

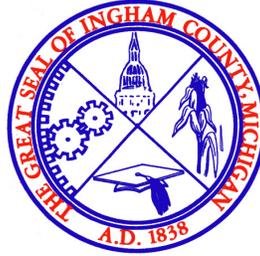
OFFICE OF THE INGHAM COUNTY CONTROLLER

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December 13, 2016

Ingham County Board of Commissioners
Ingham County Courthouse
P.O. Box 319
Mason, MI 48854

Dear Chairperson Hope:

I am pleased to present the 2017 Ingham County Budget as adopted by the Board of Commissioners on October 25, 2016. The budget totals \$234,203,570, a \$12,552,582 (5.7%) increase compared to the 2016 adopted budget. The general fund budget is recommended at \$81,868,642, a \$433,050 (0.6%) increase from the current year.

Several budgetary concerns had a significant impact on the recommended budget including a statutory cap in property tax revenue, a major increase in pension costs, and a significant increase in employee health insurance expenditures.

Similar to most units of government a significant portion of the County's budget is used to support employee compensation costs. In Ingham County, approximately 65-70% of the general fund budget is personnel related. This adopted budget assumes departments will maintain current authorized staffing levels over the ensuing fiscal year.

On April 26 the Board passed a resolution setting priorities for the 2017 budget (Resolution 16-168). These priority areas were referenced in development of proposed activities and budgets for 2017:

1. Current year expenditures should be supported by current year revenues. The Controller/Administrator developed a multi-year budget projection and a long-range plan to finance the County's legacy costs. These projections were used to guide the Board's decision as to the appropriate use of the County's reserves in the development of the 2017 Budget.
2. To the extent necessary and appropriate, mandated services currently provided by county government in support of all its long term objectives should be continued in 2017, with ongoing evaluation to identify possible overlap and duplication of services and to identify more efficient uses of county funds.

3. The Board of Commissioners expects all department offices and courts to consider these priorities in the development of their budgets and activities for 2017.
4. Priority consideration should be given to the following:
 - Implement the recommendations for the Trails and Parks Millage made by the Board of Commissioners' Trails and Parks Task Force
 - Continue implementation of the long range plan for the operation and location of the Community Health Centers by renovating the Human Services Building
 - Continue to reduce the budgeted use of fund balance in the general fund
 - Implement a plan for renovating or new construction for the Ingham County Jail, 55th District Court, and Animal Control facilities

The total property tax levy is recommended at 10.0742 mills, which will generate \$70,993,695 in property tax revenues. The levies for County operations, juvenile justice, Potter Park Zoo, indigent veterans support, Farmland and Open Space, trails and parks, health care services and transportation remain unchanged. The 911 millage is increased slightly from 0.8431 to 0.8500 mills. On August 2, 2016, voters approved a new levy of 0.24 mills, which will support the construction and staffing of a new Animal Shelter.

The single largest contributor to reductions in the County's general fund budget for several years was attributed to the loss of property tax values (see Figure 1). As amended, the 2016 budget anticipated a \$252,531 (0.6%) increase in general fund property tax revenue. The 2017 budget proposal projects an increase of \$968,030 (2.2%) in property tax revenue compared to 2016. Even though Ingham County experienced a much larger increase in assessed property value, factors included in the General Property Tax Act limit taxable value increase to the lesser of 5 percent or the rate of inflation (MCL 211.27a).

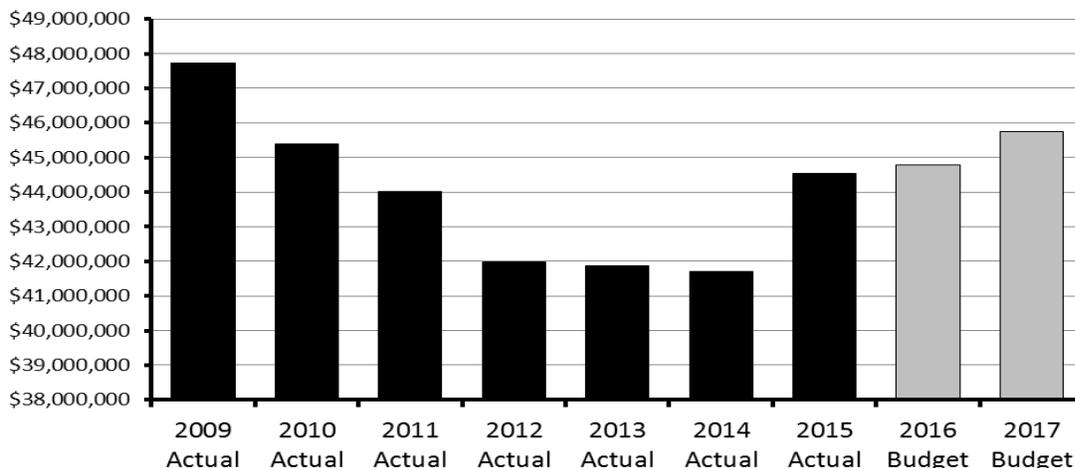


Figure 1: Property tax revenue trend, 2009 - 2017. *SOURCE: Ingham County Comprehensive Annual Financial Reports and 2017 Controller Recommended Budget.*

Relative importance of property tax revenue to the general fund can be gaged through comparison to total general fund revenue. Property tax revenues traditionally represent more than half of all general fund revenue in Ingham County and other counties across the entire state. Except for 2011, property

tax revenue collected in Ingham County represented a larger portion of the total revenue stream when measured against the average of all Michigan counties over the past five years. Counties that border Ingham¹ were slightly more dependent than Ingham on property tax revenue except in 2013 and 2015 (see Figure 2).

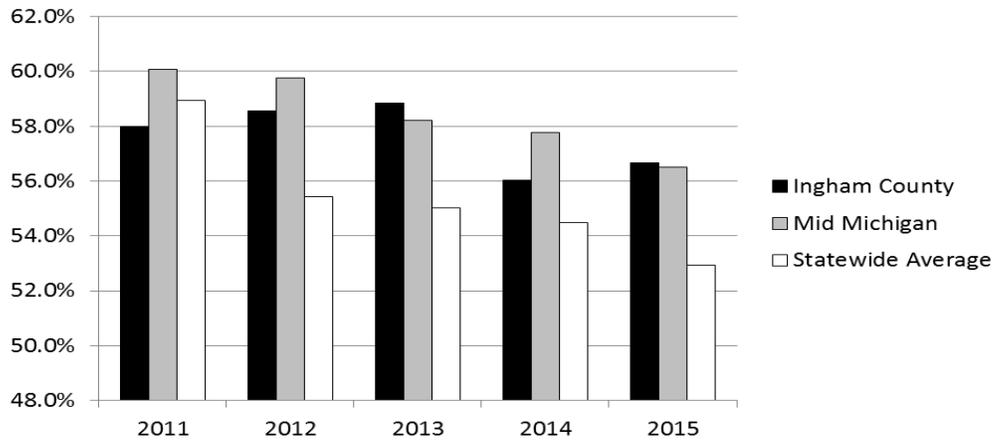


Figure 2: Property tax revenue as percent of total revenue trend, 2011 – 2015. *SOURCE: Ingham County Budget Reports; Michigan Department of Treasury.*

Counties typically report revenue in six other categories besides property tax. Consistent reporting criteria statewide allows for comparison to counties similar to Ingham County. Figure 3, below, compares FY 2015 general fund revenue sources by percentage for Ingham County, adjacent Mid-Michigan counties, and the statewide average. Ingham County was more dependent on taxes (60.6%) and intergovernmental revenue (19.4%) than its neighbors, but less dependent on revenue from all other sources. The County’s dependency on taxes was higher than the state average (41.1%), but lower in all other categories.

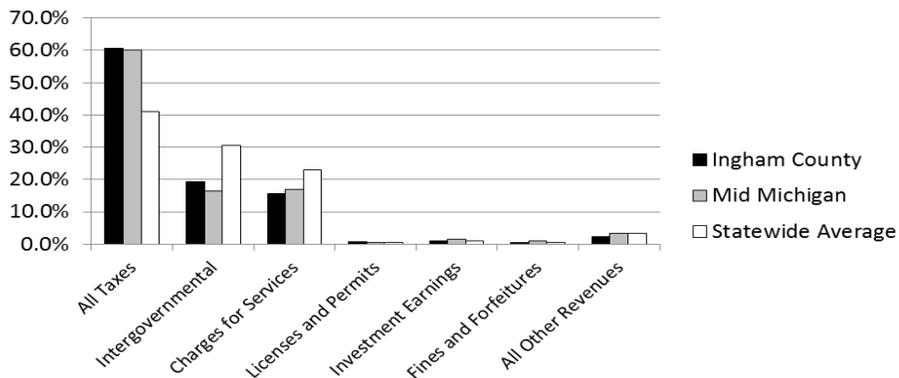


Figure 3: General fund revenue by source, FY 2015. *SOURCE: Comprehensive Annual Financial Reports.*

A similar comparison to general fund expenditures is provided in Figure 4. Ingham County dedicated comparatively more general fund financial resources than its neighbors to judicial activities (19.5%), health and welfare (7.2%), recreation and culture (3.0%), and other uncategorized expenditures (20.3%). By contrast, fewer dollars were provided for general government operations (19.5%), public safety (28.0%), public works (0.5%), community and economic development (0.3%), and capital

¹ Border counties include Clinton, Eaton, Jackson, Livingston, Shiawassee and Washtenaw

outlay (1.0%). The County dedicated a higher percentage of general fund resources to judicial activities, health and welfare, capital outlay and uncategorized expenditures when compared to statewide averages.

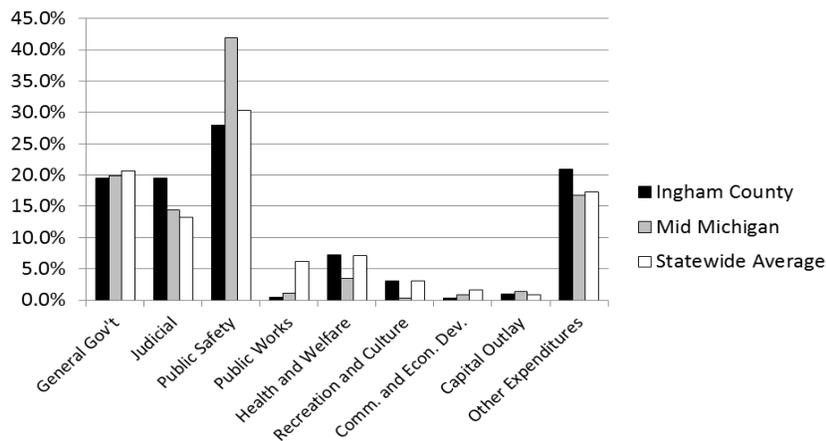


Figure 4: General fund expenditures by category, FY 2015. *SOURCE: Comprehensive Annual Financial Reports.*

The 2016 amended budget is \$82,827,181. General fund expenditures are projected to exceed revenue, requiring use of \$5,128,068 in uncommitted fund balance. A large portion of this fund balance use (\$1.85 million) is budgeted for a one-time payment toward the county’s unfunded pension liability for two of its units. Most recent projections reflect significant fluctuations in various categories. For example, department generated revenue is expected to be higher than projected by around \$215,000.

Overall expenditures are expected to be less than initially budgeted amounts by 0.6%. Modest increases are projected for County Services Committee (\$125,977) and Law and Courts Committee (\$127,052) appropriations. However, a decrease of \$1,111,287 (6.3%) is projected for Human Services Committee appropriations. A change in accounting methods resulted in the most noteworthy adjustments to the Community Mental Health appropriation (\$1,218,287). Initially, mental health services funded by the Health Care Services millage were budgeted within the general fund. It was later **determined that it would be appropriate to record** these expenses within the millage fund rather than transferring millage funds into the general fund.

The Controller recommended budget for 2017 solved a projected \$4.7 million general fund shortfall through combined use of uncommitted fund balance (\$3.1 million) and restricted fund balance (\$1.6 million). The shortfall represents the difference between projected revenues and what it would cost to fund services at 2017 levels. Overall revenues are estimated to be \$685,153 less than 2016 projections. Most of this decrease is caused by a reduction in funding for state inmates housed in the County jail (\$866,455). This reduction is accompanied by a reduction in expenses associated with that inmate housing arrangement.

Overall expenditures are estimated to increase by \$736,779 in order to cover the cost of current services. Most noteworthy expenditure increases will occur in employee pension and health insurance benefits.

Known adjustments to current services must be considered in the budget preparation process to assure forecast accuracy. The proposed budget for 2017 does not anticipate the need for major adjustments to service levels.

Only one newly requested position was included in the approved 2017 budget, a Diversion Caseworker in the Prosecuting Attorney's Office. This new position will address a case backlog and expand the program to keep more first time non-violent offenders out of the judicial system. The position will be funded as a pilot program through increased fee revenue.

The Law and Courts Committee amended the Controller Recommended budget to expand Animal Control staff to be funded by the recently passed Animal Shelter Millage. These changes are incorporated in this budget.

The 2017 budget includes an increase in costs associated with providing health care to active employees. Void of any change in coverage, analyses conducted by 44North, the County health insurance consultant, projected an increased cost of 9.9% per premium. Provisions of employee health care are a mandatory subject of collective bargaining. Responsibility for review of benefit packages is delegated to a Health Care Coalition composed of administrative and union representatives. A significant change to health insurance coverage options is currently under active consideration by the Coalition.

New actuarial assumptions were recently imposed by Municipal Employees' Retirement System (MERS) effective in 2017. The primary assumption changes include:

- Changes in mortality tables to reflect longer post-retirement lifespans
- A reduction in assumed annual rate of return on investments from 8% to 7.75%
- Asset smoothing calculation reduction from 10 years to 5 years
- Amortization periods moved to a fixed period of 10 years for closed divisions and 15 years for open divisions

These new actuarial assumptions resulted in a 3 percent *reduction* in overall pension "funded ratio" (66% funded) and caused a \$2.3 million increase for MERS pension expenses for 2017, a 22.2% increase over 2016. From 2018 through 2021, the County will experience an average increase of \$1.8 million (11.5%) for pension obligations *each year*. Additional adjustments to the actuarial assumptions, particularly in the projected rate of return on investments, are within the realm of possibilities over the next few years. Needless to say, this will present a budgeting challenge for the foreseeable future.

Legacy costs include the unfunded portion of employee pensions and retiree health insurance obligations. According to the 2015 Comprehensive Annual Financial Report (CAFR), the County's unfunded liabilities for Other Post Employment Benefits (OPEB) totaled \$83,390,261. Please refer to pages 96 - 102 of the 2015 CAFR for a more in depth discussion of our OPEB obligations.

The recommended 2017 budget includes an allocation of \$2.8 million (4.5% of payroll) for OPEB contribution. Ideally, and as funds allow, the County would continue to increase its annual contribution each year until it reaches the 9% of payroll necessary to fully fund this liability.

It is essential that Ingham County maintain adequate levels of fund balance to mitigate current and future risks (such as revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are also a crucial consideration in long-term financial planning. Credit rating agencies monitor levels of fund balance to evaluate creditworthiness. Those interested primarily in a government's creditworthiness or economic conditions (such as rating agencies) are likely to favor

increased levels of fund balance. Opposing pressures often come from those who might view high levels of fund balance as “excessive” (GFOA, 2009).

The unassigned fund balance in the general fund was \$16.2 million, or 20.6% of total general fund expenditures, at the end of 2015. County policy sets the desired minimum unassigned fund balance at 5% of total general fund expenditures, or \$3.2 million. The Government Finance Officers Association (GFOA) recommends, at a minimum, that general-purpose governments maintain an unrestricted fund balance in their general funds of no less than two months (16.6%) of regular operating expenditures (GFOA, 2009). To that end, it is worth noting that Ingham County does not depend solely on unrestricted or uncommitted fund balance for financial reserves. A \$10.6 million balance was reported in the Budget Stabilization Fund (BSF) at the close of 2015, amounting to 13.8% of average expenditure budgets over the past five years. The Public Improvement Fund, established to fund major capital improvements to county facilities, held another \$1.9 million. The combined total of all three reserve funds remain well above the GFOA-recommended minimum amount.

The 2017 Budget calls for use of \$3.1 million in unassigned fund balance. This recommendation falls within established parameters of Ingham County financial policies that establish appropriate levels of uncommitted reserves to protect against emergencies and economic downturns, but it is not sustainable over the long term. Barring an unforeseen influx in revenue, there is little doubt that the 2018 budget will have to include service reduction scenarios.

The 2017 Budget is balanced based on a logical set of assumptions. While less than ideal, this proposal does not project necessity for dramatic expenditure reductions.

I would like to thank the county employees, elected officials and judges, department heads, agency directors, budget staff, and all others involved in the budget preparation process for their assistance and cooperation in the development of this budget.

Sincerely,

A handwritten signature in black ink, appearing to read "Timothy J. Dolehanty". The signature is written in a cursive style with a long horizontal line extending from the end of the name.

Timothy J. Dolehanty, ICMA-CM, AICP
Ingham County Controller/Administrator