

2018 CITIZEN'S GUIDE TO CHEBOYGAN COUNTY'S FINANCIAL HEALTH



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. There can be 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. The County's Fiscal year that runs from January 1 to December 31.
- **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.
- **Reserved/Restricted funds.** Some funds are considered to be "reserved" or "restricted" for a specific purpose, and cannot be spent for anything else.

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Overview

As part of the State's Revenue Sharing Program the State has requested that local units of government provide a document to increase the transparency of governmental revenues, expenditures and operations. This report represents your County governments' fulfillment of that request providing an assessment of the financial health of Cheboygan County. This report provides information on:

- How taxes and fees are collected and used;
- The impact of budget decisions-borrowing, debt levels, budget reserves; and
- The impact of long term employee liabilities for retirement cost.

Information for this report is provided by Cheboygan County's Annual Audit for year ending December 31, 2017 available by accessing the following link:

[Cheboygan County 2017 Financial Audit.](#)

How Cheboygan County Spends Your Money

SERVICES PROVIDED BY CHEBOYGAN COUNTY

Cheboygan County provides many services to the public. The following is a condensed list of services provided to meet the needs of Cheboygan County residents, businesses and visitors. A complete list of service areas provided by Cheboygan County can be viewed by accessing the following link to the [Cheboygan County Budget document](#).

- Courts including Circuit, District, Probate, and Juvenile
- Prosecuting Attorney
- Drug Enforcement
- Equalization
- Clerks/Elections/Vital Records
- Register of Deeds
- Sheriff Road Patrol/Jail
- Emergency Services
- Treasury/Investments
- Administration/Fiscal Services/IT
- Michigan State University Agricultural Services
- Community Development/Economic Development

Cheboygan County

REVENUE SOURCES

Cheboygan County collects revenue from a variety of sources with property taxes as well as charges for services and State sources of revenue representing the primary revenue sources for the County. Figure 1 below provides a detail of these revenue sources for 2017.

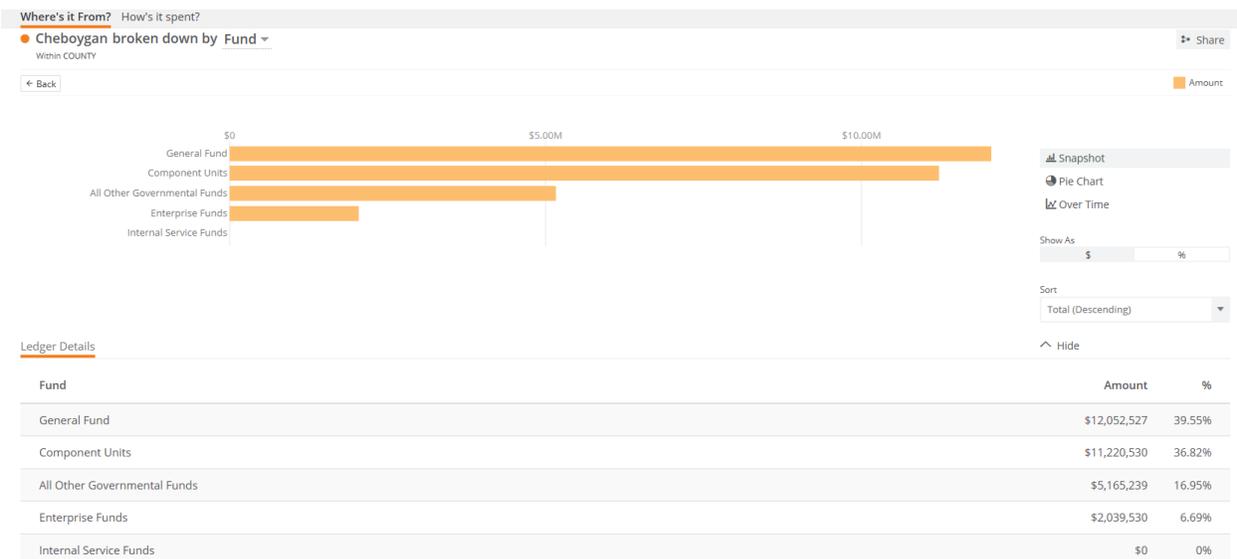
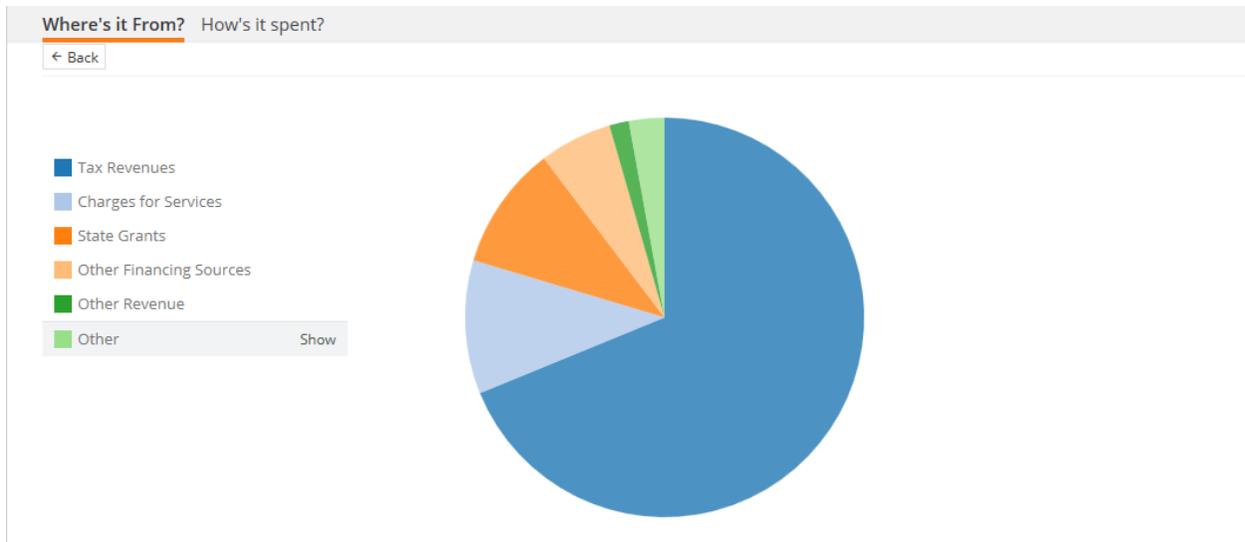


Figure 2 below provides indicates revenues by percentage.



Category	Amount	%
Tax Revenues	\$8,293,874	68.81%
Charges for Services	\$1,302,731	10.81%
State Grants	\$1,210,129	10.04%
Other Financing Sources	\$708,077	5.87%
Other Revenue	\$190,873	1.58%
Federal Grants	\$114,523	0.95%
Interest and Rents	\$89,273	0.74%
Contributions from Local Units	\$56,241	0.47%
Licenses and Permits	\$48,718	0.40%
Fines and Forfeits	\$38,088	0.32%

EXPENDITURES

Figure 3 provides a detail of expenditures for 2017.

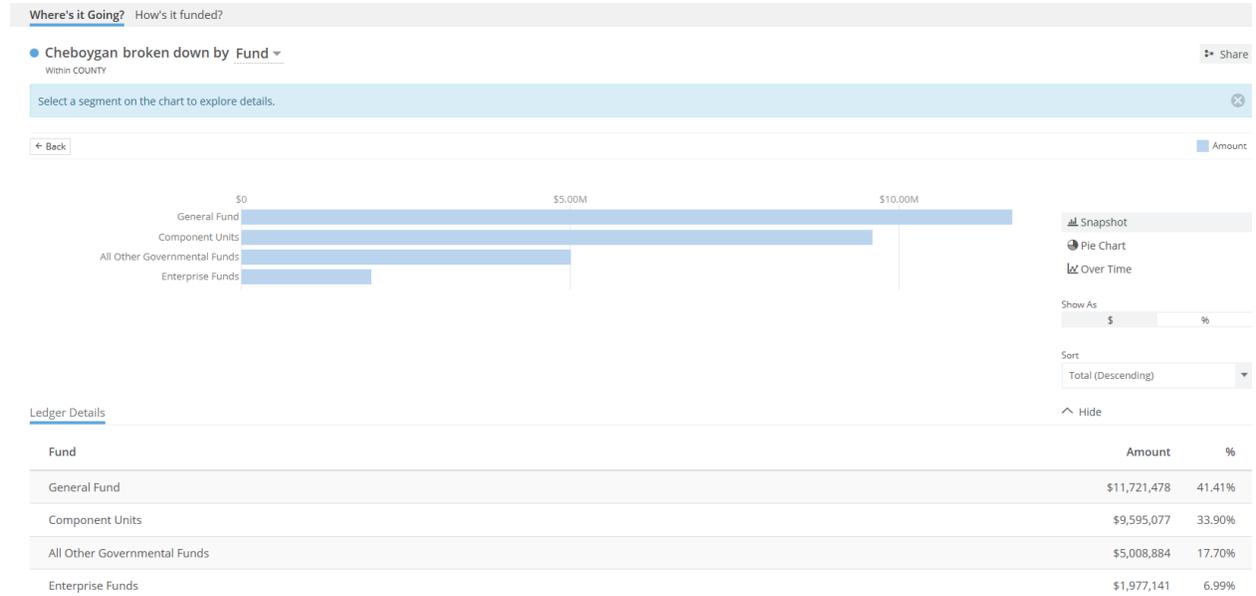
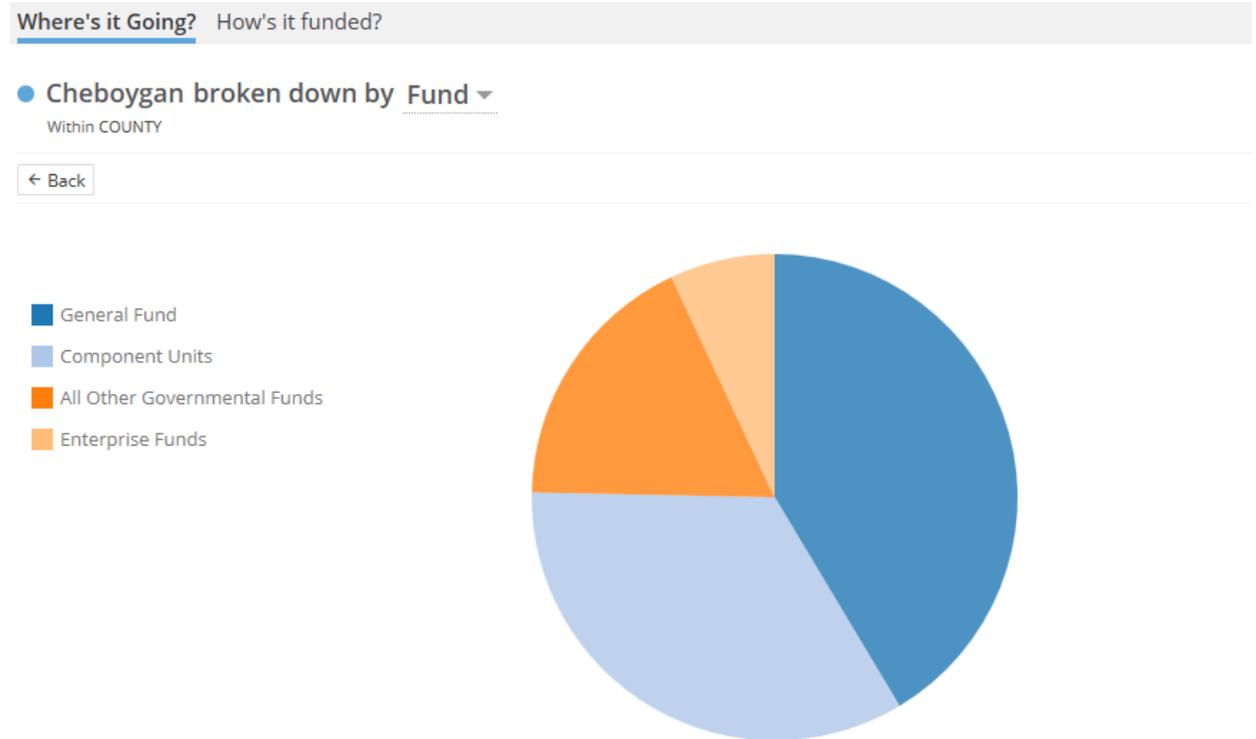


Figure 4 indicates service area expenditures by percentage.



Fund	Amount	%
General Fund	\$11,721,478	41.41%
Component Units	\$9,595,077	33.90%
All Other Governmental Funds	\$5,008,884	17.70%
Enterprise Funds	\$1,977,141	6.99%

[The following web-link provides access to the County's Citizens Guide Micommunities Financials through Michigan Department of Treasury.](#)

Cheboygan County's Fiscal Health

In order to continue operating with a balanced budget and to maintain adequate reserves, Cheboygan County has utilized the following measures to maintain fiscal stability and achieve efficiencies in operations:

1. Consolidated services and positions when possible
2. Collaborated service delivery with neighboring Counties
3. Managed employee wages and fringe benefits
4. Established new fees and reviewed adequacy of existing fees

RESERVES AND MAJOR FUND BALANCES

General Fund Reserves. According to the Government Accounting Standards Board it is considered good practice to keep a minimum of 15%-25% of annual operating expenditures in unrestricted fund balance to cover cash flow shortfalls due to delayed funding and to cover unexpected and unforeseen expenses or unanticipated drops in revenue. This is equivalent to the General Fund's savings account. Cheboygan County's policy for General Fund reserves is set at a minimum of 30%. At The end of fiscal year 2017 Cheboygan County's unassigned General Fund reserve had a balance of \$8,035,234 representing 69% of annual operating cost. Five million of this reserve is needed in the General Fund for yearly cash flow so that the County does not have to borrow funds for operations.

DEBT LEVELS

Governments do not always have the cash on hand to pay for large projects like new buildings or major infrastructure improvements. Like households, governments may borrow to pay for larger expenditures. Governments can also borrow money to meet short-term cash flow needs. At the end of 2017 Cheboygan County did not have any debt associated with short-term cash flow needs. The County may also barrow monies or lease for vehicle and equipment needs. As

of the end of 2017 the County had a lease balance of \$8,766 for mail processing equipment. The County may also borrowed money for larger building improvement and renovation projects and for infrastructure projects related to County operations. Currently the County does not have any debt associated with building or infrastructure projects. The County’s primary strategy for financing building and infrastructure capital improvement projects is to use Tax Revolving Loan fund reserves and Courthouse Preservation funds for improvements when feasible.

PENSION AND OTHER RETIREMENT BENEFITS

Cheboygan County provides pension benefits to employees through the Municipal Employee’s Retirement System of Michigan “MERS”. The County has been a member of MERS since 1970.

The County provides employees and retirees hired before January 1, 2016 a Defined Benefit Plan where a specified monthly benefit is paid upon retirement based on years of service, average annual compensation over the last five years of employment and a benefit multiplier. The County does not provide for automatic cost of living increase (COLA) during retirement. In 2016 the County changed its pension for new employees hired after January 1, 2016 to the MERS Hybrid Plan. Under the hybrid plan an employee receives a portion of pension benefit from a define benefit providing a lifetime payment along with a portion from a defined contribution providing the flexibility of an investment account. The movement to a hybrid plan allows the County to better manage its long term pension liability cost.

Each year the County receives an actuarial report which outlines the pension obligation cost for the coming year and the unfunded pension obligations. The report uses actuarial assumptions to determine the amount the County and employees must invest into the plan each year as well as to identify the funding ratio of the plan for a given year.

REQUIRED PENSION INVESTMENT 2019

Beginning January 1, 2019 the following monthly contribution payments will be required by the County for each Division.

DIVISION	CONTRIBUTION
GENERAL	\$38,857
ELECTED/APPOINTED	\$13,450
SHERIFF POLC	\$17,482
SHERIFF	\$11,629
HA Hybrid	6.86% of Payroll
HB Hybrid	6.50% of Payroll

General and Elected/Appointed Divisions as well as Corrections Officers Divisions are required to invest 3.5% of their gross wages into the pension system. Sheriff Department Road Patrol and Command Divisions are required to invest 3% of their gross wages into the pension system.

The County invested \$1,061,875 into the MERS pension system in 2017.

UNFUNDED PENSION LIABILITY

Unfunded pension liability is defined as the difference between the estimated cost of future benefits, and assets that have been set aside to pay for them. Currently the County has assets to cover 73% of future retirement benefit cost as identified in the County's yearly MERS Actuarial Report. The County's unfunded accrued liability as of December 31, 2017 is \$8,227,747. Figure 3 identifies the County's accrued liability and funding percentage as of December 31, 2017.

Figure 3
ACTUARIAL ACCRUED LIABILITES AS OF DECEMBER 31, 2017

Division	Actuarial Accrued Liability	Valuation Assets ¹	Percent Funded	Unfunded (Overfunded) Accrued Liabilities
01 - General				
Active Employees	\$ 6,143,107	\$ 1,653,712	26.9%	\$ 4,489,395
Vested Former Employees	199,456	199,456	100.0%	0
Retirees And Beneficiaries	6,873,533	6,873,533	100.0%	0
Pending Refunds	<u>39,516</u>	<u>39,516</u>	100.0%	<u>0</u>
Total	\$ 13,255,612	\$ 8,766,217	66.1%	\$ 4,489,395
02 - Sheriff				
Active Employees	\$ 1,681,906	\$ 410,587	24.4%	\$ 1,271,319
Vested Former Employees	94,976	94,976	100.0%	0
Retirees And Beneficiaries	3,313,924	3,313,924	100.0%	0
Pending Refunds	<u>12,399</u>	<u>12,399</u>	100.0%	<u>0</u>
Total	\$ 5,103,205	\$ 3,831,886	75.1%	\$ 1,271,319
10 - Elected/Apntd				
Active Employees	\$ 2,268,153	\$ 1,361,503	60.0%	\$ 906,650
Vested Former Employees	510,184	510,184	100.0%	0
Retirees And Beneficiaries	3,738,173	3,738,173	100.0%	0
Pending Refunds	<u>22,156</u>	<u>22,156</u>	100.0%	<u>0</u>
Total	\$ 6,538,666	\$ 5,632,016	86.1%	\$ 906,650
20 - Sheriff POLC				
Active Employees	\$ 3,722,894	\$ 2,162,262	58.1%	\$ 1,560,632
Vested Former Employees	133,264	133,264	100.0%	0
Retirees And Beneficiaries	1,456,335	1,456,335	100.0%	0
Pending Refunds	<u>0</u>	<u>0</u>	0.0%	<u>0</u>
Total	\$ 5,312,493	\$ 3,751,861	70.6%	\$ 1,560,632
HA - Gnl & NnUn FT EE afr 1/1/16				
Active Employees	\$ 33,717	\$ 36,340	107.8%	\$ (2,623)
Vested Former Employees	0	0	0.0%	0
Retirees And Beneficiaries	0	0	0.0%	0
Pending Refunds	<u>0</u>	<u>0</u>	0.0%	<u>0</u>
Total	\$ 33,717	\$ 36,340	107.8%	\$ (2,623)
HB - All FT Un & Nn Un Ptrl 1/1/16				
Active Employees	\$ 9,667	\$ 7,293	75.4%	\$ 2,374
Vested Former Employees	0	0	0.0%	0
Retirees And Beneficiaries	0	0	0.0%	0
Pending Refunds	<u>0</u>	<u>0</u>	0.0%	<u>0</u>
Total	\$ 9,667	\$ 7,293	75.4%	\$ 2,374

Division	Actuarial Accrued Liability	Valuation Assets ¹	Percent Funded	Unfunded (Overfunded) Accrued Liabilities
Total Municipality				
Active Employees	\$ 13,859,444	\$ 5,631,697	40.6%	\$ 8,227,747
Vested Former Employees	937,880	937,880	100.0%	0
Retirees and Beneficiaries	15,381,965	15,381,965	100.0%	0
Pending Refunds	<u>74,071</u>	<u>74,071</u>	<u>100.0%</u>	<u>0</u>
Total	\$ 30,253,360	\$ 22,025,613	72.8%	\$ 8,227,747
The following results show the combined accrued liabilities and assets for each set of linked divisions. These results are already included in the table above.				
Linked Divisions HA, 01, 10				
Active Employees	\$ 8,444,977	\$ 3,051,555	36.1%	\$ 5,393,422
Vested Former Employees	709,640	709,640	100.0%	0
Retirees and Beneficiaries	10,611,706	10,611,706	100.0%	0
Pending Refunds	<u>61,672</u>	<u>61,672</u>	<u>100.0%</u>	<u>0</u>
Total	\$ 19,827,995	\$ 14,434,573	72.8%	\$ 5,393,422
Linked Divisions HB, 02, 20				
Active Employees	\$ 5,414,467	\$ 2,580,142	47.7%	\$ 2,834,325
Vested Former Employees	228,240	228,240	100.0%	0
Retirees and Beneficiaries	4,770,259	4,770,259	100.0%	0
Pending Refunds	<u>12,399</u>	<u>12,399</u>	<u>100.0%</u>	<u>0</u>
Total	\$ 10,425,365	\$ 7,591,040	72.8%	\$ 2,834,325

The primary factors leading to the County's current unfunded pension liabilities are:

- Returns lower than projected from pension investments.
- Increase in benefit factors over the life of the pension benefit.
- Past COLA increases to retirees over the life of the pension benefit.
- Increase in the number of retirees reaching retirement age and collecting benefits.

The County has taken action to control long term pension liabilities by increasing the amount of funds invested into the pension system as recommend by MERS to eliminate the deficit over the next 20 years as well as not issuing additional COLA increases for retirees collecting pensions and changing to the MERS Hybrid Plan for all new employees hired after January 1, 2016

HOW THIS REPORT WAS DEVELOPED

The goal of this report is to provide the public with an easy to read document identifying information concerning County revenues, expenditures, major fund balance, debt and unfunded pension liabilities.

The data for this report came from the County's Annual Financial Statement Audit as well as the County's annual MERS Actuarial Report.