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**Insights and applications for better financial management**

May 28, 2019

Mitch D. Deisch, Administrator  
Benzie County  
448 Court Place  
Beulah, MI 49617

Dear Mr. Deisch,

We have completed our review of Benzie County's finances, with a focus on the General Fund. This final report document summarizes the findings and recommendations of the consulting team.

The study included:

- Collection and review of a wide range of financial reports and data
- A benchmark survey of other comparable counties
- Interviews with key personnel
- Research into best practices and policies for improved operations and financial management
- Development of a financial forecasting tool
- Evaluation of Benzie's operations and finances, relative to best practices and benchmark data
- Formulation of recommendations to position the County for long-term financial sustainability

We sincerely hope that the findings and recommendations of this study will be useful in planning for the long-term, sustainable future of the County. We have enjoyed partnering with Vettraino Consulting and Benzie County on this important project, and we appreciate the time and input of County staff, elected officials and the ad hoc committee.

If you have questions related to the project, findings or recommendations, please do not hesitate to contact me at 734.277.4454 or [johnk@municipalanalytics.com](mailto:johnk@municipalanalytics.com).

Very truly yours,

A handwritten signature in black ink, appearing to read "John Kaczor", is written over a faint, larger version of the same signature.

John Kaczor  
Principal

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## **EXECUTIVE SUMMARY**

Benzie County provides a wide range of government services to citizens, businesses and visitors, ranging from Sheriff road patrol to animal control to recycling, ambulance, equalization, jail and courts. Approximately 125 employees deliver services to the County's 18,000 residents.

The County's Board of Commissioners has developed strategic plans to optimize service delivery, maintain costs and support the growth and vitality of the County. One goal established in the 2015-2020 Strategic Plan was to develop a multi-year financial forecast. In 2018, the County issued a request for proposals (RFP) to achieve this goal. The RFP also identified the County's intention to take a broader look at the financial condition of the County and identify current strengths as well as opportunities for improvement. Municipal Analytics was selected to perform this study. In partnership with Vettraino Consulting and Forecast5 Analytics, the consulting team has achieved the desired objectives identified by the County. This report summarizes the study's findings and offers recommendations for continued improvement.

Key findings and recommendations of this study include:

1. Benzie County is actively managing its resources for long-term sustainability, as evidenced by its strategic planning initiatives, financial forecasting, capital improvement planning, shared services and focus on economic growth. Opportunities for continued improvement include:
  - a. Implement strategic planning goals identified by the Board
  - b. Measure performance and efficiency, both internally and compared to the benchmark counties identified in this report
  - c. Adopt policies and practices that minimize liability, guide decision making and reduce uncertainty
2. Compared to benchmark counties in northern Michigan, Benzie is doing well:
  - a. Median income is one of the highest
  - b. Median home values are the highest
  - c. Poverty and unemployment are the lowest
  - d. County tax rate is below the average
  - e. Unfunded pension liability is the second lowest among the benchmark group
3. Benzie relies heavily on special voted millages and its general operating levy is lower than all other surveyed counties. The general operating millage has seen considerable erosion due to the compounded effects of the Headlee Amendment over many years.
  - a. Explore the option of a Headlee override and potential elimination of some special millages
4. The outlook for the General Fund suggests changes will be required to maintain a long-term healthy and sustainable operation. The financial forecast developed for the County, as seen on pages 15-18 of this report, makes clear the need to take steps in the near term to address the imbalance forecasted in later years.
  - a. Use the financial forecasting software recently acquired to monitor and test a range of potential financial futures
  - b. Make incremental adjustments to the budget each year to avoid significant changes in future years

- c. Maintain current monthly data in the forecasting software to better anticipate current year budget variances and proactively address any likely shortfalls
  - d. Move toward a multi-year budget process, using the forecasting software as a basis for budget development
  - e. Update assumptions and test alternative scenarios related to revenue options, service levels, pension funding and other possible budget strategies
- 5. Legislative and judicial decisions can significantly impact the County's finances. The move from December to July tax cycle has required a much higher cash balance to pay obligations throughout the fiscal year. The tax foreclosure fund is being challenged in court and may result in a loss of nearly \$150,000 per year in revenues, as well as a one-time reimbursement of nearly \$600,000. The mandate to maintain minimum funding levels for pensions requires a greater diligence to increase pension funding.
  - a. Maintain a high cash reserve to meet cash flow needs of the General Fund
  - b. Explore options for increasing the funded ratio of the pension.
- 6. The County's unfunded pension liability is its largest financial challenge and will require time and effort to significantly improve the funded ratio.
  - a. Consider closing the pension benefit for County Commissioners
  - b. Seek new funding options for meeting the pension liability
  - c. Use available cash to invest in the pension and greatly improve the rate of return
  - d. Evaluate the option of closing the defined benefit plan and bonding to pay the unfunded pension liability
  - e. Use any unspent budget for personnel to make additional contributions to the pension
- 7. Revenues are a greater challenge for the County than are expenditures.
  - a. Consider a Headlee override to increase taxing capacity
  - b. Review the cost allocation methodology used by the County to ensure maximum cost recovery
- 8. An opportunity may exist to convert the jail to a juvenile detention center and offer juvenile detention services to other northern counties. Juvenile offenders could be detained closer to their support network, which might improve outcomes. Adult inmates could be housed in neighboring county jails.
  - a. Considerable study would be required to determine the operational, legal and financial feasibility of this option

On the following pages, each of these findings and recommendations are detailed and supporting data and documentation is provided for consideration. The County Board, elected officials, administration, employees, residents and business leaders are encouraged to explore the ideas presented and engage in a process of evaluating the merits and implementation strategies to continue improving Benzie County government.

## **FINDINGS**

### **SECTION 1 BENZIE COUNTY IS FOCUSED ON LONG-TERM SUSTAINABILITY**

The County Board has demonstrated its commitment to ensuring the long-term sustainability of the County by undertaking this study, as well as working to understand and improve the manner and level of services provided to the residents, businesses and visitors of Benzie County. In this section we will summarize some of the proactive measures the County has taken in recent years to position itself for future success.

#### **1.1 Strategic planning**

The County Board of Commissioners has undertaken several strategic planning initiatives over the past five years. The 2015-2020 Strategic Plan identified “Five Bold Steps” to positively impact the future state of the County and to position the County for best-in-class services at affordable costs. The five steps identified were:

- Forecast multiple year revenues and expenditures
- Plan for space and facilities maintenance needs
- Build an IT roadmap and dashboard
- Coordinate grants, shared services and regionalization
- Create a comprehensive human resources program

The County has made progress in many of these areas, although work remains to be done. This study has focused partially on developing a multi-year forecast for the County, and the project team has identified some areas of possible improvement in the human resources program. The County has an impressive number of shared services and regional service agreements, and we believe there may be more opportunities in this area. During the course of this study, the County converted the lighting on the campus to high efficiency LED lighting, which will provide better light quality at a lower cost.

To continue the forward-thinking perspective of the Board and administration, the Strategic Plan has been modified and updated several times since 2015, with the most recent Plan poised to be adopted in 2019.

#### **1.2 Benchmarking**

The County last did a benchmarking study in 2016. The purpose of that study was to “gain a better understanding on where Benzie County stacks up against neighboring counties.” By comparing itself to neighboring counties, Benzie could more easily put services and finances in perspective, thereby enhancing the budget development process. The 2016 benchmark report included the following counties as comparable: Manistee, Antrim, Charlevoix, Grand Traverse, Kalkaska, Leelanau, Mason, Missaukee and Wexford. These counties were chosen primarily due to their proximity to Benzie.



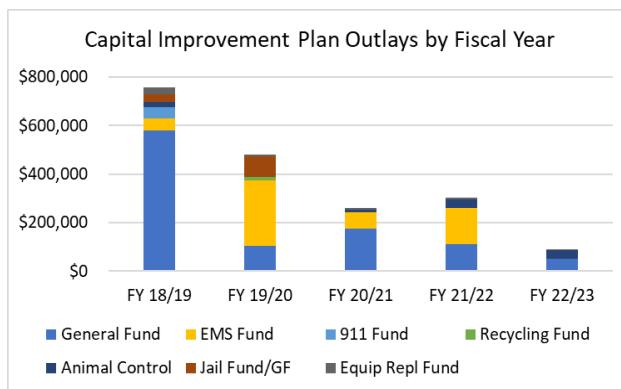
- Benzie County's population is lower than five of the six comparable counties
- The County's median age is slightly higher than the average in the group surveyed
- Benzie has the third-highest percentage of residents over 65
- The median household income in Benzie is well above the average, and just below Antrim County
- Benzie has the lowest poverty level and the lowest unemployment rate of the benchmark counties
- The median home value in Benzie is considerably higher than the average, and Benzie has the highest rate of owner-occupied homes
- Benzie County's combined millage rate is just below the average
- All counties in the benchmark survey were estimated to be losing population between 2012-2016, the most recent data available
- While other counties' poverty levels appear stable, Benzie's poverty rate is declining
- The population in all surveyed counties is aging. Benzie's estimated median age has risen from 46.4 in 2012 to 48.6 in 2016. The median age in benchmark counties rose from 46.0 to 47.3 over the same period.
- Median home values and median household income have both remained at 2012 levels
- Unemployment rates have fallen for Benzie and comparable counties since 2012

Throughout this report, we will utilize data from the benchmark group to make comparisons and describe in more detail how Benzie is performing, relative to the selected peer group.

### 1.3 Capital improvement planning

As the County looks to the future, it has begun to evaluate the need for investment in capital projects and equipment. Benzie has operated many years without a formal Capital Improvement Plan (CIP). The current administration has developed a framework for planning for capital needs and the associated costs and funding mechanisms for each project. As the CIP is further developed, the County will have a much clearer idea of its anticipated property, equipment, technology and infrastructure needs. A critical component of any successful CIP is the prioritization of projects and purchases, to ensure limited resources are optimally utilized to meet the County's needs.

The County's current CIP is relatively basic and straightforward. It identifies a number of anticipated



needs and assigns them to particular funds. The plan does not include any prioritization, and like many forward-thinking plans in their infancy, most projects are identified as more immediate. Longer-term needs will become easier to assess as department heads are continually asked to plan five years or more into the future, and as funding becomes more associated with projects which were identified earlier in the capital planning process. Development and implementation of a well-functioning CIP can take several years.

## 1.4 Economic development

Benzie County is located near the fast-growing region of Traverse City, yet it maintains a more rural and recreation-oriented character. According to a 2015 report by Michigan State University Extension, the largest economic sectors in the County are 1) education, healthcare and social assistance, 2) recreation and tourism, and 3) retail trades. Benzie attracts many visitors to its shorelines, forests and other outdoor recreation opportunities. There is a growing interest in the area by retirees who are seeking a quiet place to settle. The County is home to many small businesses; Crystal Mountain Resort is the largest employer in the county.

While natural resources and attractions are abundant in Benzie County, and the county is enjoying some growth, the Board recognized in 2013 that a focused strategy was needed to guide further economic development. In 2014 the County assembled a taskforce of local business and community leaders to study the local economic climate and identify goals and strategies to promote new economic activity and investment in the county. The results of the taskforce, compiled in the “Benzie County Economic Development Action Plan,” outline the current demographic and economic bases of the County. The report, compiled by the Traverse Bay Economic Development Corporation (TBEDC), includes the following SWOT analysis:

INTERNAL FACTORS	BENZIE COUNTY SWOT ANALYSIS		EXTERNAL FACTORS
<b>STRENGTHS</b>	<ul style="list-style-type: none"> <li>• Community leadership</li> <li>• Natural beauty; resort lifestyle; tourist economy</li> <li>• High school graduation rates</li> <li>• Agri-businesses</li> <li>• Economic and population hubs</li> <li>• Public transportation within the County</li> <li>• Significant retiree base</li> </ul>	<ul style="list-style-type: none"> <li>• Changing workplace habits</li> <li>• New logistic channels and market access</li> <li>• New infrastructure investment and regulatory changes</li> <li>• Inter-County public bussing</li> <li>• Promotion of lifestyle related to economic development</li> </ul>	<b>OPPORTUNITIES</b>
<b>WEAKNESSES</b>	<ul style="list-style-type: none"> <li>• Seasonal economy</li> <li>• Skilled trades training</li> <li>• Not a destination</li> <li>• Limited infrastructure</li> <li>• Disaggregated value added agricultural efforts</li> <li>• Limited manufacturing</li> <li>• Work readiness</li> <li>• Limited promotion of commercial and industrial opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Limited public perception as a commercial or industrial location</li> <li>• New zoning efforts to limit growth</li> <li>• In-county migration patterns</li> <li>• Ability to secure immigrant labor for seasonal work</li> <li>• Few industrial parks or locations</li> </ul>	<b>THREATS</b>

Source: Benzie County Economic Development Action Plan: Findings and Objectives, October 2014

Based on the research and strategic planning of the taskforce, three major goals and supporting tactics were presented:

Goal #1: Benzie County will improve the quality, reliability and capacity of its key infrastructure systems serving identified growth corridors, employers, and communities desiring growth.

Goal #2: Benzie County will facilitate skilled trades training and other programs to include co-ops and partnerships, offered in the county with appropriate stakeholders and businesses.

Goal #3: Benzie County will encourage the growth of value-added agriculture and agri-tourism as a means of supporting small farmers and entrepreneurs.

The recently developed 2019 Benzie County Strategic Plan identifies several successes relative to the goals identified in the 2014 economic development plan, including:

Goal #1:

- County Airport achieved general utility license
- Beulah – system upgraded so water quality compliance attained
- Thompsonville – upgrading water supply system
- Road Commission – ahead of schedule with road repair and county-wide road millage
- Land Bank Progress/Success
  - Thompsonville Housing
  - Affordable Rentals
  - Developments – catalyst for natural gas

Goal #2:

- First skilled trades training program completed – Advocates for Benzie County
- Benzie Central created liaison for skilled trades training
- Creation of Local College Access Network with leadership of Mary Anne Behm and Valerie Gerhart

Goal #3:

- Storm Cloud Brewery expansion
- Sleeping Bear Apiaries expansion
- Crystal Mountain continued growth and success as four-season resort
- New Platte River Park Funding & Development
- New Elberta Park Funding
- Point Betsie ADA-accessible beach

It is clear the County is focused on economic development, which will benefit the residents, businesses and visitors to the county, and provide a more stable and diverse tax base for the County itself. The County is intent on continuing its efforts to actively promote and support economic development. The 2019 Strategic Plan includes the following updated goals focused on creating an environment to support business and job creation:

1. To leverage human, physical, business, education and other resources to support business development and job creation.

2. To support local economic and community development strategies which include but are not limited to:
  - a. Infrastructure to support economic development, including last mile high speed broadband and natural gas expansion.
  - b. "One Stop" point of contact for businesses, including use of EDC representatives and Brownfield authority.
  - c. Port development, including development of the cruise industry.
  - d. The Transloader/Rail project.
  - e. Optimize and support added resources to enable Venture North to continue and expand provision of capital to Benzie county businesses.
  - f. Strategic use of the Land Bank and related partners to achieve economic and community development priorities.

## **SECTION 2 OVERALL, THE COUNTY IS EFFICIENTLY MANAGING ITS RESOURCES**

### **2.1 Cost savings**

In an effort to maintain costs, Benzie County recently upgraded the lighting in County buildings to high efficiency LED lamps. The new lights provide a higher quality of illumination and will save the County 50% or more on its lighting energy costs. The investment is expected to be recovered through savings in about two years.

Other cost savings measures have included extending the useful life of some non-critical equipment, seeking grants and donations for emergency medical equipment, emergency communication radios and other equipment, and by making repairs to buildings and grounds rather than replacing aging infrastructure.

### **2.2 Shared services**

Benzie County has an impressive record of intergovernmental cooperation, which is reflected in the number of services shared with other local units in the area. Shared services include:

- 19<sup>th</sup> Circuit Court (Manistee County)
- Juvenile Division (Manistee County)
- Regional medical examiner (Manistee County)
- Centra Wellness/Community Mental Health (Manistee County)
- Health Department- Shared Health Officer and Medical Director - Northwest Michigan Health Department (Leelanau County)
- Health Department – 7 Northern Counties Health Departments (backup for each other)
- Public defender office (Manistee County)
- TNT (Drug enforcement team)
- SWAT (administered by Crawford County)
- Dive Team (Grand Traverse County)

In addition to shared services, Benzie has managed to keep its staff size lower by contracting certain services that can be performed efficiently by outside service agencies or contractors. Contracted services include:

- Airport Administration
- Airport Maintenance
- Building Department (AGS)
- Planning Services
- Economic Development (AES)
- Jail Medical services
- Information Technology (IT Right)
- District Court – Sobriety
- Circuit Court – Thinking Matters
- EMS – Billing
- Soil Erosion Control (AGS)
- Senior/Aging Services (Benzie Senior Resources)
- Medical Care Facility (DHHS)
- Vehicle maintenance and repair
- Cleaning services

In addition to the above programs, the Sheriff contracts with several local units and a private cottage association for the provision of a part-time deputy during the summer months. These agreements provide a small revenue stream for the Sheriff operation and promotes further resources sharing to minimize costs to local units. The County contracts with the Grand Traverse Band of Ottawa and Chippewa Indians for jail bed rental, which generates about \$30,000 per year in revenue. Other jail bed contracts recently ended, which has impacted revenues and staffing requirements.

Another example of sharing resources is the agreement the County has with the Village of Beulah to construct a water tower on County property. The agreement provides for no additional revenue to the County, but the arrangement helps keep the cost of water down by avoiding a land purchase, and the location on County property provides the elevation needed to meet the pressure needs of the entire system. The County also benefits from access to the tower for communications antennas.

### **2.3 Staffing**

Benzie operates the County with a combination of full-time, part-time, contracted and shared employees. Combined, the County employs approximately 125 full-time equivalent positions across all operations. The largest contingent of employees is in the Sheriff department, which includes road patrol, jail and a variety of dedicated Deputy positions. A current organization chart has been prepared and included below.

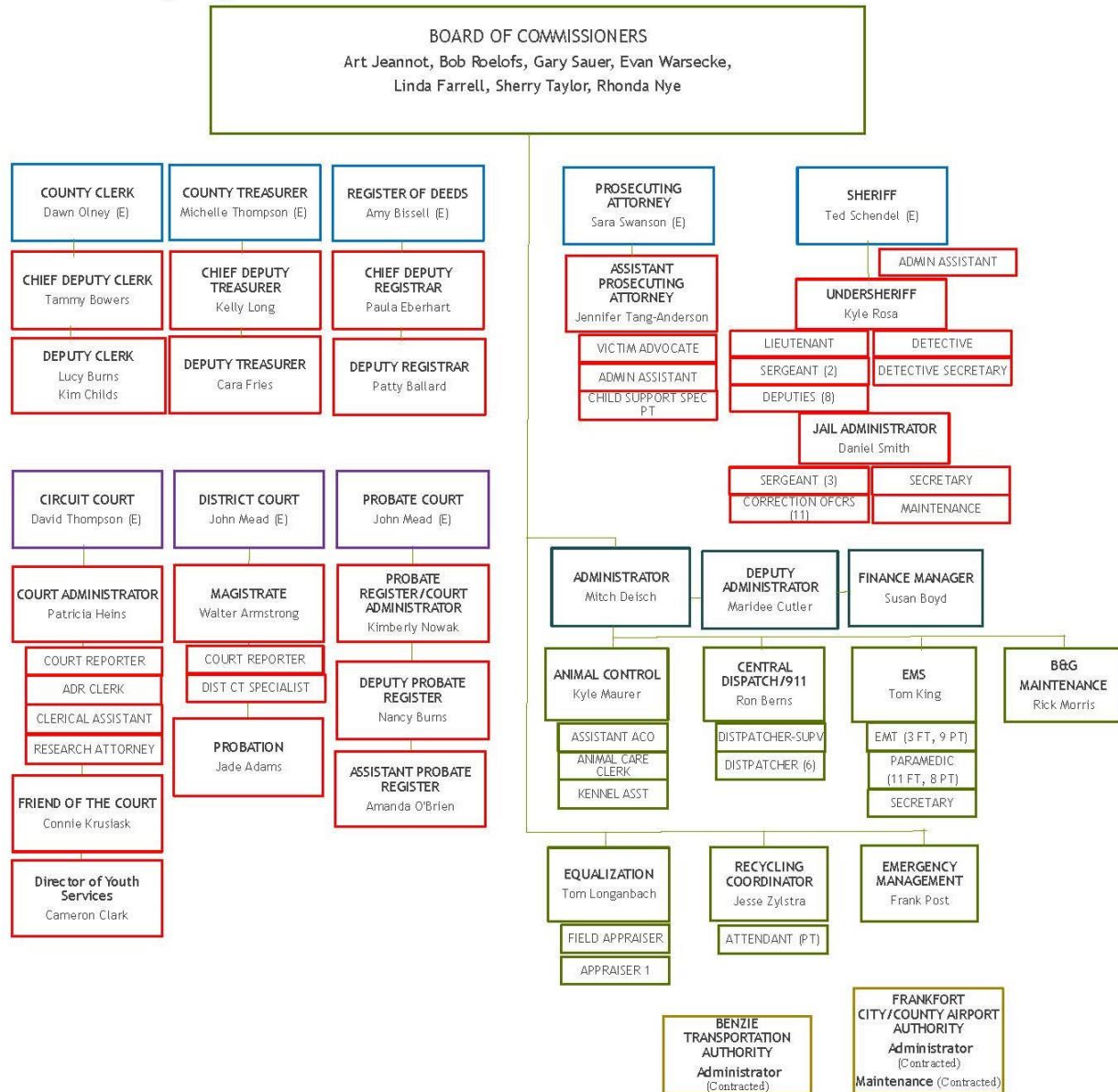
Based on a review of each department staffing, the County is efficiently staffed. The employees demonstrate relatively good cross-training to assist other departments when needed.

In response to a constricting budget over the past decade, the County has reduced staffing and outsourced several functions. In interviews with department heads, there is a concern that with fewer employees performing a broader range of tasks, the potential for errors, missed deadlines and

unfinished work increases. Based on our observations, the current level of staffing is sufficient to maintain mandated services at an adequate level.

Further reductions in staffing should only be made after careful consideration of the impact on the County's capacity to effectively deliver services.

## Benzie County Organizational Chart



## 2.4 Millage rates, property taxes

The County currently levies 8.511 mills for general operations and 11 special purposes. The tax levies are detailed below:

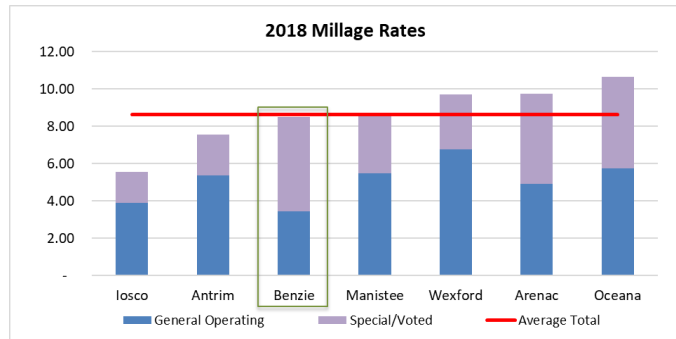
Levy Purpose	Expires	Benzie		Headlee	
		2018 Mills	Max Mills	Reduction	
General Operating	permanent	3.4535	5.2900	1.8365	
Advance Life Support	Dec-21	0.7912	0.8000	0.0088	
Animal Operations	Dec-20	0.0977	0.0982	0.0005	
Council on Aging	Dec-19	0.8461	0.8500	0.0039	
Conservation District	Dec-21	0.1250	0.1250	0.0000	
Jail	Dec-20	0.8843	0.9000	0.0157	
Medical Care Facility	Dec-21	0.3609	0.3626	0.0017	
MCF Bond	Dec-29	0.6350	0.6350	0.0000	
MSU Extension				0.0000	
TNT Operations	Dec-21	0.0900	0.0986	0.0086	
Police/Sheriff				0.0000	
Road Improvements	Dec-22	1.0000	1.0000	0.0000	
E911/Dispatch				0.0000	
Library				0.0000	
Dial-a-Ride				0.0000	
Recycling				0.0000	
Vets	Dec-22	0.0400	0.1000	0.0600	
<b>Total</b>		<b>8.3237</b>	<b>10.2594</b>	<b>1.9357</b>	

One full mill of the County's total levy is for the Road Commission, and 0.9958 mills are dedicated to the medical care facility (operations and debt).

Due to Headlee reductions in the maximum allowable millage rates, the County's general operating levy has been reduced by over 1.83 mills. Based on current taxable value, one mill equates to about \$1.26 million, which means the County is collecting about \$2.3 million less from its general operating millage than it could if the full levy were in

place. Special millages have been impacted less by Headlee, since many of these are renewed every five years. The general operating millage, on the other hand, has been whittled down by Headlee for decades.

Compared to other comparable counties, Benzie's total levy is just below the average of 8.65 mills. As seen in the chart to the right, Benzie relies more heavily on special millages than any of the counties in its peer group. Benzie's special millages account for over 58% of the total county levy, while in the other six counties, the average reliance on special millages is 37% of the total levy.



Moving Benzie County's total millage from 8.51 mills to the average of 8.65 mills would result in an additional \$176,000 of revenue.

The general operating and special millage of all benchmark counties is summarized below:

Levy Purpose	2018 Millage Rates							
	Benzie	Antrim	Arenac	Iosco	Manistee	Oceana	Wexford	Average
General Operating	3.4528	5.3816	4.9073	3.9129	5.5000	5.7500	6.7797	5.0978
Advance Life Support	0.7910		0.4990	0.4431		0.9900		0.6808
Animal Operations	0.0977						0.2000	0.1489
Commission on Aging	0.8460	0.3986	0.7484	0.5000	0.3000	1.0000	1.0000	0.6847
Conservation District	0.1250	0.0996			0.1000			0.1082
Jail	0.8841							0.8841
Medical Care Facility	0.3608	0.9966		0.4557	0.5000	2.4800		0.9586
MCF Bond	0.6350					0.2000		0.4175
MSU Extension				0.1200			0.1700	0.1450
TNT Operations	0.0986							0.0986
Police/Sheriff (SRO)	0.1800		1.2500				1.4500	0.9600
Road Improvements	1.0000		1.0000					1.0000
E911/Dispatch		0.4983	1.3500		1.0000	0.1400		0.7471
Library					1.0000			1.0000
Dial-a-Ride				0.1450	0.3300			0.2375
Recycling		0.1998						0.1998
Vets	0.0400					0.1000	0.1000	0.0800
<b>Total</b>	<b>8.5110</b>	<b>7.5745</b>	<b>9.7547</b>	<b>5.5767</b>	<b>8.7300</b>	<b>10.6600</b>	<b>9.6997</b>	<b>8.6438</b>

The average benchmark county has 5-6 special millages, while Benzie has 11 special millage. The average general operating millage in the benchmark counties is 5.38 mills, which is higher than Benzie's maximum of 5.29 mills and well above its Headlee-reduce maximum levy of 3.45 mills. This comparison suggests Benzie is an outlier with respect to its tax structure. The benefit of special millages, though, should not be overlooked. As noted, special millages require more frequent renewal, which helps diminish the impact of Headlee. Additionally, voters tend to approve dedicated millages more readily than an increase (or reset) in the general operating millage.

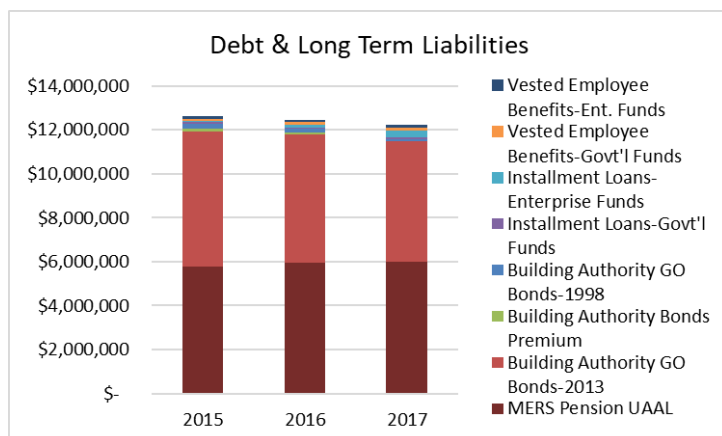
## 2.5 Debt and long-term liabilities

Benzie County has preferred to operate with minimal debt, preferring instead to fund projects through grants, cooperation with other local units of government, pay-as-you-go financing and other strategies. This policy framework has resulted in a relatively low debt load.

At the end of fiscal year 2017, the County had an outstanding balance of debt and long-term liabilities of just over \$12 million. The greatest portion of this balance is the unfunded liabilities in the MERS pension plan, which totaled just under \$6 million. Outstanding principal on the medical care facility debt was \$5.5 million. The remaining liabilities included some installment loans and vested employee benefits.

The County has a clear strategy to pay for the bonded debt, which includes a payoff date in 2029 and a dedicated funding source (millage). Installment loans also have a payoff date and funding source. The largest obligation held by the County, the MERS unfunded liability, has neither a funding strategy or a date for full funding.

The Board of Commissioners has made it a priority to begin addressing the unfunded pension liabilities. A strategic goal identified by the Board is "to develop a long-term strategy for managing the MERS liability." As of the last actuarial valuation report, dated 12/31/17, the pension is funded at 68%. Achieving a higher level of funding will require significant resources.



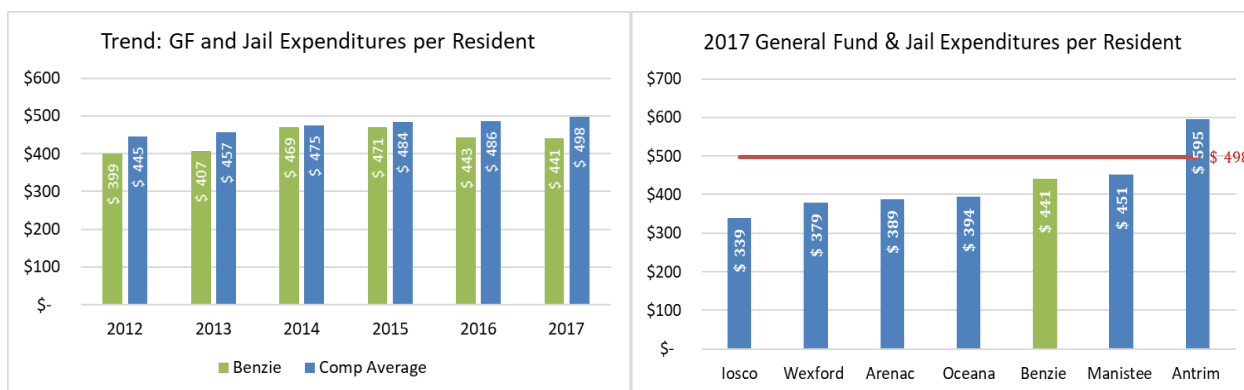
## 2.6 Healthcare benefits structured to minimize costs

Healthcare costs have become a significant burden for many counties, states and local units of government. Part of the challenge in maintaining costs is the negotiated insurance benefits included in many labor contracts. While health insurance costs are still significant, Benzie County has avoided the much higher costs associated with more generous benefits long enjoyed by select employee groups. The lower costs in Benzie can be attributed to collective bargaining agreement language, which stipulates represented employees receive the same benefits as non-union employees. The County has consistently met the State mandated "hard cap" amount for employee healthcare insurance costs. To remain under the State limit, benefits have been reduced to achieve acceptable premium levels.

While costs have been maintained, the County continues to offer this benefit with no employee contribution towards the premium cost. Additionally, Benzie continues to offer its elected part-time Commissioners health insurance benefits. Both of these practices are becoming less common as public employers seek opportunities to reduce costs.

## 2.7 Cost of government services

Benzie County operated its general government functions, including the jail, at a cost of \$441 per county resident in 2017. This is lower than the average cost in the benchmark group. The chart below illustrates Benzie has kept its costs below the average of the counties in the benchmark group in each of the past six years.



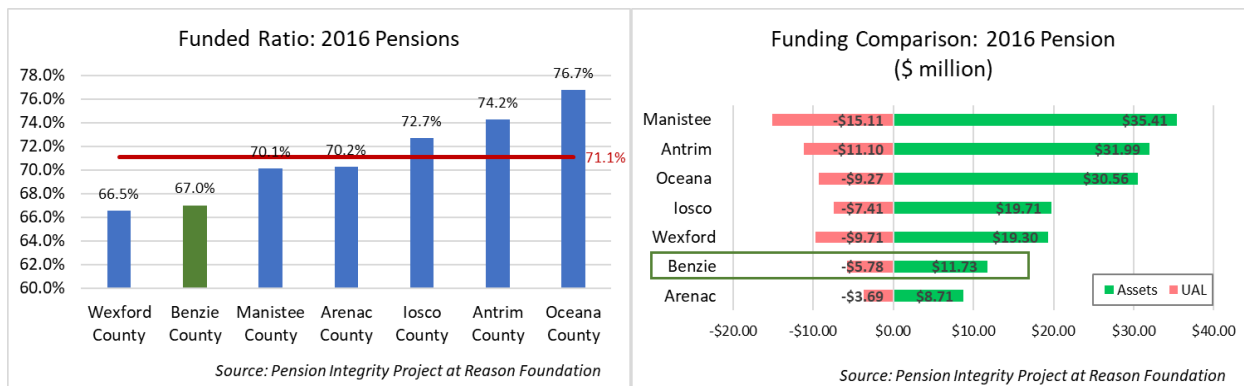
While Benzie compares favorably to the benchmark average, we can see in the chart to the right, above, that the County's costs per resident are higher than four of the six comparable counties in 2017. This perspective suggests Benzie may have opportunities to further evaluate its cost per resident. We should note, however, that every county does not offer the same services at the same level, and the operations included in the General Fund can vary. The above charts include General Fund, jail and road patrol activities for all counties.

## SECTION 3 SOME CHALLENGES AND OPPORTUNITIES EXIST

### 3.1 MERS

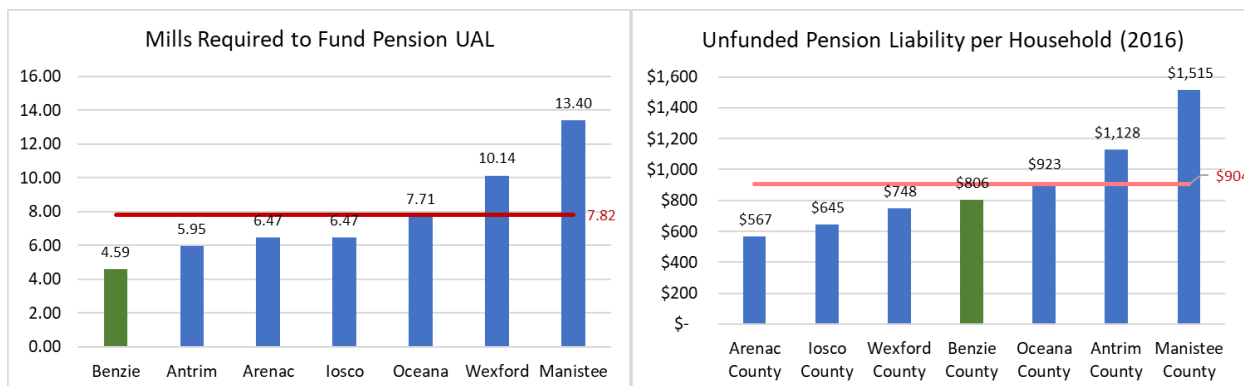
The County's pension program is managed through the Municipal Employee Retirement System (MERS). As of 12/31/17, the latest actuarial reporting period available, the retirement program was 68% funded. This is a slight improvement over the 67% funded ratio in 2016. The State requires public pension plans to be funded at a minimum of 60%.

Compared to the benchmark counties, Benzie's funding is below the average (71%). Benzie is the second lowest funded ratio amongst its peers. The unfunded accrued liabilities (UAL) in the Benzie County MERS plan stood at just under \$6 million in 2016. The pension UAL is the largest long-term liability facing the County. Like many municipalities, Benzie is seeking opportunities to fund this major liability.



When considering the impact of unfunded liabilities on the County's taxpayers, several measurements may be helpful. First, the impact on households, which are approximately equal to the number of taxpayers, can be considered. In this case, Benzie County's unfunded pension liability equates to about \$806 per household. This is below the benchmark average of \$904 per household.

Another measurement we considered is the number of mills required to fully fund the unfunded accrued liability. Benzie County's pension UAL is equal to approximately 4.59 mills. This compares favorably to the benchmark average of 7.82 mills.



### 3.2 Jail and juvenile detention

The County jail has a capacity of 47 beds. In fiscal year 2017-18, the number of jail occupancy days totaled 10,909, which equates to about 30 beds per day, or 64% daily occupancy, on average. Due to the seasonal nature of the County tourist population, occupancy rates tend to be higher in the summer months compared to other seasons.

Until recently, the County housed inmates for a fee from neighboring Wexford County and the State. These contracts have been terminated, as Wexford recently completed a new jail with ample capacity and the State decided to house its inmates further downstate. The loss of these contracts resulted in lower jail census numbers and a reduction in revenue.

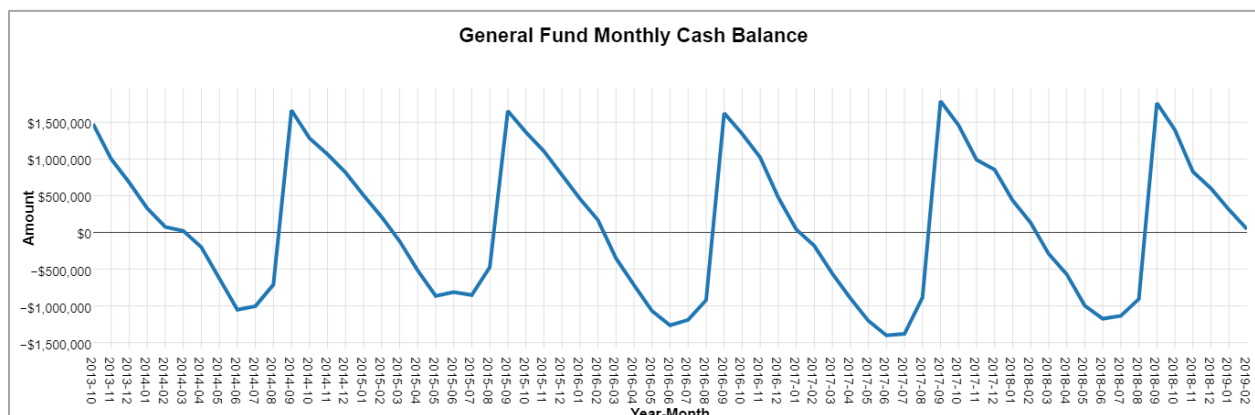
The County jail is designed and utilized for adult detainees, and its location allows for visitation from local family, attorneys and associates without significant travel burden. Juvenile offenders, on the other hand, are housed in facilities one to two hours outside of Benzie County. The closest potential youth facility is 75 miles from the County court in Benzie, and some youth are housed as far as 145 miles away in Bay County. This is due to the fact there are no youth detention facilities closer to Benzie. This distance makes visitation by family and attorneys far more difficult, and it creates a greater burden on the County to transport detainees to and from the County for court and other purposes.

Benzie County administration, youth services and circuit court have expressed concern about the distance between detained youth and their family support. In an effort to minimize detaining juveniles, the County has started a diversion program to remove qualifying youth cases from the court docket and work more intensively with the youth locally. If this program proves successful, it will benefit the County by reducing the costs of housing and transporting youth, and it will benefit the youth by avoiding a potentially extended detention period. Since some youth will not qualify for the diversion program and others may not find success in the program, Benzie County will still need to find suitable housing for some juvenile offenders. This problem is not isolated to Benzie. As noted, youth facilities are very limited in northern Michigan.

The jail receives a portion of its funding from a dedicated millage, and the balance of funding comes from the General Fund. On average, the General Fund allocates about \$340,000 per year to cover jail operating costs. As seen in Section 2.4, above, Benzie County is the only county in the benchmark group that has a dedicated jail millage. All other counties fully fund their jail out of the General Fund.

### 3.3 Cash Flow

The General Fund relies heavily on property tax revenues. Due to State legislative requirements, county general operating taxes are levied in the summer and collected in September, near the end of Benzie County's fiscal year. The misalignment of the fiscal year and property tax receipts results in an annual cash deficit in the General Fund of nearly \$1.5 million. For this reason, the County needs to maintain a higher cash balance in other funds, to be able to pay the General Fund costs when they come due.



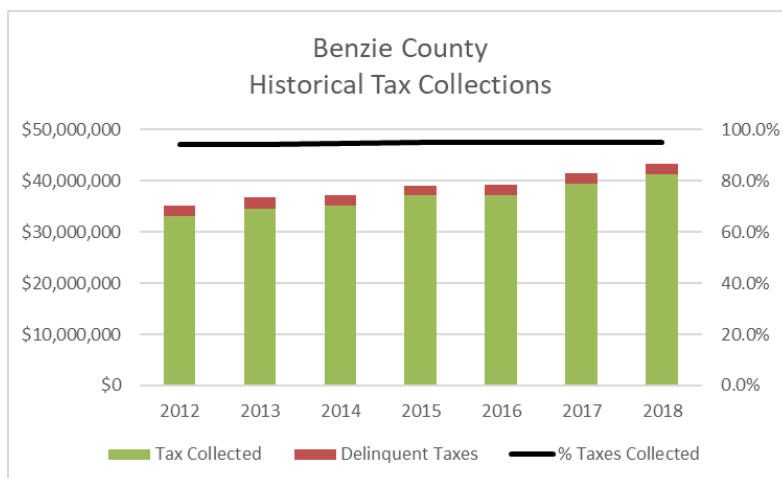
Currently, the Delinquent Tax Revolving Fund (DTRF) is the primary source of cash used to meet the cash flow needs of the General Fund.

### 3.4 DTRF

The Delinquent Tax Revolving Fund (DTRF) serves several important roles for the County, including:

- Fully self-funding delinquent tax payments to local units, thereby avoiding borrowing costs
- Paying the debt on any funds borrowed to settle delinquencies with local units
- Meeting the General Fund's cash needs for six months due to misalignment of fiscal year and tax collections
- Ensuring a solid cash position for bond rating agency analysis
- Supporting the capital obligations of the County

By statute, the County Treasurer is assigned the responsibility of settling all unpaid taxes with local units in March each year. This allows the local units to receive all tax revenues due them in a timely fashion. For all of the taxing units in Benzie County, delinquencies have averaged just over \$2 million per year for at least the past six years. Total taxes levied have risen from \$35 million in 2012 to \$41.5 million in 2017. The percent of taxes collected on time, county-wide, have slowly risen from 94.0% to 95.1% over the same period.

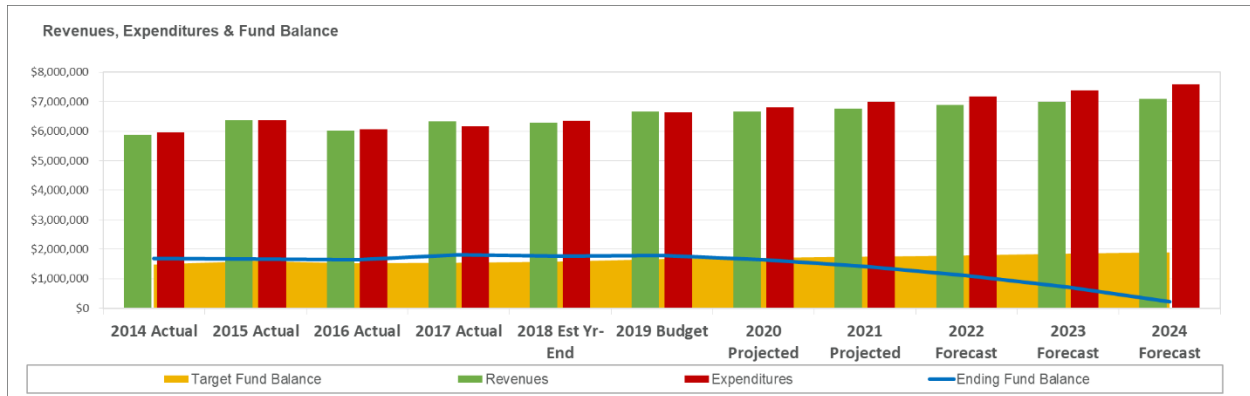


### 3.5 Financial forecast

Forward-looking, proactive financial management requires developing a forecasting model to make and change assumptions related to future possible revenues and expenditures. As part of this study, Benzie County has subscribed to Forecast5 Analytics' 5Cast software. The County uploaded five years of monthly and annual historical revenues, expenditures and fund balance, and the consultants have built an initial forecast. The forecast model has not been completed, as the County is awaiting audited year-end numbers.

Using the 5Cast software, the County will have the ability to evaluate historical trends at the line-item level for any fund. The software will allow for easy testing and comparing of different scenarios. Outputs from the forecast can be displayed on a customizable dashboard, in Excel reports, as a PDF file or in HTML format for easy posting to the County's website.

**A preliminary forecast suggests the General Fund could face an annual deficit each year, resulting in a fund balance in 2024 of only \$218,000. This represents a cumulative deficit of nearly \$1.5M over the next five years. Clearly, this forecast does not demonstrate a sustainable path forward.**



This forecast includes the following assumptions applied to the revenue and expenditure categories in the General Fund. The 2018-19 fiscal year serves as the base from which future values are calculated.

#### GF Revenue Assumptions

- Property tax revenues: 2.0% increase per year
- Revenue sharing: 1.0% increase per year
- Transfers in from Tax Foreclosure Fund: \$125,000 per year
- Judges salary refund: no change from 2019 budget
- Register of Deeds record copying: 0.5% increase per year
- Register of Deeds real estate transfer tax: 3.0% increase per year
- All other revenues: 0.5% increase per year

#### GF Expenditure Assumptions

- Salaries and wages: 1.5% increase per year
- Wage-based benefits: 1.5% increase per year
- MERS retirement costs: 8.0% per year increase
- Medical/dental/vision insurance: 7.0% increase per year
- Reimbursement to Manistee: 1.0% increase per year
- Transfer to Jail Operations Fund: 2.0% increase per year
- All other expenditures: 2.0% increase per year

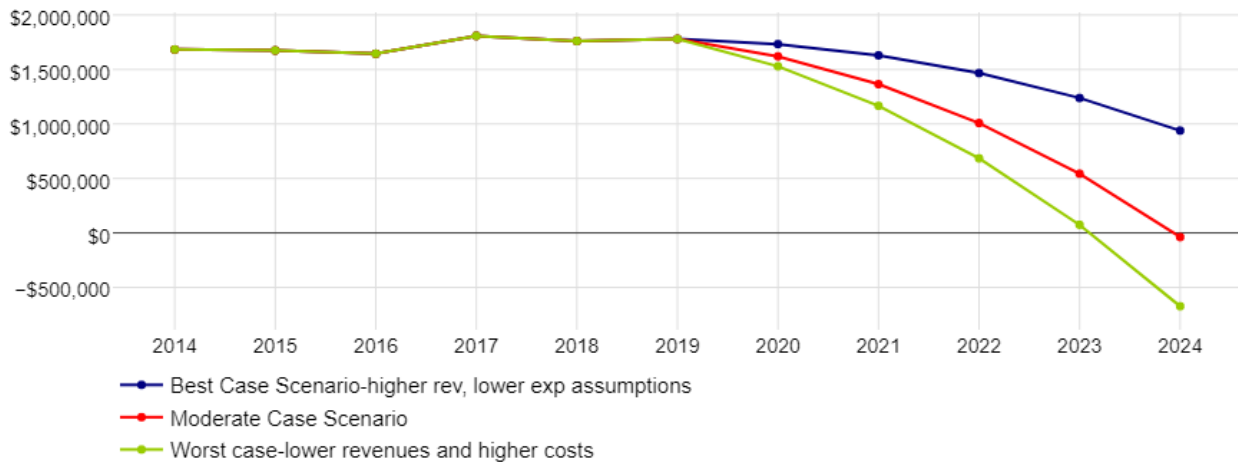
The County has the option of forecasting any and all funds within 5Cast. For purposes of this report we are focusing on the General Fund to illustrate the outlook of the most significant County operating fund.

The above assumptions present one possible forecast. To better understand the potential five-year trends in the General Fund, several additional scenarios were built in 5Cast. The chart below compares the ending fund balance under three different scenarios:

- **Best Case:** Includes all revenue assumptions above, except Property tax revenues are assumed to increase 2.5% annually and Transfer in from Tax Foreclosure Fund is assumed to be \$200,000 per year. Expenditure assumptions are the same as above.
- **Moderate Case:** All revenue assumptions above remain the same. Salaries and wages and Wage-based benefits are assumed to increase 2.0% per year. Medical/dental/vision insurance assumption is set at 7.5% per year.

- **Worst Case:** Transfer from Tax Foreclosure set at \$50,000. Salaries and wages and Wage-based benefits are assumed to increase 2.5% per year. Medical/dental/vision insurance assumption is set at 8.0% per year.

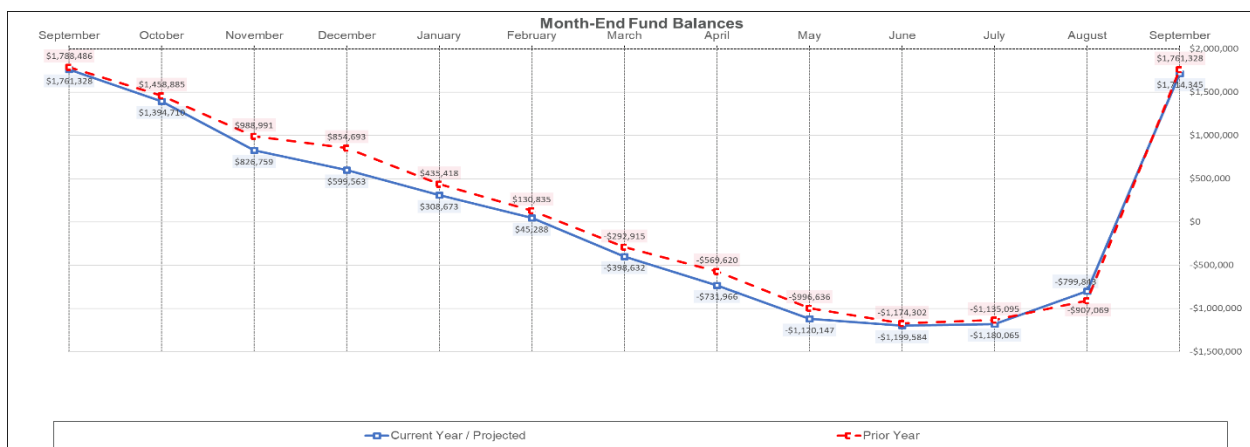
### General Fund Balance - Scenario Comparison



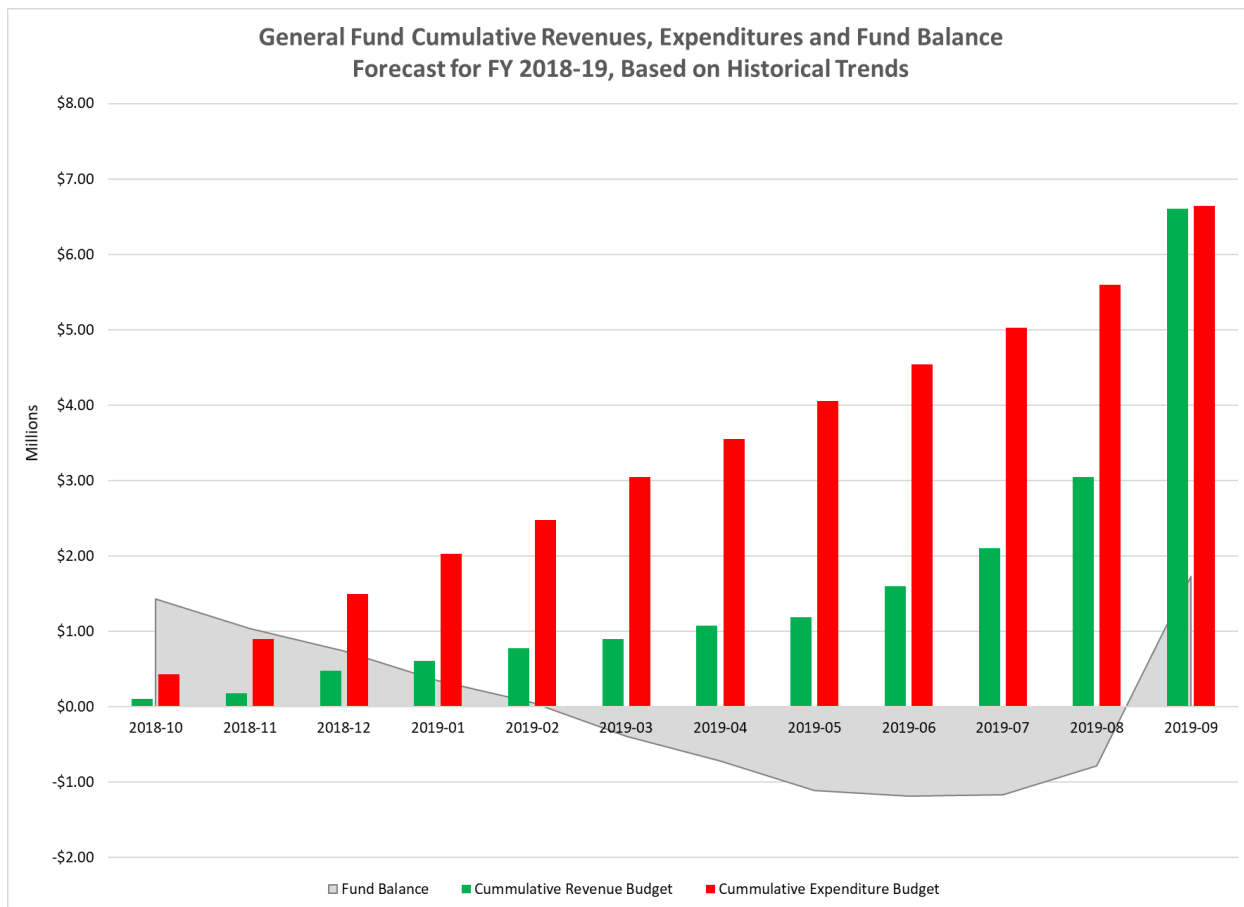
The forecasts presented above should be considered possible outcomes based on several broad assumptions. Actual revenues and expenditures will be different, either due to economic factors, policy decisions, labor negotiations, or other influences. Forecasts of this nature serve to inform decision makers of anticipated trends; they are not financial plans or budgets.

### 3.6 Current year budget projection

With the 5Cast software, the County can track monthly revenues and expenditures and forecast the current year budget. As an illustration of this feature, the below chart shows the estimated monthly cash balance in the General Fund (blue line) and compares that to the 2017-18 fiscal year (red line) monthly balances. The current budget includes a General Fund net surplus of \$19,582. However, based on actual revenues and expenditures through the end of February 2019, the fund is forecast to end the year with a deficit of \$33,508.



The following chart illustrates forecasted General Fund monthly revenues, expenditures and fund balance. The green bars reflect the small amount of revenue realized each month, until property taxes are received in August and September. Expenditures tend to be incurred uniformly each month. As a result, the fund is expected to once again operate at a cash deficit for six months this fiscal year.



As each month's actual data is uploaded, the year-end forecast will improve.

### 3.7 Human resources

The County Administration has taken steps to implement a centralized human resource function in the office of the Administrator; individual departments also operate many human resource functions in a decentralized fashion. Personnel budgeting and payroll are centralized, but there is overlap in personnel file maintenance, hiring activities and time tracking between the Administrator's office and other departments. Time tracking and employee benefit information are collected/distributed via paper copies. The County reviews the annual Networks Northwest salary survey but has not conducted a formal Classification and Compensation study in the recent past. Non-union position descriptions have been recently updated, but there are positions in the County with less current position descriptions.

County departments that have specific mandates for continued education and training appear to be maintaining their department records separately from the human resources office. Training, education and development, beyond mandates, is not a current focus of the human resources department.

### **3.8 Dispatch operations center arrangement is not at best practice level**

The County's Dispatch operations center is housed in the Sheriff administration building, which includes the County jail. The center is located in a small room adjacent to the lobby area and the correction officer's desks. Some concerns with the current location and arrangement of the Dispatch center include:

- The center is not compliant with the Americans with Disabilities Act (ADA).
- Possibility of violating rules governing Law Enforcement Information Network (LEIN) data.
- Frequent interruptions to dispatch operations
- There is inadequate break room space in the center.
- Restroom facilities would ideally be located immediately adjacent to the dispatch center.

## **SECTION 4 LEGISLATIVE AND LEGAL ISSUES**

### **4.1 Court security enhancements may be mandated**

Benzie County's courts are located in the County services building, along with many other administrative offices. When court is in session, the Sheriff provides a bailiff for court security. There is no screening of court visitors, which leaves the judge, court staff, plaintiff, defendant and public at risk of a possible armed conflict. Increasingly, courts are requiring physical screening including metal detectors, bag checks and other measures to ensure court security. It is possible the legislature or State Court may require enhanced security including screenings. The County does not have funds allocated for the capital required or the additional staffing needed to implement enhanced security for the courts.

### **4.2 Tax foreclosure fund is being challenged in court**

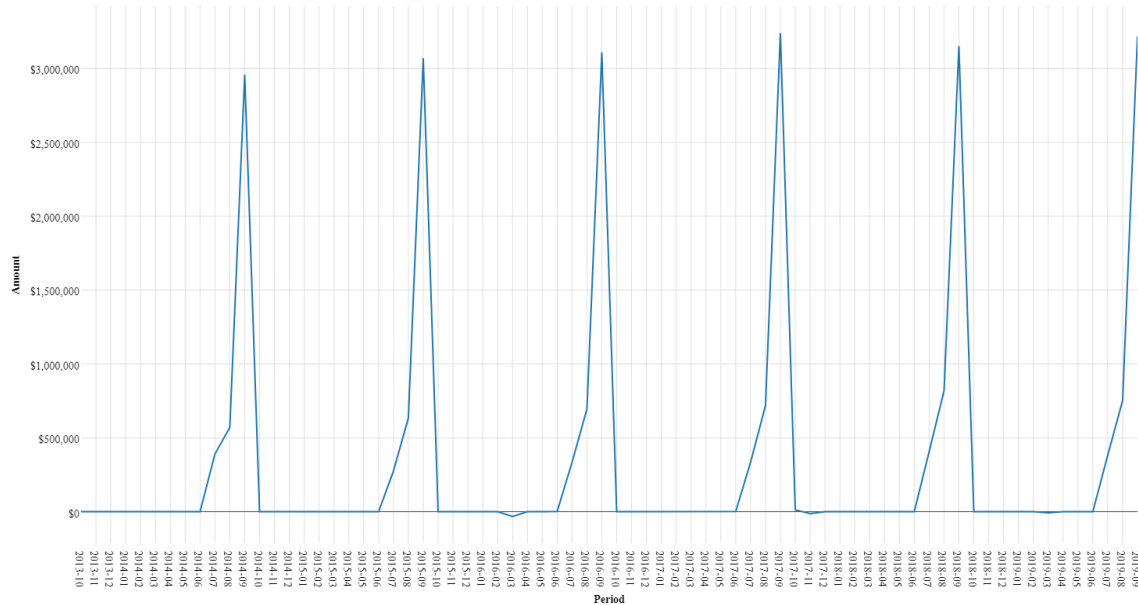
Michigan counties are currently being sued for alleged property rights violations resulting from county treasurers selling tax foreclosed properties at auction for amounts greater than the taxes due on the property. Benzie is among those counties facing this legal challenge. The plaintiffs claim the County is profiting from the sale of private property, and any proceeds in excess of the taxes due should be paid to the property owners and not retained by the County.

The legal challenges are currently working their way through the courts, so the outcome of the challenge will not be known for some time. If the courts rule in favor of the plaintiffs, the County could see a loss of revenue in the Tax Foreclosure Fund. Historically, auction proceeds, net of expenses, have resulted in an average transfer of proceeds to the General Fund of nearly \$150,000 per year. If the County loses the legal challenge, the General Fund could face the loss of this revenue in the future and may have to repay what was distributed from the Tax Foreclosure Fund in the past.

### **4.3 Mandate from State to collect general operating taxes on the summer bill requires higher cash balance**

In 2004 the State changed the collection of county taxes from the winter tax bill to the summer tax bill. As a result, counties with a fiscal year beginning in October must now wait until the very end of their fiscal year before collecting their general operating property taxes. The chart below illustrates the timing of property tax receipts in the General Fund from October 2013 through the current fiscal year. As illustrated, the County receives no property tax revenues until July, and the vast majority of revenue is received in September, which is the last month of the fiscal year. For this reason, the County must maintain a higher cash reserve balance or be able to access cash in other funds to meet cash flow needs

throughout the fiscal year.



#### 4.4 Legislative mandate to maintain pension and OPEB funding levels

Michigan Public Act 202 of 2018 established a minimum funding level of 60% for public pensions and 40% for public retiree healthcare plans (commonly referred to as Other Post-Employment Benefits or OPEB). As noted, the County's pension funding is currently at 68%. However, this ratio could fall close to or below 60% if MERS changes its rate of return assumption or mortality tables, or if the market has several years of poor investment returns. If the funded ratio falls below 60% the County would be required to prepare a corrective action plan to resolve the issue.

# RECOMMENDATIONS

## SECTION 1 SET GOALS AND MEASURE PERFORMANCE

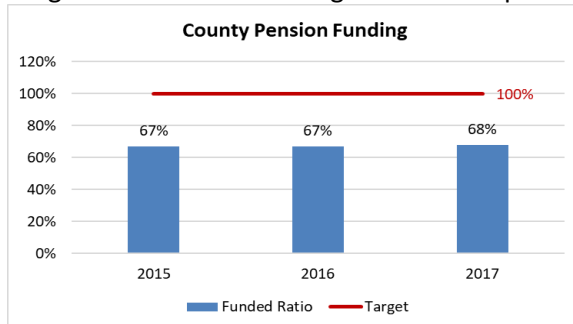
### 1.1 Benchmarking

As noted, the County has done some benchmarking in the past. We encourage the County to continue this comparison with other counties to identify potential areas for improvement, and to better understand where Benzie is outperforming other counties. Ideally, benchmark data would be updated annually, prior to budget development, to provide insights into opportunities for improved efficiencies or to confirm Benzie is at least on par with its peer counties. As part of this study, several benchmark spreadsheets were prepared. These will be provided to the County for future updates.

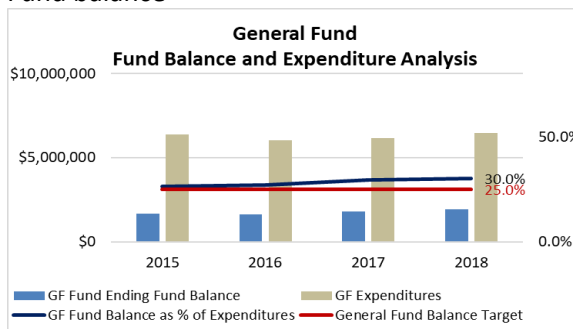
### 1.2 Performance metrics

While benchmarking is an outward-looking process of measuring position, performance metrics are more inward-focused. The County uses some performance metrics, such as minimum fund balances, yet more could be done to quantify financial and operational goals and measure progress each year toward those goals. By measuring, the County is better able to manage specific aspects of finances and operations. Some performance metrics the County may want to consider are presented below. These examples can be useful to help keep elected and appointed officials focused on priorities, improve communication and transparency and visual progress toward goals.

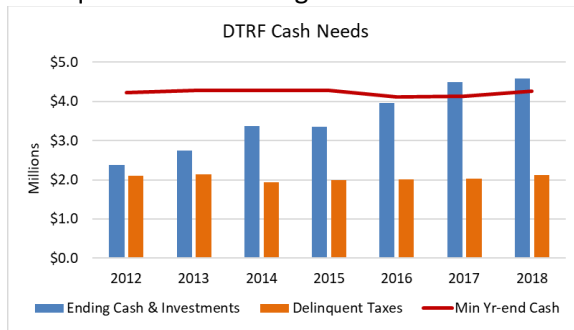
- Progress toward full funding of the MERS pension plan



- Fund balance



- Delinquent Tax Revolving Fund cash needs



- Cost per jail inmate day (annual jail cost/annual daily jail census) (target: to be defined)
- Cost per hour of Sheriff road patrol (target: to be defined)
- Cost per animal day at animal shelter (target: to be defined)
- Building permits and associated total value (track trend to identify economic activity)
- % solid waste department costs recovered through user charges (target: 100%?)
- Prior year budget variance (target: <10%)
- County administration costs as % of total County budget (all funds)
- Workplace harassment claims filed (target: 0)
- Unfair labor practice claims filed (target: 0)
- TV as % of SEV (track trend)

As the County becomes familiar with measuring performance, each department should establish meaningful metrics to track progress toward goals. In an ideal world, department goals would be based on the Board's strategic plan objectives, mandated service requirements and unique departmental costs and service objectives. By measuring performance, the County will be better positioned to manage its resources in the most optimal manner.

### 1.3 Strategic plan

Sometimes strategic plans are developed with great effort and published with much fanfare, only to have them sit idle on a shelf for several years before a new strategic planning process is initiated. This approach is a waste of resources and discouraging for those who took time to develop the plan.



Strategic planning is only the first step in the process. Based on the vision established in the strategic plan, measurable and realistic goals need to be agreed upon. With goals clearly defined, departments should establish plans that will move the organization toward the defined goals. Once implemented, progress needs to be measured and reported.

As the County adopts its strategic plan this year, we encourage further development of the goals into operational plans and actions, with measurable milestones. At least annually departments should report progress toward goals. Any obstacles preventing success should be addressed.

#### **1.4 Adopt proactive financial management-oriented policies and practices**

Policies provide a framework for organizations to achieve goals, operate efficiently, proactively manage resources and avoid uncertainty, particularly in times of transition, stress or changing conditions. Policy development is ideally performed when an organization is not facing a crisis, so discussions can be oriented to the long-term and not toward an immediate need. Policies should be reviewed regularly and modified as needed to remain current and relevant as needs change.

Some counties have policy manuals that are over a hundred pages in length, while others have far fewer policies. Benzie County is encouraged to gather some examples of policy manuals in other counties and determine the types of policies that are most appropriate to address. We have included in Appendix B some draft policies for consideration. Additionally, the following counties have well-developed policy manuals that might be helpful to Benzie:

- Saginaw County: [http://www.saginawcounty.com/Docs/Commissioners/Compiled\\_County\\_Policies.pdf](http://www.saginawcounty.com/Docs/Commissioners/Compiled_County_Policies.pdf)
- Ottawa County: [https://www.miottawa.org/Departments/FiscalServices/forms\\_policies.htm](https://www.miottawa.org/Departments/FiscalServices/forms_policies.htm)
- Antrim County: [http://www.antrimcounty.org/county\\_policies.asp](http://www.antrimcounty.org/county_policies.asp)

Developing and adopting policies at the Board level demonstrates a high-level commitment to intentional management and operations of the County. Policies may also be adopted at the department level; these tend to be more specific to the needs of the department and have limited application in other parts of the organization.

#### **1.5 Financial forecasting**

We encourage the County to update the model with actual year-end values, approved and amended budgets, and revised assumptions several times each year. Actual monthly revenues and expenditures should be uploaded to the software for enhanced budget forecasting in the current fiscal year. Regular updates to 5Cast will provide the greatest utility and forecast accuracy of the model. The County can also use the model to test specific proposals, policy considerations, revenue options and service levels across funds and operations. This tool can be useful in labor negotiations, to test the impact of different wage and benefit proposals. Additionally, the County can integrate its CIP into the model to test the impact of different capital outlays in future years.

#### **1.6 Cash flow forecasting**

By uploading monthly general ledger account detail, the County can improve its forecasting of the current year budget. 5Cast uses historical monthly cash inflows and outflows to forecast the current year budget based on actual general ledger activity. The County should use this tool to better understand how well revenues and expenditures are tracking, relative to anticipated monthly activity. If

monthly expenditures are less than the tool forecasts, the County may identify a surplus early in the fiscal year and be able to proactively manage the available funds. Expenditures exceeding the forecast will be identified in 5Cast and provide the County an early warning to take corrective action before the overspending becomes problematic. Similar analyses can be performed on the revenue side, and action can be taken early to ensure budget stability in the current fiscal year.

### **1.7 Multi-year budget**

As the County gains comfort and experience with forecasting future revenues and expenditures, it can move toward a multi-year budget strategy. The difference between a forecast and a multi-year budget is the latter requires greater effort to balance revenues and expenditures in each future budget year. The benefit of multi-year budgeting is it requires decisions be made in the present to ensure long-term levels of service are in line with long-term revenue estimates.

Once prepared, the multi-year budget can be adopted by the Board of Commissioners, but only the first year of the budget can be appropriated. This means the second and third year are essentially estimates that could be changed before the next budget is appropriated. This continual review, revision and adoption ensures the budget is considered over multiple years before it is finally appropriated.

The County can use the 5Cast software to test different future budget scenarios and develop budget reports. Any multi-year budget will require multiple revisions. Using 5Cast will allow the County to develop an unlimited number of budget scenarios and compare them side-by-side. It will also keep track of changes made from one version of the budget to the next, so users can review what changes were made previously as the budget development progresses.

### **1.8 Other financial planning and evaluation options**

Appendix B contains additional policy and practice suggestions for improved financial management. Suggestions include:

- Quarterly budget reviews
- Capital improvement planning
- Motor pool and equipment funding
- Accounting for unused budgeted wage/benefit costs
- Financial forecasting

## **SECTION 2 DEVELOP A FUNDING STRATEGY FOR THE PENSION PLAN**

As noted, the County's MERS pension plan is its largest financial liability, amounting to nearly \$6 million. This amount is likely to increase as MERS adjusts assumptions for future rates of return, and as the investment losses of 2018 are factored into the next valuation report. The County has recognized the importance of reducing the unfunded pension liability, and the Board has included in its most recent strategic plan a goal of developing a long-term strategy for managing the MERS liability. We would encourage the County to pursue a funding strategy to achieve 100% funding in the shortest possible timeframe.

By funding the pension at 100% of actuarial value, the County would realize a much better return on its money, and substantially reduce the liabilities carried by the County. Fully funding the pension would also improve the County's bond rating and improve its position in labor negotiations.

The challenge of funding the pension at a much higher level cannot be overlooked. Achieving this goal will require an increase in revenues, as current revenues are not sufficient to allocate additional resources to the pension. The County is encouraged to consider one or more of the following funding strategies to achieve 100% funding of the pension. Even if the unfunded accrued liability (UAL) is fully funded, the County would still be required to make annual contributions to MERS for the normal costs of the pension. Presently, those costs total about \$232,000 per year.

1. **Seek a special millage for a limited time.** This strategy is the most direct and efficient approach, although it may be difficult to achieve. By asking voters to approve a dedicated property tax of one mill for five years, the reality of past years of pension underfunding would be brought to the forefront. As noted earlier in this report, the County's pension UAL is equivalent to about 4.59 mills. Spreading this out over five years would require about 1 mill each year for five years. Alternatively, a levy of 0.5 mills for 10 years may achieve a similar revenue stream, but the UAL will likely increase over this period, and a higher levy or longer time may be required to fully fund the UAL.
2. **Seek a Headlee override.** As a result of the Headlee amendment millage reductions over the years, the County's allowable general operating millage is currently 1.8365 mills below its approved maximum of 5.29 mills. A Headlee override would allow the County to return to the originally approved millage maximum. With this increase in millage, the County could eliminate the special voted millage for the Jail, and levy sufficient mills to fund the pension UAL over 5-7 years.
3. **Borrow a portion of the UAL from the Delinquent Tax Revolving Fund.** The County could leverage available cash in the DTRF, which is earning a minimal return, and invest in the MERS pension plan. Once funds are in the plan, they will begin to earn a much higher rate of return. The General Fund could repay the DTRF over a fixed period at an interest rate comparable to what the County is earning on other DTRF funds.
4. **Seek an increase in the Jail operations millage.** The General Fund currently transfers close to \$340,000 to the Jail Fund each year. If the County's voters approved an increase in the jail levy of 0.3 mills, the General Fund would have about \$340,000 per year additional funds to dedicate to funding the MERS UAL. Under this strategy, the UAL could be fully funded in about 20 years.
5. **Close the defined benefit pension program to new hires and bond for the UAL.** State law allows municipalities the option of bonding to pay the unfunded liability of a public employer pension plan. One requirement of pension bonding authority is the pension must be closed or closed to new hires. This strategy would require substantial analysis before determining its feasibility and cost. It would, however, provide a date certain by which the pension would be fully funded, and the County would no longer be adding to its liabilities with new hires. A significant question to consider is: How would the County structure a defined contribution plan to replace the defined benefit pension? New terms would have to be negotiated, and the County would potentially have 3 costs to pay: 1) the normal cost of the pension plan for active

employees, 2) debt service on the bonds sold to fully fund the UAL, and 3) the employer contribution to a defined contribution plan for new hires.

6. **Eliminate retirement benefits for County Commissioners.** Benzie County is among a minority of counties in Michigan that continue to offer Commissioners a retirement benefit. Currently, the County pays about \$15,000 per year into the MERS plan for Commissioners. Of the roughly \$6 million UAL, Commissioner unfunded benefits amount to nearly \$190,000.

While this option does not represent a large portion of the UAL, it will make the County more consistent with its peers and could be a significant statement regarding the County Commissioners' commitment to improving the funding of the pension plan.

7. **Allocate unspent employee compensation to the pension.** Every year the County budgets for full staffing, but due to vacancies, realignment of staffing or lower than expected overtime or benefit costs, the budgeted line items for wages and benefits are rarely fully spent. The County could choose to allocate any remaining balances in pay and benefit line items to the pension. This approach requires no more budget allocation, and the amount contributed to the pension may be small in some years, but at least the County would be contributing more than the required amount in most years.

## SECTION 3 EXPLORE ALTERNATIVE REVENUE OPTIONS

### 3.1 Consider Headlee override

As noted, the County's general operating levy has been substantially reduced by the Headlee Amendment. The County has the lowest general levy of any of its peers. To continue funding its operations, the County has increasingly relied on special voter-approved millages, which are restricted to specific uses. By seeking an override of the Headlee rollbacks, Benzie could eliminate one or more of its special millages. The increased tax levy could also be used to pay the UAL of the pension plan.

Without an override, the County will see a continued erosion of the general operating levy, which in the long term is not sustainable. Consideration should be given to developing a comprehensive strategy for taxes before taking the question to the voters. It is imperative that voters understand the purpose of the override and that the County has a specific plan for using the increased taxing authority. Many Headlee override ballot questions have been defeated because voters do not trust the local government with unrestricted tax capacity.

### 3.2 Review cost allocation methodology to ensure maximum recovery

The County currently allocates a portion of its General Fund central service function costs to other funds that have a dedicated revenue source. This is a common practice and is even required for some grant funds. The degree to which central service costs are recovered can vary substantially, depending on how the calculation is performed. County administration has been provided a cost allocation model template that would allow it to create a fully transparent allocation methodology, which is in compliance with federal regulations (required if the County desires to recover costs associated with a federal grant).

By evaluating the costs that benefit all funds and developing an allocation method that is measurable and transparent, the County may realize a greater level of cost recovery. At a minimum, it would have a clearly articulated methodology that can be used each year to maintain consistency in allocating costs.

## SECTION 4 OPTIMIZE FACILITIES USAGE AND STAFFING

### 4.1 Consider alternative arrangement for Dispatch

The current location and configuration of the Dispatch center results in numerous disruptions in work and may expose the County to liability if LEIN data is observed by non-certified employees or the public. The County should consider options for addressing these challenges, which might include any of the following remedies:

- **Relocate the Dispatch operation** to a different part of the Sheriff operations building or to the main County facility. This would require a significant financial investment, but it would address all of the deficiencies of the current location by providing greater security, separation from the public, less interruption from non-dispatch employees, visitors, delivery persons and others, a dedicated break room, and the ability to comply with ADA requirements for ingress/egress and turning radius.
- **Remove the window that allows the public to see into the operations center.** This change could help reduce the number of interruptions and reduce potential exposure of sensitive information to the public.
- **Create an alternative entry point for corrections officers to access their desk area.** Eliminating the flow of non-dispatch personnel through the Dispatch Center will again reduce the number of interruptions and provide greater security of sensitive LEIN data.
- **Relocate storage of non-dispatch items outside of the Dispatch area.** Once again, Sheriff personnel, delivery persons and maintenance workers enter the Dispatch area for a variety of needs, which causes disruptions and exposes the County to liability.

### 4.2 Ensure all critical functions have multiple employees trained to perform the work

Since the County staff is relatively small, cross-training should continue to be explored, especially for the office staff working at the County Administration building. Organizations with a low employee count spread over many critical operations risk service interruptions and potential liability if work cannot be performed in a timely manner. By cross-training employees on critical tasks, the County will minimize its potential exposure and provide greater flexibility in operations. This could free up employees for additional training opportunities and allow for new ideas to improve processes and reduce inefficiencies. It also ensures work will get done if an employee is off work for any length of time.

### 4.3 Evaluate option of converting jail to juvenile facility

This recommendation is in response to the challenge identified in housing youth detainees in northern Michigan. Benzie County may be able to meet this need for its juvenile offenders and those of other counties in the area. Since the adult jail population is relatively low, the County could consider housing its adult offenders in neighboring counties and convert the existing jail facility to a youth facility. This

option requires substantial research and evaluation to determine its legal, financial, operational and service implications.

Should the County pursue this option, it would need to maintain a minimum number of holding cells for adult detainees at a Benzie facility, largely due to the logistical challenges of booking and transporting detainees 45 miles or more.

The net operating costs and revenue potential of a juvenile facility, as well as the cost of housing and transporting adult inmates to other jails, would also have to be evaluated, to ensure this idea makes economic sense.

## **SECTION 5 HUMAN RESOURCES**

### **5.1 Centralization of personnel functions**

Human resource management is important as the County services continue to increase in cost and complexity, while the resources to fund these services are constrained. Day-to-day operations present challenging administrative problems in planning, organizing, and directing human resource functions in order to achieve maximum efficiency and effectiveness in the delivery of services. In an organization the size and complexity of the County, human resources management should be centralized as much as possible to improve consistency (improved results) and remain compliant with State and Federal laws. Personnel file maintenance, interviewing/hiring practices, training records, performance evaluation management, work time reporting/recording and any other functions that are currently being performed by individual department should be targeted for centralization.

### **5.2 Compensation and classification study**

A properly developed and administered classification and compensation plan can form the foundation for recruiting and retaining high quality employees. By retaining qualified, experienced employees the County avoids the costs of re-recruitments, retraining and lost productivity, while maximizing the benefits of the investments it has made in training employees and retaining the institutional and community knowledge acquired by employees over their tenures. The three components of a classification and compensation plan: (1) job evaluation (scope of work); (2) job classification (internal equity); and (3) comparable survey (market analysis), can contribute to creating a successful foundation for a more centralized and systematic human resources management structure. Classification and compensation studies can be done internally or with the assistance of consultants; it is important for the Administration to make sure all three components are completed thoroughly. It is also important that the purpose for the study is explained to all stakeholders and the results are transparent to the employees. The County should begin with a non-union pay study, then consider a review of union pay with a classification and compensation study to ensure internal and external pay parity.

### **5.3 Healthcare Insurance Review**

As noted in this report, the County is among a minority of public employers in Michigan who offer healthcare benefits with no cost sharing by employees. Additionally, the County has consistently met the State mandated "hard cap" cost amount for employee health insurance costs. This has been achieved through adjusting employee benefit plans (resulting in cost decreases to stay below the State mandated individual/family maximum). The "hard cap" is one way to meet the State mandate; another option for the County would be to consider the State's "80/20" option (employer/employee premium cost share, at a rate of 80% covered by the County and 20% covered by the employee). One of the

benefits of considering an employee cost sharing option, rather than a hard cap, is the 80/20 option eliminates the need to change employee benefits/plans frequently in order to stay below the "hard cap." The County could also explore a combination of the "hard cap" and an employee premium cost sharing, with the goal of reducing costs for the County, while continuing to provide a good benefit to its employees.

Employee health insurance currently costs the County just over \$1.1 million per year. If employees contributed 10% of the cost, the County could realize an annual savings of \$110,000. Benzie County should consider exploring some degree of employee premium cost sharing. Moving to the 80/20 funding strategy may create savings for the County and lower deductibles for employees. Before implementing a premium cost sharing plan, the County should first evaluate health plan options to identify the optimal benefit offering, combined with the greatest savings for the County and its employees.

Another health insurance cost savings may be realized by eliminating County-paid health insurance for Commissioners. The County currently pays nearly \$55,000 per year for this benefit. In recent years, many counties have eliminated this benefit, due in large part to its cost. In lieu of health insurance benefits, the County could consider offering a stipend or increased payment to Commissioners to recognize the value they contribute to the County in their role. Cash payments are both less burdensome to administer and more easily controlled than compensation via a health insurance policy.

#### **5.4 Use of supportive technology**

The County should explore two specific technology tools to improve its HR management. (1) The creation of an on-line portal for employees to review benefits, enter training/certifications, ask human resources-oriented questions and review updated policies. There are many software options for HR on-line portals; the County should review the options consistent with its purchasing policy and choose one that provides the HR staff with the most flexibility to maintain the site "in-house." (2) A cloud-based time-tracking management system. During the study it was observed that the County has a paper-based time tracking system that requires several steps of recording, collecting, data entry and payroll processing. The process has the potential for error (because of the number of times the information is passed) and inconsistency (because it is not centrally managed). Utilizing a time-tracking software solution, with multiple types of payroll entry options (i.e. time clock, computer log-in, name-badge swipe) would improve the efficiency of time tracking and reduce the potential for errors. Each County department has unique policies for time tracking, labor rates, overtime conditions, etc., so it will be important to consider solutions that offer significant flexibility and to involve departments in the vendor selection process.

#### **5.5 Adoption of a personnel file policy**

All personnel files should be centralized in the human resources office, with individual departments not retaining "official" employee files. In addition, document retention needs be adhered to and consistent with the State's retention schedule for Local Government (see attached recommended Personnel File Policy).

#### **5.6 Employee training and development**

Consistent with the above recommendation, the County should focus on centralizing its human resources function, this includes the HR function helping to identify training opportunities, in cooperation with the operational departments, and maintaining the appropriate documentation.

Options for training and development are extensive, particularly in the areas of public safety and personal administration/management. The County Administration should develop an annual training plan for all employees, with training events happening consistently (i.e. quarterly or monthly). Examples of cross department (all employee) training would be: sexual harassment, non-discrimination, active shooter and armed threat, loss of critical infrastructure (electric, gas, Internet) contingency plans, ergonomics and injury prevention, first aid/CPR, online/cyber security, workplace violence prevention, health and wellness topics, etc.

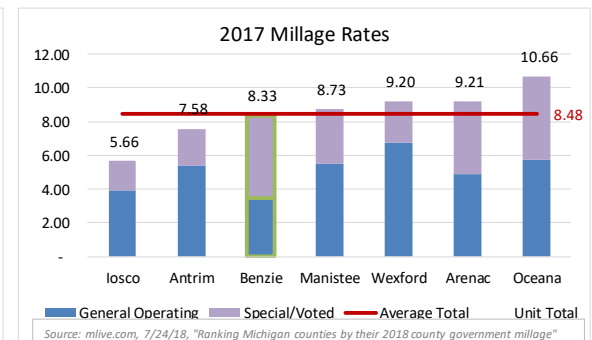
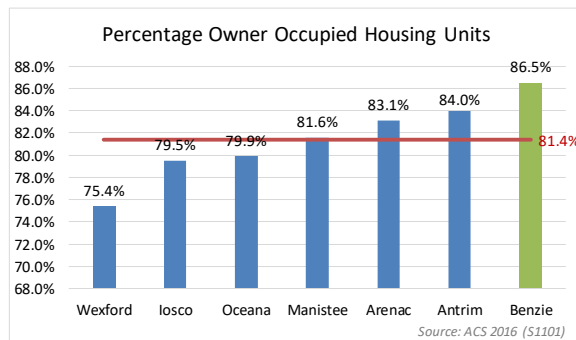
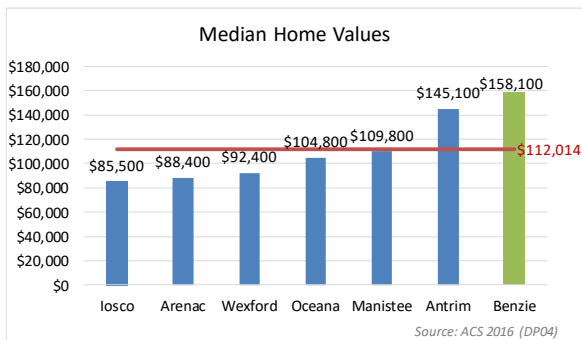
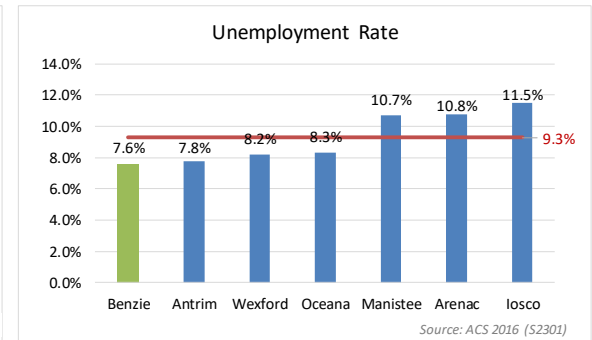
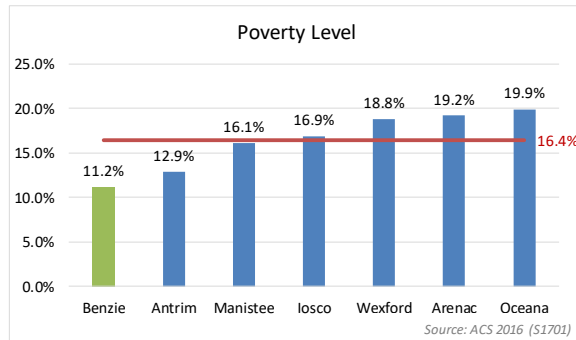
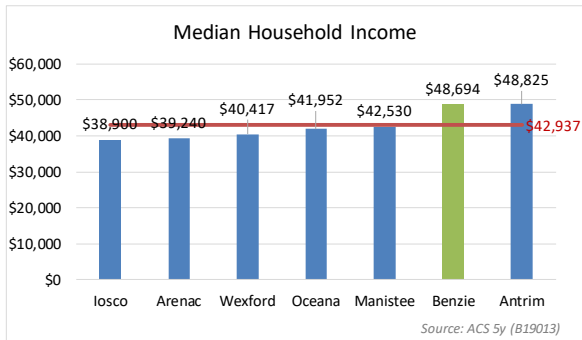
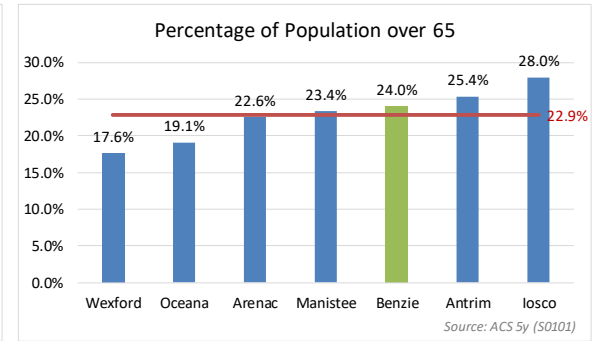
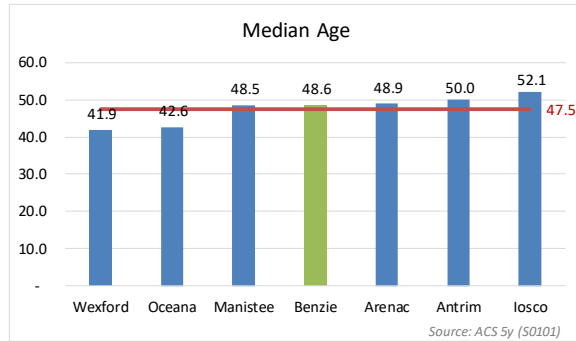
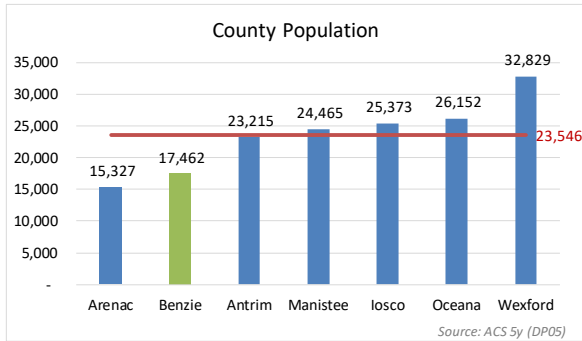
There are many resources available for common training topics, including online tools that both provide training and course completion certificates. Training specific to managers should also be considered and included in the plan. Examples would include mentoring, succession planning, equity and inclusive hiring practices, budget management, public service leadership, etc.

In addition to the general topics covered by the Administration, each department should develop its own training and development plans for review and approval by the County Administrator. A good resource for training ideas and resources is the County's liability insurance provider. Whether the training is administered centrally or within a department, it is extremely important that each employee training is documented and included in the employees' individual human resources file. A well-developed employee training and development plan can both reduce the County's liability and increase employee engagement.

## APPENDIX A: BENCHMARK SURVEY SUMMARIES

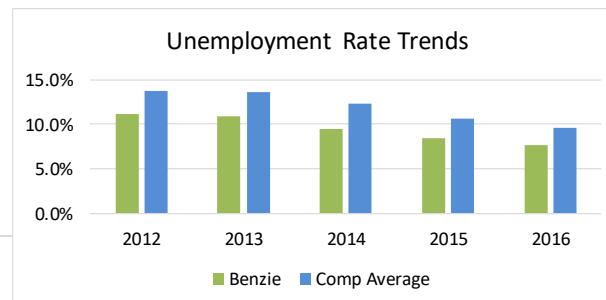
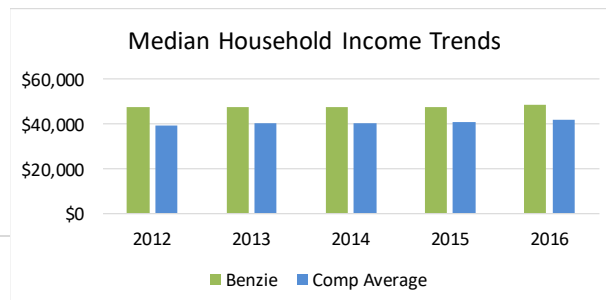
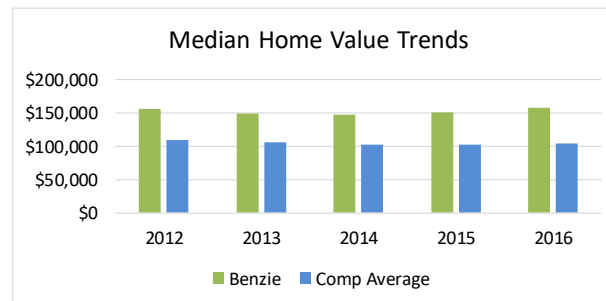
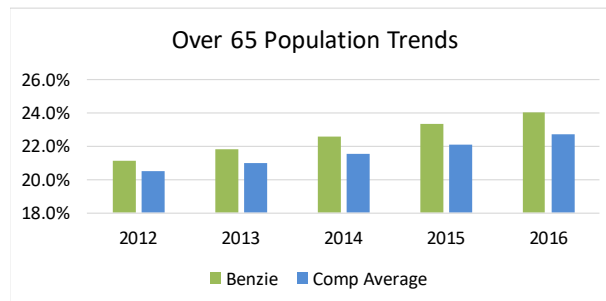
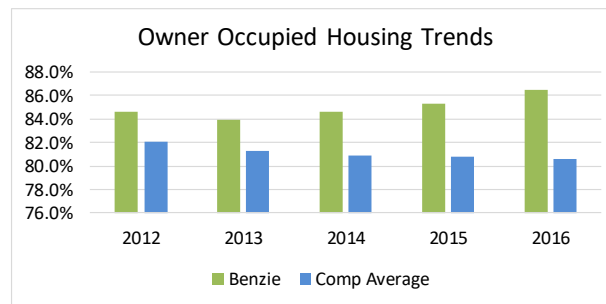
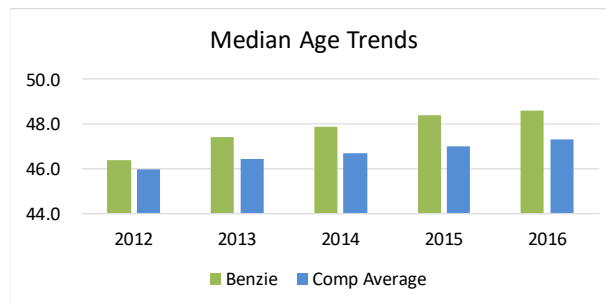
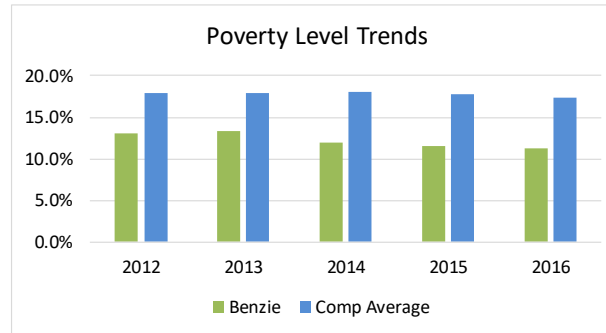
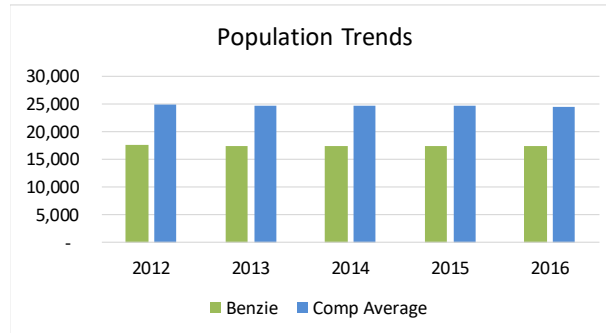
### BENZIE COUNTY: COMPARISONS OF SELECT BENCHMARKS IN COMPARABLE COUNTIES

(Source: 2016 American Community Survey, unless otherwise noted)



## BENZIE COUNTY: COMPARISONS OF SELECT BENCHMARKS IN COMPARABLE COUNTIES

(Source: American Community Survey)



## **APPENDIX B: POLICIES AND PRACTICES**

## A. BUDGET QUARTERLY REVIEW POLICY

### Goal

Improved communication of budgeted expense line items projected to be over/under during the fiscal year and improved accuracy of budgeted expenses for next fiscal year.

### Tool

The County has contracted with Forecast5 Analytics to implement 5Cast budget forecasting software. The new software will provide County department heads with timely financial data reports which can be used to more accurately project quarterly, year-end and next year revenues and expenditures.

### Quarterly Review

The management of County financial resources is an important responsibility of County department heads. Every department head will follow a Quarterly Review process. A 5Cast Report will be created for each department. The department shall (1) review current department year-to-date revenues and expenditures; (2) review current year-end revenue and expenditure forecast; (3) provide any corrections to or requests for next/current quarter-end budget amendments; (4) note any changes to next year's budget projection; (5) sign and return the Quarterly Review 5Cast Report to the Administrator or their designee.

### Schedule

The following schedule will be utilized for the Quarterly Review process:

Quarter	5Cast Report Available	Department Review Return Deadline
Q1: 10/1 – 12/31	1/15	1/30 – (provide Q2 budget amendment requests)
Q2: 1/1 – 3/31	4/15	4/30 – (provide Q3 budget amendment requests)
Q3: 4/1 – 6/30	7/15	7/30 – (provide year-end budget amendment requests)
Q4: 7/1 – 9/30	10/15	10/30 – (no budget amendment requests)

### Performance Management

Department heads shall (or may designate an individual on their staff to) be responsible for the collection, review and return of the 5Cast Report. Department heads, and their appropriate staff member, may be required to attend quarterly budget review meetings with the Administrator/Controller. No budget amendments, except in the case of emergency, will be considered unless the amendment was first requested and reviewed as part of the Quarterly Review process.

NOTE: It is recommended the Administrator or their designee schedule a standing Quarterly Review meeting approximately one week after each Department Review Return Deadline date. This standing Quarterly Review meeting will help to keep the department heads engaged and demonstrate the Administrator's commitment to this process.

## B. PROFESSIONAL SERVICES RFP POLICY

The County contracts for many of its professional services. The Administration should review each professional service at least every five years and consider issuing a request for proposal (RFP) if there are competitive firms able to provide the service to the County. Examples of the County's professional services include: County Attorney, Labor Attorney, Auditor and Engineering Services. Other professional services the County utilizes, as noted in this report, include: Airport Administration, Airport Maintenance, Building Department, Planning Services, Economic Development, Jail Medical, Information Technology, EMS – Billing, and Cleaning Services. Each of these services should be prioritized by cost and competitive firms available to provide the service and be placed on a five-year review cycle.

A sample Resolution for the County to consider:

### **RESOLUTION ADOPTING A POLICY FOR THE PURCHASE OF PROFESSIONAL SERVICES**

**WHEREAS**, *it is necessary for the County to retain Professional Services providers to assist in the administration of County business; and*

**WHEREAS**, *the County Commission is responsible for setting the policy for the purchase of services from Professional Service providers; and*

**WHEREAS**, *the County Commission desires to adopt a policy provision regarding ongoing Professional Services.*

**NOW THEREFORE, BE IT RESOLVED** *by the Benzie County Commission adopts the following policy regarding the purchase of Professional Services:*

- A. Requests for Proposals (RFPs) shall be solicited for all Professional Service contracts. For Professional Service contracts involving services to the County on an on-going basis, RFPs shall be solicited at least every five (5) years. For Professional Services needed on a project basis, RFPs shall be solicited as needed and in conformance with the general Purchasing Policy of the County. Professional Services contracts need not be awarded based upon lowest price alone, but shall be awarded based on the determination as to which bidder best meets the requirements and needs of the County, as determined by the County Administrator or body charged with selecting the Professional Service provider.*
- B. For Professional Services which are specialized and/or there are not competitive firms available to receive RFPs from, the Administrator or body charged with selecting the Professional Service provider shall provide the County Commission with a statement of this fact. The County Commission may waive the provisions of Section A after due consideration of the statement of fact.*
- C. RFPs for Professional Services shall be posted on the Michigan Inter-governmental Trade Network (MITN) or similar on-line bid posting service.*

## C. PERSONNEL POLICIES – PRIORITIZATION

The County has identified several personnel policies which it would like to update and/or create. Below are the personnel policies the Administration identified the we believe are most important for the Administration to consider priority.

### Personnel File Policy

- The County should adopt a Personnel File central keeping and access policy.
- The policy should specify the items that should be placed in the employee's official personnel file. No other personnel file should be kept on an employee. For example, no department should be keeping a separate additional personnel file for their employees.
- The Society for Human Resources Management (SHRM) is a well respected professional association which provides sample policies (for free) to HR professionals. Sample Personnel policy, based on the SHRM model ([https://www.shrm.org/resourcesandtools/tools-and-samples/policies/pages/accesstopersonnelfilespolicy\(accessandcopies\).aspx](https://www.shrm.org/resourcesandtools/tools-and-samples/policies/pages/accesstopersonnelfilespolicy(accessandcopies).aspx)):

*Benzie County employee files are maintained by the human resource (HR) department and are considered confidential. Managers and supervisors, other than the HR director and his or her subordinates, may only have access to personnel file information on a need-to-know basis. A manager or supervisor considering the hire of a former employee or the transfer of a current employee may be granted access to the file, or limited parts of it, in accordance with anti-discrimination laws.*

*Personnel files may not be taken outside of the HR department.*

*Representatives of government or law enforcement agencies, in the course of their duties, may be allowed access to file information. This decision will be made at the discretion of the Benzie County Administrator or their designee in response to the employee's request, a valid subpoena or a valid court order.*

*Personnel file access by current and former employees will generally be permitted upon request within one day of the request or in accordance with state law.*

- The policy should also state that the County adheres to the State of Michigan's document retention schedule for Local Government Human Resources.  
([https://www.michigan.gov/documents/hal/mhc\\_rm\\_gs26\\_253844\\_7.pdf](https://www.michigan.gov/documents/hal/mhc_rm_gs26_253844_7.pdf))

### Compensation Review

- Non-union compensation should be reviewed annually by the County. Networks Northwest (NN) provides an annual salary survey for many positions. The County should review the NN study annually and consider adjusting its wage ranges based on the average changes by its peers.
- Individual employee wages may be adjusted annually, depending on budget availability and the policy of the Commissioners, but regardless of individual employee wage changes, the wage ranges for position should be modified annually to be consistent with the local market.
- The County should develop and set a policy of what percent tile it desires its wages to fall in when compared to "like" counties (i.e. 50<sup>th</sup>, 60<sup>th</sup>, 75<sup>th</sup> percentile).

- County should do a specific compensation comparison with “like” counties. This specific comparison should be updated every five years. The compensation comparison should be specific by position and detailed survey data should be collected from the “like” counties to make sure positions are being compared with like position, based on duties and responsibilities (not just titles).
  - The Benzie County compensation review with comparable counties may be performed in-house, however often this type of study is done by a consultant, based on the time needed to invest in the project.

#### Classification Plan Development

- To the Administration’s knowledge, the County has not done a classification review for its non-union employees in the recent past. An internal equity classification plan is very important to ensure equitable pay based on the responsibilities of positions.
- A classification plan would involve doing a job evaluation for each position classification, rating each position numerically based on education, responsibility and other factors important in determining a pay grade for each position (factor rating).
- Using the factor rating for each position the County can use it to make sure its employees are being compensated appropriately, based on internal equity.
- The Classification Plan should be reviewed and updated as needed. Once established, Administration can use factor ratings to add/remove responsibility from a position (effecting the pay grade of the position) and when creating a new position or combining existing positions.
  - Classification plans generally are conducted by a consultant and involve interviewing at least one employee per classification and reviewing each position description in detail. The project also often involves updating position descriptions for every position in the study.
  - Classification and Compensation plans are often tied together when contracting with a consultant to perform.

## D. CAPITAL PLAN BUDGETING

The County has identified a need to implement a capital investment plan (CIP) process and model.

The CIP is a multi-year plan for expenditures by the County for large item replacement, rehabilitation and investment in infrastructure. Generally, the projects included in the CIP would focus on buildings, facilities, equipment, technology and utilities. One-time large items, significant software purchases, engineering/planning studies or property acquisition (over \$xx,000) should also be included in the CIP. Vehicles and other consistent operational items (i.e. radios) should not be included in the CIP; those items should be planned for in a separate Equipment Pool fund. If no Equipment Pool fund is in place, these items may also be included in the CIP.

The CIP should be considered annually, with final consideration by the County Board of Commissioners on a schedule similar to the County Budget. The CIP should clearly identify the revenue source (funding fund) for each of the projects. Funding should be “secured” for the next fiscal year, source funding for future fiscal years should be reasonable assumptions, but not yet secured. If funding for future year projects is secured early, the project could be moved up in the plan.

All department heads will have the opportunity to present their proposed project for the CIP and comment on the CIP requests from other departments. The County should form a CIP Committee of the County Administrator, County Treasurer, Deputy Administrator and Finance Manager to make the final ratings and funding year recommendations for each year’s CIP.

In the out years of the plan, staff will need to identify potential sources of funding for the projects, but it is not necessary to find all funding. It is acceptable for projects to “roll forward.” Used in this way the CIP can also help the County measure its deferred maintenance.

The County maintains a “Capital Improvement Fund (401).” It is recommended Fund 401 be used to track CIP expenses and the revenue received from Operational funds, or from specific grants.

Date	Budget and CIP Timeline
December 1	Budget Process Start
Mid-December	Department Heads (DH) provided work papers for CIP
Mid-January	Joint meeting with DHs to consider CIP requests and rate project requests
February 1	CIP Committee meeting to rank and confirm funding year recommendations
Mid-March	Admin completes draft CIP for next fiscal year and 5-year projection plan
April 15	Mid-year budget report and next FY budget workpapers provided to DHs

June 1	Draft budgets submitted by DH to Admin
Month of June	Individual budget meetings with DH and Admin
July 1	Joint meeting with DHs to review draft Budget with DH
August 1	Draft Budget and CIP submitted to BC for review and comment
September 1	Final draft Budget and CIP submitted to BC
September 15	Final Budget Adoption by BC
October 1	Budget Year Start

## E. FIVE-YEAR FINANCIAL FORECAST

The Financial Forecast is developed to give Administration and the County Commission a forward look at the County's financial picture. The forecast is intended to identify financial trends, issues, and opportunities so the County can proactively address issues rather than be forced into a reactive position. The Financial Forecast is not a budget or a policy recommendation.

The Financial Forecast serves as the preliminary basis for the development of the County's annual budget, by identifying economic projections/assumptions and their effects on the City's revenues; identifying projected operating shortfalls and proposes means to resolve those shortfalls; and planning for levels of services/programs the County may be able to deliver within forecasted revenue.

### Five Year Rolling Plan

The Financial Forecast is a rolling five-year plan. During the budget setting calendar, while the County is preparing its next fiscal year budget, it will also prepare five additional years of Forecast (for a total of six years of budget/forecast). In addition to the annual update of the rolling five-year plan, the Financial Forecast should be reviewed and updated (as needed) when budget amendments are approved during the current fiscal year.

The Financial Forecast should include:

- Budgetary goals (fund balance policies, bond rating, etc.)
- Assumptions used to forecast major revenues
  - Millage rates, taxable values and resulting revenue
  - State/Federal revenue sharing/funding
  - Interest rates
- Assumptions used to forecast major expenses:
  - Wages
  - Health insurance
  - General inflation
  - Capital project funding
- Liability projections
  - Pension costs/contributions
  - Retiree health insurance costs/funding
- Interfund transfers and fund balances
- State legislative actions (or potential actions)

For each fund where a shortfall is projected (projected expenses are greater than projected revenues for a budget year), a list of Shortfall Actions should be provided. The Actions should be reviewed with the County Commission, discussed for consistency with the Commission's goals, and incorporated into the Financial Forecast. The Shortfall Actions should be maintained as an Appendix to the document; if revenue/expense forecasts are modified in future years the Shortfall Actions will be updated each fiscal year as part of the Financial Forecast adoption process.

Annually, the Board of Commissions should take action to adopt the Financial Forecast, with the understanding that it is exactly as the name suggests, a forecast, intended to be adjusted as future budget years draw nearer.

#### Future Goals for the Forecast

Initially, the Forecast should be prepared with broad assumptions. As the Forecast develops in future years, the County will prepare the Forecast at the line-item level. Once individual funds are Forecasted at a line-time level, Administration will evaluate creating a three-year budget document for the Commission's consideration.

## F. MOTOR POOL

### Purpose

To establish a policy to provide a funding mechanism to ensure that the expected service life of each County vehicle or item of equipment is utilized to its fullest potential, implement uniform guidelines among all departments, and provide for the pre-funding of vehicles.

### Pre-Funding of Capital Equipment Policy

It is the policy of the County that the funding and replacement of all motor vehicles shall be set aside in a Revolving Fund in an amount based on the depreciation schedule of the vehicle in order to provide for the pre-funding of the purchase of the replacement vehicle. An annual contribution from operational funds to the Revolving Fund for each vehicle shall be established through a calculation of: purchase price less expected salvage value, straight-line depreciation, plus an annual amount of 3% of the original cost of the vehicle (for inflation). If a vehicle continues in use past its determined expected service life, the operational fund shall then contribute annually just the 3% of the original cost of the vehicle.

Example:

New police vehicle

Purchase price:	\$30,000
Expected service life:	5 years
Expected salvage value:	\$10,000
Annual inflation:	3%

Annual operational fund contribution to the Revolving Fund for the vehicle:

$\$30,000 - \$10,000 = \$20,000$

$\$20,000 / 5 \text{ years} = \$4,000 \text{ per year}$

$\$30,000 \times 3\% = \$900$

Annual required Revolving Fund contribution = \$4,900

### Expected Service Life

The expected service life shall be reviewed from time-to-time and set by the County Administrator.

Vehicle Type	Expected Service Life
Police Vehicles	100,000 miles or 5 years
Pick Up Trucks	100,000 miles or 8 years
Ambulances	120,000 miles or 12 years
Large Watercraft (emergency boat)	xx,xxx hours
Small Water craft (jet ski)	300 hours

Equipment shall be inspected annually to determine the appropriateness of replacement. All vehicles shall be replaced based on, but not limited to, the following factors:

- Expected service life;
- Lifecycle maintenance costs; and
- New purchase price.

If a vehicle needs to be replaced prior to its expected service life, the County Administrator shall be presented with a report outlining the need for early replacement. In the case to where a vehicle must be replaced before its expected service life, funds must be transferred from another County Fund to the Revolving Fund in an amount equal to the remaining depreciated value in order to purchase the replacement vehicle.

## **G. ACCOUNTING FOR UNUSED BUDGETED WAGE/BENEFIT POLICY**

When preparing its annual fiscal year budget the County budgets funds for wages and benefits for each approved personal position based on an assumption that all positions will be 100% occupied for the entire fiscal year. Every fiscal year some percentage of positions will not be occupied for the entire fiscal year (retirement, resignation, unpaid leave, time to hire new employees, etc.); this causes an over-budgeting of wages and benefits throughout the County budget. This results in: (1) a potential shift of these budgeted funds to other line-items within the individual funds; and/or (2) a funding surplus at the end of the fiscal year.

1. The over budgeting of wages and benefits can tempt departments to utilize funds from these line items to fund non-wage/benefit expenses, because at the sub-fund or fund level the department remains underbudget. While the department remains underbudget the overfunding of wage/benefits masks the true operational cost of the department.
2. End of the fiscal year surplus can be interpreted as lack of accuracy in budgeting and can be concerning, particularly when, during budget preparation, public services may have been reduced in order to balance the budget. Further, when forecasting the surplus funding required to 100% fund all future projected positions compounds the inaccuracy of forecast to actual.

Budgeting based on an assumption that all positions will be 100% occupied for the entire fiscal year is a conservative, but acceptable budgeting practice, especially when the Administration centrally budgets its personnel costs (line-item budget costs for wages/benefits are calculated by the Administrator's office, not the individual departments). However, since the County is certain 100% of the budgeted funds for wages/benefits will not be expensed during the fiscal year, it is recommended the County clearly state its policies regarding the unused budgeted wage/benefits funding.

### **Recommendations:**

- A. A policy statement may be considered to prevent the transfer of funds from wage/benefit line-items to non-wage/benefit line items. Since wage/benefit budgets are established by the Administrator's office, and non-wage/benefit budget components are recommended by the individual departments, it would be appropriate to separately consider these expense centers. Such a policy statement may state: "No budget amendment to wage/benefit line items will be considered by the Administrator's office except for increase/decrease cost associated directly with wage/benefit expenses. Requests to utilize budgeted funds wage/benefit as an off-set for non-wage/benefit expenses will not be approved."
- B. In addition, a policy statement may be considered designating all wage/benefit budgeted funds not used at the end of the fiscal year shall be transferred, through an end of the fiscal year budget amendment, to fund the County's Pension and/or OPEB liabilities.