

# MUSKEGON COUNTY

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# MICHIGAN

## Board of Commissioners

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August 3, 2017

Benjamin Cross, Chairman and Members  
Muskegon County Board of Commissioners  
990 Terrace Street  
Muskegon, MI 49442

Dear Commissioners:

The proposed FY2018 Muskegon County Budget is presented for your review and consideration. The County is committed to providing public safety; 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.

### Strategic Planning

As a prelude to the FY2018 budget process, the Board of Commissioners, Elected Officials, County Administrator and appointed department heads participated in a two day strategic planning process in the spring of 2017. During this process the Board was asked to describe a vision of what Muskegon County would look like to a visitor in the year 2022. The following describes their vision:

- Muskegon County will be connected with other municipalities in the region through coordinated infrastructure foundations including transportation, energy, water and sewer and internet
- Muskegon County will be a vibrant high-tech manufacturing center focusing on workforce development and technology education
- The Port of Muskegon will have increased activity from tourism, shipping, retail and housing
- Muskegon County will have an increase in services to senior citizens
- Muskegon County will have a mobile and changing workforce with staff sustainability
- Muskegon County will have improved interaction and collaboration with other local and regional governments to increase participation in the regional economy
- Muskegon County will have improved financial stability

In order to achieve this vision for the future, the Board identified 5 major goal areas to focus their efforts on:

1. Economic Development – Future Generations
2. Infrastructure Maintenance and Expansion
3. Citizen Customer Service
4. Expanded/Invigorated Intergovernmental, Business and Nonprofit Communication and Coordination
5. Financial Stability and Sustainability

While all of these goals are important, the County's financial stability and sustainability is a primary objective that should be given the highest priority.

### **5 Year Financial Forecast**

In an effort toward improving the County's financial outlook, the County Board contracted with a consultant to prepare a 5 year financial forecast of the General Fund (FY2018-FY2022). The consultant reviewed several years of historical financial information looking at revenue and expenditure trends. They utilized regional economic data to project future property tax revenues and developed assumptions for wage and benefit projections. The results of the consultant's forecast reveal that the general outlook for Muskegon County's General Fund for the next five years is unsustainable. The report shows overall revenues are expected to remain fairly stagnant increasing only about 0.4% per year. Expenditures however are expected to increase significantly due primarily to the Jail/JTC debt service obligations and pension contributions. The forecast revealed that the consistent disparity between revenues and expenditures will result in the depletion of the General Fund's reserves by FY2019 and reach a negative \$38 million by FY2022. The purpose of the 5 year forecast was to gain a better understanding of the financial direction the County's General Fund was headed. With this information the County is able to take corrective action to prevent the projected negative outlook from happening.

The consultant's report included several recommendations of measures the County could take toward improving the financial projection of the General Fund. It was noted by the consultant that the appropriations that the General Fund makes to other funds in the County represent a significant obstacle to being able to balance the General Fund. In the FY2017 budget, appropriations to other funds make up nearly \$12 million dollars or 24% of total General Fund expenditures. The largest appropriation is approximately \$4.8 million to the Child Care Fund. Others include \$1.6 million to the Public Health Fund, \$1.3 million to the Family Court Fund and several others. The consultant's report recommended that the County explore special millage options to support specific services to alleviate the need for the General Fund to subsidize these operations.

The Jail/JTC debt service payments which were funded by the General Fund starting in FY2017 also represent a significant impact on the financial outlook. For FY2017 and FY2018 the payments total over \$1.8 million annually. In FY2019, the payments increase to \$2.8 million

and continue to increase thereafter. It is recommended that this debt be refinanced at the earliest possible opportunity which is estimated to be 2023. It is further recommended that the County work with its bond advisor to develop a strategy to ensure the bond refinancing will comply with all applicable regulations.

Historically the General Fund has received the benefit of a transfer of funds from the Delinquent Tax Revolving Fund (DTRF) of approximately \$2 million per year. Over time the available fund balance in the DTRF has significantly declined and is no longer available to help sustain the General Fund at the same level as years past. The forecast report recommended that future transfers from the DTRF should be limited and instead use them to create a reserve to utilize to pay down the Jail/JTC bonds at the time of refinancing. In addition, the consultant suggested that General Fund expenditures should also be reduced to compensate for the reduced support from the DTRF.

The financial forecast also took into account the projected increases in the County's annual contributions toward its unfunded pension liabilities. The County is currently 66% funded based on the most recent actuarial valuation. The Municipal Employees Retirement System (MERS) provided the County with a 6 year projection of anticipated employer contributions to the pension plan. These county-wide contributions are projected to increase from \$8.1 million in FY2018 to over \$16.3 million by FY2022. The General Fund bears approximately 45% of this total contribution burden on an annual basis. In an effort to reduce the impact of these significant projected increases, the consultants recommended that the County consider the option of selling pension bonds to fund the pension liability. Pension bonds could replace the drastically increasing annual required contributions with more stabilized annual debt service payments.

The County also has a significant unfunded liability for other post-employment benefits (OPEB) representing medical insurance for retirees. Currently the County is 55.8% funded and has an unfunded liability of approximately \$38.7 million. In the FY2015 budget the County reduced its OPEB contributions in an effort to help balance the budget. The State does not currently require municipalities to pre-fund its OPEB liabilities like it does with pension liabilities. In the FY2017 budget, the General Fund cost for OPEB is just over \$602,000. The financial forecast assumed that the County would strive to gradually increase its contributions over time. The consultant's recommendation however is to limit our annual contributions and to explore options for reducing the cost of the retiree health insurance premiums.

Another recommendation that was suggested in the consultant's report included researching new or increased revenue generating opportunities such as updating fees, selling County underutilized assets and dedicating jail bed space for State and Federal rental. In addition, the report recommended that the County limit funding of capital improvement plans and instead prioritize General Fund stability over non-essential capital spending.

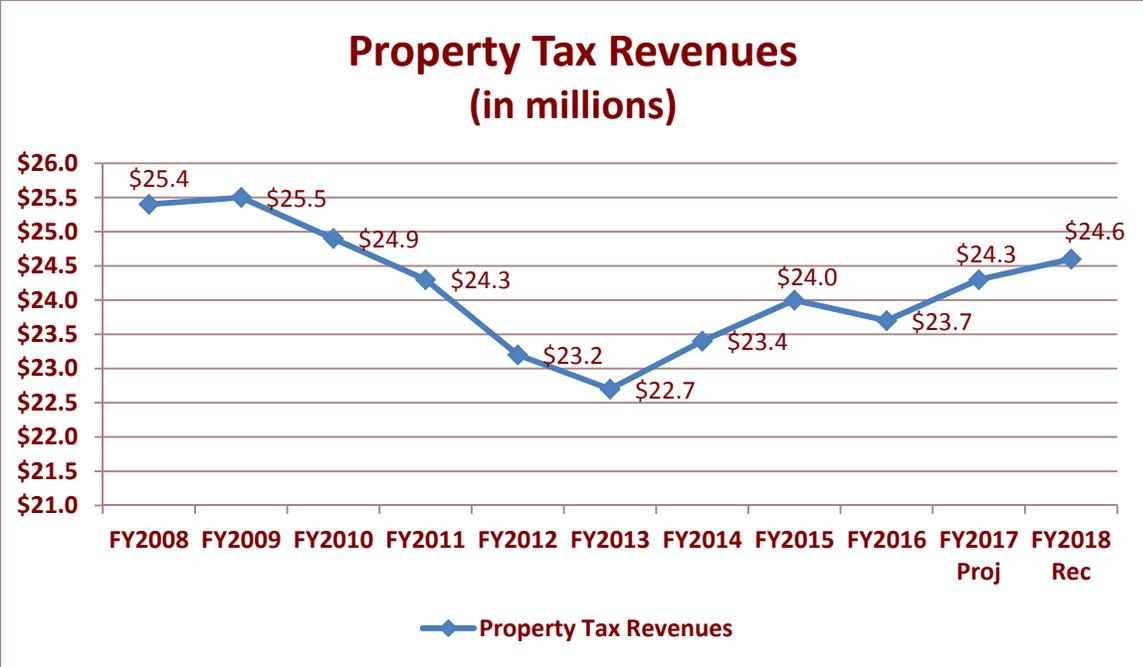
These various recommendations from the 5 year financial forecast of the General Fund were taken into consideration as the FY2018 budget was developed. The following discussion explains which ones have been incorporated into the budget being presented.

## **FY2018 General Fund Budget**

### **General Fund Revenues**

The largest single source of revenue for the General Fund is property tax revenue which represents 52% of total revenues. The County's taxable values declined for 4 consecutive years from FY2010-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 another -1.64% decline in taxable values primarily due to the impact of Personal Property Tax (PPT) Reform which resulted in the beginning of the phase in of personal property tax exemptions for commercial and industrial properties. 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 2016. Therefore, any increases in value of personal property in 2014 and 2015 will not be reimbursed. Fortunately in FY2016 the State had accumulated excess funds to make those reimbursements and therefore issued payments to municipalities for 265% of their total PPT losses resulting in the County receiving \$575,000 more than anticipated. While this additional unexpected revenue was a pleasant surprise, there are no guarantees that it will occur again. Therefore, for both FY2017 and FY2018 the budgeted amount of State reimbursement is based on estimated PPT losses and nothing additional.

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 FY2017 was .9%. The second component is the overall change in taxable valuation base which was still a positive .46% for FY2017. The two components combined resulted in a taxable value increase of 1.36%. The initial budget projection for FY2018 assumed no increase in taxable values. However, the CPI has been trending since last September toward a 2.0% increase. Therefore, for purposes of the FY2018 budget we have now assumed an overall conservative increase in taxable values of 2.0%. This means that there is no presumption of growth in tax base built into this budget. The County is however seeing signs of new construction in housing, home sales and business expansion therefore; any increase in values due to growth will result in additional revenue. Also included in the FY2018 budget is new tax revenue of \$404,000 from a TIFA pass through from a local municipality that had not previously been received. Even with an estimated 2% increase anticipated and the TIFA pass through, the graph below reveals that total property tax revenues budgeted for FY2018 still does not bring the County back to the level of revenues it received 10 years ago in FY2008.



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 \$3,672,598. Therefore, the FY2018 budget assumes that the County will comply with all reporting requirements necessary to receive its full distribution.

In addition, the FY2018 budget incorporates the expectation that the Michigan Indigent Defense Commission (MIDC) will award Muskegon County’s Public Defenders Office a grant of \$419,000 toward the additional costs incurred in bringing the public defender function in house. In keeping with the requirements of MCL Act 93 of 2013, the MIDC was established and grants were promised to Michigan Counties that comply with MIDC standards and develop a Compliance Plan. The Board approved applying for this grant and the application and compliance plan have been submitted. Given that holistic defense model that our Public Defender Office is utilizing, our chances are favorable that Muskegon County will receive a grant award.

Charges for Services comprise 21% of General Fund revenues. Overall these revenues are anticipated to increase approximately \$271,000 over FY2017 primarily due to anticipated increases in reimbursements for housing of additional state prisoners in the jail. The Sheriff is confident this can be accomplished with the additional corrections staff that were approved by the Board in FY2017.

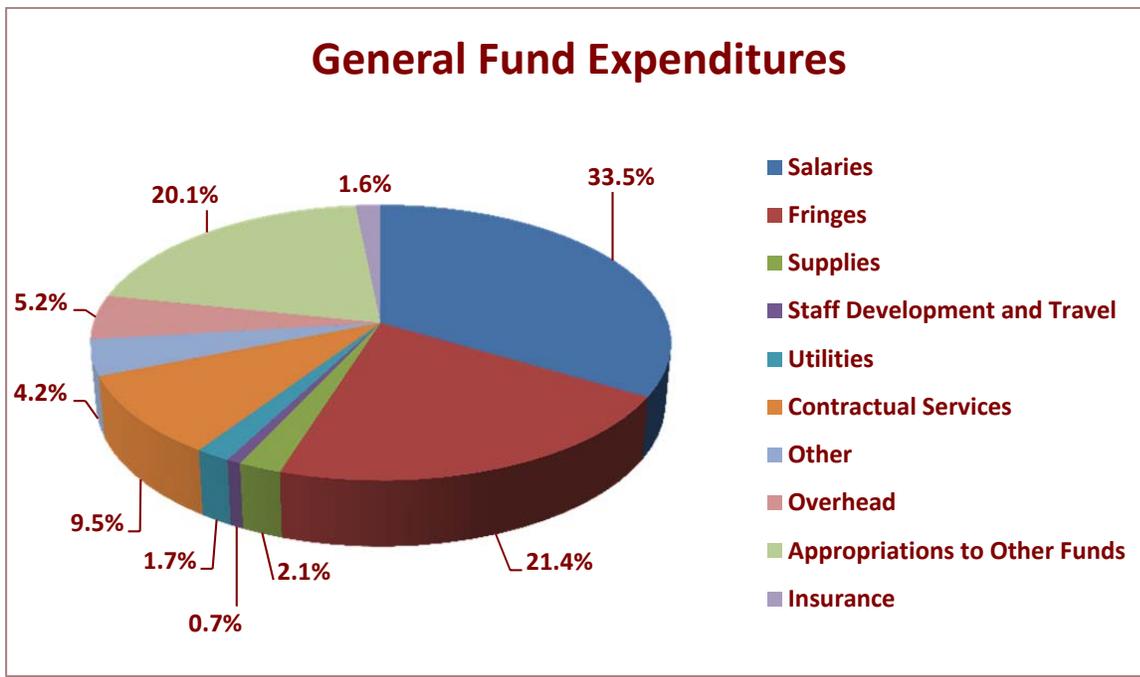
Contributions from Private Sources represents revenue received from the DTE Test & Tune Program. The County administers this program whereby low income homeowners can get new or “tuned up” furnaces and thermostats. DTE Revenue comes into the County and is expended

for the equipment and installation. The County does keep a portion of the revenue for our administrative oversight. The revenue increase of \$266,000 over FY2017 is offset by a corresponding increase in expenditures for the program costs being incurred.

Following one of the consultant’s recommendations, the FY2018 budget includes a reduction in the transfer from the DTRF from \$3,470,000 in FY2017 to \$1,088,000. This reduction was made to preserve DTRF reserves to be used for the future refinancing of the Jail/JTC bonds.

**General Fund Expenditures**

In looking at the expenditure side of the budget, personnel costs comprise nearly 55% of the total General Fund expenditures. Counties are service provider organizations and therefore need employees to deliver those services.



For FY2018 the budget assumes a 3% increase in medical insurance resulting in an additional \$208,000 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. Furthermore 6 Corrections Officer positions were added into the budget late in FY2017. The full year impact of these positions is incorporated into the FY2018 budget. All of these factors result in an additional \$692,000 in expense to the General Fund. This increase is partially offset by a reduction in overtime of \$196,000 primarily in the Sheriff’s Jail budget due to the addition in staffing. Retirement costs are increasing \$470,000 based on the increase in the required contribution amount provided by MERS. Workers compensation expense is decreasing \$182,000 in FY2018. A workers comp reserve has built up over a number of years in the Insurance Fund. Therefore, the FY2018 incorporates utilizing that some of that reserve to cover claims rather than charging departments. Implementing another

recommendation from the financial forecast, the OPEB cost for retirees' medical insurance was not increased in the FY2018 budget. The County will continue to research options to reduce those medical insurance premiums to our retirees.

The General Fund includes an appropriation to cover the debt service payments for the Jail/JTC project. The two interest only payments due in FY2018 total \$1,846,325. In FY2019, the first principle payment of \$1,005,000 is due in addition to the \$1,822,456 in interest for a total debt service payment of \$2,827,456. Twenty (20) year bonds were issued for the Jail/JTC project for \$38,870,000. The Jail project cost was approximately \$32.1 million and the JTC project cost was approximately \$7.6 million plus interest.

Highlighted in the County's financial forecast report was the significant amount of appropriations that the General Fund makes to other funds. Nearly \$12.0 million or 24% of the expenditures in the FY2017 budget are transfers to other funds to support their operations. The largest appropriation historically has been to the Child Care Fund which is approaching \$5.0 million. Muskegon County lacks sufficient local resources to provide prevention and treatment programs for our youth and their families. As a result many of our youth have to be sent out of county or out of state and placed in expensive residential treatment facilities. Families are then separated and are not able to participate in their youth's treatment. In addition there is a lack of local foster care housing, assessment treatment and school based services. A solution to this issue is to create these much needed services within our own community. Therefore, the Board approved to place on the November 7, 2017 ballot a Youth, Family and Community millage request asking for 1.5 mills that would generate approximately \$6.2 million dollars to be used to create these programs and services locally and support some existing programming. As recommended in the financial forecast, this millage revenue would be used to fund the specific services associated with the Child Care Fund and eliminate the need for the General Fund appropriation. Therefore, included in the recommended FY2018 budget is a new fund called the Youth, Family and Community Millage Fund. The fund has \$6.2 million of anticipated revenues and expenditures which includes an appropriation to the Child Care Fund of \$4.8 million. The additional \$1.4 million in expenditures would be used to enhance and expand services within the county. As a result of the inclusion of the millage, the total amount of appropriations from the General Fund to other funds is reduced to 20% of total expenditures.

The financial stability of Brookhaven has been an ongoing concern. In FY2016 an additional \$323,000 transfer above the maintenance of effort was needed in order to avoid having to file a deficit elimination plan with the State. During FY2017 the Board authorized that the General Fund only appropriate the required maintenance of effort which is budgeted at \$181,000. For FY2017, it is projected that the cash deficit (excluding pension and OPEB accruals) will be approximately \$1.476 million. This is primarily due to the high cost of contractual nursing as well as the continuation of the administrative contract with an outside consultant. The Board will have to decide whether or not to fund that shortfall or to file a deficit elimination plan with the State for FY2017. Through some changes in their staffing schedules and the elimination of contractual consultants, Brookhaven's FY2018 budget reflects a cash deficit of \$441,000.

These are some of the major changes that are impacting the FY2018 General Fund budget. In addition, there are other options to improve the long-term General Fund financial stability that Administration is researching, but have not been incorporated into the FY2018 budget. We are working with MERS, the County's financial advisor and bond counsel to investigate the option of pension bonds. In addition, our financial advisor and bond counsel are looking into the County's ability to house federal prisoners in our new jail and the impact it could have on our Jail/JTC bond financing. Research surrounding changes in various fringe benefits the County offers is also being pursued. The County's union contracts continue through the end of FY2018 and therefore any benefit changes would have to be negotiated for the next contract period. The County is also in the process of updating its Core Functions Inventory of General Fund departments. This inventory identifies which functions within each department are mandated and which are discretionary. It further identifies the number of employees, operational costs and any revenue associated with each function. This updated information will be useful in evaluating the cost of the services the County provides and what services we are actually required to provide.

### **Acknowledgements**

The FY2018 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 the 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