The Center for Local, State, and Urban Policy
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FISCAL HEALTH PROJECT
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Fiscal Health in Rural Counties: A Case Study of Ogemaw County, MI

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Executive Summary

This case study examines the fiscal health of Ogemaw County, Michigan, a mostly rural county in the northeast lower peninsula of Michigan, using data from the County's annual audited financial reports. We find that while Ogemaw County has struggled with aligning revenues and expenses and maintaining liquidity, many fiscal indicators are moving in a positive direction, and the County's long-term solvency is strong, with manageable debt burdens and legacy costs. This case study also highlights other factors - including constraints on revenues and expenditures, capital planning, and regional cooperation - that are important to understanding the fiscal health of Ogemaw County, and rural counties more generally.

Introduction

Local governments provide services that are essential to the health and welfare of residents, the smooth functioning of the economy, and the implementation of democratic institutions. Therefore, it is very important to monitor their fiscal health to ensure that they can continue to provide services, access resources, and meet their obligations.

This case study will take an in-depth look at the fiscal health of Ogemaw County, Michigan, using a variety of financial indicators calculated with data from the County's annual audited financial reports, as well as other economic data. We assess the County's short-term liquidity, the budgetary balance between revenues and expenditures, as well as indicators of its solvency in the long-term. While the set of fiscal indicators used in this case study is relatively standard, we highlight how it is important to interpret them in context. In particular, counties have unique features compared to other local governments, and Ogemaw County's rural makeup affects how certain indicators should be interpreted.

This case study also highlights some of the broader contextual factors that are important to our understanding of Ogemaw County, and other rural counties in Michigan and other states. We explain how statewide revenue and expenditure constraints on local government are particularly onerous for rural counties. Rural counties are also very financially interdependent with other governments in the region because of cooperation in service delivery, such as regional health authorities. The case study also examines the unique challenges of small governments to do long-term capital planning.

County Characteristics

County Population Demographics

Ogemaw County is located in the northern part of the Lower Peninsula of Michigan along the I-75 corridor and has a population of 20,770 people and 15,246 households. With 563.5 square miles of land, Ogemaw has a population density of 36.86 people per square mile. While mostly rural, Ogemaw County includes two cities, West Branch, the county seat, and Rose City, which together make up about 10 percent of the County's population.

The median age of residents in Ogemaw County is 50.6 years, which is 10.8 years older than the state average. Similarly, 25.6% of the population in Ogemaw County is over the age of 65 years compared to 17.2% of the population in the rest of Michigan, making it an older community.

Government Organization

Like most counties in Michigan, Ogemaw County provides a range of public services, focusing on courts, public safety, and human services. The County has three major funds through which most governmental functions of the county are reported. The General Fund is where both income collection and day-to-day operational expenditures happen, providing basic services for the County; it has an expenditure budget of $9,688,493 in FY21. General Fund functions include collecting property taxes and other taxes and fees, and funding services such as the sheriff department, the clerk/elections office, community and economic development, and the health department. The County is also responsible for paying for pension and other retiree benefits for county employees. This money is set aside in a fiduciary fund.

The other major governmental funds are the Housing Commission Fund, where earmarked federal, state, and local money is used to pay for and build low-income housing; and the American Rescue Plan Act (ARPA) Fund, which accounts for federal funding received under the American Rescue Plan Act of 2021.

In addition to the major governmental funds, there are three proprietary or enterprise funds, which reflect the self-sustaining or business-like activities of the County. The first is the public transit fund, which provides bus services to the residents. The Tax Umbrella fund and 2019 DTRF fund are both used to account for delinquent local tax collection activities, which are managed at the county level.

Methodology

In this analysis, we use data from the past five years–FY17 through FY21– of audited financial reports. These reports are public information and available from the Community Engagement and Finance Division of the Michigan Department of Treasury. The analysis involves using the data to calculate a range of financial ratios corresponding to different aspects of Ogemaw County's fiscal health, including its liquidity, which evaluates the adequacy of cash or cash-convertible assets to cover short-term liabilities; financial performance, which evaluates how well revenues cover expenditures; and solvency, the ability to pay down debts in both the short- and long-terms.

For the sake of peer comparison, we perform the same calculations for FY21 for three peer counties: Otsego, Iosco, and Roscommon Counties. Benchmarking provides additional context to interpret data and ratios, allowing us to examine Ogemaw County's fiscal health relative to similar sized counties in the region. Otsego has 25,289 residents with a FY21 General Fund expenditure budget of $8,523,046. Iosco inhabitants number 25,369, with a FY21 expenditure budget of $7,758,959. Lastly, Roscommon has a comparable 23,633 residents with a FY21 expenditure budget of $8,783,021. All three peer counties are also in the northeast lower peninsula region.

Table 1
Peer benchmarking

	Ogemaw	Iosco	Otsego	Roscommon
Population	20,770	25,369	24,613	23,459
Median Income (dollars)	$41,752	$42,628	$55,917	$41,828
GF Expenditure Budget (dollars)	$9,688,493	$7,758,959	$8,523,046	$8,783,021
Median Age (years)	50.6	52.9	44.8	46.1
Households	15,246	11,772	9,985	11,420
Population Density (per square mile)	36.9	46.0	48.7	47.1
Land Size (square miles)	563.5	549.1	515.01	519.9

Financial Condition Analysis

Liquidity

When assessing Ogemaw's ability to meet short-term obligations - payroll, accounts payable and other regular uses of cash - we are primarily looking at the amount of available cash in the General Fund. Three metrics commonly used to assess liquidity are the quick ratio, the current ratio, and days of cash on hand. For the following analysis of Ogemaw's quick ratio, we begin with a simple view, before drilling down in with a more detailed analysis.

Ogemaw's General Fund quick ratio, which measures the ratio of extremely liquid assets to current liabilities is 0.05 for FY21, which means that with the amount of cash that Ogemaw County has in its General Fund, it can only cover about 5 percent of its current liabilities. Typically, the recommended quick ratio for governments is at least 1.0, meaning that the amount of cash is equal to or greater than the value of current liabilities.

Ogemaw's potentially concerning quick ratio value becomes more apparent when benchmarking against its peers. Otsego, Iosco, and Roscommon Counties have General Fund quick ratios of 6.19, 5.30, and 3.51 respectively. Quick ratios for all three peers suggest a comfortable cushion of liquidity.

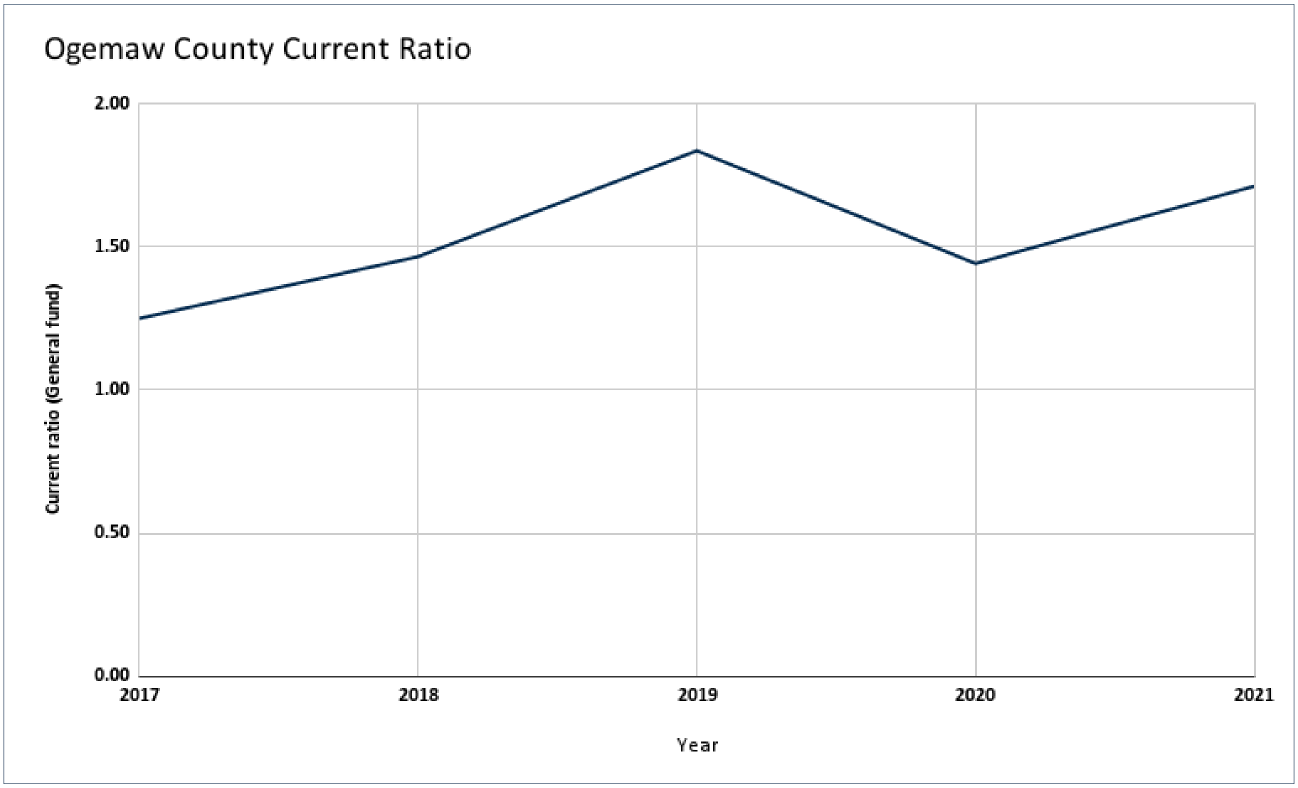
While the low level of General Fund cash suggests a liquidity problem for Ogemaw County, an alternative way to calculate a quick ratio would be to focus on all governmental funds, not just the General Fund. While the General Fund cash balance is only $37,423, Ogemaw County makes use of 21 special revenue funds, which hold a combined $1.98 million in cash balances. The value of a quick ratio including all of these governmental funds is 14.71, which is comparable to peers.

A strong liquidity position in the proprietary funds also helps offset concerns in the General Fund. The Tax Umbrella fund (delinquent tax collections) regularly makes operating transfers to the General Fund, including a $750,969 transfer during FY21. While these transfers provide critical operating support for Ogemaw's General Fund, peer counties are not as reliant on transfers from delinquent tax collection activities. Among peer counties, only Roscommon transferred a substantial amount, $428,888 from its delinquent tax fund to its General Fund in FY21.

Looking at the County in its entirety, including both governmental and proprietary funds (i.e. total primary government), the quick ratio would be 10.92, which suggests very strong liquidity. On this metric, Ogemaw County is in the middle of its peers: Iosco County's primary government quick ratio is 13.4, Otsego County's is 9.19, and Roscommon County's is 22.13.

Another indicator we use to measure the County's ability to cover its short-term financial obligations is the current ratio, which is similar to the quick ratio except that it includes all current assets, not just cash. While the General Fund cash balance is quite low, receivables increase overall current assets to $1.3 million. In FY21 Ogemaw's General Fund has a current ratio of 1.71, meaning that its current assets are sufficient to cover 171 percent of current liabilities. While this ratio value is somewhat low compared to a commonly recommended minimum of 2.0, it appears to be improving over time. In comparison, Iosco has a healthy General Fund current ratio of 7.83, while Otsego maintains an even stronger 13.84, and Roscommon's current ratio is 5.00.

Figure 1
Current ratio: 2017-2021



Not surprisingly, the cash on hand liquidity indicator, which calculates how long the General Fund can pay its expenses if all revenue generation suddenly stopped, is also low. Ogemaw County's General Fund has only 1.5 days' worth of cash on hand. In contrast, Iosco County has about 112 days, Otsego has about 125, and Roscommon has 50.

Ogemaw's liquidity profile is an ongoing concern the County is trying to address. In three of the last five years, the County closed its fiscal year with a zero cash balance in its General Fund, and has relied heavily on revenue from delinquent property tax collections in order to meet cash flow needs. In the future, Ogemaw County should focus on building up its cushion of General Fund reserves, especially in an uncertain post-pandemic economic environment.

Financial Performance

Financial performance ratios focus on the alignment of annual revenues and expenditures to ensure that budgets are structurally balanced and fund balances are adequate to provide a buffer against emergencies or unexpected events.

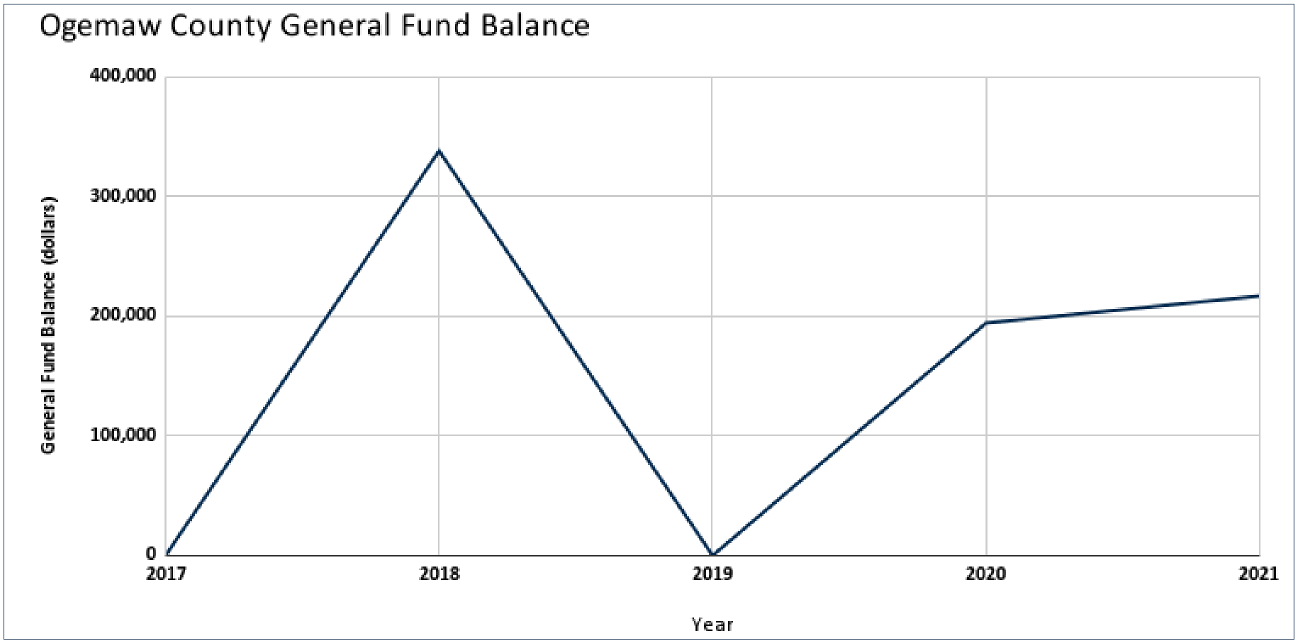
Revenue mix. Ogemaw County's governmental activities revenue totaled $13.4 million in FY21, up from $11.7 million in FY20, an increase of around 12% due in part to federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funding. The largest sources of revenue are property taxes and grants and fees associated with government services, such as courts and public transportation. In FY21, property taxes accounted for 56.4 percent of total governmental activities revenues while grants and user fees made up 21.0 percent and 15.3 percent respectively.

Expenditure mix. Governmental activities spending totaled $12.9 million in FY21, most of which is reflected in the General Fund, with a budget of $9.5 million. The largest General Fund expenditures are for public safety, representing 36.9 percent, followed by spending on judicial services at 17.8 percent, and then expenditures on other general government (excluding legislative, executive, and financial) at 16.8 percent of the total. General Fund spending on public safety has decreased slightly the last three years, having fallen from 42.5 percent of total expenditures in FY19. However, this does not reflect a reduction in overall public safety spending because a portion of the spending is being shifted to a Road Patrol Fund, which was created by a new voter-approved millage in 2020. In general, however, the overall expenditure mix has remained relatively stable over the past few years.

General Fund balance. The General Fund balance has fluctuated in recent years, with two of the last five years ending with a fund balance of $0. However, FY20 and 21 have seen growth, and the County ended FY21 with a total General Fund balance of $216,762. Of this, $207,623 was free of restrictions. The unassigned General Fund balance is a particularly important data point for financial condition analysis because it measures the size of the County's "emergency reserves." It is commonly recommended that the unassigned General Fund balance should be equal to about 15 to 20 percent of revenues. For Ogemaw County, it is only 2 percent, reinforcing the idea that the County should focus on building its reserves.

For comparison, Iosco, Otsego, and Roscommon Counties FY21 General Fund balances are equal to 28 percent, 34 percent, and 15 percent of revenues, respectively ($2,432,785; $6,427,835; and 1,463,883).

Figure 2
General fund balance: 2017-2021



Net assets. Looking more broadly at the balance between revenues and expenses, we can also examine how governmental net assets have changed over time. Unlike fund balances, net assets are calculated on a full accrual basis, which means that they account for long-term assets and liabilities. Like many local governments, Ogemaw County has an overall negative governmental net position for FY21 (-$2,925,721). In the past five years, net assets grew in FY21, FY19, and FY18, but they shrank in FY17 and FY20.

The decline during FY20 is primarily attributable to the onset of the COVID-19 pandemic and the ramifications it had on the County's revenue sources. Charges for service represent over 20 percent of all governmental activity revenue, and fell by 23.0 percent between FY19 and FY20. In particular, the biggest declines are associated with the district courts, the jail, and a line item called other public safety. They declined by 28.7 percent, 35.6 percent, and 82.4 percent respectively. In FY21, net asset growth rebounded, mostly aided by the 12.74 percent increase in the amount of operational grants provided for governmental activities.

Program operating margin. Another way to assess the financial performance of the County is to examine the extent to which county programs cover their own expenses. For example, district courts charge various filing fees, fines, and penalties.[1] In FY21, governmental programs covered about 34 percent of their costs. While most government services are not designed to be fully self-funding, Ogemaw County's ratio is a little low compared to Iosco, Otsego, and Roscommon Counties, whose programs cover about 41-42 percent of expenses. It may be worthwhile to examine whether this difference is driven by the mix of services offered or differences in fees.

Budget variances. A last way to view Ogemaw County's financial performance is to assess how well actual revenues and expenditures in the General Fund line up with budgeted amounts. Accurate budget projections are often hard to get precise, but a pattern of significant variances can sometimes be a symptom–expected or unexpected– of fiscal stress. General Fund revenue has been predicted accurately for the most part, staying within one to two percentage points of budgeted amounts. The largest overall revenue variance occurred in FY20, when the county surpassed its budget amount by 2.23 percent. This favorable variance is primarily due to the pandemic related aid, which was not finalized until after the budget was adopted. The second largest variance happened in FY21 when revenues came in 1.47 percent below budget. This variance was mainly attributable to lower than expected charges for service. Overall, these are relatively small variances, suggesting that the county does a good job forecasting and managing revenue collection.

On the spending side, the variances are higher, but overall favorable, which means that actual spending is below budget on average. The County saw the highest variances in FY18 and FY17 which were departures of 7.13 percent and 4.08 percent respectively. More recently, variances have been smaller, with FY21 spending 2.24 percent below budget.

In general, Ogemaw County has faced some challenges with alignment of revenues and expenses, but most indicators appear to be moving in the right direction.

1 https://www.courts.michigan.gov/siteassets/court-administration/resources/dfee.pdf

Long-term Solvency

Long-term liabilities often present persistent challenges to fiscal health for local governments. Bonded debt and retiree pensions and healthcare benefits create ongoing legacy costs and debt service expenses that can leach resources away from other spending priorities.

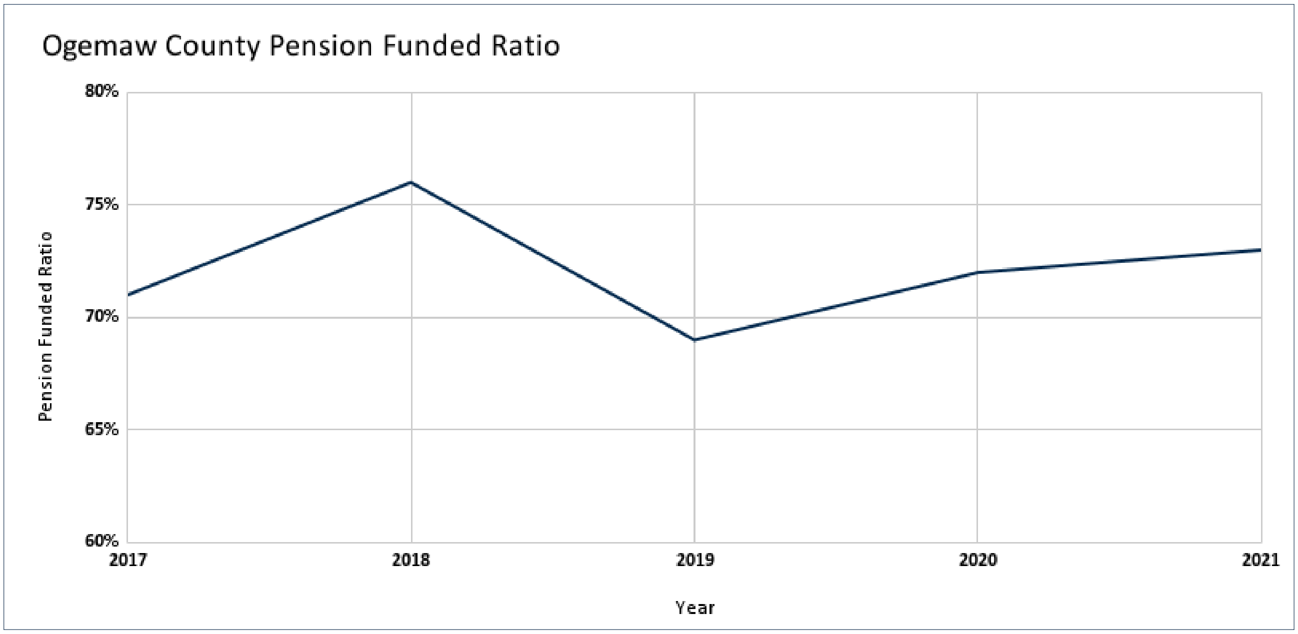
One measure of the overall size of long-term liabilities is the ratio of total liabilities to total annual revenue. On this metric, the County is in good shape, having a ratio of 1.03. This means that Ogemaw's outstanding liabilities represent just over 100 percent of their annual revenues. In other words, it would take about one year worth of revenues to pay off outstanding liabilities, well below the four to five years typically considered to be high. The last five years, Ogemaw County's ratio stayed between between 1.19 and 0.95. All three peer counties have low liabilities/revenue ratios. Roscommon, the strongest of all the peer counties in this area, has a ratio of 0.46, with Iosco at 0.62 and Otsego at 0.59.

Ogemaw County's largest long-term liability is its $8.82 million unfunded pension liability. The pension plan is currently 73 percent funded, which means that the County has set aside enough assets to cover an estimated 73 percent of projected benefits. Peer counties have similarly sized pension liabilities and funded ratios: $8.27 million (75 percent funded) for Iosco County, $8.40 million (68.2 percent funded) for Otsego County, and $6.33 million (81 percent funded) for Roscommon County.

Over the past five years, the County has consistently contributed the recommended "actuarially determined contribution," the estimated amount needed to pay current retiree benefits and pay down the unfunded liability over the remaining 18 year amortization period. In FY21, the actuarially determined contribution was $1.36 million, which represents almost ten percent of total governmental and proprietary fund expenses. While not outside of the norm for governments, these costs do represent significant constraints on the budget and have risen sharply in recent years. In FY17, for example, the actuarially defined contribution was only $666,043, just half of what it is today.

Economic uncertainty may also mean rising pension contributions in coming years. For instance, the plan's assumed rate of return on its assets, currently at 7.35 percent, may need to be revised downward if the economy slows, increasing the size of the unfunded liability and actuarially determined annual contributions. The County should continue to prioritize its pension plan contributions and carefully monitor its liability.

Figure 3
Pension funded ratio: 2017-2021



The county also has a long-term liability for other post-employment benefits (OPEBs - retiree healthcare and other benefits), although not nearly as large. The liability totals $612,827, approximately an eighth of its pension debt. The county does not pre-fund these benefits, but paid $34,107 in benefits in FY21.

The other major category of long-term liabilities is bonded debt. Ogemaw County only has one set of outstanding bonds, originally issued in 2008 for the construction of a new jail and most recently refinanced in February 2022. As of FY21, the County owes $4.895 million, which will mature by 2038. On a per capita basis, this liability amounts to about $236 per resident, or one percent of per capita income. Although this is a low debt burden by objective standards, it is quite a bit higher than peer counties, which have per capita debt burdens under $35. However, because smaller governments issue debt only occasionally, debt burden measures will vary significantly over time.

Overall, Ogemaw's long-term solvency is strong, with manageable debt burdens and legacy costs.

Fiscal Health in Rural Counties

In addition to reviewing general indicators of liquidity, financial performance, and long-term solvency, it's also important to review factors that are particularly important to understanding the fiscal health of Ogemaw County and other local governments like it.

Revenue Constraints

Ogemaw County, like all local governments in Michigan, has fairly stringent constraints on its financial flexibility and ability to generate revenue. Property taxes are subject to three state-imposed limitations: one on the assessed value of individual properties ("Proposal A" tax caps), a second on the property tax millage rate, and a third on the annual increases in a jurisdiction's revenue (the "Headlee limit").[2] In practice, the assessment cap from Proposal A likely restrains revenue the most because it limits the growth in assessments on individual properties to the lesser of five percent or inflation, which has lagged significantly behind growth in market values for property. The main potential sources of property tax revenue growth are new construction and voter-approved taxes.

As a result, these property tax limitations are particularly restrictive for local governments that lack population growth and new development, that have mostly residential property, and that are heavily reliant on property taxes. Ogemaw County falls into all three categories. Between 2010 and 2020, Ogemaw County's population declined by 4.3 percent, partly due to out-migration of young adults and a lack of in-migration. Residential property, while about two thirds of the tax base statewide,[3] comprises over 75 percent of Ogemaw County's tax base. Residential and agricultural property also tend to turn over less often than commercial and industrial property, resulting in a larger gap between market values and taxable values. On average over the past five years, taxable values on real property have increased 2.46 percent per year.

In addition, more than half of all of the County's total revenue, and over two thirds of General Fund revenue, comes from property taxes. Unlike larger urban local governments, which may have access to additional revenue from excise or income taxes, most small and rural jurisdictions mainly rely on property taxes and state revenue sharing. The County levies a main operational millage (6.0992 mills), as well as supplementary voter-approved millages for Sheriff road patrol, 911 emergency dispatch, EMS, public transit, veterans, senior services, and the Michigan State University Extension Office,[4] all of which are subject to Headlee limitations and are considered "tools of last resort" for shoring up revenues.

2 https://crcmich.org/publications/michigans-overlapping-property-tax-limitations

3 https://www.michigan.gov/treasury/-/media/Project/Websites/treasury/Reports/2015/2015_Final_Report_2012_SEV__TV.pdf?rev=c0f5384b3ee74c81b334aff25c35f320&hash=64494B2E01255826A00822FA20A57F77

4 https://www.canr.msu.edu/ogemaw/ogemaw_county_annual_reports

While property taxes tend to be a steady source of revenue for local governments, periods of high inflation create additional challenges because property tax revenue growth cannot keep up with inflationary pressures on expenditures.

Expenditures and Operational Flexibility

Another challenge facing counties in Michigan is that for many of their functions, they are essentially administrative arms of the state, subjecting the counties to state-imposed spending pressures and potentially unfunded mandates. For example, the Michigan judicial system is organized with trial courts in every county. State-level policy governs much of how these programs must be staffed and operated, and also prescribes the fees that can be charged.[5] Counties also provide many required services like friend of the court and indigent defense programs, often with additional restricted revenue sources, leaving them very little operational flexibility.

While these services are regulated and required by the state, counties are responsible for funding them locally, often resulting in a structural mismatch between expenditures and revenue sources. This mismatch is especially difficult for smaller counties to manage because there are fewer margins of adjustment.

Capital Planning

Capital planning also presents challenges to small local governments because designing and implementing a capital planning process takes considerable staff time and expertise. Ogemaw County does not currently have a separate capital budget, funding most capital expenditures out of operating dollars. In addition to limiting the County's ability to do long-term capital planning, this strategy also requires political discipline to resist spending and build up fund balances to save for projects. It may also make it difficult to interpret changes in fund balances. When enough money is saved, the project is completed by spending down the fund balance. To an outsider, such a reduction in fund balance might seem alarming, so it is important to understand how different communities budget for capital projects.

Ogemaw County will receive $4.1 million under the American Rescue Plan Act of 2021, a bill partly aimed at stabilizing the adverse financial effects brought about by the COVID-19 pandemic. The ARPA legislation allows municipalities receiving less than $10 million to use it all for "revenue replacement" instead of the restricted categories of eligible uses. Ogemaw County currently plans to use the ARPA funds for physical improvements and deferred maintenance on its buildings.

Regional Cooperation

Another key to understanding rural counties and municipalities is understanding their reliance on and opportunities for interlocal cooperation for service provision. Because many government services have significant fixed costs, sharing services allows governments to spread costs out and take advantage of economies of scale. Ogemaw County currently participates in joint ventures with nearby counties to operate a mental health services board and a district health department. It also jointly operates an airport with the City of West Branch. However, Ogemaw County officials believe that there could be more opportunities to take advantage of interlocal agreements to operate shared services.

Redundant services not only increase costs for local governments, but they can lead to staff shortages in rural areas. Ogemaw County has reported persistent problems with filling vacancies because other counties are recruiting from the same small ecosystem of candidates with the required skills and experience. With fewer FTEs overall, a prolonged vacancy in a small government can have significant effects on the County's ability to deliver services. Increasing incentives for regional cooperation and shared services can aid in remedying this problem and help make the most of individual expertise in rural areas.

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5 See note 1.

Conclusions

This case study of Ogemaw County's fiscal health provides a few key takeaways about understanding and supporting local government fiscal health, particularly for rural counties:

1. **Ogemaw County's struggles with liquidity and budgetary balance are exacerbated by constraints on revenues and expenditures.** On one hand, property tax limitations in Michigan are particularly stringent for small, rural jurisdictions. On the other, many of the services counties provide are strictly regulated by state law. Combined, these constraints leave rural counties with very little flexibility to keep their budgets in structural balance.

2. **Small governments face obstacles in planning for the long term.** While they do not often have the debt burdens or unfunded liabilities that plague other local governments, small governments face their own challenges in ensuring their long-term ability to meet the needs of residents. Financial management practices that focus on the long-term, like capital project planning, require significant time and expertise for both staff and elected officials. A lack of attention to these issues - especially when so much time and attention is given to short-term budget balance - can impair long-term economic development, as well as result in the buildup of deferred maintenance on existing capital assets.

3. **State policy could better focus on supporting rural local government cooperation.** In addition to supporting financial management and planning for small and rural local governments and providing more revenue and expenditure flexibility, state policy can also work to facilitate regional cooperation among governments in rural areas to take advantage of economies of scale and limited pools of qualified workers. Funding from the American Rescue Plan Act, in particular, provides an opportunity to coordinate projects and make the impact of dollars go further.

About the Fiscal Health Project

CLOSUP's Fiscal Health Project aims to develop a deeper understanding of the fiscal health and fiscal challenges of local governments in Michigan, and beyond. These case studies focus on specific Michigan local governments and are intended to highlight some of the unique and possibly overlooked fiscal challenges they face.

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