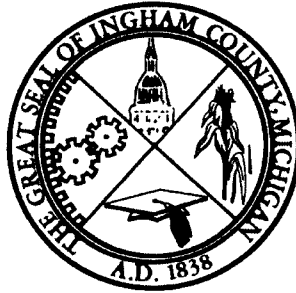


# OFFICE OF THE INGHAM COUNTY CONTROLLER

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December 13, 2017

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

Dear Chairperson Anthony:

I am pleased to present the 2018 Ingham County Budget as adopted by the Board of Commissioners on November 14, 2017. The budget totals \$233.2 million, a \$1.3 million (0.5%) decrease compared to the amended 2017 budget. The general fund budget is recommended at \$82.9 million, a \$1.2 million (1.5%) increase over the current year.

Several budgetary concerns had a significant impact on the recommended budget including near-stagnant tax revenue, pension costs and post-retirement employee benefit obligations. Each of these concerns is expected to impact budgets well into the future; especially pension costs associated with an accelerated payment scheduled designed to reduce unfunded liabilities.

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 52.5% of the general fund budget is personnel related. This proposed budget assumes a reduction of 31 current full-time equivalent positions over the ensuing fiscal year.

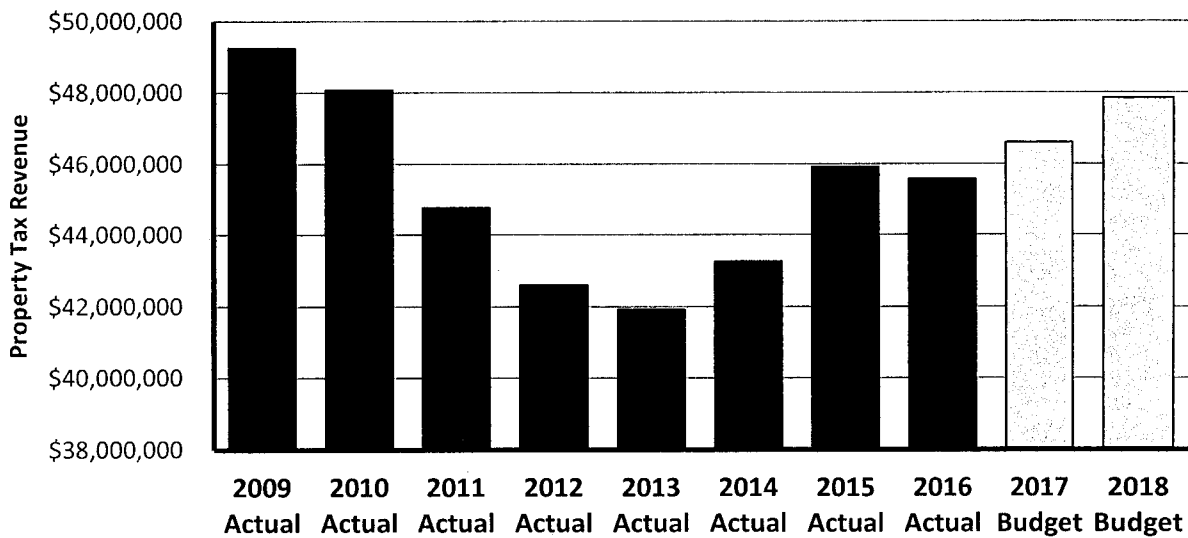
In March the Board passed a resolution setting priorities for the 2018 budget (Resolution 17-081). Those priorities included:

- Fostering economic well-being
- Preventing and controlling disease
- Promoting accessible health care
- Assisting in meeting basic needs
- Fostering youth development
- Providing appropriate evidence based treatment and sanctions for at-risk youth and juveniles
- Providing a quality transportation system, including roads

- Enhancing access to county records
- Supporting public safety
- Assuring fair and efficient judicial processing
- Providing appropriate evidence based sanctions for adult offenders
- Providing a suitable and ecologically sensitive drainage system
- Providing recreational opportunities
- Promoting environmental protection, smart growth and conservation

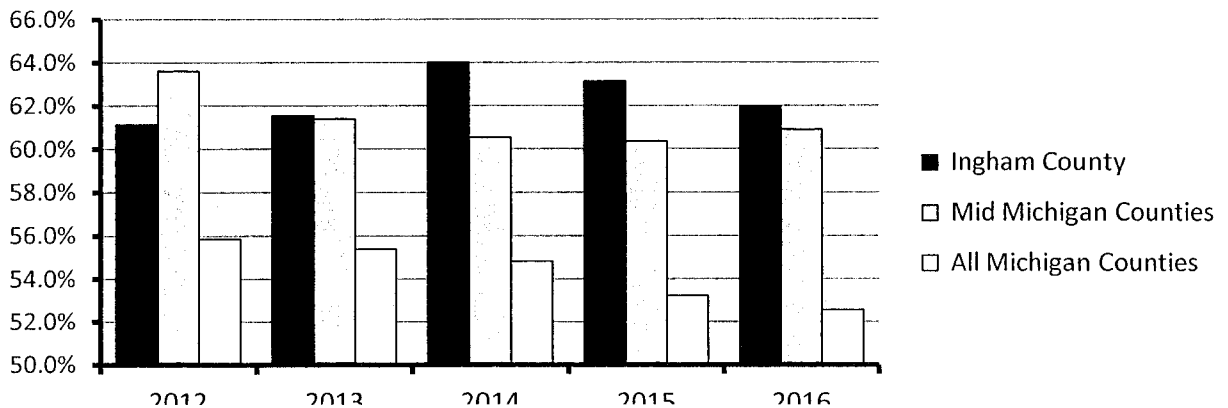
The total property tax levy with newly approved millage (November 2017) is recommended at 10.2206 mills, which will generate \$74.1 million in property tax revenues. The levies for 9-1-1 telephone service, juvenile justice, Potter Park Zoo, indigent veterans support, farmland and open space, trails and parks, health care services, animal shelter and transportation remain unchanged.

The single largest contributor to the County’s general fund budget is property tax (see Figure 1). As amended, the 2017 budget anticipated a \$1.0 million increase in general fund property tax revenue. The 2018 budget proposal projects an increase of \$1.2 million (2.7%) in property tax revenue compared to 2017. 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 five percent or the rate of inflation (MCL 211.27a).



**Figure 1:** Property tax revenue trend, 2009 - 2018. *SOURCE: Ingham County Comprehensive Annual Financial Reports and 2018 Controller Recommended Budget.*

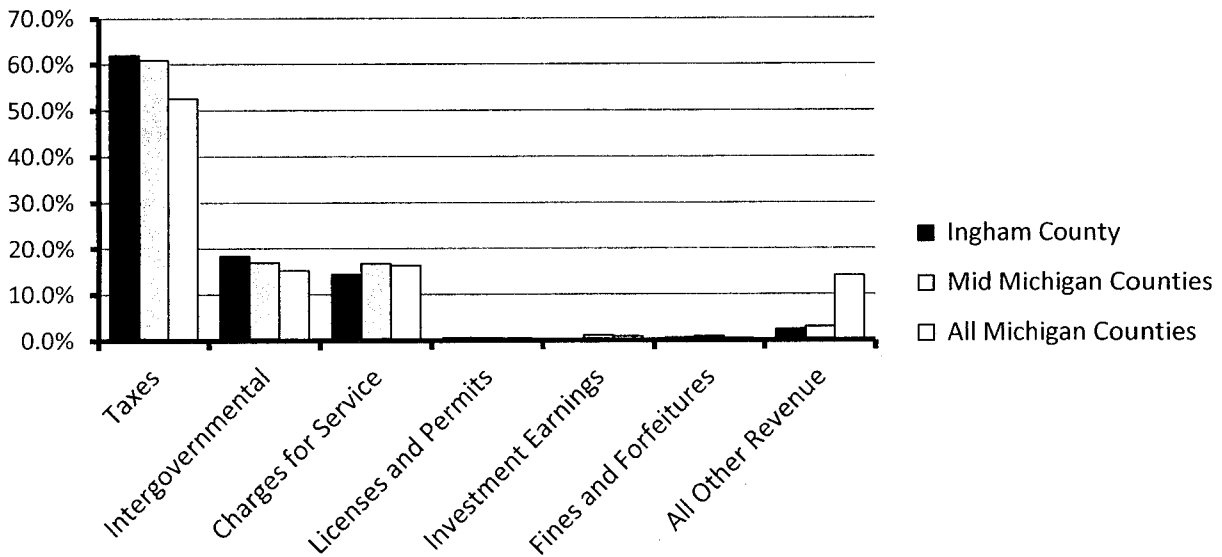
Relative importance of property tax revenue to the general fund can be gaged through comparison to total general fund revenue. Property tax revenues traditionally represent more than half of all general fund revenue in Ingham County and other counties across the entire state.



Beginning in 2013, property tax revenue collected in Ingham County represented a larger portion of the total revenue stream when measured against Counties that border Ingham<sup>1</sup> and the average of all Michigan counties over the past five years (see Figure 2).

**Figure 2:** Property tax revenue as percent of total revenue trend, 2012 – 2016.  
*SOURCE: Comprehensive Annual Financial Reports; Michigan Department of Treasury.*

Counties commonly report revenue in six other categories besides property tax. Consistent reporting criteria allows for comparison to counties similar to Ingham County. Figure 3 compares 2016 general fund revenue sources by percentage for Ingham County, adjacent Mid-Michigan counties and counties statewide. Ingham County was more dependent on taxes (62.0%) and intergovernmental revenue (18.3%) than its neighbors, but less dependent on charges for services (14.4%). The County’s dependency on taxes and intergovernmental revenue was higher than the state average (52.6% and 15.2%, respectively), but lower on all other categories.

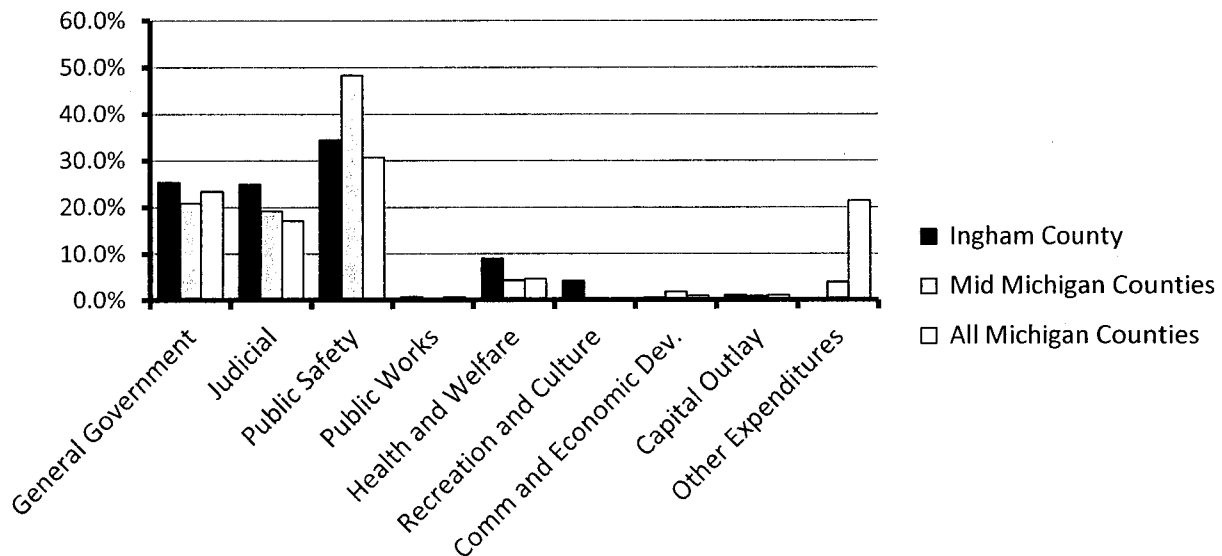


**Figure 3:** General fund revenue by source, FY 2016. *SOURCE: Comprehensive Annual Financial Reports; Michigan Department of Treasury*

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 general government activities (25.3%), judicial activities (24.9%), health and welfare (8.9%), public works (0.7%), recreation and culture (4.1%) and capital outlay (1.0%). By contrast, fewer dollars were provided for public safety (34.4%), community and economic development (0.5%), and other uncategorized expenditures (0.0%). The County dedicated a higher percentage of general fund resources to all categories except community and economic development, capital outlay and other uncategorized expenditures when compared to statewide averages.

<sup>1</sup> Border counties include Clinton, Eaton, Jackson, Livingston, Shiawassee and Washtenaw

The 2017 amended budget is \$81.6 million. General fund expenditures are projected to exceed revenue, requiring use of \$3.1 million in uncommitted fund balance. Most recent projections reflect significant fluctuations in various categories. For example, property tax revenue is expected to exceed earlier projections by \$300,000 and department-generated revenue is expected to fall \$534,000 short of original projections. The bulk of that decrease occurred because Wayne County reneged on a jail inmate housing contract early in 2017.



**Figure 4:** General fund expenditures by category, FY 2016. *SOURCE: Comprehensive Annual Financial Reports; Michigan Department of Treasury*

Overall expenditures are expected to end the year at \$11,000 less than budgeted amounts. Modest increases are projected for Law and Courts Committee (\$92,000), while small reductions are anticipated in Human Services Committee (\$80,500) and County Services Committee (\$22,700) appropriations. Most noteworthy adjustments occur in District Court (\$103,000), Health Department (\$88,000), Sheriff’s Office reduction (-\$79,500), and Library Legacy Cost reduction (-\$169,000).

The Controller recommended budget for 2018 solved a projected \$4.1 million general fund shortfall through use of uncommitted fund balance. 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 \$1.2 million greater than 2017 projections. This includes a \$1.2 million increase in property taxes, a \$60,000 increase in state revenue sharing, and a \$600,000 decrease in department-generated revenue. In addition the adopted of the Separate Tax Limitation proposal will increase the 2018 property tax by \$2.7 million

Overall expenditures are estimated to increase by \$1.2 million in order to cover the cost of current services. Expenditure growth is driven almost exclusively by a substantial (roughly \$2 million) increase in required pension payments. Other increases of note include the elections fund (gubernatorial election year); community health centers; medical examiner; animal control;

and Circuit Court Friend of the Court. These increases were mostly offset by reductions in the Department of Human Services; Circuit Court Family Division; and Sheriff's Office.

Known adjustments to current services must be considered in the budget preparation process to assure forecast accuracy. The proposed budget for 2018 does not anticipate the need for major adjustments to service levels.

Legacy costs include the unfunded portion of employee pensions and retiree health insurance obligations. According to the 2016 Comprehensive Annual Financial Report (CAFR), the County's unfunded liabilities in these two areas totaled \$248.1 million, including \$157.0 million in pension obligations and \$91.1 million for Other Post Employment Benefits (OPEB). Please refer to pages 107 - 113 of the 2016 CAFR for a more in depth discussion of our pension and OPEB obligations.

A long-term cost reduction strategy was implemented in 2013 through collective bargaining provisions that places new hires into a less-costly hybrid pension plan. Investment of Retiree Health Care Trust Fund dollars following an approved asset allocation and diversification plan was initiated in 2012 in order to maximize return on investment.

In order to begin to meet our fiscal obligations in this area the recommended 2018 budget includes an allocation equal to 4.5% of payroll for the 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 \$8.1 million, or 10.1% of total general fund expenditures, at the end of 2016. The Financial Reserves policy sets the desired minimum unassigned fund balance at 5% of total general fund expenditures, or \$4.0 million at the end of 2016. Funds advanced for the Montgomery Drain project will be returned to fund balance, adding another \$5 million to the unassigned total. A late year increase in Personal Property Tax and attrition savings during 2017 will reduced the 2017 use of fund balance to \$1.2 million. With the passing of the millage the Ingham County Board of Commissioners approved the additional revenue to be used to reduce the use of fund balance in 2018 from \$4.1 million to \$1.4 million. With this supplement included, current models project an unassigned fund balance of \$11.7 million (14.1%) at the end of 2018. However, continuation budgets in 2019, 2020 and 2121 will result in deficit spending that will quickly erode unassigned fund balance.

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 balance of \$10.6 million was reported in the Budget Stabilization Fund (BSF) at the close of 2016, amounting to 13.1% of the 2016 expenditure budget. The Public Improvement Fund, established to fund major capital improvements to county facilities, held another \$2.1 million.

The 2018 Budget as Recommended by the Finance Committee calls for use of \$4.1 million in unassigned fund balance despite a workforce reduction of 28 full time equivalent positions. However, this budget does not call for disruption in service levels. These budget recommendations fall within established parameters of Ingham County financial policies that establish appropriate levels of uncommitted reserves to protect against emergencies and economic downturns.

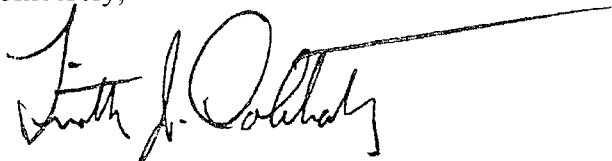
The 2018 Controller Recommended Budget also included \$300,000 in Strategic Planning Initiative Funds. The Finance Committee allocated these funds in order to restore a fugitive detective position in the Sheriff's Office and an assistant prosecuting attorney the Prosecuting Attorney's Office. The Committee also voted to restore funding for the Ingham Conservation District, Central Michigan 2-1-1, legal services and Big Brothers and Big Sisters CAMP program.

On May 23, 2017 the Board of Commissioners resolved to initiate the statutory procedure to consider altering or extending the existing Ingham County fixed mill separate tax limitations of the county and the townships and intermediate school districts in the county (Resolution 17-206). This action was followed by a resolution to submit to a vote of the electorate a question asking whether separate tax limitations should be established for the County, the townships and the intermediate school district for an indefinite period, or until altered by the voters (Resolution 17-291). This question was approved by the voters on November 7, the operating millage rate will be adjusted to add up to \$2.7 million in property tax revenue to the general fund. Therefore, the use of \$4.1 million in unassigned fund balance is reduced to \$1.4 million.

The 2018 Budget is balanced based on a logical set of assumptions. While less than ideal in some instances, this proposal does not project necessity for dramatic expenditure reductions.

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

Sincerely,

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

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