Long Term Financial Plan and First Release of the FY20 Budget

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LAURENS COUNTY
South Carolina

GENERAL DISCUSSION:

This is a first release of the long range financial plan and FY20 draft budget for Laurens County Government for the 12 month period 7/1/2019 to 6/30/2020. This report refers to several additional related long range plans and studies which are available online at: https://laurenscounty.us/finance-department/

Two appendixes are included in this first draft:
Appendix A: contains the first draft actual spending plan ("budget") for the upcoming FY containing all the budgets that have similar budgets as the prior fiscal year, are not requesting any additional personnel changes, and the department is in agreement with the Administrator recommended column. This will be brought to Council for approval as one consent agenda budget.
Appendix B: contains the actual spending plan ("budget") for the upcoming FY for all those budgets not included in Appendix A. appendix B includes any backup information provided by the departments requesting funding (backup information will not be included in the final budget).

The FY20 budget is the culmination of a 3 year financial restructuring that began in FY18 under the newly appointed County Administrator. Year 1 was the FY18 budget which included cost reductions, efficiency programs, and financial restructuring at the fund and departmental level. Year 2 (FY19) included additional cost reductions, additional efficiency programs and some less intensive additional financial restructuring at the fund and departmental level. FY19 also introduced the first ever long range financial plans beyond the traditional 12 month financial cycle. Year 3 (this year, FY20) is the final year of the planned major financial restructuring. FY20 has some additional suggested budgetary restructuring at the fund and departmental level, included cost reductions and efficiencies but is the first time the fund balances are mostly quantified and incorporated into our long term financial plans beyond FY20.

The intent of the 3 year financial restructuring was to eliminate deficit spending, quantify fund balances, eliminate financial structural problems, and move beyond a 12 month (at times crisis) budgeting towards a more sound financial future with longer range financial planning. In addition the new budget structures are easier to understand, more transparent, and clearly delineate where revenues are not sufficient for the level of services we are providing.

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 (FY20). The information presented for the long term financial plans has assumptions and relies on the existing data that has been uncovered to date.

BUDGET ADOPTION SCHEDULE:

January 15: Completed budget worksheets **returned to** the Administration.
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 you want to review your first draft budget.
April-June: Council works on Budget
April 23, 2019 (target) (May 14 backup date) : First Reading of Budget Ordinance
May 14, 2019 (target) (May 28 backup date) 2019: Second Reading of Budget Ord.
June 11, 2019 (target) (June 25 backup): Public Hearing and Third/Final Adoption

THREE YEAR, THREE PHASE FINANCIAL RESTRUCTURING OVERVIEW:

PHASE 1 (FY18) Goals:

1. Financial Transparency
2. Cut Costs through Efficiencies
3. Remove one time capital from O&M (annual operations and maintenance financials)

PHASE 2 (FY19) Goals:

1. More Financial Transparency, Efficiencies, and capital from O&M (in addition to phase 1 achievements).
2. Introduction of long range plans to guide budgeting and financial decisions

PHASE 3 (FY20) Goals:

1. More Financial Transparency, Efficiencies, and capital from O&M (in addition to phase 1&2 achievements).
2. Utilize long range plans to guide budgeting and financial decisions (from phase 2).
3. Introduce fund balances into the current and long range financial management and eliminate deficits.
4. Long term financial planning beyond the current fiscal year.

OVERVIEW OF FINANCIAL RESTRUCTURING RESULTS

FINANCIAL TRANSPARENCY:

1. Separation of special revenue funds and general fund: Formerly everything was lumped into the General Fund. Structural financial problems are now much easier to interpret. Costs and revenue impacts are clear now.
2. Comprehensive Financial Data presented into budget that was not present prior to FY18.
3. Comprehensive financial budget including this report did not exist prior to FY18.
4. Budgets, audits, actual monthly spending financial reports, monthly check register reports, monthly credit card usage reports, posted online at our website. Data did not exist online or accessible to the public prior to FY18.

EFFICIENCIES:	COST SAVINGS:
1. Reduction in the Health Insurance Load Factor (taxpayer cost):	$650,000/year
2. Reduction in the Health Insurance Load Factor (employee cost):	$150,000/year
3. Reduction in the Workmans Comp Load Factor (estimate):	$250,000/3year
4. Energy Efficiency Program Phase 1 (Hillcrest) (64% reduction estimate):	$162,000/3year
5. Energy Efficiency Program Future Phases (Unknown savings):	$150,000/3year
6. Hardline Telecom Audit (18% reduction estimate):	$216,000/3year
7. Cell Telecom Audit (17% reduction estimate):	$40,800/3year
8. Retiree Health Insurance Class 1 (34% reduction estimate):	$174,000/3year
9. Retiree Health Insurance Long Term Liability Reduction (10% reduction estimate):	$2,502,426
10. Health Insurance Subsidy Elimination (19% reduction estimate):	$43,000/3year
11. Health Insurance Subsidy Elimination (100% reduction long term):	$232,000
12. 35 Workweek increase to 37.5 hour (40 hours pay) (estimated extra hours gain):	$900,000/3year
13. Elimination of PT Paid Leave (100% reduction long term):	$30,000
14. Fund 129 Vict Assist eliminate unfunded mandate (30% reduction estimate):	$150,000/3year
15. Fund 210 SW EF Operational Savings (21% reduction estimate):	$1,182,000/3year

ONE TIME IDLE CASH TRANSFERS ("FOUND MONEY" BURIED IN OUR FINANCES:

1. COC Special Source Funds (one time, implemented in FY17)	$103,762
2. Ordinance 625 Surplus Reduction (one time, implemented FY17)	$332,000
3. SW Enterprise Fund FB Transfer (one time, implemented FY18)	$727,436
4. Indigent Care FB Transfer (one time FY18)	$1,230,437

5. Fund 143 SRF	(one time FY18)	$112,827
6. Fund 144 SRF	(one time FY18)	$23,167
7. Fund 113 SRF	(one time FY18)	$619,138

REMOVE ONE TIME CAPITAL FROM O&M:

1. Created 600 fund for GF Capital (FY18)
2. Segregated out fund 134 Fire SPTD Capital (FY20 proposed)
3. Segregated out fund 128 Capital (EMS) (FY20 proposed)
4. Segregated out 210 SW EF Capital (FY20 proposed)

INTRODUCTION OF LONG RANGE FINANCIAL PLANS TO GUIDE FINANCIAL DESICIONS:

1. HR Compensation plan (phases 1-3 complete) FY19
2. HR Compensation plan (phases 4&5) not completed yet budgeted in FY19 and in FY20
3. Capital Plan (CIP) FY19 (version 1.0)
4. Capital Plan (CIP) FY20 (version 2.0)

FY20 GOALS (final phase 3):

1. Utilize Long Range Plans to Guide Budgeting: $4,000,000 GO Bond for Hillcrest and Historic Courthouse Phase 1
2. Utilize Long Range Plans to Guide Budgeting: $1,700,000 L/P for Solid Waste (no fee increase needed)
3. Utilize Long Range Plans to Guide Budgeting: $3,500,000 L/P for Fire Equipment (no tax increase needed)
4. Utilize Long Range Plans to Guide Budgeting: $? See fund 128 EMS First Draft Budget Supplement
5. Fund Balances and Deficit Elimination: GF Fund 110 Deficit Eliminated and FB restored (FY18)
6. Fund Balances: See Fire Funds (123, 134) long range plan
7. Fund Balances: See fund 128 EMS First Draft Budget Supplement long range plan
8. Fund Balances and Deficit Elimination: Fund 129 Vict. Assist. Deficit Eliminated and FB restored (Start FY19)
9. Fund Balances and Deficit Elimination: 210 SW EF Deficit Eliminated and FB restored (Start FY20)

SECTION 1: FY19 BUDGET

Overview:

This FY20 budget is the culmination of a 3 year financial restructuring that began in FY18 under the newly appointed County Administrator. Year 1 primarily addressed financial structural deficiencies. Year 2 built on the year 1 work and introduced the first ever long range plans. Year 3 built on the work of years 1 and 2 with the first full quantification of fund balances as well as providing a financial structure that can be utilized for long term financial planning.

Year 1 (FY18) budget was a massive overhaul of the budget and financial structures at both the fund level and the departmental level addressing numerous financial structural deficiencies. This complex financial restructuring is explained in more detail in the FY18 budget. Prior to FY18 the financial budgets and structure were not transparent, not easy to understand, commingled capital and operations (O&M), did not have clear delineation of service deliveries, had confusing fund balances, and were not capable of long term financial planning.

During year 1, numerous idle funds were uncovered and brought into the proper funds so they could be utilized. Prior to year 1 Laurens County had deficit spent for 6 years when these funds could have been put to use. Year 1 also included numerous cost reductions and efficiency programs to reduce spending/waste with a goal of eliminating deficit spending. Year 1 was highly successful in repairing balance sheets eliminating deficits.

Year 2 (FY19) included additional cost reductions and additional efficiency programs. A few additional less intensive financial budgetary restructuring also occurred at the fund and departmental level. Please see the FY19 budget for more information. The primary goal of the FY19 budget was to introduce the first ever long range financial plans beyond the traditional 12 month financial cycle.

Year 3 (this budget, FY20) is the final year of the planned major financial restructuring. FY20 has some additional suggested budgetary restructuring at the fund and departmental level in the Fire SPTD (funds 123 and 134), EMS (fund 128 and new capital fund), and fund 210 (solid waste enterprise fund (EF). These final suggested financial restructuring are due to the final unwinding of the previous commingled funds and the delinking of capital and O&M.

Fire SPTD (funds 123 and 134) was always a separate fund from the remaining "fund" (everything else was commingled into the general fund (GF)). In FY20 the only restructuring suggested is to move all fire capital to the stand alone capital fund (fund 134). A long range plan is introduced in FY20 beyond the upcoming fiscal year. It is anticipated that some fund transfer from O&M (fund 123) to fund 134 will be needed.

EMS (fund 128) was segregated out of the GF in FY19 however EMS rolling capital was still commingled into the GF capital (fund 600). EMS fund 128 O&M has been deficit spending for 15 years. This deficit spending was not transparent due to the commingling of fund 128 into fund 110 GF. This commingling of funds did not allow for proper funding of fund 128 and contributed to the deficit spending in fund 110GF. Fund 128 is will require the most attention in FY20 as significant efficiencies, cost reductions, and tax increases are needed.

Fund 210 was segregated into a true EF in FY19. As a newly created standalone EF the revenues were shown to not be sufficient to offset expenses. A 33% fee increase for host fees charged for private landfills in Laurens County was implemented in FY19 but the actual revenues will not be received until FY20 (there is a 12 month delay per the ordinance) and these revenues are not significant.

The household solid waste fee was shown to be needing to be increased 20% (first increase in 12 years) however council only chose to increase the fee 8% so a budgeted deficit was in place for FY19. A massive operational restructuring in FY19 is now underway that is expected to significantly reduce expenses beginning in Q3FY19 (2/19). For FY20 a long range financial plan is introduced that does not currently anticipate a need to increase the household fee. The restructuring plan will require significant capital investment but the ROI on that investment is expected to be 3 years. More details on these proposed restructuring is included later in this plan.

Year 3 is also the first time the fund balances are (almost) fully quantifiable and can therefore be incorporated into long term financial plans beyond FY20. These fund balances are utilized in conjunction with the long range plans (in particular capital) so that we can clearly plan beyond the next 12 months. Through this long range planning we can eliminate, postpone, and/or reduce potential tax and fee increases needed.

1A) Expenses:

The financial restructuring of the funds and budgets in FY18 makes comparisons with actual spending prior to FY18 difficult. For FY20 this process is easier to evaluate due to FY18 and 19 being consistent with spending proposed in FY20 with only a few recommended changes. In addition, true costs for operations can now be easily and more transparently reported due to the restructuring efforts of FY18-20. Therefore we have good financial history now to better quantify trends and financial needs for FY20 and beyond.

FUND 110 General Fund Expense: The first draft GF 110 fund recommended has increased by 2.4% over FY18 which matches the CPI. Another 1% in employer increase in pension funding is required this year and included in the increase percentage above.

Fund 128 EMS:

Fund 128 is a dedicated fund for EMS. 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 and a separate millage has been dedicated for this service for many years. Prior to FY19, fund 128 EMS had historically been treated as a special revenue fund (SRF) but was not (it was a component of the GF). In FY19 Council segregated out fund 128 as an SRF. Fund 128 millage is set annually by the appropriation ordinance (budget) and is subject to Act 388 caps.

Prior to FY19 fund 128 had been deficit spending accumulating a net deficit fund balance of $1,159,934. One last structural financial repair is recommended for FY20. It is recommended that a separate capital fund be created for EMS (fund 60X) explained in more detail in the capital section of this report. The poor structural financials of fund 128 were draining resources from fund 110 GF. With the restructure this fund no longer automatically drains financial resources from the GF however Council is now faced with very difficult decisions on how to fix the financial structural deficiencies of fund 128.

A very detailed analysis of EMS has been conducted over the past few years cumulating in extensive operational changes already implemented and more to be recommended in 2020. Fund 128 will require a substantial analysis by County Council. A detailed report on fund 128 will be created as a separate first draft budget solely for fund 128 and will not be included in this first draft budget.

<u>Fund 129 Victims Assistance Fund:</u> This fund is discussed in detail in section 4 of this report. This fund may be considered a State mandate but had been funded by the local taxpayers for several years and carried a negative fund balance of $205,071 which was written off in 2017 (FY16) by reducing the fund balance of the GF. In 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 had been running a 30% deficit for 12 years.

The negative FB began at $0 at the start of FY17 but again grew to a negative $42,375 by the end of FY17. The negative FB is projected to grow to negative $78,633 for FY18. The financial models for FY19 currently project a slight surplus for FY19 which we are researching to ensure we can legally apply to the negative FB carried forward. FY20 currently also presents a surplus which again we are hopeful can be applied to the negative FB carried forward. Fund 129 is restrictive by State Law and must meet certain parameters or we will be required to send surplus funds to the State. After 12 years of deficit spending FY19 marks the first time this fund is projected to not run a deficit.

<u>Fund 210 Solid Waste Enterprise Fund:</u>
Fund 210 Solid Waste Enterprise Fund (EF) had been historically treated as an EF but it was not an EF. This fund was financially another component of the catch all budget for Laurens County in the GF. The poor structural financial conditions of fund 210 are projected to have drained resources from of fund 110 GF in FY18.

In early FY19 the private sector contractor who owns the transfer station and handled our entire MSW disposal from this facility announced a closure of the transfer station. This resulted in a massive overhaul of how we plan to manage our solid waste stream beginning 2/1/19. The net financial effects of this change have not been fully quantified yet however we have good long range plan in place now that anticipates significant cost reductions, includes a long term financial plan to purchase fixed and rolling capital assets, and will restore a healthy fund balance by FY24 and NOT require the additional fee increase projected last year.

A structural financial change is recommended for fund 210. Currently there are 4 accounts in the 210 fund. The first structural financial change for FY20 is to combine all solid waste O&M currently in two different accounts into one O&M account for solid waste. The second structural change is to have the one account for solely for the legacy landfill (primarily testing for methane and groundwater). This will create a more transparent financial structure as well as allow for more clear delineation of the solid waste O&M costs. The litter and humane account will remain the same. The capital account will include all capital for the 210 fund including the capital for the solid waste department currently commingled in the landfill and O&M solid waste account allowing for better and more transparent financial planning beyond the current fiscal year.

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 $200,000 annually.

Fund 113- Treasurer SRF: This is a dedicated special revenue fund (SRF) that has designated legislative restrictions and are controlled by the Treasurer. While we had run deficits in the GF for 6 plus years prior to FY18, this fund 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 were no longer commingled within the overall GF budget but are clearly shown as SRFs on our books. The auditors may choose 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.

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 (on our books, external auditors may have commingled this back into the GF). At the end of every fiscal year any excess 113 SRF FB above $500,000 will be transferred to the GF FB on our books.

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. For FY18 it is projected that an additional $358,403 was transferred from fund 113 to the GF however current projections are that the FY19 revenues will be entirely consumed by expenses in FY19. No FB transfer is budgeted from fund 113 to the GF for FY20.

Fund 114 Sheriffs Office SRF: 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 simplified the finances of this department and increased transparency.

One more structural financial change is recommended for the Fire SPTD in FY20. It is recommended that all O&M be budgeted in fund 123 and all capital in fund 134. For FY20 it is recommended that a fund transfer from fund 123 occur to help fund an existing lease purchase for capital. This will remove all capital from fund 123 and place all capital in fund 134 allowing for better and more transparent financial planning beyond the current fiscal year.

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). A decade long lease purchase of $3,500,000 is set to expire in FY20 and actions will be taken to renew this for the next decade with the first payment taking place in FY21. A long range plan is now in place beyond the upcoming FY ensuring solvency, healthy fund balances, and reducing the unnecessary increase in taxes due to short term deficit spending on capital.

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 but all capital is recommended to be solely funded from this fund through a fund transfer in FY20. 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). The next decade long L/P as well as long range CIP funding is included in the FY20 budget for the first time ever.

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. 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.

For FY20 a structural financial change is recommended for fund 600 removing the SRF capital for fund 128 (new fund 60X), and capital for solid waste (to be funded through fund 210 as a true enterprise fund). Under this structure fund 600 will only be funding capital for the GF. The actual millage set for fund 600 will be discussed in a later section of this report.

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 FY20 there is the second (of three) lease purchase payment of $360,000 recommended to be funded through this millage which is a new L/P taken out in FY19. . See the long range strategic capital plan for more information on capital needs. The capital fund 600 FY20 budget has not yet been prepared and will be presented as a separate first draft plan.

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. Utilization of these funds is at the discretion of Council.

1B) Revenues:

General Fund 110 revenues are currently budgeted as increasing at the bottom line by 0.3% ($55,873) which is probably too conservative. These figures will be updated as we develop the FY20 budget and have newer actual figures for FY19 revenues (current budget is month 7 of FY19).Some individual revenue line items are budgeted to increase. **No act 388 tax revenues are included** in the budget including the inflationary increase and the unfunded mandate allowable increases.

FY20 revenues are based on actuals for FY19M7 and will be updated as new actual financials for FY19 are presented.

Although the first draft FY20 shows a deficit of $182,327, no deficit is expected. This deficit figure does include a projected GF FILOT fund increase ($400,000) from FY19 budget to FY20 which may be too conservative based on the estimates presented for FILOT funds. For the first time a correlation with FILOT funds reported by the LCDC/Auditors Office can be correlated with actual revenues received (model now possible due to the financial restructuring and a financial model created). Actual GF FILOT reveneus should increase from the budgeted $2,900,000 to over $3,400,000 based on the FILOT data submitted by the LCDC/Auditor. Historically we have budgeted FILOT revenues based on the prior year actual FILOT revenues. If FILOT revenues do come in as projected in FY20 the first draft deficit could be reduced to $82,000 or less.

In addition there has been a strong growth in new construction with 433 new construction parcels expected to be added to the 2019 digest with a value of almost $47,000,000 thus far. This could equate to $122,000-$177,000 in new revenue for the GF and would thereby eliminate the remaining $82,000 deficit and create a surplus. New consruction has not been included in the tax revenue figures in the past due to the limited growth we have had plus the uncertainties. Therefore this new construction growth is not included in the FY20 revenues thus far. A few more years of caputuring growth data and correlating that data to revenues is needed to be able to forecast new construction revenue.

We had a surplus in our GF in FY17 and a stronger surplus in FY18. These surplus's helped to replenish the GF FB UD such that we now have the reccomended minimum 25%. We have had mandated increases in spending as well as increases in spending due to inflation. Our headcount has not increased and our employees are doing more work with the same resources. We have also implemented numerous other efficiencies reducing spending. However we still have 3 more years of employee pension match increases mandated from the State to fund after FY20. In addition we need to be cautious of an overly optimistic economy. After 10 years of economic expansion a correction is due in the near future and we want to ensure we have sufficient reserves to be able to weather that storm.

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.

Tax revenues are estimated to be able to be increased by a X5% 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 allowable increase due to inflation or CPI is 2.44%. This increase in millage would keep the value of the tax dollar the same this year as it was last year. While expenditures for the O&M of the County governemnt increase each year due to inflation, the value of the tax dollar received will decrease unless a CPI increase is included. Due to the cuts in expenditures and the strength of revenues overall no CPI increase in millage is proposed in this first draft budget thereby essentially reducing property tax millage by the CPI.

The State also recognizes that an increase in population requires an increase in spending by the Local Government to provide services for this additional population. The Act 388 population factor for Laurens County is XXX? This is an increase in the allowable tax millage to cover the increased cost of providing more services to more people. Due to the cuts in expenditures and the strength of revenues overall no population increase in millage is proposed in this first draft budget thereby essentially providing more services to serve more residents with the same tax dollar as last year.

Also **not included** is the unfunded mandate tax increase. This tax increase was not funded by County Council in the past 2 years leaving the County with an additional $220,000 increased in annual spending in the GF with no increase in revenues for to cover that specific cost. In FY20 there is an additional $110,000 mandated increase such that the total is now $330,000 annually. Fortunately due to the cost cuts and efficiencies, lack of increased head count, and growth in revenues we have been able to pay for these increases without the allowable millage increase.

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 $800,000 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 ($153,000,000 in sales) 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.

The Local Government Fund has NOT been finalized for FY20 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. (2017 financial figures).

FILOT:
South Carolina has a 10.5% tax rate on commercial and industrial taxes which is higher than many of our competitor states in the region. Fee in lieu of taxes (FILOT), is an economic development tool (State law) that is required in South Carolina for us to be able to be competitive with other States. This tool allows industrial projects effective property taxes to be reduced through a fee charged.

Industrial growth in Laurens County has had a profound positive impact on revenues received in Laurens County.
The distribution of the FILOT funds is at the discretion of the County Council. In 2016 a redistribution of the FILOT funds was enacted resulting in a decrease of approximately $400,000 in NET FILOT distributions to the 3 school districts (impacts primarily in the County's FY18 budget).

The distribution of FILOT funds with the County Governments finances is not directly to the GF but distributed to the various taxing agencies funded by the County Council approximately as follows:
73%- Fund 100 General Fund
3%- Fund 156 FILOT Special Projects Fund
7%- Fund 128 EMS Fund
14.4%- Fund 123 Fire SPTD (O&M)
1.6%- Fund 134 Fire SPTD (Capital)
1%- Fund 340 Higher Education Fund

<u>654 Revenue:</u> 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.

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 and therefore these funds will appear in the external audit as part of the GF FB UD.

While ordinance 654 requires quarterly reporting, there is really no need to report at this frequency because the impacts to the 654 funds only occur after the fiscal year has ended. Therefore we will be updating the status of the 654 funds after the external audit is completed each year. If a deficit occurs in the prior year then any 654 funds available will be allocated to that deficit. If the 654 funds accumulate and no deficit occurs to offset those funds, then Council will need to take action to release these funds into the GF FB UD as allowed per ordinance 654. Again the external auditors do not recognize these funds as designated so the Finance Department must ensure that these funds are accounted for in our system accordingly.

1C) Budget Management Practices for the FY20 Budget:

The County Administrator produced a 3 year financial restructuring plan upon arrival in 2016. FY18 was the first year of this plan. FY19 built on the work of FY18. FY20 is the culmination of this 3 year financial restructuring building upon the work of FY18 and 19 and is expected to provide a long term financial framework for budgeting and financial planning beyond FY20.

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 County Council. It also saves us money and increases communication.

For FY19 the primary priority was 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 (CIP) and the compensation analysis were 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 was 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, allows for the primary goal of FY20 to be achieved (long term financial planning).

The primary goal of FY20 in the 3 year financial restructuring plan was to produce a long term financial plan that can be relied on for FY20 and beyond. To achieve this goal we had to have a solid quantification of fund balances. In addition, 2 years of solid, transparent financial history can now be utilized to produce financial trends. The long range plans such as the CIP (now in its second year of implementation) can now be mapped into the financial models produced so that we can ensure sound financial management for FY20 and beyond.

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. (This note to continue until FY22 when no longer in 3 year actual history).

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 (other than the 911 capital listed above). In FY20 a further restructure of capital and O&M is recommended in funds 128 and 210. A new capital fund is recommended for fund 128 EMS (fund 60X). All capital for fund 210 is recommended to be funded from fund 210 due to the fact that this is now an enterprise fund.

SECTION 2: PERSONNEL:

Personnel Overview:

Laurens County Government is a service organization so a majority of the expenses in the Laurens County budget are for personnel. Therefore when we cut revenues either voluntarily through tax cuts, LOST rebates, keeping fees and taxes low (see section 9), or through tough economic times, we cut the ability to pay personnel compensation. A compensation study was prepared and funded in FY19 to address our non-competitive wages for the majority of the non-exempt employees. By keeping wages low we are not doing our best to compensate and retain our quality employees nor really save the taxpayers money by having higher quality services.

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. If we do not keep our wages competitive we will continue to hire and train 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.

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. 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.

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.

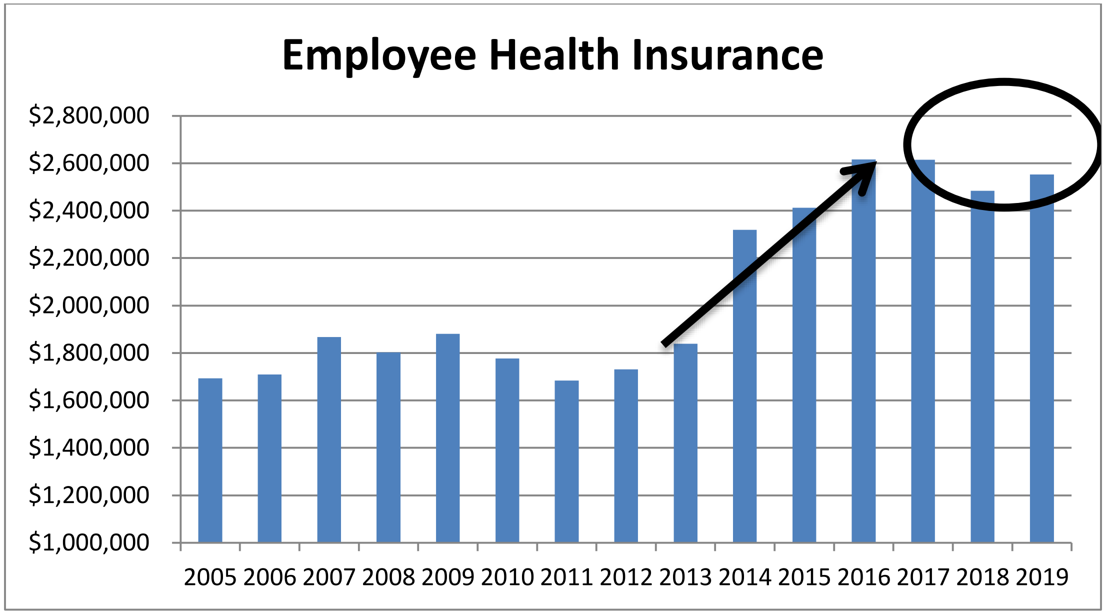
The State legislature has implemented fixes to the pension program which increased the cost of the County portion of the pension by 2% in FY18 (approximately $280,000), half of which the State funded through a credit on our second quarter pension bill**.** For FY19 an additional 1% increase was added to employer portion of the pension. An additional 1% increase will occur 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 annually. For FY20 the financial cost of the 1% increase in pension is $111,500 (fund 110 GF), $7,700 (fire SPTD fund 123), $20,700 (fund 128 EMS), $5,850 (SW EF fund 210).

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. The health insurance cost increases go into effect in the middle of the FY. In 2016 (50%- FY17 and 18) we had a 24.7% markup 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. For 2019 our markup decreased to 0% (50% of FY19 and 20). This decrease equates to a $800,000 decrease in health insurance costs total ($650,000 to taxpayers, $150,000 less for employees).

An operational goal is to continue to provide options to address opportunities to address employee health. Ideas may include partnering with the YMCA, PRISMA, 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. 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 decrease in the load factor as well as better internal controls has appeared to lead to a stabilization or slight decrease in the employer paid portion of health insurance (see circled part in the chart). Note that FY19 is the budgeted expenses. FY20 will be inputted when we receive our FY20 estimates in early Q2 2019.



2B) Compensation Analysis

Compensation (wages) received had 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 compensation system prior to FY19 had very little structure. We had an estimated 200 different entry level pays. Our entry level pay was apparently not firmly established. Similar positions (clerk for example) had many different entry level pays. In FY19 County Council implemented funded a complete overhaul of our compensation system. Our compensation system adjusted most non exempt employee positions to market competitive wages and created a standardized entry level pay grades for all new hires.

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 was included as an appendix to the FY19 first draft budget. Three of the five proposed phases for this compensation plan have been completed in FY19. Currently the final phase 4 and 5 components are being analyzed by County Council and will hopefully be implemented in FY19. EMS non-exempt employees have not yet been addressed by Council.

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).

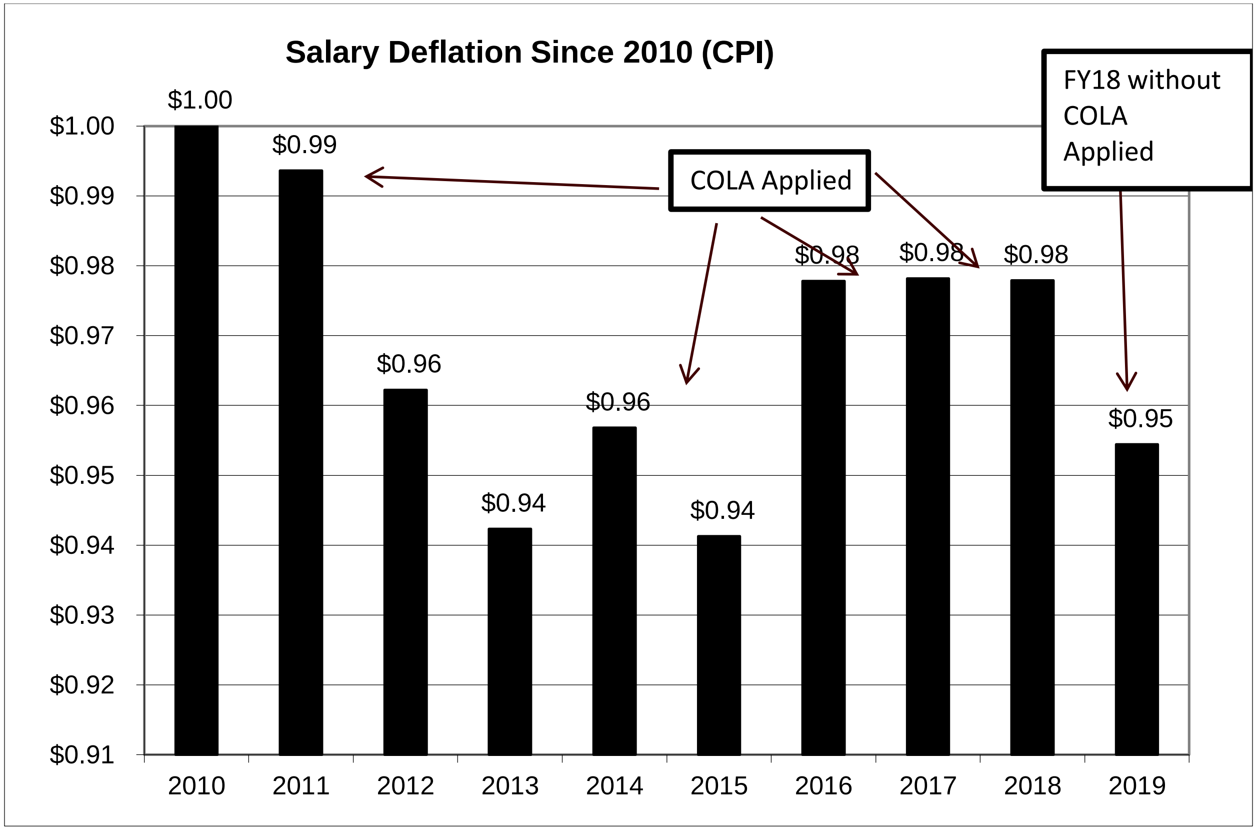
The chart below labeled “Salary Deflation Since 2010 (CPI)” visually shows the effect of inflation CPI and COLAs in Laurens County since 2010. A 1% COLA was applied in 2011 however inflation was 1.6% so wages declined by 1%. No COLA was applied in 2012 or 2013 which had a net result in a decline in our 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.



<u>ACROSS THE BOARD VS. PERCENTAGE COLA:</u>

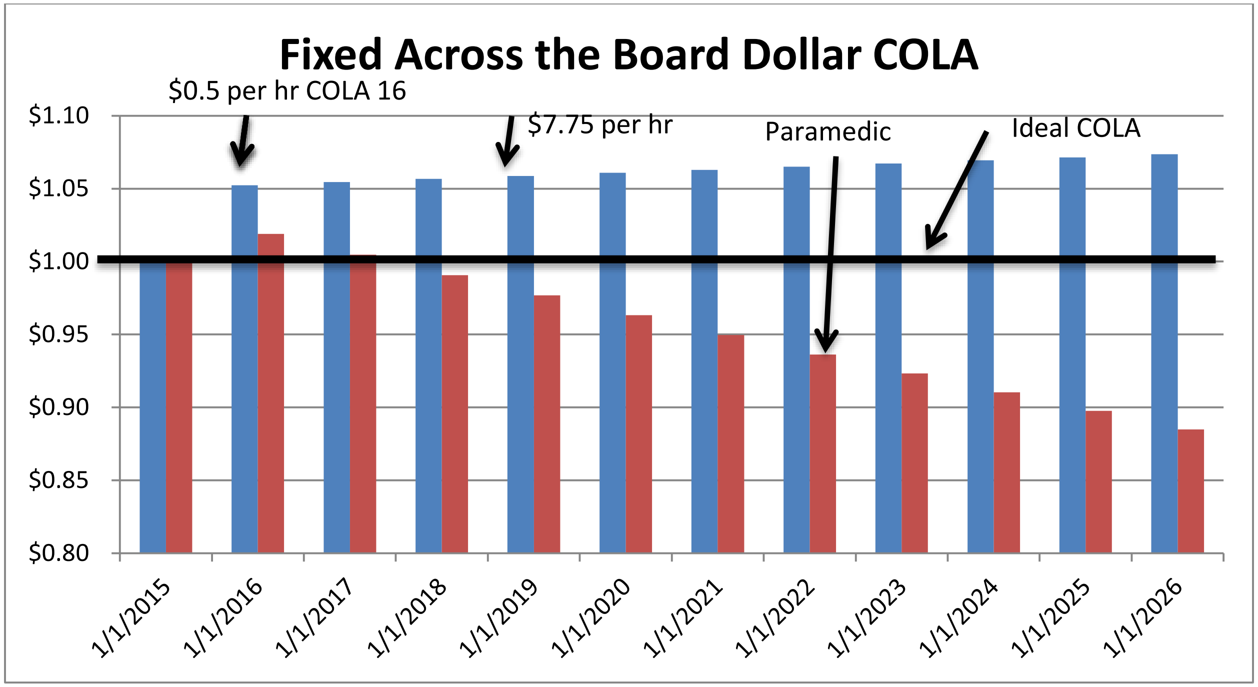
Without a COLA the value of the dollar earned today decreases. Over time that decrease in wages taken as a whole organization can amount to a very large sum of money. By not applying a COLA we are passing on this debt to future generations who then must come up with large sums of money to get wages back 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 $372,723 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. The last GASB 45 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 $372,723 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.

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.

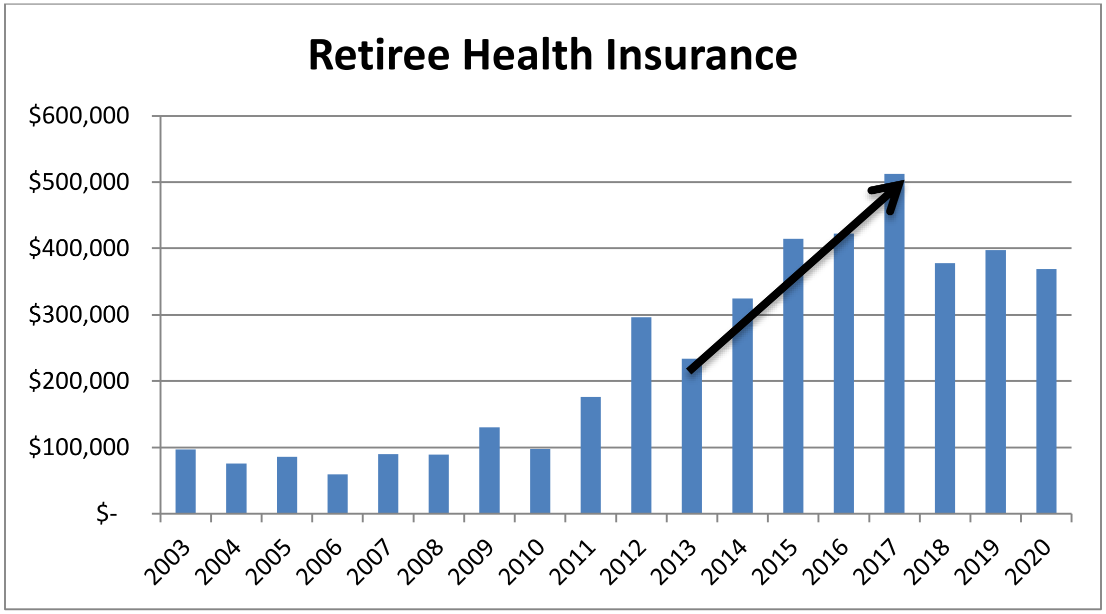
Class 3: LIFETIME RETIREE HEALTH INSURANCE SUNSET:
Class 3: These participants are not eligible for this benefit

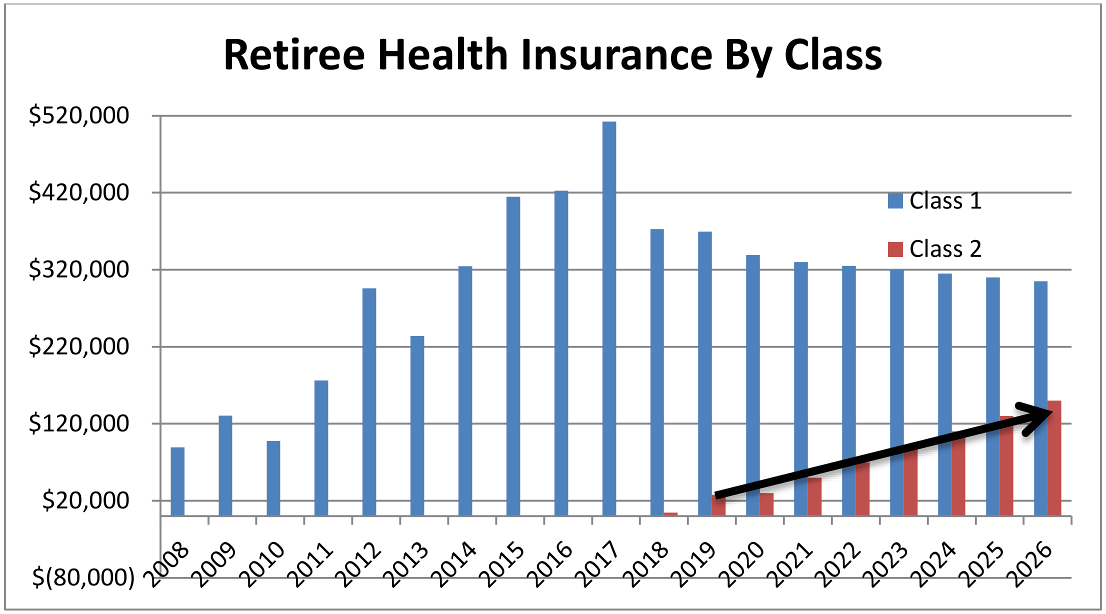
Benefits such as lifetime health insurance were once a standard benefit however the County can no longer afford to take on this long term liability. The cost for retiree health insurance was 16% of the entire $2,615,840 GF Countywide health insurance in FY16. More alarming was the trend. This liability remained mostly stable at around $90,000 annually for the six year period 2004 to 2010 however in the period leading up to 2018 this liability has increased about $54,000 annually to $512,000 in FY17. (See chart entitled "Retiree Health Insurance"). With the change in policies the cost has reduced and appears to be stable for now as shown in this same chart however the next wave of Class 2 retirees will start to increase the liability again.

Retiree Health Insurance by Class chart below shows the potential increase in the liability of this program. It is way to early to clearly show trends so this chart is only speculative at this point. However this liability is expected to grow over time and at some point may have to be addressed by a revised policy. Although impossible to quantify how many of our existing employees will eventually be eligible to receive this benefit the costs this benefit should be monitored 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.




Retiree Health Insurance By Class
$520,000
$420,000
$320,000
$220,000
$120,000
$20,000
$(80,000)
Class 1
Class 2
2008
2009
2010
2011
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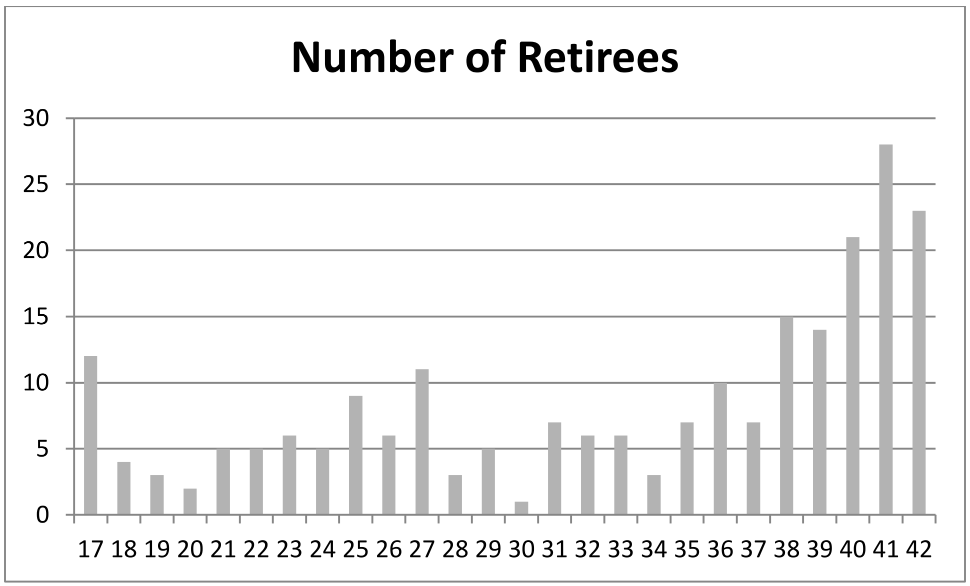
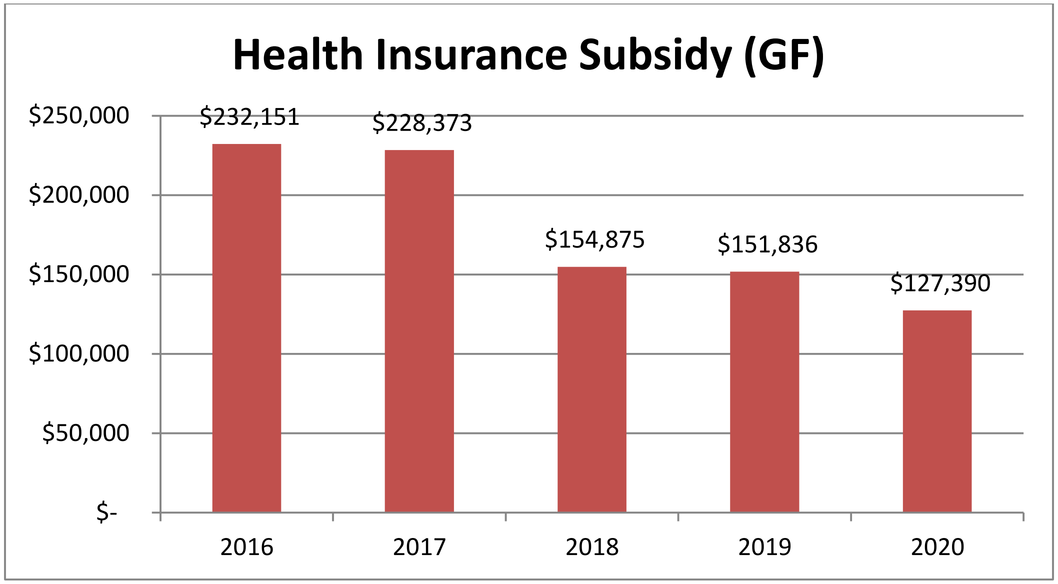

Number of Retirees
30
25
20
15
10
5
0
17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42

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 $232,151 in FY16 (see chart below) . 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 32% reduction in the cost of this benefit or $73,498 in savings for FY18 in comparison with FY17 (as reported in GF). 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. FY19 and 20 figures are budgeted figures only.



<u>2G) Additional Personnel and Restructuring Proposals:</u>

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 neither 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. Building Inspection department is exploring synergies and efficiencies with the Public Works Department on removal of nuisance structures (Roads and Solid Waste Departments)
7. Multiple departments are involved with the "Planning Department" through collaboration with the Planning Commission on addressing ordinance revisions.
8. Public Works and the Building Codes Department (Fire Marshall) are working collaboratively on fire Capital projects.
9. Fire and EMS are exploring collaborative synergies.
10. Several departments are working collaboratively on planning functions.
11. 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.

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.

3. IT DEPT: The County is in the process of creating an internal Informational Technology (IT) department. A full transition from the current contracted services to an internal IT department is expected to take place over several fiscal years (begun Q3 FY19).

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 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.

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 made financial modeling for the future difficult. A true understanding of our fund balances (FB), described in more detail in a later section is almost impossible 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 are now more evident. The final of the three phase-three year financial restructuring takes place in FY20 with trend analysis and long term financial planning beyond FY20 now being able to be put into use.

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, 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 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 (had surpluses).

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. A fund balance transfer was created and approved by Council to move funds over to the newly created 113 SRF. The resolution to fix this situation forever is that 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 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 $52,600 as of FY18.

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.

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 limited 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."*

<u>4A) Victims Assistance Fund (VAF):</u>

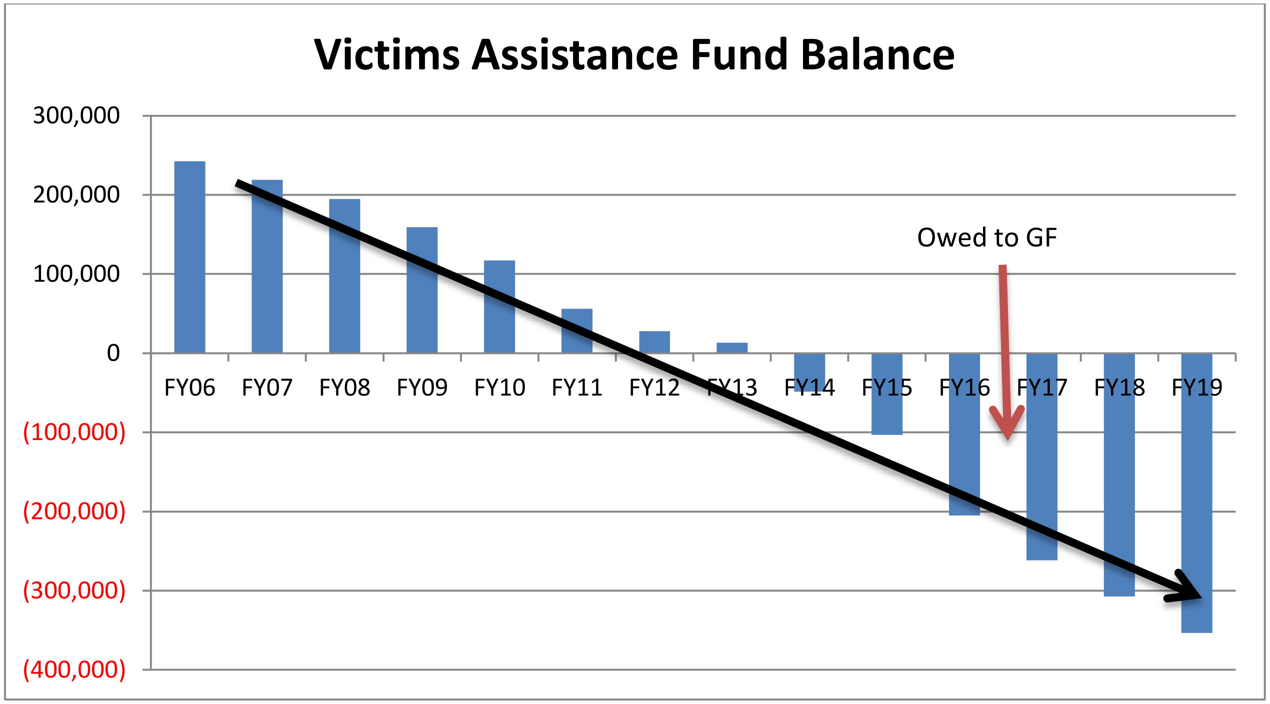
According to State Code 16-3-1110(3): "the Victims Assistance "Fund" means the South Carolina Victim's Compensation Fund, which is a division of the Office of the Governor". Shifting the costs of this service to the local taxpayers can be considered an unfunded State mandate although for this particular 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 for the past decade accumulating 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 according to State Law and an audit performed by the State Attorney General's Office.

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. An estimated $37,399 deficit occurred in FY18 increasing the new negative fund balance to an estimated $78,633.

For FY19 one of the positions in the VAF has been eliminated.   This is projected to eliminate the deficit and potentially start reducing the negative FB of $78,633. 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.



<u>4B) Local Government Fund (LGF):</u>

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 $7,702,756 cut in funding from FY09-FY18. We are not certain about the FY19 State legislature LGF funding yet.

See appendix H of the FY18 first draft budget 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
FY17 $1,078,155
<u>FY18 $1,085,343</u>
TOTAL: $7,702,756

<u>4C) Underfunded State Retirement Local Government Cost Share:</u>
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.

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 $290,000 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 3 more fiscal years (culminating in FY23) or an additional $850,000 annually (not including the 1% funded by the State).

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?: X

5B) Property and Liability Insurance

Our liability and auto insurance rates have increased steadily over the past 4 years. Reported (uncertain of accuracy) actual spending in FY16 compared to FY19 (budget) shows a 38% rise in liability insurance and a 30 increase in auto insurance. Pending legislation in the State Senate could have a dramatic effect on the tort claims liability resulting in significant increases in the cost for this coverage. More analysis is needed on these two cost items to determine if improvements are possible to reduce spending.

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 prior to FY17. As a result of this long term financial planning was impossible. A 3 year, 3 phase financial restructuring has reversed that so that we can now implement long term financial planning beyond the current fiscal year.

The first phase of the 3 year financial restructuring (FY18) stripped out most capital expenditures and unbundled most of the commingled funds. Phase 2 (FY19) continued both the stripping of capital and unbundling of funds and introduced long range plans that helped guide FY19 budgeting. Phase 3 (FY20) introduces the true fund balances of the accounts so that longer term financial planning beyond the current fiscal years is now possible and impacts of short term deficit spending can be modeled for longer term financial security.

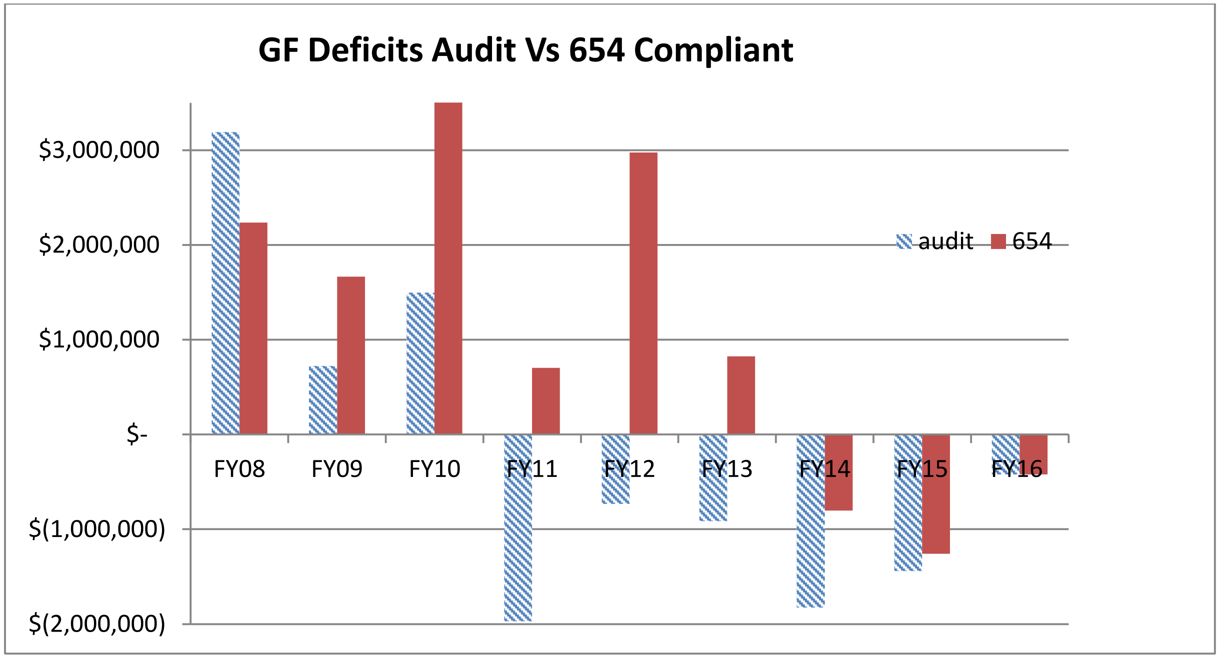
6A) General Fund (GF):
According to our external auditors, Laurens County began deficit spending (excess expenditures over revenues) in FY11 however this is suspect due to several factors described below and in other sections of this budget report. FY17 was the first time in six years where we did not 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 for FY20 (phase 3 of the restructuring) 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 (last audited figures):

FY 18 was the first budget that had clearer financial outcomes that can be utilized to develop a long term strategy but there was useful information that can be gathered from the FY17 actual results and potentially FY16. 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 needed 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 were evident in FY17 and 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 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 $1,200,000 in cash was released from idle funds.

<u>FY17 Audited R/E Summary:</u>

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

<u>Not included above but included in our financial report for GF:</u>

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:	<u>$2,245,551</u>
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:

Final FY18 FB figures are not yet available. Adjusting entries for FY18 are also not yet in place. Reporting is more transparent in FY18 so a direct comparison with FY17 is not possible.

Fund 110 GF (preaudit):

GF Revs: $22,274,075
GF Exps: $21,855,516
Subnet: $418,562
654 funds: $1,011,759 (not current year revenues)
Fund 113: $358,404
Fund 129: ($37,398)
Net: $1,751,327

Fund 113 Treasurer SRF (preaudit):

Revs: $571,849
Exps: $213,446
Subnet:$348,403 (transfer out to GF)
NOTE: One time transfer in of $500,000 from GF

Fund 114 SO and DC SRF (preaudit):

Detention Center (DC)
Revs: $88,107
Exps: $101,081

Net: ($12,974) (to be covered by 114 FB)

Sheriffs Office (SO)
Revs: $56,692
Exps: $44,231
Net: $14,461

Fund 123 Fire SPTD (preaudit):
Revs: $3,035,574
Exps: $2,581,320
Transfer: ($35,000)
Net: $419,254

Fund 128 EMS SRF (preaudit):
Revs: $3,524,027
Exps: $3,482,556
Net: $41,471 (added to net negative fund balance)

Fund 129 Victims Assistance SRF (preaudit):
Revs: $125,430
Exps: $162,829
Net: ($37,399) (deficit added to negative fund balance)

Fund 134 Fire SPTD Capital (preaudit):
Revs: $315,344
Exps: $321,350
Net: ($6,006) (deficit)

Fund 156 FILOT SRF (preaudit):
Revs: $164,251
Exps: $6,448
Net: $157,403

Fund 210 Solid Waste EF (preaudit):
Revs: $2,072,622

Exps: $2,251,459
Net: ($178,797)

6D) FY19 Revenues and Expenses:

FY19 (Current Year) shows projected revenues and expenses for all funds however these projections are preliminary. Projected figures are only based on 7 months of actual real numbers and are shown only for budget estimates for FY20.

Fund 110 GF (budget):	**Fund 110 GF (projected):**
GF Revs: $22,190,177	GF Revs: $22,362,929
GF Exps: $22,922,544	GF Exps: $21,529,474
Subnet: $418,562	Subnet: $833,455
654 funds: $1,035,000 (not current year revenues)	654 funds: $1,044,661 (not current year revenues)
Fund 113: $53,642	Fund 113: $1,344
Fund 129: ($0)	Fund 129: ($0) .
Fund 210: ($222,027)	Fund 210: ($0) .
Net: $134,188	Net: $1,879,460

Fund 113 Treasurer SRF (budget):	**Fund 113 Treasurer SRF (projected):**
Revs: $400,000	Revs: $460,229
Exps: $346,358	Exps: $458,885
Subnet:$53,642 (transfer out to GF)	Subnet:$1,344 (transfer out to GF)

Fund 114 SO and DC SRF (budget):	**Fund 114 SO and DC SRF (projected):**
Detention Center (DC)	
Revs: $83,000	Revs: $114,084
Exps: $209,000	Exps: $132,289
Net: ($126,000) (to be covered by 114 FB)	Net: ($18,205) (to be covered by 114 FB)
Sheriffs Office (SO)	
Revs: $39,000	Revs: $62,937
Exps: $70,000	Exps: $68,010
Net: ($31,000) (to be covered by 114 FB)	Net: $(5,073) (to be covered by 114 FB)

Fund 123 Fire SPTD (budget):		**Fund 123 Fire SPTD (projected):**	
Revs:	$2,935,000	Revs:	$3,014,946
Exps:	$3,070,820	Exps:	$3,188,150
Transfer:	($35,000)	Transfer:	($35,000)
Net:	($170,820) (to be covered by 123 FB)	Net:	($208,204) (to be covered by 123 FB)

Fund 128 EMS SRF (budget):		**Fund 128 EMS SRF (projected):**	
Emergent			
Revs:	$3,551,115	Revs:	$3,644,452
Exps:	$3,629,165	Exps:	$3,227,602
Subnet:	($78,050)	Subnet:	$416,850
Non Emergent			
Revs:	$163,322	Revs:	$70,000
EMD Exp:	$71,345	EMD Exp:	$0
EMS Exps:	$91,977	EMS Exps:	$30,708
Subnet:	$0	Subnet:	$39,292

Fund 129 Victims Assistance SRF (budget):		**Fund 129 Victims Assistance SRF (projected):**	
Revs:	$120,550	Revs:	$106,934
Exps:	$110,817	Exps:	$106,877
Net:	$9,733	Net:	$57

Fund 134 Fire SPTD Capital (budget):		**Fund 134 Fire SPTD Capital (projected):**	
Revs:	$312,000	Revs:	$315,567
Exps:	$448,500	Exps:	$460,184
Net:	($136,500) (to be paid from 134 FB)	Net:	($144,617) (to be paid from 134 FB)

Fund 156 FILOT SRF (budget): **Fund 156 FILOT SRF (projected):**

Revs: $160,0000
Exps: $10,000
Net: $150,000

Revs: $188,500
Exps: $10,000
Net: $178,500

Fund 210 Solid Waste EF (budget):
Revs: $2,288,030
Exps: $2,510,057
Net: ($222,027)

Fund 210 Solid Waste EF (projected):
Revs: $2,251,637
Exps: $2,057,737
Net: $193,900

6F) FY20 Revenues and Expenses:

- FY20 first draft general fund budget is a $182,327 deficit however this is based on conservative revenue figures (7 months). The 654 deficit reduction millage balance is more than sufficient to cover this deficit. (no tax increase)
- Fund 123 Fire SPTD O&M is balanced. (no tax increase)
- Fund 128 EMS needs a much more detailed discussion which will created as a separate report (first draft supplement).
- Fund 129 Victims Assistance is budgeted to run a surplus which should be applied to the negative fund balance.
- Fund 134 Fire SPTD Capital is budgeted to run a slight surplus. (no tax increase)
- Fund 156 FILOT SRF does not have any projects budgeted yet.
- Fund 210 Solid Waste Enterprise Fund is budgeted (see more detailed long range plan) (no fee increase)
- Fund 342 Higher Education fund is balanced (no tax increase)
- Fund 600 Capital Fund has yet to be developed

Fund 110 GF (budget):
GF Revs: $22,245,990
GF Exps: $23,463,317
Subnet: ($1,217,327)
654 funds: $1,035,000 (not current year revenues)
Fund 113: $0
Fund 129: ($0)
Net: ($182,327)

Fund 113 Treasurer SRF (budget):

Revs: $400,000
<u>Exps: $430,000</u>
Net: ($30,000) (no transfer out to GF)

<u>Fund 114 SO and DC SRF (budget):</u>
Detention Center (DC)
Revs: $73,000
<u>Exps: $97,500</u>
Net: ($24,500) (to be covered by 114 FB)

Sheriffs Office (SO)
Revs: $57,500
<u>Exps: $71,500</u>
Net: ($14,000) (to be covered by 114 FB)

<u>Fund 123 Fire SPTD (budget):</u>
Revs: $3,080,000
Exps: $2,841,492
<u>Transfer: ($188,000)</u>
Net: $50,508

<u>Fund 128 EMS SRF (budget):</u>
See separate report (first draft supplement)

<u>Fund 129 Victims Assistance SRF (budget):</u>
Revs: $130,550
<u>Exps: $103,796</u>
Net: $26,754 (to be applied to negative fund balance)

<u>Fund 134 Fire SPTD Capital (budget):</u>
Revs: $316,000
Trans. In: $153,000
<u>Exps: $400,000</u>
Net: $69,000

Fund 156 FILOT SRF (budget):

Revs: $188,500
Exps: $TBD
Net: $TBD

Fund 210 Solid Waste EF (budget):

Revs: $2,152,429
Exps: $2,091,532
Net: $60,897

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 buildings). 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 improvement plan (CIP) (ver 1.0) which was used for developing the budgets for FY19. A revised V2.0 was produced (update) to be referred to for FY20 budgeting.

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 $70,000,000 CIP so that information will not be repeated here.

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. For FY20 it is recommended that this fund be used only for capital for the General Fund departments.

Fund 134 is a separate capital fund for the Fire SPTD.

For FY20 the EMS capital is recommended to be set up as a separate capital fund. The rolling stock EMS capital has been underfunded for decades and an approximate $6,000,000 is needed in the next few years. In addition, the fixed capital has been neglected and needs significant investment. See the separate EMS Fund 128 first draft supplement for more details.

Solid Waste capital is recommended to be funded solely from the newly created enterprise fund.

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 FY20 there are more needs than the revenues will support however we must find a way to continue 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 had no guidance on the progress (positive or negative) of our rolling stock accumulated debt. Version 2.0 of the CIP shows that we have made progress on some of our rolling stock proving that long range planning does help.

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 in phase 1 of the restructuring (FY18).

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.

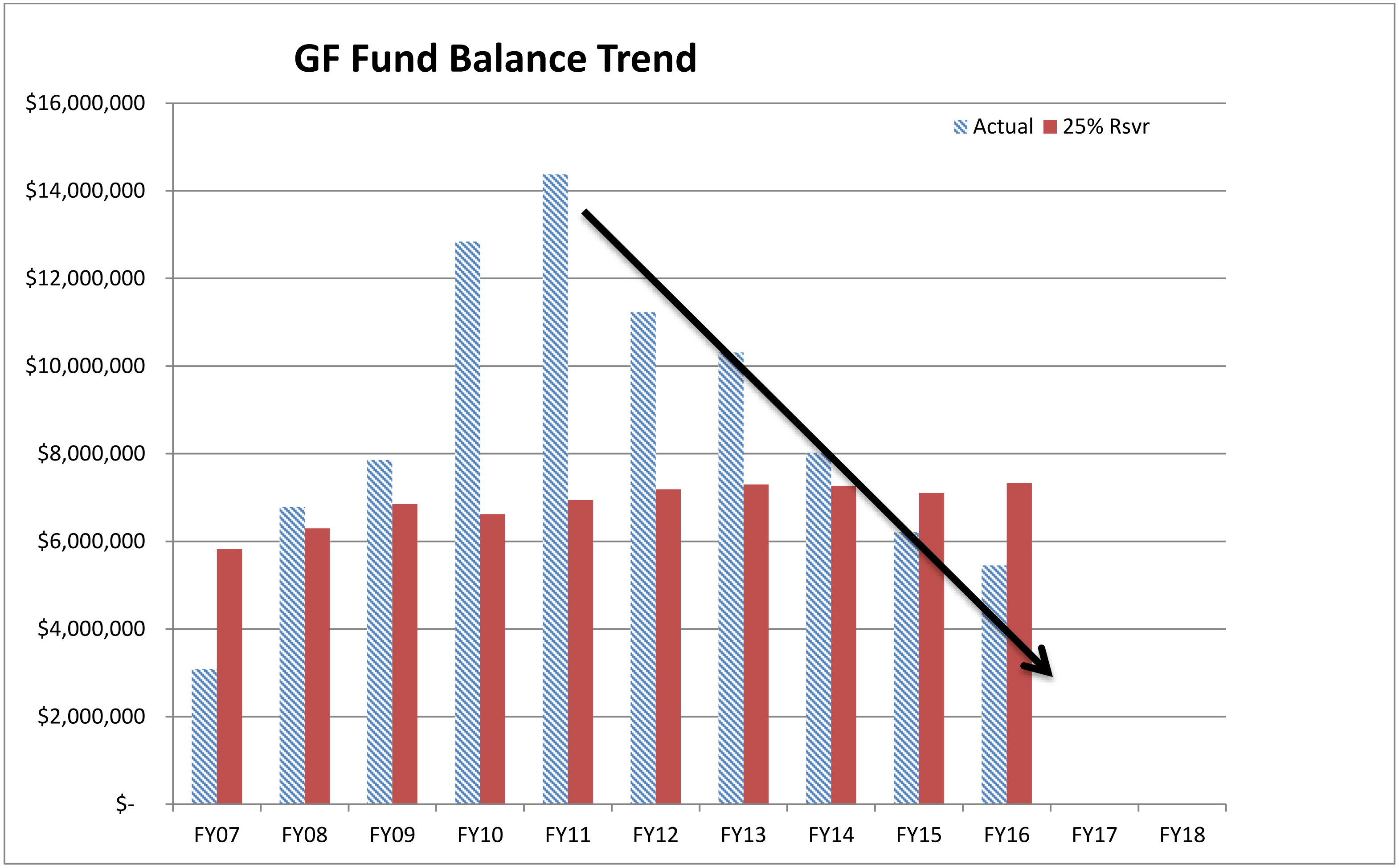
Financial data prior to FY17 is suspect and unclear and cannot be utilized in its current form. Significant analysis would have to be performed to tease out useful data. Reliance on audits for this data is not recommended. The County Administrators goal is to produce the financial models and perform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

8A) GF Fund Balance (FB) (Funds 110):
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%. Utilizing the FB to run O&M 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.

Prior to FY18 Financial Restructuring GF FB UD 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.

The chart titled "Chart 1GF Unassigned Fund Balance" was an additional early analysis of the audited financials for Laurens County. This chart shows the confusion with financial data prior to FY17. Based on the fact that prior financial information was non transparent, limited analysis and planning was possible prior to the financial restructuring of FY18.



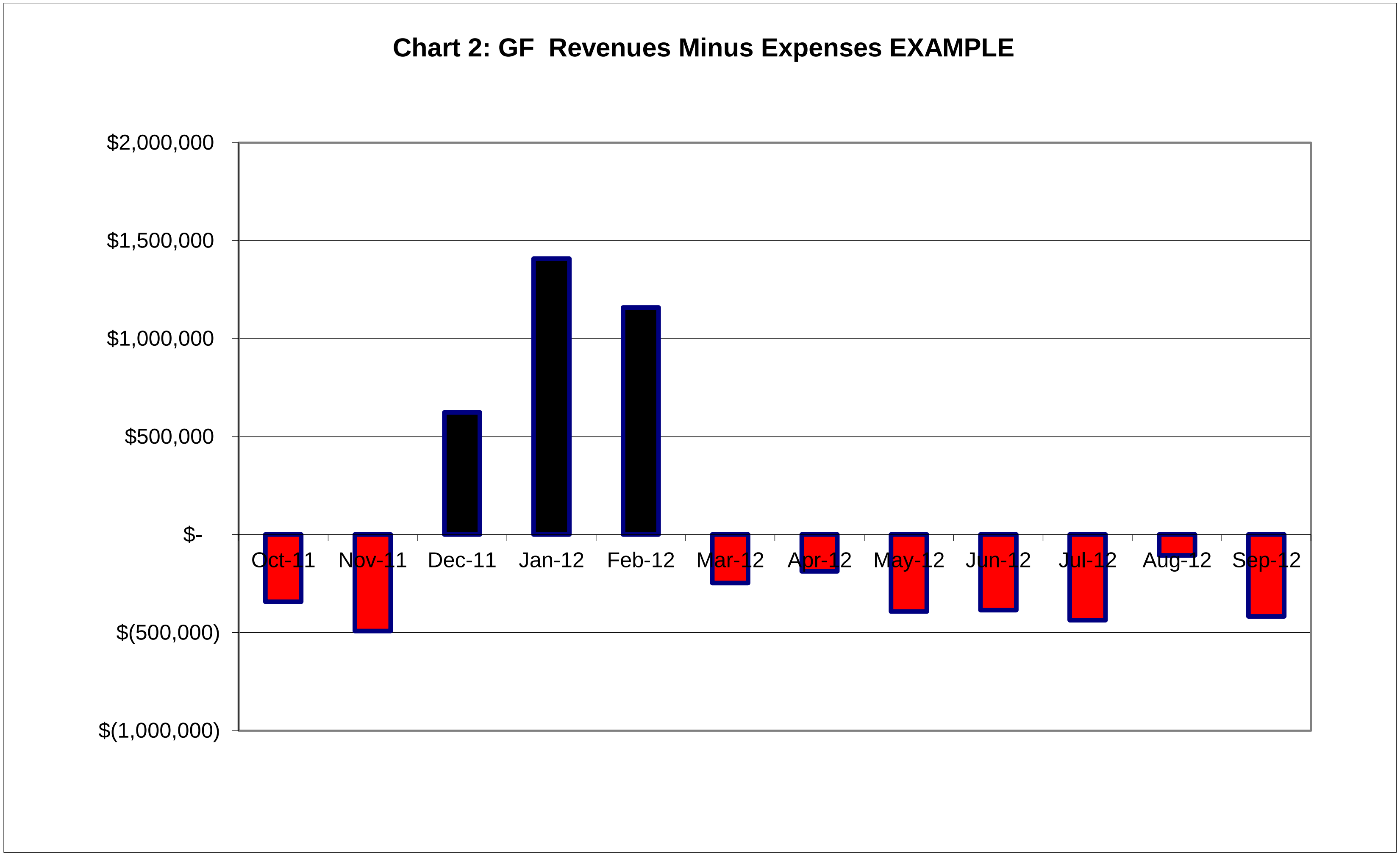


Chart 2: GF Revenues Minus Expenses EXAMPLE
$2,000,000
$1,500,000
$1,000,000
$500,000
$-
$(500,000)
$(1,000,000)
Oct-11
Nov-11
Dec-11
Jan-12
Feb-12
Mar-12
Apr-12
May-12
Jun-12
Jul-12
Aug-12
Sep-12

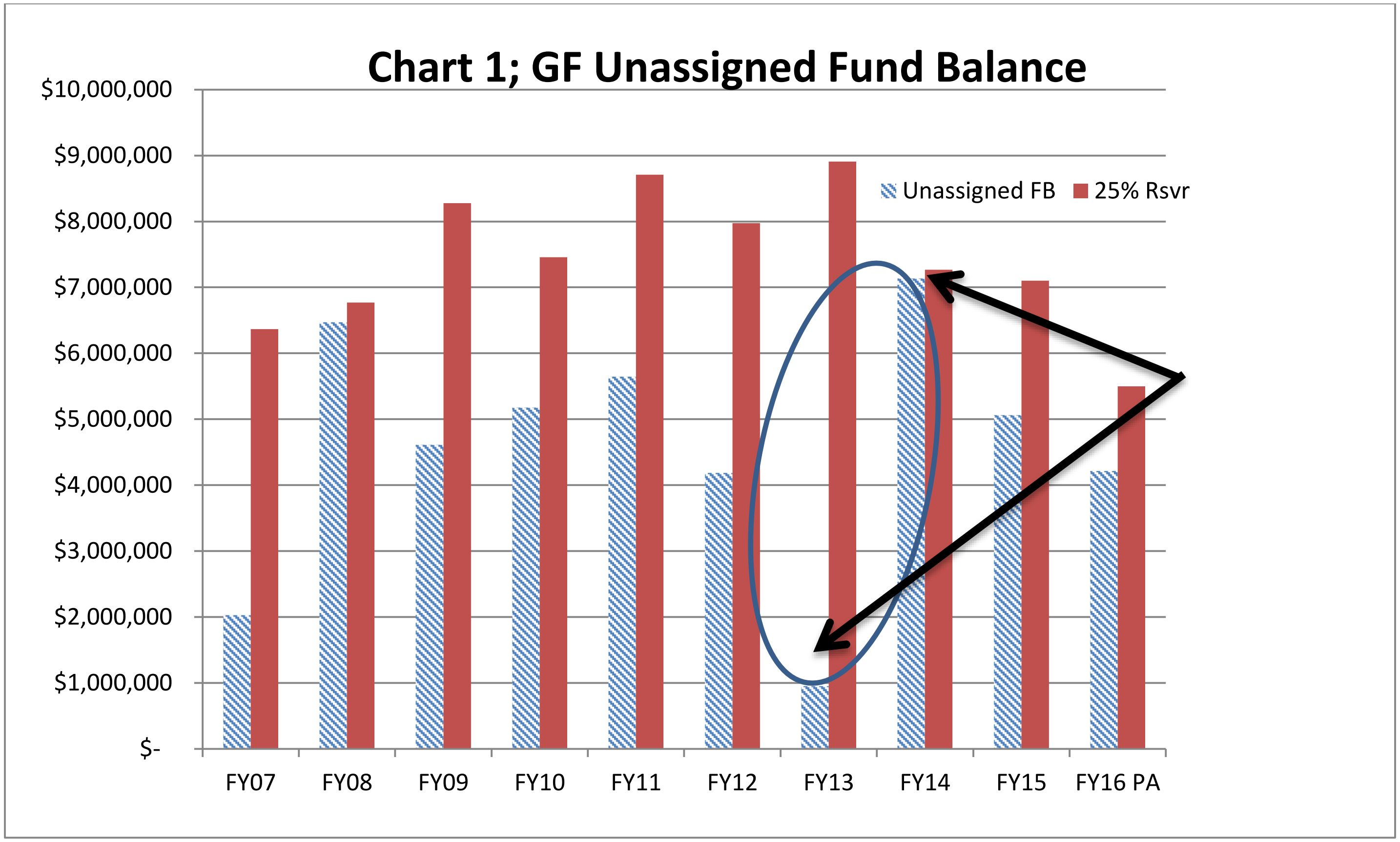


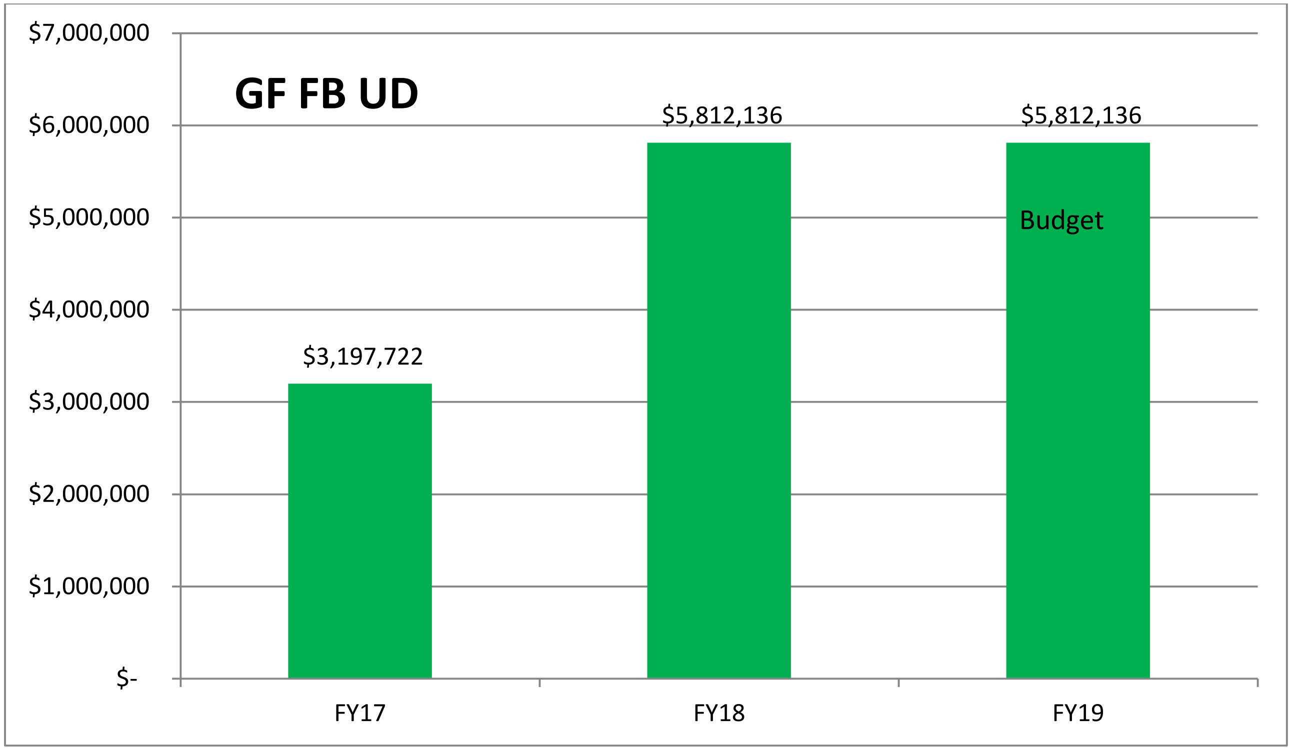
Chart 1; GF Unassigned Fund Balance
$10,000,000
$9,000,000
$8,000,000
$7,000,000
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$-
Unassigned FB
25% Rsvr
FY07
FY08
FY09
FY10
FY11
FY12
FY13
FY14
FY15
FY16 PA

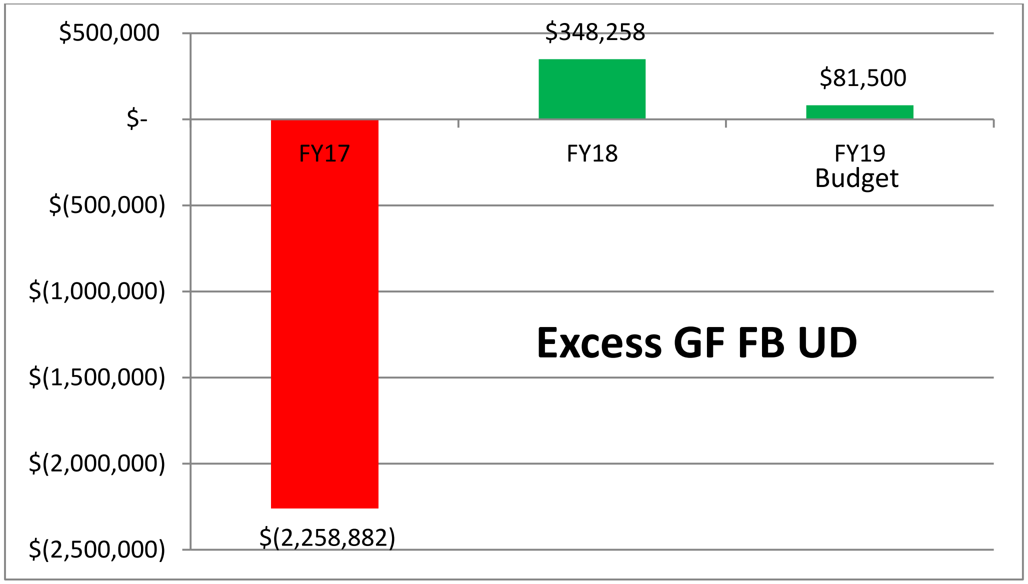
Post FY18 Financial Restructuring GF FB Analysis:

FY20 is the first post FY18 financial restructuring where a more transparent GF FB UD analysis can be conducted. FY20 is phase 3 of the three year financial restructuring and utilizes fund balance information as a sound basis for the financial modeling beyond FY20. As shown in the chart below entitled "GF FB UD" the financial restructuring of FY18 greatly increased the GF FB UD. FY18 actual GF FB UD is still not certain even post audit but should be close.

FY19 data is based on the budget whereby a balanced budget was created however preliminary analysis indicates the GF FB UD may grow in FY19 based on projections. The second chart below entitled "Excess GF UD" shows the excess funds available above the 25% minimum reserve. Again FY19 is showing a decrease in reserves based on balanced budget but increased expenses in FY18. The actual FY19 excess reserves is expected to be higher based on preliminary projections for FY19.

This data will continue to be refined and become more accurate over the next few years.


GF FB UD
$7,000,000
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$-
$3,197,722
$5,812,136
$5,812,136
Budget
FY17
FY18
FY19



8B) SRF 113 Treasurer FB:

Fund 113 was established as part of the County Administrators first budget and the phase 1 financial 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**.** 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:

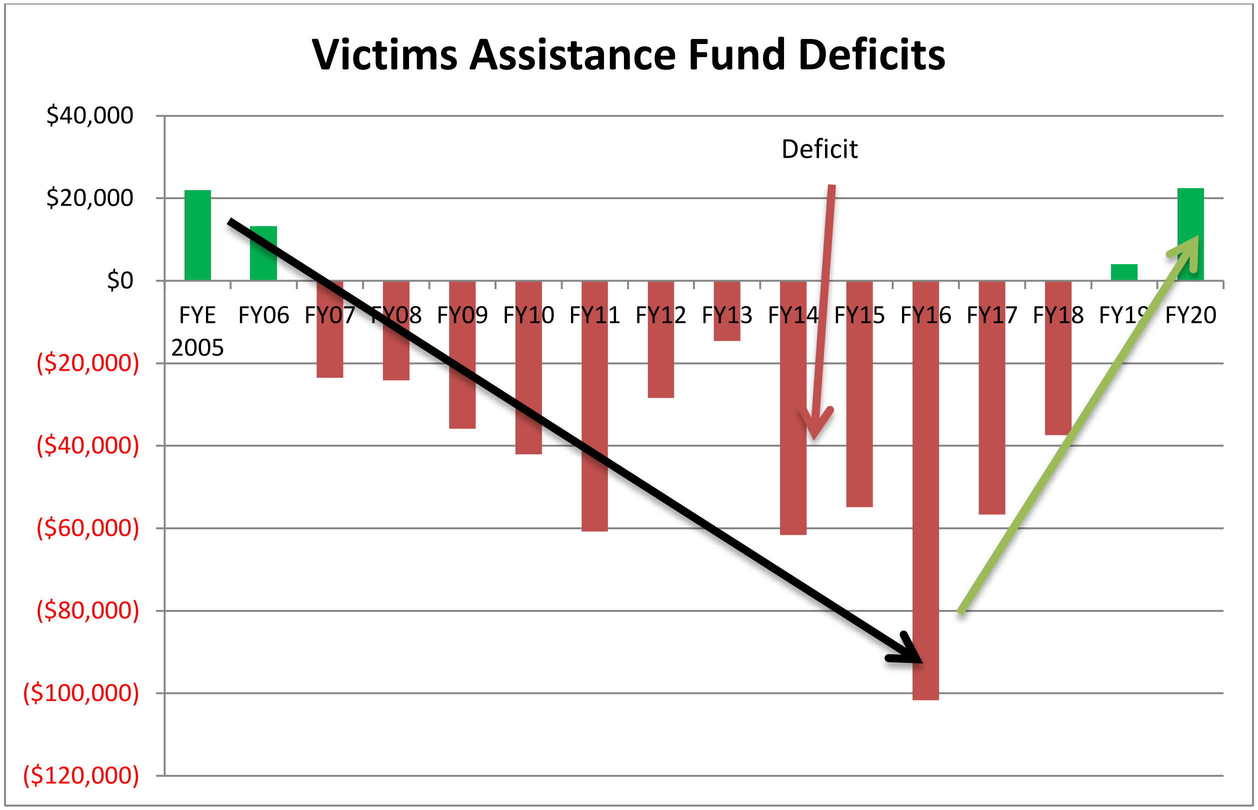
Fund 114 was established as part of the County Administrators first budget and the phase 1 financial restructuring of FY18. SRF 114 has designated revenue sources for both the Detention Center and the Sheriffs Office. In the past the expenses that should have been allocated to these revenue sources appear 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.

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.

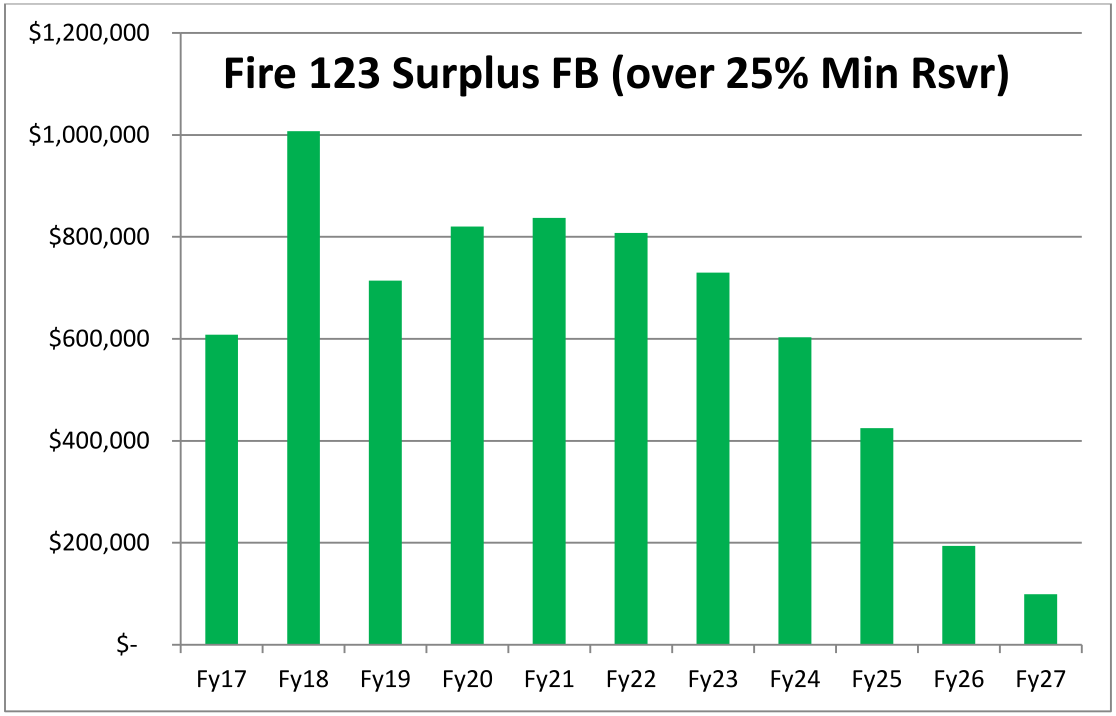
This fund was allowed to generate a $205,071 negative fund balance by the end of FY16. This fund balance was wiped out in FY16 by drawing down the GF FB UD but a $42,375 deficit occurred in FY17. An additional deficit in FY18 occurred resulting in a net negative FB of $78,633. FY19 is projected to not have a deficit and maybe have a slight surplus. This surplus will hopefully be able to be applied to the negative FB so we will not have to draw down the GF FB UD to correct this negative fund 129 FB. For FY20 a budgeted surplus is projected which is expected to further draw down the negative fund balance.

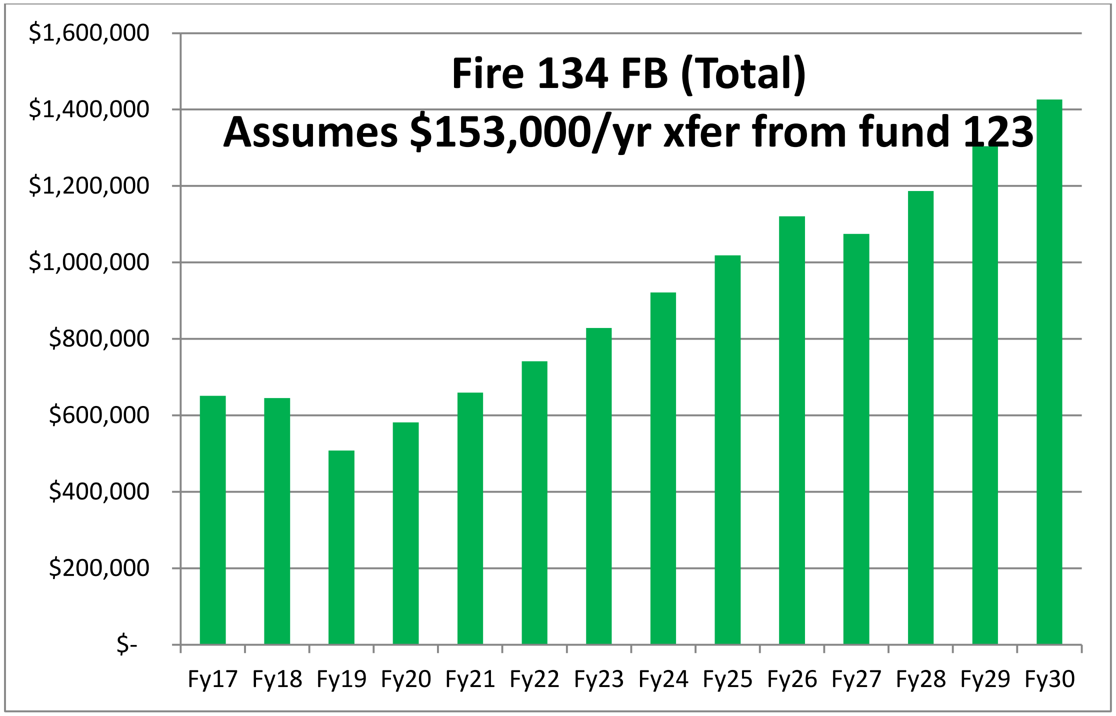
The chart below titled "Victims Assistance Fund Deficits" shows the historical and projected (FY19 and 20) fund balances for this fund.


Victims Assistance Fund Deficits
$40,000
$20,000
$0
($20,000)
($40,000)
($60,000)
($80,000)
($100,000)
($120,000)
Deficit
FYE 2005
FY06
FY07
FY08
FY09
FY10
FY11
FY12
FY13
FY14
FY15
FY16
FY17
FY18
FY19
FY20

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. A renewed 10 year L/P for fire trucks is planned to take place in FY20 with the first payment due in FY21. The FB models below are the first long range financial models in place in Laurens County. The first chart for fund 123 shows a very conservative model of the amount of excess funds available long term (above a 25% minimum). The second chart shows a potential long range financial projection of fund 134 with a continued healthy fund balance.





8F) Fund 156 FILOT Special Projects Fund:

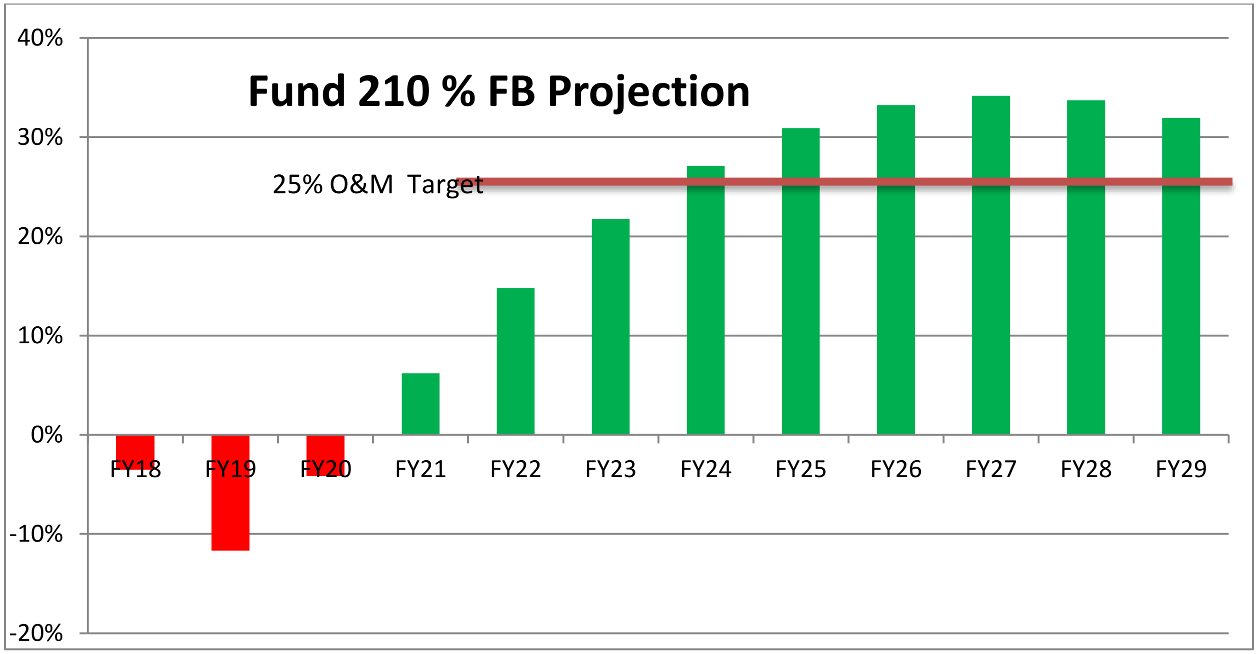
This fund was created in FY18 to provide resources for County Council to fund capital projects that will promote economic development. These funds were carved out a small portion of the funds allocated to the LCDC for economic development capital. The goal is to use these funds to promote economic activity 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.

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. This fund balance is needed to cover the unknown liabilities of the old landfill plus needed capital replacement as well as the cash flow needs of this EF.

A restructure of the operations occurred in FY19 with the closure of the private sector transfer station. As result of this the County will be building a new transfer station and investing in capital. In FY19 the household fee was shown to be needing to be increased 20% (first time in 12 years) from $60 per household to $72 to cover the costs of fund 210. Council only chose to lift the fee to $65.

The operational changes we have implemented in FY19 as a result of the closure of the transfer station are projected to decrease expenditures 21% in FY20 over FY19. The net result is that NO fee increase is projected for FY20, plus the increased $1,200,000 in capital funded over a 15 year period, and the $500,000 in rolling capital funded over a 5 year period are expected to be able to be paid for. The model below shows the long term financial model.



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.

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