September 11, 2019

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

Dear Commissioners:

Presented for your consideration is the 2020 Finance Recommended Budget for Ingham County. The budget totals $267.3 million, a $19.4 million (7.81%) increase compared to the amended 2019 budget. The general fund budget is recommended at $87.9 million, a $110,000 (0.13%) increase 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.

However, 2018 fiscal year concluded like 2017 with a positive outcome, changes in accounting procedures required a shifting state revenue in to 2018 in the amount of $966,197 more than projected. However, this 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 2021 budget. The outcomes above allow the 2020 budget to be considered as a “continuation” budget year.

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 55.9% of the general fund budget is personnel related. This proposed budget assumes an increase of 76 current full-time equivalent positions over the ensuing fiscal year adopted budget and a 0.97% increase from the 2019 amended budget. The increase over the 2019 adopted total is due primarily to the addition of 36.5 positions assigned to the new Public Defender Department.

The total property tax levy is recommended at 11.34 mills, which will generate $88.9 million in property tax revenues. The levies for 9-1-1 telephone service, juvenile justice, justice complex, 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 2019 budget anticipated a nearly $2 million increase in general fund property tax revenue. The 2020 budget proposal projects an increase of $2 million (3.9%) in property tax revenue compared to 2019. 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, 2011 - 2020. *SOURCE: Michigan Department of Treasury and 2020 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 Ingham\(^1\) and the average of all Michigan counties over the past five years (see Figure 2).

\[^1\] Border counties include Clinton, Eaton, Jackson, Livingston, Shiawassee and Washtenaw
Figure 2: Property tax revenue as percent of total revenue trend, 2013 – 2017.  
*SOURCE:* 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 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.

![Revenue Sources](image)

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 2019 amended budget is $87.7 million. General fund expenditures are projected to exceed revenue, requiring use of $3.4 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.
Overall expenditures are expected to end the year at $837,704 more than originally-budgeted amounts. A significant increase is projected for Human Services Committee ($455,400) and Law and Courts Committee ($310,700), while a very mild increase is anticipated in County Services Committee ($18,400) appropriations. Most noteworthy adjustments occur in Jail Medical ($439,886) and Sheriff’s Office ($200,000).

The Controller recommended budget for 2020 solved a projected $2 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 2019 levels. Overall revenues are estimated to be $1.4 million greater than 2019 projections. This includes a $2.3 million increase in property taxes, and a $1.1 decrease in department-generated revenue.

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 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 2020 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 2018 Comprehensive Annual Financial Report (CAFR), the County’s unfunded liabilities in these two areas totaled $239.0 million, including $152.6 million in pension obligations and $91.1 million for Other Post-Employment Benefits (OPEB). Please
refer to pages 71 - 89 of the 2018 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 2020 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 $17.1 million, or 20.8% of total general fund expenditures, at the end of 2018. The Financial Reserves policy sets the desired minimum unassigned fund balance at 5% of total general fund expenditures, or $4.1 million at the end of 2018. With the current projected use of fund balance of $3.4 million in 2019, current models project an unassigned fund balance of $13.8 million (15.6%) at the end of 2019. However, continuation budgets in 2021, 2022 and 2023 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 2018, amounting to 12.9% of the 2018 expenditure budget. The Public Improvement Fund, established to fund major capital improvements to county facilities, held another $2.5 million.

The 2020 Budget as Recommended by the Finance Committee calls for use of $2.1 million in unassigned fund balance despite a workforce that for the most part remained unchanged. These budget recommendations fall within established parameters of Ingham County financial policies that set appropriate levels of uncommitted reserves to protect against emergencies and economic downturns. However, this is not sustainable over the long term. Barring unforeseen influx in revenue, service reductions may be considered during the 2021 budget.
The 2020 Controller Recommended Budget also included $300,000 in Strategic Planning Initiative Funds. The Finance Committee allocated these funds in order to add two new Clerical Receiving positions in the Sheriff Department, an additional Deputy Probate Register III, and an additional Assistant Prosecuting Attorney. The sum of all these items totaled $371,052 which amounted to $71,052 over the amount allocated for Strategic Planning Initiative Funds. The Finance Committee voted to increase the use of fund balance to cover this cost.

The 2020 Budget as Recommended by the Finance Committee 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.

The Finance Committee respectfully submits this 2020 recommended budget for consideration by the Board of Commissioners. I wish to thank the all involved in the budget preparation process for their assistance and cooperation in the development of this proposal.

Sincerely,

Mark Grebner, Chairperson, Finance Committee
Ingham County Board of Commissioners