

Dollars and Sense:

How County of Berrien, Michigan Spends Your Money

2014 Citizen's Guide to
County of Berrien, Michigan Financial Health

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KEY TERMS

There are a few key terms that may be helpful when reading this report. They include:

- **Budget deficit/surplus.** If there is less money received than paid out in a given fiscal year, there is a budget **deficit** or shortfall. If there is more money received than paid during the fiscal year, a budget **surplus** exists.
- **Debt.** Just like a homeowner takes out a mortgage, governments can borrow money to pay for certain types of projects. The county has both short-term debt (paid back within the fiscal year) and long-term debt. Debt can be either **general obligation** debt, meaning that the county pays back the debt with regular tax collections and other revenues, or **special revenue** debt, which is paid off over time with revenue from specified sources beyond the usual taxes and service fees.
- **Fiscal year (FY).** The 12-month period of time during which budgets are allocated or finances are planned. Most households have a fiscal year that runs from January 1 to December 31 (that's the period for which we pay personal income taxes in April), while state government also uses an October 1 – September 30 fiscal year. County government uses a January 1 – December 31 fiscal year. Some other local units of government, including public schools, use a July 1 - June 30 fiscal year, while others operate on a typical calendar year.
- **Fund balance.** Once all the bills for the year have been paid out of a certain fund, whatever is left over is called the fund balance. When a fund balance is less than zero, you'll see the number shown with parentheses around it. Deficits cause fund balances to decrease, while surpluses cause them to increase.
- **Public budget gap.** A novel measure, similar to the deficit, used to measure the extent to which a government is falling short of covering its current and long-term obligations in a fiscal period. The budget gap takes into account the budget deficit, as well as any new obligations that the government has failed to cover such as **employee pensions or retiree health care**.
- **Reserved/Restricted funds.** Some funds are considered to be "reserved" or "restricted" for a specific purpose, and cannot be spent for anything else.
- **Primary county government.** Primary county government is total county government excluding component units of government. Component units are separate units over which the government has influence, but operate as separate authorities. In the case of Berrien County, component units are the Berrien County Building Authority, Berrien County Road Commission, Berrien County Drain Commission, Berrien County Brownfield Redevelopment Authority, Berrien County Economic Development Corporation, Berrien County Land Bank Authority, and Berrien Mental Health Authority.
- **Niles-Benton Harbor MSA.** Some governmental agencies utilize a statistical area called a Metropolitan Statistical Area (MSA) which closely approximate the County of Berrien. For reporting purposes, County information exists only in these statistical areas in these cases.
- **Self-insured program.** A self-insured program is administered by a third-party administrator who provides claims review and processing services as well as illustrated premium rates, which are anticipated, over time, to approximate the actual cost of benefits.

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Welcome



William A. Wolf, County Administrator

Greetings,

You, as residents of Berrien County, have a vested interest in the economic future of our County. This report is intended to provide the Citizens of Berrien County with an assessment of the financial health of the County of Berrien, Michigan government. In support of that assessment this report provides information on:

- How government uses your money.
- Where we're headed as a County.
- How taxpayer money is spent.
- County's fiscal health.

For this report, we have used the most recent information available. In most cases, this is the 12 month period ending December 31, 2013.

Once you have read this report, you are invited to make your voice heard. Share your opinions and thoughts with your County Commissioner, or contact my office at William A. Wolf, County Administrator, Berrien County Administration Center, 701 Main Street, St. Joseph, MI 49085.

Thank you for taking the time to read this report and for your interest in the County of Berrien, Michigan.

Sincerely,

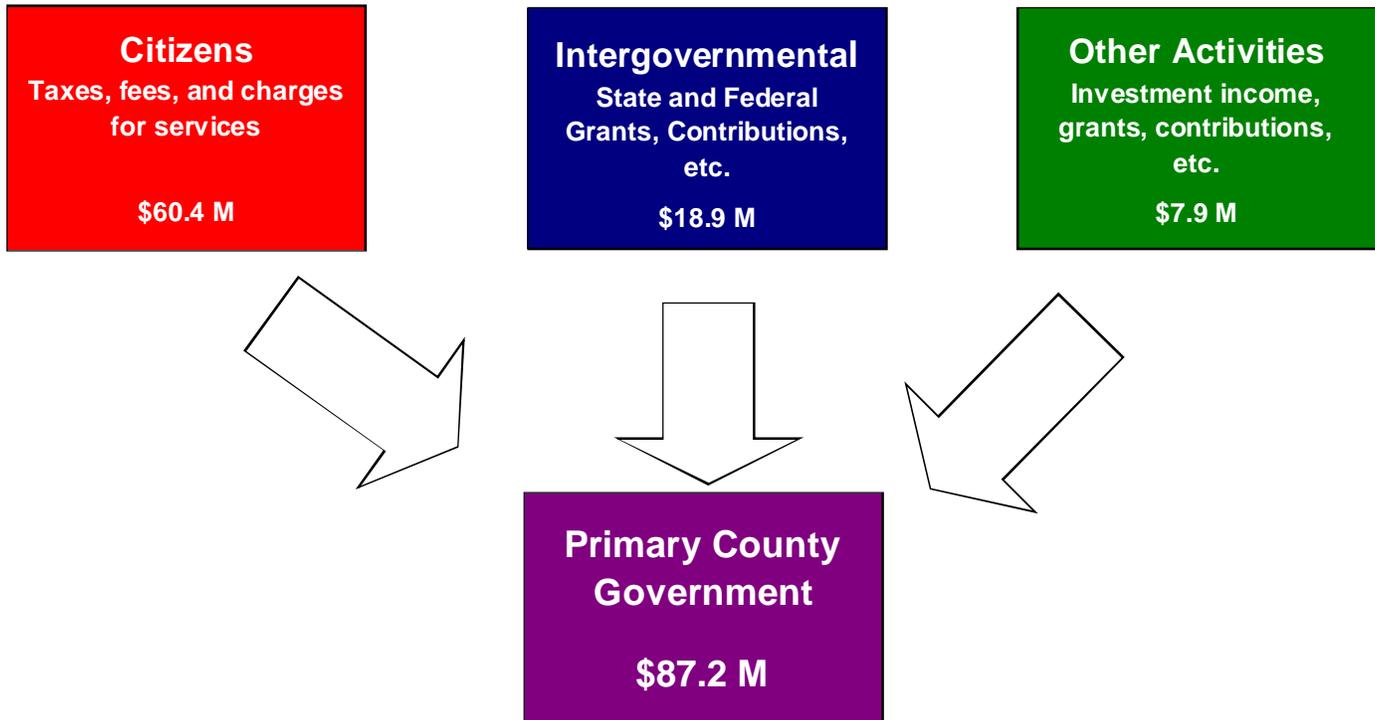
A handwritten signature in black ink, appearing to read "W. Wolf", written in a cursive style.

William A. Wolf
County Administrator

How Government Uses Your Money

WHERE CITIZEN DOLLARS GO

For every \$97 you earn, you pay \$1 in taxes, fees, and charges for services to Primary County government. This amounted to \$60.4 million in 2013. Additionally, State and Federal government contributed \$18.9 million in the form of grants, etc. while other activities such as investments and other contributions generated an additional \$7.9 million.



SERVICES THAT GOVERNMENTS PROVIDE

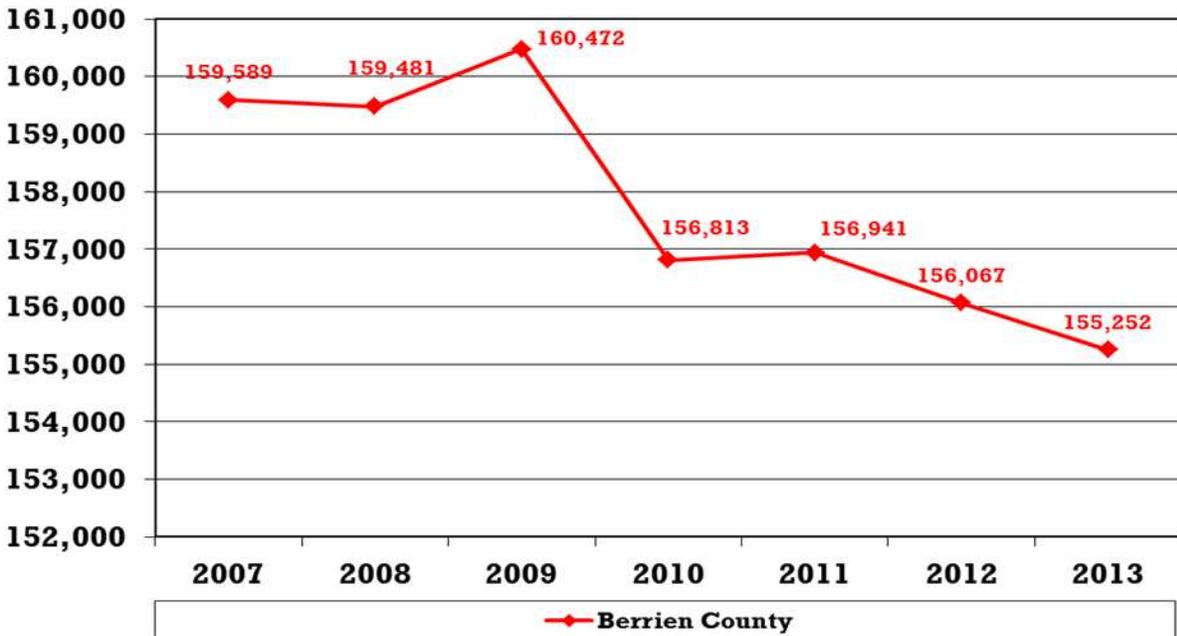
Where does this money go? What benefit is received in exchange for these dollars? These funds go to provide the essential services you receive as residents of the County. In 2013, Primary County government spent \$82.7 million on your behalf. Services including, but not limited to:

- Community health
- Corrections and law enforcement
- Emergency services
- Judicial services
- Recreation and culture
- Community development
- Public works projects such as water and sewer, etc.

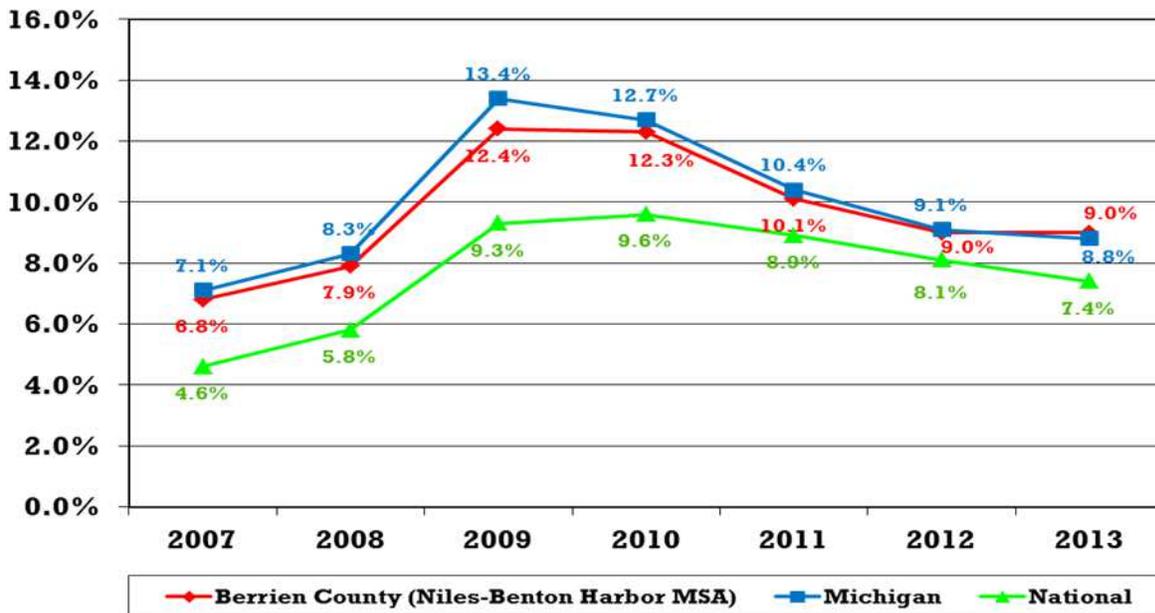
Where We're Headed: County Economic and Demographic Trends

It is no secret that Michigan's economy has been lagging for some time. As we all are aware, our economy has been impacted on a national level as well. Although the County of Berrien reflects these trends, it has been fortunate enough to be fairly insulated from these trends thus far. With increased pressures at a Federal and State Level, will come increased pressures on local government.

Population. County population over the past year has declined slightly by 0.5% to 155,252 in 2013. This trend has a direct correlation to the economic decline over the past few years.

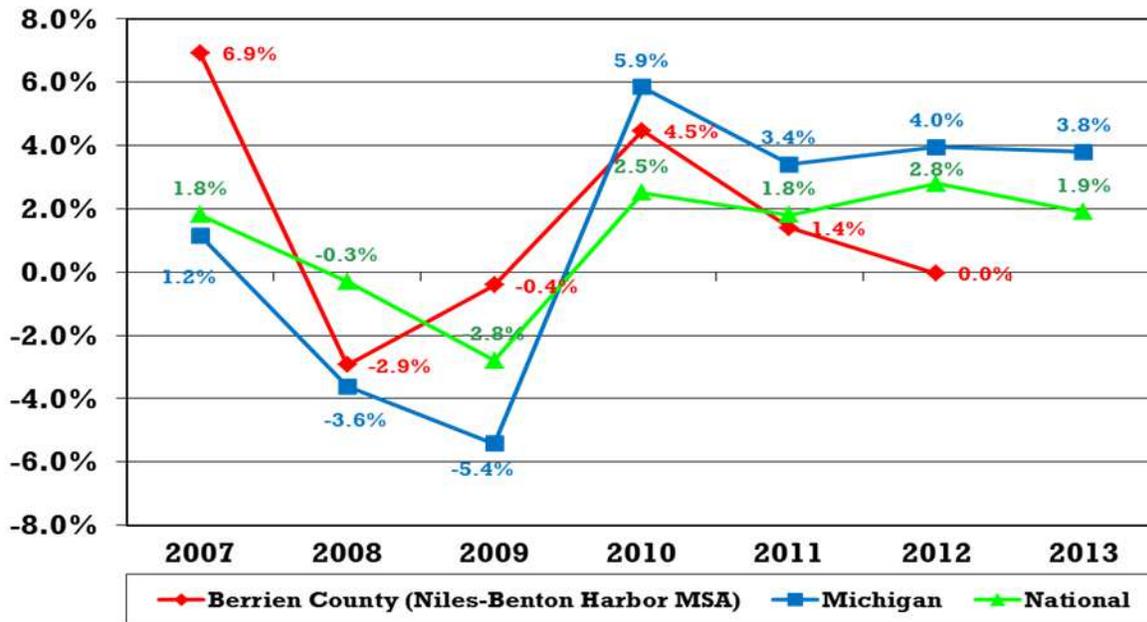


Unemployment. County unemployment rates are higher than the national trend, but has remained flat from last year. The 2012 County unemployment rate was 9.0%, no change from the previous year but remain higher than those experienced prior to 2009.

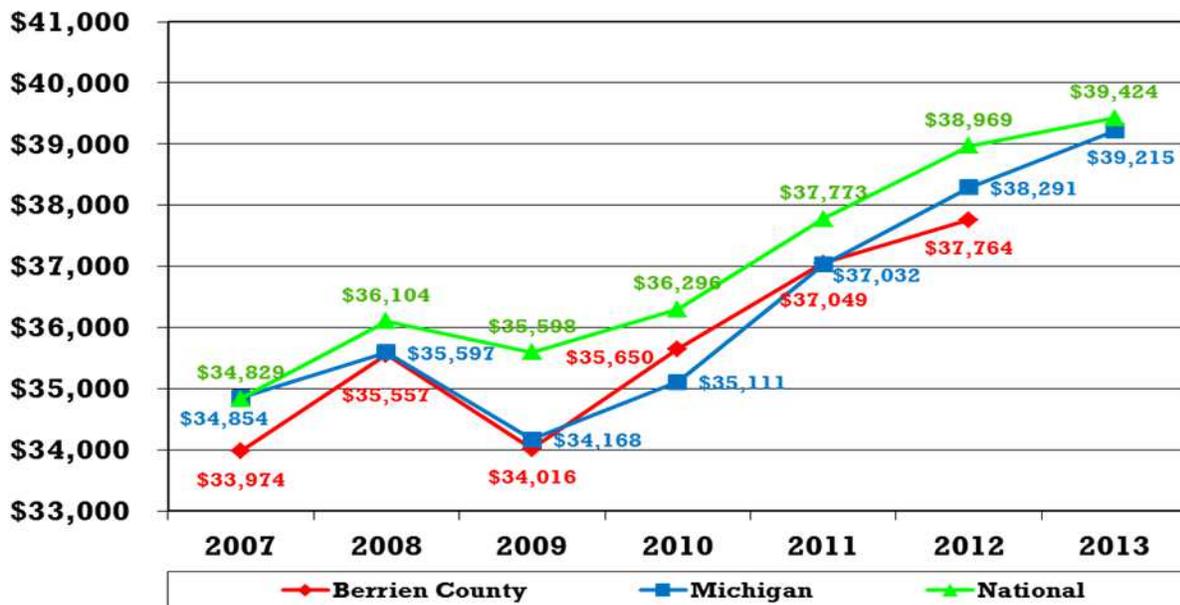


Where We're Headed: County Economic and Demographic Trends (Continued)

Gross Domestic Product (GDP). Gross domestic product, an indicator of economic growth, has been impacted by the recent economic downturn. During 2010, the County began experiencing a recovery similar to the rest of the nation. This recovery has slowed the past couple of years while Michigan and National trends have continued to recover at a greater pace. Although 2013 information is not available at this time, it is anticipated the County will return to a course more reflective of national or state growth trends. These GDP percentage changes have been adjusted for inflation.



Personal Income of Citizens. Real personal income of the citizens of Berrien County has historically lagged behind national averages. Recent trends reflect the economic downturn experienced by much of the nation and a slow economic recovery. Although information has not been released for 2013 at this time, it is anticipated that personal income will rise proportionate to that experienced on a state level.

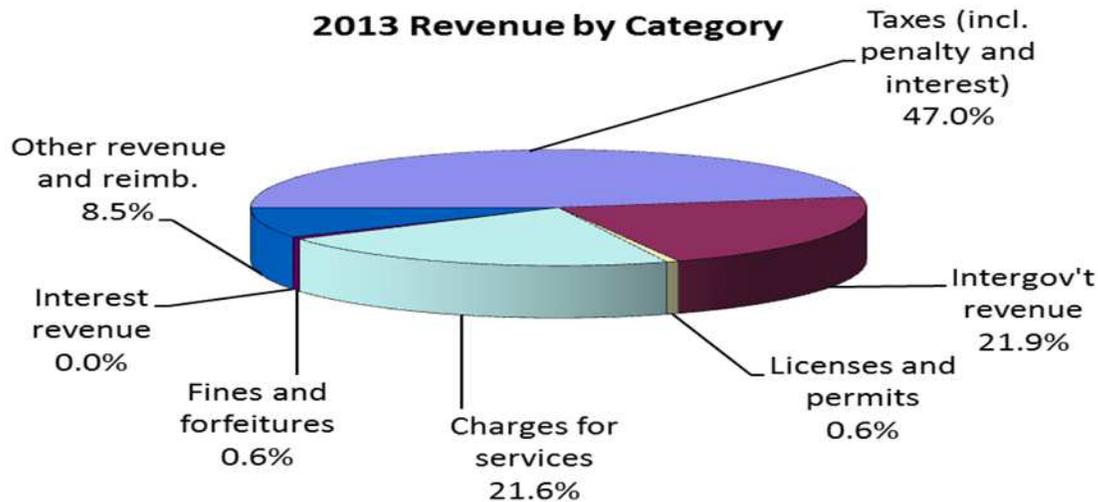


How Taxpayer Money is Spent: Government Revenues and Expenditures

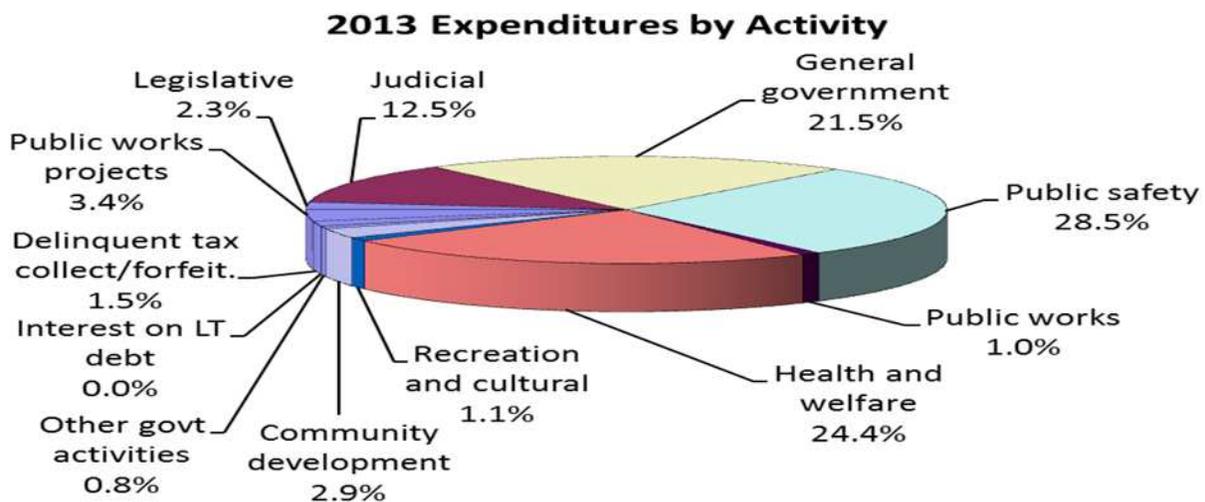
GOVERNMENT BUDGETS

Berrien County has a strong heritage of financial discipline. At no time has this been more important than the present during our recent economic volatility and current recovery. County government makes every attempt to spend within its means and continues to adjust to the changing environment. This financial discipline has provided the ability to “weather the storm” to this point. During the course of 2013, County government was able to increase its net position for primary government by \$4.5 million.

Revenues. The figure below shows a breakdown of revenues moving in and out of County government. Of the \$87.2 million in revenues in primary government received in 2013, taxes make up approximately 47% of total revenue received by primary county government. Intergovernmental revenue, primarily federal and state revenues, make up an additional 22%. Charges for services, other contributions, and investment earnings make up the remaining 31%.



Expenditures. Expenditures in primary government in 2013 amounted to \$82.7 million. Public safety and health and welfare account for over half of the total expenditures of primary county government at 29% and 24% respectively. Other expenditures include judicial, general government, recreation and cultural and other items. The figure below shows a breakdown by function.



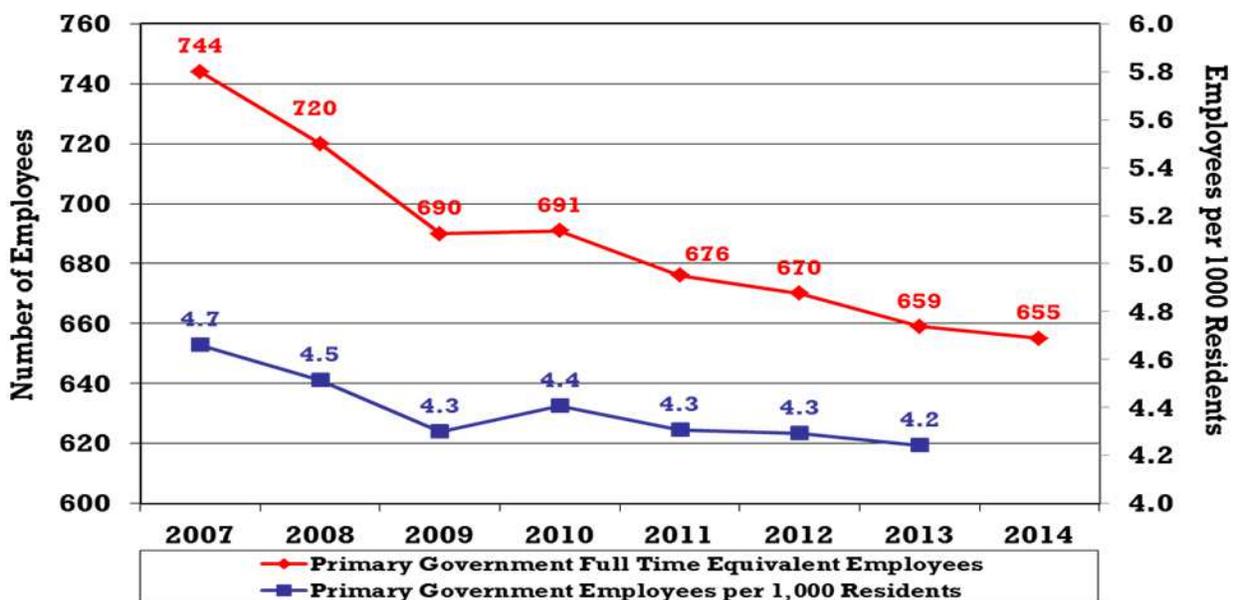
How Taxpayer Money is Spent: Government Revenues and Expenditures (Continued)

A prime example of this discipline is reflected in the increase in fund balance over the last 7 years as exhibited below:

	Status	General Fund Revenues	General Fund Expenditures	Net Change in Fund Balance	General Fund Ending Balance
2013	Audited	\$51,840,360	\$50,956,956	\$883,404	\$17,270,889
2012	Audited	\$56,796,338	\$55,755,732	\$1,040,606	\$16,387,485
2011	Audited	\$50,543,927	\$50,093,592	\$450,335	\$15,346,879
2010	Audited	\$50,617,870	\$50,200,821	\$417,049	\$14,896,544
2009	Audited	\$50,640,184	\$49,561,532	\$1,078,652	\$14,479,495
2008	Audited	\$48,871,125	\$48,208,064	\$663,061	\$13,400,843
2007	Audited	\$48,852,280	\$46,921,217	\$1,931,063	\$12,737,782

NUMBER OF GOVERNMENT EMPLOYEES

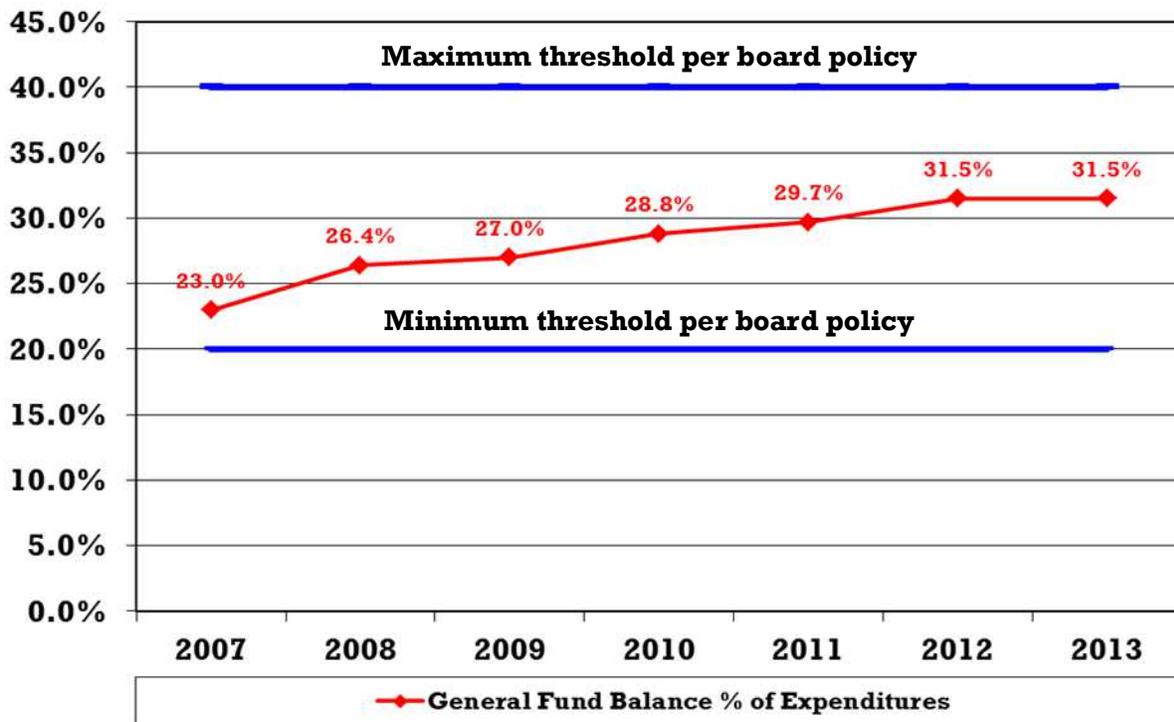
Berrien County has adapted employment levels to the changing environment. For the year of 2013, the County employed 4.2 employees per 1,000 residents. For the two years prior, employment levels were 4.3 employees per 1,000 residents. Employment for 2012 totaled 670 full time employees. The chart below shows the change in total employment levels over the past 7 years, a decrease of 85 employees or 11.4%. For 2014, total employment has decreased another 4 full time equivalent employees.



RESERVES AND MAJOR FUND BALANCES

Berrien County has maintained healthy reserve balances and continues to seek opportunities to improve its financial position. At the end of 2013, Primary County Government had a Net Position of \$115.7 million. Of this balance, \$73.3 million or 63.3% was unrestricted. Delinquent Tax Revolving Funds make up \$36.7 million of the unrestricted funds. An additional \$34.8 million was invested in capital assets net of related debt and \$7.6 million was restricted due to commitments or state mandated programs and other purposes.

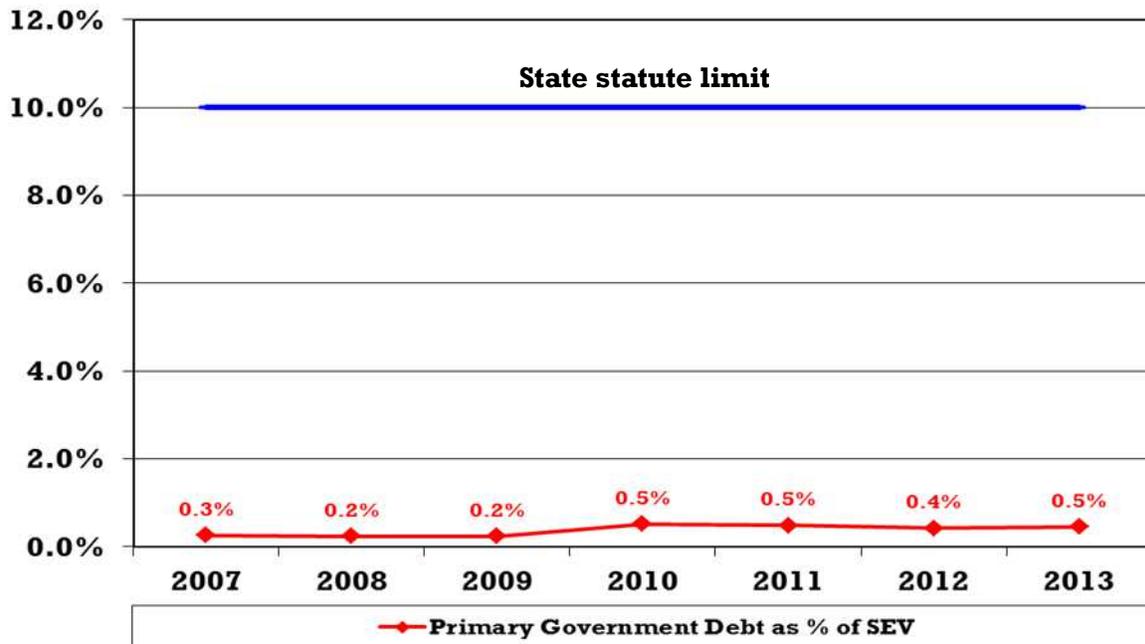
Current governing policy regarding General Fund balance mandates a fund balance of between 20 and 40% of a full year's expenditures. At the end of 2013, the General Fund had a fund balance of \$17.3 million, or 31.5% of the 2014 budget.



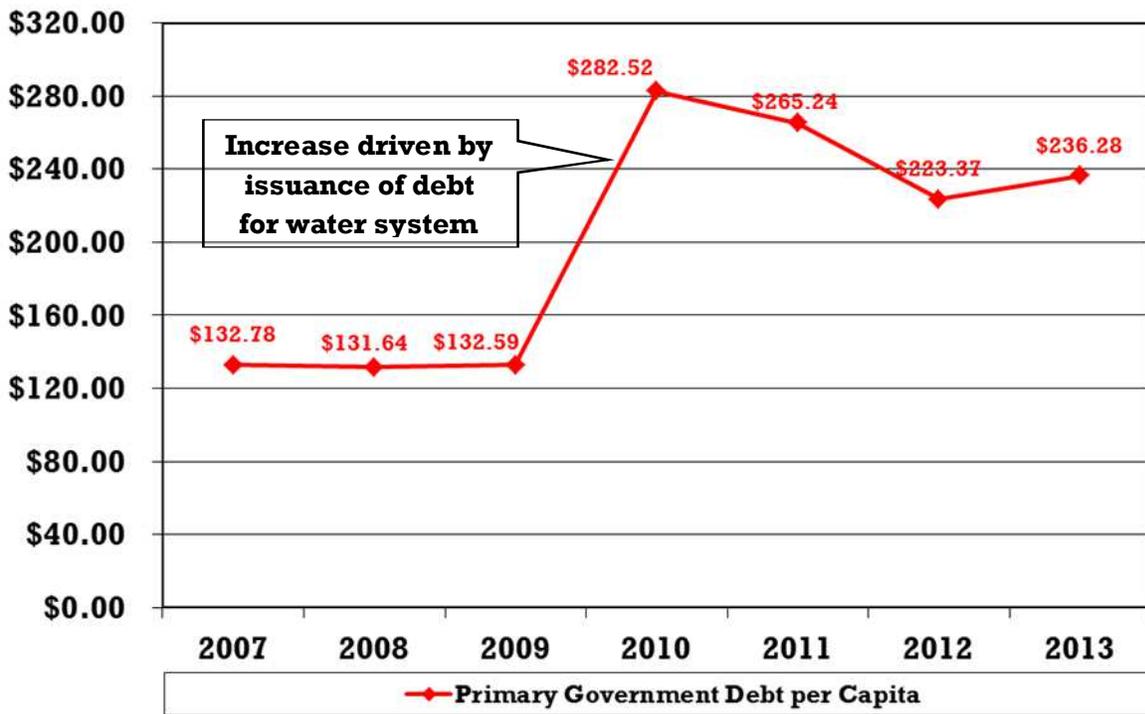
DEBT LEVELS

State statute directs that a government may not exceed general obligation debt beyond 10% of its total state equalized valuation. This equates to a maximum debt limit of \$698.1 million at the end of 2013 based on 2013 equalized value. Debt for primary County government at the end of 2013 was \$36.7 million excluding compensated absences or 0.5% of this valuation, substantially below the state imposed limit.

County of Berrien, Michigan's Fiscal Health (Continued)



Debt per capita has historically remained constant with the exception of the substantial increase from 2009 to 2010. The decrease in debt per capita in 2011 and 2012 from 2010 debt reflects the collection of revenue from water and sewer fees and repayment of portion of outstanding debt. Over the course of time, excluding new projects, this debt will continue to decrease due to revenue from water and sewer fees collected by the local entity.



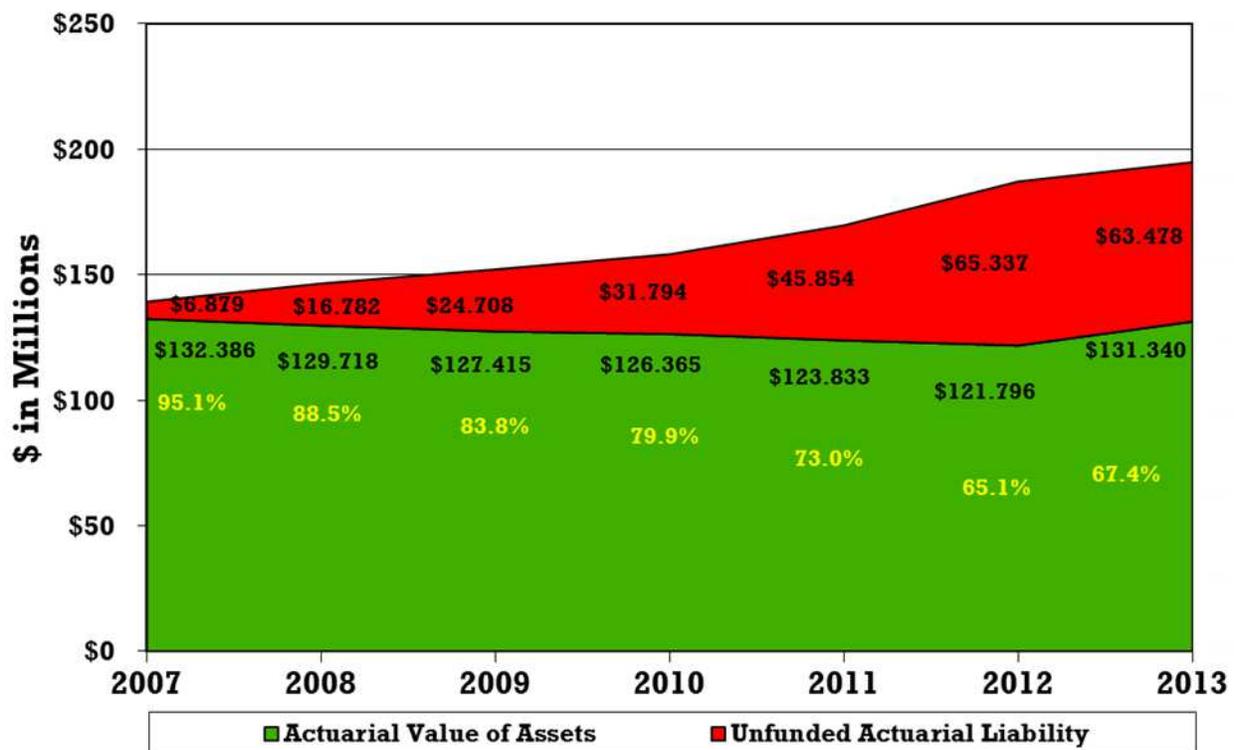
County of Berrien, Michigan's Fiscal Health (Continued)

PENSION AND OTHER RETIREE BENEFITS

County employees who meet certain requirements, such as years of service and age, receive a pension when they retire. Many have the option to enroll in a retiree health care program as well.

Pension Benefits. Pension benefits are pre-funded by contributions from employer (County) and employees, who contribute a certain percentage of their salary. For the year ended December 31, 2013 employees contributed between 4.7% and 8.2% of their pretax earnings depending on their union affiliation. The corresponding employer contributions were between 2.9% and 23.8%. The pension plan at the end of 2013, including component units, had \$131.3 million in assets and serves 1,524 active and retired employees.

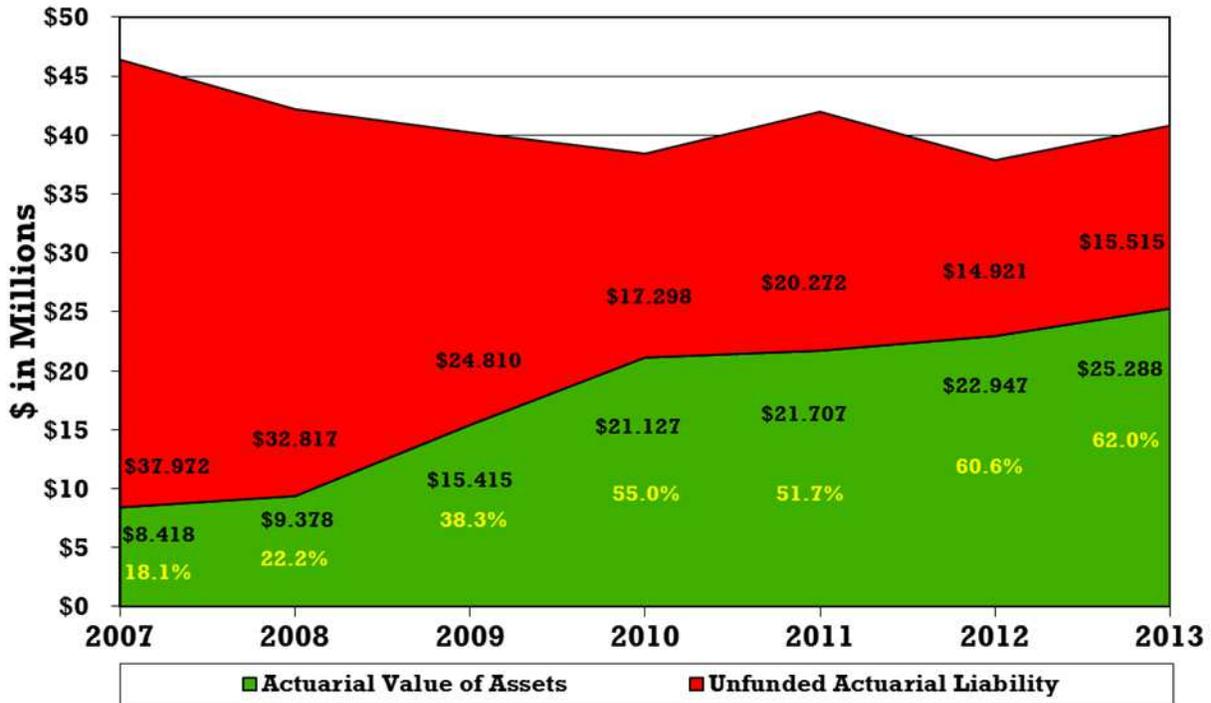
Investment returns have not met expectations in the last few years due to economic conditions. This has resulted in a reduction of funded ratio of 95.1% in 2007 to 67.4% at the end of 2013. Unfunded actuarial liability, including component units, stands at \$63.5 million at the end of 2013.



Retiree Health Care Benefits. Retiree health care benefits are also pre-funded by contributions from employer (County) and are considered a self-insured program. Retirees can elect or decline the benefit and if elected must contribute 50% of the cost of healthcare. The retiree health care plan had \$22.9 million in assets at the end of 2012. Like pension, this amount includes component units.

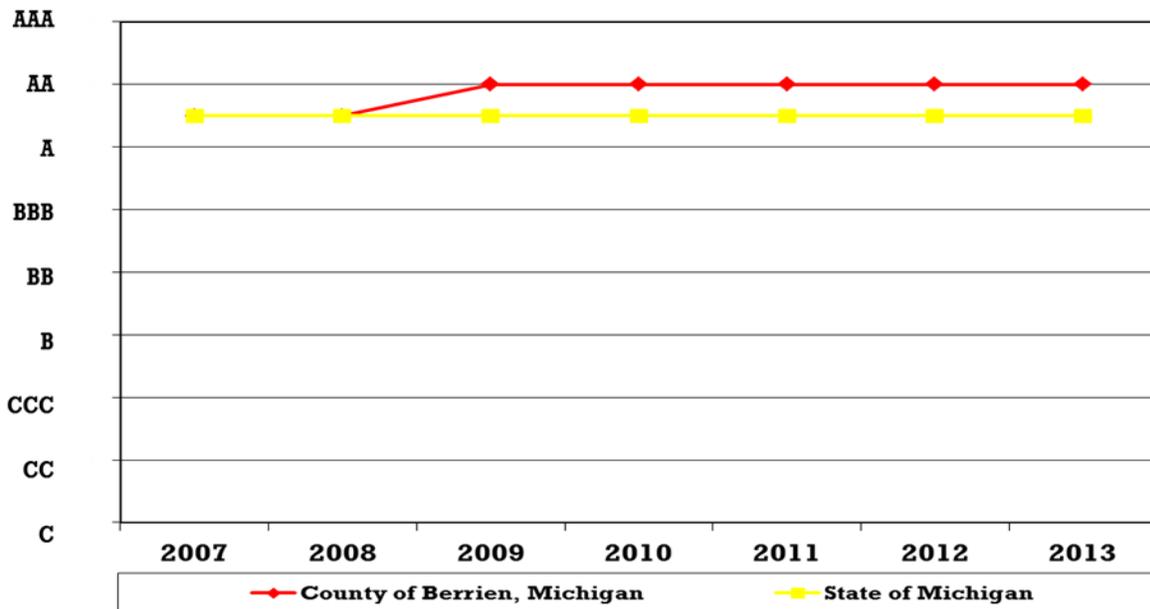
As with the pension benefits, investment returns have not met expectations in the last few years due to economic conditions. However, due to higher than required funding, the funded ratio has increased from 18.1% in 2007 to 60.6% at the end of 2012. Unfunded actuarial liability including component units stands at \$14.9 million at the end of 2012.

County of Berrien, Michigan's Fiscal Health (Continued)



BERRIEN COUNTY'S CREDIT RATING

Berrien County maintains a strong credit rating despite the economic challenges. While other agencies have received downgrades, Berrien County has improved and maintained its credit rating in the last five years to an AA rating per Standard and Poor's. This rating is a reflection of the County's financial discipline, strong reserves, and solid foundation during turbulent times. Below is the County's Standard & Poor's history over the last 7 years.



County of Berrien, Michigan's Fiscal Health (Continued)

PUBLIC BUDGET GAP

A *deficit* is the extent to which expenses exceed revenues in a given year. However, governments have unfunded obligations that are not recognized in their surplus or deficit – namely, unfunded pension and retirement health benefits that are not recognized as liabilities and therefore not included in the budget surplus or deficit figure. Though governments have not fully funded these obligations, they will eventually have to pay them since the Michigan Constitution guarantees pensions (but not retiree health benefits) for public employees. With this in mind, we present an alternative measure to the budget surplus or deficit called the *public budget gap*.

To measure the gap, unrestricted net position is combined with unfunded pension and retiree health obligations to come up with the net surplus or gap. At the end of 2013, Berrien County's public budget surplus for primary government (excludes component units of Berrien County Mental Health Authority and Berrien County Road Commission) was \$3.0 million, up from the previous year end gap by \$4.1 million. This increase is fueled by the growth in unrestricted net assets excluding retiree benefits of \$3.4 million and a reduction in unfunded retiree benefits obligations of \$0.7 million during 2013.

County of Berrien's Public Budget Surplus/(Gap) at 12/31/2013	
<u>Primary County Government Only, Excluded Component Units</u>	
	Millions of \$
Primary County Government's Net Position	\$ 115.7
Invested in Capital Assets Net of Related Debt	(34.8)
Restricted Funds for Mandated Programs or Commitments	<u>(7.6)</u>
Unrestricted Net Assets	73.3
Unfunded Pension Obligation (Excl. Riverwood & Road Comm.)	(54.4)
Unfunded Retiree Health Care Obligation (Excl. Riverwood & Road Comm.)	<u>(15.9)</u>
Public Budget Surplus/(Gap)	<u>\$ 3.0</u>

How This Report Was Developed

The goal of this report was to provide the public with as much information as possible on the revenues, expenditures, and other financial activities of County of Berrien, Michigan.

DATA SOURCES AND NOTES

County government data is from the County's Comprehensive Annual Financial Report (CAFR) for 2012 and previous periods. Copies of the CAFR are available to the public on the County's website at www.berriencounty.org.

Other statistical information such as unemployment rates were obtained from the Bureau of Labor Statistics at www.bsa.gov. Gross domestic product and income per capita were obtained from the Bureau of Economic Analysis at www.bea.gov. Population statistics were obtained from the U.S. Census Bureau at www.census.gov. Additionally, retirement information was obtained from the Berrien County Employees Amended Retirement Plan - Annual Actuarial Valuation report.

A copy of this report can be obtained at www.berriencounty.org.