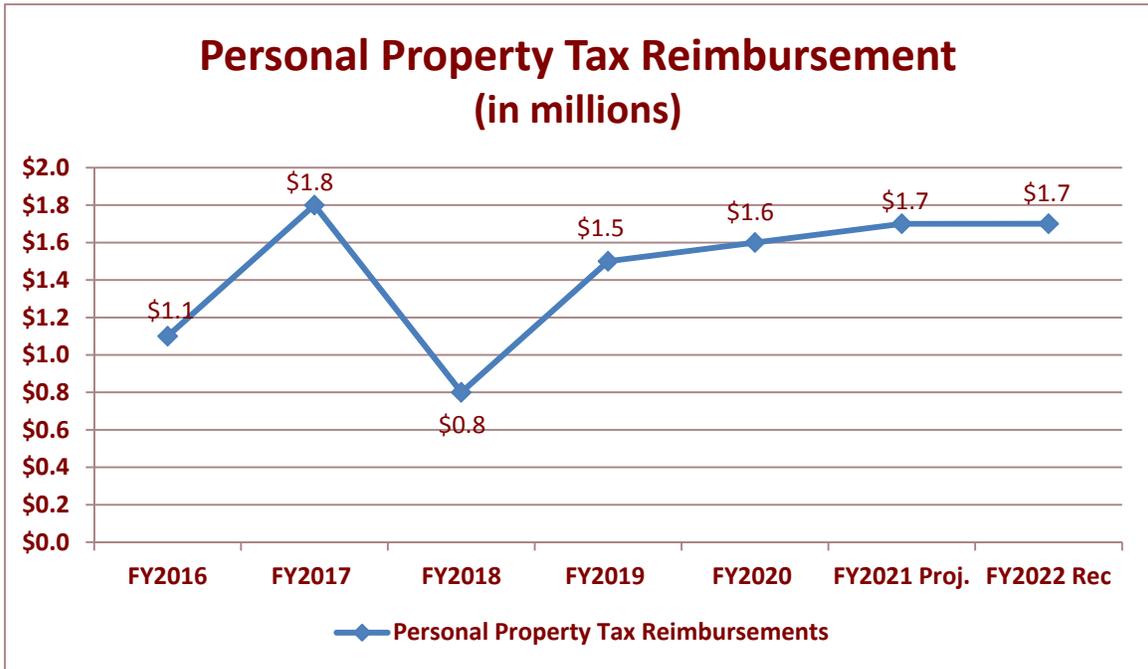
The General Fund’s largest single source of revenue for the General Fund is tax revenue which represents 55.5% of total revenues. The remaining 44.5% of revenues consist of the state and federal grant revenues, charges for services, contributions from private sources, fines & forfeitures, licenses & permits, 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 FY2021 was 1.4%. The second component is the overall change in taxable valuation base which was still a positive 2.45% for FY2021. The two components combined resulted in a taxable value increase of 3.85%. The CPI has been trending up since September 2020 toward a 3.0% increase. The forecast for Muskegon County is to continue to see growth of 1.0% due to new housing, new business development and new expansions throughout the County for a total of a conservative 4% increase in taxable value for FY2022.

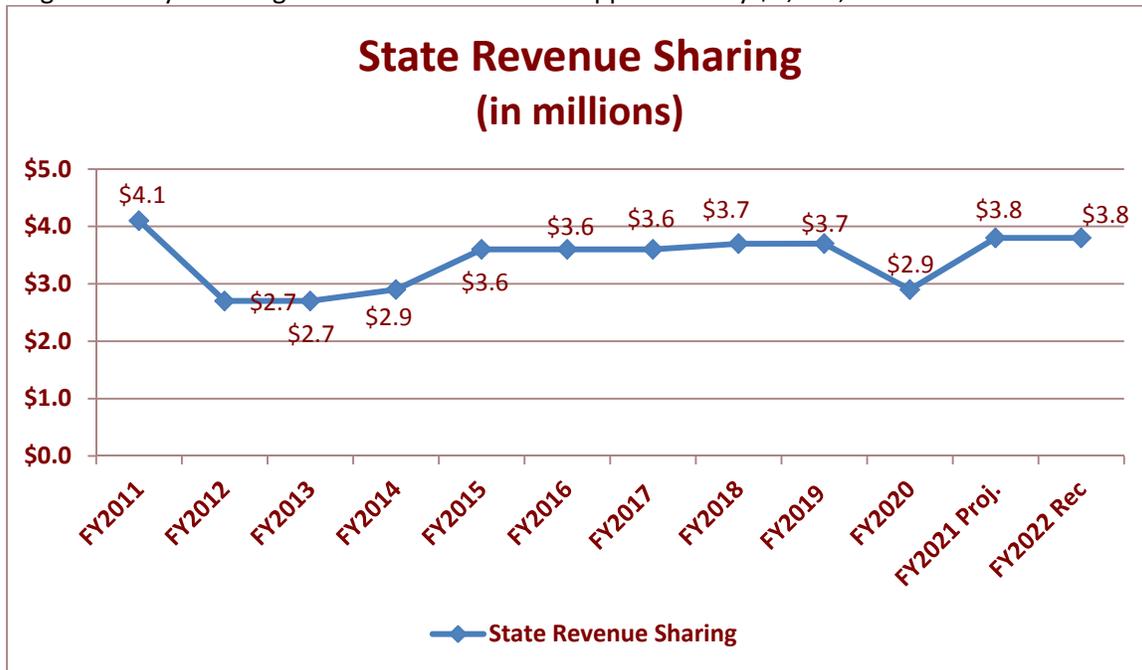


When Personnel Property Tax (PPT) Reform became law, the State indicated it would reimburse all municipalities for their lost revenue from these exemptions. The formula for reimbursement is complex and compares the loss in values between 2013, which is considered to be the base year, and the current 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 FY2021 and FY2022. 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 7.2% of total revenues and included in total State revenue category. The Governor's budget proposal issued in

February 2021 included a 2.0% increase over the FY2021 budgeted amount or approximately \$75,000 to Muskegon County resulting in a total distribution of approximately \$3,840,000 for FY2022.



The graph on page T3 shows that Charges for Services comprise 18.1% of General Fund revenues at \$9,679,000. Overall these revenues are anticipated to increase approximately \$818,000 over FY2021. FY2021 experienced a significant reduction in revenues primarily in the courts and the jail due to COVID-19. The expectation for FY2022 is that these revenues will begin to return back pre COVID-19 levels for the majority of the fiscal year.

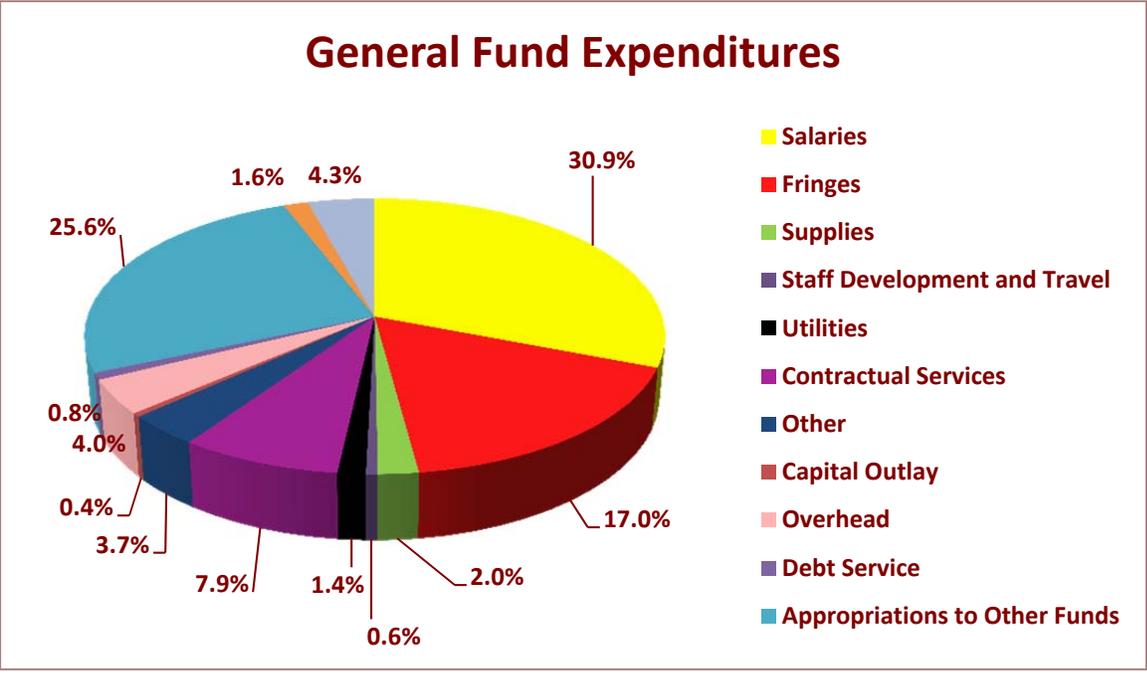
Contributions from Private Sources as depicted in the graph on page T3 represents revenue received from the DTE Test & Tune Program and are budgeted at \$2,569,000 for FY2022. The County administers this program whereby low income homeowners can get new or “tuned up” furnaces and thermostats. DTE Revenue 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 \$464,000 over FY2021 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 \$194,000 for FY2022.

The FY2022 budget includes a transfer from the Delinquent Tax Revolving Funds of \$1,550,000. This revenue stream has been declining over the last few years due to the improving economy resulting less property tax delinquencies.

The Other category includes various revenues such as reimbursement for judicial salaries of \$457,000, prisoner incarceration reimbursements of \$211,000 and restitutions collected of \$900,000. This revenue category totals \$1,918,000 which is an increase of \$148,000 from FY2021.

General Fund Expenditures

Personnel costs comprise nearly 47.9% of the total General Fund expenditures. Total budgeted General Fund wages for FY2021 are \$16,756,000 or 30.9%. The impact of merit/step increases is an additional cost to the FY2022 General Fund budget. There is no general salary increase included in this budget as of this writing. While the FY2021 budget included the savings related to many departments participating in the Workshare furlough program for approximately 11 months, the FY2022 budget does not include any continuation of the Workshare program. Therefore, the merit increases as well as the elimination of savings from Workshare furloughs compared to FY2021 wages resulted in an overall increase of approximately \$1,113,000.



Total General Fund budgeted fringe benefits for FY2022 are \$9,239,000 or 17.0% as depicted in the graph above. This includes medical insurance premiums which are projected to increase 5.9% effective January 1, 2022, according to the most recent bids received in the fall of 2020. This increase, as well as assuming all positions are filled, is estimated to cost an additional \$585,000 in the FY2022 budget for a total medical insurance cost of \$4,507,000.

Also included in the fringe benefit category are pension costs. The total General Fund pension costs for FY2022 are \$2,436,000. This an increase in pension costs of \$393,000 from FY2021. 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 93.1% funded. Therefore, the FY2022 recommended General Fund budget for the second year in a row does not include this fringe benefit cost in the departmental expenditures due to the already high funded level of this benefit. In addition, the FY2022 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 25.6% of total General Fund expenditures for a total of \$13,896,000. 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 decreasing to \$3,832,000 which is \$324,000 less than FY2021. This decrease is attributable to additional grant funding available due to the implementation of “Raise the Age” state legislation which increases the age of juvenile court jurisdiction from 17 to 18 years of age thereby keeping youth out of adult court. Offsetting this decrease is an increase in the Appropriation to Friend of the Court of \$642,000 to \$1,894,000 for FY2022. This increase is primarily due to the expiration of the Procedural Actions of Self-Sufficiency (PASS) grant which funded several positions and brought in approximately \$600,000 in grant revenue per year for the last 4 years. Circuit/Family Court has reorganized its staffing for FY2022 moving employees around to maximize the new grant funding in the Child Care Fund as a result of the discontinued grant funding in the Family Court fund. In addition, Family Court had a significant savings in FY2021 from participating in the Workshare furlough program that resulted in the appropriations from the General Fund to the Child Care and Family Court funds being substantially lower last year.

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 FY2019.

Appropriations to Public Health (\$1,774,000) and HealthWest (\$707,000) are the same as FY2021.

There is no Appropriation to the Airport budgeted for FY2022. The Airport has been awarded \$3 million in federal grants related to COVID relief to cover operational and capital costs for a three 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 FY2022 budget. Along with the operational efficiencies that were implemented in FY2021 as the result of a route and operational study, MATS also has additional CARES Act grant dollars that will carry over into FY2022 as well as an additional \$2.5 million grant under the American Rescue Plan Act that can be used for transportation operational support purposes which is separate from the \$33.7 million the County was awarded. Therefore, there will be no need for a General Fund appropriation in FY2022.

The FY2022 recommended budget does not include any revenues or expenditures for the use of the \$33.7 million in federal grant dollars awarded to the County under the American Rescue Plan Act. The budget will be amended to reflect these grant dollars once the Board has approved how they will be used.

Presented for your consideration is a General Fund budget with revenues of \$53,555,610 and expenditures of \$54,287,282 and the anticipated utilization of assigned fund balance of \$731,672 remaining from FY2021.

Respectively Submitted,

Mark Eisenbarth
County Administrator