

## COUNTY ADMINISTRATOR'S 2017 BUDGET SUMMARY

The Marquette County Budget for 2017 complies with all provisions of Public Act 621 of the Public Acts of 1978 (Uniform Local Budgeting and Accounting Act) and is balanced with respect to projected revenues, resources, accrued equities, and expenditures. Included in the budget document are goals and objectives, program spending plans, and authorized staffing levels. Commissioners, boards and committees, elected officials, department directors, and program managers should find the document a useful policy and management tool.

The 2017 General Fund is \$26,042,524; which reflects a 1.2% increase from the original 2016 budget.

This year's budget preparation was challenging due to 4 primary factors. The factors include: a flat Ad Valorem tax revenue, an increase in the annual Michigan Employment Retirement System (MERS) payment, health insurance costs, and an anticipated reduction to the Specific ore tax revenue.

One of the challenges facing 2017, was the change in assumptions in calculating the annual Michigan Employment Retirement System (MERS) payment which resulted in a substantial payment increase. Previous actuaries indicated a nearly \$450,000 decrease in the annual payment for 2017. However, the reverse occurred with the annual payment from the General Fund increasing approximately \$550,000 from the 2016 budgeted amount. Based on the projected MERS increases for 2017, and the next several years, the County would not have been able to make these payments without making significant changes which could include the elimination of programs and/or further staff reductions.

In response to pressure from municipals, MERS is offering a one-time option to have the amortization period extended. Staff has met with a MERS representative to start this process.

To balance the 2017 budget, County staff has budgeted \$4,395,684 - the same amount of funding for MERS that was budgeted for in 2016. Once the actuary results are finalized and all options reviewed, staff will come back to the County Board with a recommendation. It is possible, that even with an extended amortization period, the 2017 payment will be greater than the amount budgeted. A budget adjustment would be required.

The 2017 budget will continue to reflect the ongoing cost increases for employee and retiree health insurance. The County's Health Insurance Task Force, comprised of union leadership, non-represented employees, and administration, has been meeting throughout much of 2016 to review health insurance plan options. The Task Force did not select a specific plan, but has decided to work through the selection during labor negotiations. The cost of current healthcare benefits is not sustainable. Changes will need to be made.

## STATE

For 2017, Tax Tribunal applications and the Dark Store issue continue to impact the County. There are some commercial tax tribunal cases pending. However, no funds are budgeted for significant tax tribunal adjustments. If this occurs, the use of Delinquent Tax funds would be recommended.

Senate Bill 960 redefines the word "charitable" on property taxes, greatly expanding what groups could claim as exemptions from the local taxes they pay. This could reduce the county's ability to provide services and may further shift the tax burden to homeowners and small business owners. The original intent of SB 960 was to make a minor fix, one that was supported by the Michigan Association of Counties. Unfortunately, the bill has been modified in a way that practically any 501(c)3 would qualify for the exemption and virtually any for-profit business could create a nonprofit arm to utilize the exemption, too. Fortunately, there appears to be movement away from the current version of the legislation making it more narrowly focused.

House Bills 4947 and 4966 are also on the county's radar. These bills would change the definition of what is considered an adult in Michigan. Currently, a 17 year old, in the eyes of the court, is considered an adult and is treated as such when a crime has been committed. HB 4947 and 4966 would remove the adult status and place them in the juvenile system. Without further research into this it is unsure what financial impacts this could have on juvenile courts, programing, and staffing.

Marquette County's ability to provide state-mandated services is largely dependent on our revenue sharing payment. State revenue sharing is not anticipated to decrease from the 2016 levels. Municipal financing and reform is a priority of local governments given the ongoing financial reduction from state funds. However, until there is a path forward with the reforms, revenue sharing continues to be important revenue for counties. Unfortunately, the county should not count on revenue sharing to stay at current levels. The county anticipates receiving \$1,288,125 for 2017.

Judge Solka's retirement at the end of his term in December 2016 will trigger the reduction of one Circuit Court Judge. The 2017 budget includes the funding for a Court Referee to fill this void. The reduction of a judge will also provide an opportunity to review how the courts operate and communicate. Efforts are already underway to explore how best to staff and coordinate the courts and determine which services will continue to be provided at the Ishpeming District Court. The approved budget reduces District Court staffing by 1 full time position. The reduction will occur through attrition.

## MARQUETTE COUNTY

Although this has been said for many years, it is too important not to remember just where County funds are spent. In Marquette County, an estimated 75% of the county budget is for services required, or mandated, by state law or rule. About half of the expense to carry out these mandates is funded by state revenues. A solid fiscal foundation is essential to Marquette County's ability to provide services whether they are locally-determined priorities or state-mandated services. The responsibility for funding services clearly falls at the local level.

There are other impacts to tax revenues and expenditures that need to be monitored and considered in the county's long-term planning. With the closure of the Empire Mine, tax revenues will begin to decline at a more rapid pace. Cliffs Natural Resources has indicated that the Empire Mine will move to Ad Valorem taxation at the end of 2016. Marquette County does not agree with this assertion and will be challenging that position. Although Cliffs Natural Resources continues to work through various challenges, there are no known changes to occur to the Tilden Mine operations over the next several years.

Sawyer International Airport will eventually deplete the Stabilization Fund. Based on the existing and anticipated funding, the Stabilization Fund should continue to supplement funding of airport operations through 2018. Please note this is also dependent on the ability of the county to retain its current tenant base. This budget does not include any transfer to the airport stabilization fund in 2017.

For 2017 the county will not be required to have the services of a Level IV Equalization Director. The budget does not include funding for a Level IV contract position. With the amount of construction that is occurring in Marquette County it is anticipated that the county will be required to have a Level IV in 2018. Plans are already being considered on how to address this need in 2018.

The work of the Management Team and the Board of Commissioner priorities guide the 2017 Budget.

#### REVENUES

Total General Fund revenues are \$26,042,524, a decrease of \$89,000 from the mid-year 2016 budget.

Local property taxes increased by \$245,900, an increase of less than 2%. Specific ore tax revenue for 2017 is estimated to be \$2,200,000, a decrease of \$450,000. Marquette County is very fortunate to be receiving this level of revenue, but it should be noted again that this level of revenue will not continue due to the closure of the Empire Mine. Approximately 20% of the specific ore tax revenue is related to operation of the Empire Mine. The specific ore tax formula is based on a five-year average of annual production. As a point of interest, in 2013 the specific ore tax revenue was \$3,069,243.

Consistent with previous budgets, the 2017 budget does not apply potential tax revenue from Lundin Eagle Mine to ongoing operating expenses. This continues to be our recommendation, as the noted life of the mine is less than 8 years. The 2017 budget includes the use of \$235,000 Severance Tax reserves for the replacement of the jail roof and Annex chiller. The jail roof replacement was a project recommended with the jail health and safety project, but due to a limitation of funds, it was removed from the project. The roof and Annex chiller are original to each facility.

State revenues are projected to be flat. Revenue sharing is being funded by the state as detailed on page two of this memo.

For state-funded programs such as juvenile treatment and the judiciary and court operations, the 2017 Budget assumes the continuation of state funding trends for these programs. If additional reductions occur, the budget can be amended with emphasis on reducing programs for which revenue is no longer received.

The county should balance current expenditures with current revenues. County reserves have more than doubled since 2006 and exceed the County Reserve Policy and the minimum recommended by the Department of Treasury. The reserves cushion unexpected revenue losses or expenditure increases. The reserve funds are inadequate to expand services or support ongoing expenditures. Use of reserves in the 2017 Budget is limited to interest income generated or to funds that have a sufficient balance. Sawyer International Airport relies on the Airport Stabilization Fund because airport revenues are inadequate to support required operating expenses for the airport.

### FEES

Fees for the various departments are continually monitored for needed increases. The Sawyer water and sewer departments are recommending rate increases.

Building Code revenue includes an average 2% increase to some fees within the Building Code fee schedule. Some permit fees will increase, some will remain the same, and some may decrease. Specific fees will be reviewed and adjusted to maintain an equitable balance between the charge and the amount of time typically needed for the specific type of permit.

As in prior years, the Recommended Budget includes \$585,000 from the Delinquent Tax Revolving Fund (DTRF):

Tax Administration Services	\$ 235,000
Capital Improvement Program	\$ 200,000
General Fund Contingency	\$ 150,000

For the 2017 Budget an additional transfer of \$100,000 is included to support operations.

Historically, the fund generates approximately \$600,000 annually above what is needed for tax payments to the cities, townships, and schools. Use of \$685,000 will not require borrowing to maintain the DTRF.

### HIGHLIGHTS FROM DEPARTMENT 2017 REQUESTS

The budget management work of the departments is significant in carrying out the directives of the county board. Each department has managed, and continues to manage, its budget in the new economic reality.

### LAW ENFORCEMENT

No new positions were requested. However, it is recommended that one additional full time deputy be hired to meet the increased security requirements at Sawyer Airport. This position will be funded, in part, by the TSA. With the increase in full-time positions in the correction budget starting in 2015, the number of hours worked by part-time corrections officers has been reduced

by 30% per person. There has been no increase in overtime expenses. The corrections division continues to manage overtime well.

The 2017 budget continues the operation of the Community Corrections Detention Center (CCDC). With the improvements made to this facility, the Sheriff's Department has expanded opportunities for managing the female inmate population, thus opening more beds at the main jail for medium and maximum-security level inmates.

### COURTS

As noted in the revenue discussion, if state revenues are reduced, consideration should be given to reducing expenditures in the programs receiving state support.

With the upcoming reduction of one judge, Court operations are under review for efficiencies. Specifically, operations at the Ishpeming Service Center will focus on probation services, breathalyzer tests, small claims, landlord tenant cases, and civil process. With the proposed efficiencies, one District Court position will be eliminated through attrition. The 2017 budget reflects this reduction.

The Probate Judge requested a new .8 position. It is not funded in the budget.

### HUMAN SERVICES

The Health Department maintenance of effort from the General Fund remains at \$521,506, the same annual amount since 1998. Overall, the department budget is \$220,986 more than the 2016 budget. The increase is due largely to higher personnel costs. The total budget is \$4,628,713 and includes use of fund equity in the amount of \$71,056. The Board of Health approves the Health Department budget. The final 2017 budget will be considered by the Board of Health after the Board of Commissioners has set the General Fund appropriation to the department.

The 2017 budget includes a transfer of \$7,500 to the Soldier Sailor Relief Fund.

The Veterans Affairs department millage request will remain at .08. The Veterans Affairs budget request sought funding for a 20 hour per week part-time employee, or, in lieu of a fully compensated part-time position, funding for assistance through the US Department of Veterans Affairs Compensated (CWT) program. The 2017 budget includes \$14,000 for irregular part-time staff. All other Veterans Affairs budget requests are included in the budget.

The 2017 budget includes funding in the amount of \$52,657 for MSU Extension services. This is the same amount that was budgeted in 2016. MSU Extension requested a 1% increase. The current Memorandum of Agreement expires December 31, 2017. Additionally, the county provides office space and \$30,050 for 4H support.

The DHS Social Welfare Board requested a budget of \$8,000 and included \$6,000 for travel. The approved budget includes an appropriation of \$5,000. This is the same as 2016.

### ADMINISTRATION

No changes have been made to the department budget for the county administrator.

### SAWYER INTERNATIONAL AIRPORT AND BUSINESS CENTER

Airport operating expenses are \$2,198,450. Operating revenues are \$1,788,040. Airport staff strives for self sufficiency. There is continuous effort to work on operational efficiencies and controlling expenses. Staff continues to search for and secure new tenants/leases.

For the past several years the County supported the airport with a transfer of \$100,000 from the General Fund. No transfer of funds is recommended in the 2017 budget.

The Airport Stabilization Fund remains a funding source through 2018. This projection is based on current cash balances and the anticipated revenue from the Purchase Agreement with Telkite that obligates Telkite to purchase additional raw land from the county by November of 2017.

A funding source, or sources, will be needed for the ongoing sustainability of the airport. A team effort will continue to be needed to plan, implement, and evaluate. The Airport Master Plan that was approved by the Board of Commissioners in 2009 serves as a foundation.

There are separate enterprise budgets for the Water and Sewer Funds. The 2017 budget includes a 2% increase to the combined rate for water and wastewater. The combined rate is \$17.10 per 1,000 gallons. All other rates and fees remain the same.

### AGING SERVICES

The Aging Services Advisory Committee approved the \$975,550 budget for current services and programs in 2017. In total, funding for services will increase by 5%. Allocations will be distributed to the four area Senior Centers, Meals on Wheels, RSVP's Non-emergency Medical Transportation, and the Marquette Adult Day Services Program. Senior Center funding will be "in formula" for 2017 with anticipated tax revenue of \$1,020,000.

### CENTRAL DISPATCH

The operating budget continues the current level of service at their current location. Marquette County continues to provide a leadership role in the U.P. 9-1-1 Authority and continues to receive recognition for their cooperative way of delivering a valuable service to the community. They continue to lead the state of Michigan in the enhanced 9-1-1 arena.

### FORECLOSURE FUND

The budget includes a \$25,000 transfer to the Land Bank. The Land Bank Authority requested the transfer to provide funds for management of properties that will be transferred to the authority. The Foreclosure Fund has sufficient reserves for the transfer.

### NON-COUNTY AGENCIES

The 2017 Budget includes a \$20,000 reduction for economic development for a total of \$47,000. In past budgets, this amount was fully set aside for the Lake Superior Community Partnership (LSCP). The current budget does not specifically identify the amount being provided for the LSCP. Per a contractual agreement \$10,000 shall be allocated for the county's contribution to the Next Michigan Development Zone. It is further advised that \$5,000 be for the LSCP EDC. The remaining \$32,000 can be used in a contract for the LSCP or other economic development priorities.

The Soil Conservation District requested consideration for \$15,000 for 2017. This amount is not included.

#### PERSONNEL AND POST-EMPLOYMENT EXPENSES

As a service organization, our major expense is personnel. The 2017 budget assumes a total compensation approach that is sufficient and sustainable based on current county revenues. Compensation for most county employees is set through the collective bargaining process. The county will be entering into negotiations with eight bargaining units whose contracts end or reopen at the end of 2016. The 2017 budget includes \$2.4 million for retiree health insurance, an increase of 10% over our projected expense for 2016. In past budgets the county set aside \$100,000 to the OPEB reserve fund. Given the difficulty of balancing the budget, no funds are included as a transfer to the OPEB County's OPEB reserve fund. The total OPEB reserve remains at \$2.7 million.

The budget does not include the requested increase to our MERS retirement cost; it remains at the 2016 level. Additional allocations from revenues generated from the Eagle Mine could be considered for the county's unfunded liabilities.

#### PROJECTIONS

The Management Team will continue its diligence in preparing for the future. Current projects indicate the Airport Stabilization Fund will no longer be a viable funding source for airport operations after 2018 if current revenue and expenditure patterns continue.

In addition to the challenges unique to Marquette County, we share with many other local governments the increasing costs of health care and retirement. Liabilities for post-employment healthcare benefits, although still significant, have been reduced.

Beyond 2017, the future of state government continues to be challenged, and the state's continued ability to fund county revenue sharing and revenues for other county services is unknown. On the positive side, the Eagle Mine will be a temporary source of needed tax revenue. Long-range planning should take into consideration the upcoming closure of WE Energies, the Empire Mine, Airport Stabilization Funds being depleted, and the Dark Stores legislation.