MEMORANDUM

HOUSE FISCAL AGENCY

DATE: September 11, 2012

TO: All Interested Parties

FROM: Ben Gielczyk, Senior Fiscal Analyst, and Jim Stansell, Economist

RE: County Incentive Program

This memo provides information on County Revenue Sharing and the new County Incentive Program (CIP) enacted in the FY 2012-13 budget.

County Revenue Sharing Background

Prior to fiscal year (FY) 2004-05, counties received statutory revenue sharing payments from the state in exchange for the loss of local taxing authority. Additionally, county revenue sharing payments were provided as a financial support for unique services provided by counties including county court systems, county jails, constitutional officers, elections, and county public health systems. While county revenue sharing has always been subject to legislative appropriations (no fixed constitutional component), funding had been appropriated at levels similar to statutory revenue sharing for other local units of government.

In FY 2004-05 the counties reached an agreement with the state that would temporarily eliminate state revenue sharing payments to counties in an effort to help balance the state budget. For 2004, 2005, and 2006, each county was required to make an advanced collection and use a portion of its winter operating tax levy to establish a Revenue Sharing Reserve Fund (RSRF) from which it would make payments to itself in lieu of revenue sharing payments from the state.

Under the law, each county is annually allowed to withdraw from its RSRF an amount equal to its FY 2003-04 state revenue sharing payment plus an annual inflationary adjustment through the date of state revenue sharing restoration. This shift was estimated to save the state $182.1 million in FY 2004-05.

Once a county's RSRF is exhausted and unable to fund its allowable draw, the county becomes eligible for state revenue sharing payments. The state revenue sharing payments are locked in perpetuity at an amount equal to the annual allowable draw on the date of state revenue sharing restoration. At the close of FY 2012-13 it is estimated that 62 of Michigan's 83 counties will have exhausted their RSRF making them eligible for a state revenue sharing and CIP payment. Under current estimates, Emmett and Leelanau Counties will be the final two counties to exhaust their RSRF in 2024.

Prior to FY 2011-12, county revenue sharing payments to counties that had exhausted their RSRF were fully funded. However, the enacted FY 2011-12 budget appropriated $115.0 million (with $15.0 million considered one-time funding) for county revenue sharing which was a $36.8 million, or 24.2% reduction from full-funding in FY 2011-12 for those counties that had exhausted their RSRF.

For FY 2012-13, the enacted budget included a restructured county payment system which included a revenue sharing and incentive-based payment component. Appropriations for both components totaled $130.6 million which is a 22.1% reduction from estimated full-funding in FY 2012-13 for those counties that are expected to exhaust their RSRF. A more detailed explanation of the new county payment structure follows.

County Incentive Program

FY 2012-13 legislative budget negotiations led to the creation of a bifurcated county revenue sharing system which included the creation of a new County Incentive Program (CIP). The new framework included a traditional county revenue sharing component as well as a new incentive-based component modeled on the Economic Vitality Incentive Program (EVIP) for cities, villages, and townships (CVTs). The stated goal of the CIP is to reward "best practices" by providing incentives to engage in various cost control measures.

Overall appropriations to counties under both components total $130.6 million (with $2.5 million considered one-time funding) which is $37.0 million, or 22.1% below estimated full-funding for those counties expected to have exhausted their RSRF by the close FY 2012-13. Of that amount, $104.5 million (80.0%) will support traditional county revenue sharing, while $26.1 million (20.0%) will support the CIP. The 80/20 breakdown will apply to all counties eligible for a state revenue sharing payment.

Structure of the County Incentive Program

The CIP was created in boilerplate in the FY 2012-13 General Government budget.[1] Because the CIP is created in boilerplate of an annual appropriations act, it must be renewed in subsequent budget bills, or be incorporated into a permanent statute, to continue in future fiscal years.

In an effort to incentivize certain actions by counties, the CIP set up a three-staged qualification process for those counties eligible to receive a CIP incentive payment. The CIP emulates the EVIP for cities, villages, and townships by integrating counties into the overall boilerplate structure of the program. The CIP will be applicable to all counties that have exhausted their RSRF by the close of FY 2012-13. As of the date of this memo, it is estimated that 62 counties are or will become eligible for the CIP in FY 2012-13 (See Attachment 1).

Payment Structure

Revenue sharing payments are distributed on the last business day of October, December, February, April, June, and August. For the FY 2012-13 CIP, October and December payments support category one, February and April payments support category two, and June and August payments support category three. A county will be able to qualify for a partial payment (1/2 of category funding) if it certifies prior to the first day of the second payment month in each category. The following two tables provide an example of how the FY 2012-13 payment structure would function.

[1] PA 200 of 2012, Article VIII, Section 952. The CIP was integrated into the EVIP boilerplate language.

Table 1
Scenario #1: Qualified Under All Categories
County Total State Payment - $150,000
CIP-Eligible Portion (20% of total) - $30,000

Payment	Category 1	Category 2	Category 3	TOTAL
October	$5,000	$0	$0	$5,000
December	5,000	0	0	5,000
February	0	5,000	0	5,000
April	0	5,000	0	5,000
June	0	0	5,000	5,000
August	0	0	5,000	5,000
TOTAL	$10,000	$10,000	$10,000	$30,000

Table 2
Scenario #2: Qualified Under Categories 1 and 2; Failed to Qualify Under Category 3
County Total State Payment - $150,000
CIP-Eligible Portion (20%) - $30,000

Payment	Category 1	Category 2	Category 3	TOTAL
October	$5,000	$0	$0	$5,000
December	5,000	0	0	5,000
February	0	5,000	0	5,000
April	0	5,000	0	5,000
June	0	0	0	0
August	0	0	0	0
TOTAL	$10,000	$10,000	$0	$20,000

Forfeited funds and any other unexpended funds from the CIP are designated as work project appropriations and become available for the purposes outlined in the Competitive Grant Assistance Program (located in boilerplate Section 951, Article VIII of Public Act 200 of 2012) until September 30, 2016. The three categories of funding are described in more detail below.

Category #1: Accountability and Transparency

For FY 2012-13, an eligible county must produce, make readily available to the public, and certify with the Department of Treasury a "citizen's guide" and a "performance dashboard" of its local finances, which must include a recognition of its unfunded liabilities. Additionally, a county must provide a projected budget report for the current fiscal year and the immediately following fiscal year. The projected budget report is required to include revenues and expenditures, a detailed listing of debt service requirements, and an explanation of the assumptions used in formulating the budget projections.

In order to qualify for full funding under this category, each eligible county must submit its citizen's guide, performance dashboard, and projected budget report to the Department of Treasury no later than October 1, 2012. A county would qualify for half of its category one payment by certifying after October 1, 2012, but before December 1, 2012. The Department of Treasury indicated that counties may create the required "citizen's guide" and "performance dashboard" in a manner best suited for the local unit. Nevertheless, in an effort to provide consistency in reporting, the Department of Treasury developed guidelines and templates that counties may follow for both the citizen's guide and performance dashboard.[2]

Category #2: Consolidation of Services

The second category of funding incentivizes actions related to cooperation, collaboration, and consolidation. For FY 2012-13, however, the category stopped short of requiring implementation of the cooperation, collaboration, and consolidation plan to qualify for funding. A county certifying under category two "shall include a listing of any previous services consolidated with an estimated cost savings amount for each consolidation." Additionally, the county is required to include one or more new proposals to increase its current level of cooperation, consolidation, or collaboration which is required to include an estimate of potential savings and a timeline for implementing the new proposal. There is no requirement that the county show evidence that the cooperation, consolidation, or collaboration has been implemented.

A county must certify with the Department of Treasury by February 1, 2013 to qualify for a full payment under category two. A county would qualify for half of their category two payment by certifying after February 1, 2013, but before April 1, 2013.

Category #3: Employee Compensation

The third category of funding incentivizes certain changes to employee compensation. To qualify for an incentive payment under this category, an eligible county is provided with two certification options.

Under the first option, a county is required to certify with the Department of Treasury that it has publicized an employee compensation plan that the county "intends to implement with any new, modified, or extended contract or employment agreements for employees not covered under contract or employment agreement."[3] Therefore, while having certified that a plan has been developed and publicized is a requirement for funds under this category, it should be noted that, unlike category two where certification of the plan would be enough, the intent is that the compensation plan be implemented under any new, modified, or extended contract or employment agreement to fulfill the requirements of the category.

In boilerplate (Section 952(3)(c)), counties are provided guidance on what must be included in the employee compensation plan. Each eligible county must include, at a minimum, the following:

- Newly hired employees that are eligible for retirement plans must be placed on a retirement plan that caps the employer contribution at 10.0% for those employees eligible for social security benefits. For employees not eligible for social security benefits, the employer contribution must be capped at 16.2%.
- If an employee is a on a defined benefit pension plan, the maximum multiplier is required to be 1.5% for those employees eligible for social security benefits. If postemployment health care is not provided, the maximum multiplier is required to be 2.25%. For those employees that are not eligible for social security benefits, the maximum multiplier is required to be 2.25%. If postemployment health care is not provided, the maximum multiplier is required to be 3.0%.
- For those employees on a defined benefit pension plan, the final average compensation is required to be calculated using a minimum of three years of compensation and is required to

[2] See http://www.michigan.gov/treasury/0,4679,7-121-1751_2197-259606--,00.html.
[3] "Publicized" is defined as made available for public viewing in the county clerk's office or posted on a publicly accessible Internet site.

not include more than 240 hours of paid leave. Additionally, overtime hours cannot be used in calculating the final average compensation.

- If health care benefits are offered, an active employee is required to pay a minimum of 20.0% of the premium cost.[4] As an alternative, an employer's share of the local health care plan costs is required to be cost competitive with the state's share of the new state preferred provider organization (PPO) health care plan.[5]

Under the second option, a county is required to certify with the Department of Treasury that it complied with one of the following:

- Certify that it is in compliance with the requirements of the Publicly Funded Health Insurance Contribution Act, 2011 PA 152, MCL 15.561 to MCL 15.569. For an eligible county to comply with 2011 PA 152, the county is require to comply with one of the following: (1) the public employer can pay no more for medical plan benefits than $5,500 per employee with single person coverage, $11,000 per employee with individual and spouse coverage, and $15,000 per employee with family coverage; (2) the public employer can pay no more than 80 percent of the total annual costs of all the medical benefit plans it offers or contributes to for its employees; or (3) a county can exempt itself from the requirements of the act for the next succeeding year by a two-thirds vote of its governing body.
- If the county does not offer medical benefits, the eligible county is required to certify with the Department of Treasury that it does not offer medical benefits to its employees.

A county must certify under either option with the Department of Treasury by June 1, 2013 to qualify for a full payment under category three. A county would qualify for a partial payment under category three by certifying after June 1, 2013, but before August 1, 2013.

The Department of Treasury is not required to review each guide, dashboard, or compensation plan; rather, the Department of Treasury is required develop a certification process for eligible counties to follow. For FY 2012-13, the CIP requires the Department of Treasury to develop detailed guidance for a county to follow in order to qualify for funding under each of the three categories. The guidance is required to be posted on the Department of Treasury website and distributed to counties by October 1, 2012.

[4] Please note the requirements of recently enacted Senate Bill 7. Compliance with the requirements of Senate Bill 7 effectively brings the county into compliance with the health care benefits requirement of the EVIP program.

[5] Applies to those employees hired by the state of Michigan after April 1, 2010. For a brief summary of the program, please see http://www.michigan.gov/documents/mdcs/New_Hire_Spotlight_317332_7.pdf.

Attachment 1

Fiscal 2012-13 Revene Sharing Reserve Fund Allowable Draw, County Revenue Sharing, and County Incentive Program Payments

COUNTY	REVENUE SHARING RESERVE FUND ALLOWABLE DRAW	COUNTY REVENUE SHARING*	COUNTY INCENTIVE PROGRAM*	TOTAL
ALCONA	$235,344	$0	$0	$235,344
ALGER	0	118,264	29,566	147,830
ALLEGAN	0	1,387,253	346,813	1,734,066
ALPENA	0	448,887	112,222	561,109
ANTRIM	474,445	0	0	474,445
ARENAC	0	207,581	51,895	259,476
BARAGA	187,908	5,787	1,447	195,142
BARRY	0	707,795	176,949	884,744
BAY	0	1,593,919	398,480	1,992,399
BENZIE	334,550	0	0	334,550
BERRIEN	0	2,247,072	561,768	2,808,840
BRANCH	0	596,633	149,158	745,791
CALHOUN	0	1,848,615	462,154	2,310,769
CASS	0	642,280	160,570	802,850
CHARLEVOIX	564,983	0	0	564,983
CHEBOYGAN	551,791	0	0	551,791
CHIPPEWA	0	442,731	110,683	553,414
CLARE	0	398,074	99,519	497,593
CLINTON	1,325,035	0	0	1,325,035
CRAWFORD	314,761	0	0	314,761
DELTA	0	494,777	123,694	618,471
DICKINSON	581,822	223,380	55,845	861,047
EATON	0	1,367,060	341,765	1,708,825
EMMET	654,493	0	0	654,493
GENESEE	0	6,096,117	1,524,029	7,620,146
GLADWIN	0	314,162	78,541	392,703
GOGEBIC	0	209,014	52,254	261,268
GRAND TRAVERSE	1,679,110	0	0	1,679,110
GRATIOT	0	529,663	132,416	662,079
HILLSDALE	0	579,044	144,761	723,805
HOUGHTON	0	420,950	105,238	526,188
HURON	0	494,266	123,566	617,832
INGHAM	0	3,755,841	938,960	4,694,801
IONIA	0	726,405	181,601	908,006
IOSCO	0	327,779	81,945	409,724
IRON	273,420	66,202	16,550	356,172
ISABELLA	0	767,045	191,761	958,806
JACKSON	0	2,080,513	520,128	2,600,641
KALAMAZOO	0	3,200,734	800,184	4,000,918
KALKASKA	338,086	0	0	338,086
KENT	0	7,432,131	1,858,033	9,290,164
KEWEENAW	45,605	0	0	45,605
LAKE	241,134	0	0	241,134

COUNTY	REVENUE SHARING RESERVE FUND ALLOWABLE DRAW	COUNTY REVENUE SHARING*	COUNTY INCENTIVE PROGRAM*	TOTAL
LAPEER	0	1,031,099	257,775	1,288,874
LEELANAU	423,564	0	0	423,564
LENAWEE	0	1,255,098	313,774	1,568,872
LIVINGSTON	3,155,693	1,147,681	286,920	4,590,294
LUCE	0	79,162	19,790	98,952
MACKINAC	242,387	0	0	242,387
MACOMB	0	10,136,200	2,534,050	12,670,250
MANISTEE	545,127	97,615	24,404	667,146
MARQUETTE	0	786,900	196,725	983,625
MASON	609,383	0	0	609,383
MECOSTA	0	525,282	131,320	656,602
MENOMINEE	0	327,458	81,865	409,323
MIDLAND	2,020,147	1,139,073	284,768	3,443,988
MISSAUKEE	0	174,999	43,750	218,749
MONROE	3,131,801	645,703	161,426	3,938,930
MONTCALM	0	766,439	191,610	958,049
MONTMORENCY	212,077	0	0	212,077
MUSKEGON	0	2,221,332	555,333	2,776,665
NEWAYGO	0	588,543	147,136	735,679
OAKLAND	25,750,864	0	0	25,750,864
OCEANA	545,432	246,673	61,668	853,773
OGEMAW	453,239	0	0	453,239
ONTONAGON	0	106,882	26,720	133,602
OSCEOLA	0	349,636	87,409	437,045
OSCODA	190,764	0	0	190,764
OTSEGO	482,552	0	0	482,552
OTTAWA	0	2,891,898	722,974	3,614,872
PRESQUE ISLE	306,362	0	0	306,362
ROSCOMMON	513,126	132,407	33,102	678,635
SAGINAW	0	2,816,779	704,195	3,520,974
ST CLAIR	3,799,648	1,094,162	273,540	5,167,350
ST JOSEPH	0	847,246	211,812	1,059,058
SANILAC	0	565,146	141,287	706,433
SCHOOLCRAFT	0	113,928	28,482	142,410
SHIAWASSEE	0	889,100	222,275	1,111,375
TUSCOLA	0	676,926	169,231	846,157
VAN BUREN	0	948,793	237,198	1,185,991
WASHTENAW	6,999,356	1,102,712	275,678	8,377,746
WAYNE	0	30,850,001	7,712,500	38,562,501
WEXFORD	680,008	195,155	48,789	923,952
TOTAL	**$57,864,017**	**$104,480,002**	**$26,120,001**	**$188,464,020**

*State Payments

Source: Department of Treasury