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TO: Jason Morgan  
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FROM: Gregory Dill  
County Administrator

DATE: July 28, 2020

SUBJECT: 2020-2023 Budget and Financial Update

The governor and legislative leaders announced that they have agreed to a plan to erase the state's current year budget deficit. The plan includes reducing state operations by nearly \$500 million over the remainder of the state's fiscal year (2019/2020), which ends on September 30, withdrawing \$350 million from the rainy-day fund and making extensive use of federal CARES funding to offset budget holes. As an example, state funds will be withdrawn from the state police budget and replaced with CARES funds.

On the local government side, the state is planning to eliminate the August statutory revenue sharing payment that goes to counties, cities, villages, and some townships. The amount cut totals approximately \$97 million statewide. The County's portion is an additional \$1.6M loss above the previously shared \$2.2M loss in both the 2020 "best-case" and "worst-case" scenarios. However, the state will instead send CARES funds to those local governments losing statutory revenue sharing at a replacement rate proportionate to the size of the reduction in a manner determined by the Michigan Department of Treasury. The use of these funds is to comply with the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Public Law 116-136. The appropriation's bill is expected to be signed by the governor soon.

On July 7, 2020, the Michigan Department of Treasury issued two funding application packets under 2020 Public Act (PA) 123 under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Public Law 116-136, and on July 17, 2020, the County submitted funding requests for both programs:

Public Safety and Public Health Payroll Reimbursement Program (PSPHPR) in the amount of \$8.1M (\$5.2M from the General Fund and \$2.9M from the non-general fund programs) for round one of eligible expenditures to reimburse qualifying local units of government for public safety and public health payroll expenditures. Per the program funding requirements, the County will have to reimburse local municipalities and contracting agencies for police and dispatch services for payments received that support salary and fringe benefit costs for the months of April and May, approximately \$1.6M. Furthermore, it is anticipated that the County will not be reimbursed at the full amount of our submission request. Under this program there is the potential for two rounds of funding, depending on availability. The first-round application period was July 7 – July 17, 2020 and was for the payroll expenditures incurred during April and May 2020. Although there is legislation pending that may extend the first-round application period an additional week

from the effective date of the pending bill. The second round is for the payroll expenditures incurred during June and July 2020 and will only occur if funds are available after the first funding round closes. The total available funding for this category statewide is \$200M. If the total requests submitted exceed this amount for the first round, then our award will be prorated as a percentage of the total.

1. First Responder Hazard Pay Premiums Program (FRHPPP) in the amount of \$248K (primarily all General Fund) to reimburse and/or pay for qualifying first responder hazard pay premiums provided to first responders who have performed hazardous duty or work involving physical hardship related to COVID-19. Reimbursements and payments will be on a first-come, first-served basis with an application period of July 7 – September 30, 2020.

More information will be shared as it becomes available and/or we are notified of funding award amounts for both programs. Finally, the State of Michigan's next scheduled consensus revenue conference will take place during August/September to review and revise estimates for FY 2020/2021. Further action on the state budget fiscal year that begins on October 1<sup>st</sup> is not expected to be completed until sometime in September. The State's financial situation will continue to be monitored and updates will be shared as information becomes available.

On July 10, 2020, the County received final approval from Michigan State Police – Emergency Operations Center (MSP-EOC) and Federal Emergency Management Agency (FEMA) for its request for public assistance in the amount of \$3.5M. The maximum FEMA reimbursement will be 75% (\$2.6M) of eligible work and expenses and the County's required local share will be 25% (\$883K) of the total cost of the COVID-19 response. Please recall that FEMA is the funding source of last resort, meaning we use all other fund sources available to us before submitting to FEMA. Since this application was submitted (4-30-20) before we knew we would be applying for CARES funds it is anticipated that our submission to FEMA will be less than originally calculated. The CARES funds released under PA 123 of 2020 only relieved a limited part of staff time that would have been submitted to FEMA under its guidelines and rules. The County continues to incur costs for staff time, non-congregate sheltering support, and personal protection equipment for our continued response to COVID-19. Finally, if there is a serious spike in cases in the County costs will likely increase as well.

At this time there is no new financial information and guidance being provided by the State of Michigan that would change the County's financial outlook and budget forecasts as well as the "best-case" or "worst-case" budget assumption scenarios that have already been shared. For the County's current year 2020 General Fund Budget is still projected to be somewhere between the "best-case" (-\$445K) and "worst-case" (-\$5.0M) net shortfall scenarios shared.

For the County's long-term 2021-2023 General Fund Budgets are still projected to be somewhere between the "best-case" (2021 = -\$4.8M, 2022 = -\$6.7M, 2023 = -\$8.7M and the 3Y average = -\$6.7M) and "worst-case" (2021 = -\$7.5M, 2022 = -\$9.8M, 2023 = -\$11.7M and the 3Y average = -\$9.7M) net shortfall scenarios shared. There are many moving parts that will likely impact the budget. Any updated information from the Federal and/or State governments, the economic impact of the COVID-19 pandemic, as well as Board defined, authorized and adopted budget assumptions may change the outlook projections and forecasts. At this time it is recommended to hold on any structural investments for 2021 and beyond, until updated financial information is shared by the Federal and State governments and economists, and a comprehensive four-year review is completed of the impact of updated salary projections in alignment with settled union agreements with medical and dental renewals, and required contributions resulting from the annual actuarial reports for pension and retiree healthcare, as well as the updated annual cost allocation plan (CAP). The comprehensive review is in progress and will be completed during August/September.

The comprehensive review and update of the budget will be the first step in preparing the County's 2021-2024 Quadrennial General Fund Budget. After expenditures are updated and more up to date financial information is shared regarding state and federal revenues and the long-term economic impacts of the COVID-19 pandemic, the County will be in a better position to make decisions on the budget assumptions moving forward. Therefore, I'm requesting time for the comprehensive budget analysis to be completed and during the budget reaffirmation process will develop a list of recommendations for consideration that will allow for flexibility and the ability to respond methodically to the continuous changing economy and our financial situation. My main objection during these challenging times is for the County to continue-on the path of financial stability and sustainability.