

MUSKEGON COUNTY

MICHIGAN

August 16, 2022

Board of Commissioners

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

Dear Commissioners:

In FY2017 the Board of Commissioners contracted with a consultant to prepare a 5-year financial forecast (FY2018-FY2022) of the condition of the Muskegon County General Fund. The purpose of the five-year forecast was to gain a better understanding of the direction the County's General Fund was headed and to allow time for corrective action to be taken if necessary. The consultant reviewed several years of historical financial information, looking at revenue and expenditure trends. Regional economic data was utilized to project future property tax revenues and develop assumptions for wage and benefit projections. The results of the consultant's forecast revealed that the general outlook for Muskegon County's General Fund for the following five years was unsustainable. The report showed overall revenues were expected to remain fairly stagnant increasing only about 0.4% per year. Expenditures however were expected to increase significantly due primarily to the debt service obligations related to the County Jail and Juvenile Transition Center (JTC) as well as defined benefit pension contributions to the Municipal Employees' Retirement System of Michigan (MERS). The original forecast revealed that the consistent disparity between revenues and expenditures would have resulted in the depletion of General Fund reserves within the following five years if no action were taken.

It was projected that the Muskegon County General Fund balance would be at a deficit of \$16,041,342 by the end of FY2022. Administration, Finance, Department Heads, and Elected Officials worked diligently in the years that followed to make impactful changes that would alter the future of our General Fund and create more stability in our financial outlook.

- The Jail/JTC Bond Debt was restructured to reduce the annual debt payment that originally escalated to \$6.2 million annually to a more manageable debt service payment of \$2.7 million annually. The interest rate was also reduced from 4.75% to 3.93%.
- Pension Bonds were issued to minimize the impact of significant projected increases in pension contributions. The result of this was lowering the annual defined benefit pension cost, including the debt service, to an average of \$7.7 million from the MERS projected amount of \$10.2 million in FY2020 and increasing \$1 million per year thereafter peaking at \$20 million by FY2029.

- Changes were made to the retiree health insurance provider resulting in an annual savings of \$1.9 million in retiree medical costs and increasing the County's Other Post-Employment Benefits (OPEB) funding from 40.7% in FY2018 to 139.3% at the end of FY2021.
- The County has actively pursued the sale of various assets including the building formerly known as Brookhaven Medical Care Facility, various former mental health group homes, and business park land properties. These proceeds have been utilized to fund other capital improvement needs throughout the County reducing the need to utilize General Fund for these improvements. The Capital Improvement Fund is now projected to have a balance of \$631,000 at the end of FY2022.

As we move toward the end of FY2022 and look forward to FY2023 I am happy to report that these changes have had a dramatic impact on the stability of Muskegon County's General Fund and the County services and departments supported by this fund. In contrast to the large deficit projected by the 5-year financial forecast, we are projecting the General Fund unassigned fund balance to be a positive \$11,659,000.00 at the end of FY2022 which represented 23.5% of prior year expenditures plus transfers out! As you take in the information presented in this proposed budget document, I would ask you to take a moment to appreciate just how far we have come.

Revised FY2022 General Fund Budget

As part of the preparation of the FY2023 budget, an updated projection of the status of the FY2022 budget was necessary. The original FY2022 budget was approved by the County Board with a deficit of \$943,000 to come out of the General Fund's unassigned fund balance. As part of the closing of FY2021, the FY2022 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 FY2021 of \$13,162,000 which represented 27.3% 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.

New for FY2022, General Fund departments that realized a budget savings from FY2021 are able to utilize this "surplus" funding for future expenses. This departmental "surplus" funding is part of the "Unassigned" category. Departmental surplus accounted for \$2,968,000 at the end of FY2021. Unassigned fund balance less departmental surplus equals \$10,195,000 which represents 21.2% of prior year expenditures plus transfers out.

Since the FY2022 budget was approved in September 2021, many changes have occurred that have improved the projected outlook for FY2022.

- Most notably was an increase in property taxable values. Values increased by 6.69% compared to the budgeted 4.0%. This resulted in an increase in budgeted property tax revenues of \$926,000.
- Additionally, the County received \$537,000 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.
- These changes were offset by a decreased transfer from the Delinquent Tax Fund of \$1,500,000. Over the last 5 fiscal years (FY17-FY21) The Delinquent Tax Fund has recognized an average revenue, net of expenses, of approximately \$1,309,000 annually for a total of \$6,549,000. During that same time period the County has transferred an average of \$1,866,000 annually to cover General Fund expenditures, for a total of \$9,331,000. Delinquent Tax revenues were down 8.71% between FY2020 and FY2021 and are projected to be down another 25.04% in FY2022 before they begin to rebound in FY2023. Originally the FY2022 budget included a transfer from the Delinquent Tax Fund of \$1,500,000, however, due to this reduction in revenue, the fund cannot sustain this transfer and it has been removed for the revision of the FY2022 budget.

- A strong housing market in Muskegon County has led to increases in revenues in the Register of Deeds office (\$200,000) primarily in mortgage recording fees and transfer taxes.
- Revenues continue to be lower than expected in both the Jail (\$452,000) and Court budgets (\$87,000) due to the continuing impact of COVID-19.
- Expenditure increases are projected in insurance costs (\$437,000), Jail medical and security services (\$379,000), Drain assessments (\$117,000), and fuel and supply costs. However, these are projected to be offset by reduction in appropriations to other funds, notably Child Care Fund and Friend of the Court.
- Appropriations to Other Funds are projected to be lower than expected (\$634,000) due primarily to reductions in the Childcare Fund and Family Court budgets. This includes an appropriation of \$750,000 to fund the County Equipment Revolving Fund. This fund will be used to offer low-cost and flexible financing to departments for their equipment needs. This appropriation is proposed to be funded using the “unassigned” fund.
- Additionally, due to an unexpected legal settlement in FY2021, \$667,000 has been set aside to facilitate debt service payments for the 2020 Judgement Bonds, reducing this General Fund obligation in FY2022 by approximately \$431,000.

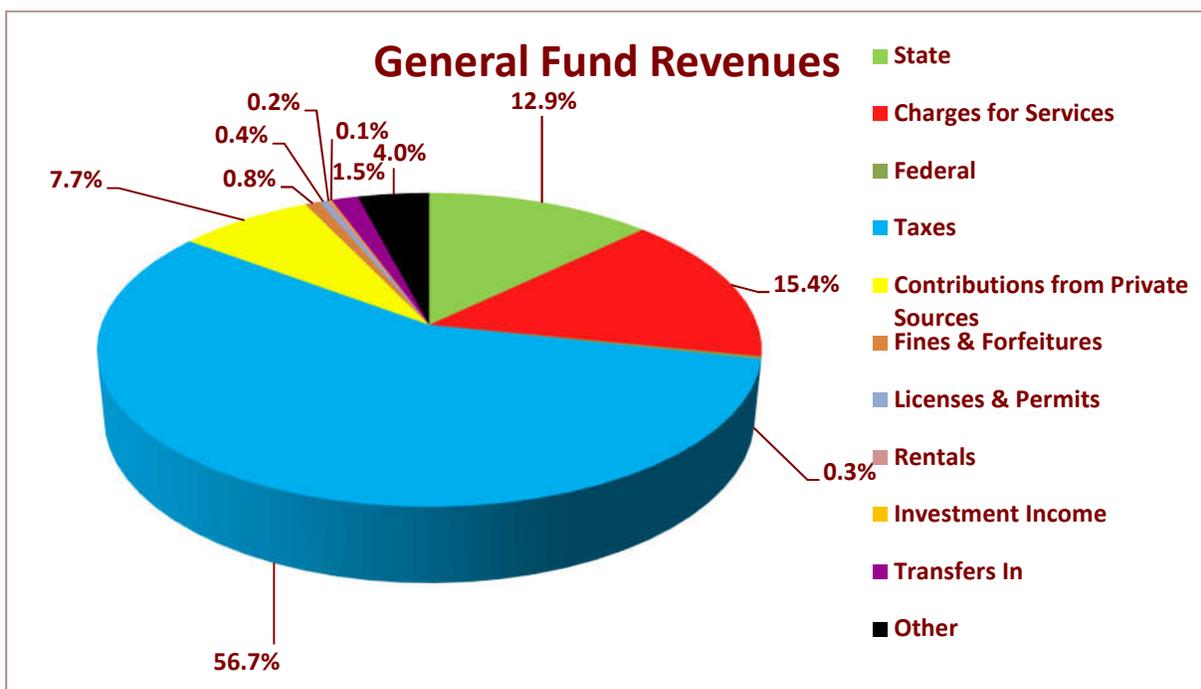
Factoring all of the changes mentioned above the latest projection for FY2022 as of this writing is a deficit of \$376,000. That is an improvement of over \$567,000 from the budget originally approved last September.

Therefore, as the FY2022 budget was prepared and is presented, the recommendation is to utilize funds that were designated and set aside at the end of FY2021 (\$943,201) in the Assigned fund balance category to cover the projected shortfall for FY2022.

FY2023 General Fund Budget

General Fund Revenues

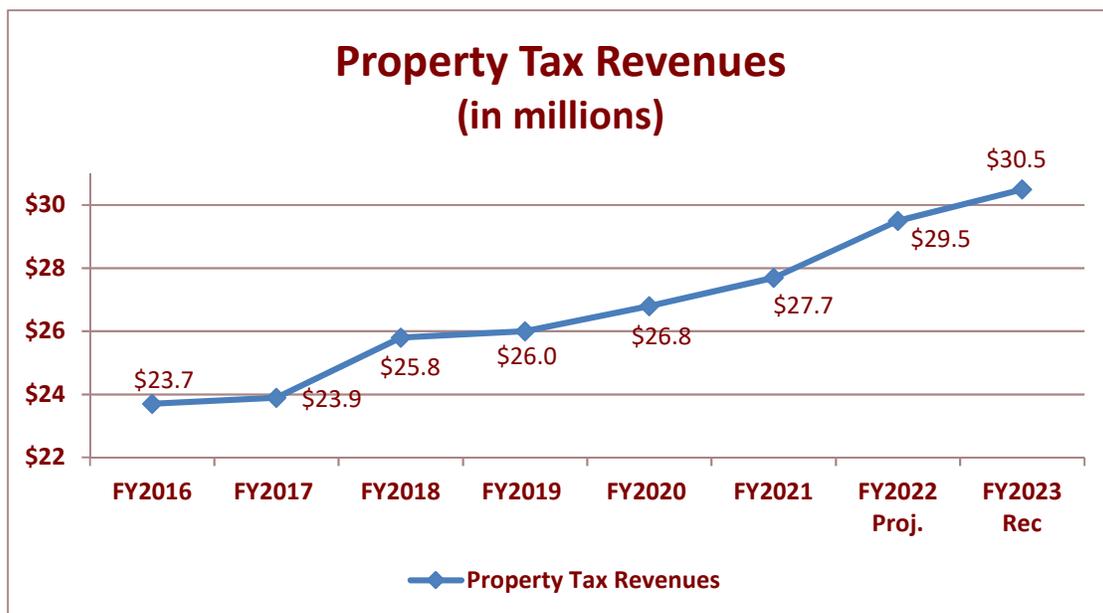
The General Fund’s largest single source of revenue for the General Fund is tax revenue which represents 56.7% of total revenues. The remaining 43.3% of revenues consist of the state and federal grant revenues, charges for services, contributions from private sources, fines & forfeitures, licenses & permits, rentals, investment income, transfers in and other revenues as shown in the graph below.



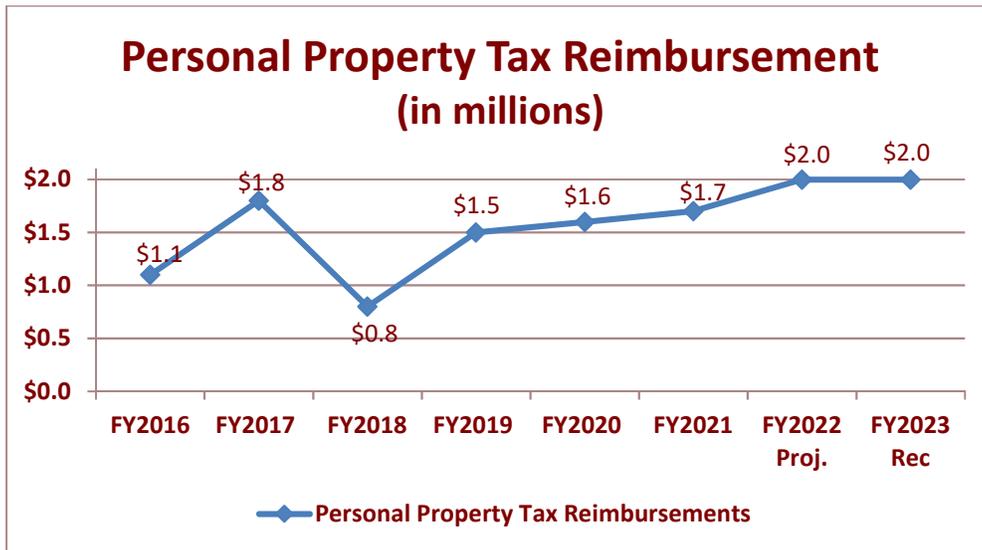
Tax Revenues

Property Tax revenue is made up of two components. The first is Consumers Price Index (CPI) change from September to September which for FY2022 was 3.3%. The second component is the overall change in taxable valuation base increased 3.39% for FY2022. These two components combined resulted in a taxable value increase of 6.69% for FY2022.

The CPI has been trending up since September 2021 toward a 7.7% increase. Due to the cap on taxable value increases imposed by Section 3 Article 9 of the Michigan State Constitution, annual increases in property values on a parcel by parcel basis is limited to the lesser of five percent (5%) or the inflation rate (as determined by the CPI). Muskegon County is forecasted to see continued growth due to new housing, new business development and new expansions throughout the County. Additionally, the CPI is continuing to increase well above the five percent taxable value cap. As a result, a conservative 5% increase in taxable value is projected for FY2023.

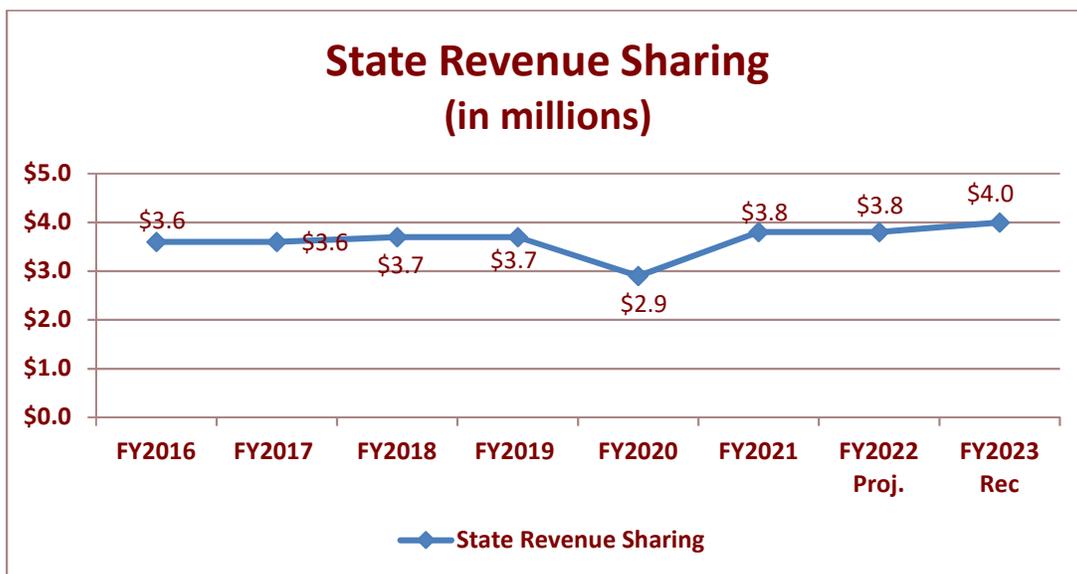


When Personnel Property Tax (PPT) Reform became law, the State indicated it would reimburse all municipalities for their lost revenue from these exemptions. The formula for reimbursement is complex and compares the loss in values between 2013, which is considered to be the base year, and the current 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 that fiscal year.



State Revenue Sharing

State revenue sharing is another component of the County’s General Fund revenue representing 7.0% of total revenues and included in total State revenue category. The Governor’s budget proposal issued in June 2022 included a 6.0% increase over the FY2021 amount or approximately \$151,000 to Muskegon County resulting in a total distribution of approximately \$3,991,000 for FY2023.



Charges for Services

The graph on page T3 shows that Charges for Services comprise 15.4% of General Fund revenues at \$8,796,000. Overall these revenues are anticipated to increase approximately \$65,000 over FY2022. FY2022 continued to experience a significant reduction in revenues primarily in the courts and the jail due to COVID-19. The expectation for FY2023 is that these revenues will slowly begin to return back to pre COVID-19.

Contributions from Private Sources

Contributions from Private Sources as depicted in the graph on page T3 represents revenue received from DTE and Consumer’s Energy for the Residential Energy Efficiency Program and is budgeted at \$4,390,000 for FY2023. The County administers this program whereby low-income homeowners can get new or

“tuned up” furnaces, thermostats and other energy efficiency improvements to their homes. This 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 projected revenue increase over FY2022 is offset by a corresponding increase in expenditures for the program costs being incurred. The net revenue impact of this service is anticipated to be \$293,000 for FY2023.

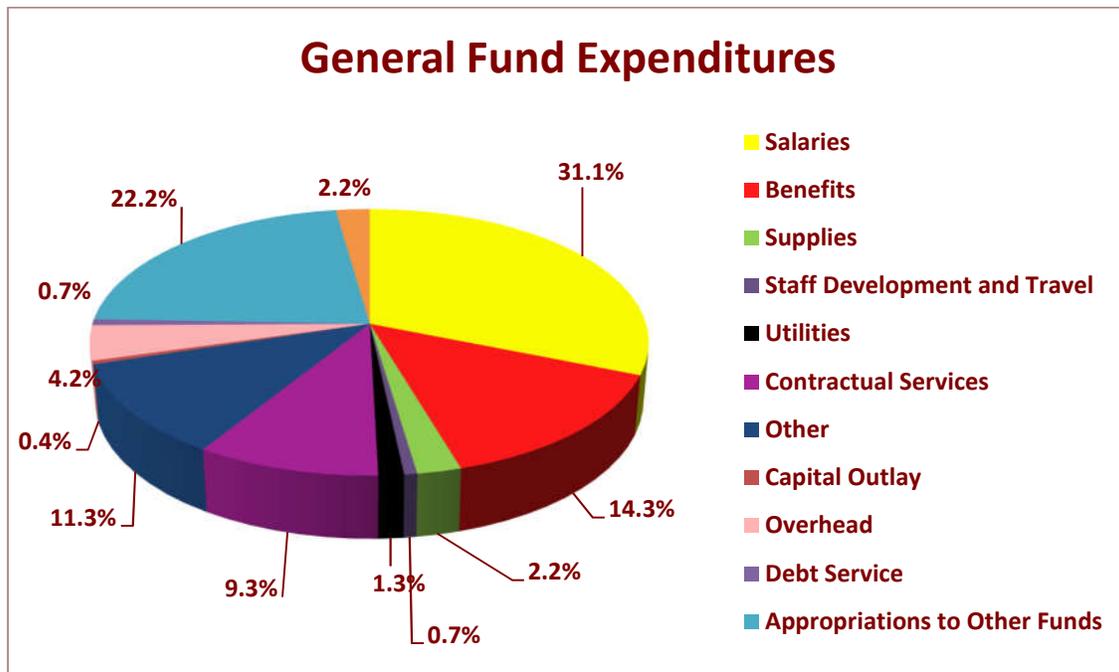
The Other category includes various revenues such as reimbursement for judicial salaries of \$492,000, prisoner incarceration reimbursements of \$118,000 and restitutions collected of \$1,300,000. This revenue category is projected to be \$2,295,000 which is an increase of \$64,000 from FY2022.

The FY2023 budget includes a transfer from the Delinquent Tax Funds of \$878,000. This revenue stream has been declining over the last few years due to the improving economy and the availability of stimulus funds resulting in less property tax delinquencies.

General Fund Expenditures

Salaries and Benefits

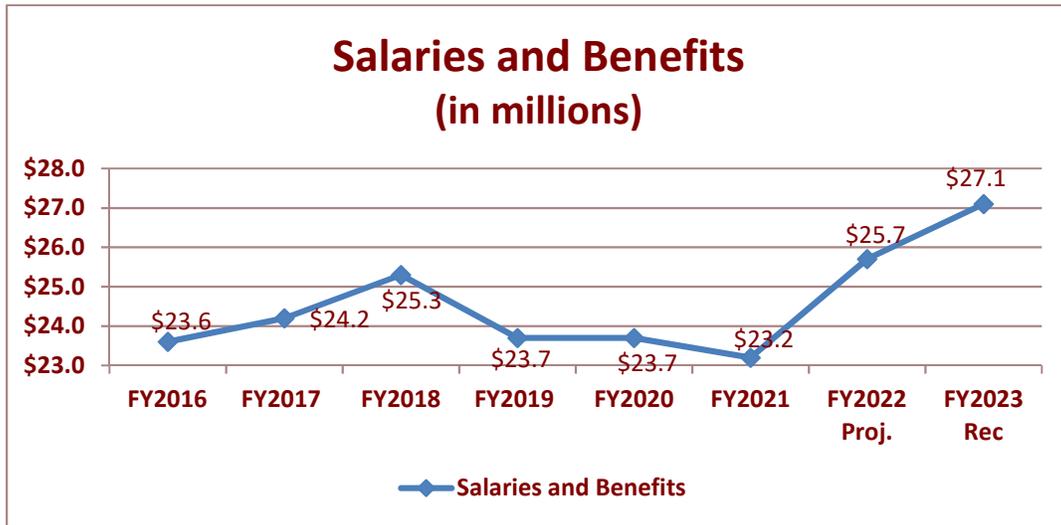
Personnel costs comprise nearly 45.4% of the total General Fund expenditures. Total budgeted General Fund wages for FY2023 are \$18,553,000 or 31.1%. The impact of merit/step increases results in an overall projected increase, as compared to FY2022, of approximately 3.3% or \$592,000.



Total General Fund budgeted employee benefits for FY2023 are \$8,538,000 or 14.3% as depicted in the graph above. This includes medical insurance premiums which are projected to stay flat upon renewal effective January 1, 2023, according to the most recent bids received in the summer of 2022. Assuming all positions are filled, it is estimated to cost an additional \$571,000 in the FY2023 budget for a total projected medical insurance cost of \$4,689,000.

Also included in the fringe benefit category are pension costs. The total General Fund pension costs for FY2023 are projected to be \$2,531,000. This is an increase in pension costs of \$73,000 from FY2022. 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 139.3% funded. Therefore, the FY2023 recommended General Fund budget for the third 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 FY2023 budget includes the continuation of using the workers comp reserve that has built up over a number of years in the Insurance Fund eliminating this expense in the departmental expenditures.



Appropriations to Other Funds

As depicted in the graph on page T6, Appropriations to Other Funds represent 22.2% of total General Fund expenditures for a total of \$13,256,000. Which is down slightly (\$231,000) from FY2022.

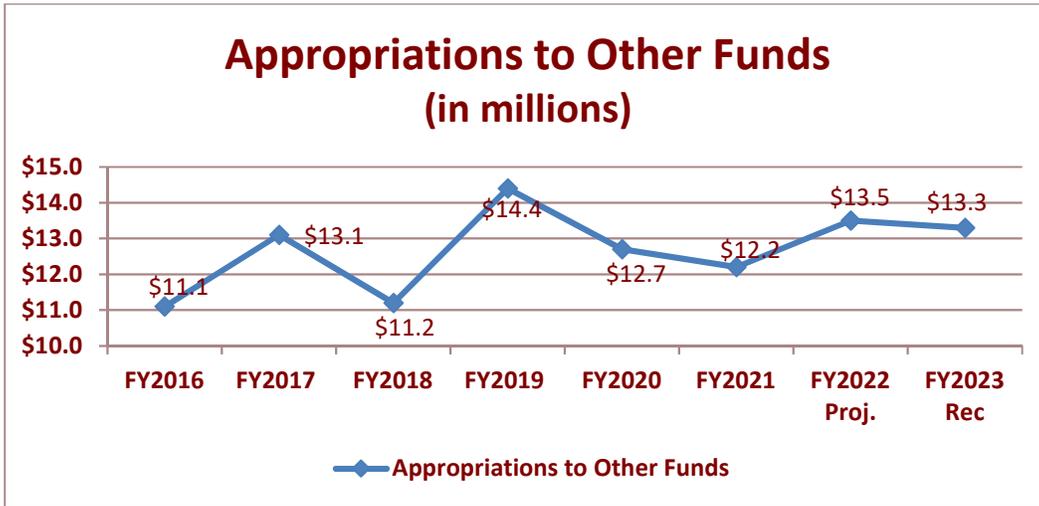
The Appropriation to the Child Care Fund is projected to increase to \$3,551,000 which is \$649,000 more than FY2022. FY2021 and 2022 have seen a decrease in appropriations due primarily to new grant funding and reduced residential placements as a result of the COVID-19 pandemic. It is expected that for FY2023 these placements will begin to increase toward pre-pandemic levels.

The Appropriation to the Indigent Defense Fund is budgeted at \$1,243,000. 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.

Projected appropriations to Public Health (\$1,774,000) and HealthWest (\$707,000) are the same as FY2022.

There is no General Fund appropriation to the Airport budgeted for FY2023. Beginning in FY2020, the Airport has been awarded approximately \$4 million in federal grants related to COVID relief to cover operational and capital costs for a four-year period. This funding should be sufficient to support the Airport and therefore not require an appropriation from the General Fund. In FY2023 it is anticipated the Airport will require \$227,000 for local match of State and Federal Capital grants. This funding is budgeted to be appropriated from the Public Improvement Fund.

There is also no appropriation to Muskegon Area Transit System (MATS) in the FY2023 budget. This is a result of partner community contributions and implementation of operational efficiencies brought about from a route and operational study that were implemented in FY2021. In addition, MATS has federal grant funds available from the American Rescue Plan Act that will support transit operations into FY2023, separate from the \$33.7 million the County was awarded. Therefore, there will be no need for a General Fund appropriation in FY2023.



Presented for your consideration is a General Fund budget with revenues of \$57,298,739 and expenditures of \$59,659,865 and the anticipated utilization of Assigned fund balance of \$812,139 and Unassigned fund balance (Departmental Surplus) of \$1,548,987 remaining from FY2022.

FY2023 Estimated Revenues	57,298,739.00
FY2023 Estimated Appropriations	(59,659,865.00)
Juror Show Cause (Assigned)	8,900.00
Judgement Settlement (Assigned)	236,003.00
Budget Shortfall Reserve (Assigned)	567,236.00
Department Surplus (Unassigned)	1,548,987.00
Net of Revenues/Appropriations/Reserves	<u>0.00</u>

Projected Unassigned Fund Balance FYE2023

Department Surplus (Unassigned)	725,751.00
Unassigned	9,444,937.00
	<u>10,170,688.00</u>

Expenditures subject to unassigned fund balance calculation (FY2022)	56,423,930.00
Projected Unassigned fund balance as a % of prior year GF expenditure	18.03%

Respectively Submitted,

Mark Eisenbarth
County Administrator

Angela Gasiewski
Finance Director