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MICHIGAN

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August 15, 2019

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

Dear Commissioners:

Today we have a new outlook as vibrant Muskegon County celebrated its 160th anniversary this year. We had remarkable progress in 2019 and experienced over \$100 million in expansion excluding \$271 million of Mercy's medical center that opened up in early 2019. Beginning in FY2018, property tax revenues finally exceeded the level of FY2008 as a result of the continuing economic growth in the County. In 2020, it is projected to achieve an estimated \$90 million in new development throughout Muskegon County.

Internally, we have remarkable employees who provide outstanding services throughout the entire County. For example, the Public Health Department and its food service oversight inspects nearly 700 restaurants each year to make sure our residents, guests, friends and family in our community have safe places to eat. The County's HealthWest department provides services for mental health, developmental disabilities, substance use, physical health, and other key services that will lead to wellness and recovery in the community. The County's judicial system includes the following specialty courts: Veterans Court (Judge Kostrzewa), Mental Health Court (Judge Ladas-Hoopes), Sobriety Court (Judge Cloz), Recovery Court (Judge Hicks - Felony version of treatment court), Swift & Sure Sanctions Program (Judge Smedley), Eviction Prevention Docket (Judge Ladas-Hoopes) and Juvenile Mental Health Court (Judge Hoogstra). These courts help 1,000's of individuals daily, weekly and monthly. The Sheriff's Department, as first responders, provides public safety support to 16 townships, 4 villages, several unincorporated municipalities and 7 cities. The Sheriff also provides security for the Hall of Justice and maintains and operates a 542 bed jail facility. The County's own bus transportation system is involved in a study to improve the services where it is affordable not only to the cities, but for the riders. We know changes are coming, but we do not have the luxury to wait for those changes. We need to engage our partners to find a sustainable model that will ensure bus transportation in our municipalities. The Muskegon County Airport continues to provide daily commercial air transportation service from Muskegon to Chicago. This past year we began an earlier flight which added the ability for our flyers to make more connecting flights throughout the United States. In addition, the Airport

Committee is becoming a Regional Committee and will focus on a broader range of ridership and partners in central and west Michigan. The County's Human Resources department continues to grow in responsibilities. This past year they negotiated new contracts with the collective bargaining units that set the wages and benefits for the next five years. This could not have been done without strong partnership with employees' ideas and working together to control health care and pension obligations. The County's Finance Department continues to make sure the County is sustainable and strong long term. The County's Public Works and Wastewater Departments continue to provide water and sewer while working with the Michigan Department of Environment, Great Lakes, and Energy (EGLE) to manage Perfluoroalkyl and Polyfluoroalkyl Substances (PFAS). There are many more County Departments not mentioned who have excellent staff who work hard every day to serve our community. It is an honor to work with every one of them and to serve Muskegon County.

On behalf all Muskegon County Employees, we are pleased to present to you the proposed FY2020 Muskegon County Budget.

FY2020 General Fund Budget

In the spring of 2017 the County Board hired an external consultant to perform a 5 year financial forecast (FY2018-FY2022) of the General Fund. Initial projections indicated that revenues would remain flat while expenditures would continue to increase and if no corrective actions were taken the General Fund would have a negative unassigned fund balance of \$6.3 million by FY2020. Over the last two years the Board has taken several measures toward improving the financial outlook of the General Fund.

In November of 2017 the Board made the decision to close the County's non-mandated medical care facility known as Brookhaven. The General Fund had subsidized Brookhaven's operations for many years appropriating \$7.8 million from 2007-2017 to cover operational shortfalls due to declining census numbers. This action to close the facility removed that future financial obligation from the General Fund.

In March of 2018, the jail/JTC debt was refinanced to provide a more level debt service payment of on average approximately \$2.8 million from the General Fund as opposed to the original debt service schedule that rose as high as \$6.3 million in FY2026. This helped to reduce projected future appropriations of the General Fund.

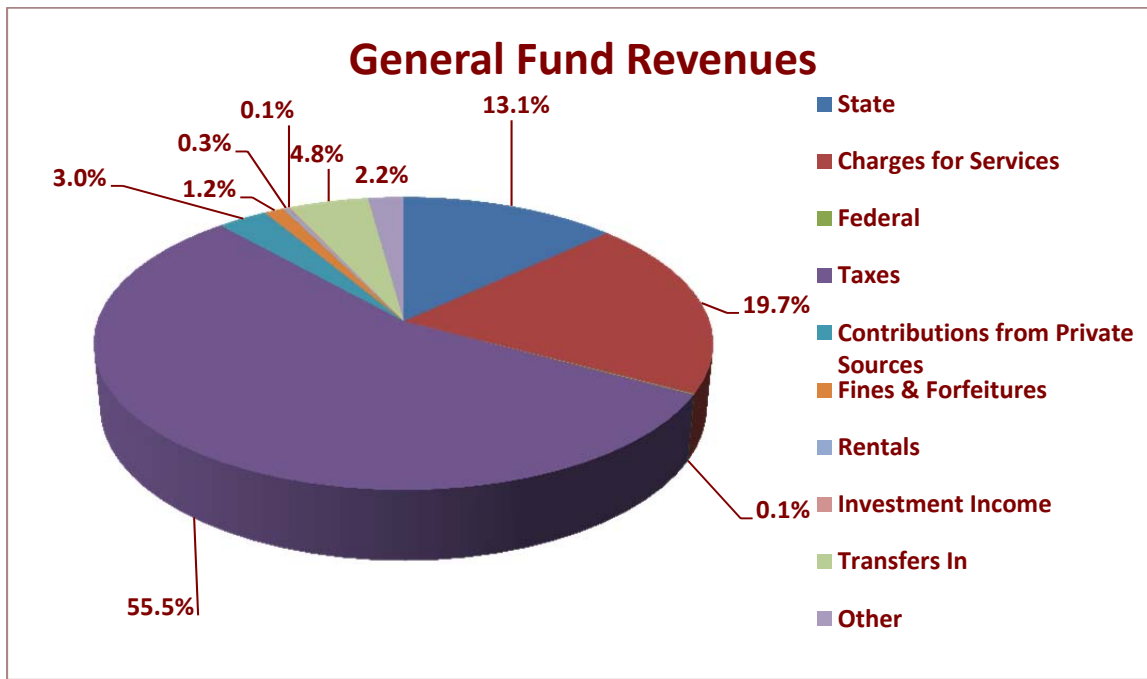
Beginning in FY2018 and continuing into FY2019, the County focused on ways to reduce its overall pension liability as well as its future pension contribution payments. Through union contract negotiations employees agreed to take a reduced pension benefit for future years of service. In addition, the Wastewater users committee and the Public Works Board approved to make a \$6.9 million lump sum payment toward funding the pension liabilities of Wastewater's former and current employees. The County also applied for an amortization extension with the Municipal Employees' Retirement System (MERS) for funding the remaining pension liability and received approval in early FY2019. In conjunction with all of these pension reduction actions, the County applied with the State Treasury Department for permission to issue pension obligation bonds. This approval required that the County submit a *Comprehensive Financial Plan* detailing how issuing pension bonds would improve its pension liability status as well as all of the other steps the County has taken to reduce its overall pension liability. After a several month-long process, Treasury approval was finally received in November 2018. If the County had not presented a holistic financial plan that included concessions from employees, a lump sum contribution from Wastewater and a MERS approved amortization extension, Treasury

approval to issue pension bonds would not have been granted. In December 2018, the County issued \$43.1 million in 20 year term pension obligation bonds. The combination of all of these actions related to pension costs reduced the County-wide annual required pension contribution to MERS from its original projection of \$10.2 million to \$6.8 million for FY2020. Prior to the issuance of the pension bonds the County's funded level was at 65% and since the issuance is currently at 87%.

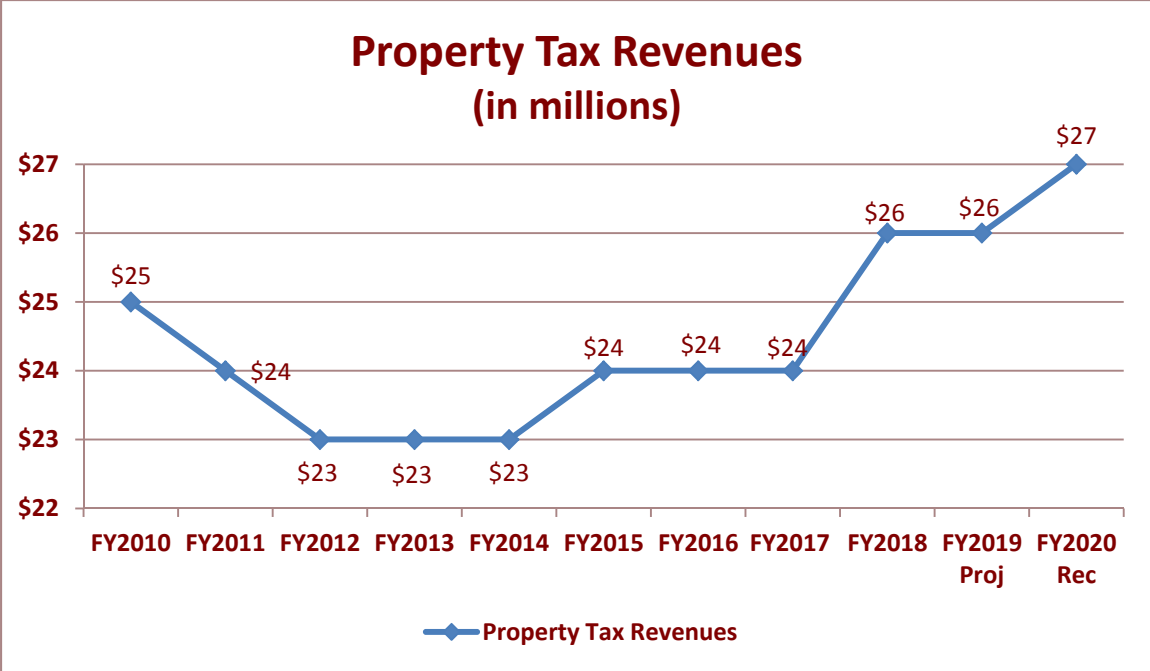
All of the above described decisions, along with many other departmental efficiencies and cost saving measures, have contributed to the improved financial outlook of the General Fund. The initial projected FY2020 negative \$6.3 million unassigned fund balance from the 5 year forecast completed in 2017 is currently projecting to be a positive \$7.8 million.

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, 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 FY2019 was 2.4%. The second component is the overall change in taxable valuation base which was still a positive 1.05% for FY2019. The two components combined resulted in a taxable value increase of 3.45%. The CPI has been trending up since September 2018 toward a 1.9% increase. The forecast for Muskegon County is to continue to see growth of 1.1% due to new housing, new business development and new expansions throughout the County for a total of 3% increase in taxable value for FY2020.



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. This resulted in the County receiving \$575,000 more than projected in FY2016 and \$981,000 in FY2017. In 2018 the State passed amended legislation to retain the additional PPT reimbursement until May 2019 for all municipalities. Therefore the 2018 additional reimbursement of \$702,000 revenue was recorded in FY2019 budget for a total reimbursement of \$1,487,000. The same amount is budgeted for FY2020.

State revenue sharing is another component of the County’s General Fund revenue representing 7.5% of total revenues and included in total State revenue category. The Governor’s budget proposal includes a 2.8% increase or approximately \$101,000 to Muskegon County resulting in a total distribution of approximately \$3,774,000 in the FY2020 budget.

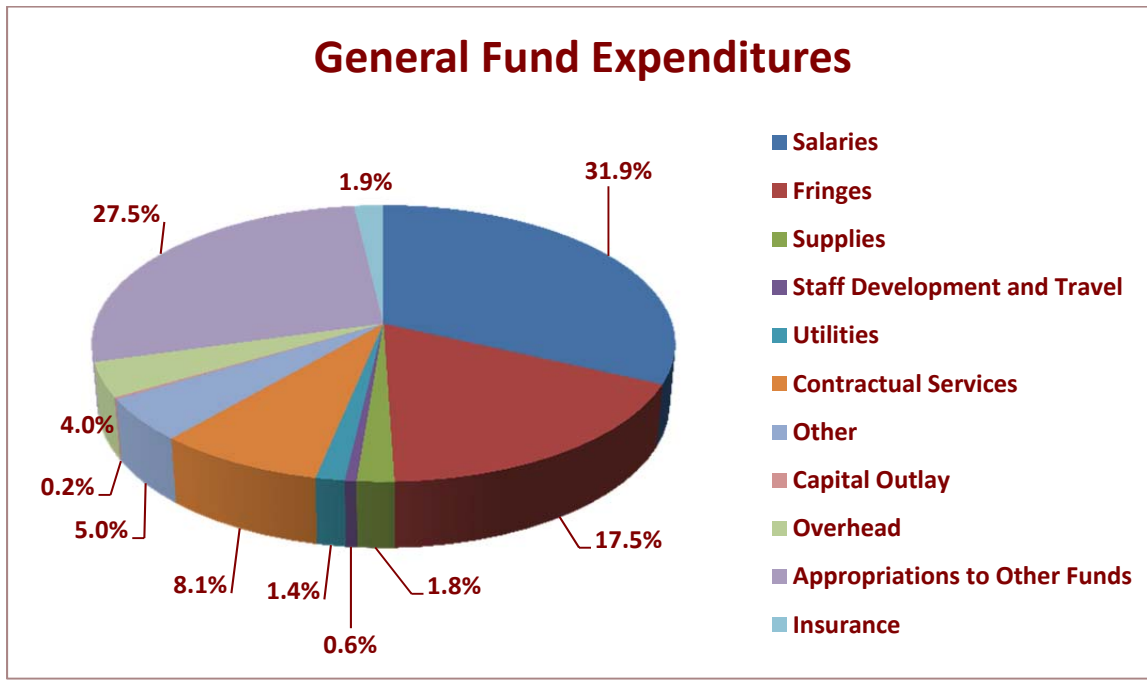
The graph on page T3 shows that Charges for Services comprise 19.7% of General Fund revenues at \$9,900,000. Overall these revenues are anticipated to increase approximately \$312,000 over FY2019 primarily due to anticipated increases in dog license revenues from fee increases, certified copy revenue and Equalization assessment revenues.

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 \$1,521,000 for FY2020. 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 \$2,067,000 over FY2019 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 \$159,000 for FY2020.

The FY2020 budget includes a reduction in the transfer from the Delinquent Tax Revolving Fund from \$1,811,000 in FY2019 to \$1,649,000. The budget includes a transfer from the Public Improvement Fund of \$100,000 for FY2020 which is less than the \$400,000 budgeted in FY2019. Offsetting these decreases is an increase in transfer from the Tax Forfeiture Fund of \$223,000 from \$400,000 in FY2019 to \$623,000 in FY2020.

General Fund Expenditures

Personnel costs comprise nearly 49.5% of the total General Fund expenditures. The FY2020 budget does not include any addition or elimination of positions. Total budgeted General Fund wages for FY2020 are \$16,038,000 or 31.9%. The impact of the 2% general salary increase as well as merit increases is an additional cost to the FY2020 General Fund budget of approximately \$427,000.



Total General Fund budgeted fringe benefits for FY2020 are \$8,806,000 or 17.5% as depicted in the graph above. This includes medical insurance premiums which are projected to increase 18% according to our insurance broker effective January 1, 2020. The elimination of the high cost medical plan (2P) beginning in FY2019 has reduced the overall medical insurance costs. However the impact of the 18% increase in the remaining medical plan is estimated to increase these costs by \$609,000 in the FY2020 budget for a total medical insurance cost of \$3,928,000.

Also included in the fringe benefit category are pension costs. The total General Fund pension costs for FY2020 are \$2,152,000. The changes previously described with regard to issuing pension obligation bonds, reducing employees' future pension benefits, extending the amortization period and making a lump sum payment from the Wastewater fund all have contributed to lowering the County's overall pension contribution. For FY2020 the impact to the General fund is a reduction in pension costs of \$429,000 from FY2019. FY2020 includes the continuation of using the workers comp reserve that has built up over a number of years in the Insurance Fund. In addition, the OPEB cost for retirees' medical

insurance was reduced by 25% which decreased in the FY2020 budget by \$119,000 for a total cost of \$626,000.

As depicted in the graph on page T5, Appropriations to Other Funds represent 27.5% of total General Fund expenditures for a total of \$13,817,000. 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 \$2,649,000.

The Appropriation to the Child Care Fund is decreasing to \$4,297,000 which is \$342,000 less than FY2019. This decrease is attributable to reorganizing of staff and a reduction in residential costs due to the restructuring of the JTC to be able to keep more juveniles locally rather than sending them to more expensive out of county placements.

The Appropriation to the Indigent Defense Fund is budgeted at \$1,310,000. 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.

The Appropriation to Family Court of \$1,311,000 is increasing by \$121,000 over the FY2019 appropriation of \$1,190,000. This increase is primarily due to changes related to salaries and fringe benefits.

Appropriations to Public Health (\$1,791,000) and HealthWest (\$737,000) are remaining fairly constant compared to FY2019.

The Appropriation to the Airport is budgeted at \$186,000 for FY2020. The cover the local match on a runway pavement and lighting project as well as the cost of a new terminal parking lot control system and a new emergency generator. This is less than the FY2019 appropriation of \$304,000 due to fewer capital improvement projects requiring local match.

There is no appropriation to Muskegon Area Transit System (MATS) in the FY2020 budget following the FY2019 budgeted appropriation of \$372,000. MATS is in the process of undergoing an operational and route study to evaluate local service routes, funding and long-term viability. It is the intent that the recommendations of this study will provide efficiencies that will be implemented to minimize the need for a General Fund appropriation.

Presented for your consideration is a balanced General Fund budget with revenues and expenditures of \$50,222,030.

Respectively Submitted,

Mark Eisenbarth
County Administrator