Long Term Financial Plan and First Release of the FY19 Budget

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LAURENS COUNTY
South Carolina

GENERAL DISCUSSION:

This is a first release of the long range financial plan and FY19 draft budget for Laurens County Government. This narrative builds on the narrative performed for the FY18 budget (first budget for the current County Administrator) which was a departure from previous budgets where little or no narrative was provided. One purpose of this narrative is to provide more transparency in our financial management. A secondary purpose of this narrative is to provide analysis and the logic behind our financial systems. A third purpose for this narrative is to build financial models and strategic financial plans that can guide us to make better financial decisions today for a more prosperous financial future. This narrative can eventually be built into a Comprehensive Annual Financial Report (CAFR) which is the highest standard for financial reporting.

This report refers to several additional related long range plans and studies. These studies and plans were not available for the FY18 budget have been developed and are included in this first draft FY19 budget as appendices. All of these reports are presented as a component of the first draft budget but will not be included in the final budget. These reports will be posted online and referred to in the final budget but will not be published again.

Appendix A: contains the first draft actual spending plan ("Budget") for FY19 budget which is the detailed spending plan for the FY19 Laurens County Government starting July 1, 2018 and ending June 30, 2019.
Appendix B: contains any backup information provided by the departments requesting funding.
Appendix C: contains the first ever Laurens County Compensation Study (ver. 1.0) which will be referred to by the County Administrator for any recommendations on pay changes for individual employees or departments.
Appendix D: is the first ever long range strategic capital plan (ver. 1.0) that will be referred to for any capital requests.
Appendix E: is a simple financial analysis study performed by a PhD Student from Georgia Tech/GSU and contains some examples of additional information that is provided in a CAFR.
Appendix F is the latest Moodys Credit Opinion.
Appendix G: is the Laurens County Retiree Health Care Actuarial Valuation Report.
Appendix H: is a report on Unfunded State Mandates

FY18 was a major budgetary restructuring under the newly appointed County Administrator. Please refer to the first draft FY18 budget for more information on the restructuring (available on our website). No further major restructuring is presented in FY19 however newly developed correlated plans presented in Appendix C (compensation) and Appendix D (capital) have been incorporated into the long range financial plan. The primary focus of FY18 was to restructure the finances for more transparent reporting of

financial, more accurate financial reporting, and for ease in long range planning. The primary focus of FY19 is to begin the long range planning process (see appendices).

Limited financial analysis has been able to be accomplished at this point however this will be the primary goal for FY20. Long range financial planning cannot take place until we have been able to perform detailed financial analysis of our historical trends. The primary purpose of the FY18 restructure was to be able to be able to clearly and transparently present our finances so that historical analysis can be completed however the ability to evaluate historical data prior to FY18 is very limited due to the prior budgeting structures. For FY19 some limited analysis has been done however the historical trend data is still limited. The intent of the FY18, 19 (and eventual FY20) budgets is to move beyond 12 month (at times crisis) budgeting towards a more sound financial future with longer range financial planning.

Many governments only plan for a 12 month spending period however sound business management dictates that we look longer term. Long term financial planning will involve a lot of assumptions some of which will come to fruition and others that will not. By looking at long term financial models we can be more informed on the effects of the financial decisions we make today. The financial analysis and long term financial plans help Laurens County determine the long term financial impacts of the decisions we make for the next financial planning period (FY19). The information presented for the long term financial plans has assumptions and relies on the existing data that has been uncovered to date.

The top financial priority of FY19 should be to address our low and unfair wages. We have the lowest County taxes per legal resident in the State of South Carolina (see section 9 of this report and appendix C.

Priority #2 should be to create a road map (plan) for a future Laurens County that is as prosperous and vibrant as we desire it to be.

BUDGET ADOPTION SCHEDULE:

February 1: Completed budget worksheets returned to the Administration. **COMPLETE**

March (goal): Administration will present the first draft to the County Council for informational purposes only. Administration will then distribute first draft to the departments and budget managers. Administration will be available to meet with the departments and budget managers if they want to review the first draft budget. C**OMPLETE**

April-June: Council works on Budget

April 24, 2018: First Reading of Budget Ordinance (backup date May 8, 2018)

May 8, 2018: Second Reading of Budget Ordinance (backup date May 22, 2018)

June 12, 2018: Public Hearing and Third and Final Adoption (backup date June 22, 2018)

OVERVIEW OF SIGNIFICANT FINANCIAL FINDINGS TO CONSIDER

Summary:	**Estimated Impact** (Annual impact unless noted otherwise) (increases shown in parentheses, otherwise savings)
FY19 PROPOSED TASKS:	
Item 1: Compensation Adjustments (see 110-561) (full cost not quantified yet)	($350,000)
Item 2: Create a road map for our future	($60,000)
Item 3: Eliminate the unfunded mandate Victims Assistance Fund Savings	$75,000
Item 4: Repayment of Prior Year Victims Assistance Fund Unfunded Mandates (one time)	$60,000
Item 5:Health Insurance Wellness Program Taxpayer cost (max annual assuming we eliminate our markup)	$645,373
Health Insurance Wellness Program (Employee max annual assuming we eliminate our markup)	$120,000
Item 6: Workmans Comp Insurance Risk Management Program (annual assuming we reduce our markup)	$400,000
Item 7: Energy Efficiency Program	$TBD
Item 8: COLA for wages	($TBD)
Item 9: Operational Efficiency Study (see 110-561)	($45,000)
Item 10: Retirement Increases	($271,000)
COMPLETED TASKS:	
Item C1: Retiree Health Insurance Class 1 Compliance with Existing Policy (begins 7/1/17)	$130,000
Item C2: Retiree Health Insurance Long Term Liability Decrease (Benefit Sunset began 7/1/17)	$2,520,406
Item C3: Personnel Policy Changes (implemented January 1, 2017):	
Item C3a: One hour paid lunch reduced to 0.5 hours (cost estimate of more hours gained)	$273,416
Item C3b: No paid leave-part time/temporary employees (cost reduction over time, new hires only)	$30,000
Item C4: One time idle cash transfers	
COC Special Source Funds (one time, implemented in FY17)	$103,762
Ordinance 625 Surplus Reduction (one time, implemented FY17)	$332,000
SW Enterprise Fund FB Transfer (one time, implemented FY18)	$727,436
Indigent Care FB Transfer (one time FY18)	$1,230,437
Fund 143 SRF (one time FY18)	$112,827
Fund 144 SRF (one time FY18)	$23,167
Fund 113 SRF (one time FY18)	$619,138
Fund 113 SRF (annual impact)	$360,000
Fund 114 SRF (one time FY18)	$465,487

Fund 114 SRF (annual impact)	$180,000
Item C5: Telecommunications Audit (cell phone not yet quantified) (Annual Impact)	$90,000
Item C6: Health Insurance Subsidy Sunset (annual impact eventually)	$230,000

Details:

Item #1: Compensation adjustments. Covered in much more detail in several sections of this report and appendix C.

Item #2: Create a road map for our future. See 110-537.

Items #3 & #4: Eliminate the unfunded mandate Victims Assistance Fund is describe in detail in a section 4 of this report as proposed in FY18 and to be implemented in FY19 will reduce annual GF spending by approximately $75,000 and repay the GF FB an estimated $60,000 over time.

Item #5: Health Insurance Wellness Program (maximum annual assuming we reduce our markup). Annual savings based on current markup and current coverage costs is a total of $645,373 for taxpayers plus and additional $120,000 or more for the employees cost. Discussed in more detail in section 2 of this report. See fund 128 for a pilot program to start this process in FY19.

Item #6: Workmans Comp Insurance Risk Management Program (annual assuming we reduce our markup)$400,000. This is a best case scenario but is used to highlight the importance of focusing on this issue (risk management). See section #5 of this report for more information. Currently we have one of the highest (worst) markups in the pool costing us $210,400 annually above the pool average. An additional $205,000 annually would be saved if we had the top (lowest) markup of the pool. For FY18 we have an estimated $100,000 reduction in our WC premiums as a result of improved claims history.

Item #7: $TBD. This program will give us long term energy savings and those savings will be used to pay for the necessary capital improvements. Net effect should be revenue neutral at the least. Program is expected to save us money by allowing us to replace capital improvements now, and enjoy the energy efficiency savings long term. See section #1 and #7 for more details.

Item #8: COLA for wages ($TBD) see sections #1 and #2 of this report for more information. It is important that we keep our wages in pace with inflation. This is NOT a pay raise but is simply keeping wages adjusted for inflation. The inflation (CPI) from 12/16 to 12/17 was 2.1% so a 2.1% COLA is recommended for all wages and has been built into the wages for draft 1.

Item #9: An operational efficiency study is proposed for FY19 with a potential partnership with Greenwood County to reduce the costs. See appendix I. This is to be combined with item 1 above to quantify the compensation study ensuring we are operating at

efficient staffing levels ($30,000). A proposed more in depth analysis of EMS ($15,000) to evaluate efficiency of our current operations is also proposed as part of this analysis.

Item #10: Retirement Increases see section 2 of this report. State legislation increased the local pension match by 2% in FY18 and will increase an additional 1% annually after that for several more years. Half of the 2% increase in FY18 was funded by the State through an increase in the LGF. The remaining 1% was proposed to be funded through a tax increase as allowed by Act 388 for unfunded mandates but that recommendation failed to pass by County Council. The net result is that the $140,000 in unfunded mandate ($94,000 in GF) was paid for by the County using existing funds for FY18. This is compounded in FY19 with an additional 1% increase ($188,000) to the FY19 GF and will further increase in FY20-23.

COMPLETED TASKS:

Item #C1: Retiree Health Insurance Compliance with Existing Policy (begins 7/1/17) estimated annual savings $130,000. See section 2 of this report. This item was a clarification and standardization of the County policy to provide certain retirees with lifetime health insurance coverage (covered in more detail below). For FY17 the actual spending for this line item was $512,341 which is projected to decrease to less than $400,000 in FY18. These retirees have been classified as Class 1 retirees who will receive 100% of their single coverage cost of health insurance with the County paid for life as long as this policy exists. This line item should continue to decrease over time (with the exception of any premium increases).

Item #C2: Retiree Health Insurance Long Term Liability Decrease (Benefit Sunset) $2,520,406. Council took action in 2017 to discontinue the lifetime health insurance benefit for any new hires after 7/1/17 (class 3). Council also took action to require any employee retiring after 7/1/17 (class 2) to pay the same copay for single coverage as the working employees. Based on actuarial estimates the long term unfunded liability of providing lifetime retiree single health coverage has reduced from $25,108,256 to $22,587,850 based on these changes. See section 2 of this report. The policy to provide certain retirees with lifetime health insurance coverage is a growing liability and is covered in more detail below.

Item #C3: Personnel Policy Changes (implemented January 1, 2017) is self explanatory. Note that the item 3a is a dollar value productivity measure estimate. See section 2 of this report. While implemented in FY17 the effect will carryover to subsequent fiscal years.

Items #C4:

<u>COC Special Source Funds</u> (one time, implemented in FY17) $103,762. See section #1 for more details.

<u>Ordinance 625 Surplus</u> Reduction (one time) $332,000 (implemented in FY17) see section #1 below “special revenue funds”

<u>SW Enterprise Fund FB</u> Transfer ($727,436). This fund has been interpreted as an enterprise fund but not managed as an enterprise fund. In addition the current management of this fund has deviated from the enabling legislation. Council decided to create a true

enterprise fund. A new enabling legislation will be approved by Council to create an Enterprise Fund as well as clean up the language to comply with current practices for this funds finances. A transfer of GF FB will also be acted upon by County Council reducing our overall GF FB by shifting the FB for this fund to the newly created EF. More discussion on this subject within this report.

Indigent Care FB Transfer ($1,230,437) Current management of this fund has deviated from the enabling legislation. In addition the prior accounting for this created an artificial surplus which should not have materialized. Council took action to correct the enabling legislation to comply with current practices for this funds finances. A transfer of any FB in this fund to the GF FB will also be brought to Council for action. This action should have no effect on our GF FB. In parallel with this should be the write off of the fund 128 deficit carried on our books ($1,159,934). More discussion on this subject within this report.

Fund 143 Special Source Funds: ($112,827) A special district paving project for the Rabon Mini Farms subdivision was entered into via Ordinance 361 in 1992. The project was initially funded by the County through the use of General Fund Reserves but was to be paid back to the GF Reserves through tax collections charged to the landowners. The repayment to the GF never occurred. On 11/14/17 Council took action through Resolution 2017-20 to transfer the repayment of these funds of $112,827 from Fund 143 to the General Fund. This transfer should appear in the FY18 audit and should artificially inflate the GF revenues for FY18.

Fund 144 Special Source Funds: ($23,167) A special district paving project for the Lakeview Acres subdivision was entered into via Ordinance 638 in 2007. The project was funded by a bond with repayment through tax collections charged to the landowners. Over the period of time this bond collection occurred improvements to the properties increased the net revenues collected and an excess of $23,167 was collected beyond the bond payments. These funds were transferred to the GF on 11/14/17 through Council Resolution 2017-21. This transfer should appear in the FY18 audit and should artificially inflate the GF revenues for FY18.

Fund 113 SRF Treasurer ($619,138, one time, $360,000 annually) Special Source Revenue Carve Outs. See section 3 of this report, there is a one time $619,138 impact (FY17 audit figure). The annual carve outs will be long term impact of $360,000 +/-.

Fund 114 SRF Sheriff Office: Special Source Revenue Carve Outs (SO Office-one time-$182,000, annual $75,000, DC-one time $250,000, annual $100,000). These are Special Source Revenue Carve Outs (rough estimated numbers). See section 3 of this report, one time impacts will negatively impact our GF FB D but will reduce GF spending for several years. The annual carve outs will be long term impact.

Item #C5: Telecommunications Audit $90,000 annually (reduction of almost 20% in our telecommunications costs annually). Cell phone audit not yet quantified in the first draft FY19 budget. See section #1 of this report for more details.

Item #C6: Health Insurance Subsidy Sunset ($230,000). County Council decided to sunset this benefit for new hires after 7/1/17. This will eventually reduce to $0 over time.

SECTION 1: FY19 BUDGET

Overview:
This is the second budget for Laurens County under the new County Administrator. The first budget (FY18) was a major restructuring of the budget structure and of many past practices dealing with overhead costs. This second budget builds on the restructuring presented in the first budget (FY18) by introducing the first ever long range strategic plans dealing with the two highest expenditure areas, personnel (appendix C), and capital (appendix D). While the short term goal for the annual budget is to produce a spending plan for the next 12 month cycle, the ultimate goal is to produce longer range financial planning.

1A) Expenses:
The restructuring of the budget in FY18 makes comparisons with actual spending prior to FY18 difficult. For FY19 this process is easier to evaluate due to FY19 being consistent with spending in FY18. In addition, true costs for operations can now be easily and more transparently reported due to the restructuring efforts of FY18.

FUND 110 General Fund Expense: The first draft GF 110 fund has barely increased from $22,542,984 budget FY18 to $22,613,141 in FY19 which is a 0.31% increase ($70,157). Large expense increases include;

- State mandated 2% increase in pension funding (includes unfunded 1% from FY18 and FY19): $232,710
- Market Based Compensation Adjustments (see appendix C): $350,000
- Health Insurance Increased Cost: $181,688
- COLA 2.1% to match Act 388 CPI

Fund 122 Indigent Care: This fund went away in FY18 but the impacts are still present in FY19. There was a dedicated millage (1 mill) for this fund which created excess revenues historically. Those excess revenues were "assumed" to be applied to deficits in indigent care for fund 128 (EMS) and other indigent care expenses however the accounting of these excess revenues to cover these deficits was never presented in the budgets and therefore not represented in the financials. This was cleaned up in FY18 by changing the enabling ordinance to mirror actual past practices and assuming the indigent care millage directly into the GF millage. Any fund balances and deficits were also eliminated through action of County Council.

For FY18 the budget restructuring impacts of this millage appear in fund 128 as a transfer in at the bottom of the financials for fund 128. This represents the deficit in fund 128 being paid for from the indigent care mill. In reality fund 128 is a component of the GF and therefore appears as a consolidation in the GF in our audit so this deficit correction in the budget is simply to present fund 128 as a separate fund than the GF (it is not). The remaining indigent care expenses have been assumed into the GF in the Miscellaneous department 561 line 80052 MIAP Program-State. For FY18 and beyond fund 122 will no longer be present, nor carry any fund balance. Fund 128 will also no longer carry any deficit or surplus beyond the current fiscal year.

Fund 128 EMS:
The first draft budget has a $181,829 deficit in fund 128 that must be either reduced through cuts in expenditures, increases in revenues, or will be taken from the 110 GF.

Fund 128 EMS has been historically treated as an SRF but it is not. The intent of County Council has been to clearly show that the millage and revenues associated with this fund are directly related to the cost of this service. In reality this is a component of the GF. In order to present this fund as it has in the past as a "separate fund" the FY19 budget again has this fund as a separate "fund" in the budget. In the future Council may desire to have fund 128 as a true SRF but this restructuring is not proposed for FY19.

Fund 122 and fund 128 were interconnected with each other and ultimately were simply components of the GF. With the past accounting for these funds, while fund 122 had created a "surplus" fund balance of $1,230,437 (FY17), fund 128 had created a "deficit" of $1,159,934. This was cleaned up in 2018 retrospective to the end of FY17 through a resolution adopted by County Council bring fund 128 and fund 122 fund balances to zero. This will have no net effect on our audited GF FB. For FY18 this surplus and deficit situation with fund 128 had been eliminated by budgeting for transfer to/from the 110 GF and this practice is continued in the FY19 budget. Through this accounting there is no longer a fund 122, and no longer any deficits or surpluses in fund 128.

Fund 128 is set annually by the appropriation ordinance (budget) and is subject to Act 388 caps.

EMS services are in need of additional resources (personnel and equipment). Half of a full 6 person crew was budgeted for in FY18. For FY18 the Council also approved utilizing the synergies of a combined EMS and Fire service through a pilot program creating a new Firefighter/paramedic positions in the new Fountain Inn Thompson Road Fire Station. Combined fire/EMS service is common for urban areas and the northern section of Laurens County is rapidly progressing to a more urban environment. Additionally, if we want to promote more economic activity in Northern Laurens County to take advantage of the growth of the GSP metro growth, we will have to provide more services required for the urban environment.

As identified by a CC planning session, a major capital improvement program is being developed for replacement/enhancement of EMS fixed assets. See appendix D, long range strategic capital plan for more information on this. A proposed EMS headquarters facility is in progress now with a potential bond issuance in 2018 calendar year.

Fund 129 Victims Assistance Fund: This fund is discussed in detail in section 4 of this report. This fund may be considered a State mandate but has been funded by the local taxpayers for several years and owed the GF $205,071 which was written off in 2017 (FY16). The debt owed to GF began to accumulate again in FY17 $42,375 which is budgeted to grow to over $100,000 in FY18.

For FY18 the management of this fund was moved to the Sheriff's Office with the intention of producing efficiencies in operations to balance this fund. This fund has been running a 30% deficit for almost decade. About 6 years ago the fund ran out of surplus and began borrowing funds from the GF. The amount of money this fund owed to GF was eliminated in the FY16 audit however the debt owed to GF is again growing and will continue until new revenues are received and/or expenses are cut.

For FY19 the Sheriff has presented a balanced budget with a potential to reduce the deficit owed to the GF.

Fund 210 Solid Waste "Enterprise Fund":
This fund is currently projected to run a significant $332,126 deficit for FY19 unless changes are made. This deficit will have to be satisfied from GF 110. It is recommended that Council look closely at raising the revenues (fees) to cover the costs of this service.

Fund 210 Solid Waste Enterprise Fund (EF) had been historically treated as an EF but it was not. This fund was established via Ordinance 326 in 1990 (with fee revision(s) in subsequent years). Funds had been commingled with GF and our external auditors had placed excess revenues into GF FB UD. Fund 210 is supposed to be self-funded at approximately $2,100,000 annually and should carry a designated FB but the surplus had been commingled into the GF FB UD.

The intent of County Council has been to clearly show that the fees charged plus the revenues associated with this operation are directly related to the cost of this service. In reality this was a component of the GF prior to FY18. This was brought to the attention of County Council who took action to create a true enterprise fund for FY18. The enabling legislation was changed and a resolution to transfer the fund balance accumulated within this "fund" was enacted. The FB of this fund was $977,436 as of FY17 however Council only took action to move $250,000 of the FB over to this new EF. This transfer of FB negatively affected the GF FB.

With a healthy FB in FY17, the FY18 budget anticipated absorbing a deficit including one time capital expenses. The transfer of FB from the GF may not be sufficient to cover the planned deficit for FY18. The FB transfer may also not be sufficient to cover the capital needs have been identified (see appendix D). It is recommended that the remaining FB be transferred to the 210 Fund to accommodate capital needs.

A long term capital management plan is needed for this vital County operation to include the long term landfill liabilities plus the replacement of existing fixed and rolling capital. This fund had a very healthy fund balance if the entire FB was transferred from the GF FB to the SW EF FB.

Fund 342 Higher Education Fund: This fund is set by an annual appropriation (budget ordinance) and is subject to Act 388 caps. Workforce development is a key component of our future economic prosperity. The Piedmont Tech CAM center, future scholars scholarship program, Piedmont Tech Laurens Campus, and USC Upstate Laurens are critical tools we have for encouraging a brighter economic future. Fund 342 is a self funding fund of approximately $190,000 annually.

Recognizing the importance of education for a stronger financial future, the first draft budget for Fund 342 first draft includes the Act 388 increase.

Fund 113- Treasurer SRF: This is one of two new dedicated special revenue (SRF) funds implemented in FY18. These funds have designated legislative restrictions and are controlled by Constitutional Officers. This fund 113 is controlled by the Treasurer. While we had run deficits in the GF for 6 plus years prior to FY18, these funds continued to rise in FB (surpluses). By segregating these funds and moving expenses from the GF to these SRF funds we can utilize these funds for their legislative purposes and not spend GF moneys as we have in the past.

Although these funds have legislative restrictions, our external auditors have designated some of the surplus FB from these funds as GF FB UD. For FY18 these carve outs are no longer commingled within the overall GF budget but are clearly shown as SRFs. The auditors may chose to move the FB, revenues and expenses back into their GF revenues, expenses, and fund balances but we will continue to track these as SRFs for better internal accounting. The fund balance was $1,230,437 as of the end of FY17.

Segregating these revenues and expenditures aids in bringing the GF expenditures down and subsequently reduce the excess surplus in these carve out SRFs over time. These carve out funds can now be put to use for their designated purposes rather than utilizing General Fund sources as we have in the past.

A resolution was created to fix the fund balance of this fund in 2018. This resolution transferred $619,138 of the 113 SRF FB to the GF FB. A 113 SRF FB of $500,000 will remain in the 113 SRF. At the end of every fiscal year any excess 113 SRF FB above $500,000 will be transferred to the GF FB.

Beginning with FY18 and beyond, all revenues collected from these SRF revenue sources will be allocated to the 113 SRF. The goal is to also transfer all expenses eligible to be funded from SRF 113 from the GF 544 (Treasurer) to SRF 113. For FY18 and for FY19 there will be some transfer of the expenses with the balance be corrected by the end of the fiscal year.

Fund 114 Sheriffs Office SRF: (fund balance of $464,487 FY17) FY19 revenues budgeted at $120,000, expenses at $179,000). This 114 fund is for dedicated funds that by law are controlled by the Sheriff. Prior to FY18, these funds were commingled in our GF and accounted for through various means. Although these funds have legislative restrictions, our external auditors have designated some of the surplus FB as GF FB UD. For FY18 these carve outs were removed from the GF budget as SRFs. While we had deficit spent overall in GF over the past 6 plus years prior to FY18, these funds had created surpluses.

Segregating these revenues and expenditures aids in bringing the GF expenditures down and subsequently reduce the excess surplus in these carve out SRFs over time. These carve out funds can now be put to use for their designated purposes rather than utilizing General Fund sources as we have in the past.

Some of these funds were designated reserves in our GF FB D however some were not. For FY18 the external auditors may reincorporate these funds back into the GF however we will account for these as separate SRFs in our accounting.

123 Fund Fire Operations Fund: Two funds and three departments for the Fire department were combined in FY18 to simplify the accounting for this Special Purpose Tax District (SPTD). This is not a component of the GF and has a dedicated tax source. The combination of 2 funds and 3 departments will simplify the finances of this department and increase transparency. This action will not affect the finances (increase or decrease) but will eliminate many duplicated line item budgets. This budget is established via annual appropriation and is subject to Act 388 caps however Council chose to keep the millage stable annually at 18.1 mills. Fund 123 generates approximately $2,900,000 annually, is self funded, and carries its own healthy designated FB. This fund also funds some capital (see fund 134 discussion below).

134 Fund (see also fund 135 Fire Bond Fund): This is a capital fund that funds some of the capital for the Fire Department. Additional capital is funded from fund 123. This is not a component of the GF and has a dedicated tax source. This budget is established via annual appropriation and is not subject to Act 388 caps however Council chose to keep the millage stable annually at 1.9 mills. This fund has long term lease obligations (up to FY20). Fund 134 generates approximately $300,000 annually, is self funded, and carries its own healthy designated FB. See also Fund 135 (Fire Bond Fund) also.

As part of the long range strategic capital plan Council permitted the Administration to begin purchasing pre owned replacement fire equipment using the fund balances of fund 134 and 123 in an effort to relieve the costs of the next lease in FY20 (decade long L/P).

Fund 600 Capital Millage: Prior to FY18 capital millage was commingled within the GF budget. For FY18 the capital millage had been segregated for budgetary purposes. The primary reason for segregation of the capital spending from our operations and maintenance budgets (O&M) is to allow the development of long range financial planning beyond the current fiscal year (FY19 goal). Capital spending is not subject to Act388 cap and can fluctuate depending on the needs assessed by the County.

In addition, commingling of capital within our O&M budget can present a misleading impression of our true O&M costs due to the fluctuation of capital spending. When the economy is not so well and revenues are short capital spending can be cut back to keep our local economy stable. O&M however can not easily be scaled back without reducing services. Removing the capital from the O&M will allow us to have a clear understanding of the O&M, track trends, and better plan for our financial future.

Capital spending also does not correlate directly with fiscal years as some capital (bonded and leased) will overlap fiscal years. Removing the capital from the O&M also helps overlap fiscal years. O&M budgets expire at the end of the fiscal year and do not get renewed until the start of the new fiscal year. Capital spending however is based on the project specific capital item. The funding for the capital item does not expire at the end of the fiscal year but must be carried over into the subsequent fiscal year.

A long range strategic capital replacement and management plan was created by the Count Administrator and is now being referred to for all large capital spending. Removing the capital spending from the O&M spending allows better financial planning as a component of the long range strategic capital plan.

One primary source for capital is the capital millage. For FY18 council chose to keep this millage stable at 6.1 mills (no increase in millage). This will generate approximately $1,000,000 in revenue. For FY18 and 19 there are two lease purchase arrangements that will be funded through this millage. Both of these will be paid off in FY19. These two L/P arrangements cost approximately $450,000. See the long range strategic capital plan for more information on capital needs.

FILOT Special Projects Fund: A new Special Projects Fund was created as an SRF. This is compliant with resolution 2017-09 which created a special projects fund utilizing a portion (5%) of the FILOT Economic Development Reinvestment funds that were sent to the Laurens County Development Corporation (LCDC). The intent is to support economic development projects that are not directly related to the mission of the LCDC but are important for the County's economic future.

A list of special projects was brought to County Council for consideration but temporarily removed due to the complexity of the FY18 budget. Each of these projects is to enhance economic development with the intent of using tax revenues from economic development to foster new economic development. See the long range strategic capital plan for more information.

1B) Revenues:

General Fund 110 revenues are currently budgeted as increasing at the bottom line by 1.5% ($320,925). Some individual revenue line items are budgeted to increase. Act 388 revenues are included in the budget including the inflationary increase and the unfunded mandate increase. The FILOT funds are budgeted to significanly increase ($468,172) from FY18 to FY19.

It is imporantant to note that the County relies on a variety of revenue sources in addition to property taxes and therefor expenditures are funded from a variety of sources in addition to property taxes. A more detailed analaysis of revenue sources is a goal for future budgets however at this point only limited analysis of revenue sources has been evaluated.

Tax revenues are estimated to be able to be increased by 2.5% per the State Legislature Act 388 which is made up of two components. One component is that the State recognizes that inflation reduces the spending power of a tax dollar. The projected increase due to inflation is projected to be 2.1%. For now the CPI or inflation factor is estimated to be 0.4%. Final figures for the Act 388 increase will be published soon. This increase in millage is keeping the tax dollar the same this year as it was last year. In addition the State recognizes that an increase in population requires an increase in spending by the Local Government to provide services for this additional population.

Also included is the unfunded mandate tax increase. This tax increase was not funded by County Council last year leaving the County with $97,000 increased unfunded cost to the GF. In FY19 the $97,000 increase is doubled to $194,000.

LOST sales tax revenues are a critical source of funding accounting for approximately 11% of the GF tax revenue (29% of the LOST sales taxes are used for General Fund generating $1,600,000 in revenue annually). In addition, the LOST sales taxes provide tax relief to the taxpayers directly on their property tax bills (71% of the LOST sales taxes are used as a direct rebate to property owners tax bills). The County should focus on ways we can increase commerce in Laurens County which will require spending upfront for tourism, parks, recreation, commercial development, and residential development but will pay more money in the future in sales tax revenues.

With approximately 40 miles of Interstate in Laurens County we can also capture and export our tax burden with sales taxes applied to non-residents traveling through the County. Additionally we have extensive leakage of sales tax revenues as Laurens County residents shop in Greenville and Greenwood Counties. The new speical projects FILOT fund will provide necessary financial resources to County government to implement tools to enhance LOST sales tax revenues.

FILOTs are a critical and growing revenue source for Laurens County. Preliminary revenue for GF FILOT revenue accounts for 21% of the GF property tax revenue in FY19. More importantly is the growth in FILOT revenues. FILOT revenues grew 55% from FY14 to FY19. In addition to the revenue directly generated from FILOT revenues there are additional positive financial impacts to our revenues through the provision of jobs associated with these FILOT investments. Laurens County should seek ways to continue and improve on our success in generating FILOT revenues by providing the funding needed to promote more economic development activity in our County. The FILOT projects fund will provide necessary financial resources to County government to implement tools to enhance FILOT revenues. See the long range strategic capital plan for ideas presented on projects to support more economic activity in Laurens County.

For tax year 2018 (revenues for FY19) the FILOT revenues are expected to significantly increase. The increase is due to two factors, one is due to growth in FILOT revenues overall and second factor is a restructure of the FILOT revenues to eliminate FILOT funds to the Greenville School District.

The Local Government Fund has NOT been finalized for FY18 by the State legislature. This critical source of funding accounts for approximately 12% of our overall GF revenue. Based on the original State Legislative formula, the State has taken away $6,631,809 in Laurens County LGF funds since 2009 when they used these funds to balance their own spending. However State Legislature decides how much revenue to give to the Counties and can change the legislative formula at any time. Our goal should be to rely less and less on this revenue source which we have no control over by diversifying and increasing revenue sources we do have control over. More details on the unfunded mandates and the LGF are in section 4.

In FY18 the State Legislature funded half of the 2% local match increase to the State pension program through an increase in the LGF. This proposed increase in LGF will only offset roughly half of the increased cost for the 2% pension fix required for FY18. The remaining cost for the pension fix was recommended to be funded as allowed under Act 388 as an unfunded mandate. Per Act 388 a supermajority of County Council needed to support this funding (5 CC members) and this recommendation failed to get the necessary votes.

It is important to note that this unfunded mandate is permanent. The $97,000 unfunded mandate (GF portion only) will reoccur in FY19 and beyond unless we increase the revenue through this source or another source. In addition, the 1% increase in the local pension mandated by the State, we will have an additional 1% increase for 4 more years. Therefore an additional $97,000 in unfunded mandate costs was absorbed by Laurens County in FY18 which will also carry forward to FY19 along with an additional $97,000 for a total of $194,000 in FY19 plus $97,000 in FY18 or $291,000. This will grow again for the next 4 fiscal years.

654 Revenue: Ordinance 654 millage (6 mills deficit) had been presented in the past as a current year revenue which is not compliant with our enabling ordinance (654). Ordinance 654 states that the revenues received in the current year must be applied to the prior year deficit(s).

Prior to FY18 we presented the 654 revenues as current year revenues however in FY18 the format had been modified to reflect that these revenues were not current year revenues. To more accurately reflect that these revenues are for deficit reduction the 654 revenues accounting for FY18 were removed from the top of the GF revenues sheet and applied to the bottom after the GF deficit has been calculated. This too is not exactly correct because we can only legally account for the 654 revenues based on the deficit for FY17 or FY16 (the official 654 carryforward fund balance was set by County Council resolution at $0 starting at FY16).

The 654 revenues are actually to be applied to the prior year deficit however the revenues are received in the current fiscal year so the revenues associated with 654 are still presented as current year revenues at the bottom of the fund 110 revenues sheet. Accounting for these revenues is done via a separate system to track revenue received, prior year deficits, and carry forward of 654 reserves. The external auditors do not recognize these funds as GF FB D due to the fact that these revenues can be restated by Council per ordinance 654.

1C) Budget Management Practices for the FY19 Budget:

One of the main priorities in the FY18 budget was to make our finances more transparent. This required a restructuring of our finances as well as much more information presented with the budget, more notes highlighting the financials, and more related plans being developed and referred to (some of which are not directly financial but do impact our finances).

All of our financial information is published to our new website. This allows anyone, anytime, to access our financial information. This will also save money by allowing our operations to be more efficient, produce less paper, and disseminate information quickly. Transparency is a core part of our form of government and promotes a trust in the services provided by CC. It also saves us money and increases communication.

For FY19 the primary priority is to begin the process of long range financial planning. To adequately plan for longer term beyond the upcoming fiscal year it is important to be able to perform trend analysis. Trend analysis helps to plan ahead by looking at past spending trends and then projecting those trends forward. Extracting data from our past finances allows us to produce forward looking financial models that can show us the long term impacts of the short term budgets we produce today. We produce budgets based on 12 months of future spending however the impacts of the decisions we make for the next 12 months will impact us longer term than the 12 month financial planning period. With the structure of our finances prior to FY18 it is very difficult to project financial trends.

For FY19 financial plans such as the strategic long range capital replacement plan and the compensation analysis are utilized for the FY19 budget process. These plans will be constantly revised based on the priorities of Council, actions taken in the current fiscal year, new information and/or projects encountered etc… Trend analysis will not be possible in FY19 due to the lack of consistent historical data. However with the new structures implemented by the County Administrator in FY18, the cleanup of finances in FY16, 17 and 18, and the introduction of longer term financial planning in FY19, it will be a goal for FY20 to be able to rely more on trend analysis for financial planning.

As a recap on major restructuring in the FY18 budget the moving of personnel costs from a lump sum single number (in dept 551) to the individual departments was a major component. This action increased our transparency and provides us with accurate costs for our various services. For example the Detention center budget for FY17 was listed as approximately $3,100,000 when the true cost of this operation is 25% higher at closer to $4,000,000. Data like this is important for transparency reasons to explain to the public the true cost to provide the services we provide. It is also important as we produce financial plans for the future so we can perform trend analysis and basic business analysis such as costs for services. Further it can aid CC when they need to make financial decisions such as the cost to provide Detention Center services to other agencies such as the Municipalities. Due to this restructuring there will appear to be a jump in departmental expenses for payroll items such as health insurance, FICA, etc.. and a significant reduction in department 551 when comparing FY17 to FY18.

Traditionally the County has separated out the fire budget as a separate budget from the other various County budgets. In addition the fire budgets were adopted after the prior fiscal year ended requiring a continuance resolution. For FY18 the fire budget was developed in parallel with the other County budgets for adoption. This practice will continue for FY19 and beyond.

One of the most difficult components of our financial management prior to FY18 was the commingling of funds especially capital funds. Operations and maintenance (O&M) is the true cost of running our operations annually. O&M costs generally increase over time as we increase services and/or as inflation drives up costs. However these increases are generally measurable and predictable. O&M cost increases can be financially planned ahead by using historical data to provide trend analyses that can be used to model where we will be financially in coming years. This is important as we plan ahead for where we want Laurens County to go in the future.

Capital spending however does not follow the same "rules" as O&M. Capital revenues such as bond revenues peak when the revenues are received. Then the expenses show up in subsequent years. In addition, capital spending does start and end on a fiscal year calendar. O&M starts 7/1 of each year and ends on 6/30 of the following year. O&M is therefore measurable in 12 month increments. Capital spending however may start in one fiscal year, continue in the following fiscal year, and not terminate until several fiscal years after it began.

For FY18 most capital spending was taken out of the O&M budget and a separate fund was established (fund 600). The only exception is that the E911 Director petitioned Council to put capital funding for department 524 back into the GF so that capital expenditure is in the GF. Separating out capital spending gives us more transparent and easier to understand financial presentation.

Additional capital spending takes place with bonds that are outstanding. These bonds as well as lease purchase arrangements are also not commingled into the GF O&M.

SECTION 2: PERSONNEL:

Personnel Overview:

A majority of the expenses in the Laurens County budget are for personnel (maybe 75%?). Therefore when cut revenues either voluntarily through tax cuts, LOST rebates, keeping fees and taxes low (see section 9), or through tough economic times, we cut personnel compensation. The compensation study (see appendix C) shows that we have artificially kept wages low. By keeping wages low we are not doing our best to compensate our quality employees nor really save the taxpayers money by having higher quality services.

We are setting ourselves up for failure by not addressing compensation. We are not treating our existing employees fairly by providing a fair wage. This demoralizes and demotivates employees to work as efficiently as possible. We owe it our existing employees to provide a fair wage and the compensation study in appendix C proves we are failing at achieving this.

The age of our workforce is growing with pending retirements in many departments (see section 2E). New hires (see retirement chart in section 2E) are not staying with the County causing higher turnover. With low wages we are hiring and training new employees who then go on to higher paying jobs elsewhere. We lose efficiency and cost the taxpayers more by training employees to work elsewhere. This is standard business knowledge that you lose money when you have to retrain and rehire employees rather than provide a fair compensation to keep quality employees.

The initial stages of the compensation adjustments to correct this problem was revenue neutral by requiring cost increases for compensation to come from cuts in other areas of the department. This practice can only continue for so long until the departments that are left have no room for cuts. Therefore a budget line item has been included in FY19 in 110-561 of $350,000 to address some of the problems highlighted in appendix C. In parallel with this is an efficiency study to hire external consultants to gauge which departments have more efficiency to gain within their current resources prior to spending more money.

For the budget structure The FY18 budget eliminated of the grouping of employee expenses in department 551 General Fund (GF). For the five year period from FY12 to FY16 we under budgeted for insurance and benefits by $1,261,903. In FY16 there was an approximate $500,000 (28%) error in the budgeting for Health Insurance alone. A similar $423,826 overage for benefits and insurance was recorded in the FY15 audit. In FY17 this structural budgeting problem reoccurred with spending exceeding the budget by $210,988 for health insurance (12%). Eliminating the 551 grouping of all departmental benefits and insurance should help to reduce this under budgeting.

The moving of the personnel expenses for FICA, health insurance, workmans comp, and retirement to the departmental budgets rather than lumped into the 551 department, will provide better accountability for the true cost of the various services we provide. These costs will no longer be buried in a lumped 551 department but will be accounted for in the actual department in which the service is funded.

A compensation analysis and plan of action to correct major deficiencies in our compensation program was prepared in 2017 by the County Administrator. Implementation of components of this plan began in FY18 on a department by department basis utilizing savings within a department to cover increased costs due to compensation adjustments. The County Administrator will refer to this compensation plan for all personnel compensation requests from this point forward.

2A) Benefits:

GENERAL: Laurens County provides an outstanding benefits package that is superior to many private sector benefits packages. A majority of our benefits are provided through the State employment benefits system. Employee compensation includes the wages we pay plus the benefits. A goal has been set for the HR Department is to quantify the true value added to a wage of each employee's benefits package so that employees can see the dollar value added from their benefits in addition to the wages they receive however no traction on this goal has been achieved yet. It is very important in this competitive low unemployment environment that employees and potential employees understand the complete compensation package we provide as an employer which is much more than just a wage paid per hour worked. Our benefits are superior to many private sector businesses.

An additional goal for HR Department is to ensure employees are well educated on the various benefits we offer as well as enhancing the employee's ability to access additional benefits that are provided by our providers at a reduced or free cost such as free annual health screenings.

RETIREMENT: Public sector employees have long enjoyed the benefits of a defined benefit retirement program (pension). In comparison with private sector wages, public sector employees normally sacrifice a lower wage in lieu of the benefits such as pensions, health insurance, stable employment etc. During the recent recession, with high unemployment, a populist backlash occurred on public sector employees. Compounding this in South Carolina was the State's lack of addressing the unfunded liability of the State pension program.

The State legislature has implemented fixes to the pension program which increased the cost of the County portion of the pension by 2% in FY18 (approximately $280,000), half of which the State funded through a credit on our second quarter pension bill**.** For FY19 an additional 1% increase will be added to employer portion of the pension.

The second half of the 2% increase for FY18 was proposed to be funded through a tax increase as allowed by Act 388 for unfunded mandates. This request failed to receive the necessary super majority votes so it was not funded for FY18. It is important to note that this loss of revenue will reoccur indefinitely. Therefore the 1% increase in FY18 carries forward to FY19 to be added to an additional 1%. For the general fund each 1% is about $94,000. Therefore the County has assumed $94,000 in FY18 plus that same $94,000 in FY19 plus an additional $94,000 in FY19 or about $282,000 in increased costs for FY18 and 19 if the unfunded mandate is not funded. At the same time we are failing to address our compensation due to the increased costs.

Compounding this will be an additional 1% increase each year through FY23 for a total of a 7% increase. At today's numbers a total 7% increase in pension would equate to an annual increase of $660,000 in expenses to Laurens County. If this is unfunded by the State the County cannot take on this additional financial burden. Over the 6 year period of increases we will have assumed almost $2,000,000 in additional costs.

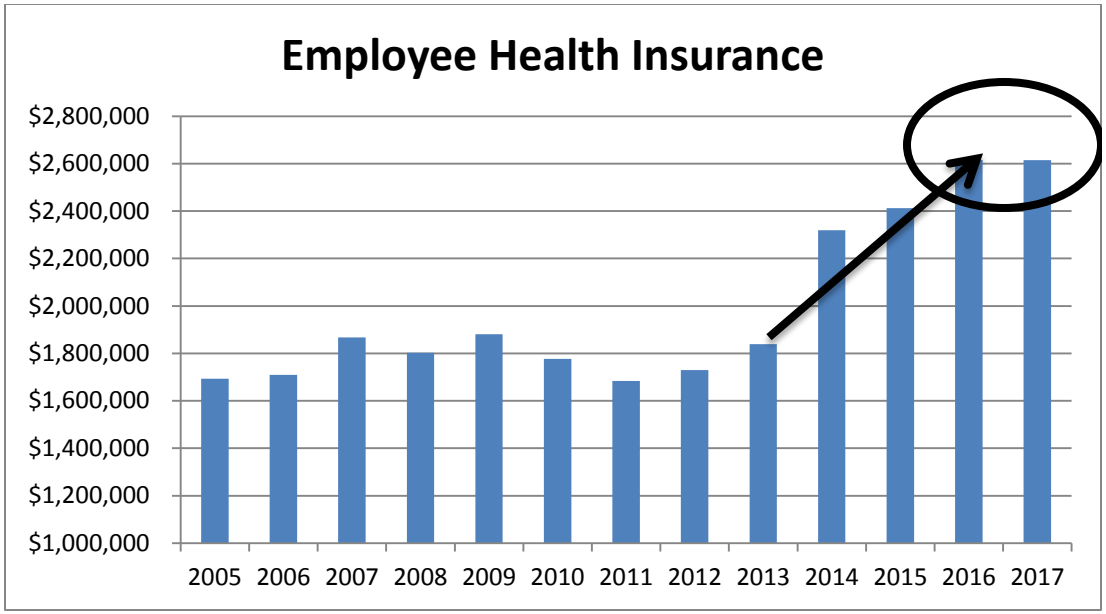
HEALTH INSURANCE: Laurens County's loss ratio has been higher than the pool which results in a markup of the cost to provide this coverage. In 2017 we had a 24.7% markup (dropped to 21.9 FY18**) (markup received in March update for FY19)** on our health insurance cost with a net financial impact of $650,000 in additional costs to the taxpayers for providing employee health insurance. An additional $150,000 of cost was borne by the employees as a result of this markup. The net impact of approximately $800,000 provides a great opportunity to have significant impacts to our operations.

A future goal is to provide options to address these opportunities to address this problem. Ideas may include partnering with the YMCA, GHS, or adding in house health services. Some of these ideas may cost us money but the net impact will be a reduction in costs. In addition, we will increase productivity by having healthier employees, less time out of work, more productive employees, and enhanced positive attitudes.

Health insurance load factors were 16.7% and 16.4% in FY15 and FY16. The net financial impact from FY15,16 and 17 is an estimated total increased cost of $1,600,000. Programs to address this significant financial impact may provide a great opportunity to reduce tax payer expenses, enhance the lives of our employees and their families, and increase efficiency.

The load factor is one important component of our health insurance liability which we may have some control over. The overall cost increases of providing health insurance we do not have control over. The chart below entitled "Employee Health Insurance" illustrates that our cost for this service remained relatively stable for the 9 year period from 2005 to 2013 at average of $1,800,000 annually. An alarming trend was reported in the FY18 budget where the cost of insurance was growing 42% or an additional $775,000 annually.

As shown in this chart the FY17 results (see oval) were more positive where the cost for employer portion of health insurance appeared to stabilize from FY16 to FY17.



2B) Compensation Analysis

Compensation (wages) received has been one of the biggest complaints by employees and department heads. The first step in analyzing our compensation program was to ensure we are offering a market based competitive entry level pay. We would also be wise to have the ability to hire employees with experience at a rate higher than entry level. In addition we should have a system in place to keep wages up with inflation (COLA).

Our current compensation system has very little structure although with the compensation study and corrections we have introduced about 10% correction to our system already since December 2017. We have an estimated 200 different entry level pays. Our entry level pay is apparently not firmly established. Similar positions (clerk for example) have many different entry level pays. An across the board pay increase was much appreciated by the employees however we may have skewed our pay even further from market level pay for some positions while barely addressing the market differential for other positions. The compensation plan began the process of establishing a standardized entry level pay (graded system) and evaluated our wages compared to the market.

An externally created detailed salary analysis was performed in 2008 establishing a structured pay system comprised of about 15 main pay grades. This structured system was reportedly implemented in 2008 however the structured system was apparently not complied with since then resulting in collapse of the previously created structure. An update to the wage figures of this 2008 study was conducted in 2012 but the implementation of these new wages figures is uncertain.

The first goal of fixing our compensation system was to analyze market wages of all positions and create a standardized entry level pay grades for all new hires. Increases to existing employee wages will most likely be a hindering factor to implementing a corrective system due to the potential costs.

A detailed compensation analysis and strategic plan to correct our compensation program for market wages and structured pay was created by the County Administrator and is included as an appendix to the first draft budget. The first implementation of this program in the Clerk of Courts office (fund 100 department 518 was implemented by County Council in December of 2017 utilizing cost reduction strategies within the department to address pay standardization and market differentials within that department. Several other departments have also been restructured according to this system. Once we establish a structured pay system it is important that we adhere to this system.

Future phases of analyzing our compensation system should include a longevity fix or an incentive system. Our current policy of a 3.5% longevity every 5 years can create problems such as new hires being paid the same as 4 year plus veterans for the same job.

2C) Personnel Policy Changes:

In FY17 a new policy manual was created by an employment lawyer drawing upon our existing policies and modifying a few others. Additional personnel policies were adjusted during FY17 and FY18 which have lasting effects into FY19 and beyond.

1. Administrative employees have a normal working schedule of 9am to 5pm. The 1 hour paid lunch was reduced to 0.5 hours (this is similar to other nearby County policies). Estimated increased productivity from this plan to be $273,416 annually (more hours worked). This also brought all departments (40 hour) to a similar schedule (some departments had 37.5 hour work weeks, some had 35 hour work weeks). Implementation of this policy is a duty and requirement of the department heads and captured through the signed time sheets submitted for payroll. Implemented 1/1/17.
2. No paid leave will be granted for part time or temporary employees (hired after 7/1/17). Only regular full time employees will be given paid leave. Estimated cost savings is about $30,000 annually for this program once fully implement through attrition and new hires. Implemented 1/1/17.
3. Reclassification of the retiree health insurance benefit. Implemented 1/1/17. Annual savings $124,341 (FY18) for class 1 employees. Net impact $2,520,406 annuity based long term.
4. Elimination of Health Insurance Subsidy: Implemented 1/1/17. Estimated savings $42,998 FY18, long term savings $228,373.

2D) Cost of Living Adjustment (COLA)

The comprehensive compensation plan will help to ensure we have fair market wages. Keeping our wages in pace with inflation is critical to sound long term financial planning. A cost of living adjustment (COLA) should be applied to our wages on a regular basis.

This is not a “raise” but rather a way to keep our wages from eroding in value. If we fail to regularly apply a COLA to our base wages we risk eventually carrying a large financial burden on to future County Councils. In addition we will fail to continue to have a competitive wage to attract and keep quality employees. (see “Salary Deflation Since 2010 CPI” chart).

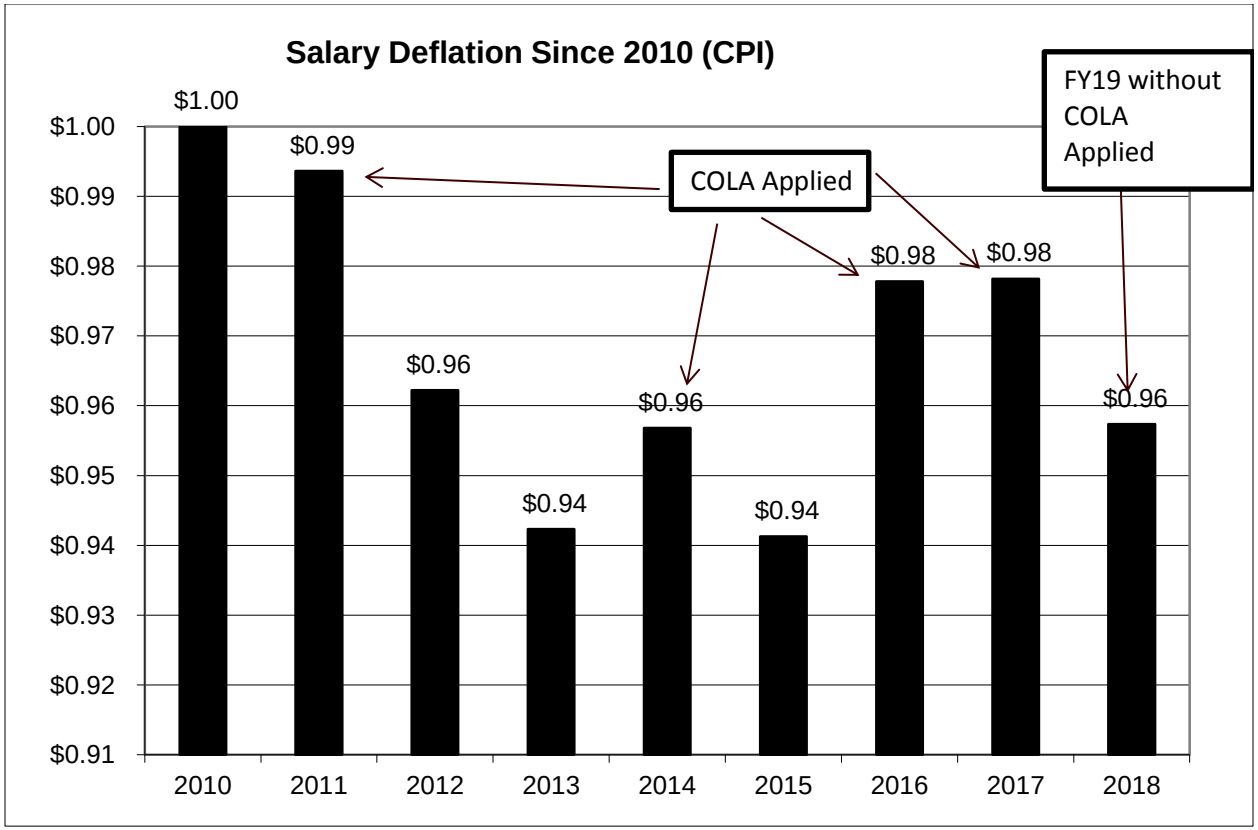
The chart below labeled “Salary Deflation Since 2010 (CPI)” visually shows the effect of inflation CPI and COLAs in Laurens County since 2010. A 1% COLA was applied in 2011 however inflation was 1.6% so wages declined by 1%. No COLA was applied in 2012 or 2013 which had a net result in a decline in our wages by 6% since 2010. In 2013 a COLA larger than inflation was applied which brought salaries back up to 4% below what they were in 2010. This gain was then wiped out by inflation in 2015 compounded by no COLA.

In 2016 we did an across the board flat $0.50 per hour COLA which artificially inflated wages on the lower end to a rate higher than the 2010 wage and deflated wages on the lower end even further (see more discussion on this below). Using an average across the board 4% increase brought wages back to a net 2% decline (again wages on the lower end were making more than they were in 2010 but wages on the higher end were making less than they were in 2010.

In 2017 a COLA was applied matching inflation so wages remained stable at 2% below where they were in 2010 (skewed by the across the board COLA in 2016). For 2018 inflation is pegged at 2.1% so no COLA will deflate our wages by 2.1% if no COLA is applied.

As this chart illustrates by not applying a regular COLA we will decrease the value of our wages which will eventually cost the County a lot of money to get wages back on pace with the market. The CPI for 2017 was 2.1%. Failure to apply this COLA to wages would have further deflated wages (on average now that we have applied an across the board set $0.50/hr wage to all wages) of approximately 4%.

Now that we are correcting our wages based on a market analysis as long as we continue to apply a COLA to match inflation (CPI) we will pay our employees fair market wages and our wages will not be declining. In addition we will not be passing on huge burden to future Councils who will have to make up lost wages through increases back to market wages which will be very costly.



ACROSS THE BOARD VS. PERCENTAGE COLA:

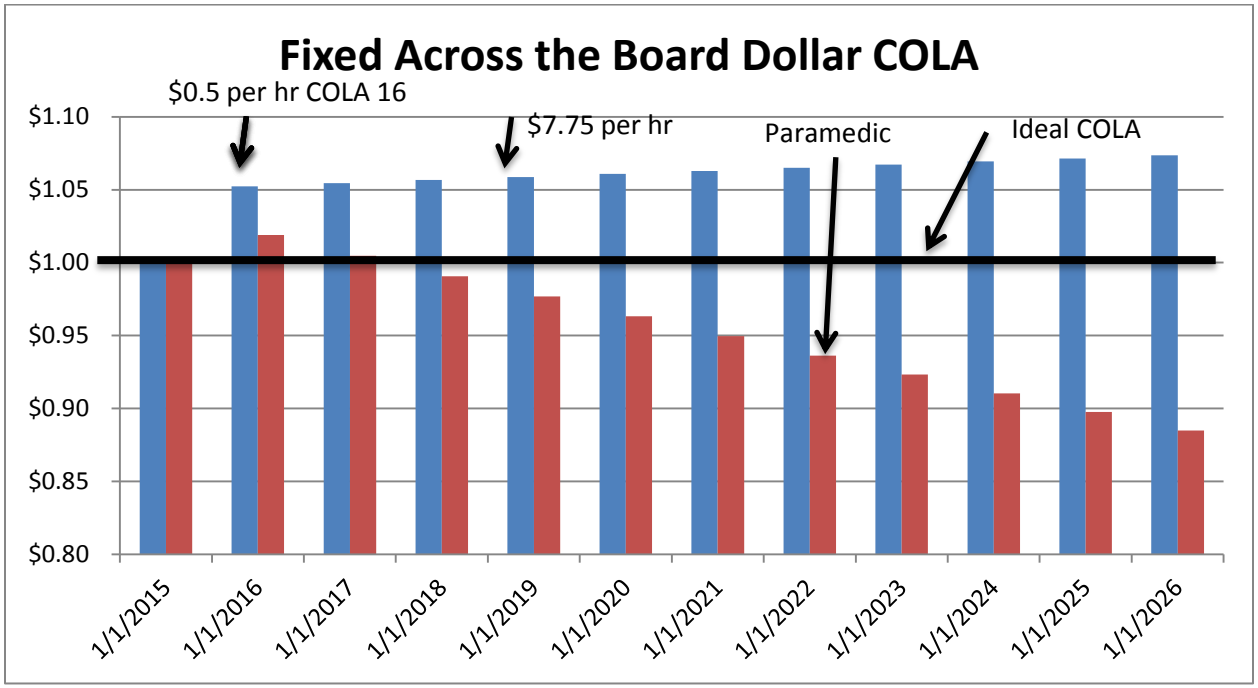
Without a COLA the value of the dollar earned today decreases. Over time that decrease in wages taken as a whole organization can amount to a very large sum of money. By not applying a COLA we are passing on this debt to future generations who then must come up with large sums of money to get wages back competitive as a market wage.

An across the board $0.50 per hour COLA was applied to wages in FY16. The philosophy of an across the board dollar COLA is that a lower paid employee has to buy the same basics as a higher paid employee so an across the board dollar COLA seems to be the most fair way to apply a COLA. A COLA is not a "pay increase" it is simply keeping the purchasing power of a wage the same. An across the board COLA may sound like a fair practice but it compresses wages by increasing wages on the low end (exceeding inflation) and decreasing wages on the high end (not keeping pace with inflation).

It is recommended that a percentage based COLA be applied to wages in the future. The wage increase of $0.50 per hour amounted to a 6.5% increase for the lowest paid position which may have increased the pay for this position above the market rate (according to the 2008 Archer wage study adjusted with CPI). By comparison department head positions received a 2% increase in pay which amounted to a 6% decrease in wages from 2010.

Short term an across the board flat dollar amount of COLA seems to be fair but this may not be the best long term business management practice. The chart below "Fixed Across the Board Dollar COLA" is just a simplified model to illustrate this point. It is highly recommended that we at least consider the long term financial impacts of the financial decisions today so this model is being introduced to illustrate the potential long term impacts of an across the board COLA.

The model assumes an annual $0.25/hr across the board COLA is applied to wages over the next decade. The first set of columns is a wage earning $7.75 per hour now. Assuming a 3.0% annual CPI this wage will actually outpace inflation by 7% (ideal COLA keeps the wage at $1.00 over the next decade). By contrast the same $0.25/hr across the board COLA is applied to wages over the next decade to the current paramedic wage causes that wage to decrease in value 11%. Taken as a whole, the net effect is potential over market wages on the lower end of the pay scale and potential under market wages in the midrange over the long term. This impact is more compounded for wages on the higher end.



2E) Retiree Health Insurance Program:

The County provides a very generous lifetime health insurance program for retirees with a set age and set number of years of service. Our past management of this benefit was audited by the County Administrator and found to have many items that needed clarification. As a result of this audit, the County Administrator requested several clarifications of the past management practices by County Council to render opinions on. In addition the County Administrator recommended that this policy be reviewed for cost benefit purposes.

Through actions of County Council the existing practices on the existing policy were clarified. This has resulted in projected 25% reduction in the cost of this benefit through reductions in services not deemed part of this policy (dental and spousal coverage), plus coverages that were provided to retirees who were deemed not eligible to participate in the program. This cost reduction was from $512,341 in FY17 to a projected $387,892 FY18 for existing retirees already participating in the program. These retirees all those employees and retirees that were eligible to retire in and meet the requirements of this program prior to 7/1/17, class 1 retirees.

The cost/benefit component of this program was also acted on by County Council. The County Administrator recommended that all new hires no longer be eligible for this program. This action was approved by Council as of new hires after 7/1/17 (FY18) "class 3 retirees".

The Council also took action to clarify coverage for all those existing employees not eligible to retire under this program prior to 7/1/17 to clarify that the retiree would be required to pay the employee share (class 2 employees). Requiring a copay to participate may result in class 2 retirees who are eligible for this benefit not actually taking this benefit due to their own personal financial considerations. By comparison all class 1 employees have no copay and therefore no incentive to not take this benefit even if it does not benefit their own personal financial needs.

This benefit is required to quantified by an actuarial agency every 2 years by requirements of GASB43 and 45 (audit included as an appendix to the first draft). The last audit took into consideration the new policy revisions. The net result is that the unfunded liability of this retiree benefit was reduced $2,520,406 or 10%. The net unfunded liability to the taxpayers of Laurens County is still huge at $22,587,850 and should be evaluated further as this liability will be borne by the taxpayers at some point in the future if not addressed or reduced by further actions of Council.

Class 1: RETIREE HEALTH INSURANCE COMPLIANCE WITH EXISTING POLICY (for existing retirees and employees eligible for this benefit as of 7/1/17): (25% cost reduction from $512,341 in FY17 to a projected $387,892 FY18)

The County offers a lifetime health insurance benefit with a set number of years of service and/or combined with a retirees age. The policy stated that: *" Individual coverage premiums and any spouse or family coverage must be paid by the retiree as set forth by the State Health Plan in such amounts as may be in effect at the time of retirement.*

The County was providing a variety of paid coverage premiums for retirees including full coverage for single coverage premium (no co pay). We also had retirees where the County was paying the spousal premium for those retirees who had their spouses covered under our insurance program. The County was also paying for board members and for retirees who were never employees of the County. In addition, the County was providing for dental coverage for retirees and dental plus coverage for 1 retiree.

Council took action to rectify this situation by the following actions:

1. Eliminate paid dental coverage for retirees.
2. Grandfathering 3 board members who had been receiving this coverage (1 is currently employed).
3. Grandfathering 1 retiree who was given paid dental plus coverage in lieu of health coverage
4. Grandfathering existing retirees and working employees who met this benefit requirements prior to 7/1/17 to have full single coverage (no copay).
5. Eliminating paid spousal coverage for existing employees.

Class 1: There are 59 class 1 retirees. The number of participants will continue to decline over time.

These actions are estimated to save $110,000 in FY18 over the benefits provided to this group prior to these actions. This reduction is evident in the chart below entitled "retiree health insurance".

Class 2: RETIREE HEALTH INSURANCE POLICY CLARIFICATION POLICY (for existing employees hired prior to 7/1/17): The County will continue to offer a lifetime single coverage health insurance benefit with a set number of years of service and/or combined with a retirees age for all employees hired prior to 7/1/17 (not included in the "class 1" program described above). However Council clarified that the retiree will be required to pay their portion (employee) similar to working employees for single coverage. This reduces the net cost of this program by 21%. In addition by requiring a copay, a retiree may decide to decline this benefit where if no copay is required all retirees will take the benefit in class 1.

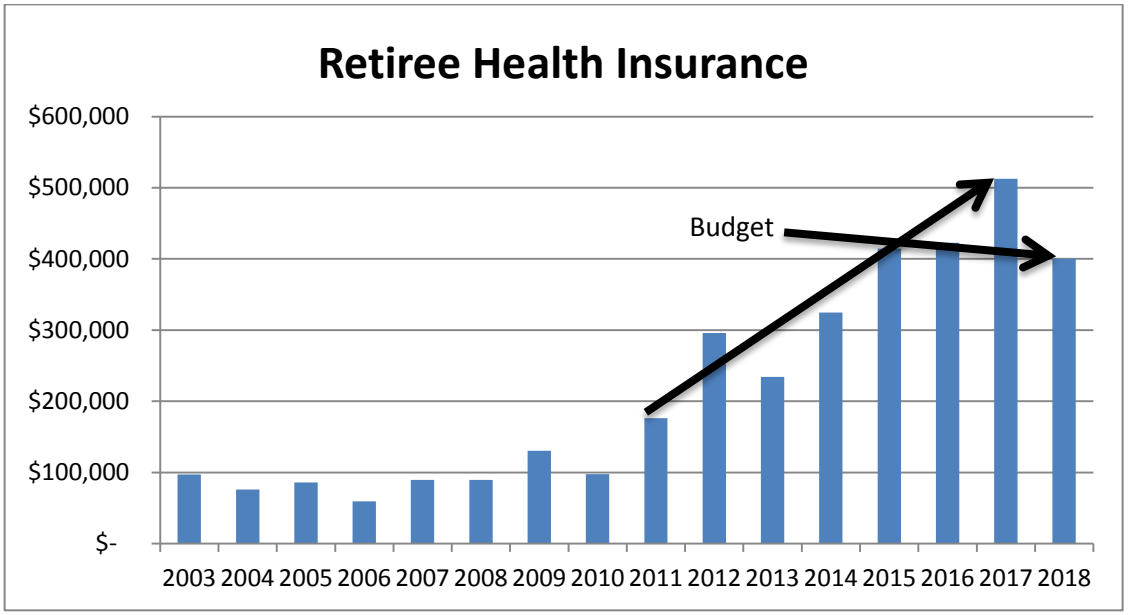
Class 2: Participant levels will increase over time and then will begin to decrease over time. At this point it is too early to quantify potential participant levels. We now have 2 Class 2 retirees.

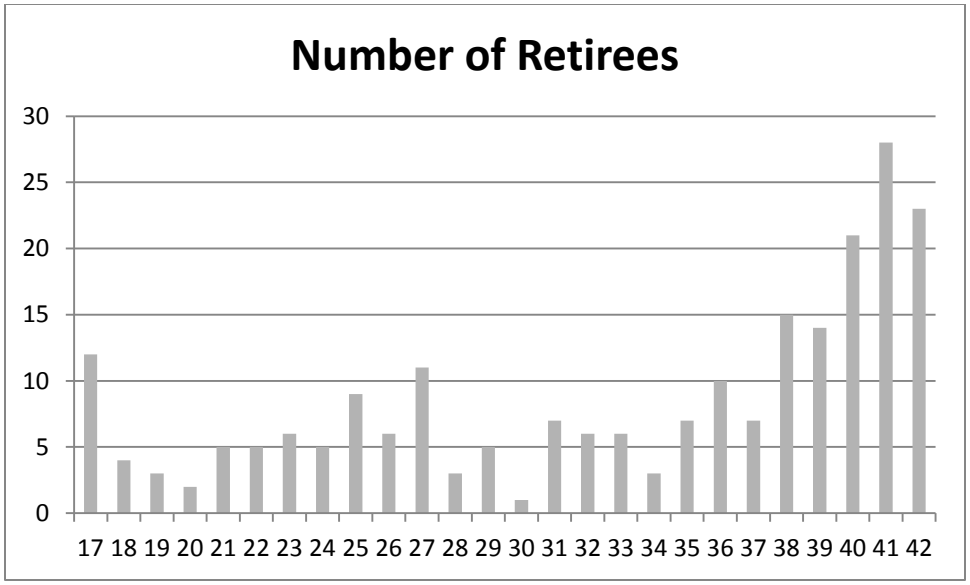
Class 3: LIFETIME RETIREE HEALTH INSURANCE SUNSET:
Class 3: These participants are not eligible for this benefit

Benefits such as lifetime health insurance were once a standard benefit however the County can no longer afford to take on this long term liability. The cost for retiree health insurance was 16% of the entire $2,615,840 GF Countywide health insurance in FY16. More alarming is the trend. This liability remained mostly stable at around $90,000 annually for the six year period 2004 to 2010 however in the last six year period this liability has increased about $54,000 annually to $512,000 in FY17. (See chart entitled "Retiree Health Insurance").

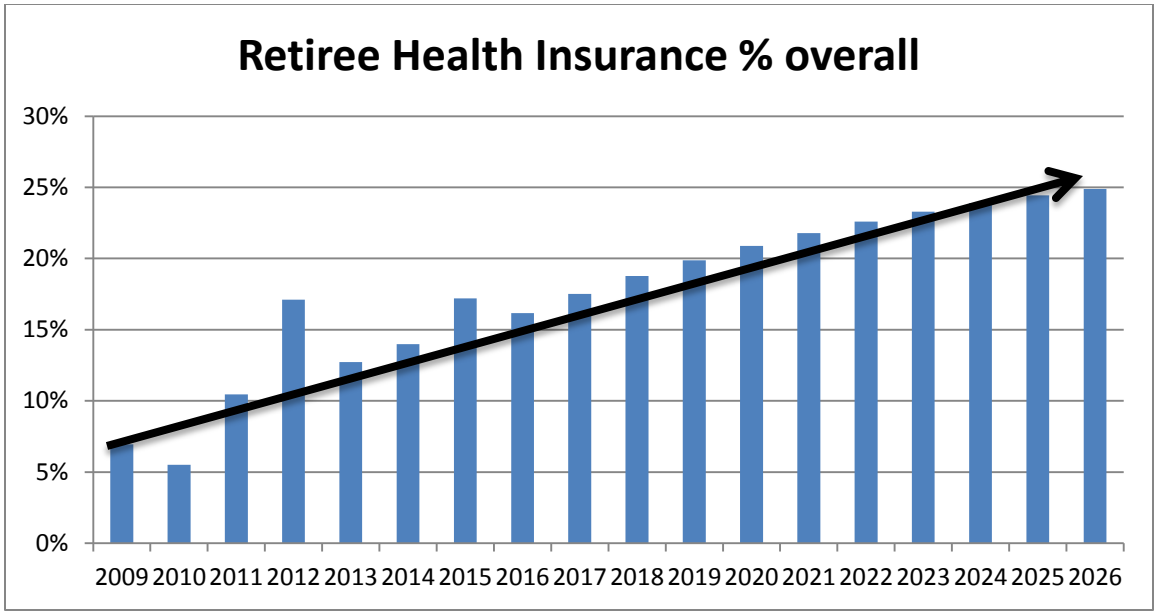
Although impossible to quantify how many of our existing employees will eventually be eligible to receive this benefit the costs are expected to exceed $1,000,000 annually at some point in the future. In addition these retirees will affect the overall rating of our health insurance program and may increase the cost of our health insurance through the losses incurred which reflect on our health insurance markup (see discussion on this subject in this report). Other Counties who have had this benefit in the past have had to eliminate this benefit or reduce the benefit such that upon Medicare eligibility the retiree no longer receives this supplemental benefit.

For now County Council has taken action to eliminate this benefit for future employees hired on or after 7/1/17. The long term liability of all the actions taken by Council in 2017 has reduced the long term unfunded liability to the tax payers by $2,520,406 or 10%. However the remaining unfunded liability remains at $22,587,850.





An analysis was conducted on the average number of retirees and the rising costs of this program to determine the long range effects of this system. Based on the existing data, if this trend continues this liability will more than double in 8 years and potentially account for 25% of the total cost to provide health insurance for employees and retirees. More disturbing is the trend where we will have to apply an increasing percentage of our health insurance budget to cover retirees over working employees. (See chart entitled "Retiree Health Insurance % of overall (health insurance costs)").



More importantly by utilizing scarce resources for retirees, the ability to adequately compensate our working employees is diminished. Working employees need to have a competitive wage. Promises of benefits such as lifetime health insurance were once a requirement in order to recruit and retain quality employees. While these benefit programs are nice to haves they are no longer required in order to recruit and retain the younger generation. More important to the younger generation is a competitive market wage (in addition to the other intrinsic values we provide through our employment).

Laurens County already provides a vast quantity of quality benefits that attract and retain employees. Defined benefit plans such as the State retirement system are important benefits already provided by Laurens County. Additional quality benefits such as pooled health insurance coverage, life insurance, short and long term disability insurance, increases the competitiveness of our compensation programs in comparison with the private sector. We must ensure we have competitive wages that keep pace with inflation and draining valuable resources for legacy programs such as lifetime health insurance should be carefully evaluated.

2F) Health Insurance Subsidy:

Currently the County provides a legacy benefit of a health insurance subsidy that cost $228,373 in FY16. This benefit was enacted by a past County Council and pays a subsidy for all employees who have health insurance through the County. County Council decided to sunset this benefit for new hires after 7/1/17. For FY18 the effects of this action are already evident with a current projected 19% reduction in the cost of this benefit or $42,998 in savings for FY18 in comparison with FY17. This cost will continue to decline every

year and eventually reach $0 over time. In the meantime all employees who now get this benefit will continue to receive this benefit but all future hires will not.

2G) Additional Personnel and Restructuring Proposals:

For the FY18 budget the flow and efficiency of the current operation was evaluated by the County Administrator. Several operations in the organization were fractured with multiple departments performing similar functions. In addition, departments were performing tasks not in their core role nor in their area of expertise. Many centralized functions were decentralized. We have addressed this by centralizing functions in core departments resulting in better efficiency, more accountability, and increased teamwork.

Centralization of key functions within a department is also resulting in better accountability. With decentralized cross departmental functions errors were occurring due to segmented responsibilities. At the same time we have started to implement more cross departmental team approaches rather than segmented departmental approaches to work tasks. The net result is better teamwork and more efficiency through a collaboration of departments.

Restructuring that required Council approval was brought to Council for approval and several requested restructuring proposals denied by Council.

Some key changes implemented:

1. All financial functions (collection of revenue, payment of invoices, etc…) are now centralized in the Finance Department. Formerly many finance functions were performed in various departments.
2. The financial part of payroll and benefits has been migrated to the Finance Department.
3. Contracts are centralized.
4. Legal functions are centralized in the legal department
5. Public Works is managing construction activities.
6. The Recreation Department is exploring synergies and efficiencies with the buildings and grounds department for grounds maintenance tasks.
7. Building Inspection department is exploring synergies and efficiencies with the Public Works Department on removal of nuisance structures (Roads and Solid Waste Departments)
8. Multiple departments are involved with the “Planning Department” through collaboration with the Planning Commission on addressing ordinance revisions.
9. Public Works and the Building Codes Department (Fire Marshall) are working collaboratively on fire Capital projects.
10. Fire and EMS are exploring collaborative synergies.
11. Several departments are working collaboratively on planning functions.
12. Several departments are working collaboratively on GIS and IT functions.

KEY AREAS RECCOMENDED FOR IMPLEMENTATION:

Vital areas of the organization are missing and/or are in need of enhancement. The lack of financial resources is most likely the reason that many of these areas have not been addressed in the past. While there may be an increased cost for implementing some of these changes the net effect is a cost savings.

1. PURCHASING: Currently the County relies on decentralized purchasing due to fact that we have a purchasing director who also manages vehicle maintenance. Several counties of similar size as Laurens County have more than one full time personnel in procurement. Adding more resources to purchasing can free up more departmental time and energy to reduce our purchasing costs and to increase efficiencies in our organization. Centralized purchasing will relieve departments of their purchasing efforts so they can be more efficient in their operations and focus on their core functions thereby reducing costs in their departments. With more effort being placed on purchasing we would be more efficient in our purchases as an organization and save money. This recommendation was denied by Council in FY18 and is therefore not being proposed for FY19.

2. PUBLIC WORKS: Public Works is one of our core functions accounting for approximately 15% of our overall operational costs and employees. Our biggest long term financial burden is our unfunded capital needs (see long range strategic capital plan). Vehicle maintenance is also one of our larger cost centers. Vehicle maintenance is more logical to be a part of the Public Works Department. This recommendation was denied by Council in FY18 and is therefore not being proposed for FY19.

3. IT DEPT: The County is in need of having an internal Informational Technology (IT) department. Jim Anderson has been an internal consultant for some time but is wanting to transition to retirement. County Council has recognized this need to transition and tentatively budgeted for two full time employees in FY18 for IT service. A full transition from the current contracted services to an internal IT department is expected to take place over several fiscal years.

   The alternative is to transition to another external IT services which is expected to be very costly. In addition, the operations need to have rapid response that can only happen with IT resources internally. Waiting for an IT consultant(s) to be able to fix our IT infrastructure will be cause costly delays to our operations.

   Council supported this recommendation in FY18 however we are currently revisiting the implementation of this due to the Sheriffs Office actions to have their own IT program. A plan of action is currently being worked on.

4. PLANNING DIRECTOR: Two Upstate Counties of similar size as Laurens County have full time planning departments. Oconee County has 3 full time positions in planning and Greenwood County has 5. Laurens County has none. Our long term

prosperity will have to be created and the first step is to have planning in place to organize, coordinate, and create the plans and tools we need to create the future we desire.

The County Administrator, the Public Works Director, and other key team members are fulfilling the short term solution to fulfill the need for a planning director however the volume of work is escalating due to increased construction activity (residential in particular). It is projected that the existing staff will not be able to service the needs of the County in the near future due to the projected explosive growth.

Combination of the full time positions savings by reducing the County Clerk to part time, the cost of the Risk Manager position will be combined to create this position. These position savings will more than cover the cost for this position. A planning position is included in the FY19 budget in department 537.

SECTION 3: BUNDLED FUNDS, ENABLING LEGISLATION, AND CARVEOUTS

(See Section #1, Special Revenue Funds Also)

Overview:

Research (and transparency) on our historical financials is difficult due to several factors. One key factor is the bundling of special revenues into our GF (commingling certain designated funds within our GF). Our current external auditors took over the financial auditing in FY14. Prior FY14, the previous auditors bundled funds into GF. There has been some unbundling of funds but the current auditors do not agree with unbundling of some designated funds. This section describes the bundled funds.

Several of our funds are established through enabling legislative action of County Council. Our management of these funds may not have been compliant with that legislation so Council has fixed this by producing corrective resolutions and changing our management practices in the future. In addition we have funds including legacy funds (most are designated for a particular purpose) that should be put to use (no need to hold excess reserves).

Comingling of these bundled funds also makes financial modeling for the future more difficult. A true understanding of our fund balances (FB), described in more detail in a later section, will require much more research to adequately determine the true GF FB UD (undesignated for a particular use) history, trends, as well as projections forward due to the bundling of funds. With the restructuring of the budget in FY18 trends should be more evident. The goal is to have trend analysis ready for the FY20 budget.

Some funds are not controlled by County Council but rather by an elected official. These funds should not be comingled into our GF and have been carved out of our regular GF financials into designated funds.

3A) 654 Fund (bundled within GF):

In April 2008 the County adopted Ordinance 654 allowing the County to apply a six mill levy for deficit reduction. The funds generated under this ordinance are regulated under paragraph 3. Section 3a requires that any remaining funds generated from this levy shall be segregated into a restricted use account. This apparently never occurred (no restricted use fund was established). Although no restricted fund had been established (current external auditors have not allowed this), an internal tracking of these revenues was established and on February 14, 2017 the starting balance as of the FY16 audit was officially set at $0 through official action of County Council.

Section 3b dictates that these 654 funds must be applied to prior year deficits first. This apparently also never has occurred and we have been accounting for these revenues as current year revenues. In FY18 budget revenues received for 654 in the current year are applied to the prior FY17 deficit or shall be placed in a designated reserve fund (internal accounting system) for future deficit reduction.

For the 654 revenues the accounting both internal and external can be confusing. Accounting for the current 654 revenues as non-current revenues would indicate that we have a gap in excess of $1.1M in current year revenues but this can be overcome by budgeting for the $1.1M gap through the use of GF FB UD in the current year then capturing those funds as deficit spending in the subsequent fiscal year. These funds will be replenished in the subsequent FY19 year by paying off the budgeted $1.1M deficit in 654 revenues received in FY19. This is not a true deficit however because we are actually capturing the revenues from the taxpayers in the current year but must apply them according to ordinance 654.

It is important to note that the current external auditors do not recognize the local ordinance restrictions so the external audit for FY18 will not reflect the actual practice we must incur in order to compliant with our Ordinance 654 and therefore will most likely show the 654 funds as current year revenues in FY18.

While this is confusing we have an ordinance that captures $1.1M in revenue that if eliminated can not be recaptured due to the restrictions of Act 388 and therefore must be realigned at least internally to comply with Ordinance 654.

3B) Treasurer Funds Carve Out (formerly bundled within GF):

There are two funds in the GF that are restricted for use by the Treasurer through her constitutional authority. Both of these funds were bundled or commingled within GF but are under the control of the Treasurer. In addition, these funds are commingled in the GF FB UD which gives a false impression of the GF FB UD due to the fact that these funds can only be used for their legally designated purpose and are not truly UD (undesignated). The balance of both of these funds accounted for 18% of the GF FB in FY16

($977,514). An additional concern is that while we have run deficits in the GF, the FB of these two carve out funds have apparently grown.

Bundling of these funds within GF gives a false impression of current year spending and a misleading impression of the GF FB UD. For FY16 nothing was budgeted for these two line items on the expense side however $156,600 was spent (pre-audit actuals) resulting in what appeared in FY16 (audit) be an over spending by the Treasurer of $206,357 and presented a misleading impression of the true deficit for that fiscal year. This error was repeated in FY17 with an exceedance of $84,406 (15%) over budget for department 544 GF.

On the revenue side we budgeted for $212,000 in revenue however $386,970 in actual revenues were booked (FY16 pre-audit) artificially inflating the actual revenues versus budget. Further complicating the true financial impacts of these funds are the fact that the external auditors allocated excess revenues over expenses to the GF FB UD giving a misleading impression (18% overstated) of our true GF FB UD.

For FY18 we have created a special revenue fund (SRF) for these two funds (fund 113). The goal is to shift expenses from the GF for the Treasurers Office to this newly created SRF but this transfer for expenses may not be accomplished in FY18. The net goal is to draw down the reserves that are required to be spent utilizing these funds while simultaneously reducing the expenses in the GF. A fund balance transfer will be created and approved by Council to move funds over to the newly created 113 SRF. A transfer of funds from the SRF to the General Fund may be needed in FY18 to cover the expenses that have not yet been transferred from GF to the 113 fund. The proposed fix for the transfer of these funds will automatically cap the fund balance in SRF113 by transferring excess revenues beyond a $500,000 reserve to the GF FB UD annually after revenues and expenses for the current year in SRF113 have been accounted for.

3C) Detention Center Carve Out Funds (formerly bundled within GF):

There are two funds in the GF that are restricted for use by the Sheriff for the Detention Center through his constitutional authority. Both of these funds had been bundled or commingled within GF but are under the control of the Sheriff. These funds were commingled in the GF FB but in the D (designated category) which can give an inflated impression of the GF FB as these funds are designated.

The Sheriff has indicated a desire to keep a reserve in this account to house out a set number of prisoners over a 30 day period in the event that the Jail is inoperative. The estimated value of that minimum reserve is $150,000. These funds generate approximately $100,000 annually. The current FB is $381,484 as of FY16 therefore an excess of $230,000 can be utilized for eligible expenses at the detention center. The fund balances will be transferred to the new 114 SRF at the end of FY18.

Similar to the carve out fund for the Treasurers Office, the reserve of these dedicated funds has apparently grown over the past few years while we have run deficits in the GF. To correct this we have created an SRF for these funds, removed some expenditures from the GF to allocate to this SRF and will begin to track these expenses, revenues, and FB in this 114SRF.

3D) Sheriff Office Carve Out Funds (formerly bundled within GF):

There are six funds in the GF that are restricted for use by the Sheriff for the Sheriffs Office through his constitutional authority. These funds have been bundled or commingled within GF but are under the control of the Sheriff. These funds are commingled in the GF FB but are in the D (designated category) which can give a misleading impression of the GF FB as these funds are designated.

These funds generate approximately $75,000 annually. The current reserve is $182,233 as of FY16. Similar to the other carve out funds described above, the reserve of these dedicated funds has apparently grown over the past few years while we have run deficits in the GF. To correct this we have created an SRF for these funds, removed some expenditures from the GF to allocate to this SRF and will begin to track these expenses, revenues, and FB in this SRF. These expenses and funds are accounted for in the newly created fund 114 SRF.

3E) Clerk of Court Funds (bundled within GF):

There are two funds in the GF that are restricted for use by the Clerk of Court under her constitutional authority. These funds have been bundled or commingled within GF but are under the control of the COC. These funds are commingled in the GF FB but are in the D (designated category).

The COC has asked that we continue to manage these funds for her as a component of GF. We will budget for the expenses and the revenues within the GF and have added a note on the GF sheet for department 518 to track the balance of these funds. These funds generate approximately $22,000 annually. The current reserve is $34,466 as of FY16.

SECTION 4 UNFUNDED MANDATES

The original Laurens County Government Charter was most likely to establish law and order (police protection and courts) and to provide for commerce through a system of roads carrying goods from farm to markets. These are what can be referred to as our “core functions”. Over time our services have expanded to include additional functions that were not part of our original charter. Some of these additional functions are truly local functions such as EMS and Solid Waste that were not envisioned during the period our original Charter was established. See Appendix H for more information.

With the reduction in the local government fund by the State Legislature, tax millage caps placed by the State Legislature through Act 388, and other economic factors we have to make difficult decisions. We need to remain committed to our core functions and utilize our scarce resources to provide those core services. The non-core functions may have to be reduced or eliminated as Laurens County taxpayer funded (or supported) services.

This is not an easy or delightful task but we one that must take place in order for us to be able to turn our financial situation in a positive direction. These difficult decisions will also be necessary so that we can provide the necessary local core services we have a duty to provide as well care for those that provide those services (our employees).

For some unfunded mandates Act 388 does allow the County Council to increase millage with a 2/3 majority vote under section B(5): *"compliance with a regulation promulgated or statute enacted by the federal or state government after the ratification date of this section for which an appropriation or a method for obtaining an appropriation is not provided by the federal or state government."*

4A) Victims Assistance Fund (VAF):

According to State Code 16-3-1110(3): "the Victims Assistance "Fund" means the South Carolina Victim's Compensation Fund, which is a division of the Office of the Governor". Shifting the costs of this service to the local taxpayers can be considered an unfunded State mandate although for this particular fund we may have mandated this through actions of County Council rather than as a mandate from the State.

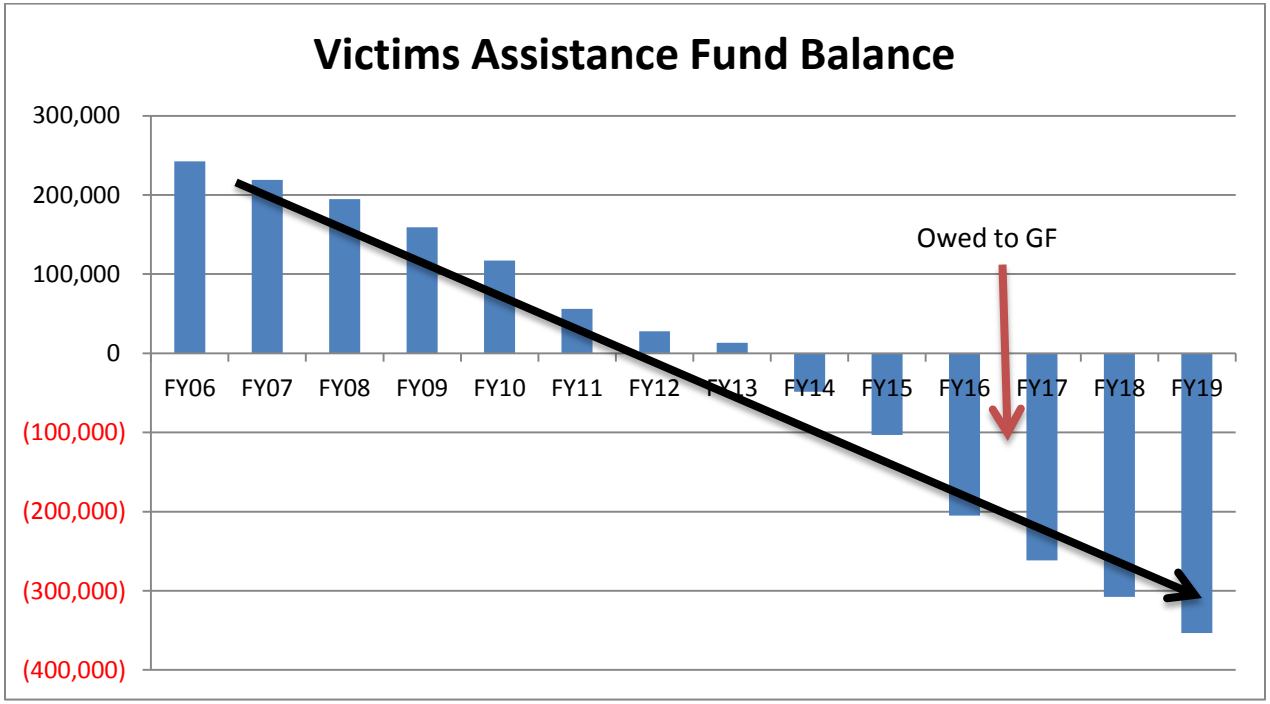
The VAF had a fund balance (FB) of $242,514 in 2006. This fund was allowed to then run deficits. Utilizing the FB to run deficits is a sound financial practice for one time expenses such as capital. Utilization of an UD FB can also be used in the short term during short term economic conditions such as the downturn of the 2008 recession but it would have been more practical to plan ahead for the eventual depletion of this fund's FB. This fund was allowed to continue to run deficits for the past decade and ran a negative fund balance beginning in 2014. At that point the VAF borrowed money from the local taxpayers through GF at an amount of $48,392 on a 2014 deficit of $61,646.

This "borrowing" from the local taxpayers was compounded in FY15 with a deficit of $58,889 increasing the debt of this fund to $103,281. In FY16 the deficit almost doubled to $101,653 almost doubling the amount this fund owed to the Laurens County General Fund to $205,071. In the FY16 audit it was proposed the $205,071 due to the GF was written off (essentially "money never to be collected and repaid to GF"). This write off would account for 27% of the decrease in the GF FB for FY16. This action provides a clean starting point for this fund for FY17. In addition there were potential allocations of expenditures and/or revenues for this fund that needed correction.

For FY17 the VAF ran again ran a $41,834 deficit. For FY18 the Council chose to move the management of the Victims Assistance department to the Sheriffs Office where potential synergies could result in cost reductions. A budgeted $63,400 deficit was included in FY18.

For FY19 one of the positions in the VAF is proposed to be eliminated. This will eliminate the deficit and the projected amount due to the GF. For FY19 we are projecting that we may be able to start paying back the GF. See chart below labeled "Victims Assistance Fund Balance" (this chart does not show the write off of debt that occurred in FY16.

Approximate revenues in this fund were $120,000 annually. Annual expenditures were $172,000 prior to FY19 outstripping revenues by $52,000 annually. For FY18 the Council changed the management of this operation from the County Administrators office to the Sheriff with a goal of producing a balanced budget in this fund by FY19 which is currently estimated to be successful.



4B) Local Government Fund (LGF):

During times of difficult finances the higher ranking governments (State and Federal) have the ability to take away funding resources from the County. One such funding source we are most familiar with is the LGF where the State balanced their finances by taking away this local government funding source. There is no doubt that this has had a profound effect on the County's finances with a $5,546,466 cut in funding from FY09-FY16. The state has accelerated their taking of Laurens County LGF in FY17 and FY18 to total of $7,709,964. We are not certain about the FY19 State legislature LGF funding yet.

See appendix H for a more detailed analysis of underfunded and unfunded State mandated services. The analysis in appendix H is a brief study that was conducted and may be inaccurate but the scale of the shortfall is evident. The estimated State mandated underfunded and unfunded mandates are roughly $11,423,000. With an LGF of $2,600,000, the State mandated services cost the citizens of Laurens County $8,800,000 annually.

This cost is not paid for by the State but is paid for by the local tax payers through their property taxes and fees. This would equate to approximately 52 mills of our 78 mill levy or accounts for 66% of the local tax payer bill.

LGF Shortfall
FY09 $262,693
FY10 $811,672
FY11 $661,587
FY12 $827,282
FY13 $489,867
FY14 $610,716
FY15 $897,429
FY16 $985,200
TOTAL: $5,546,446

FY17: $1,078,155
FY18: $1,085,343

4C) Underfunded State Retirement Local Government Cost Share:

The State Legislature had enacted a fix to the underfunded liabiliy for the State pension program. An increase of 2% of the salaries is required by the County for FY18 (each 1% is about $140,000 increase). Half of this increase was be funded by the State Legislature for FY18 leaving an unfunded $140,000 increase annually to the County budget. A reccomended increase in tax revenue to cover this unfunded mandate as allowed by Act 388 failed to receive the super majority vote of County Council. It will be again reccomended in

FY19 that we increase the tax revenue to cover this unfunded mandate. It is important to note that this increase in expenditure will reoccur indefininitley.

For FY19 there will be an additional 1% of salaries increase in the pension contribution. If this is not funded by the State then the County will then have an annual $280,000 in increase expense annually as a result of the unfunded mandate from FY18 plus the increase of FY19. This will be compounded in subsequent years by additional 1% salary contribution increases in the pension contribution for 5 more fiscal years (culminating in FY23) or an additional $825,000 annually (not including the 1% funded by the State this fiscal year).

SECTION 5 WORKMANS COMP AND INSURANCE

5A) Workmans Compensation Insurance

In 2015 Laurens County had the 41st worst experience mod of the 42 Counties participating in the SCAC WC pool. That experience mod increased our WC insurance by 40% over the pool average which equates to $210,400 more than the average. If we were to have been in the #1 position at 0.61 mod factor we could have reduced our insurance cost by an additional $205,000 annually (2016). With a net potential savings in excess of $400,000 annually, a focus on risk management and reduction in loses makes sound financial sense.

The cost of insurance is only one cost area. Lost productivity, lawsuits, and the increased cost of health coverage are additional factors that cause our workplace safety losses to be a much larger financial impact than just the cost of the WC insurance. In addition, we want to protect our employees and their families. Our employees deserve a safe work environment.

The County had funded a Risk Manager position but pulled the funding in FY18. More effort is being focused on risk reduction. For FY18 we did see a reduction in our WC premiums. The employees need to be congratulated for their efforts on risk reduction. In the past 3 years we have steadily improved our experience mod.

Experience Mod (lower is better):
2015: 1.45 41st
2016: 1.40 40th
2017: 1.21 37th
2018?: 1.21 37th

5B) Property and Liability Insurance

TBD

SECTION 6 DEFICIT SPENDING and REVENUES AND EXPENSES SUMMARY:

Overview:
Planned deficit spending for one time capital, unforeseen conditions (natural disasters), downturn in the economy, reductions from State funding etc… can be a sound financial practice if sufficient UD reserves are available and if long term planning/modeling is implemented to ensure financial corrections are implemented in the future to remain financially solvent.

With our historical bundling of funds and commingling of capital expenditures it has been difficult to accurately determine the extent of our past deficit spending that is associated with operations and maintenance (O&M) or recurring annual expenses. For FY18 we have stripped out the capital expenditures and unbundled the commingled funds. This will allow the recurring expenses of O&M to be easier to differentiate in the future.

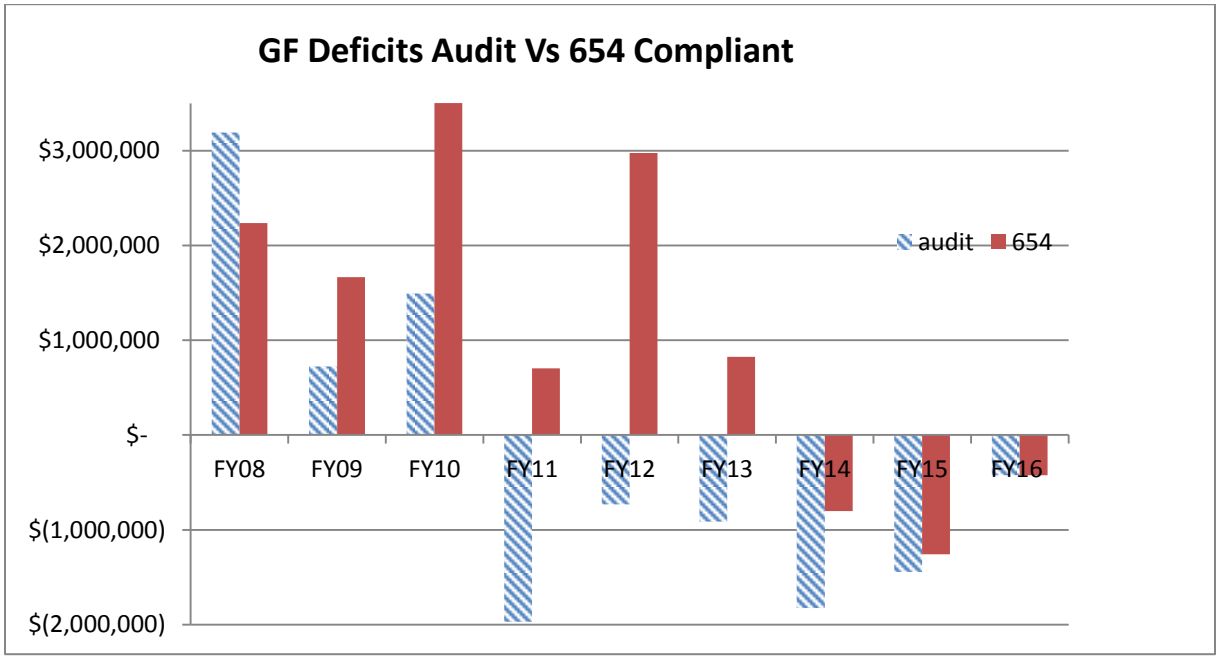
6A) General Fund (GF):
According to our external auditors, Laurens County began deficit spending (excess expenditures over revenues) in FY11 however this is suspect due to several factors described below and in other sections of this budget report. FY17 was the first time in six years where we did not run a deficit however some of this was due to one-time (non-recurring) restructuring efforts.

654 FUND:
One of the key problems with our deficit numbers, GF FB UD reserves, and therefore financial planning, is that our external auditors do not recognize the 6 Mills set under Ordinance 654 for deficit spending. Currently the 654 revenues are bundled into our GF and a component of our GF FB UD. It would be more preferential if the 654 funds were established as restricted funds however the external auditors will not recognized these funds as restricted. Therefore we have established our own internal financial tracking system for these 654 funds. The 654 funds are explained in more detail in another section of this report.

The chart below entitled "GF Deficits Audit Vs 654 Compliant" shows where our external auditors indicated that we began to deficit spend in GF in FY11 however this does not consider the 654 restricted funds. Our external auditors commingled the 654 revenues annually as a current year revenue which is not compliant with our Ordinance 654. Therefore these had to be extracted from the current year revenues.

In addition, the external auditors did not set aside the 654 revenues as restricted for deficit spending in compliance with Ord 654. Therefore any surplus in the earlier years (current FY revenues over expenditures) was placed into the GF FB UD (essentially it disappeared as a designated fund and became undesignated GF FB). This too is non compliant with our Ord654 so these 654 reserves had to be extracted out of our GF FB UD (internally only) and applied to the prior year deficit/surplus.

The chart below entitled "GF Deficits Audit Vs 654 Compliant" restates our annual deficits in compliance with our Ord 654. This data indicates that we did not actually run a deficit until FY14. Even this data is suspect due to the commingling of bundled funds and capital expenditures as described in another section of this report.



The goal now (FY19) is to attempt to understand our true deficit, our true GF FB UD, analyze the trends, and produce financial models that we can use to plan ahead for the future. Financial data prior to FY17 is almost impractical to try to extract our true O&M deficit spending so the planning efforts will build upon the restructuring that occurred in FY18.

6B) FY17 Revenues and Expenses:

FY 18 is the first budget that will be able to have clearer financial results that can be utilized to develop a long term strategy but there is useful information that can be gathered from the FY17 actual results. For FY17 the net result of the General Fund (GF) was a net surplus of $1,004,565 in our FY17 audit. This is the first surplus generated since 2010.

However for FY17 we commingled many financial items into our GF. Several of these items need to be stripped out to determine our true GF operations and maintenance (O&M) deficit or surplus. One time revenues and expenses must be stripped out to determine our financial stability and allow for long term financial planning beyond the current fiscal year as shown below.

In addition there were several restructuring efforts that took place in FY17 on the revenue side. In particular is the restructuring of the FILOT funds for the Greenville School District (GSD). The GSD serves a good portion of Northern Laurens County and receives property tax revenues from all Laurens County properties in the GSD portion of Laurens County. According to our Moodys analysts (see appendix F) the deficit spending by the Laurens County Council (LCC) while overly healthy school district fund balances existed did not indicate sound financial management with the LCC. The LCC took action to correct this and the results are evident in FY17 and will be even more evident in FY18.

The distribution of FILOT revenues are the responsibility of the LCC. The LCC is the primary financing mechanism that supports the mechanics that create the growth generating FILOT revenues so it is logical that the FILOT revenues would be utilized by the LCC to support their efforts.

In addition to the FILOT restructure, there are/were a multitude of cash accounts that were scrutinized in 2017 and 2018. This process is still being cleared up but the net result is that approximately $600,000 in cash was released from idle funds which are expected to grow to in excess of $1,200,000 in FY18.

FY17 Audited R/E Summary:

Estimated GF O&M Revenues:	$20,445,098
Estimated GF O&M Expenses:	$21,672,555
Estimated GF deficit/surplus:	($1,227,457) (deficit)

Not included above but included in our financial report for GF:

654 Deficit Reduction Revenue:	$1,168,265 (must be applied to FY16 deficit)
Major One Time Revs/transfers:	$525,762 (these are non recurring large revenues)
Capital Expenditures:	$1,886,049 (self funding through grant or cap mill)
Capital Revenues:	$2,245,551
Net Capital:	$359,502
Carve Out Expenses:	$469,454
Carve Out Revenues:	$540,702
Net Carve Out:	$71,248 (designated requirements for spending)

Not included above but will be included in our audit report for GF:

Indigent Care Funds Deficit/Surplus:	$120,629
EMS Fund Deficit/Surplus:	$183,339
Victims Assistance Fund Deficit/Surplus:	($42,498) (deficit)
Solid Waste Fund Deficit/Surplus:	$28,698
Net other funds:	$290,168

6C) FY18 Revenues and Expenses:

A budgeted deficit was created in FY18 due to the unfunded pension mandate however it is too early to project if this deficit is real and will materialize.

6D) FY19 Revenues and Expenses:

FY19 first draft general fund budget is a balanced budget (surplus) with the deficit reduction millage applied. However deficits are budgeted in the General fund for fund 128 (EMS) which is actually a direct component of the GF reducing the surplus to $111,000.

The 210 Solid Waste EF however carries a significant budgeted deficit of $330,000 resulting in a net deficit of $208,000.

SECTION 7 CAPITAL:

Capital spending can be one of our most costly expenses on a regular basis and as one time expenses. Some capital spending is regular spending (vehicle replacements) and some is one time capital replacement (new EMS facilities). No long term capital plans for regular capital replacement or for one time capital replacement existed prior to 2018. In 2018 the County Administrator introduced the first ever long range strategic capital plan (ver 1.0) which is included as an appendix to this budget.

This strategic capital plan is a living document that will continuously evolve over time as new priorities are identified and as existing goals are met. There is a lot of information in this approximately $60,000,000 version 1.0 document so that information will not be repeated here. The reader is encouraged to refer to that document for more information. A brief synopsis is included below.

Routine capital replacement such as rolling stock (EMS vehicles, SO Vehicles, Fire Trucks) should be the first capital replacement plans we put into place. Emergency vehicles should have a regular replacement schedule. By planning ahead we can smooth out the

costs for these replacements by having a set amount needed to spend to replace the rolling stock annually rather than spikes in some years offset by dips in other years. Other capital can also be placed into a long range plan such that spikes in expenses do not occur. Items such as computers, Solid waste assets, bush hogs etc… have a set life and should be planned for in the future based on their expected lifespan.

Major capital needs such as buildings and building infrastructure should also be planned ahead. An efficiency study has been conducted to quantify the replacement needs for the building HVAC systems and provide a potential financial vehicle to fund these costs. Most of our HVAC systems are beyond their life expectancies and failure to plan for their replacement will require substantial funding needs in the coming years.

We need to also further quantify our roofing and other major fixed assets capital needs for our buildings. A long range plan provides guidance for expected replacement needs for roofing and other major building assets based on their life expectancy and future costs so that emergency surprise repairs are not reduced in the future. Reacting to emergency repairs is very costly and an inefficient use of taxpayer revenues when we can plan ahead for more efficient and effective use of those revenues.

Public Works assets need to be quantified now. We have hundreds of miles of roads and potentially tens of millions of dollars in bridge replacement project we need to quantify. Right now we are working on the inventory of these assets. There is a lot of work to done for the Public Works assets.

As identified by a CC planning session, a major capital improvement program is being developed for replacement/enhancement of EMS fixed assets. The goal is to have the necessary information in place for CC in time for a potential bond referendum. Other identified capital projects include replacing the Hillcrest roof, potential expansion of the Magistrate Office space in the Courthouse, and relocation of other offices located in the courthouse.

One time capital should not be commingled with O&M funds in order to have true transparency with our financials. Commingling capital and O&M produces misleading surpluses or deficits in our finances. For long range financial planning we need to have a clear understanding of our O&M costs. The financial restructuring of most capital into the newly created fund 600 in FY18 will aid us in this effort.

Capital funds also do not match well with fiscal years whereas O&M funds do match the fiscal year. Capital funds overlap fiscal years further reducing financial transparency and our ability to create long range financial plans.

134 and 135 funds

The County has two fire capital funds one of which is 1.9 mills of annual property tax revenues for fire equipment capital for the repayment of a 10 year rolling equipment bond (2020 expiration- see long range strategic capital plan) (fund 134). This fund does not

completely pay the bond payments with the balance of the bond payments coming from fund 123 (formerly 123 and 124). The fund balance for fund 134 may grow over time.

The second fund is a $2,450,000 sinking capital fund bond (fund 135). This fund balance will reduce each year and will eventually go away however the revenues will continue to be received over time to make the bond payments until such time as the bond is paid off.

The external auditors capture both funds however for the annually budgeting only fund 134 is of interest. Fund 135 will continue to be tracked in the annual budget as we perform the actual construction until such time as all of the bond proceeds are used up. At that point the annual budget will no longer need to track this fund however we will continue to monitor the bond repayments as part of our overall financial management until the bond is satisfied.

7A) Rolling Stock Maintenance:

A longer term rolling stock (cars, trucks, etc..) plan has been prepared as part of the long range strategic plan. For FY19 there are more needs than the revenues will support however we must find a way to finance our rolling stock replacement to make positive progress on reducing our debt. Not replacing rolling stock does not make the problem (debt) go away but only compounds the problem as more debt is piled on in subsequent years.

As a result of limited funding and no long range planning we have had not had guidance on the progress (positive or negative) of our rolling stock accumulated debt. The long range strategic capital plan provides the needed benchmarking to help guide our financial decisions in future. While we may not be able to completely erase the debt we have already incurred in the short term, we should begin the process of finding ways to reverse the trend of growing the debt by gradually reducing the debt each fiscal year. If we fail to do this we will simply pass a larger burden of debt on to future generations and that is not good governance.

7B) Preowned Equipment:

The County has several opportunities to take advantage of surplus equipment programs from the State and Federal government. The Federal Government has the 1033 program that allows law enforcement agencies to secure surplus military equipment for free. We have to retrieve the equipment from the base where it is stored. This equipment is more than just war equipment. There is the ability to secure heavy construction equipment, trucks, trailers, storage containers etc… This program is available now through the Sheriffs Office and the SO has secured some equipment through this program.

In addition the County should budget for the purchase of used equipment. We did this in FY18 for the road department. This should be considered more of a contingency fund type of budget where we have the funds budgeted if the equipment we need becomes available but we do not necessarily have to spend the money in the current fiscal year if that equipment is not available yet.

By purchasing used equipment, we can secure equipment at a significantly reduced cost and therefore save money for some of our equipment needs. See the long range strategic capital plan for more information.

SECTION 8 FUND BALANCES

One of the primary goals of the FY18 budget was to align our budgets such that we can produce accurate models for long term financial planning. A key component of our long term financial planning is contingent on historical impacts to our fund balance. Our fund balances (FB) are the savings accounts that have been set aside from excess revenues in past years. Many of our funds can carry a fund balance. The minimum fund balance that should be set aside in each fund may vary depending the legality of carrying a fund balance, the necessity for carry a fund balance, and the financial plans in place for the funds. The primary FB of concern is the GF FB which is necessary for emergency situations, cash flow needs, and for being able to carry our expenses through the year without short term tax anticipation notes.

It is important to note that there are two primary components of a FB. The first is designated FB D which are committed funds that have been received and set aside for a particular use. The second component is the undesignated fund balance (UD FB). The second component is the critical component of the FB that must be closely monitored to ensure solvency (ability to pay our bills) as well as have a cushion to rely on in the case an emergency arises.

The historical financial data in Laurens County is difficult to analyze our fund balances for a variety of reasons. One key problem with our historical spending data and historical fund balances is that multiple funds were commingled prior to FY18. In particular the apparent commingling of the capital has rendered historical data difficult to analyze to tease out true O&M costs as well as true FB. The commingling of capital within our GF does not create a true representation of our fixed O&M costs. We must know our fixed O&M costs in order to adequately be able to project finances beyond the current fiscal year. In addition, the commingling of capital revenues will artificially inflate our revenues in one year (create surpluses) then artificially deflate (deficit spending) in prior years and not give us a true historic representation of neither our O&M spending history nor our fund balance. The majority of this problem was corrected during the financial restructuring of FY18 and the creation of a capital fund (fund 600).

Another area of confusion with determining our fund balance especially as it relates to recommended minimum reserves is the commingling of multiple funds under one umbrella “General Fund”. This too was corrected in the financial restructuring of FY18 through the creation of two special revenues funds (113 and 114 funds), the segregation of the solid waste enterprise fund as a true enterprise fund (210 fund), the elimination of the indigent care fund (fund 122), and the clear delineation of the Victims Assistance Fund as being an SRF (although an SRF was not created) (fund 129). The external audit will most likely reincorporate many of these funds back into the General Fund but we will account for them in a more transparent method on our books and budgets as distinct funds.

Another problem encountered is a multitude of cash funds and an unclear understanding of which funds are truly General Fund (Laurens County General Government GF) and which ones are accounted for by the external auditors as the "General Fund" of the County. Many of these cash funds were analyzed and cleared up creating a one-time transfer of $570,777 in idle cash to the GF FB UD most of which may not have been a part of the external audit report of the GF FB.

Additional actions (some not yet acted on) for FY18 clean up may add additional amounts to the GF FB UD (some of which may have already been components of the external audit GF FB) including the following:
113 SRF FB transfer and clean up: $619,138 one time with annual clean up thereafter
122 Indigent Care FB transfer and clean up: $1,120,437 one time (action taken in FY17 but not yet recorded?)
128 EMS fund elimination of debit ($1,159,934) one time with annual clean up thereafter (this is a part of the local government GF now)
210 SW EF FB transfer and clean up: $727,436 one time

GOING FORWARD:
Continually depletion of our FB through deficit spending can only last so long until we are completely out of FB reserves. With the financial restructuring of FY18 and the cleanup of cash accounts in FY17 and FY18 we will be able to produce a true O&M fund balance. This will allow us to plan forward, in particular to plan beyond just a 12 month financial plan (aka our annual budget). However we will be limited in the ability to perform trend analysis so the predictive financial models produced (FY20 goal) will be suspect due to the limited amount of historical data.

Financial data prior to FY17 is suspect and unclear and cannot be utilized in its current form. Significant analysis would have to be performed to tease out useful data. Reliance on audits for this data is not recommended. The County Administrators goal is to produce the financial models and perform trend analysis in FY20 utilizing data from FY17, 18, and 19.

8A) GF Fund Balance (FB) (funds 110 and 128):
The GF FB is the most critical FB to quantify and establish as this fund pays for most of our O&M. The target GF FB should be maintained at 25-50% of expenses with a cash reserve of minimum 25%. Several unanswered financial questions were posed by the County Administrator in the FY18 budget in relation to the GF FB. As stated above an analysis of prior financial data is challenging however with the financial restructuring of FY18 and a remodel of the actual finances of FY17 based on the financial restructuring of FY18 provides a more clearer understanding of the potential fund balances of all accounts for this first draft FY19 budget.

This discussion will focus on the undesignated fund balance GF FB UD as the designated GF FB D has designated spending purposes and is not free cash. The reader is cautioned to note that these fund balances will correlate to audited financial figures but will not directly correlate to the audited GF FB for the reasons described in the previous section.

For the GF 110 FB UD the estimated fund balance is:

$3,197,722	(as reported)
$1,230,437	(prior fund 122 FB)
$ 112,850	(fund 143 liquidation)
$ 23,167	(fund 144 liquidation)
$ 727,436	(fund 210 liquidation-transfer of only $250,000 approved by Council (may not be sufficient))
$ 619,138	(fund 113 liquidation-after transfer of only $500,000 (not yet approved by Council))
$5,910,749	ESTIMATED GF FB UD

Although the external auditors grab many funds for their Laurens County general government "General Fund", the only true General Fund of the Laurens County Government is fund 110 and fund 128 (EMS). Based on this the actual audited spending for FY17 fund 110 and fund 128 with all the externals (fund 113, 210, 600 etc…) stripped out to match the financial restructuring of FY18, spending in FY17 was $25,121,612.

Based on this analysis the GF FB UD is currently at 21%. THIS IS AN IMPORTANT NUMBER. It is still too early to truly quantify the GF FB UD as it relates to spending so no action will be recommend this fiscal year (tax year 2018) however 21% is below the minimum 25% the County Administrator recommends as a minimum reserve. If the GF FB UD deteriorates in FY18 or remains stable, the CA may be recommending a millage increase to get the reserve back to the 25% minimum. A millage increase is not restricted under act 388 for this purpose.

Utilizing the FB to run deficits is a sound financial practice in the short term especially during short term economic conditions such as the downturn of the recent recession but it may have been more practical to plan ahead for the eventual depletion of FBs. Act 388 allows County Council to raise taxes to increase the reserves however this action will most likely need to take place in subsequent fiscal years as the restructuring efforts enacted in FY18, restructuring efforts on FILOT distributions, positive revenue impacts of new economic activity in the County, and efforts to reduce spending are measured in FY18 and FY19.

Previous preliminary analysis:

Our recent Moodys bond rating audit as well as the preliminary review our financial history as reported in our external audit indicated an extremely alarming trend as shown in Chart 1 ("GF Fund Balance Trend"). This chart indicated that the County had spent $8M of a $14M GF FB in 5 years. Should this trend have continued it would indicate that we may run out of reserves in FY18 and no longer have enough reserves to float our cash flow needs. This indicated an immediate need to react.

A secondary concern is to ensure we have a sufficient GF FB. It is recommended that the County have a GF FB (unassigned) of approximately 25% of spending. This is necessary to ensure cash flow. Chart 2 is an example of revenue minus expenses for a County. A County typically only runs in the "black" (more money coming in than going out) approximately 3 months of the year. A County must have sufficient reserves to carry the cash flow during the fiscal year or we risk having to borrow money in a short term Tax Anticipation Notes (TAN) which will needlessly cost us more money in short term borrowing costs.

A sufficient reserve is also needed for emergency spending needs such as a natural disaster, HVAC system failing in the heat of the summer, etc... In addition, the County's bond rating will be affected by the amount of reserves the County has. A 25% reserve is a sound reserve that indicates a lower risk and will save the County money on borrowing costs. One of the positive indications from the auditing firm Moody's during their reclassification of our bond rating in 2017 was the goal of moving towards a 25% reserve.

As shown in Chart 1 the County had insufficient reserves in FY07 (see"25% Rsvr columns") and then may have built up sufficient reserves. With the downward trend of the GF FB the County may have gone below this minimum reserve as of the last audit the County performed in FY15.

We can blame the restrictions of Act 388, the decline of the Local Government Fund (LGF), increased costs due to inflation etc… but that will not create a plan of action to do what we can for our County's future. While it is important to understand our history and to understand the constraints on our finances, we must have a goal to create a plan of action to bring us to a prosperous future.

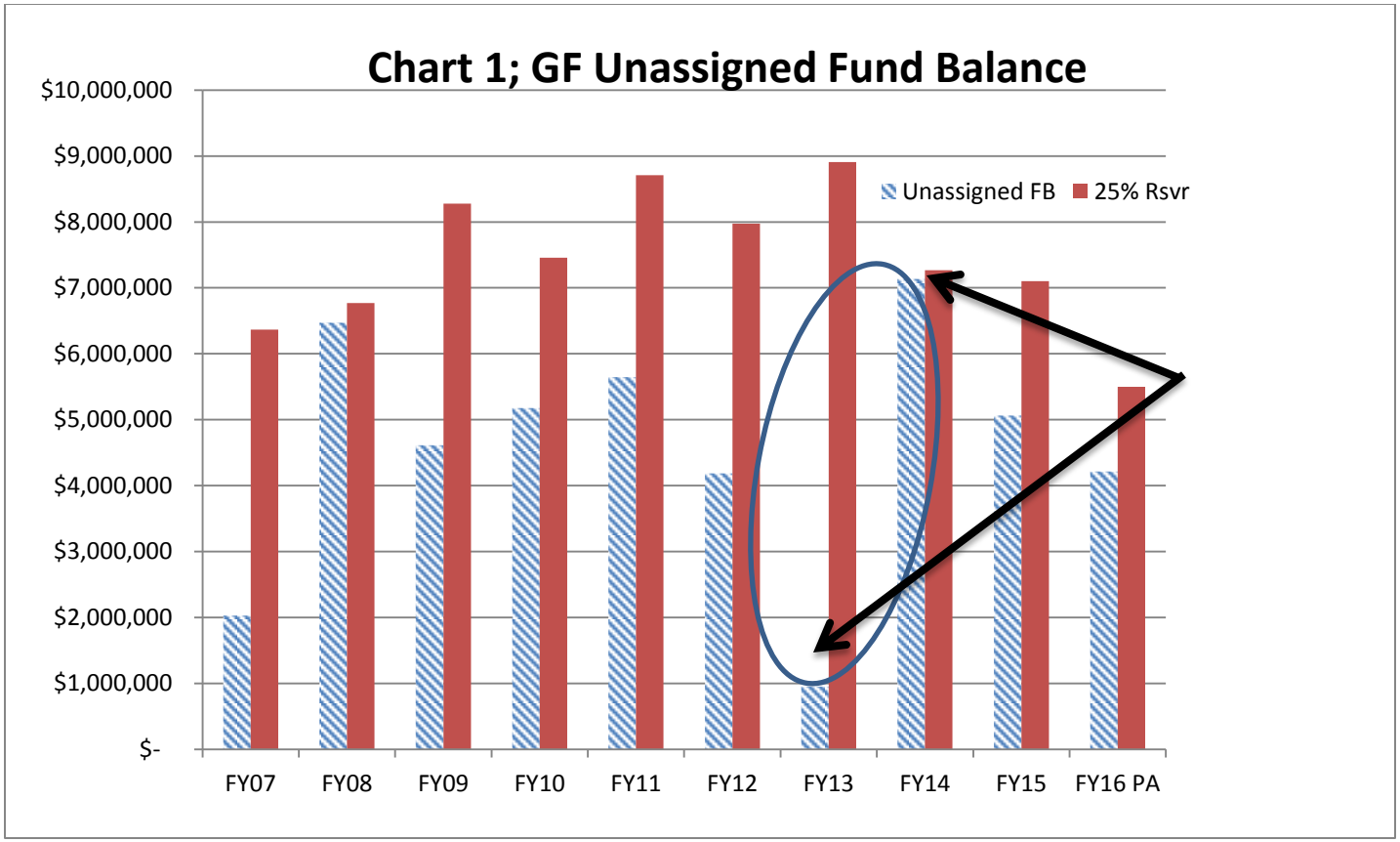


Chart 1; GF Unassigned Fund Balance
$10,000,000
$9,000,000
$8,000,000
$7,000,000
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$-
Unassigned FB
25% Rsvr
FY07
FY08
FY09
FY10
FY11
FY12
FY13
FY14
FY15
FY16 PA

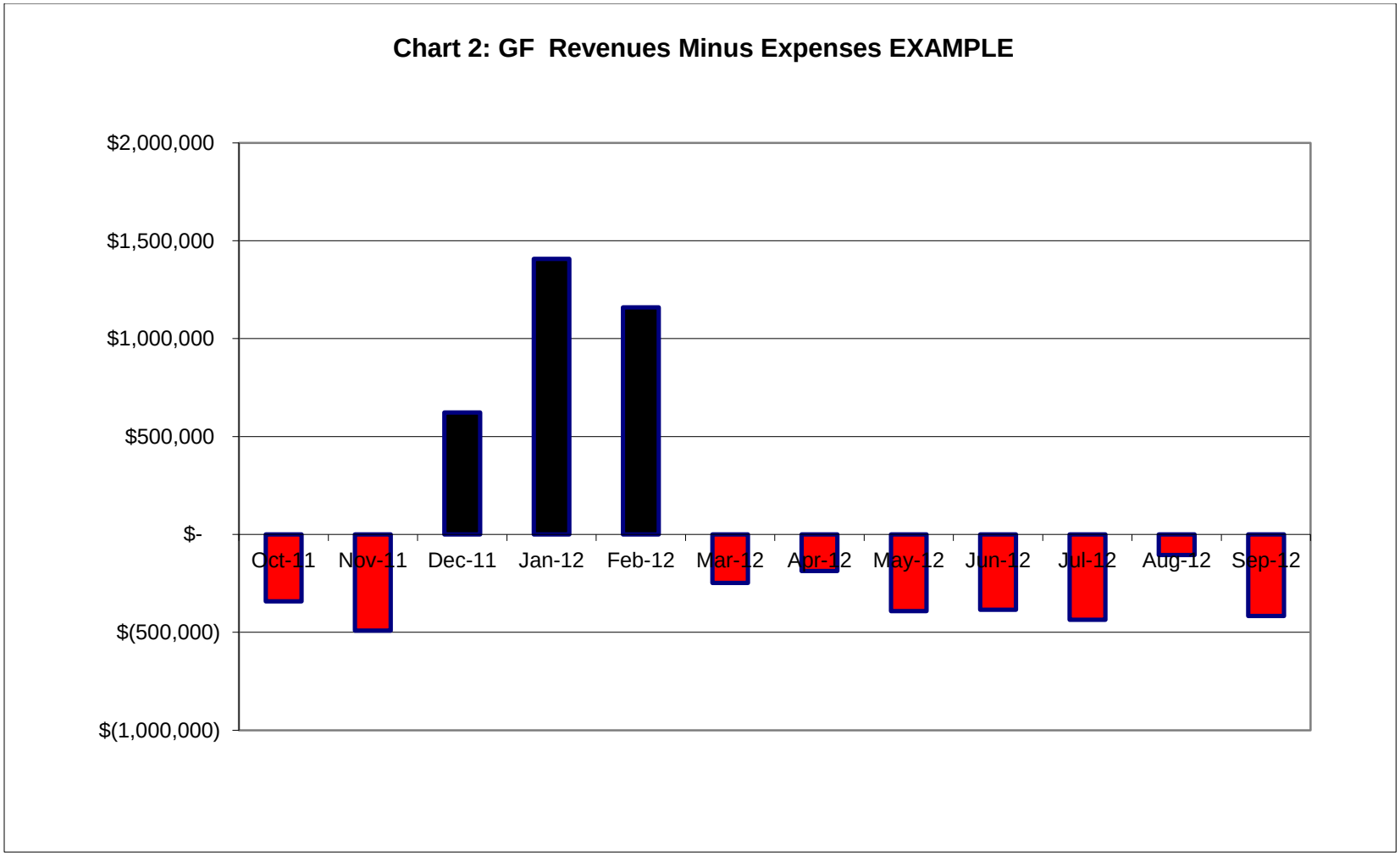


Chart 2: GF Revenues Minus Expenses EXAMPLE
$2,000,000
$1,500,000
$1,000,000
$500,000
$-
$(500,000)
$(1,000,000)
Oct-11
Nov-11
Dec-11
Jan-12
Feb-12
Mar-12
Apr-12
May-12
Jun-12
Jul-12
Aug-12
Sep-12

8B) SRF 113 Treasurer FB:

Fund 113 was established as part of the County Administrators first budget and the resulting restructuring of FY18. SRF 113 has two designated revenue sources. In the past the expenses that should have been allocated to these revenue sources appear to have not been fully captured. As a result of this financial deficiency this fund was allowed to grow in FB as the revenues outstripped the expenses each FY. At the end of FY17 the FB for these two funds was $1,119,138. At the same time the GF was drawing down fund balances as expenses outstripped revenues. Some of these GF expenses should have been charged against these SRF funds.

Unwinding the historical expenses that should have been charged to this fund would be difficult or impossible at this point. County Council took action to correct this deficiency by moving $500,000 in this funds FB to this SRF. The external auditors do not recognize the SRF fund balance as designated and therefore have allocated the $1,119,138 to the GF FB UD which is not correct according to the restrictions on these funds (these funds must be spent on their legally designated purposes). The corrective action to move $500,000 to the 113 SRF and will free up $619,138 from the $1,118,138 SRF FB to be truly part of the GF FB UD.

At the end of each fiscal year going forward (FY18 and beyond) the revenues and expenses for SRF 113 will be accounted for in SRF 113. If a surplus is generated it will be allocated to the SRF 113 FB until the SRF FB reaches $500,000. Any amount over $500,000 in FB will be automatically transferred to the GF FB UD each FY. This action will permanently correct this situation.

8C) SRF 114 Sheriffs Office FB:

Fund 114 was established as part of the County Administrators first budget and the resulting restructuring of FY18. SRF 114 has designated revenue sources for both the Detention Center and the Sheriffs Office. In the past the expenses that should have been allocated to these revenue sources appear to have not been fully captured. As a result of this financial deficiency the SRF 114 funds were allowed to grow in FB as the revenues outstripped the expenses each FY. At the same time the GF was drawing down fund balances as expenses outstripped revenues. Some of these GF expenses should have been charged against these SRF funds. This was corrected by the new Sheriff in FY17 with a drawdown of the FB. At the end of FY17 the FB for these two funds is estimated to be $296,775 which was a drop from FY16 where the FB was estimated at $381,484.

8D) Fund 129 Victims Assistance Fund FB:

This fund was described in much more detail in a previous section of this report. This fund had a healthy fund balance but began to run deficits a decade ago. About 6 years ago the FB of this fund was depleted. At that point the expenses should have been reduced to match revenues for this State function. The deficit spending was allowed to continue through FY18. In FY18 the management of this fund was turned over the Sheriffs Office for efficiency purposes with a goal of having a balanced budget for FY19.

This fund was allowed to generate a $205,071 deficit (owed to GF) by the end of FY16. This fund balance was wiped out in FY16 but a $42,375 deficit occurred in FY17 which is projected to grow to $125,552 in FY18. This negative fund balance is owed back to the GF. It is recommended that the expenses for this fund be cut to match revenues with an eventual repayment of the FB to the GF.

8E) Fund 123 and Fund 134 Fire SPTD FB:

These two funds are currently running very healthy fund balances. As part of the long range strategic capital plan, advanced purchases of preowned equipment is planned for FY18 to FY20, prior to a reissuance of the next decade long bond for fire equipment in 2020.

8F) Fund 156 FILOT Special Projects Fund:

This fund was created in FY18 to provide resources for County Council to fund capital projects that will promote economic development. These funds were carved out a small portion of the funds allocated to the LCDC for economic development capital. The goal is to use these funds to promote economic activity in Laurens County such as parks, interstate beautification projects, sewer and water projects, road projects etc. This is not to replace the work of the LCDC but to provide support for other economic activities such as commercial development, residential development, tourism etc. No funds have yet been allocated from this fund for FY18 so any funds set aside will carry forward to FY19 to be added to new funds added in FY19. A list of potential projects to be brought to Council is currently being evaluated.

8G) Fund 210 Solid Waste Fund:

This fund was created in FY18 to segregate out the solid waste enterprise fund into a true enterprise fund. Prior to FY18 this fund was called an enterprise fund however it was not correctly set up as an enterprise fund and was actually just another component of the 110 General Fund. The department had done an excellent job cutting expenses and producing revenues to create a healthy fund balance. This fund balance is needed to cover the unknown liabilities of the old landfill plus needed capital replacement.

This fund generates sufficient revenues to cover expenses and through the years has created surplus. The fund balance was $977,436 at the end of FY17. This fund balance was requested to be transferred to the new fund 210 SW EF but Council only took action to move $250,000 from fund 110 to fund 210. This puts fund 210 at a significantly low FB at only 10% of the expenditures. In addition the FY18 budget was budgeted to draw down the existing fund balance by $381,000 primarily for one time capital purchases. If the

actual budget for FY18 creates the budgeted deficit, this fund will have completed depleted the $250,000 fund balance that was transferred by Council and may have to "borrow" from the fund 110 GF to cover expenses.

8H) Fund 600 Capital Projects Fund:

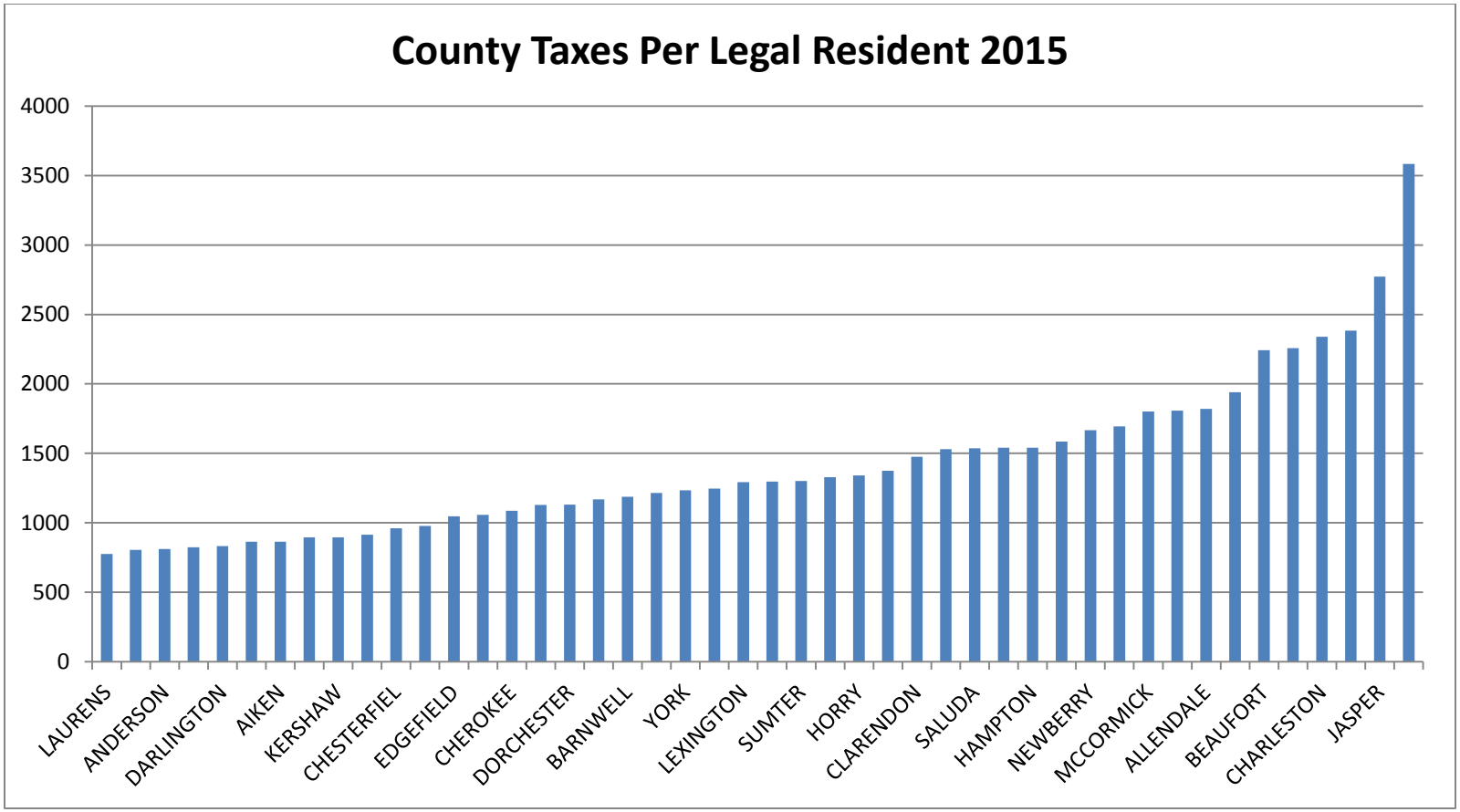
In FY18 a new fund was created for tracking capital projects (see more detailed explanation of this fund in a prior section of this report). This fund may create a fund balance from one FY to the next but this fund balance should be 100% dedicated to specific projects.

SECTION 9 MILLAGE

The chart below ("County Taxes 2015 Per Legal Resident") is from the 2015 SC department of revenue showing the County taxes per legal residents residing in the County. Laurens County has the lowest taxes per legal resident as of 2015. This is a proud accomplishment however it should be noted that we have many underfunded programs in particular the compensation of our employees.

With maybe 75% of our costs associated with personnel our personnel have made sacrifices during the tough economic conditions of the past decade to be able to continue to provide services to our community while keeping the costs for those services the lowest in the State of South Carolina.

It is time to address this problem and fix our employee compensation to ensure we are paying a fair compensation.



Related Long Range Plans and Studies are a Part of this Spending Plan