

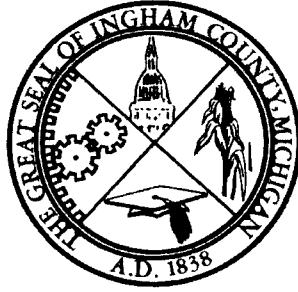
OFFICE OF THE INGHAM COUNTY CONTROLLER

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December 13, 2018

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

Dear Commissioners:

I am pleased to present the 2019 Ingham County Budget as adopted by the Board of Commissioners on October 23, 2018. The budget totals \$239.9 million, a \$1.9 million (0.84%) increase compared to the amended 2018 budget. The general fund budget is recommended at \$85.9 million, a \$710,592 (0.82%) decrease from the current year.

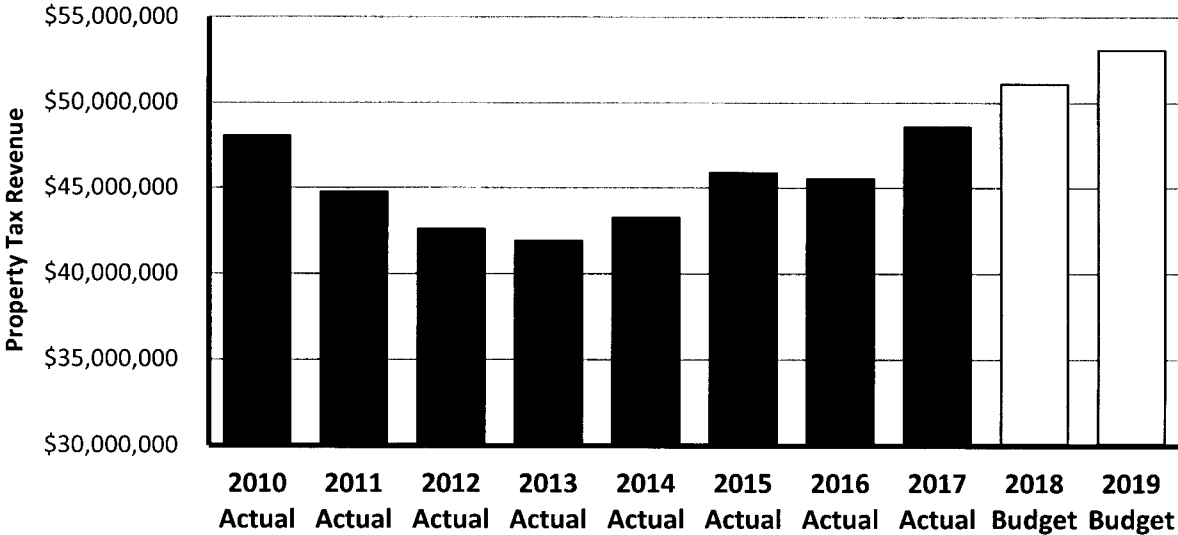
Several budgetary concerns continue to have a significant impact on the recommended budget including near-stagnant tax revenue, pension costs and post-retirement employee benefit obligations. Each of these concerns is expected to impact budgets well into the future; especially pension costs associated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

The 2017 fiscal year concluded with some very positive outcomes. As you are aware, the Board of Commissioners' proactive move of placing the separate tax limitation proposal on the November ballot passed. The State of Michigan released \$1.8 million for Personal Property Tax Replacement, which amounted to \$1.6 million more than was projected. In anticipation of a challenging budget forecast, several departments held vacant positions open which reduced expenses during 2017. However, these positive moves are not ongoing and the loss of some department-generated revenue and the increase in expenses will continue to be a factor in the 2020 budget. The outcomes above allow the 2019 budget to be considered as a "status quo" budget year.

A significant portion of the County budget is used to support employee compensation costs, as is the case with most units of government. Approximately 53.8% of the general fund budget is personnel related. This proposed budget assumes an increase of 17.75 current full-time equivalent positions over the 2018 adopted budget and a 1.75 decrease from the 2018 amended budget.

The total property tax levy is 11.34 mills which will generate \$85.2 million in property tax revenues. This includes the August approval of 0.85 mill for construction of a new Justice Complex. 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 2018 budget anticipated a nearly \$2.5 million increase in general fund property tax



revenue. The 2019 budget proposal projects an increase of \$2 million (3.9%) in property tax revenue compared to 2018. 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, 2010 - 2019. *SOURCE: Michigan Department of Treasury and 2019 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. In 2015 and 2017 property tax revenue collected in Ingham County represented a larger portion of the total revenue stream when measured against Counties that border Ingham¹ and the average of all Michigan counties over the past five years (see Figure 2).

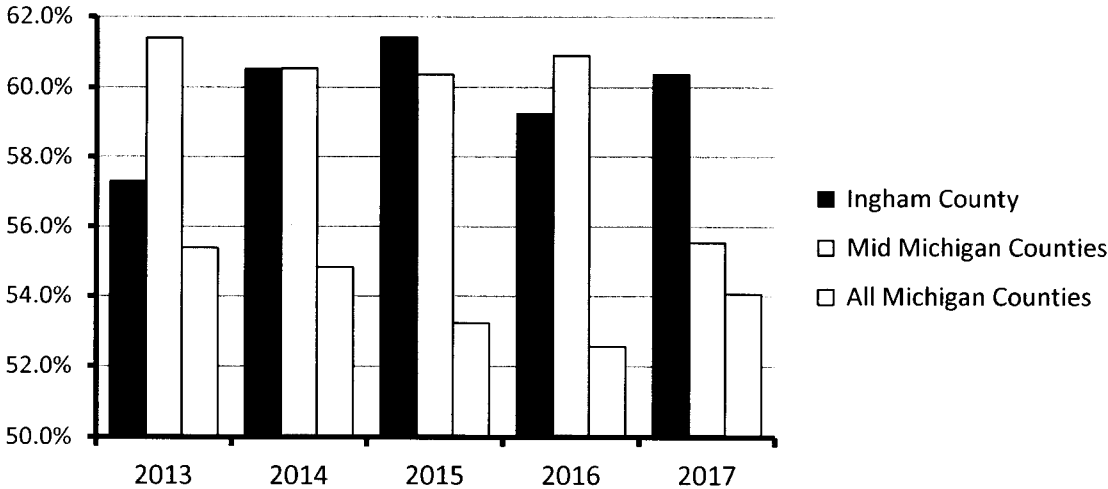


Figure 2: Property tax revenue as percent of total revenue trend, 2013 – 2017. *SOURCE: Michigan Department of Treasury.*

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

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 2017 general fund revenue sources by percentage for Ingham County, adjacent Mid-Michigan counties and counties statewide. Ingham County was more dependent on taxes (61.0%) and intergovernmental revenue (18.2%) than its neighbors, but less dependent on charges for services (13.2%). The County's dependency on taxes and intergovernmental revenue was higher than the state average (54.1% and 15.5%, respectively), but lower on all other categories.

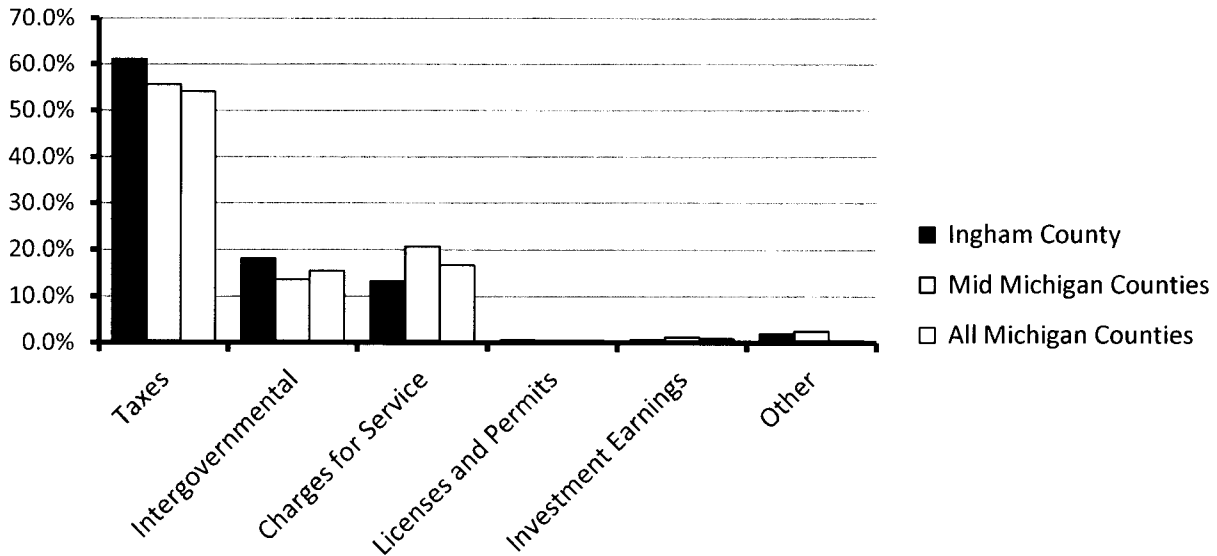


Figure 3: General fund revenue by source, FY 2017. *SOURCE: Michigan Department of Treasury*

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 (25.8%), judicial activities (23.3%), health and welfare (9.2%), public works (0.8%), recreation and culture (4.4%) and capital outlay (1.5%). By contrast, fewer dollars were provided for public safety (34.7%), community and economic development (0.2%), and other uncategorized expenditures (0.0%). The County dedicated a higher percentage of general fund resources to all categories except community and economic development, public works and other uncategorized expenditures when compared to statewide averages.

The 2018 amended budget is \$86.7 million. General fund expenditures are projected to exceed revenue, requiring use of \$3.9 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 as a result of a millage vote in 2017, and department-generated revenue is expected to fall short of original projections.

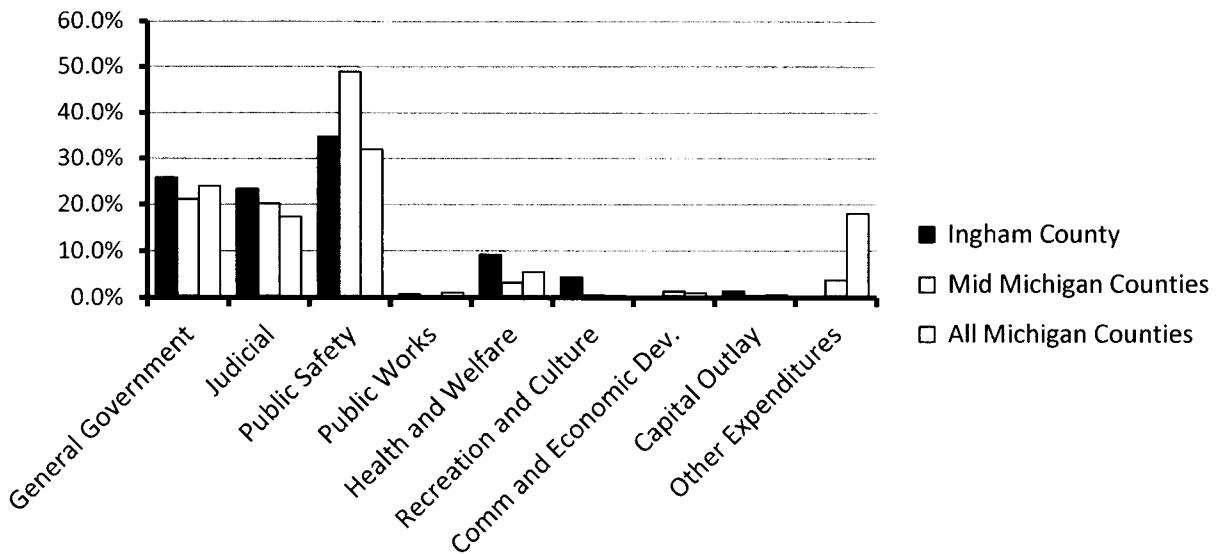


Figure 4: General fund expenditures by category, FY 2017. *SOURCE: Michigan Department of Treasury*

Overall expenditures are expected to end the year at \$800,000 more than originally-budgeted amounts. A significant increase is projected for Law and Courts Committee (\$569,000), while modest increases are anticipated in Human Services Committee (\$45,500) and County Services Committee (\$71,800) appropriations. Most noteworthy adjustments occur in Prosecuting Attorney (\$147,500) and Sheriff’s Office (\$243,400).

The Controller recommended budget for 2019 solved a projected \$1.9 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 2018 levels. Overall revenues are estimated to be \$1.5 million greater than 2018 projections. This includes a \$2 million increase in property taxes, and a \$440,000 decrease in department-generated revenue.

Overall expenditures are estimated to increase by \$1.1 million in order to cover the cost of current services. Expenditure growth is driven almost exclusively by personnel cost including wages and required pension payments.

Known adjustments to current services must be considered in the budget preparation process to assure forecast accuracy. The proposed budget for 2019 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 2017 Comprehensive Annual Financial Report (CAFR), the County’s unfunded liabilities in these two areas totaled \$238.5 million, including \$160.8 million in pension obligations and \$77.6 million for Other Post-Employment Benefits (OPEB). Please refer to the 2017 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 2019 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 \$15.7 million, or 20% of total general fund expenditures, at the end of 2017. 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 2017. With the current projected use of fund balance of \$3.8 in 2018, current models project an unassigned fund balance of \$11.8 million (13.7%) at the end of 2018. However, continuation budgets in 2020, 2021 and 2122 will result in deficit spending that could 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 2017, amounting to 13.4% of the 2017 expenditure budget. The Public Improvement Fund, established to fund major capital improvements to county facilities, held another \$1.6 million.

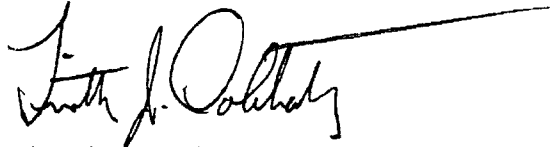
The 2019 Budget as recommended by the Finance Committee calls for use of \$2 million in unassigned fund balance despite a workforce that for the most part remained status quo. These budget recommendations fall within established parameters of Ingham County financial policies that establish appropriate levels of uncommitted reserves to protect against emergencies and economic downturns. However, this is not sustainable over the long term. Barring an unforeseen influx in revenue, service reductions may be considered during the 2020 budget.

The 2019 Controller Recommended Budget also included \$300,000 in Strategic Planning Initiative Funds. The Finance Committee allocated these funds in order to continue to fund an assistant prosecuting attorney in the Prosecuting Attorney's Office that was added in 2018 for adult sexual assault cases. The Committee also voted to add an additional Deputy County Clerk to the County Clerk Office and create a new Program Analyst in the Innovation and Technology Department. The Committee also voted to provide Circuit Court with \$43,654 for security screeners at the Mason Historic Courthouse. The total of all these items totaled \$366,472 which amounted to \$66,472 over the Strategic Planning Initiative Funds. The Committee voted to increase the use of fund balance to cover this cost.

The 2019 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 Deputy Controllers, 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". 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
Ingham County Controller/Administrator