

Ryan L. Wood
County Administrator

Craig Longnecker
Deputy Administrator



100 E. State Street, Suite 2100
St. Johns, Michigan 48879
(989) 224-5120 • Fax: (989) 224-5102

www.clinton-county.org

**WAYS AND MEANS COMMITTEE
TUESDAY, APRIL 23, 2019 AT 2:00 P.M.
CLINTON COUNTY COURTHOUSE
BOARD OF COMMISSIONERS ROOM
100 EAST STATE STREET, ST. JOHNS, MI 48879**

1	2:00	CALL TO ORDER, ADDITIONS TO THE AGENDA
2	2:02	LIMITED PUBLIC COMMENTS
3	2:05	PUBLIC SAFETY FUNDING - DISCUSSION
4	3:05	COMMISSIONERS' COMMENTS
5	3:10	ADMINISTRATOR'S REPORT
6	3:15	ANY OTHER BUSINESS
MEETING STARTS PROMPTLY AT CALL TO ORDER TIME LISTED. AGENDA ITEM TIMES MAY VARY		

PACKET INFORMATION IS CURRENT AS OF POSTING DATE. **NOTE:** ADDITIONAL INFORMATION MAY BE PRESENTED ON SCHEDULED AGENDA ITEMS. AGENDA ITEMS MAY ALSO BE ADDED DUE TO BUSINESS NEEDS.

TO REQUEST ACCOMMODATIONS OR MATERIALS IN AN ALTERNATIVE FORMAT, PLEASE CONTACT ADMINISTRATION AT (989)224-5120 OR TDD USERS WITHIN CLINTON COUNTY MAY DIAL 9-1-1 FOR GENERAL COUNTY SERVICES OR USE MICHIGAN RELAY 1-800-649-3777 OR THE NATIONAL RELAY NUMBER OF 7-1-1 NO LATER THAN 48 HOURS PRIOR TO THE MEETING.

Ryan L. Wood
County Administrator

Craig Longnecker
Deputy Administrator



100 E. State Street, Suite 2100
St. Johns, Michigan 48879
(989) 224-5120 • Fax: (989) 224-5102

www.clinton-county.org

To: Ways and Means Committee
From: Craig Longnecker, Deputy Administrator
Date: April 18, 2019
Subject: Public Safety Funding

During the March 22nd Committee of the Whole meeting the issue of funding public safety priorities was reviewed. The purpose of this memo is to provide a framework for ongoing discussions regarding this issue and address some of the thoughts and concerns expressed by board members as a result of the initial presentation.

Issues Addressed

- 1) A review of legacy cost funding in light of newly announced actuarial assumptions.
- 2) An adequate level of general fund unassigned fund balance.
- 3) A more detailed look at central dispatch operating and capital expenditures.
- 4) An initial estimate of future funding needs for central dispatch.
- 5) Subsidizing the central dispatch fund with public improvement dollars.

It is likely that this process will take several meetings. This memo is not meant to encompass all possibilities as further research and discussion will be necessary.

Problem Statement

The immediate concern revolves around the decision to transition to the Michigan Public Safety Communications (MPSC) radio system. This project will span multiple years and has an initial cost estimate of nearly \$11 million. The capital improvement plan projects a subsidy of \$8 million from the public improvement fund with the remaining \$2.75 million coming from the central dispatch fund. This amount of subsidy for the 911 operation is unprecedented; when combined with public safety facility renovation projects, reserves in the public improvement fund are estimated to be reduced from over \$11 million to about \$1 million at the end of the five year projection.

Before breaking down the operating and capital components of the central dispatch fund projections, I would like to address the option of diverting funding from legacy cost obligations and/or drawing funds from the unassigned fund balance category of the general fund.

Legacy Costs

The most recent actuarial report shows the defined benefit pension plan funded at 103%. This is the result of a commitment by the Board to reach a level of funding that would stabilize the operating budget and be adequate to meet benefit obligations. Due to upcoming changes in actuarial assumptions, primarily reducing the interest rate assumption, this will continue to be a challenge. Specifically, the interest rate assumption will be reduced from 7.75% to 7.35% as part of the 2019 actuarial study. Required contributions will increase in 2021 as a result of the 2019 actuarial. Per discussion with the Municipal Employees Retirement System (MERS) representatives at the March 22nd meeting there will continue to be downward pressure on interest rates since the State has set a target rate of 7%.

Reaching full funding for the defined benefit plans required a solid plan and strong financial commitment by the Board. In order to attain full funding total annual contributions over the last decade have averaged \$2.7 million. The plan advanced at the March 22nd meeting would level the total annual contribution from the operating budget at \$2 million over the next ten years. Projected spikes above \$2 million would be drawn from the assigned general fund balance designated for this purpose. The special report provided by MERS indicates that this contribution level would keep funding levels between 90% - 100% over the next five years.

Closed defined benefit plans require amortization of the unfunded liability over ten years. If the unfunded liability grows too large an organization is simply replacing voluntary funding with required funding, further reducing financial flexibility. Administration recommends that the Board accept the plan advanced at the March 22nd meeting and not allow funding to drop below 90%.

As of the last actuarial report the retiree health care trust is funded at 143%. Due to the level of funding there is no annual contribution required for 2019 or 2020. A nominal contribution continues to be made as it is anticipated that this level of funding will eventually stabilize in the 100% - 120% range and a small contribution may be required.

Unassigned Fund Balance

The 2018 audit will show that the unassigned general fund balance exceeds \$10 million and represents 45% of total general fund expenditures and transfers. This level of fund balance was developed to allow for cash to be available during the first eight months of the year prior to the collection of tax revenue, foregoing the need to issue tax anticipation notes. It is also consistent with the Board's desire to maintain services throughout challenging economic cycles.

Administration and the Treasurer agree that the necessary fund balance for cash flow purposes prior to tax revenue arriving in the fall is \$8 million, reducing the unassigned fund balance to 35%. This level of fund balance is consistent with municipal finance research regarding recommended reserves to withstand economic downturns. The Board could draw down the unassigned general fund balance by \$2 million for a one time capital purchase.

Central Dispatch Funding

This section will delineate between operational and capital expenditures. In this case operational expenditures represent the ongoing cost of running the Central Dispatch department. Below is a 10 year projection of the operational budget using the existing surcharge of \$2.75 per month. A projection with the surcharge changed to \$3.00 starting January 1, 2022 follows.

911 OPERATIONAL BUDGET PROJECTION @ \$2.75 PER MONTH

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Rev	\$2,432,435	\$2,389,122	\$2,346,676	\$2,305,078	\$2,264,313	\$2,224,363	\$2,185,211	\$2,146,843	\$2,109,242	\$2,072,393
Exp	\$1,872,508	\$1,940,890	\$2,011,815	\$2,085,378	\$2,161,680	\$2,240,824	\$2,322,916	\$2,408,069	\$2,496,399	\$2,588,026
Net	\$559,927	\$448,232	\$334,861	\$219,700	\$102,633	\$(16,461)	\$(137,705)	\$(261,226)	\$(387,157)	\$(515,632)

911 OPERATIONAL BUDGET PROJECTION @ \$3.00 PER MONTH STARTING 1/1/2022

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Rev	\$2,432,435	\$2,389,122	\$2,346,676	\$2,488,523	\$2,444,089	\$2,400,543	\$2,357,868	\$2,316,047	\$2,275,062	\$2,234,897
Exp	\$1,872,508	\$1,940,890	\$2,011,815	\$2,085,378	\$2,161,680	\$2,240,824	\$2,322,916	\$2,408,069	\$2,496,399	\$2,588,026
Net	\$559,927	\$448,232	\$334,861	\$403,145	\$282,409	\$159,720	\$34,952	\$(92,023)	\$(221,337)	\$(353,129)

As you can see by the projections, revenues fail to cover expenditures starting in 2024 with the \$2.75 surcharge and in 2026 with the \$3.00 surcharge. Neither option would generate enough revenue to cover projected operational expenditures over the 10 year period.

The end of 2021 is a crucial date for Central Dispatch funding and capital purchases. The current funding mechanism sunsets at the end of 2021 along with the current voter authorized surcharge. The transition to the state system is scheduled to take place by the end of 2021 as well.

While it is early in the process, the table below breaks out capital expenditures related to the radio coverage project and ongoing central dispatch capital needs. Capital expenditures are primarily defined in this instance as purchases of structures, equipment and software.

PROJECT 25

	2020	2021	2022	2023	2024
MPSC – Radio System	\$3,000,000	\$2,500,000			
Coverage Enhancement				\$1,500,000	\$1,500,000(2)
Backup Center				\$2,250,000 (1)	
TOTAL	\$3,000,000	\$2,500,000		\$3,750,000	\$1,500,000

TOTAL COST FOR PROJECT 25 \$10.75 MILLION

- (1) If Ingham County can be used as backup facility, cost can be reduced by \$2 million.
- (2) If second tower is not needed, cost can be reduced by another \$1.5 million.

REMAINING 911 CAPITAL ITEMS

	2019	2020	2021	2022	2023	2024
Mobile Data Computers				\$480,000		
CAD System				\$1,000,000		
Other Items	\$230,000	\$129,000	\$25,000		\$50,000	\$275,000
TOTAL	\$230,000	\$129,000	\$25,000	\$1,480,000	\$50,000	\$275,000

COST FOR REMAINING ITEMS \$2.2 MILLION

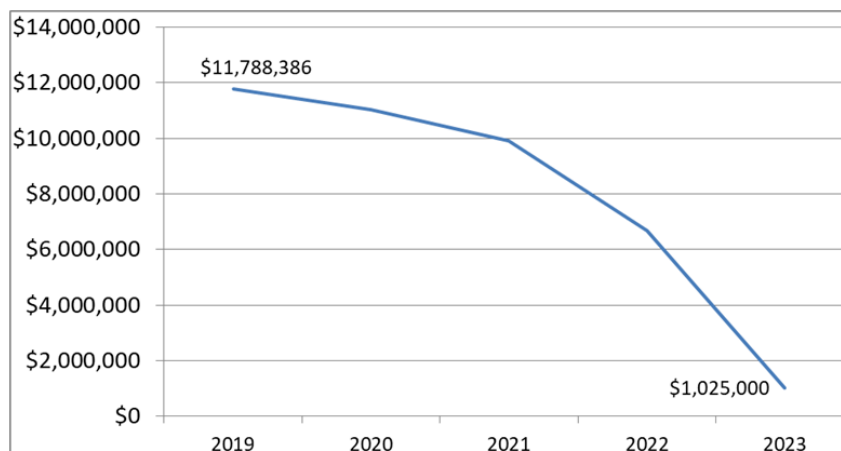
Capital needs thru 2024 for Central Dispatch total nearly \$13 million. As noted above it is likely this number can be reduced by \$3.5 million if both the backup facility and second tower are not needed. Of the remaining nearly \$10 million in required funding, the 911 fund can cover \$3.9 million through 2022 before the fund balance falls below the \$1 million required to sustain a positive cash flow in the fund. The remaining amount is scheduled to come from the public improvement fund, which will be discussed in the following section.

As noted in the **911 OPERATIONAL BUDGET PROJECTION @ \$2.75 PER MONTH** chart the operational deficit starts in 2024 using the current funding model. As noted above the capital deficit will start in 2023. Funding for Central Dispatch expenditures will need to be increased at the end of 2021 when both the funding authorization and voter approved surcharge end. Currently, the main source of revenue is the \$2.75 surcharge collected by the county. This source of revenue is anticipated to generate nearly \$2.2 million in 2019. In order to maintain the required fund balance and cover both operational and normal capital expenditures, the 911 fund will need at least an additional \$500,000 per year in revenue starting in 2022.

Public Improvement Funding

The above scenario assumes that the cost of Project 25 is borne in large part by the public improvement fund. When looking only at equipment replacement and the public safety priorities in the capital improvement plan, the public improvement fund is reduced significantly.

PUBLIC IMPROVEMENT FUND



As noted previously, it is likely the cost of Project 25 can be reduced by \$3.5 million; the public improvement fund share of that amount is \$3.25 million. If the Board decided to take capital improvement items #5 & #6 off the table that would save an additional \$3 million. Item #5 is the expansion of the maintenance building to house public safety equipment and item #6 consists of adding a training room on to the jail facility.

These actions would leave a remaining fund balance in the public improvement fund of just over \$7 million at the end of 2023. This amount would allow for equipment replacement and an adequate fund balance to address unforeseen expenditures.

Review of Issues Addressed

- 1) **Legacy Costs** - Allowing the funding level of the defined benefit pension plan to drop below 90% will not free up funding for capital projects in the long run and would actually be counterproductive. It would result in more volatility and less financial flexibility by replacing current voluntary payments with future required annual contributions.
- 2) **GF Unassigned Fund Balance** – The unassigned general fund balance could be reduced from 45% of total general fund expenditures and transfers to 35%. This would free up \$2 million for one time use.
- 3) **Central Dispatch** – The current revenue source for central dispatch fails to cover operational and normal capital expenditures much beyond the end of the current funding mechanism which ends at the end of 2021. The initial estimate is that at a minimum an additional \$500,000 per year starting in 2022 is necessary to sustain the fund through 2028.
- 4) **Public Improvement Fund** – Reductions in the cost of Project 25 and a reevaluation of capital projects could result in an adequate fund balance for the public improvement fund.

Summary

The purpose of this memo was to provide a framework for ongoing discussions regarding public safety funding. I hope some of the thoughts and concerns expressed by board members were addressed in a useful framework that contributes to further dialog. The good news is that there is time to make thoughtful decisions regarding capital improvement plan priorities and a sustainable funding mechanism for Central Dispatch.

Suggested Action: Discussion