

**ANNUAL BUDGET REPORT TO THE BOARD**

On behalf of the members of the Ways and Means Committee, I present to the Eaton County Board of Commissioners for their study and consideration, the following proposed budget for Eaton County General Fund operations for the 2022/2023 fiscal year.

Eaton County operates under a fixed millage formula in which the County reserves 5.5 mills. The County's taxable value is projected to increase 6.50% in 2022/2023. The County has experienced ten Headlee rollbacks with a resulting number of mills being requested of 5.2096. These rollbacks are estimated to cost the County \$1,301,448 of revenue it otherwise would have received. In addition, Downtown Development Authorities (DDA) and Local Development Finance Authorities (LDFA), created by the various local units within the County, capture property tax revenue the County would otherwise receive. This further reduces revenues available for the County. Local units utilize these tax revenues for economic development purposes. The 2022 DDA and LDFA captured amounts are as follows: General Fund Operating Millage - \$436,079 and Special Revenue Funds including: 911 Millage - \$74,589, Jail Millage - \$54,964, Juvenile Millage - \$27,478, EATRAN Millage - \$19,626, Health and Rehabilitation Services Millage- \$9,809 and Road Millage - \$117,779.

The proposed fiscal year 2022/2023 budget totals \$45,400,572 which represents an 3.75% increase from the fiscal year 2021/2022 budget. In dollars, this increase represents \$1,640,490.

Throughout the current fiscal year, the after effects of the global pandemic re-shaped the County's operations and its budget development for fiscal year 2022/2023. As permitted by the American Rescue Plan (ARP), the County elected to use \$10,000,000 of its allocation as revenue loss. The proposed budget includes recognition of \$3,482,500 to maintain a continuation budget. A similar amount remains available for the same intended purpose for the fiscal year 2023/2024 budget.

Below is a table summarizing projected revenue by source for fiscal year 2022/2023:

<b>REVENUE SOURCE</b>	<b>2021/2022 AMENDED BUDGET</b>	<b>2022/2023 PROPOSED BUDGET</b>	<b>INCREASE/ (DECREASE)</b>	<b>PERCENT INCREASE</b>
TAXES	\$ 21,995,330	\$ 23,824,118	\$ 1,828,788	8.31%
LICENSES & PERMITS	146,300	215,300	69,000	47.16%
FEDERAL REVENUE	789,942	820,634	30,692	3.89%
STATE REVENUE	4,937,587	5,061,577	123,990	2.51%
LOCAL UNIT CONTRIBUTIONS	4,004,177	4,319,516	315,339	7.88%
CHARGES FOR SERVICES	2,788,200	2,836,950	48,750	1.75%
FINES & FORFEITURES	240,200	241,200	1,000	0.42%
INTEREST & RENTS	243,705	242,705	(1,000)	(0.41%)
OTHER REVENUE	185,140	172,525	(12,615)	(6.81%)
OTHER FINANCING SOURCES	3,960,757	5,776,146	1,815,389	45.83%
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 39,291,338</b>	<b>\$ 43,510,671</b>	<b>\$ 4,219,333</b>	<b>10.74%</b>
HISTORICAL BUDGET MARGIN	\$ 1,412,497	\$ 1,482,173	\$ 69,676	4.93%
HISTORICAL EMPLOYMENT MARGIN	1,080,743	1,149,799	69,056	6.39%
USE OF FUND BALANCE	1,975,504	(742,071)	(2,717,575)	(137.56%)
<b>TOTAL REVENUE BUDGET</b>	<b>\$ 43,760,082</b>	<b>\$ 45,400,572</b>	<b>\$ 1,640,490</b>	<b>3.75%</b>

Revenues have stabilized and, in certain cases, are increasing. Increases in taxes include property taxes on new development and construction as well as uncappings due to property transfers. These increases are offset by the required rollback in the millage rate discussed previously. Housing market activity increases similarly impacted County Real Estate Transfer Taxes which are also projected to increase. State Revenue Sharing funds increased by \$243,374 or 10.33% over fiscal year 2021/2022. The significant increase in Other Financing Sources includes the previously mentioned ARP funding.

Leading in to the 2022/2023 fiscal year and the levels of overall inflation experienced during 2022 increases in revenues are not keeping pace with expenditures which I'll review in greater detail.

Below is a table summarizing projected expenditures by function for fiscal year 2022/2023:

<b>EXPENDITURE FUNCTION</b>	<b>2021/2022 AMENDED BUDGET</b>	<b>2022/2023 PROPOSED BUDGET</b>	<b>INCREASE/ (DECREASE)</b>	<b>PERCENT INCREASE</b>
LEGISLATIVE	\$ 380,739	\$ 335,350	\$ (45,389)	-11.92%
JUDICIAL	6,006,843	6,228,419	221,576	3.69%
GENERAL GOVERNMENT	10,720,921	11,214,157	493,236	4.60%
PUBLIC SAFETY	17,475,419	18,428,007	952,588	5.45%
HEALTH AND WELFARE	1,257,214	1,265,784	8,570	0.68%
RECREATION AND CULTURAL	17,000	17,000	-	0.00%
OTHER	117,500	168,000	50,500	42.98%
CAPITAL OUTLAY	844,124	1,247,100	402,976	47.74%
DEBT SERVICE	495,122	584,426	89,304	18.04%
TRANSFERS - OUT	6,445,200	5,912,329	(532,871)	-8.27%
<b>TOTAL EXPENSE BUDGET</b>	<b>\$ 43,760,082</b>	<b>\$ 45,400,572</b>	<b>\$ 1,640,490</b>	<b>3.75%</b>

Below is a table summarizing projected expenditures by classification for fiscal year 2022/2023:

<b>EXPENDITURE CLASSIFICATION</b>	<b>2021/2022 AMENDED BUDGET</b>	<b>2022/2023 PROPOSED BUDGET</b>	<b>INCREASE/ (DECREASE)</b>	<b>PERCENT INCREASE</b>
SALARIES	\$ 16,390,467	\$ 16,949,906	\$ 559,439	3.41%
HEALTH INSURANCE	3,452,820	3,532,230	79,410	2.30%
RETIREMENT	4,648,719	5,622,679	973,960	20.95%
RETIREE'S HEALTH	1,831,293	1,937,018	105,725	5.77%
OTHER FRINGE BENEFITS	1,704,274	1,776,598	72,324	4.24%
TOTAL EMPLOYEE COSTS	\$ 28,027,573	\$ 29,818,431	\$ 1,790,857	6.39%
SUPPLIES & OTHER	\$ 7,948,063	\$ 7,838,286	\$ (109,777)	-1.38%
CAPITAL OUTLAY	844,124	1,247,100	402,976	47.74%
DEBT SERVICE	495,122	584,426	89,304	18.04%
TRANSFERS - OUT	6,445,200	5,912,329	(532,871)	-8.27%
<b>TOTAL EXPENSE BUDGET</b>	<b>\$ 43,760,082</b>	<b>\$ 45,400,572</b>	<b>\$ 1,640,490</b>	<b>3.75%</b>

Of note, a number of factors related to personnel costs affect all departments.

#### SALARIES

The proposed budget includes an increase of \$559,439 in wages. These wages represent \$16,949,906 or 37.33% of the total General Fund Budget. This proposed budget includes a 3% cost of living pay increase for all general non-union employees.

#### RETIREMENT

The proposed budget includes a General Fund increase of \$973,960 in the required employer share retirement cost as determined through the Municipal Employees Retirement System (MERS) annual actuarial valuation. The total General Fund cost of the retirement, based on the proposed salaries, is \$5,622,679 representing 12.38% of the General Fund Budget. This increase continues to be driven by the financial responsibility policies of MERS and the

requirements of P.A. 202 of 2017 to reduce the County's unfunded liabilities. The County has made additional contributions to the pension system and taken actions to reduce the benefit multiplier and calculations of final average compensation (FAC). Due to ongoing and continuing economic conditions, the long-term impacts on future pension contribution requirements and actuarial calculation of unfunded liabilities remain uncertain and will continue to pressure the County's budget in the future.

#### RETIREE HEALTH PLAN AND RETIREE HEALTH CARE SAVINGS PLANS

The proposed budget includes an increase of \$89,205 in the total employer share contribution for the retiree health benefit and health care savings plan. Related to the Retiree Health Plan for employees hired prior to January 1, 2006, this budget includes funding on a pay-as-you-go basis which covers the expenses for currently covered retirees. The total General Fund cost of retiree health is \$1,641,510. The employer retiree health contribution, for the eligible employees hired prior to January 1, 2006, is 31.5% of eligible employee payroll, an increase of 2% over the fiscal year 2021/2022 budget.

The Retiree Health Unfunded Actuarial Accrued Liability as of the most recent valuation dated December 31, 2021 is \$33,900,271. This represents an increase of \$379,269 from the December 31, 2020 valuation. The County's funded ratio has improved to 36% as of December 31, 2021 as a result of the additional contributions made to the trust in 2019.

For employees hired on or after January 1, 2006, the County implemented a level funding contribution for non-union employees, effective January 1, 2021. Required employee contributions remain the same at 1% of an employee's salary, and employees can continue to elect to make additional contributions without a match from the County. The funds are eligible for use upon separation of employment with the County. The total General Fund cost of the post January 1, 2006 based on the proposed salaries is \$295,508.

Similar to the retirement liability, due to ongoing and continuing economic conditions the long-term impacts on the future retiree health insurance contributions and actuarial calculation of the unfunded retiree health insurance liability remain uncertain and will continue to pressure the County's budget in the future.

#### HEALTH INSURANCE

The current proposed budget includes a 1.3% increase in the hard caps allowed by Public Act 152 for the total cost employers may pay for health insurance. The General Fund cost increased by \$79,410, which includes the 1.3% increase, as well as changes to individual employee coverage elections. The General Fund cost of the proposed health insurance estimate is \$3,532,230 which amounts to 7.78% of the total General Fund Budget.

#### OTHER FRINGE BENEFITS

The County pays other fringe benefits including social security, dental, worker's compensation, unemployment and life and disability which increased by \$72,324. The total General Fund cost for these benefits is \$1,776,598 representing 3.91% of the General Fund Budget.

#### CAPITAL OUTLAY

Capital Outlay increased significantly due to the one-time purchase of a mobile command unit for the Sheriff's Department. This item is budgeted for \$300,000 and accounts for 24.06% of the total Capital Outlay budget and 0.66% of the General Fund Budget.

The County, its Elected Officials and the Courts continue to evaluate and adapt how business is conducted and services are provided in today's rapidly changing environment. This evaluation has put an increased emphasis on the County's use of technology, to perform work and deliver services. The County continues to address infrastructure, maintenance and equipment needs, within its budget constraints. This budget continues to include necessary funding for these critical needs.

Our sincere thanks to all Elected Officials, the Court and Department Heads for their cooperation in making sustainable changes within their offices to assist in balancing this budget, during these extraordinary times.

Thanks should also go to the other members of the Ways and Means Committee: Brian Lautzenheiser, Brian Droscha, Jim Mott, Terrance Augustine, Jeanne Pearl-Wright, and Joe Brehler for their attendance and input at the work sessions. Also, thanks to our Chairman, Jeremy Whittum, and other members of the Board who have attended the budget sessions and provided input and participated in our decision process. We also thank the staff of the Controller's Office for their hours spent in the 2022/2023 Budget process.

Thank you,

Blake Mulder  
Ways and Means Committee Chairperson