

DRAFT

June 28, 2012

Board of Commissioners
In Care of Calhoun County Road Commission Task Force
County of Calhoun, Michigan
315 West Green Street
Marshall, Michigan 49068

RE: Road Commission Financial Analysis – Phase 2

Public Acts 14 & 15, enacted earlier this year, allows a county board of commissioners, to assume the powers, duties, and functions of the county road commission to the county board of commissioners. Among the tasks the county board of commissioners must accomplish is to perform a review of the road commission's operations. We have prepared a financial analysis of the Calhoun County Road Commission in connection with this project in order to facilitate the review of Road Commission operations as Phase 1 Analysis completed June 12, 2012.

This next analysis as Phase 2 provides a pro forma cost savings analysis, as well as developing pros and cons if the County were to take over the operations of the Road Commission. In this analysis, we have looked at various opportunities for savings as a consolidated unit, where some of these savings are quantified, and where others are characterized as potential savings.

Estimated cost savings from consolidation

In reviewing the Road Commission and County operations, there would be some synergies and cost savings, by certain departmental areas and cost centers as follows:

1. Maintenance/grounds - There is presently an hourly employee of the Road Commission that provides approximately 8 hours per week for roughly 26 weeks for mowing and grounds maintenance. County maintenance personnel could take on this function, and in a consolidation would free up approximately 208 hours of this employee's time for other Road Commission duties.
2. Human resources/payroll – presently, the Deputy Managing Director devotes approximately 60% of her time to human resources issues and matters. Another individual does the payroll, which for road commissions in Michigan is quite complex, as daily time cards are involved, which contain for each hour the project/township worked on, hours for equipment worked on which must be charged to the jobs at prescribed rates, and each of these entries must be posted into the Precision labor and equipment cost system. In a consolidation, the County could possibly continue to use one of these positions to continue this unique payroll process and handle the additional personnel

matter load. The current salary of the payroll clerk is \$43,145, and benefits are an estimated \$17,250.

Additionally, the Road Commission presently uses an outside organization to process benefits claims, which amounts to approximately \$16,000 per year. In a consolidation, there is potential for absorbing this claim processing function by other County Human Resources personnel.

3. Legal services - Within the legal services costs are expenses of outside attorneys that deal with Teamster and S.E.I.U labor issues and contracts. The total incurred for these costs was approximately \$25,000 in 2011. These issues could possibly be taken on by the County Attorney (Corporation Counsel).
4. Administrative support – Any cost savings would be minimal, as the function is essentially non-existent at the Road Commission, since the receptionist position was not filled after a retirement in February 2012. By Road Commission accounts, there are approximately 6000 service requests per year that have to be handled by one of the present Road Commission staff that rotate these duties amongst themselves. However, there may be synergies in a consolidation by having County support staff fill this void, which would free up the salaried Road Commission staff to perform other Road Commission matters. However, the logistics of this may prevent this from working, since the Road Commission staff would presumably be still working from its main facility at 13300 Fifteen Mile Road.
5. Accounting – The accounting and reporting requirements for road commissions in Michigan is very unique and specialized. There is a 319 page “Uniform Accounting and Procedures Manual” issued by the Michigan Department of Treasury, dealing with accounting for the various revenues and expenditures by project coding, equipment record cost, depreciation details and methods, federal and state aid project accounting, and infrastructure accounting and reporting with detail records of primary and local roadways and bridges by type in the County. Accordingly, it is believed that this function and position would be retained in a consolidation of operations.
6. Purchasing - There may be some synergies in using the County purchasing system and co-op buying in order to secure the best competitive prices, and this would free up some Road Commission staff to do other Road Commission functions, as the quotation and bid attainment could be done centrally. It is unknown what the cost savings would be under a consolidation.
7. Board member salaries - There would be a cost savings for the 5 Road Commissioner salaries in a consolidation. This equates to approximately \$37,200 on an annual basis, which includes F.I.C.A.

8. Information Technology - There is a position at the Road Commission for a Technical Assistant that provides support for servers, computer hardware and other devices. Also, for a two week period on an annual basis this employee does "road rating" tests. The County could explore whether these functions could be absorbed by the County IT staff in a consolidation. This position presently has a salary of \$45,656, and benefits estimated at \$18,200.
9. Insurance – The Road Commission presently is covered by the Michigan County Self-Insurance Pool (MCRCSIP). In the event of a consolidation, it is believed that comparable insurance coverage could be secured through the County risk carrier Michigan Municipal Risk Management Authority (MMRMA) without an increase in cost. In this situation, an analysis should be undertaken by estimating annual premium refunds under each carrier, as well as the initial annual premiums noted. The MCRCSIP has paid out significant refunds in the past few years based on favorable experience of its members, and it should be determined if refunds of similar magnitude would be likely to be received from the MMRMA.

It should be noted that historical refunds of the Road Commission from MCRCSIP have been generous, with annual refunds averaging approximately \$200,000. For example, the 2010 refund received totaled \$196,084, which represented the closeout of 1998 of \$114,039, and partial refunds of \$82,045. According to the Road Commission Manager, if the Road Commission were to become a fund of the County and lose its separate identity, then future refunds on "open" years would not be earned by the Calhoun County Road Commission, and its refund would be spread to other members in the pool. Thus, the Road Commission would not enjoy the benefits of the open years 1999 through 2011 where there could be significant refunds resulting based on historical results.

10. Engineering - The Road Commission has a full time engineer. In a consolidation, depending on the utilization of this Engineer at the Road Commission, there can be consideration for providing engineering services to the Water Resources Department. Over the past twelve months, there has been over \$400,000 paid by the Water Resources Department to 4 engineering firms, which included work on various drainage projects including surveying, environmental assessments, scientist activities, as well as engineering services. This engineering position could possibly take on a portion of these services that are presently contracted to the outside firms by the Water Resources Department.

Other considerations in a consolidation

Besides some administrative savings that would be generated as discussed in the foregoing section, there are other non-financial considerations as well, and are summarized as follows.

If there was a consolidation, the Road Commission would cease to exist as a legal entity, and the operations of this fund would be accounted for as a special revenue fund of the County. As a special revenue fund, this fund would have to adhere to the Uniform Accounting and Budgeting

Act, and a budget would be approved by the County Board, and amended during the budgetary year. The assets (including buildings, road equipment, other equipment, and infrastructure) would become County assets, and long-term installment debt and the OPEB obligation, which were \$1,696,175 and \$758,750 at 12/31/11, respectively, would become County debt. It should be noted that for the OPEB obligation, the total actuarial accrued liability of this obligation is \$10,807,728, all of which is unfunded at 12/31/11. Of course, the new Road Transportation Special Revenue Fund would continue to account for the capital assets, and service the debt out of that fund's annual budgets. Like any other special revenue fund, it would be contemplated that the fund would operate on its own funds, and not rely on a County appropriation.

Cons to consolidation

1. There could potentially be a shift in County Board focus from normal county affairs to this new public road administration function, and the Board could be spread too thin administering this new undertaking.
2. As an operation that has an inherent funding problem (since the level of MTF distributions for all Michigan county road commissions is essentially flat over the past 12 years), it is probable that the public outcry over road and bridge conditions will be borne by the County Board.
3. There is a risk to the County general fund that the new Road Transportation Special Revenue Fund would not be able to fund necessary primary and local road and bridge preservation and routine maintenance expenditures, and that to avoid a deficit, an appropriation from the general fund would have to be made. As an alternative to a general fund appropriation, in order to generate sufficient funds for a shortfall, the County could go to the voters for passage of a millage to support local roads in Calhoun County.
4. If revenues are not sufficient to cover necessary primary and local road and bridge preservation and routine maintenance expenditures and an appropriation from the general fund or other local County sources is not made, and the fund ends up in a deficit, a deficit elimination plan would have to be filed with the Michigan Department of Treasury. Continued deficits could bring down the County bond rating, and depending on the magnitude of the deficit, the Michigan Department of Treasury could review the operations of that fund in conjunction with other County funds and appoint a task force to determine if an Emergency Financial Manager should be put in place.

Pros to consolidation

1. Though not significant, there would be some administrative savings as discussed in the first part of this memo. In the areas of Human Resources/payroll, Legal costs, Board pay and other, there could be \$100,000 to \$200,000 in annual savings involving a consolidated entity. However, this savings is only .6 to 1.2 percent of the Road Commission's annual budget. However, as pointed out above in the Insurance section, these savings could be negated if the Road Commission were to become a fund of the County, and would relinquish its claim on any potential refunds from MCRCSIP membership.
2. Greater accountability through more oversight, which could lead to additional cost savings in the future.
3. May enhance opportunities for greater synergies with other County departments.

As you can see, there are many factors that go into this decision. All factors must be weighed in order to determine the best model for ensuring that the residents of Calhoun County are provided with suitably maintained roadways and bridges. Please call if you have questions or need any additional information.

Respectfully submitted,

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Principal

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