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MICHIGAN

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August 16, 2018

Benjamin Cross, Chairman and Members
Muskegon County Board of Commissioners
990 Terrace Street
Muskegon, MI 49442

Dear Commissioners:

The proposed FY2019 Muskegon County Budget is presented for your review and consideration. The County is committed to providing public safety; judicial administration; health and mental health programs; environmental protection through wastewater treatment, solid waste disposal and recycling programs; public transportation; public works and general government services. The goal of the County is to provide all of these services and simultaneously maintain financial stability.

Muskegon County continues to be a thriving, vibrant waterfront community where all people may prosper in a healthy environment. During 2018, several development projects have been completed. With new construction projects underway, and in the pipeline, Muskegon County looks to continue this growth in 2019. Some recently active projects that are either completed, underway, or recently announced are as follows:

Fruitport

- Two new hotels (Holiday Inn Express and Town Place Suites)
- New housing development

Muskegon Township

- Bayer Cropscience \$50 million Expansion

Norton Shores

- GE Aviation \$15 million facility
- La Colombe \$11 million facility

City of Whitehall

- Arconic \$100 million expansion announced earlier this year

Whitehall Township

- Walmart \$14 million facility in Whitehall Township

City of Muskegon

- KL Outdoor completed a \$10 million expansion in downtown Muskegon
- Terrace Flats (316 Morris Ave.), \$1.7 million – 21 market-rate apartments in the upper two floors of Terrace Plaza

City of Muskegon con't

- Highpoint Flats (285 W. Western Ave.), \$7 million – renovations of a nine-story historic bank building to create 47 apartments above three floors of restaurant, retail and office space
- Heritage Square Commons and Townhomes (Clay Avenue between First and Second streets), \$7 million – includes multistory townhomes, condos, apartments and commercial space
- Berkshire Senior Living (275 W Clay Ave.), \$16 million – 84 senior subsidized and market-rate apartments and commercial space
- Downtown Muskegon PetSafe Bark Park (793 W. Western Ave.), \$100,000 – first public dog park in Muskegon County is seven-tenths of an acre and includes space for large and small dogs
- Rad Dads Taco and Tequila Bar (470 W. Western Ave., Suite A) – restaurant opened inside L.C. Walker Arena
- Lakeview Lofts (351 W. Western Ave.), \$8 million – new six-story building to be completed this year includes 20 apartments and commercial space, including a restaurant yet to be named
- Terrace Point Landing (on Terrace Point Marina), \$14 million – 70-lot home community development
- Liberty Building (880 First St.) – demolition underway for mixed-use development
- Amazon apartments (550 Western Ave.) – conversion from low-income to market-rate apartments
- Watermark Center (930 Washington Ave.), \$33 million – next phase of the ongoing development includes 170 market-rate apartments
- Pigeon Hill Brewing Company production facility (corner of Shoreline Drive and Fourth Street), \$2.5 million
- Hartshorn Village (at Hartshorn Marina), \$30 million – 60 condos and rebuild of the clubhouse and pool
- Convention Center: Partnership with the City of Muskegon and a third party willing to increase their bed tax has made this a great opportunity for a Public - Private funding source.
- Holiday Inn renovations (939 3rd St.) – in conjunction with convention center construction
- Nipotes Italian Kitchen (98 W. Clay Ave.) – new Italian restaurant nearing construction
- Lindberg Building (Pine Street and Clay Avenue) – former Al Perri Furniture building redeveloped for sale or lease
- Lakeview Lofts phase two – second six-story, mixed-use building
- Five-story building (292 W. Western Ave.), \$10 million – office space on bottom two floors and condos above
- Retail/residential building plans for Western and Jefferson
- Mixed-used building on L.C. Walker Arena parking lot – possible five-story building for student housing
- Windward Pointe \$300 million waterfront development

Two of the largest employers are expanding as well. Mercy Health continues work on its \$271 million medical center and Muskegon Community College completed and opened its \$18 million downtown Sturris Technology and broke ground on a new 52,000 square foot Health and Wellness Center on the

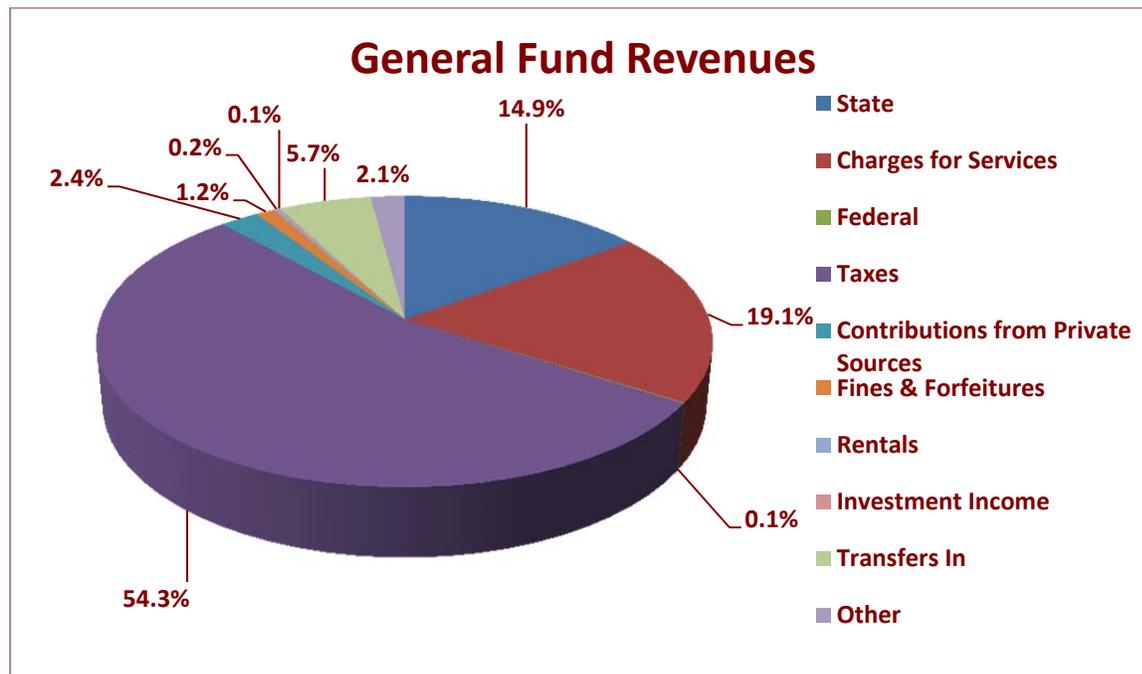
south side of the main Muskegon Community College campus.

With over \$1 billion in investment either completed, underway or proposed, Muskegon County is poised to continue its positive growth in 2019 and beyond.

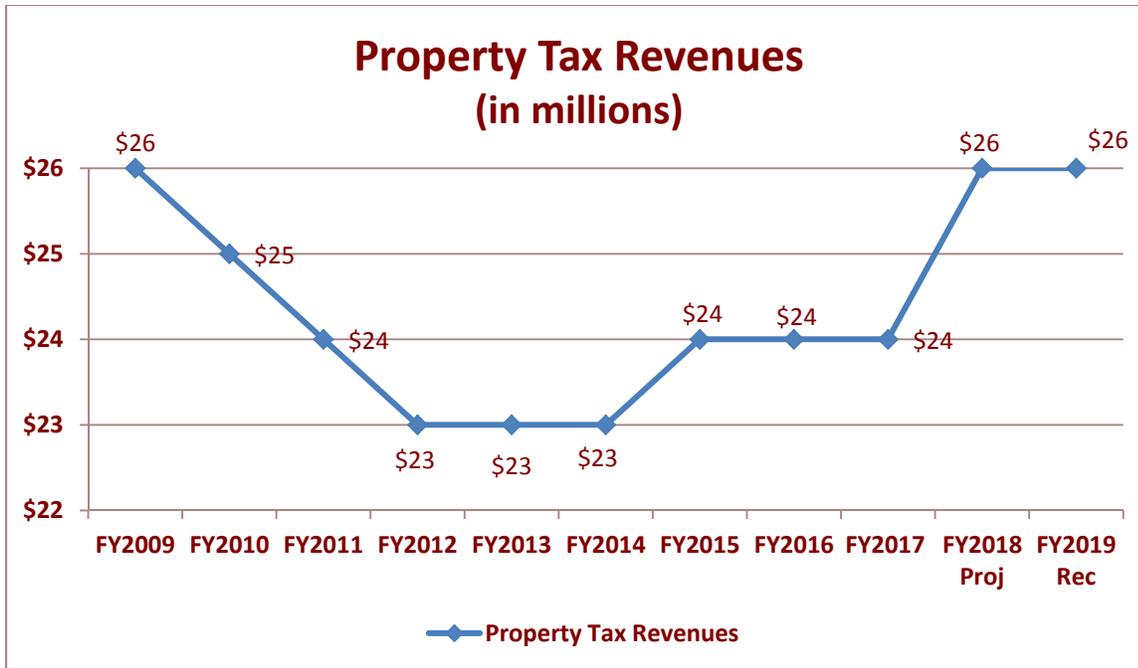
FY2019 General Fund Budget

General Fund Revenues

The General Fund's largest single source of revenue for the General Fund is tax revenue which represents 54.3% of total revenues. The remaining 45.7% of revenues consist of the state and federal grant revenues, charges for services, contributions from private sources, fines & forfeitures, rentals, investment income, transfers in and other revenues as shown in the graph below.



There are two components that comprise the rate of change in taxable values. Consumers Price Index (CPI) change from September to September is the first component which for FY2018 was 2.1%. The second component is the overall change in taxable valuation base which was still a positive .96% for FY2018. The two components combined resulted in a taxable value increase of 3.06%. The CPI has been trending up since September 2017 toward a 2.4% increase. The forecast for Muskegon County is to continue to see growth of 1.6% due to new housing, new business development and new expansions throughout the County for a total of 4% increase in taxable value for FY2019.



When Personnel Property Tax (PPT) Reform became law, the State indicated it would reimburse all municipalities for their lost revenue from these exemptions. The formula for reimbursement is complex and compares the loss in values between 2013, which is considered to be the base year, and the current year starting in FY2016. In FY2016 and FY2017 the State had accumulated additional funds to make those reimbursements and therefore issued payments to municipalities higher than their total PPT losses. This resulted in the County receiving \$575,000 more than projected in FY2016 and \$981,000 in FY2017. In 2018 the State passed amended legislation to retain the additional PPT reimbursement until May 2019 for all municipalities. Therefore the 2018 additional revenue will be applied to the FY2019 budget for a total reimbursement of \$1,788,000.

State revenue sharing is another component of the County's General Fund revenue representing 7.5% of total revenues and included in total State revenue category. The State of Michigan's budget includes a .5% increase or approximately \$18,000 to Muskegon County resulting in a total distribution of approximately \$3,690,000 in the FY2019 budget.

The FY2019 budget incorporates a portion of a new state grant from the Michigan Indigent Defense Commission (MIDC) for the operation of Muskegon County's Public Defenders Office in the amount of \$531,000. This grant will be used to help offset the additional costs associated with bringing the public defender function in house. In accordance with MCL Act 93 of 2013, the MIDC was established and grants were earmarked to Michigan Counties that comply with MIDC standards and develop a Compliance Plan. The total grant awarded to Muskegon County is \$918,000 with the additional \$387,000 to be used for additional staff, training, equipment, software and office space which are all required to comply with these new standards. The additional \$387,000 has not been incorporated into the FY2019 budget being presented.

The graph on page T3 shows that Charges for Services comprise 19.1% of General Fund revenues at \$9,421,000. Overall these revenues are anticipated to increase approximately \$549,000 over FY2018

primarily due to anticipated reimbursements for housing of additional state prisoners in the jail and an increase in the Administrative Cost Reimbursement.

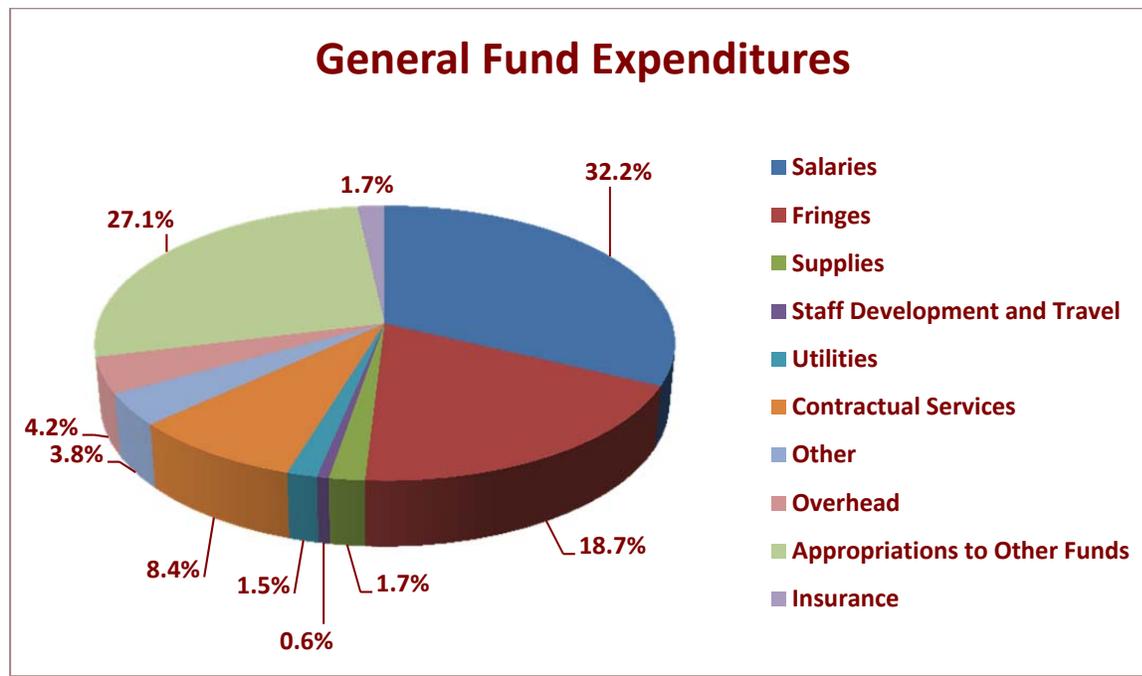
Contributions from Private Sources as depicted in the graph on page T3 represents revenue received from the DTE Test & Tune Program and are budgeted at \$1,160,000 for FY2019. The County administers this program whereby low income homeowners can get new or “tuned up” furnaces and thermostats. DTE Revenue comes into the County and is expended for the equipment and installation. The County does keep a portion of the revenue for our administrative oversight. The revenue decrease of \$330,000 over FY2018 is offset by a corresponding decrease in expenditures for the program costs being incurred. The net revenue impact of this service is anticipated to be \$81,000 for FY2019.

The FY2019 budget includes a reduction in the transfer from the Delinquent Tax Revolving Fund from \$1,943,000 in FY2018 to \$1,800,000.

Muskegon County loaned the City of Muskegon \$1 million in August 1989 to be used for the development of the downtown mall property. The resources for this loan were originally taken from the County’s Public Improvement Fund (\$500,000), Capital Improvement Fund (\$300,000) and Insurance Fund (\$200,000). The loan is expected to be repaid by August 2019. A transfer from the Public Improvement Fund to the General Fund of \$510,000 is included in the FY2019 budget.

General Fund Expenditures

Personnel costs comprise nearly 50.9% of the total General Fund expenditures. The FY2019 budget does not include any addition or elimination of positions. Total budgeted General Fund wages for FY2019 are \$15,870,000 or 32.2%.



Total General Fund budgeted fringe benefits for FY2019 are \$9,244,000 or 18.7% as depicted in the graph above. This includes medical insurance premiums which are projected to increase 11% according to our insurance broker effective January 1, 2019. As new employees sign up for the HSA health plan

and the current employees switch over to the HSA plan, this 11% increase will be offset by projected savings of \$100,000. The combination of these two result in a net increase of \$128,000 to the budget resulting in total medical insurance costs of \$3,517,000.

Also included in the fringe benefit category are pension costs. Historically the allocation of pension costs involved tracking on a position by position basis those with the defined benefit pension plan and those with the defined contribution pension plan. This method became no longer feasible particularly as a result of the closure of Brookhaven. Therefore an updated methodology was implemented for charging departments for the defined benefit pension costs. An overall average percentage of 17.51% of wages was calculated based on the total estimated annual required contribution provided by MERS divided by the overall estimated wages. The updated methodology is a more common way of charging pension costs. The change in process resulted in a decrease in retirement costs of \$814,000 to the General Fund. The impact of this change to other funds was an offsetting increase. The county-wide annual required contribution for FY2019 based on the MERS actuarial valuation is \$9,016,000 which is a 10.6% increase over FY2018. The total General Fund pension costs for FY2019 are \$2,880,000. FY2019 includes the continuation of using the workers comp reserve that has built up over a number of years in the Insurance Fund. In addition, the OPEB cost for retirees' medical insurance was not increased in the FY2019 budget which amounts to \$731,000.

As depicted in the graph on page T5, Appropriations to Other Funds represent 27.1% of total General Fund expenditures for a total of \$13,384,000. One of which is to the Building Authority Jail/JTC debt service fund to cover the debt service payments for the Jail/JTC project for the newly restructured debt amount of \$2,525,000. This is the first year there will be a principle payment on this debt. The full FY2019 debt service payment of \$2,663,000 is being covered by the General Fund appropriation as well as a transfer of the remaining balance in the Quality of Life Debt Service Fund (3111) of \$136,000.

The Appropriation to the Child Care Fund is increasing to \$4,581,000 which is \$469,000 higher than FY2018. This increase is attributable to the inclusion of depreciation costs on the JTC building which are not grant reimbursable costs and therefore must be covered by additional General Fund appropriation.

The Appropriation to the Airport is budgeted at \$388,000 for FY2019 which is \$338,000 higher than FY2018. The increase is to cover the local match on several runway capital projects as well as the cost of a new terminal parking lot control system and snow removal equipment.

Appropriations to other funds include Family Court (\$1,607,000), Public Health (\$1,791,000) and Healthwest (\$751,000) which are remaining fairly constant compared to FY2018. There is no appropriation to Muskegon Area Transit System (MATS) in the FY2019 budget. MATS is working with municipalities to evaluate local service routes, funding and long-term viability.

Presented for your consideration is a balanced General Fund budget with revenues and expenditures of \$49,315,488. Appreciation and gratitude goes out to our department heads and their staffs for all of their hard work during this process. On behalf of the budget team, the department heads, and the county staff, I would like to express our sincere appreciation to the Board of Commissioners and Elected Officials for their guidance through the process.

Respectively Submitted,

Mark Eisenbarth
County Administrator