

COUNTY ADMINISTRATOR'S 2018 BUDGET SUMMARY

The Marquette County Budget for 2018 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 2018 General Fund is \$26,013,300; which reflects a slight decrease from the original 2017 budget.

This year's budget preparation continued to bring challenges. The 2018 Ad Valorem tax revenue remains flat at .67% increase, a continued anticipated reduction to the Specific ore tax revenue, and other potential tax reductions with dark store and other tax submittals to the Tax Tribunal.

In trying to manage the County's annual Michigan Employers Retirement Systems (MERS) contribution, staff submitted a request to MERS to review several of the County's Define Benefit Plans to consider extending the amortization period. MERS has already identified several of the plans that may be suitable for such an extension, but the actuary will provide the details as to whether it is a suitable alternative.

The 2018 budget will continue to reflect the ongoing cost increases for employee and retiree health insurance.

On a positive note, the change to the Western Michigan Health Insurance Pool (WMHIP) has allowed the County to know, since May, the annual increase to health insurance. For 2018, the increase will be approximately 6.3%. Clearly, no increase would be preferred, but given the past 4 years of more significant increases, we were pleased to receive this news. This early information, along with the move to P.A. 152 hard caps, has allowed staff to know the impact to our 2018 budget sooner and allowed for an earlier start to labor negotiations.

STATE

For 2018, Tax Tribunal applications and the Dark Store issue continue and could impact the County. There are some commercial tax tribunal cases pending. However, no funds are budgeted for significant tax tribunal adjustments. If this occurs, a short term use of Delinquent Tax funds would be recommended. The most notable filings include US Energies and Cliffs. Although, there does not seem to be any movement at this time, there is still the potential that the State will change the definition of what is considered an adult in Michigan. As noted in last year's budget memo, 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. Removal of adult status and placing them in the juvenile system could cause financial impacts to County governments.

Also, on the radar are the new rules for compliance for Indigent Defense. The County submitted an Indigent Defense plan to the State of Michigan in November, 2017. Planning Manager Eric Anderson took the lead role in developing a recommendation for the County Board. The State of Michigan has not budgeted for this program yet. The legislation does cap the County's exposure to a specified dollar amount (\$224,971). This amount represents the average annual expense incurred by the County for the years 2010-2012. The State of Michigan is responsible for expenses beyond the County's required amount.

Another area that staff is monitoring is where the State of Michigan may head with unfunded pension and health care liability reform. Earlier this year Governor Snyder created the OPEB Task Force to look into how to address this issue in many local governments. The Task Force concluded the issue needs more review, but given the complexity of the matter and a need for local flexibility, an answer at this time was beyond the scope of the Task Force. At this time there are no new funding requirements being placed on local government, but monitoring this process continues to be important.

Marquette County's ability to provide state-mandated services is largely dependent on our revenue sharing payment. State revenue sharing is anticipated to increase slightly from the 2017 levels. 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 \$1.3 million for 2018.

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 idling of the Empire Mine, tax revenues will begin to decline at a more rapid pace. Cliffs has filed with the Tax Tribunal claiming that the Empire Mine should fall under Ad Valorem taxation. Marquette County does not agree with this assertion and will be challenging that position. Although Cliffs continues to work through challenges, all indication is the Tilden Mine will continue to operate for decades to come.

With the 2018 budget recommendations, it is estimated that Airport Stabilization Funds will have adequate funds through 2019. Please note this is also dependent on the ability of the county to retain its current tenant base. This budget includes a \$100,000 transfer to the airport stabilization fund in 2018.

For 2018, 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. Even with all of the new development occurring in Marquette County, it is not anticipated that a Level IV will be needed for a couple more years.

The work of the Management Team and the Board of Commissioner priorities guide the 2018 Budget.

REVENUES

Total General Fund revenues are \$26,013,300, a slight decrease of \$29,224 from the 2017 budget. If state revenues are reduced, consideration should be given to reducing expenditures in the programs receiving state support.

Local property taxes increased by approximately \$85,000 an increase of less than 1%. Specific ore tax revenue for 2018 is estimated to be \$1,958,400, a decrease of \$245,200. Marquette County is still very fortunate to be receiving this level of revenue, but as noted in each budget memo this level of revenue will not continue due to the idling of the Empire Mine. The specific ore tax formula is based on a five-year average of annual production. As a point of reference, in 2013 the specific ore tax revenue was \$3,069,243.

Consistent with previous budget recommendations, the 2018 budget does not apply potential tax revenue from Lundin Eagle Mine to ongoing operating expenses. This continues to be our recommendation, as the expected life of the mine is less than 8 years. No use of funds is budgeted for 2018.

State revenues are projected to be flat with a slight increase to Revenue sharing. For state-funded programs such as juvenile treatment and the judiciary and court operations, the 2018 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 2018 Budget is limited to interest income generated or to funds that have a sufficient balance. Sawyer International Airport primarily relies on the Airport Stabilization Fund because airport revenues are inadequate to support required operating expenses for the airport.

Staffing:

The 2018 budget does not recommend any staff reductions. The Sheriff's Office requested one (1) additional Road Patrol position and three (3) full-time corrections officers. The budget does not include any increases in the road patrol positions, but does include one (1) additional full-time corrections position. Total hours of part-time corrections officers has been greatly reduced by the creation of 6 full-time positions in 2015, but part-time corrections officers still comprise over 16,000 total hours annually. Turnover continues to be a challenge. Since 2015, the department has been averaging 12 new hires each year. The expense to train and equip each officer ranges from \$5,000 - \$7,000.

The Prosecuting Attorney requested one (1) full-time clerk position. The 2018 budget includes funding for this position. The Prosecutor’s Office has experienced a significant increase in felony criminal charges, including domestic assaults and sexual conduct cases; these are time sensitive cases that require more time and attention from staff. Additionally, the duties of the staff have expanded with the advent of digital evidence-police body worn cameras. The 2018 budget includes funding for this position.

FEES

Fees for the various departments are continually monitored for needed increases. The Sawyer Water and Sewer Departments are recommending rate increases.

Building Code fees have been reviewed and adjusted to maintain an equitable balance between the charge and the amount of time typically needed for the specific type of permit. It should be noted that in addition to the fee increase, the Building Official is implementing “an additional fee of \$150.00 for work started before a permit is obtained” for licensed commercial contractors only. This is in response to some contractors that chronically fail to apply for permits.

As in prior years, the 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 2018 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 2018 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

As noted earlier, one (1) additional Road Patrol position and three (3) corrections officer positions were requested. The 2018 Budget includes the hiring of one additional correctional officer position.

The 2018 budget continues the operation of the Community Corrections Detention Center (CCDC).

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.

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 \$297,721 less than the 2017 budget. The decrease is due largely to lower personnel costs. The total budget is \$4,330,992. The Board of Health approves the Health Department budget. The final 2018 budget will be considered by the Board of Health after the Board of Commissioners has set the General Fund appropriation to the department.

The 2018 budget includes a transfer of \$10,000 from the General Fund with \$20,000 from the Veterans Affairs Budget for the Soldier Sailor Relief Fund.

The Veterans Affairs department millage request will remain at .08. The Veterans Affairs Committee requested a review of the two staff positions, citing the complexity of the jobs and related job requirements. Staff has reviewed the positions in detail and made subsequent changes to the job descriptions to reflect the positions. Both positions increased by at least two (2) paygrades. The 2018 budget reflects these changes. The 2018 budget includes \$14,000 for irregular part-time staff. All other Veterans Affairs budget requests are included in the budget.

The 2018 budget includes funding in the amount of \$55,000 for MSU Extension services. This is a slight increase over the 2017 budget as requested by MSUE. The Memorandum of Agreement expired on December 31, 2017. The county provides office space and \$30,050 for 4H support.

The DHS Social Welfare Board requested a budget of \$8,000 and included \$3,000 for travel. The budget includes a total appropriation of \$6,000, an increase of \$1,000 over 2017.

ADMINISTRATION

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

SAWYER INTERNATIONAL AIRPORT AND BUSINESS CENTER

Airport operating expenses are \$2,231,350. Operating revenues are \$1,864,500. 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.

There are no current employees in the Airport defined benefit retirement division. The move to a 15 year amortization from the accelerated method was approved, but it will be another year before the required contribution is reduced. In addition to the General Fund transfer of \$100,000 to the Airport Stabilization Fund, a transfer of \$130,000 to the Airport operating fund will cover the MERS contribution.

The Airport Stabilization Fund remains a funding source through 2019. 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.

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.

There are separate enterprise budgets for the Water and Sewer Funds. The 2018 budget includes a 3% increase to the combined rate for water and wastewater. The combined rate is \$17.60 per 1,000 gallons. The septage fee is increased to 12 cents per gallon. All other rates and fees remain the same.

AGING SERVICES

The Aging Services Advisory Committee approved the \$1,024,327 budget for current services and programs in 2018. 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. Anticipated tax revenue for 2018 is \$1,055,000.

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 2018 Budget includes \$52,000 for economic development. In past budgets, this amount was fully set aside for the Lake Superior Community Partnership (LSCP). The budget does not specifically identify the amount being provided for the LSCP. Per a contractual agreement \$5,000 shall be allocated for the county's contribution to the Next Michigan Development Zone. It is further recommended that \$5,000 be for the LSCP EDC. \$10,000 for the Marquette County's Brownfield. The remaining \$32,000 can be used in a contract for the LSCP or other economic development priorities.

PERSONNEL AND POST-EMPLOYMENT EXPENSES

As a service organization, our major expense is personnel. The 2018 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 negotiations with eight bargaining units whose contracts end or reopen at the end of 2017. The Health Insurance increase of 6.3% will cost the general fund approximately

\$100,000. This increase is offset by the move to the wrap program for the over-65 year old retirees.

The County's move from an accelerated amortization to a 15 year amortization for our closed defined benefit plans allows the budget to include a change in the way the costs for our unfunded liability is allocated to departments, special revenue funds and the airport. In addition, the budget includes a transfer of \$400,000 to the OPEB Reserve fund in 2018. The current balance in the OPEB reserve fund is \$2.7 million. The unfunded liability is \$55 million. It is estimated that the move to the wrap plan for the over 65-year old retirees will reduce the unfunded liability by approximately \$2 million to be reflected in the next actuarial report as of 12/31/17.

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 2019 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 2018, 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 tax tribunal challenges.