

Office of Legislative
Auditor General



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August 21, 2015

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commission:

Enclosed is our final copy of the Office of Legislative Auditor General's Consulting Report on Budget Sensitive Issues/Review of the County's Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2014. The final report did not change substantially from the draft report. Our report is dated July 10, 2015; DAP No. 2015-57-801. The draft report was accepted by the Audit Committee at its meeting held on Wednesday, July 29, 2015 and formally received by the Wayne County Commission on August 20, 2015.

We are pleased to inform you that officials from the county provided their full cooperation. If you have any questions, concerns, or desire to discuss the report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purpose. Copies of all Office of Legislative Auditor General's final reports can be found on our website at: <http://www.waynecounty.com/commission/743.htm>

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REPORT DISTRIBUTION

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Wayne County Commission Fiscal Agency

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Wayne County Executive



**BUDGET SENSITIVE ISSUES
REVIEW OF COUNTY's 2014 CAFR**

Consulting Report

For the period: May 1, 2014 – April 30, 2015

July 10, 2015

Presented to:

*Ways and Means and Audit Committees
County of Wayne, MI*

Prepared by:

*Office of Legislative Auditor General
County of Wayne, MI*

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July 10, 2015

DAP No. 2015-57-801

Honorable Gary Woronchak, Chairman, Wayne County Commission
Honorable Joseph Palamara, Chairman, Ways and Means Committee
Honorable Raymond Basham, Chairman, Wayne County Audit Committee, and
Members of the Wayne County Commission
Honorable Warren C. Evans, Wayne County Executive

Ladies and Gentlemen:

The Office of Legislative Auditor General (OAG) is pleased to provide its annual Budget Sensitive Issues/Review of the County's FY 2014 Comprehensive Annual Financial Report (CAFR) to the Wayne County Commission as it begins its fiscal year 2015-2016 budget deliberations. The report is based on matters of budgetary concerns, audits, consulting, and other engagement reports that contain issues which could have a budgetary impact on county operations and financial position.

In summary, this report identifies \$384.8 million that have a potential budgetary impact on FY 2015 – 2016 (see Appendix A). The report is primarily prepared for the benefit and use of the County's Ways and Means Committee during its budget deliberation process.

This report is classified as a consulting engagement and contains potential budgetary issues for the period May 1, 2014 – April 30, 2015, as well as issues contained in the county's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ending September 30, 2014.

You can be assured that the OAG will continue our efforts to strengthen the county's internal control environment by working to identify and mitigate risk, assess areas for potential cost saving and revenue enhancements, as well as assist the Wayne County Commission in its oversight responsibility of county operations.

Respectfully submitted,

Marcella Cora, CPA, CIA, CICA, CGMA
Auditor General



PURPOSE AND OBJECTIVE

The purpose of this engagement is to comply with both (1) Enrolled Appropriations Ordinance 2014-499 that requires the Office of Legislative Auditor General (OAG) to summarize issues which may be deemed to have a budgetary impact on the budget hearings and deliberations for the fiscal year 2014-2015 and beyond and to provide the report to the Ways and Means Committee and Wayne County Commission; and, (2) Home Rule Charter section 3.119(e) which requires the OAG report on the financial position of the county.

The objective of this engagement is to specifically identify matters and financial issues that impact county operations and have budgetary implications, with an assessment overview, suggested topics of discussion, and/or courses of action for consideration by the Ways and Means Committee in carrying out their oversight of the budget deliberations and approval responsibilities.

SCOPE

This report is not an audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

This is a consulting report and contains a summary of budgetary issues and observations that either came to the attention of the OAG or were presented in reports to the Wayne County Commission's Committee on Audit for the period May 1, 2014 – April 30, 2015. Also included was a review of the county's Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2014.

The consulting engagement and the procedures performed were in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA). The IIA standards define consulting engagements as advisory and related management services/activities, the nature and scope of which are agreed with and/or requested by management and is intended to add value and improve the county's governance, risk management, and control processes without the internal auditor assuming management responsibility.

The fieldwork for this engagement was significantly completed on June 19, 2015.

METHODOLOGY

The procedures performed were limited to reviewing ordinances, laws, regulations, policies and procedures, the County's 2014 CAFR and other external auditor reports, third-party reports, and when necessary, limited interviews with appropriate management officials. We also reviewed and evaluated financial issues and matters that came to our attention as of June 19, 2015 that could potentially have a budgetary impact on county operations.

We shared the report with Management & Budget (M&B) management officials in order to obtain their comments on the budgetary issues presented in this report.

FISCAL YEAR 2015-2016 BUDGETARY ISSUES

CEO Directives/Initiatives - Budget Policy Statement (BPS)

Condition

Section 5.122 (Policy Statement) of the Wayne County Charter states: "At least 9 months before the next fiscal year, the CEO shall transmit the budget policy statement to all agencies to be included in the comprehensive budget. This statement shall estimate the revenues available for appropriation in the next fiscal year and include a budget policy statement." According to the Charter, the BPS must be transmitted on January 1 prior to the beginning of the next fiscal year.

- From fiscal year 2011 through fiscal year 2015, the issuance of the BPS has ranged from approximately 7 weeks to over 5 months after the charter mandated date of January 1.
- **Impact/Action** – The Budget Policy Statement sets forth broad strategic parameters that are intended to provide guidance in preparing the budget. It initiates the county's budget process for the upcoming fiscal year (i.e., Oct. 1) and involves elected officials, executive management, and the Wayne County Commission in the budgetary process.
- Issuing a BPS after its due date could hinder the timeframe of the commission to make fiscally sound budgetary decisions, especially in these times of the county's severe fiscal distress. Commission leadership should consider measures to ensure it receives adequate lead time to perform sufficient review, analysis, and inquiry prior to adopting and approving the county's annual \$1.5 billion budget.
- In addition, the Commission and CEO should hold periodic conferences to validate and agree to the amount of revenue projected for the year and build mandated program expenditures around validated budgeted revenue.

Views from Responsible Officials:

Management agrees that the transmittal of the Budget Policy Statement which signals the “kick off” of the budget season should be transmitted as soon as possible. The Charter does require the transmittal nine months prior to beginning of the fiscal year. However, given the financial constraints and stresses that the County has experienced over the last number of years, achieving this goal has been a challenge. The BPS establishes the revenue estimates as well as identifies the challenges and constraints facing the County for the upcoming year, many of which are not available in January or February. This makes it difficult to set policy and processes.

Management has included the Commission for the last number of years in developing the revenue assumptions and policies. In FY 2012 and 2013 budget years, a budget taskforce was established which included the Commission Chair and the Chair of Ways and Means. This taskforce identified budget challenges and sought solutions that were incorporated into the BPS. For FY 2015, the new administration developed and began implementing the Recovery Plan that was presented to the Commission in late April and is being incorporated into the FY 2015-16 proposed budget.

County Liquidity

Condition

We assessed the county’s General Fund liquidity by calculating its current and quick ratios for fiscal years 2010 through 2014. (As illustrated in the table below.)

Wayne County Current and Quick Ratio Analyses					
General Fund Only					
Fiscal Years 2010, 2011, 2012, 2013, and 2014					
(In Thousands)					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Current Assets	148,951	134,716	152,545	151,090	125,492
Current Liabilities	175,467	216,597	287,578	296,656	139,404
Current Ratio	0.85	0.62	0.53	0.51	0.90
Cash + Current Investments + A/R	147,556	132,979	150,813	149,356	123,805
Current Liabilities	175,467	216,597	287,578	296,656	139,404
Quick Ratio	0.84	0.61	0.53	0.50	0.89

Liquidity is a measurement of an organization’s ability to meet short-term obligations as they come due. The county’s current ratio has continued in a downward spiral starting with FY 2010 through FY 2013; there has been slight improvement overall since FY 2010. In FY 2010 the county’s General Fund had \$0.85 in cash and liquid assets for every \$1 in current liabilities. Thus, the county’s General Fund did not have sufficient assets with which to satisfy its short-term obligations. By FY 2014, the current ratio increased approximately 5.9% to 0.90; however, this still means there was only 90 cents in cash and liquid assets for every \$1 in current liabilities.

The quick ratio is a narrower measure of liquidity and a more conservative indicator of whether the county has enough cash and/or readily available liquid assets on hand to pay its obligations as

they come due. This ratio also decreased dramatically from FY 2010 through FY 2013. In FY 2010 the county had \$0.84 in quick current assets for every \$1 in current liabilities. However, by FY 2014, the quick ratio increased approximately 6% to \$0.89 which meant there was only 89 cents in cash and/or readily liquid assets on hand to pay its obligations as they come due.

The General Fund is the county's primary operating fund and payer of last resort. The above analysis indicates the county is in a very weak liquidity position to satisfy its short-term obligations. Therefore, to bridge this gap, it is necessary for the county to continue short-term borrowing. (See Tax Anticipation Notes – page 26.)

For comparative purposes, we performed the same analysis for Oakland and Macomb Counties. (See tables below.)

Oakland County Current and Quick Ratio Analyses General Fund Only Fiscal Years 2010, 2011, 2012, 2013, and 2014					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Current Ratio	3.43	4.66	8.58	5.22	5.35
Quick Ratio	3.43	4.65	8.54	5.21	5.35

Macomb County Current and Quick Ratio Analyses General Fund Only Fiscal Years 2010, 2011, 2012, 2013, and 2014					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Current Ratio	15.59	23.37	12.43	31.07	Not available
Quick Ratio	14.06	23.20	12.35	30.83	Not available

Both Oakland and Macomb Counties have maintained very strong liquidity positions, as opposed to Wayne County.

- **Impact/Action** – The weak liquidity position can be attributed to structural deficit spending. In his Recovery Plan, released on April 29, 2015, the CEO Stated “Our liquidity problems have not been addressed and we continue to hemorrhage cash.”
- Failure to improve the General Fund's liquidity could possibly result in greater control being exerted by the State of Michigan and a continuing decline in the bond rating which could lead to higher borrowing cost.

Views from responsible officials:

Management agrees that there has been a decline in the current and quick ratios since 2009. The impact of a bad economy and related financial constraints the County has experienced for the last five years has resulted in deficits in the General Fund. Comparison to Macomb and Oakland

Counties' liquidity position may not be applicable as neither County is in a deficit situation. However, with the influx of approximately \$170 million in DTRF reserves in FYs 2014 and 2015, the accumulated deficit is almost completely wiped out. Management and Budget is working towards resolving the structural deficits as outlined in the Recovery Plan. The CEO has also implemented a hiring and spending freeze county-wide which is intended to limit unnecessary cash outflows. Management and Budget continues to closely monitor the cash flow position to determine the strategic actions that need to be taken to improve the County's liquidity position.

Fund Deficits

- A review of the county's Comprehensive Annual Financial Report (CAFR) for fiscal years 2012, 2013, and 2014 disclosed the following undesignated/unassigned/unrestricted fund balance deficits:

County of Wayne
Comprehensive Annual Financial Report
Undesignated/Unassigned/Unrestricted Fund Balance Deficits
Fiscal Years Ending September 30, 2012, 2013 and 2014

Description by Fund	Unassigned/ Unrestricted Fund Balance 9/30/2012	Unassigned/ Unrestricted Fund Balance 9/30/2013	2012/2013 Increase (Decrease)	Unassigned/ Unrestricted Fund Balance 9/30/2014	2013/2014 Increase (Decrease)	2012-2014 Total Increase (Decrease)
General Fund	\$ 148,925,000	\$ 159,483,000	\$ 10,558,000	\$ 82,804,000	\$ (76,679,000)	\$ (66,121,000)
Health	1,289,000	1,732,000	443,000	5,033,000	3,301,000	3,744,000
Victim Witness	243,000		(243,000)	6,000	6,000	(237,000)
Juvenile Justice/Abuse & Neglect	8,685,000	7,347,000	(1,338,000)	225,000	(7,122,000)	(8,460,000)
Drug Enforcement	2,412,000	1,416,000	(996,000)	-	(1,416,000)	(2,412,000)
Nutrition	2,306,000	2,822,000	516,000	3,212,000	390,000	906,000
Wetlands Mitigation	-	-	-	1,000	1,000	1,000
Central Services	572,000	-	(572,000)	-	-	(572,000)
NE Sewage Disposal System	1,694,000	-	(1,694,000)	-	-	(1,694,000)
Copy Center	386,000	-	(386,000)	-	-	(386,000)
Community & Economic Development	1,681,000	2,776,000	1,095,000	2,279,000	(497,000)	598,000
Health & Family Services		1,793,000	1,793,000	-	(1,793,000)	-
Building and Ground Maintenance	2,265,000	420,000	(1,845,000)	281,000	(139,000)	(1,984,000)
Circuit Court	7,441,000	-	(7,441,000)	-	-	(7,441,000)
Chapter 8	2,029,000	2,769,000	740,000	-	(2,769,000)	(2,029,000)
Probate Court	1,870,000	-	(1,870,000)	-	-	(1,870,000)
Reg. Jobs Econ. Growth Fnd.(RJEGF)	5,000	-	(5,000)	1,000	1,000	(4,000)
Totals	\$ 181,803,000	\$ 180,558,000	\$ (1,245,000)	\$ 93,842,000	\$ (86,716,000)	\$ (87,961,000)

Undesignated/unreserved fund deficits have decreased from \$182 million in FY 2012 to \$94 million in FY 2014. This represents a decrease of approximately \$88 million, or 48%, over the three fiscal year periods.

- **Impact/Action** – The decrease in the deficits from FY 2012 to FY 2014 is an indication that some cost savings measures are working and/or additional revenues have been received (i.e., DTRF).
- During Fiscal Year 2015, commission leadership will need to review and monitor executive management's strategic plan to identify the causes and corrective measures for the remaining fund deficits. More importantly, ensure that designated funding appropriated to eliminate the fund deficits is actually being used for that purpose.

- Until strategically and structurally addressed, unassigned/unrestricted/undesignated fund deficits could eventually have a major negative impact on the county's budget and result in reduced services to county taxpayers and constituents, as well as the declaration of a financial crisis as defined by the State of Michigan. This could result in the appointment of an emergency financial manager by the State of Michigan.

Views from Responsible Officials:

The new Administration inherited the accumulated deficits created during the last administration but is addressing these deficits through actions as stated in the Recovery Plan. The Recovery Plan presented to the Commission, in April 2015, provides a clear path to financial stability for the County. Additionally, in order to facilitate the implementation of the Plan, on June 17, 2015, the CEO requested from the State Treasurer, a declaration of a financial emergency in Wayne County and to support a request for the County to enter into a Consent Agreement with the State of Michigan through Public Act 436 of 2012 (PA 436). The Consent Agreement would allow the County to continue negotiations with stakeholders while also providing the County additional tools and authority to make the difficult decisions needed to move the County out of financial instability.

Decline in County Bond Rating

The county continues to experience a decline in its bond ratings. The three major ratings agencies – Moody's Investor Services, Standard & Poor's, and Fitch Ratings – have downgraded the county's bond rating below investment grade; i.e., junk status. This will make future borrowings by the county more expensive. See attached table for historical trend of county's bond ratings.

**Wayne County Bond Rating
FY 2010 – FY 2014**

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Outlook
S&P	A-	BBB+	BBB+	BBB-	BB+	Negative
Moody's	A3	Baa2	Baa2	Baa3	Ba3	Negative
Fitch	A-	BBB+	BBB+	BB-	B	Negative

Source: County's CAFR's

Some of the factors contributing to the ratings decline include, but are not limited to, the following:

- Recent public statements by the county executive that the projected fiscal 2015 operating deficit is larger than previously reported and that cash will be depleted by August 2016.
- The county has named a "Chief Restructuring Officer" which raises concerns about the county's commitment to full and timely debt repayment.

Factors cited by Moody's Investor Services included:

- The county's General Fund had an annual deficit of about \$50 million during the last three years;

- An unsustainable defined-benefit pension plan;
- Healthcare inflation; and,
- Budget overruns in the sheriff and prosecutor's offices.

Factors cited by Standard and Poor's include:

- Very weak economy;
- Very weak budgetary flexibility, given six consecutive years of negative unassigned General Fund balances; and,
- Weak budgetary performance, attributable to the ongoing structural imbalance.

The county entered into a contract with First Southwest Company, LLC to provide the following fiscal related services:

- Structuring of the county's borrowing programs;
- Overall financial advisory services covering debt policy and management and financial management assistance;
- Liaison with the nationally recognized rating agencies;
- Scheduling and management of all bond sales;
- Assistance in bond pricing;
- Coordination with the bond insurance companies; and,
- Assistance with other debt and financing matters as needed.

Fiscal Agency noted that this is a contract between Management & Budget and First Southwest. The county (i.e., the commission) will be advised through M&B on debt management, cash flow strategies and rating agency communications. Thus, the commission will not be able to seek the advice of First Southwest on its own.

- **Impact/Action** – Continuous declines in the bond ratings are due, in part, to the magnitude of accumulated deficits. The current bond ratings for the three rating agencies indicate that the county's bonds are bordering on "junk" status. As a result of this, it could cost more to borrow in the future.
- In addition, the commission should request periodic updates from M&B regarding the fiscal advisory services provided by First Southwest Company.

Views from Responsible Officials:

Management agrees that all stakeholders should do everything in their power to improve the financial condition and bond ratings of the County. The implementation of the Recovery Plan and the elimination of both the accumulated and structural deficits will be major steps in accomplishing this goal. Once this is achieved, it is anticipated that the various rating agencies will improve the ratings of the County.

Deficit Elimination Plans

Section 5.171 of the Wayne County Charter states: "If expenditures exceed revenues in any fiscal year, the CEO shall submit a specific 5-year plan for short-term financial recovery and long-term financial stability to the Governor and the Legislature prior to the adoption of the next annual budget. The 5-year plan shall include those items required by law, the Governor, or the Legislature."

The last Deficit Elimination Plan (DEP) approved by the commission and submitted to, and approved by, the state was for fiscal year ending September 30, 2009.

The previous administration presented a deficit elimination plan to the commission in May 2014. Total estimated savings, per the plan, were \$32,724,000 in the General Fund and \$55,938,000 in all funds. The commission approved this plan at the May 15, 2014 Full Board meeting. One of the elements of the DEP was the inclusion of Delinquent Tax Revolving Fund Unrestricted Fund balance to the General Fund. (The state did not approve this deficit elimination plan.)

In December 2014, a resolution was proposed transferring \$78.7 million from the DTRF to the General Fund. However, the commission referred the resolution back to the Committee on Ways & Means. **(See further discussion in the DTRF section of the report.)**

It was stated in the CEO's transmittal letter for the county's 2014 CAFR: "A deficit elimination plan will be presented to the Commission and to the State of Michigan for approval in Spring 2015."

The State of Michigan Department of Treasury issued Numbered Letter 2014-1 **Deficit Elimination Plans** to provide guidance for submission of deficit elimination plans. This letter contains the following items:

- **Filing Requirements** – "...it is the expectation of Treasury that a local unit will submit a plan as soon as possible after the close of its fiscal year end. A plan should be filed prior to or concurrent with the submission of the local unit's audit report to Treasury."
 - **Acceptable Evidence to Support a Plan** – "Certified copies of board/council resolutions (describing funds and amounts) approving additional appropriations sufficient to eliminate the deficit and a copy of the journal entry that shows that the transfer has been made or a trial balance."
 - **Failure to Submit an Acceptable Plan** – "Should a plan not voluntarily be submitted, Treasury will no longer 'request' a plan. The local unit will be sent...a Notice of Intent to Withhold State Payments. The local unit will have 30 days from the date of the notice to file a plan. Should a plan not be filed within 30 days, we will withhold 25% of the local unit's State Incentive Payments or payments issued under...the Glenn Steil State Revenue Sharing Act of 1971. Once withheld, payments are released not when a plan has been filed, but when a plan has been evaluated and certified by Treasury."
-
- **Impact/Action** – Request county executive management to provide a date for the submission of a Deficit Elimination Plan to the commission for its approval and transmission to the Michigan State Treasury for evaluation and approval
 - Filing a deficit elimination plan and having it accepted by the State of Michigan Treasury is critical in order to prevent withholding of State Revenue Sharing payments.
 - Under PA 206, Section 211.87b (7), the commission has the authority to appropriate transferring the unrestricted surplus earnings in the Delinquent Tax Revolving Fund to

the General Fund. These funds can be designated to reduce the accumulated deficit and/or address the county's structural deficit.

- Failure to file and adhere to a Deficit Elimination Plan could result in a "trigger point" under House Bill 4214 – Emergency Financial Manager Act.

Views from Responsible Officials:

The new Administration inherited the accumulated deficits created during the last administration but is addressing these deficits through actions as stated in the Recovery Plan. The Recovery Plan presented to the Commission, in April 2015, provides a clear path to financial stability for the County. Additionally, in order to facilitate the implementation of the Plan, on June 17, 2015, the CEO requested from the State Treasurer, a declaration of a financial emergency in Wayne County and to support a request for the County to enter into a Consent Agreement with the State of Michigan through Public Act 436 of 2012 (PA 436). The Consent Agreement would allow the County to continue negotiations with stakeholders while also providing the County additional tools and authority to make the difficult decisions needed to move the County out of financial instability.

Structural Deficits

A structural deficit is the difference between what is committed to spending in the next budget and projected revenues.

- For the past three fiscal years, the county's actual revenues have been less than actual expenditures. Thus, there has been continuous deficit spending which means the county is in violation of the State Budgetary Act as well as the appropriation ordinances enacted each year by the commission.
- A press release from the CEO noted the following:
 - "An independent financial review showed that, barring a substantial intervention, Wayne County would run out of general fund revenue by May 2016."
 - The county's General Fund generated an annual deficit of approximately \$50 million (before Delinquent Tax Revolving Fund transfers) during the last three years.** (See table on following page.)
 - The General Fund position in pooled cash was:
 - Negative \$49 million as of 9/2014;
 - Expected to decline as low as a negative \$145 million in 2015; and,
 - A negative \$135 million in 2016 if potential risks are realized.

Despite transfers from the DTRF to eliminate the General Fund deficit, the county's liquidity position will continue to deteriorate in the next 12 to 24 months without drastic action."

**** The following table depicts the county's actual General Fund position for FYs 2012, 2013, and 2014.**

General Fund			
Fiscal Year	2012	2013	2014
Operating Surplus (in millions)	\$73,158	\$48,383	\$58,410
Transfer In/(out)	(\$95,866)	(\$58,711)	\$13,363
Surplus/(Deficit)	(\$22,708)	(\$10,328)	\$71,773

Source: County's annual CAFR

In the transmittal letter for the 2014 CAFR, it was stated: "According to assessments made by the new administration, the structural deficit is approximately \$50 million annually....The County must create structural balance and eliminate the need to rely on one-time sources such as the Delinquent Tax Revolving Fund. A deficit elimination plan will be presented to the Commission and to the State of Michigan for approval in Spring 2015...."

- The County's structural deficit has been primarily attributable to the Wayne County Sheriff's Office (WCSO) and the Prosecuting Attorney's Office (PAO).

Wayne County Sheriff's Office (WCSO)

The 2013 Enrolled Appropriation Ordinance No. 2013-599 contained the following: "The Office of the Sheriff shall report on contracting with a firm on providing an operational review of their office and implementing best practices. The Office of the Sheriff shall provide a status report to the Committee on Ways & Means no later than January 15, 2014, April 15, 2014 and July 15, 2014. The report needs to be formally submitted on elected official letterhead."

On January 15, 2014, the Director of Administration for the WCSO sent a letter to the Committee on Ways & Means stating the following: "Pursuant to the requirement of the above referenced Ordinance, please be advised that the Director of Jails and Courts has outreached to a national organization to conduct an operational review of the Jails and to determine best practices. As of this report, I cannot advise as to whether the organization is willing to provide the assistance."

The 2014 Enrolled Appropriation Ordinance No. 2014-499 contained the following: "The Office of the Sheriff shall report on contracting with a firm on providing an operational review of their office and implementing best practices. The Office of the Sheriff shall provide a status report to the Committee on Ways & Means no later than December 1, 2014 and June 1, 2015. The report needs to be formally submitted on elected official letterhead."

On January 7, 2015 the Director of Administration for the WCSO sent a letter to the Committee on Ways & Means stating the following: "Pursuant to the requirement of the above referenced Ordinance, please be advised that as of today no action has been taken to contract with a firm to provide an operational review of the Sheriff's Office."

There is no evidence that the WCSO complied with the requirements of the Enrolled Ordinance.

Departments/Offices that are in a deficit position for any particular month are required to submit a Deficit Elimination Plan. The Deficit Elimination Plan is provided to the Committee on Ways & Means.

- Through February 2015, the Wayne County Sheriff's Office has an approximate \$14 million cumulative deficit; primarily attributable to overtime, and sick and annual leave payouts not funded in their budget. The Sheriff's Office repeatedly requests a supplemental General Fund/General Purpose allocation to support the cost of operating the jails, which includes hiring additional Sheriff Deputies.

Prosecuting Attorney's Office (PAO)

The 2013 Enrolled Appropriation Ordinance No. 2013-599 contained the following: "The Prosecuting Attorney shall report on contracting with a firm on providing an operational review of their office and implementing best practices. The Prosecuting Attorney shall provide a status report to the Committee on Ways & Means no later than January 15, 2014, April 15, 2014 and July 15, 2014. The report needs to be formally submitted on elected official letterhead."

On June 13, 2014 the Prosecuting Attorney sent a letter to the Committee on Ways & Means in which she stated: "The Wayne County Prosecutor's Office has for years sought funds to do a feasibility study and retain an expert(s) that has knowledge and experience of similar office operations. We have informed both the County Executive's Office and the Commission directly many times and through prior budget presentations of our need and willingness to participate in such a process. However, we do not have the necessary funding to prosecute homicides, sexual assaults, and other violent crimes let alone for an operational review and therefore are unable to retain an expert to provide these services."

The 2014 Enrolled Appropriation Ordinance No. 2014-499 contained the following: "The Prosecuting Attorney shall report on contracting with a firm on providing an operational review of their office and implementing best practices. The Prosecuting Attorney shall provide a status report to the Committee on Ways & Means no later than December 1, 2014 and June 1, 2015. The report needs to be formally submitted on elected official letterhead."

There is no evidence that the PAO complied with the requirements of the Enrolled Ordinance.

- **Impact/Action** – Continued efforts will be required by the CEO, commission leadership, and elected officials to eliminate the structural deficits.
- The WCSO and the PAO are the primary cause of the county's structural deficits. The commission has twice requested both elected officials contract with a firm to perform an operational review, and implement best practices in their office. An operational review may result in efficiencies and cost savings to the general fund; thus helping to reduce/eliminate the public safety structural deficits.
- Commission leadership should consider appropriating funds to hire experts that could perform a review of their operations in an effort to implement cost savings in their respective operations.

Views from Responsible Officials:

Management agrees that through joint leadership and cooperation, by all involved parties, the structural deficit can be eliminated. The Sheriff, the Administration and the Chief Judge of the

Criminal Court have regular meetings regarding staffing and the need to reduce the structural deficit of the County Jail. The Prosecutor, in September, 2014, agreed through mediation on a General Fund General Purpose allotment for FY 2014-15 that was approved by the Commission. Management and Budget is projecting the Prosecuting Attorney to stay within the allotment and will not be in deficit in fiscal 2014-15.

DTRF Program

The county established its Delinquent Tax Revolving Fund (DTRF) in accordance with Michigan Public Act No. 206 of 1893, as amended, (“Act 206”) in 1977. This Act authorizes any county within the State of Michigan to establish a delinquent tax revolving fund. The DTRF program is used to pay 100 percent of all delinquent real property taxes owed to the county and the Local Taxing Units (LTU) on an annual basis. The financial transactions of the DTRF program are recorded in an enterprise fund of the county under the full-accrual basis of accounting.

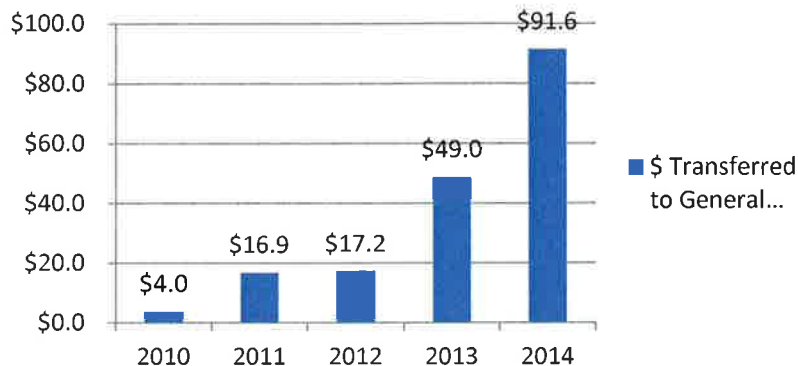
- On March 1 of each year, the Wayne County Treasurer’s Office (WCTO) is entitled to collect all delinquent real property taxes within the county. The delinquent taxes to be received are from uncollected levies from the LTUs from the preceding year.
- Once the notes are paid in full, any remaining or residual surplus funds from the WCTO’s administration of the DTRF program are determined by the Treasurer to be surplus funds. In accordance with Act 206, the surplus funds are transferrable to the county’s General Fund by commission resolution.

Historically, as the agent for the DTRF, the Treasurer has determined and declared the amount of the surplus. The county’s DTRF program over the years has provided financial stability to the LTUs to fund their operating budgets and provide services to their community constituents.

- In FY 2010, the DTRF had an unrestricted fund balance of \$17.3 million; \$4 million was transferred to the General Fund.
- In FY 2011, the DTRF had an unrestricted fund balance of \$3.9 million; \$16.9 was transferred to the General Fund.
- In FY 2012, the DTRF had an unrestricted fund balance of \$90.2 million; \$17.2 million was transferred to the General Fund.
- In FY 2013, the DTRF had an unrestricted fund balance of \$82.2 million; \$49.0 million was transferred to the General Fund.
- In FY 2014, the DTRF had an unrestricted fund balance of \$85.4 million; \$91.6 million was transferred to the General Fund.

The following chart shows the amount of DTRF surplus transferred to the General Fund for FY 2010 – FY 2014.

**DTRF
Transfers to General Fund
Fiscal Year 2010-2014
(In Millions)**



The dramatic increase in surplus DTRF transfers beginning in FY 2013 was the result of an OAG audit which determined that the Treasurer did not need to transfer unrestricted fund balance to restricted funds. Had the similar transfers (i.e., 2013 and 2014) been made in FY's 2010, 2011, and 2012 the county's General Fund deficits could have been significantly reduced.

At the November 25, 2014 meeting of the Committee on Ways and Means, the Wayne County Treasurer presented the Delinquent Tax Reserve Fund status report. In this report the Treasurer identified \$78,729,779 that was available for distribution to the General Fund.

At the November 25, 2014 meeting of the Committee on Ways and Means, the following two items were approved:

1. A resolution authorizing the transfer of \$78,729,779 to the General Fund for Fiscal Year 2014-2015 from the DTRF unrestricted retained earnings.
2. A budget adjustment certifying additional revenue in the Delinquent Tax Unpledged Fund.

At the December 4, 2014 Full Board meeting, both of the above items were referred back to the Committee on Ways and Means.

At the January 27, 2015 meeting of the Committee on Ways and Means, the following items were presented for approval:

1. Resolution to authorize the transfer of \$78.7 million to the General Fund from the DTRF.
 2. Budget adjustment certifying additional revenue in the Delinquent Tax Unpledged Fund.
- Both items were "Passed for the Day".

In the "Recovery Plan" issued by the CEO on April 29, 2015, it was stated: "The accumulated deficit, amassed from 2008 to 2013, was substantially eliminated using extraordinary transfers from the DTRF of \$91.6 million in FY 2013-14 and \$78.9 million in FY 2014-15. While a portion of the annual DTRF *transfer could be considered ongoing annual revenues*, (emphasis added), a significant portion of the FY 2013-14 and FY 2014-15 transfers represented one-time

revenues. As a result, the DTRF will no longer have sufficient funds to hide the structural deficit in the future."

The above statement in the "Recovery Plan" implies the \$78.9 million has already been transferred to the General Fund and applied to reducing the accumulated deficit. In fact, the \$78.9 million has yet to be transferred. A question was sent to the Deputy CFO/Budget Director regarding the disposition of this DTRF transfer. The Deputy CFO stated he had no knowledge of the resolution being pulled back.

A follow-up question was posed to Director of the Office of Policy, Research, and Analysis (OPRA) and the Chief Fiscal Advisor - Fiscal Agency. According to the Chief Fiscal Advisor the resolution will appear on the next Ways & Means committee meeting agenda. There was no explanation why it took four (4) months for the resolution to be placed back on the Ways & Means agenda.

At the June 4, 2015 Full Board meeting, the Commission adopted a resolution transferring the \$78.9 million from the DTRF to the General Fund. \$49.6 million of the transfer was designated to satisfy the judgment entered against the county on May 29, 2015 in the Wayne County Retirement Commission v. Charter County of Wayne litigation. **(See further discussion in the 13th Check section of the report.)**

- The CEO subsequently vetoed the resolution, stating: "Dedicating any DTRF funds to satisfy the Judgment is simply deficit spending."
- The commission's vote to override the CEO's veto failed.

Observation

- The recent transfers from the DTRF to the General Fund have increased substantially within the past two years. However, these are not really extraordinary and one-time occurrences. As a result of the OAG's audit of the Delinquent Tax Revolving Fund (DTRF) it was determined that the Treasurer was transferring a large portion of unrestricted funds to a restricted fund, in order to secure a favorable rate on Delinquent Tax Notes borrowings. The audit disclosed that the amount of the restricted funds were not necessary in order for the Treasurer to obtain a favorable interest rate on note borrowings. The annual amounts of the DTRF transfers should still remain significant, although not at the level as recent transfers.
- Historically, as the agent for the county, the Treasurer has determined and declared the amount of the surplus. Public Act 206 of 1893, as amended, Section 211.87b (7) states that "Any surplus in the fund may be transferred to the county general fund by appropriate action of the county board of commissioners.
- The Treasurer declared a surplus of approximately \$78 million in November 2014; however, for undetermined reasons the commission did not pass a resolution authorizing the transfer of these funds until June 2015. Failure to timely authorize the transfer of surplus DTRF funds could lead the Treasurer to assume the Commission does not consider them to be that important. Thus, the Treasurer may declare smaller "surpluses" in the future.

- **Impact/Action** - According to the Public Act creating the DTRF, the Treasurer is delegated the authority to declare a "surplus" in the DTRF. However, this same act (PA 206, Section 211.87b (7)) delegates the authority to appropriate the surplus to the General Fund, (and thereby designating use of the appropriated funds), to the county commission, and only the county commission.

Views from Responsible Officials:

As this issue is related to the Office of the Wayne County Treasurer, it was forwarded to that Office for response:

As a point of clarification, the OAG's audit did not contribute to the amount of dollars made available to the general fund, nor did it change any method of accounting. Although the OAG takes credit for this, it was simply convenient timing for them. In fact, it was the prior CFO who suggested (prior to any audit by the OAG) that the Delinquent Tax Revolving Fund program could continue to be successful if the reserves were released to the General Fund. The Office of the Wayne County Treasurer restructured the note program by extending the note maturity date in order to allow for additional revenue to be pledged to the notes including, if necessary, auction proceeds. The note sale was successful, which allowed for the reserves to be available as surplus and subsequently transferred to the General Fund.

As another point of clarification, the transfer resolution passed at the June 4th meeting (Resolution number 2015-263) did not discuss any designation as to use of funds, it simply authorized the Treasurer to transfer the surplus to the General Fund. The transfer was completed on June 5th.

Further, the observation that the Treasurer might alter his determination of a surplus because of its perceived "importance" by the Commission is baseless. The WCTO has a procedure for determining the amount of surplus with the key factor being anticipated market conditions. This procedure will be followed regardless of the timing of the authorizing resolutions.

Sheriff Office Concerns

Actual Cost Exceeding Budget

We reviewed the line item accounts for the Sheriff's Office where the actual expenditures have exceeded budget. Below are line item accounts that were significantly over budget for Fiscal Year 2012 through Fiscal Year 2014 and through March 31, 2015 of Fiscal Year 2015.

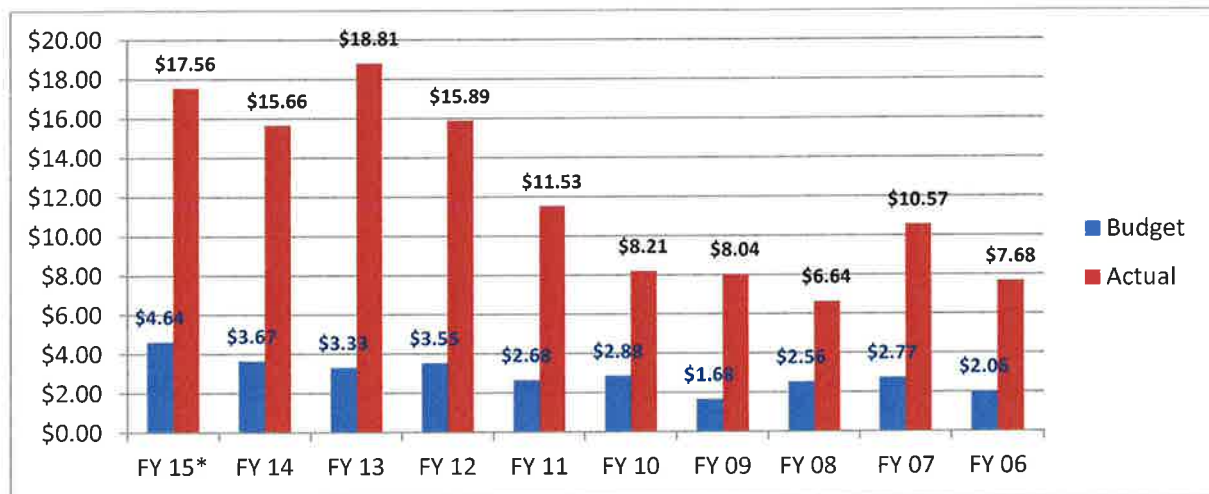
Sheriff's Office
Significant Line Items Over Budget
FY 2012 – FY 2015 (Through March 31, 2015)

Account	FY 2012		FY 2013		FY 2014		FY 2015 Through 3/31/15	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Holiday Premium	1,032,472	1,269,181	39,500	1,424,072	55,500	792,686	55,500	622,887
Overtime	3,551,732	15,891,845	3,327,461	18,809,511	3,672,711	15,659,342	4,638,900	8,779,056
Accumulated Annual Leave	207,150	727,519	21,680	907,520	102,000	726,466	75,000	458,126
Accumulated Sick Leave	168,200	962,283	7,111	1,063,172	110,700	1,052,694	74,700	745,320

Overtime

The Sheriff's Office has always been significantly over budget for overtime as shown in the following graph.

Sheriff Overtime
FY 2002 – FY 2015 (As of March 31, 2015)
In Millions

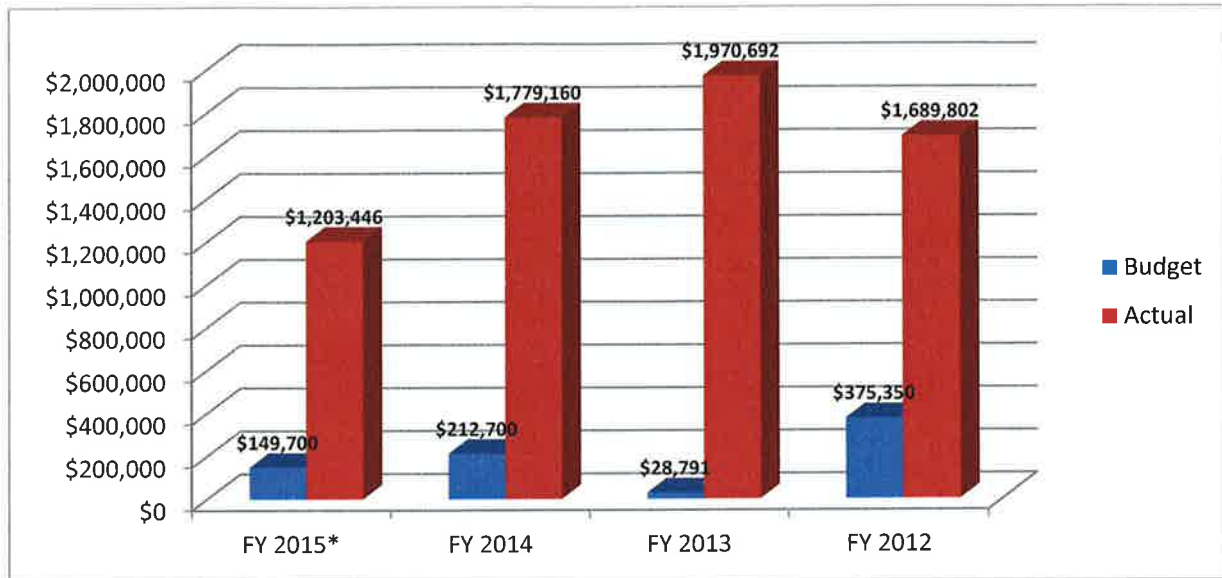


Overtime is discussed in more detail in the section of the report on overtime. (See page 26.)

Payment of Accumulated Sick and Vacation

The collective bargaining agreement for the Sheriff Deputies allows all hours in excess of 160 hours for vacation to be paid in cash on or before January 31st of the following year. For sick leave accumulation in excess of 50 days, the first six (6) days are paid at 100% of base pay and less than six (6) days is paid at 50% of base pay. Each year, the amount paid out for both accumulated sick and vacation leave has been greater than \$1 million; however, for fiscal year 2015, only \$149,700 was budgeted as shown in the following graph.

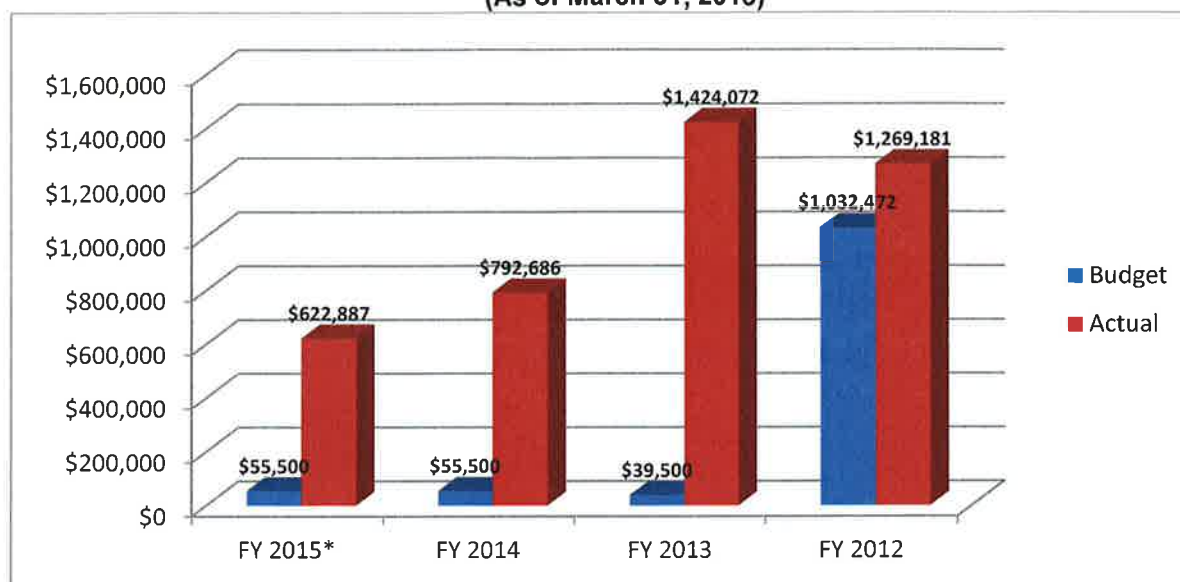
**Payment of Accumulated Sick and Vacation
FY 2002 – FY 2015
(As of March 31, 2015)***



Payment of Holiday Premium

The collective bargaining agreement for the Sheriff Deputies allows employees that are required to work on major holidays, to be paid holiday premium at the rate of 250 percent for the first eight hours of work and 300 percent for all hours worked in excess of 8 hours. Employees required to work on minor holidays are paid 200 percent for the first eight hours or any portion thereof and receive regular overtime rate for all hours in excess of eight hours. However, based on an arbitration decision in October 2013, the designation of major holiday was eliminated and all bargaining unit members working on these days are paid as minor holidays. The arbitration decision appears to have reduced the amount of holiday premium paid, but the amount budgeted is significantly less than actual expenditures as shown in the following chart.

**Payment of Holiday Premium
FY 2002 – FY 2015
(As of March 31, 2015)***



- **Impact/Action** - There are several issues related to the Sheriff's Office that should be considered during the development of the FY 2016 budget.
- Determine whether an increase in staff levels will have a positive impact on the budget by decreasing overtime.
 - Ensure that budgeted line items are realistic, based on past trends, and in accordance with actual expenditures incurred.
 - An operational review by an outside entity to determine the appropriate funding required to conduct the mandated level of staffing and General Fund/General Purpose (GFGP) funding for the Sheriff's Office for FY 2015-2016 and to identify any potential cost savings.

Views from Responsible Officials:

Management agrees that overspending, especially in the County Jail System, has been a historical problem. However, as a result of the most recent Act 312 decision, the rules governing the paying of overtime have been restructured and significant savings have been realized. The Sheriff, the Administration and the Chief Judge of the Criminal Court have regular meetings regarding staffing and the need to reduce the structural deficit of the County Jail. In FY 2016, the CEO is proposing to increase the Sheriff's funding level to a more realistic level; one closer to the historical expenditures of the Sheriff's Office.

Sheriff - Vehicle Repair Orders

Based on our analysis and review of the Wayne County Sheriff's Office vehicle repair order billings, there appears to be opportunities to reduce the expenditures related to vehicle repairs and strengthen the control environment. Our review noted:

- There was more than \$348,000 in questionable non-fuel charges on a BP credit card by WCSO personnel for the scope period of our engagement;

- Questionable preventative maintenance on vehicles;
 - The purchase of other goods and services were not done in the most economical way; and,
 - Excessive mileage on older vehicles which lead to additional maintenance costs.
- **Impact/Action** - The WCSO failed to adhere to the WCSO Comprehensive Vehicle Policy and the Wayne County Vehicle Use Ordinance, which resulted in identifying more than \$348,000 in questionable costs. Further, the WCSO does not maintain maintenance records for which the basis of many decisions, including replacement, is limited at best. Also, increasing the preventative maintenance mileage requirement to be more in line with best practices and manufacturer maintenance guidelines would reduce the amount of money the county is paying for maintenance. Finally, operating vehicles whose mileage is above average levels not only violates the Wayne County Vehicle Use Ordinance but also leads to higher costs for repairs in the long run.

Views from Responsible Officials:

As this issue is related to the Office of the Wayne County Sheriff, it was forwarded to that Office for response:

The “questionable” charges identified by the Auditors were for non-fuel charges required when there was not a purchase order in place to obtain maintenance and repairs services for fiscal years 2012 and 2013. Since then purchase orders have been established for most maintenance and non-emergency repairs. The Auditors concluded that such services could be done more economically with purchase orders rather than on the BP credit card. The Sheriff’s Office partially agreed with that.

The questionable preventative maintenance was as a result of the audit in which there were several instances of oil changes, tire rotation and other maintenance services being performed before the generally scheduled times. The Sheriff’s Office advised there is a policy in place to address this issue.

The Sheriff’s Office agrees that the high mileage on the vehicles result in increase in maintenance and repair. The CTU transport vans and the vehicles have not been replaced since 2008. The Sheriff’s Office Capital Plan for FY15 and FY16 include requests to fund replacement vehicles with excessive mileage.

CFO Disbursement Oversight/Approval

Wayne County's Home Rule Charter, Section 5.142 (Allotments) requires the CEO to establish a schedule of periodic allotments for the fiscal year. These allotments are binding, included in the comprehensive budget, and shall not be exceeded.

Section 5.143 (Disbursement Procedure) states that expenditure may be made only if an unencumbered and allotted appropriation is available. The CFO shall authorize the payment only if funds are available for the expenditure (i.e., deficit spending is prohibited.).

The CEO did not submit the monthly allotment schedule for FY 2014-2015 until May 5, 2015,

approximately eight (8) months into the 2014/2015 fiscal year. The CEO has also issued Executive Order 2015-03 which, among other things, (1) states that M&B is responsible for monitoring and enforcing compliance with the allotment schedule; (2) requires any county agency or department to submit a deficit elimination plan if it is projected to exceed its monthly allotment; and, (3) empowers the CFO to take corrective action for any county agency or department that is not in compliance with Executive Order 2015-03.

County departments are submitting deficit elimination plans, to the Committee on Ways and Means, if they have exceeded monthly allotments. That is, they are in deficit. At the June 24, 2014 Committee on Ways and Means meeting, all submitted deficit elimination plans were approved with the exception of the Wayne County Sheriff's Office which was rejected.

- **Impact/Action** – The CFO has not exercised the authority granted by the charter in not approving expenditures that are in excess of the budgeted appropriations. Thus, deficit spending is allowed to continue.
- The commission may need to inquire of the CFO why he does not exercise his charter granted authority and what actions are intended to prevent approving expenditures in excess of budgeted appropriations, especially for non-mandated functions.

Views from Responsible Officials:

Management objects to the OAG's assertion that the Office of the Chief Financial Officer is not performing its duties. The CFO does control and has exercised his authority over excessive spending by departments wherever possible. What the OAG's has not acknowledged are the multiple instances where expenditures are denied or deferred due to budgetary shortfalls. However, the vast majority of deficit spending is the result of uncontrolled personnel spending by certain elected officials without regard to the budget appropriated by the Commission. Those elected officials, in spite of Charter authority of the County Commission to establish a serviceable level of funding (Wayne County Charter Section 5.134(b)), turn to the Courts to spend beyond their legally binding appropriation. Two elected officials are currently seeking relief through the Third Circuit Court regarding their appropriation. The cost overruns are the result of County personnel being ordered to perform work by their superiors in these areas and as a result the County through the CFO has an obligation to pay the employees for work performed regardless of budget status.

Also be aware, the CFO through the DCFO/Budget Director does play an active role in monthly reporting of allotment overruns at the Committee on Ways and Means. The Budget to Actual reports are generated and distributed by Management and Budget and is the initial trigger that commences action on the Deficit Elimination Ordinance (2013-098).

Mental Health Authority

- At the December 18, 2014 Wayne County Commission Full Board meeting, a resolution was passed authorizing a retroactive extension and modification to an intergovernmental agreement between Wayne County and the Detroit Wayne Mental Health Authority (Authority). The extension and modification extended the term of the agreement from October 1, 2014 through September 30, 2015.

- The February 2015 cash flow projection estimated the Authority will retain 25% of their cash in the county's General Pooled cash account, projected at \$16 million, at October 1, 2015. As of October 1, 2016, the Authority will not have any cash in the county's General Pooled cash account.
 - For FY 2015, chargebacks due to the county are reduced from \$4,263,849 to \$1,030,180 for a total reduction of \$3,233,669.
 - The term of the building license agreement at 640 Temple will be from October 1, 2014 through August 31, 2015 on a monthly basis. The total cost for the term of the lease is \$916,595.
- **Impact/Action** – The Commission should request M&B to present a plan on how it plans to address the budgetary impacts of the Mental Health Authority no longer utilizing county services.
 - When the Authority vacates 640 Temple, the commission should request the administration pursue a sale of the building and the relocation of any county employees to the Guardian Building.

Views from Responsible Officials:

Management agrees that the separation of the Detroit Wayne County Mental Health Authority (DWCMA) from the County has significantly impacted county programs and operations. However, in the FY 2014-15 Adopted Budget, the budgets for those department previously providing services to the DWCMA were held harmless for these losses in developing their budgetary funding target. With the exception of certain direct charges, allocated costs will have to be reallocated to the remaining departments. The services and workload provided by the Chargeback departments will only slightly be decreased as a result of the loss of the MHA

In regards to the sale of Temple, plans are currently underway to relocate staff out of the building to other facilities and sell the building. Any proposed sale would require Commission approval.

SAS 114 Unrecorded Possible Adjustments

- In its **Report to the Wayne County Commission, Audit Committee, and the County Executive (SAS 114 Letter)**, the external auditors did not note any material adjustments to the county's financial statements that would have impacted the General Fund.
- As of our report date, the external auditors had not issued the A-133 audit. This audit is due by June 30, 2015.
- **Impact/Action** - Commission should request an explanation from M&B regarding any A-133 findings and their potential financial impact on county operations as well as why the A-133 was completed and submitted so close to its due date.

Views from Responsible Officials:

As a result of issues regarding the initial audit contract, the contract was required to be bid three times before award. This resulted in the Single Audit not starting until January, 2015. This was the initial year for the auditors and the timeline was lengthy for them to understand the County's systems, especially pertaining to cost accounting areas such as the Roads Work Order System. The audit was filed on the due date with the Federal Clearinghouse on June 30, 2015.

13th Check

In 2011, the county made its \$32 million annual payment to the Wayne County Employees Retirement System (WCERS) by using monies from the "13th check" fund; (Inflation Equity Fund [IEF]). This fund over the years has provided an annual extra payment to retirees in place of cost-of-living increases. WCERS (the "Plaintiff") sued the county over the use of the 13th check fund.

- The Michigan Court of Appeals ruled that the county violated state law governing collective bargaining.
 - The county appealed the Court of Appeal's decision.
 - The Michigan Supreme Court, in a decision dated December 14, 2014 affirmed the Michigan Court of Appeal's decision, that the transfer of funds from the IEF to the defined benefit plan, coupled with an offset to the county's required pension contribution, violated the Exclusive Benefit Rule and Prohibited Transaction Rule.
 - The Supreme Court remanded the lawsuit back to the Wayne County Circuit Court. Orders to reinstate the lawsuit and set a special conference were entered on February 23, 2015.
 - The principal amount of the claim is \$32.2 million, exclusive of interest.
 - On May 29, 2015 the Wayne County Circuit Court ruled that the county must pay \$49 million into the "Inflation Equity Fund", which has provided retirees with what has been known as the "13th check" for the past 30 years.
 - At the June 5, 2015 Full Board meeting there was approval to appropriate the DTRF unrestricted fund balance of \$78.7 million and use part of that to pay the \$49 million judgment.
 - The CEO vetoed this appropriation resolution.
 - The commission failed to override the CEO's veto.
 - An amendment to Section 141-32, *Inflation Equity Programs*, of the Wayne County Code of Ordinances has been approved by the commission which will eliminate the Inflation Equity Reserve Fund (IEF) and transfer the balance to the Defined Benefit Plan.
- **Impact/Action** - Until the 13th check judgment is paid in full, the county will incur additional penalties of \$10,595 per day after May 18, 2015.
- With the amendment of the Ordinance, the defined benefit fund balance will increase by approximately \$49 million, which should increase the funded ratio by 2-3%.

Views from Responsible Officials:

The County is currently in the process of paying the Retirement System the \$49.7 million judgment and approximately \$40 million has been levied on the July 1 Tax role to fund the payment.

Budgeted Revenue and Expenditure Projections

In an effort to ascertain possible reasons for fund deficits, we performed a trend analysis of budgeted revenues vs. actual revenues for fiscal years 2012, 2013, and 2014 for both major and non-major governmental funds.

Revenue Projections Budget to Actual Analysis Major Governmental Funds (General, Roads, Mental Health, Juvenile Justice/Abuse and Neglect Fiscal Years 2012 - 2014 (In Thousands)							
Fiscal Year	Original Budget	Final Amended Budget	From Original Budget Increase/ (Decrease)	% Increase/ (Decrease)	Actual	From Amended Budget Favorable/ (Unfavorable)	% Increase/ (Decrease)
2012	1,397,820	1,421,983	24,163.00	0.02	1,364,552.00	(57,431.00)	(4.04%)
2013	1,535,986	1,548,921	12,935.00	0.01	1,479,279.00	(69,642.00)	(4.50%)
2014	866,279	803,060	(63,219.00)	(0.07)	785,527.00	(17,533.00)	(2.18%)
Totals	2,933,806	2,970,904	37,098.00	0.01	2,843,831.00	(127,073.00)	(4.28%)

Revenue Projections Budget to Actual Analysis Non-Major Governmental Funds Fiscal Years 2012 - 2014 (In Thousands)							
Fiscal Year	Original Budget	Final Amended Budget	From Original Budget Increase/ (Decrease)	% Increase/ (Decrease)	Actual	From Amended Budget Favorable/ (Unfavorable)	% Increase/ (Decrease)
2012	127,963	128,865	902	0.70%	119,841	(9,024)	(7.00%)
2013	52,204	62,417	10,213	19.56%	34,452	(27,965)	(44.80%)
2014	105,748	107,126	1,378	1.30%	92,692	(14,434)	(13.47%)
Totals	285,915	298,408	12,493	4.37%	246,985	(51,423)	(17.23%)

- Based on this analysis, for both major and non-major governmental funds, projected county revenues are not being received as budgeted; in fact, there has been a shortfall of approximately \$178 million in government fund revenues for fiscal years 2012 through 2014. For Fiscal Year 2014 the shortfall was approximately \$32 million even though final amended budgeted revenues for Major Governmental Funds was *decreased by*

approximately \$63 million from the original budget. With this one exception, budgeted revenues have been amended upward and approved by the commission. More importantly, in all instances, actual revenues received were less than the original budget. Throughout the fiscal year, approval of expenditures is based on the approved, amended budget. This could be a contributing factor toward the county's deficit spending.

- **Impact/Action** – Over the past three fiscal years, amended budgeted revenue fell short of actual revenue by approximately \$178 million.
- Commission leadership should request that the CEO, as part of the FY 2015-2016 budget process, validate the revenue sources to support departmental expenditures.
- Also, commission leadership needs to intensify their efforts to monitor material amendments to revenues, as well as consider analyzing budget to actual revenue trends on a periodic basis throughout the year.

We also performed a trend analysis of budgeted expenditures to actual expenditures for fiscal years 2012 through 2014 for both major and non-major governmental funds.

Expenditure Projections Budget to Actual Analysis Major Governmental Funds (General, Roads, Mental Health, Juvenile Justice/Abuse and Neglect Fiscal Years 2012 - 2014 (In Thousands)							
Fiscal Year	Original Budget	Final Amended Budget	From Original Budget Increase/ (Decrease)	% Increase/ (Decrease)	Actual	From Amended Budget Favorable/ (Unfavorable)	% Increase/ (Decrease)
2012	1,386,896	1,416,711	29,815	2.15%	1,374,485	42,226	(2.98%)
2013	1,544,077	1,563,646	19,569	1.27%	1,518,664	44,982	(2.88%)
2014	890,883	833,529	(57,354)	-6.44%	791,439	42,090	(5.05%)
Totals	3,821,856	3,813,886	(7,970)	-0.21%	3,684,588	129,298	(3.39%)

Expenditure Projections
Budget to Actual Analysis
Non-Major Governmental Funds
Fiscal Years 2012 - 2014
(In Thousands)

Fiscal Year			From Original Budget	%	Actual	From Amended Budget	%
	Original Budget	Final Amended Budget	Increase/ (Decrease)	Increase/ (Decrease)		Favorable/ (Unfavorable)	Increase/ (Decrease)
2012	167,606	180,055	12,449	7.43%	173,463	6,592	(3.66%)
2013	56,700	85,473	28,773	50.75%	43,445	42,028	(49.17%)
2014	115,963	126,367	10,404	8.97%	92,958	33,409	(26.44%)
Totals	340,269	391,895	51,626	15.17%	309,866	82,029	(20.93%)

- Based on this analysis:

- **Impact/Action** - Final Amended Budgeted expenditures exceeded the actual expenditures in the government fund statements by approximately \$211 million over fiscal years 2012 through 2014. This implies that amendments to the budget are not being closely monitored in addition to adjustments not being made on a timely basis.
- The commission needs to intensify their efforts to monitor material amendments to expenditures, as well as consider analyzing budget to actual expenditure trends on a periodic basis throughout the year.

Views from Responsible Officials:

Management disagrees regarding the OAG's assertion that the budgets are not being closely monitored. Monitoring is not done at the consolidated Major or Non Major Fund level but rather at the business unit and or appropriation level. The Department of Management and Budget, in partnership with the Committee on Ways and Means, regularly monitors the operations of departments and offices of the County through the monthly report mechanism established three years ago. The Committee using the DEP ordinance requires corrective action plans which must be approved by the full commission.

Tax Anticipation Notes (TANs)

Under state statute, the county can issue tax anticipation notes (TANs) for the purpose of providing a mechanism to manage periodic cash flow shortfalls that occur throughout the year. As a result of the most recent borrowing approved by the commission, the county will have spent approximately \$7.725 million in borrowing costs related to these TANs. On May 28, 2014 tax anticipation notes of \$75 million were sold at 1.52 percent with a maturity date of October 31, 2014. Listed in the attached table are dates and interest costs of Wayne County's TAN borrowing

over the past four fiscal years. (Note: As of the date of our report the county has not issued TANs during FY 2015.)

Schedule of Short-Term Borrowing FY 2010 – FY 2014			
Date	Amount	Interest (%)	Total Borrowing Cost
January 2010	\$100 million	3.75	2,732,877
December 2010	100 million	3.50	2,752,055
April 2012	100 million	1.85	1,056,421
April 2013	90 million	1.34	616,767
May 2014	75 million	1.52	567,000
Totals	\$465 million		\$ 7,725,120

- **Impact/Action** - Commission leadership will need to closely monitor: (1) that the CEO is taking strategic actions to identify the cause of the periodic monthly cash flow shortfalls; and, (2) M&B's monthly cash flow projections to make sure the county's cash position is not deteriorating.

Views from Responsible Officials:

No TANs are expected to be issued in FY 2014-15 due to the transfer of unrestricted DTRF funds to the General Fund. The Administration, through the Office of Management and Budget, is closely monitoring the County's cash flow position and has taken steps to reduce expenditures such as the hiring and spending freeze to ensure the cash flow position of the County is not deteriorating.

Contractor Concessions

In the CEO's Recovery Plan, all stakeholders were asked to share in the sacrifice to stabilize the county and return it to firm financial footing. Specifically, the Plan asks almost all county employees to take a 5 percent salary reduction as well as eliminating healthcare benefits for future retirees.

It can be argued that the county's vendors are major stakeholders. In a prior Budget Sensitive report, the OAG estimated that the county spent an average of \$1.4 billion annually on vendor contracts.

Assuming the same "sacrifice" is requested from the county's vendors and using an estimated average annual spending of \$1 billion, the 5% concession would approximate \$50 million annually. This sum would help tremendously in addressing the county's cash flow and structural deficits and alleviate the possibility of either a consent agreement or EFM.

- **Impact/Action:** - Because the CEO has reiterated on several occasions that all stakeholders must share in the sacrifice, requesting concessions from vendors is a well established practice in the private sector. If the county requested a 5% concession from

vendors, the county could potentially realize a savings of approximately \$50 million annually.

- Commission leadership during budget deliberations should request an analysis on vendor concessions to assess its financial impact on the county budget.

Views from Responsible Officials:

Management agrees that all stakeholders should share in the sacrifice and as an example; the Office of the CEO negotiated a \$4.5 million reduction to the Juvenile Justice system's Care Management Organizations. The administration is proposing sweeping changes in the procurement cycle which is expected to generate as much as \$10 million in savings to County operations.

Collective Bargaining Agreements (CBAs)

During negotiations with the various collective bargaining unit, one area the county should consider that could have a budgetary impact is the language in some collective bargaining agreements related to mileage reimbursement. Currently the county's policy for mileage reimbursement states " Where assignments begin and/or terminate at the employee's home, reimbursement will be based upon the mileage from home to the field assignment and and return, less the personal mileage from home to the official work station."

Some collective bargaining agreements, (i.e., AFSCME non-supervisory) states the employee will be reimbursed home to field. The OAG recently began an audit of mileage reimbursement where this will be reviewed.

Another area that should be considered during current negotiations with the CBA units was discussed above related to overtime.

- **Impact/Action:** There could be savings to the county for mileage reimbursement if home to field assignment mileage requires deduction for home to work mileage.
- The county should continue to find ways to negotiating other savings that could result in a reduction in overtime and negotiate similar changes in the remaining CBAs as was negotiated with the Sheriff Deputy unions.
- Ways & Means should inquire of Labor Relations if these issues are being considered in negotiations.

Views from Responsible Officials:

Management agrees. Through the collective bargaining process, the administration is proposing significant changes to overtime, benefits and work rules all of which are incorporated in the Recovery Plan. The administration is aggressively negotiating with the various county unions in the hopes of coming to acceptable agreements that include savings incorporated in the Recovery Plan.

Revenue Enhancements – User Fees

The CEO's "Recovery Plan", issued April 27, 2015, proposed an environmental fee increase:

- It has been over 10 years since the last fee increase.
- Increase fees by \$0.10 per cubic yard, with an anticipated minimal impact on end users.
- Additional revenues generated as an impact fee could be used for any environmental purpose that promotes the public health, safety, or welfare of the citizens.
- Projected revenue increase: \$1.1 million.

In FY 2014, Charges for Services was \$123.3 million, or 21.8% of the total county General Fund revenue.

- This represents an approximately \$1.7 million increase from FY 2013.
- In prior years, the Budget Task Force recommended to “Adjust fees for county services annually to reflect market changes and the rates charged for comparable services in peer counties”.
- **Impact/Action** Commission leadership should request executive management to submit a report annually reviewing the costs of delivering mandated services and proposing fee increases as deemed necessary.

Views from Responsible Officials:

Regarding Tipping Fees: Management agrees that an increase in the tipping fees by 0.10 cents would increase revenue by approximately \$1.1 million. Management is conducting further due diligence regarding this potential initiative.

Regarding adjusting Charges for Services Revenue on an annual basis: Approximately \$80 million of those fees are inter-department charges (chargebacks, sheriff and clerk charges to the courts) and are based on the cost of services. These fees change on an annual basis based on the amount budgeted for these services. Many other fees are based on state law. However, the administration is currently assessing the various fees in the County Fee ordinance for possible update.

Cash Flow Deficits

- Per Enrolled Ordinance 2014-499, M&B is required to submit monthly cash flow statements to the Committee on Ways & Means.
 - Fiscal Agency also noted that M&B has been consistently late with providing the monthly cash flow statements.
- The February 2015 cash flow statement projects a positive \$55.6 million General Fund position in pooled cash as of September 30, 2015. However, the same cash flow statement projects increasing negative positions in the General Fund position in pooled cash from a negative \$39.6 million as of October 31, 2015 to a projected negative \$113.7 million as of February 29, 2016.

➤ **Impact/Action** – Commission leadership should consider:

- Request M&B submit monthly cash flow statements on a timely basis. Late receipt of these important statements prevents the commission from exercising proper oversight of the county's finances.

Views from Responsible Officials:

M&B recognizes that cash flow forecasts are to be provided monthly and a renewed emphasis will be placed on providing more timely information to the Committee on Ways and Means. Historically, September has been the month with the least negative cash position. The February forecast included the DTRF transfer, a \$75 million TAN loan, and an error in the property tax collection line (accrued revenues were included instead of only cash receipts). M&B will be sending to the Committee on Ways and Means the March, April, and May forecasts for completeness. Going forward a budget forecast and cash forecast will be provided to the Committee.

Mandated and Discretionary Functions

In the Letter of Transmittal in the county's Comprehensive Annual Financial Report (CAFR), the administration has stated that long-term **financial planning is an indispensable** complement to traditional budgeting and is an invaluable piece of the county's overall strategic planning framework. In addition, the county continues to focus on: (1) ensuring long-term financial sustainability; deliver services in a cost-effective and efficient manner; and, (2) ensure operating revenues are sustainable.

- The county provides a myriad of services; however, no distinction is made in the budgeting process between mandated services vs. those that are discretionary; i.e., non-mandated.
- This lack of distinction has led to overall deficit spending by the county as a whole.

Kent County, Michigan has addressed this issue in their budgeting process, “Mandated & Discretionary Functions of Kent County Government 2014”, which is located on their website, under “Publications.”

In 1998, the Kent County Board of Commissioners requested a compilation of what county activities were mandated, and what activities were not. Departments were asked to assign each function to one of five descriptive categories:

1. County functions performed because they are mandated by federal or state constitutions, statutes or court orders.
2. County functions performed because they are authorized by or emanate from contracts, grants or other binding agreements entered into by the Board of Commissioners.
3. County functions performed because they are authorized by one or more resolutions of the Board of Commissioners.
4. County functions neither mandated nor authorized by contract or resolution, but performed because they are necessary for the performance of a mandated or authorized function by a county unit.

5. County functions which do not meet any of the above criteria and/or are discretionary programs of a department.

For an activity to be considered *mandated* or *necessary*, it had to be conducted in some form in every county in Michigan. The mandate need not be to a specific department, but to the county in general.

Funded and Unfunded Mandates were also defined:

- **Unfunded Mandate:** There is no funding enabled or provided by the state or federal agency which requires that this function/service be performed.
- **Fully Funded Mandate:** The county receives funding through either the state or federal agency to cover the costs of providing this function/service. This may be through a designated reimbursement or through the county being enabled to assess fines or fees that are sufficient to *fully* cover the cost of providing the service.
- **Partially Funded Mandate - Designated Funding (State/Feds):** The county receives some level of designated funding or reimbursement from the state or federal agency that *partially* covers the cost to perform a specific service.
- **Partially Funded Mandate - Fines/Fees:** The county is enabled by state or federal agency to levy a fee or fine which *partially* covers the cost of providing the service.

Each office/department submits an overview of their functions/services plus detailed worksheets of each function, whether it is mandated or non-mandated, and funding source. As an example, The Kent County Prosecutor's Office submitted the following:

- Overview document
- Function matrices

➤ **Impact/Action** – Commission leadership should request the administration to implement a process similar to that of Kent County prior to budget deliberations. This process should include:

- A detailed definition of services/functions that are mandated vs. those that are discretionary;
- Each office/department prepare a matrix of their services/functions detailing those that are mandated, non-mandated, and funding source; and,
- The above information/documents be included in the county's website (in the M&B budget information tab) in order to provide budgeting transparency and provide the citizens of Wayne County relevant financial information.

Views from Responsible Officials:

The new administration continuously reviews the operations of the County regarding mandated and non mandated operations. In previous years, Management and Budget has shared the analysis of mandated and non mandated services with the Commission usually during the annual budget process. Additionally, annually, the Commission fiscal staff receives at their request, each department's analysis of mandated and not mandated operations during the budget hearings.

Overtime

In FY 2014, overtime costs county-wide were \$25.9 million, of which \$15.7 million was related to the Sheriff's Office. In FY 2015 through March 31, 2015, total overtime costs were \$13.6 million of which \$8.8 million were related to the Sheriff's Office.

Overtime Expenditures Budget to Actual (In Millions)

	FY 2012		FY 2013		FY 2014		Through 3/31/15	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
Sheriff	\$3.6	\$15.9	\$3.3	\$18.8	\$3.7	\$15.7	\$4.6	\$8.8
Other Departments	\$7.8	\$8.9	\$5.7	\$8.1	\$8.2	\$10.2	\$1.4	\$5.8
Total Overtime	\$11.4	\$24.8	\$9.1	\$26.9	\$11.8	\$25.9	\$6.0	\$13.6

In October 2013 there was a decision on the Act 312 arbitration between the County and the Police Officers Association of Michigan (POAM) related to overtime. Some significant changes as a result of this ruling were that overtime would only be paid for hours of work in excess of 80 hours. The ruling also included that vacation, sick, personal business, holiday, and bereavement hours would not be included as hours worked for overtime purposes. Double time was also eliminated. While overtime was slightly reduced in the Sheriff's Office in FY 2014, it did not appear to be near the \$6 million. Moreover, based on the amount expended for overtime for the first six months of FY 2015, overtime could reach \$17.6 million this year.

In addition, for the last three years, actual expenditures for overtime in the Sheriff's Office have exceeded the budget significantly. In FY 2014, actual expenditures for overtime were \$15.7 million or \$12 million more than budgeted as shown in the above chart.

➤ **Impact/Action** – According to the officials within labor relations, the overtime modifications with the POAM contract awarded almost 100 percent more savings than projected. The savings appear to be approaching \$6 million annually. While the savings from the modification to the collective bargaining agreement may have reduced overtime expenditures, the overall amount of overtime has not been reduced significantly. The county should continue to find ways to negotiate other savings that could result in a reduction for overtime and negotiate similar changes in the remaining CBAs, the savings could be even more.

Views from Responsible Officials:

Management agrees. The Act 312 award changing the overtime rules for the POAM members did save approximately \$6 million annually. However, due to recruitment issues for sheriff deputies and other hard to recruit positions, overtime continues to be an issue. Through the collective bargaining process, the administration is proposing significant changes to overtime, benefits and work rules which should reap savings all of which are incorporated in the Recovery Plan.

FUTURE BUDGETARY ISSUES

Michigan Public Act 436 (Emergency Financial Manager Act)

The Michigan Legislature passed Public Act No. 436 (Enrolled Senate Bill No. 865 - "Local Financial Stability and Choice Act") which became effective March 28, 2013.

- a. Sec. 4. (1) of the act states: "The state financial authority may conduct a preliminary review to determine the existence of probable financial stress within a local government if 1 or more of the following occur:"
- b. The OAG believes the following "trigger points" are applicable to Wayne County:
 - Sec. 4 (1) (j) - "The local government has violated a requirement of sections 17 to 20 of the uniform budgeting and accounting act;
 - Sec. 4. (1) (n) - "The local government is in breach of its obligations under a deficit elimination plan or agreement entered into pursuant to a deficit elimination plan; (The last deficit elimination plan that was certified by the State Department of Treasury was for the fiscal year ending September 30, 2009. The county is in violation of this DEP.)
 - Sec. 4. (1) (p) - "The municipal government has ended a fiscal year in a deficit condition..."
 - Sec. 4. (1) (r) - "The local government has been assigned a long-term debt rating within or below the BBB category or its equivalent by 1 or more nationally recognized credit rating agencies"; and,
 - Sec. 4. (1) (s) - "The existence of other facts or circumstances that, in the state treasurer's sole discretion for a municipal government, are indicative of probable financial stress.
- c. Per Sec. 7. (1) If there is a confirmation of a financial emergency, the governing body of the local government shall, by resolution within 7 days after the confirmation of a finding of a financial emergency, select 1 of the following local government options to address the financial emergency:
 - consent agreement
 - emergency manager (receivership)

- neutral evaluation
- Chapter 9 bankruptcy

If an emergency manager is appointed, Sec. 12. (1) states: "An emergency manager may take 1 or more...additional actions with respect to a local government that is in receivership, notwithstanding any charter provision to the contrary." The act lists 32 additional actions that the emergency manager may take. These actions include, but are not limited to, the following:

- i. Sec. 12. (1) (b) - "Amend, revise, approve, or disapprove the budget of the local government, and limit the total amount appropriated or expended."
- ii. Sec. 12. (1) (i) - "Notwithstanding any minimum staffing level requirement established by charter or contract, establish and implement staffing levels for the local government."
- iii. Sec. 12. (1) (j) - "Reject, modify, or terminate 1 or more terms and conditions of an existing contract."
- iv. Sec. 12. (1) (k) - "...may reject, modify, or terminate 1 or more terms and conditions of an existing collective bargaining agreement...."
- v. Sec. 12. (1) (l) - "Act as sole agent of the local government in collective bargaining with employees or representatives and approve any contract or agreement."
- vi. Sec. 12. (1) (m) - "If a municipal government's pension fund is not actuarially funded at a level of 80% or more...the emergency manager may remove 1 or more of the serving trustees of the local pension board...."

Sec. 12. (1) (cc) - "For municipal governments, with the approval of the governor, disincorporate or dissolve the municipal government...."

In addition, the county's dire financial condition has been reported in the media, noting the possibility of the county being placed under an emergency manager or facing bankruptcy (as happened to the City of Detroit.)

- **Impact/Action** - Under this Act the county is, at a minimum, considered to be in severe financial stress that could lead to a state of financial emergency. If left unaddressed, the future capability to provide necessary government services essential to public health, safety and welfare could be threatened. The most undesirable outcome could be the county being placed in receivership and the governor appointing an Emergency Financial Manager.

Views from Responsible Officials:

On June 17, the CEO sent a letter to the State Treasurer asking for a financial review of the County under Act 436 of 2012 (PA 436). PA 436 has four possible outcomes including state mediation, appointment of an emergency manager, a consent agreement or declaration that a financial emergency does not exist. The CEO's preference is that the County enters into consent agreement with the State.

Consent Agreement

On June 17, 2015 the Wayne County Executive delivered a letter to the State Treasurer asking for a declaration of a financial emergency in Wayne County. Although the letter to the State Treasurer did not request a Consent Agreement, a press release quoted the CEO as follows: "...I am requesting this Consent Agreement because the additional authority it can provide the County may be necessary to get the job of fixing the county's finances done...." In this letter, the CEO outlined the following reasons for requesting the declaration of a financial emergency:

A. Financial Conditions Necessitating Request for a Preliminary Review

1. General Fund Deficits

2. Credit Rating

The county's unlimited tax general obligation debt and limited tax general obligation debt are both rated below investment grade by all of the nationally recognized credit agencies.

3. Judgment Levy

The county had a \$49 million judgment entered against it for repayment of \$32 million diverted from the 13th Check (Inflation Equity Fund). **(See 13th Check section of report for further discussion.)**

- The Wayne County Commission passed a resolution to pay this judgment from the surplus DTRF funds declared by the County Treasurer.
- The CEO vetoed this resolution and the Commission did not override the veto.
- It can be argued that this particular financial condition was the result of the CEO's actions.

4. Additional Facts or Circumstances

- The county's defined benefit plan is severely underfunded.
- The county still needs new or upgraded jail facilities.

B. Factors Indicative of a Financial Emergency

1. Failure for a Period of 30 Days or More Beyond the Due Date to Transfer Any Contribution Required by a Pension, Retirement, or Benefit Plan.

- This refers to the \$32 million diverted from the IEF which resulted in the \$49 million judgment against the county. (See **Judgment Levy** above.)
- It can be argued that this particular financial indicator was the result of the CEO's actions.

2. Failure to Eliminate an Existing Deficit within the 2-Year Period Preceding the Current Fiscal Year.

3. Existence of a Structural Operating Deficit.

4. Other Facts Indicative of a Financial Emergency

- The county's General Fund has not had a positive cash balance since February of 2011.
- The Wayne County Employee's Retirement System faces an unfunded accrued actuarial liability of \$870 million as of September 30, 2014.

It was reported that the State Treasurer and staff would review the request and next steps would be forthcoming.

The State Treasurer would first determine if a preliminary review is warranted.

- i. If so, the Treasurer's office has 30 days to complete the preliminary review and final report.
- ii. Within 20 days after receiving the final report from the Treasurer, the local emergency financial assistance loan board would determine if probable financial stress exists.
 - a. If a finding of probable financial stress is made, the governor appoints a financial review team that has up to 60 days to perform a more in-depth study.
 - b. Options for rectifying the situation could include a consent agreement or emergency manager.

Consent Agreements (Defined)

- A Consent Agreement is a legal agreement negotiated between a local government and the designated state financial authority (SFA) to address the local unit's fiscal problems. The SFA for municipalities is the State Treasurer.
- Prior to a consent agreement, a preliminary review is done by the SFA at the request of the local Chief Administrative Officer (CAO) [i.e., the Wayne County Executive], the local government body or the SFA itself to determine if a financial problem exists. If a preliminary review finds probable financial stress, then a Financial Review Team is appointed to do a more thorough review of the finances of the local government. There are three possible outcomes to a financial review:
 1. No further action because there is no stress or mild stress but the government is able to provide essential services for the next two years and the case is closed.
 2. Severe stress exists which shows that one or more stress factors exist or will exist within one year which threatens future ability to provide essential services if not addressed.
 3. Financial emergency exists which means two or more stress factors exist or will exist within one year which threatens *current and future* ability to provide essential services if not addressed.
- If the Financial Review Team determines either severe stress or a financial emergency exists, it has the authority to negotiate and sign a consent agreement with the local governments'

CAO. The consent agreement also must be approved by resolution by the local entity's governing body (i.e., Wayne County Commission).

- The goals of a consent agreement are:
- Provide remedial measures to address the local financial problem(s).
- Provide financial stability to the local unit.
- A consent agreement allows elected officials to remain in charge during the consent agreement period while setting conditions and actions that must be followed to alleviate the financial crisis.

There are two types of Consent Agreements:

1. Continuing Operations Plan (COP)

- The local government prepares and submits its own plan to the SFA.
- The SFA has 14 days to approve or disapprove the plan.
- If the plan is rejected, the local entity has 30 days to revise the plan.

2. Recovery Plan

- The State Financial Authority develops and adopts the plan for the local government.

A consent agreement must contain the following information:

- A detailed projected budget of reasonable revenues and expenditures for a minimum of three years showing that expenditures will not exceed revenue and that any existing deficit will be eliminated.
- A cash flow projection for the same budget period.
- An operating plan that ensures fiscal accountability for the budget period.
- A plan for reasonable and necessary maintenance and capital expenditures.
- An evaluation of pension and retiree health care costs and how those costs will be addressed during the budget timeframe.
- A provision for submitting quarterly compliance reports to the SFA showing compliance with the COP.

In summary, a consent agreement outlines the process, terms and conditions for developing and implementing a financial plan to guide the local government toward financial stability.

Compliance with the agreement ultimately rests with the local elected body (i.e., Wayne County Commission) with oversight by and reporting to the designated state financial authority.

- **Impact/Action** - The commission plays a crucial role if a financial review occurs and a consent agreement is proposed.

- As the Commission Chair stated in his comments made to the commission, the consent agreement can be approved, or rejected, ***only by the commission.***
- The commission should take heed of the Chair's advice and perform its own due diligence in the eventual choice made of the course to rectify the county's financial crisis.

Views from Responsible Officials:

On June 17, the CEO sent a letter to the State Treasurer asking for a financial review of the County under Act 436 of 2012 (PA 436). PA 436 has four possible outcomes including state mediation, appointment of an emergency manager, a consent agreement or declaration that a financial emergency does not exist. The CEO's preference is that the County to enter into consent agreement with the State.

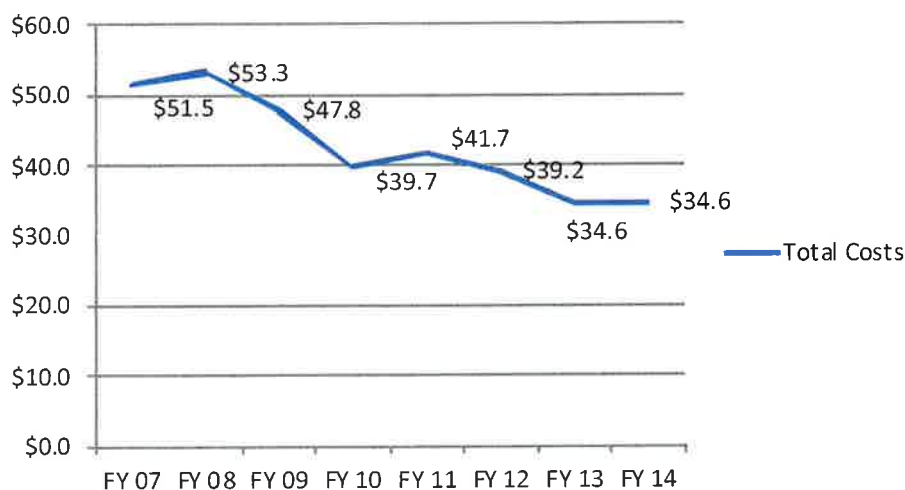
Health Care Costs

Active Employee

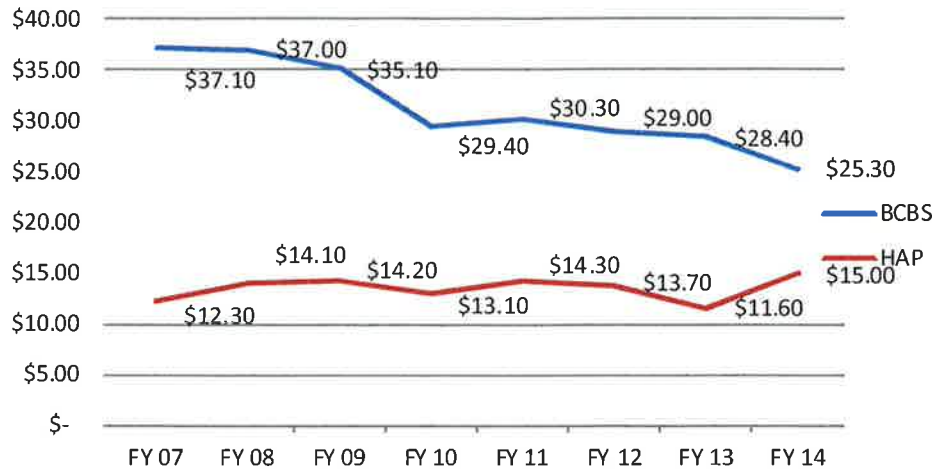
Currently our office is performing a review of Health Care cost allocations. Based on the information provided by the office of Personnel/Human Resources, we preliminarily noted the following:

- Total "active" employee healthcare costs have decreased from \$51.5 million in FY 2007 to \$34.6 million in FY 2014. As shown in the following charts

**Total Active Employee Health Care Costs
(In Millions)**



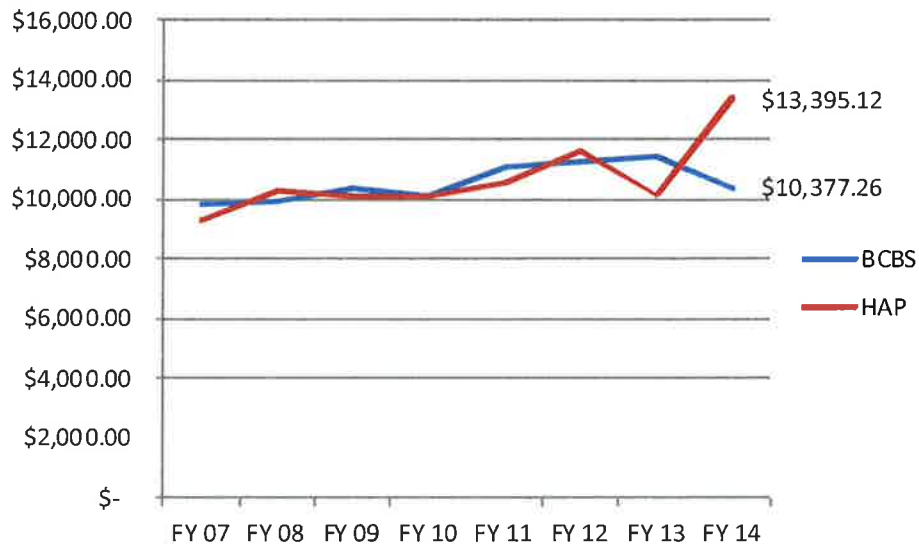
Total Active Employee Health Care Costs by Provider (In Millions)



Active employee health care is provided by Blue Cross and Blue Shield of Michigan (BCBS) and Health Alliance Plan (HAP). While BCBS costs have shown a decrease each year, HAP costs were cyclical but there was a significant increase in FY 2014.

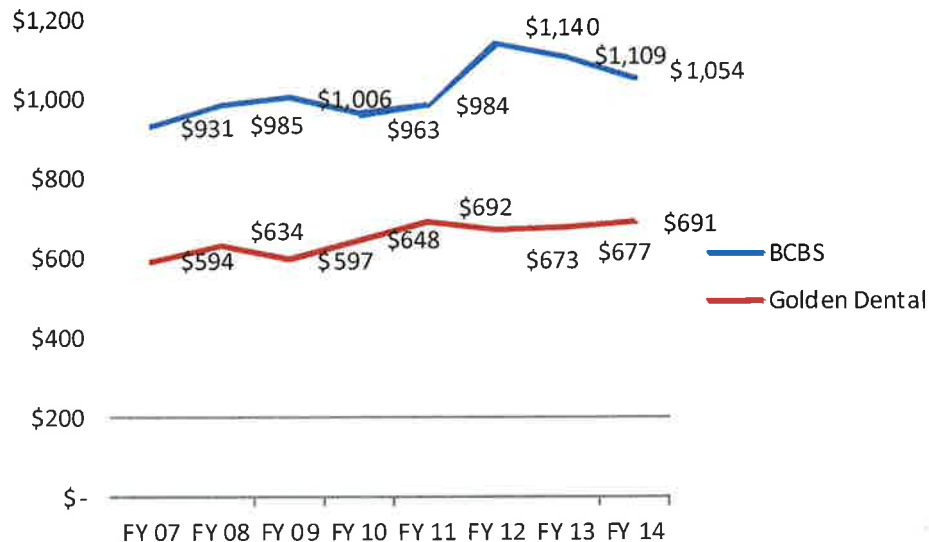
Average annual cost for active employee health care shows HAP significantly higher than BCBS for FY 2014.

Average Annual Cost Per Active Employee Health Care By Provider



Average annual cost for active employee dental care shows BCBS significantly higher than Golden Dental.

Average Annual Cost Per Active Employee Dental Care By Provider



➤ **Impact/Action** – Commission should consider requesting benefits administration to perform an analysis to see the cost benefit of having one provider for all active employees' health care. Additionally, consider the option of the employee paying the difference in premiums by opting to stay with the higher cost provider.

Retiree Health Care Chargeback

Recently the county settled a lawsuit with their retirees which is estimated to save the county about \$20 million per year in retiree health care costs. The settlement of this lawsuit should have an impact on the health care allocation that is charged to each business unit within the county. According to our preliminary analysis of the health care allocation chargeback to the county's various business units, approximately 31 percent of the total employees' salary is allocated to health care costs. Of this amount, 61 percent is related to retirement health funding.

➤ **Impact/Action** – Commission should determine during budget deliberations whether the reduction in retiree health care costs will be reflected as a reduction to the fringe benefit factor used for the health care cost allocation chargeback.

Views from Responsible Officials:

In FY 2014, the retiree health care costs represented \$32.45 million and 44.3% of total County health care expense. As the result of negotiations with retirement groups, beginning in FY 2016, savings of approximately \$20 million will be included in the FY 2016 proposed Budget.

Other Post Employment Benefits (OPEB) Liability

As of September 30, 2014, the Other Post Employment Benefits (OPEB) unfunded actuarial accrued liability is \$910,500 or 337% as a percentage of covered payrolls, since last reported in FY 2013.

Though the State of Michigan's recent economic data appears to regain strength in 2013, the county's economic outlook remains conservative. Pension, retiree health care, and OPEB make up 70% of the county's long-term liabilities. There still has been no significant effort made to prefund OPEB liabilities in which the defined benefit plan is currently 45% funded.

Currently, OPEB is funded on a pay-as-you-go basis and periodic pre-funding payments as determined by the county. The county paid a total of approximately \$35.9 million for health care and retirees' life insurance benefits for retirees covered under the plan for the fiscal year ended September 30, 2014. There is no required contribution for the plan members. Per the county's 2014 CAFR, the net position restricted for OPEB, as of September 30, 2014, was \$9,106,000. (No contribution was made to the OPEB Trust in FY 2014.)

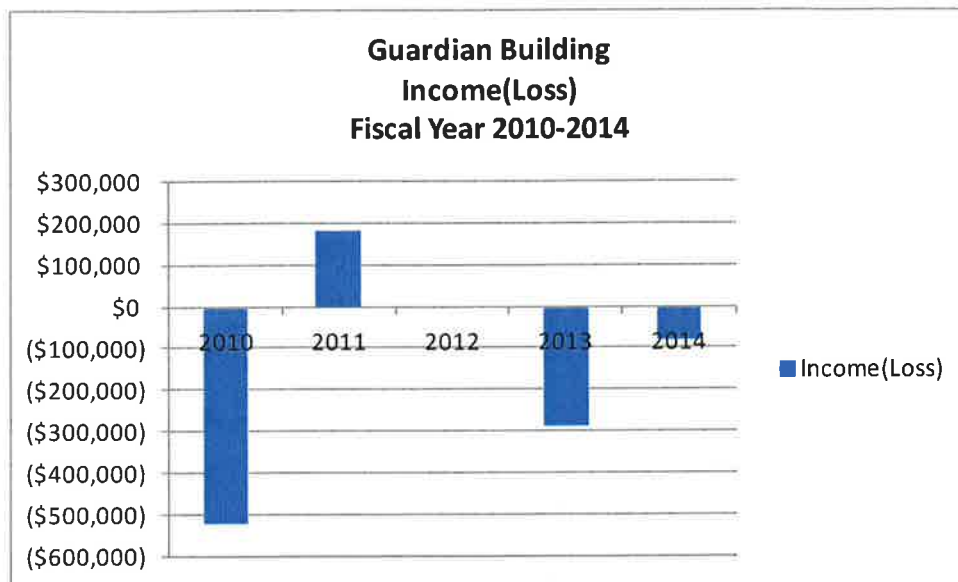
- **Impact/Action** – The Commission will need to monitor management's plans to fund the Annual Required Contribution (ARC) and OPEB trust. Funding the OPEB Trust could result in higher interest earning that can be used to reduce the obligation. Conversely, this may place an additional financial burden on the FY 2015/2016 budget.

Views from Responsible Officials:

In FY 2014, the retiree health care costs represented \$32.45 million and 44.3% of total County health care expense. This represents the County's "Pay as you go" expense. As the result of negotiations with retirement groups, beginning in FY 2016, savings of approximately \$20 million will be included in the FY 2016 proposed Budget.

Guardian Building

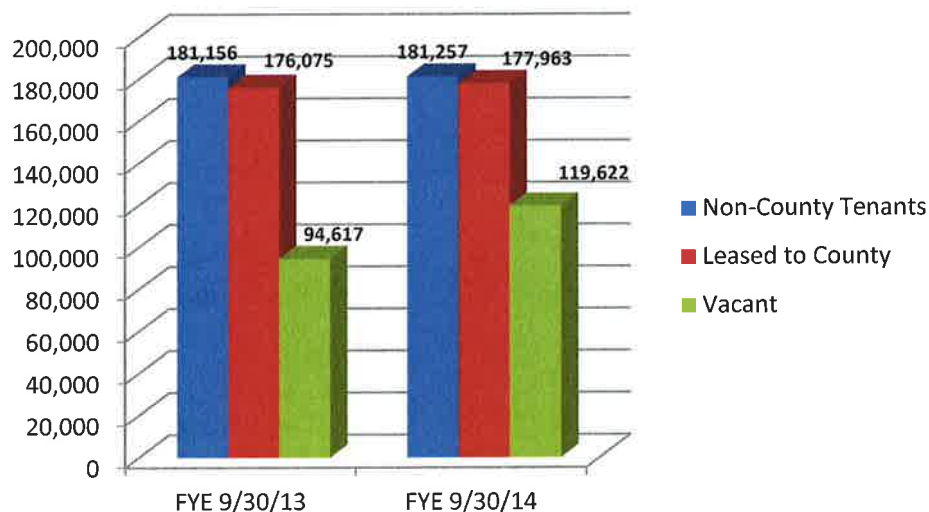
For FY 2014, the Guardian Building incurred a net operating *loss* of \$81,251 compared to a net operating *loss* of \$285,952 for fiscal year ending September 30, 2013. This is a decrease in net operating loss of approximately \$204,000, or 71.33% over the prior year. The attached chart depicts operating results for the last five fiscal years.



An analysis of leased space, as of September 30, 2014, was prepared. Total available lease space was 492,857 square feet: 181,257 square feet (36.78%) was leased to non-county tenants; 177,963 square feet (36.11%) was leased to the county; and, 135,182 square feet (27.43%) was vacant. Included in these totals available for lease in FY 2014 is 511 Woodward (the Annex), which contains 30,000 vacant square feet.

A comparable analysis as of September 30, 2013 was also prepared. Total lease space available was 451,848 square feet. 183,117 square feet (40.53%) was leased to non-county tenants; 169,838 square feet (37.59%) was leased to the county; and, 102,326 square feet (22.65%) was vacant.

**Guardian Building Space Comparison
Fiscal Years 2013 and 2014
(In Square Feet)**



Other County Leased Space

As noted in last year's Budget Sensitive report, the county leases space at 400 Monroe for the following county officials/departments:

- Wayne County Treasurer;
- Wayne County Register of Deeds;
- Wayne County Sheriff's Deed Fraud Unit; and,
- Departments of Public Services (DPS), Wayne County Environmental Services Group, and Management & Budget - Division of Assessment and Equalization (A&E). The term of the lease extends through December 31, 2019.
- Total lease cost is approximately \$12.9 million (approximately \$3.2 million per year) through lease-end date.
- In addition, the Wayne County Sheriff's Office leases approximately 25,000 square feet at 4747 Woodward Avenue at a total cost of \$2,501,000 (\$290,000 annually) with a lease end date of December 31, 2021.

The current administration announced plans to consolidate county offices. The administration focused on the Guardian Building where county departments occupy less than 40 percent of the building and 25 percent of office space is available for lease. The percentages quoted by the administration are similar to those presented in the OAG's above analysis.

Also under consideration, according to a newspaper article, is consolidation of staff located at 640 Temple, along with other facilities located at the Eloise Complex in Westland. In addition, eighteen leased county facilities with 750,000 square feet of space and costing more than \$8.8 million in yearly lease payments are also being considered for consolidation and relocation to the Guardian Building.

The OAG has commented on Guardian Building operations in the past two Budget Sensitive/CAFR Review engagements:

A. In the 2012 and 2013 Budget Sensitive reports the OAG stated:

➤ The commission should consider requesting Executive Management to:

- Explain why certain county departments have been located to other leased premises when there is approximately 22% and 23%, respectively, vacant space in the Guardian Building.
- Provide monthly summaries on leased space activity, with associated plans to increase tenant occupancy and/or increase county utilization of vacant space.
- Provide monthly accounts receivable aging schedules, with explanations for accounts extremely past due and plans to collect outstanding lease payments.

➤ **Impact/Action:** The OAG acknowledges the Administration's positive actions regarding potential consolidation of county departments into the Guardian Building.

➤ The commission should consider requesting:

- Frequent updates from Executive Management on the status of the consolidation plans.
- In addition, a study from Executive Management regarding the feasibility of terminating existing leases for the Department of Public Services (400 Monroe) and the Wayne County Sheriff's Administration staff (4747 Woodward) and relocating them to the Guardian Building.

Views from Responsible Officials:

Management is currently in the process of consolidating departments from other facilities to the Guardian Building. This process should be completed by the first quarter of FY 2015-16. Plans are currently underway to relocate staff from the Temple building to other facilities and sell the building. Any proposed sale would require Commission approval.

Chargebacks

Chargebacks continue to be a financial drain on departmental budgets and should be closely scrutinized by the Ways & Means Committee during FY 2015-2016 budget deliberations.

The following table depicts chargebacks as a percentage of departmental expenditures for FYs 2013 and 2014.

Chargebacks as a Percentage of Departmental Expenditures Fiscal Years 2013 and 2014

Department	2013 Actual			2014 Actual		
	Chargebacks	Total Expenditures	% of Total Expenditures	Chargebacks	Total Expenditures	% of Total Expenditures
County Executive	546,997	5,732,944	9.54%	247,561	4,827,216	5.13%
County Clerk	1,966,430	22,742,198	8.65%	1,921,617	22,913,127	8.39%
County Commission	867,469	8,768,037	9.89%	759,401	8,441,340	9.00%
Corporation Counsel	694,602	9,472,737	7.33%	594,189	8,962,377	6.63%
Children & Family Services	5,154,502	179,777,619	2.87%	4,598,043	160,909,284	2.86%
Register of Deeds	879,615	7,837,288	11.22%	681,230	7,747,391	8.79%
Department of Public Services	5,414,199	329,599,186	1.64%	4,760,657	339,928,430	1.40%
Homeland Security	206,627	3,885,276	5.32%	279,724	5,489,555	5.10%
Health and Human Services	5,672,752	225,428,401	2.52%	4,971,197	213,236,941	2.33%
Information Technology	216,272	16,889,749	1.28%	205,794	14,524,245	1.42%
Economic Development Growth Engine	819,099	20,519,936	3.99%	595,452	24,532,088	2.43%
Management & Budget	1,755,237	17,906,711	9.80%	1,212,534	16,302,495	7.44%
Personnel	484,296	6,003,742	8.07%	322,129	5,142,474	6.26%
Prosecuting Attorney	4,229,033	47,839,918	8.84%	3,323,592	39,528,908	8.41%
Retirement System	266,699	6,497,589	4.10%	237,843	7,311,661	3.25%
Sheriff	9,286,858	164,669,459	5.64%	9,097,713	156,655,897	5.81%
Treasurer	1,095,057	305,295,020	0.36%	849,115	255,319,940	0.33%
Sr. Citizens & Veterans Affairs	1,048,564	8,837,689	11.86%	928,485	9,143,806	10.15%
Total	40,604,308	1,387,703,499	2.93%	35,586,276	1,300,917,175	2.74%

As can be seen in the above table, there is a wide disparity in chargebacks as a percentage of total expenditures between departments. Management & Budget has acknowledged a need to reassess the chargeback model and/or determine an alternative approach to financing support services for the county.

➤ **Impact/Action –**

- The commission should request M&B to submit quarterly chargeback summary reports, in compliance with Enrolled Ordinance No. 2014-499.
- The commission should request a report from M&B regarding the reassessment of the chargeback model.
- The OAG is performing an engagement on the cost allocation/chargeback system. The objective of the engagement is to assess the reasonableness and equity of the chargeback methodology used for the Buildings Division and the Department of Technology assessments.

Views from Responsible Officials:

Management is continuously assessing and revising the allocation methodology for the various

chargeback units to ensure equitable distribution across the County Departments. However, it is important to note that while the assessment of the allocation methodology may be done, the total cost of the chargeback unit needs to be distributed to the departments utilizing their services. Hence the assessment of the chargeback model may not necessarily result in a decrease of chargeback costs to the County Departments. In accordance with Enrolled Ordinance 2014-499, Quarterly chargeback statements can be found on the County's intranet on the M&B homepage.

Litigation Settlements

The county records litigation settlements in account 911140 - Liability Payments. For FY's 2013, 2014, and 2015 (through March 31, 2015) these settlement payments total:

- FY 2013 - \$2,000,449
- FY 2014 - \$5,866,539
- FY 2015 (through 3/31/15) - \$3,236,748

Grand total = \$11,103,736.

- Litigation settlement cases are presented at the Committee on Government Operations meetings.
- However, a periodic report summarizing litigation settlements is not prepared; thus, it is not possible to review/analyze the magnitude of these settlements.

➤ **Impact/Action –**

- The commission should request a periodic report summarizing litigation settlements to include the following information:
 - Total settlement dollar amounts.
 - Brief description of reason for settlement.
 - Department/Office from which the settlement originated.

Views from Responsible Officials:

The OAG report provides the following settlement payment totals:

- FY 2013 - \$4,971,591
- FY 2014 - \$15,313,965
- FY 2015 (through 3/31/15) - \$3,236,748

Grand total = \$23,522,304.

However, consistent with the information provided to the Office of Fiscal Agency by the Department of Corporation Counsel each budget year, the following are accurate numbers:

FY 09/10	\$2,009,816
FY 10/11	\$1,872,073
FY 11/12	\$2,149,983
FY 12/13	\$5,440,505 (1 case at \$3 million)

FY 13/14 \$958,500 (Carry over FY 12/13 settlement in *Havard* of \$2.5 Million and \$146,000 in *Gloria Smith*) for total YTD settlement payout of \$3,604,500.

The Information for FY 2013-14 Actual provided by the OAG includes approximately \$8.2 million accrual to the Government Wide Statements for possible long term liabilities. Corporation Counsel has indicated to M&B that there is a possibility of a FUTURE legal liability which has to be disclosed in the CAFR. No funds have been awarded nor has Corporation Counsel requested Commission approval on any settlement included in this accrual.

Traditionally, settlements out of the Department of Corporation Counsel are around \$2 million. In FY 14/15 the final \$2.5 million payment on *Havard* was made (total settlement was \$8 Million to be paid over three fiscal years). Management is unclear of the origin of the OAG's estimate of the \$23 million figure over three fiscal years.

The report indicates under Impact/Action, that Corporation Counsel should submit to the Commission a periodic report about settlements. For years, in accordance with Ordinance 2014-06-002, paragraph 4, the Department of Corporation Counsel has been submitting a monthly settlement reports to the Chair of the Commission and to the Committee on Government Operations. In addition to the monthly settlement reports regarding ALL settlements, the Department submits closed session requests and/or seeks authorization for all settlements above \$20,000 pursuant to Resolution 2014-682.

OAG Clarification:

The OAG revised the FY 2013 and FY 2014 litigation settlement amounts based on updated information provided by Corporation Counsel.

Outside Legal Fees for County Representation

Per Enrolled Ordinance No. 2014-499 "The Department of Corporation Counsel shall provide a report on all outside legal counsel for FY 13 – 14. The report should include the name of the firm; the department/account number for whom the services were provided for; a brief description for obtaining outside counsel and the total amount budgeted and paid for each case." Corporation Counsel did submit its Outside Legal Service document.

- Because the county is involved in various litigation proceedings, outside legal counsel is frequently retained to represent the county in these proceedings. Outside counsel is retained due to their area of legal expertise.
- For Fiscal Years 2013 and 2014, the following table depicts the legal firms retained and their total contract value.

**Summary of Outside Legal Counsel Services
Fiscal Years 2013/2014**

Law Firm	Total Contract Value	
	FY 2013	FY 2014
Allen Brothers, PLLC	\$165,000	\$165,000
Allen Law Group	50,000	50,000
Bodman, PLC	498,000	465,000
Buckner Law Group	25,000	0
Butzel Long	22,000	130,000
Clark Hill, PLC	1,028,000	846,000
Cummings, McClorey, Davis & Acho, PLC	0	50,000
Dawda, Mann, Mulcahy & Sadler, PLC	125,000	300,000
Dickinson Wright, PLLC	805,678	415,000
Dykema	135,500	80,000
Fink & Associate Law	250,000	90,000
Fraser, Trebilcock, Davis & Dunlap, PC	49,500	0
Garan, Lucow & Miller, PC	35,000	7,500
Giarmarco, Mullin & Horton, PC	32,000	0
Jacobs and Diemer	0	20,000
Kilpatrick & Associates	1,050,000	1,257,500
Korkis Law Firm PC	78,000	30,000
Kotz, Sangster, Wysocki, PC	95,000	0
Lacey & Jones	62,500	45,000
Melvin Butch Hollowell, Jr.	45,000	0
Miller, Canfield, Paddock and Stone, PLC	616,100	345,000
Mogill Posner & Cohen, PC	0	7,900
Nabih H. Ayad & Associates, PC	85,000	0
Nemeth Burwell, PC	545,000	137,000
Ottenwess, Allman & Taweel, PLC	60,000	0
Perkins Law Group, LLC	0	34,000
Plunkett & Cooney	175,000	100,000
Rutledge, Manion, Rabaut, Terry & Thomas, PC	300,000	0
Samuel Nouhan & Associates, PLC	245,000	0
Schultz and Young, PC	75,000	150,000
William M. Wolfson, PLLC	60,000	0
Williams Acosta, PLLC	30,000	0
Zausmer, Kaufman, August, Caldwell & Taylor, PC	526,719	882,000
Total	\$7,268,997	\$5,606,900

Impact/Action –

- There has been an approximate \$1.6 million decrease from FY 2013 in the total outside contracted legal services.
- The commission should request Corporation Counsel to provide a cost-benefit analysis of outsourcing legal services vs. providing the same services in-house by hiring the attorneys with the respective area of legal expertise. This may result in an even further decrease in the need to contract outside legal counsel.

Views from Responsible Officials:

The Department of Corporation Counsel is always looking for ways to be more efficient without compromising client representation. While the preference is to maintain a majority of cases in-house, there are limited circumstances that require the Department to seek outside counsel to provide those legal services. For instance, there are some cases that present a conflict due to the named parties, there are some cases where we just don't have adequate resources to handle in-house (class action lawsuits) and there are other cases where a specific expertise is necessary and hiring a firm is more cost effective considering the temporary nature of the case.

A cost-benefit analysis has been provided to the Commission in the past and it is no surprise that it is more efficient to provide services (where appropriate) in-house. Corporation counsel currently has staff attorneys with designated specialties in employment law, civil rights litigation, municipal/health law, and real estate/tax. Aside from their education and experience, staff attorneys have significant institutional knowledge of the inner-workings of Wayne County and each of its various departments. Consequently, the County's attorneys are able to navigate a case from start to finish with relative ease. By way of example, during the 2013-2014 fiscal year, the cost for outside counsel to handle only less than 40 cases was approximately \$2.5 million—that nearly reaches corporation counsel's entire budget for attorneys and support staff (Approximately \$3.4 million annually in FY13/14). During the same fiscal year, county attorneys handled approximately 150 cases from start to finish (that doesn't include consultations, the probate docket, gun-board, contract review, labor negotiations, foreclosure hearings, transactional work, etc). In other words, Corporation Counsel attorneys can perform three times the volume of work at a significant cost-savings. The bottom line is— sending legal work to an outside firm will not create a cost savings. By a conservative estimate, it will at least triple the County's legal expenses.

Notwithstanding the Department's submission of annual outside counsel reports pursuant to Enrolled Ordinance 2014-499 detailing accurate figures, it is unclear of the origin of the OAG's Summary of Outside Legal Counsel Services and the attributed figures for FY 2013 and 2014 in total contract values. According to the Outside Legal Counsel Reports submitted to the Commission's Committee on Government Operations, the total outside counsel contract value paid out in FY 12/13 was approximately \$2.8 million and approximately \$2.5 million in FY 13/14.

OAG Clarification:

The OAG agrees with Corporation Counsel's amounts ***paid*** to outside legal counsel for FY 21/13 and FY 13/14. However, the above table lists the total executed contract values, which is the amount that ***could*** be paid.

Ongoing Jail Costs

- It has been estimated that the county is incurring the following costs associated with the dormant jail construction site:

Ongoing Jail Costs

	Average Monthly Cost	Average Annual Cost
Security	\$10,849	\$130,182
Sump pump maintenance	\$12,852	\$154,228
Materials coverage	\$2,972	\$35,665
Trailer rental	\$440	\$5,280
Warehouse lease	\$3,500	\$45,500
Lease/storage precast cells	\$15,000	\$180,000
Electricity to site	\$4,000	\$48,000
Signs	\$345	\$4,134
Insurance (pollution)	\$4,652	\$55,828
Debt payment (principal & interest)	\$1,184,583	\$14,215,000
Total	\$1,239,193	\$14,873,817

Source: Wayne County Executive's Office

- Maintenance on the existing Wayne County Jails was suspended in 2011 because the new jail facility was being constructed. Due to deteriorating conditions in the jails, a judge ordered the county to take steps to improve the condition of the jails.
 - To address the judge's order to improve the maintenance of the jails, the county entered into a one-year contract, with a one-year option to renew, with DLZ Michigan to provide a facilities condition assessment of four (4) Wayne County facilities. The four facilities are: (1) Jail Division I – Andrew C. Baird Facility; (2) Jail Division II – Old Jail; (3) Jail Division III – William Dickerson Facility; and, (4) Frank Murphy Hall of Justice.
 - The contractor will determine the remaining life of each building component and will provide: a preventive maintenance schedule and cost estimates to extend the useful life of the assets for 5,10, and 20 years. The contractor will also develop a two to four-year expenditure plan, which is a schedule of all deficiencies and actions required to maintain and repair facilities.
- **Impact/Action** –The commission should request ongoing updates from the Administration regarding the status of the Consolidated Jail Project:
 - There are only two viable alternatives remaining concerning the Consolidated Jail Project:
 - Sell the Jail properties and complete the construction at the present Gratiot site, or
 - Abandon the Gratiot site and renovate the existing Justice properties.
 - Until a final decision is made, the county is incurring approximately \$1.2 million a month in ongoing jail costs.

Views from Responsible Officials:

The Administration agrees with the analysis with the exception that the estimated utility charge for the warehouse storing jail equipment is \$12,000 per year (\$1,000 monthly) and should be added to the monthly cost of \$1,239,193. Additionally, it should be noted that the annual debt service of \$14, 215,000 is a cost that would have to be paid whether the projected had continued or ceased.

Sale of County Assets

In the **Budget Sensitive Issues/Review of County's 2013 CAFR** report, the OAG noted the following:

"The County owns numerous assets that could potentially be sold. The sale of these assets could raise needed funds that could be used to either pay down related debt or be used for General Fund/General Purpose.

These assets include:

- ***Warren Valley Golf Course***
- ***Inkster Valley Golf Course***
- ***Neudeck Building***
- ***Waste Water Treatment Plants***
- ***640 Temple - relocate employees to Guardian Building***
- ***600 Randolph***
- ***511 Woodward***
- ***Brush Street Parking Lot***
- ***First Street Parking Lot***
- ***Chandler Park Family Aquatic Center***
- ***Kay Beard Building***

Since the issuance of the **Budget Sensitive Issues/Review of County's 2013 CAFR** report, the following has occurred:

Sale of Old Wayne County Building and Brush Street Parking Lot

In July 2014, the Wayne County Commission approved the sale of the Old Wayne County Building (600 Randolph) and the adjacent Brush Street Parking Lot for \$13.4 million.

Sale of Neudeck Building (415 Clifford)

In December 2014, the Wayne County Commission approved the sale of the Neudeck Building (415 Clifford) for \$2.3 million.

Wastewater Treatment Facility

- On December 18, 2014, the Wayne County Commission approved the renewal of a service agreement between the county and thirteen downriver communities to provide wastewater transport treatment and disposal services to customers of the Downriver Disposal System.
- This new agreement replaced the 1962 Downriver Agreement which expired in 2012.
 - The term of the new agreement was from December 18, 2014 through December 17, 2034.
- In February 2015, the new CEO revoked this agreement. It was publicly reported that the affected communities believe the reason for revoking the agreement was the county wants to sell the Wastewater Treatment Facility.

O'Keefe Real Property Review

- In March 2015, O'Keefe & Associates provided the county an unsolicited report entitled "**Charter County of Wayne Real Property Review**" Included in the Executive Summary of the report were the following statements:
 - "The Guardian (Building) is the most underutilized facility in the County's portfolio. The County presently occupies less than 40% of the building and another 25% of it sits vacant."
 - "We have briefly looked at the Warren Valley Golf Course and Banquet Center and the Inkster Valley Golf Course. Selling these assets off to a third party should be further investigated. The annual operating costs and long term maintenance of these facilities might be better utilized for maintaining the many other park facilities."
 - "There appears to be significant waste and a seemingly casual approach to leasing properties without utilizing the County's owned real estate."
 - "Wayne County needs to act quickly in cutting its annual cost structure to avoid bankruptcy....Current rental costs exceed \$8 million a year and this number can be reduced by consolidating offices, terminating unnecessary leases and reducing rents to market rates."
 - "Furthermore, the County needs to monetize those assets for which it no longer has a use.... Proceeds from the sale of facilities such as the Temple Building, 511 Woodward and the First Street Parking Garage alone should yield in excess of \$10 million."
 - Finally, an analysis should be completed on the sale-leaseback of the Guardian Building....Retiring the debt service associated with the Guardian Building, the First Street parking garage and 511 Woodward can reduce the principal owed under these bonds and possibly allow for additional bond issuance to cover the jail expansion."

The report made the following suggestions for certain county properties:

Owned Properties :

- Guardian Building - lease-buyback.

- 511 Woodward - should be sold immediately.
- First Street Parking Garage - should be sold.

The county announced on June 8, 2015 that a request for brokerage services had been issued to sell the Guardian Building, the First Street Parking Garage, and 511 Woodward.

- 640 Temple - should be sold.

In March 2015, the administration announced the consolidation of office space into the Guardian Building. Staff to be relocated from 640 Temple includes Children and Family Services, the Building Authority, and Vital Records. This move is estimated to save approximately \$3 million a year.

Leased Properties:

- The county has identified 18 leased facilities encompassing almost 750,000 square feet. Some are functionally necessary such as the Circuit Court, Register of Deeds and the Friend of the Court and others are redundant office spaces that should be relocated to the Guardian Building. As of January 31, 2015 the total **annual** lease payments for these 18 properties was \$8,821,441.
 - 400 Monroe
 - Housed here are the Register of Deeds, Assessment, DPS, DOE and a small office for the County Prosecutor. DPS and DOE do not need to be physically separate from the rest of the county's main offices for functional or geographical reasons. Together they comprise 27,000 square feet in the 400 Monroe Building at an annual rental rate of \$356,000. They could be relocated to the Guardian Building.
 - 28 West Adams
 - The Wayne County Retirement System occupies 10,372 square feet in the old Michigan Mutual Insurance Building at 28 W. Adams. The lease expires in August 2017 and the annual rent is approximately \$200,000. It could easily occupy comparable space in the Guardian Building.
 - 4747 Woodward
 - Sheriff Administration Building - terminate lease and relocate to Guardian Building.
 - 1900 E. Jefferson
 - Vigliotti Building - terminate lease.

The report concluded: "It is fairly obvious that there are a number of possible scenarios for consolidating offices into the Guardian Building, terminating leases, selling excess properties

and closing inefficient or duplicative facilities that will save operating costs and reduce the deficit. This will result in significant annual savings.

- **Impact/Action** – Commission leadership should request that the CEO provides:
 - Periodic updates on the progress of consolidating county departments into the Guardian Building.
 - A cost-benefit analysis of terminating leases for non-essential locations and relocating the affected departments into the Guardian Building.
 - An analysis of potential county owned assets that could be sold.

Views from Responsible Officials:

The Administration has reviewed the O’Keefe & Associates report and is currently in process of evaluating departments to be relocated, leases to be terminated and properties which can be sold. Details per location are identified below:

- **Guardian Building, 511 Woodward, and First Street Parking Garage - RFP** for a broker services to market the properties is currently in the purchasing evaluation process. All options will be considered.
- **640 Temple and the Eloise Complex (Including the Kay Beard Building)** - Once the O’Keefe Contract is approved they will assist in the evaluation for sale of these two properties. The contract is currently with the Commission for review.
- **Warren Valley & Inkster Valley Golf Courses** - Legal issues have to be resolved regarding covenants on certain parcels of the properties.
- **Chandler Park Family Aquatic Center** - A sale is not contemplated at this time.

Guardian Building Vacancies’:

The County is currently in progress to consolidating Wayne County Departments into the Guardian Building. It is projected with all consolidation in plan that the Guardian Building vacancy rate will go down to 9.8% from the current rate of 24% by 9/30/15. The plan includes renting additional outside tenants which contracts have been secured and/or will be within the next few weeks and relocating County employees from 640 Temple. Children and Family Services and Health Choice will be moving into the Guardian Building from 640 Temple mid August, 2015. The Clerk’s Office Vital Records cannot move into the Guardian Building – the building does not lend itself to the heavy public traffic. The Administration is currently searching for another location that will be well suited for their operation currently at 640 Temple.

Leased Properties:

- **400 Monroe** - Evaluated, and at \$13.50 per sq ft rent it is a very reasonable price. There is not sufficient space in the Guardian Building, or with the public traffic, to warrant moving existing tenant out to accommodate the County.

- **28 West Adams** – The Administration is currently reviewing the options to relocate.
- **4747 Woodward** - Until the fate of the jail project is decided the Sheriff's Administration will remain at 4747 Woodward.
- **1900 E. Jefferson Vigliotti Building**- The Administration is currently reviewing the options.

CONCLUSION

Over the period covered by this report, the Wayne County Office of Legislative Auditor General (OAG) reviewed matters of budgetary concerns, audits, consulting, and other engagement reports that contain issues which could have a budgetary impact on county operations and its financial position.

We believe these items coupled with the following fiscal challenges faced by Wayne County could have an impact on the county's fiscal year 2015-2016 budget. This is particularly true given the current depressed state of the economy in the southeast Michigan region and the financial challenges the county faces in this and coming years. As such, we believe these issues may be useful to the commission as part of the budget deliberation process for fiscal year 2015-2016.

This report is intended solely to provide information to the Wayne County Commission and should not be used for any other purposes. This restriction is not intended to limit the distribution of the report, which is a matter of public record.



Marcella Cora, CPA, CIA, CICA, CGMA
Auditor General

APPENDIX A

Summary of Budgetary Impact Issues for Consideration for FY 2015-2016 and Beyond

Description	FY 2015-2016 Budgetary Impact	Page Number
Unreserved/Undesignated Fund Deficits	\$ 93,842,000	6
Structural Deficits	52,000,000	10
Delinquent Tax Revolving Fund	78,730,000	14
Sheriff Overtime	17,560,000	17
Sheriff Sick and Vacation	1,203,000	18
Sheriff Holiday Premium	623,000	19
Sheriff Vehicle Repair Orders	348,000	20
Mental Health Authority	4,150,000	22
13 th Check	49,000,000	23
Contractor Concessions	50,000,000	27
Overtime	13,600,000	32
Litigation Settlements	3,236,748	46
Outside Legal Fees	5,606,900	48
Consolidated Jail Facility	14,873,817	50
Total Budgetary Impact	\$ 384,773,465	