

# MUSKEGON COUNTY

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# MICHIGAN

August 4, 2016

## Board of Commissioners

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Terry Sabo, Chairman and Members  
Muskegon County Board of Commissioners  
990 Terrace Street  
Muskegon, MI 49442

Dear Commissioners:

The proposed FY2017 Muskegon County Budget is presented for your review and consideration. The County is committed to providing law enforcement; judicial administration; health and mental health programs; environmental protection through wastewater treatment, solid waste disposal and recycling programs; public transportation; public works and general government services. The goal of the County is to provide all of these services and simultaneously maintain financial stability. This budget includes necessary reductions, enhanced revenues, and collaborative initiatives to continue services to Muskegon County residents and businesses.

The FY2017 budget utilized 3 teams: Revenue Enhancement, Expenditure Reduction, and Millage Options. In a continuing effort to expand the exposure of the budget process to county employees each team included various staff members to assist the respective teams in the budget process. Collectively, their expertise and collaboration was critical to the development of this proposed budget that protects core services while producing necessary reductions.

### **FY2017 General Fund Budget**

Most revenues remain static while expenditures continue to increase. In the private sector when demand declines for either their product or service, the company offsets that revenue decline by cutting expenditures. In most cases these cuts result in employee layoffs and/or pay and benefit reductions. In the public sector, demand for our services does not decline and even tends to increase during an economic downturn. Therefore, as revenues decline, the County still has to be able to provide those required services that the public demands. In times where expenditures are outpacing revenues, the County is forced to evaluate the services it is obligated to provide and at what level it can afford to provide them.

## **General Fund Revenues**

The largest single source of revenue for the General Fund is property tax revenue which represents 50% of total revenues. The County's taxable values declined for 4 consecutive years from FY2009-FY2013 resulting in a loss of revenues of approximately \$2.7 million over the four year period. In FY2014 and FY2015 slight increases in taxable values of .64% and 1.38% respectively indicate that the economy is starting to show some signs of improvement. However, in FY2016, the County experienced a -1.64% decline in taxable values. 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 FY2016 was .3%. The second component is the overall change in taxable valuation base which was still a negative 1.94% for FY2016. This decrease was primarily due to the impact of Personal Property Tax Reform which resulted in the beginning of the phase in of personal property tax exemptions for commercial and industrial properties. The State indicated it will 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 2016. Therefore, any increases in value of personal property in 2014 and 2015 will not be reimbursed. For FY2017, the CPI component is projected to be a 1.0% increase based on how the CPI is trending today. For purposes of the FY2017 budget we have assumed an overall conservative increase in taxable values of 2.0%. This means that growth in tax base will have to be 1.0% in order to achieve the overall 2.0% increase which is equivalent to an increase in revenue of approximately \$500,000. The County is seeing signs of new construction in housing, home sales and business expansion that will support this level of increase. It is not expected that FY2017 impact from further phasing in of personal property tax exemptions will be significant. Based on internal calculations and interpretation of the State's reimbursement formula, the FY2017 budget assumes that the County will receive approximately 70% reimbursement from the State for the personal property tax revenue losses incurred.

State revenue sharing is another component of the County's General Fund revenue representing 8% of total revenues. The State of Michigan's budget assumes a 1% increase or approximately \$36,000 to Muskegon County resulting in a total distribution of \$3,636,236. Therefore, the FY2017 budget assumes that the County will comply with all reporting requirements necessary to receive its full distribution.

Charges for Services comprise 18% of General Fund revenues. Overall these revenues are anticipated to increase approximately \$489,000 over FY2016 partially due to anticipated increases in reimbursements for housing state prisoners with the new jail being fully operational for the entire year. Additionally, the Administrative Cost Allocation revenue for the charging of central services functions to non-General Fund departments is increasing by approximately \$230,000.

Contributions from Private Sources represents revenue received from the DTE Test & Tune Program. The County administers this program whereby low income homeowners can get new

or “tuned up” furnaces, thermostats and weatherization. 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. This program is being expanded to include weatherization and therefore more revenue is anticipated in FY2017. The revenue increase is offset by a corresponding increase in expenditures for the program costs being incurred.

### **General Fund Expenditures**

In looking at the expenditure side of the budget, personnel costs make up over 50% of the total General Fund expenditures. Counties are service provider organizations and therefore need employees to deliver those services. For FY2017 the budget assumes a 10% increase in medical insurance resulting in an additional \$480,000 cost to the budget. The budget also includes a minimum 1% increase for all County employees effective October 1<sup>st</sup>. In addition certain employees not at the top step of their pay scale will receive a merit increase. Both of these types of wage increases result in an additional \$340,000 in expense to the General Fund. Retirement costs and medical insurance for retirees are also expected to increase \$336,000 and \$139,000 respectively in FY2017.

FY2017 is the first year that the General Fund has to begin appropriating funds to cover the debt service payment for the Jail/JTC project. Previous interest only payments that occurred during the construction period had been covered by money set aside out of the initial bond proceeds. The two interest payments due in FY2017 total \$1,846,325. Due to some interest earnings that accumulated during the construction period, the actual General Fund Appropriation needed for FY2017 to cover the interest payment is only \$1,666,781.

An increase in the IT Allocation over the current year has been incorporated into the FY2017 budget. A portion of the increase (\$255,000) is due to increased costs for Phase II of the ECM project as well as an increase from various other software maintenance agreement renewals that were previously under warranty. Additionally, in the FY2016 budget the Register of Deeds agreed to transfer \$254,000 from the Deeds Automation Fund to cover a portion of the IT chargeback that would affect the General Fund that related to Phase I of the ECM project. These Deeds Automation funds are not available to transfer for the FY2017 budget therefore resulting in an increase in the IT Allocation charge of \$254,000. These two items result in the overall increase in the IT Allocation to the General Fund of \$509,000.

These are some of the major changes that are impacting in the FY2017 General Fund budget. As a result, initial projections for FY2017 based on departmental budget submissions and other known changes revealed a \$5.4 million General Fund deficit. The Revised FY2016 Budget reflects a \$1,665,000 deficit that is anticipated to come from General Fund reserves. The FY2016 deficit has a carryover effect in FY2017 as a result. Below is a more detailed listing of the areas causing this initial projected deficit:

<b>Description</b>	<b>Budget Impact (Negative)</b>
Decrease in Interfund Transfers	(\$537,000)
Increase in Wages	(\$340,000)
Increase in Medical Insurance	(\$480,000)
Increase in Retirement	(\$336,000)
Increase in Retirees Medical	(\$139,000)
Transfer to cover Jail/JTC Debt Payment	(\$1,667,000)
Increase in IT Chargeback	(\$509,000)
Increase in Contractual Services – Jail Medical	(\$295,000)
Net revenue increase in DTE Test & Tune	\$290,000
Miscellaneous	\$289,500
FY2016 Projected Deficit carryover	<u>(\$1,665,000)</u>
<b>Projected Deficit</b>	<b>(\$5,388,500)</b>

### **Budget Reductions**

This year the teams were reorganized and renamed into the Revenue Enhancement Team, Expenditure Reduction Team and Millage Options Team. Each team was encouraged to include staff to expand involvement in the budget process as well as assist in meeting the budget challenge. The teams provided thoughtful and collaborative proposals for reductions.

Following is a list of budget reductions offered by the various departments:

<b>Budget Reductions Implemented</b>	<b>Budget Impact</b>
Leave the Procurement Analyst position vacant in Accounting	\$72,000
Leave a Deeds Records Technician vacant in the Register of Deeds Office	\$49,000
Leave a Clerk II and Office Manager position vacant in the Drain Commissioners Office	\$63,000
Leave a Building Maintenance Mechanic II position vacant in Facilities	\$101,000
Leave two Correction Officer positions vacant in the Jail	\$153,000
Leave a Captain position vacant in the Road Patrol/Jail	\$149,000
Delete a vacant Animal Control Officer position	\$54,000
Leave an HR Specialist position vacant in Human Resources and change labor distribution of Director of Human Resources	\$54,000
Moved MSU Extension into the Health Dept. and utilized those services toward the maintenance of effort thereby reducing GF Appropriation	\$155,000

<b>Budget Reductions Implemented Cont'd</b>	<b>Budget Impact</b>
Increased revenue for assessing contract renewals and reappraisals in Equalization	\$45,000
Eliminate the payment to local economic development group from the Accommodations Tax Fund and replace with a transfer to the GF to cover a portion of the Economic Development Coordinator's salary	\$35,000
Reduced various line items in the Airport budget resulting in a reduction in GF Appropriation	\$60,000
Increase transfer from Tax Forfeiture Fund	<u>\$300,000</u>
<b>Total Budget Reductions</b>	<b>\$1,290,000</b>

The total of these reductions does not cover the entire \$5.4 million projected deficit for FY2017. Departments were given a target amount to find either revenue enhancements or expenditure reductions to offset the remaining deficit. Those target amounts are as follows:

<b>Budget Savings To Be Determined</b>	<b>Budget Impact</b>
Sheriff	\$328,500
Prosecutor	\$120,000
County Clerk	\$60,000
Treasurer	\$60,000
Register of Deeds	\$60,000
District Court	\$300,000
Circuit Court/Family Court	\$300,000
Probate Court	\$15,000
Public Defender	\$60,000
Administration	\$80,000
Equalization	\$15,000
Juvenile Transition Center	<u>\$80,000</u>
<b>Total Budget Savings To Be Determined</b>	<b>\$1,478,500</b>

In order to present a balanced budget, these target amounts have been incorporated into their respective budgets as a budget reduction line item. Departments are expected to submit a proposal to Administration of how they plan to achieve their target amount and those details will be included in the final budget amendments prior to adoption of the budget.

The budget reductions already identified and those yet to be determined by the departments still do not cover the entire projected deficit. Administration has worked to develop other strategies toward balancing the budget. One such strategy is to reduce the County's overall medical costs by offering a 4<sup>th</sup> medical plan alternative that incorporates a high deductible plan with an Health Savings Account (HSA) option. This plan would be offered with no employee copay requirement out of their paycheck paired with a County contribution into the HSA.

Assuming that employees would elect to choose this new plan and move from one of the more expensive plans, there could be a significant savings both for the employee and the County. The HSA plan will not be offered until January so we will not know the exact amount of savings until then. For purposes of this budget, we are assuming \$100,000 savings in the General Fund.

Administration has also evaluated the option requiring all General Fund employees to forgo their annual merit/step increase if they are not at the top step of their pay range. It is estimated that the salary and fringe benefit savings from this would equal approximately \$400,000.

In addition, the impact of going to a 38 hour work week for all employees in departments receiving General Fund support was analyzed. This would only affect full-time employees and those departments that are not 24 hour operations like the Jail and JTC. It is estimated that the savings from this action would be approximately \$600,000 in salary and benefits. Employees impacted by this reduction would still receive full medical and dental insurance coverage and overtime would continue to be calculated on time worked over 40 hours in a week.

The final option for balancing the FY2017 budget would include a one-time transfer of an additional \$1,520,000 from the Delinquent Tax Funds to the General Fund. The initial budget projection already assumed a transfer of \$1,950,000. This additional transfer would come from accumulated fund balance of the Delinquent Tax Funds over a number of years. It is projected that by the end of FY2017 including this additional one-time transfer there would be approximately \$900,000 remaining in reserves in the Delinquent Tax Funds.

A summary of Administrative budget reduction strategies are listed below:

<b>Administrative Budget Balancing Strategies Implemented</b>	<b>Budget Impact</b>
Medical savings from adding the HSA plan	\$100,000
Pay freezes for all GF employees	\$400,000
Reduced work week to 38 hours for all full-time GF supported employees	\$600,000
One-time additional transfer from Delinquent Tax Fund	\$1,520,000
<b>Total Administrative Budget Reductions</b>	<b>\$2,620,000</b>

When combining identified departmental budget reductions of \$1,290,000 with the to be determined budget savings of \$1,478,500 and the Administrative budget balancing strategies of \$2,620,000 the FY2017 General Fund budget is balanced.

It is important to note that the implementation of the pay freezes and the 38 hour work week requires collaboration with union leadership. The reduced work week also impacts service

levels. Directors and Elected Officials will have to determine the schedule for their offices that best serves the public.

### **Acknowledgements**

The 2017 budget was achieved through countless hours of team meetings and department staff meetings. At the end the difficult decisions were made to balance the budget. It is becoming increasingly necessary for the County to continue collaborating with our local municipalities to find additional ways to share services and combine our resources. By working together and combining our resources, we as a community will see growth and expansion throughout the County.

I would like to thank my budget team starting with our Finance Director/Deputy County Administrator Beth Dick for all the countless hours and leadership that she has devoted to this process, as well as our Human Resources Director Kristen Wade. Their input and new approach to problem solving has been invaluable.

Appreciation and gratitude goes out to our department heads and their staffs for all of their hard work during this process. On behalf of my budget team, the department heads, and county staff, I would like to express our sincere appreciation to the Board of Commissioners and Elected officials for their guidance through the process.

Respectively Submitted,

Mark Eisenbarth  
County Administrator