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TO: Jason Morgan
 Chair, Board of Commissioners

Katie Scott
 Chair, Ways & Means

FROM: Gregory Dill
 County Administrator

DATE: May 12, 2020

SUBJECT: 2020-2023 Financial Impact and Budget Forecast

This document is in response to Commissioner Scott’s request for county budget projections related to COVID-19 expenditures memorandum dated April 28, 2020, specifically asking for the economic outlook and our “best-case” and “worst-case” budget assumption scenarios. The 2020-2023 Quadrennial General Fund Budget was adopted per Resolution #19-206 on November 20, 2019, and the entire world has drastically changed due to the COVID-19 health crisis over the past six months. The financial outlook and budget forecasts will be provided in two parts: the short-term (current year 2020) and long-term forecasts for 2021-2023.

General Fund Budget Summary 2020 Original Adopted vs. Current:

Category	2020 Original Adopted Budget	2020 Current Budget
REVENUES		
40 - Taxes	77,107,676	77,107,676
45 - Licenses and Permits	431,199	431,199
50 - Federal Revenue	90,800	90,800
54 - State Revenue	11,231,362	11,237,862
58 - Local Revenue	1,498,851	1,498,851
60 - Fees and Services	22,361,860	22,361,860
65 - Fines and Forfeits	1,012,100	1,012,100
66 - Interest	107,419	107,419
67 - Other Revenue	3,283,118	6,993,756
69 - Transfers In	8,784,610	8,751,436
Total Revenues	125,908,995	129,592,959
EXPENDITURES		
70 - Personal Services	77,141,974	77,187,071
75 - Supplies	1,674,503	2,340,763
80 - Other Svcs and Chgs	14,716,054	17,540,353
95 - Internal Svc Chgs	90,853	90,853
96 - Capital Outlay	88,625	88,625
98 - Reserves	650,000	650,000
99 - Transfers Out	31,546,986	31,695,294
Total Expenditures	125,908,995	129,592,959

Authorized adjustments to the 2020 General Fund Budget using fund balance:

- BOC Res. #20-068 (4-8-20) and #20-058 (3-18-20) approved \$3.45M from the 2019 year-end surplus specifically to support the response for the COVID- 19.
- BOC Res. #19-141 (8-7-19) approved \$197K for Community Mental Health programs utilization authorization and operations review.
- Other budget adjustments were approved within administrative authority in the amount of \$53K for a few 2019 carry-forward items aligned with BOC priorities: Broadband Taskforce initiative (\$22K), Treasurer’s Office bridge loans to affordability program (\$16K) and an outside agency allocation to Eastern Michigan University family empowerment program (\$15K).

General Fund Budget Summary 2020 “Best-Case” Scenario:

Category	2020 Current Budget	2020 Projected Best-Case	2020 Variance Best-Case	Comments Best-Case
REVENUES				
40 - Taxes	77,107,676	78,989,043	1,881,367	Based on the 2020 Equalization Report;
45 - Licenses and Permits	431,199	431,199	-	
50 - Federal Revenue	90,800	90,800	-	No FEMA reimbursement during the year;
54 - State Revenue	11,237,862	9,024,908	(2,212,954)	No State Revenue Sharing after August;
58 - Local Revenue	1,498,851	1,498,851	-	
60 - Fees and Services	22,361,860	22,361,860	-	Clerk/ROD revenues assumed on budget;
65 - Fines and Forfeits	1,012,100	899,084	(113,016)	Aligned with 2019 court's net shortfalls;
66 - Interest	107,419	107,419	-	
67 - Other Revenue	6,993,756	2,094,073	(4,899,683)	Planned budget use of fund balance;
69 - Transfers In	8,751,436	8,751,436	-	
Total Revenues	129,592,959	124,248,673	(5,344,286)	
EXPENDITURES				
70 - Personal Services	77,187,071	77,187,071	-	
75 - Supplies	2,340,763	2,340,763	-	
80 - Other Svcs and Chgs	17,540,353	17,540,353	-	
95 - Internal Svc Chgs	90,853	90,853	-	
96 - Capital Outlay	88,625	88,625	-	
98 - Reserves	650,000	650,000	-	
99 - Transfers Out	31,695,294	31,695,294	-	
Total Expenditures	129,592,959	129,592,959	-	
Total Surplus/(Shortfall)			(5,344,286)	
Budgeted Planned Contribution/(Use) of Fund Balance			(4,899,683)	
Net Surplus/(Shortfall) above Budget			(444,603)	

We are being conservative in our “best-case” scenario for FY 2020 assuming a budget surplus is highly unlikely due to the County’s required response to the COVID-19 situation and the projected consequence of spending approximately \$1.8M per month even if an end in the near-term happens.

Revenues are projected to have a shortfall of -\$5.3M primarily because there is a budgeted planned use of fund balance in the amount of -\$4.9M. The good news is that the net shortfall would only be approximately -\$445K more than what was already planned in the budget. Even with the good news shared during the 2020 Equalization Report (4-22-20) that results in a projected property tax surplus of just under \$1.9M because taxable value increased by 4.62% over the prior year and our budget assumption was a 1.5% increase. The projected property tax surplus partially offsets projected shortfalls in state revenues of -\$2.2M reduced due to the State’s financial outlook for County’s to continue to receive revenue sharing payments through August only and fines and forfeitures revenues of -\$113K reduced to align with the 2019 courts’ revenue shortfalls as a “best-case” scenario. Finally, Clerk/Register of Deeds is projected to be on budget and no federal revenue for Federal Emergency Management Agency (FEMA) reimbursement anticipated for the current year. The County submitted its request for public assistance on April 30, 2020, and it is currently being reviewed.

Expenditures are projected to be on budget due to the authorized \$3.45M budget adjustment mentioned previously in response to the COVID-19 situation, as well as past surpluses within

personal services savings from projected attrition (approximately \$1M realized annually), budgeted reserves/contingencies and appropriations/transfers out will be spent.

General Fund Budget Summary 2020 “Worst-Case” Scenario:

Category	2020 Current Budget	2020 Projected Worst-Case	2020 Variance Worst-Case	Comments Worst-Case
REVENUES				
40 - Taxes	77,107,676	78,989,043	1,881,367	Based on the 2020 Equalization Report;
45 - Licenses and Permits	431,199	431,199	-	
50 - Federal Revenue	90,800	90,800	-	No FEMA reimbursement during the year;
54 - State Revenue	11,237,862	9,024,908	(2,212,954)	No State Revenue Sharing after August;
58 - Local Revenue	1,498,851	1,498,851	-	
60 - Fees and Services	22,361,860	21,088,601	(1,273,259)	Decreased Clerk/ROD revenues;
65 - Fines and Forfeits	1,012,100	599,389	(412,711)	Aligned with 2019 court's net shortfalls and reduced remaining by 4 months of loss revenue;
66 - Interest	107,419	107,419	-	
67 - Other Revenue	6,993,756	2,094,073	(4,899,683)	Planned budget use of fund balance;
69 - Transfers In	8,751,436	8,751,436	-	
Total Revenues	129,592,959	122,675,719	(6,917,240)	
EXPENDITURES				
70 - Personal Services	77,187,071	77,990,838	(803,767)	GF COVID OT for five pays thru 5-29-20;
75 - Supplies	2,340,763	2,340,763	-	
80 - Other Svcs and Chgs	17,540,353	17,540,353	-	
95 - Internal Svc Chgs	90,853	90,853	-	
96 - Capital Outlay	88,625	88,625	-	
98 - Reserves	650,000	650,000	-	
99 - Transfers Out	31,695,294	33,893,474	(2,198,180)	NGF COVID OT for five pays thru 5-29-20;
Total Expenditures	129,592,959	132,594,906	(3,001,947)	
Total Surplus/(Shortfall)			(9,919,187)	
Budgeted Planned Contribution/(Use) of Fund Balance			(4,899,683)	
Net Surplus/(Shortfall) above Budget			(5,019,504)	

For the “worst-case” scenario for FY 2020, just like the “best-case” scenario, assumes a budget surplus is highly unlikely due to the County’s required response to the COVID-19 situation and the projected consequence of spending approximately \$1.8M per month. Furthermore, without an end date known at this time, in addition to the assumptions highlighted under the “best-case” scenario, a few modifications have been added for the “worst-case” scenario.

Projected revenues have been decreased an additional -\$1.6M assuming the County’s closure and the modified operations in the Sheriff’s Office and other local police agencies focusing on public safety aspect of the COVID-19 response will impact all Courts’ fines and forfeiture revenues for a projected shortfall of -\$413K, and due to the uncertainty of the economic impact on the real estate market Clerk/Register of Deeds fees and services revenues for a projected shortfall of -\$1.3M.

As mentioned previously under the “best-case” scenario assuming past personal services savings from projected attrition (approximately \$1M realized annually), budgeted reserves/contingencies and appropriations/transfers out will be spent. Projected expenditures were increased an additional \$3M for COVID-19 overtime for five pay periods. Finally, as a result of the modifications in assumptions for the “worst-case” scenario the net shortfall projected would be -\$9.9M, approximately -\$5M more than what was planned in the budget.

The long-term forecasts beyond 2020 have modified revenue projection assumptions.

General Fund Budget Summary 2021-2023 “Best-Case” Scenario:

Category	2021 Adopted Budget	2021 Projected Budget	2022 Adopted Budget	2022 Projected Budget	2023 Adopted Budget	2023 Projected Budget	Comments
REVENUES							
40 - Taxes	78,222,744	78,989,043	79,354,537	78,989,043	80,503,308	78,989,043	Based on 2020 Equalization Report and held flat;
45 - Licenses and Permits	436,665	436,665	451,317	451,317	451,317	451,317	
50 - Federal Revenue	90,800	1,740,800	90,800	915,800	90,800	90,800	FEMA reimbursement of 50% in 2021 and 25% in 2022 of application submission;
54 - State Revenue	11,231,362	4,153,400	11,231,362	4,153,400	11,231,362	4,153,400	
58 - Local Revenue	1,506,915	1,506,915	1,544,452	1,544,452	1,544,452	1,544,452	Assumes no State Revenue Sharing of \$7.1M;
60 - Fees and Services	22,565,799	22,565,799	22,773,216	22,773,216	22,773,216	22,773,216	
65 - Fines and Forfeits	1,012,100	899,084	1,012,100	899,084	1,012,100	899,084	Clerk/ROD revenues assumed on budget; Aligned with 2019 court's net shortfalls;
66 - Interest	107,419	107,419	107,419	107,419	107,419	107,419	
67 - Other Revenue	2,087,535	2,087,535	2,096,644	2,096,644	2,096,644	2,096,644	
69 - Transfers In	8,793,023	8,793,023	8,897,825	8,897,825	9,002,699	9,002,699	
Total Revenues	126,054,362	121,279,683	127,559,672	120,828,200	128,813,317	120,108,074	
EXPENDITURES							
70 - Personal Services	79,622,620	79,622,620	80,499,406	80,499,406	81,783,713	81,783,713	
75 - Supplies	1,518,503	1,518,503	1,667,503	1,667,503	1,667,503	1,667,503	
80 - Other Svcs and Chgs	14,727,466	14,727,466	14,768,867	14,768,867	14,776,988	14,776,988	
95 - Internal Svc Chgs	204,243	204,243	333,780	333,780	306,271	306,271	
96 - Capital Outlay	88,625	88,625	88,625	88,625	88,625	88,625	
98 - Reserves	800,000	800,000	800,000	800,000	800,000	800,000	
99 - Transfers Out	29,092,905	29,092,905	29,401,491	29,401,491	29,390,217	29,390,217	
Total Expenditures	126,054,362	126,054,362	127,559,672	127,559,672	128,813,317	128,813,317	
Total Surplus/(Shortfall)		(4,774,679)		(6,731,472)		(8,705,243)	

For FY 2021-2023 “best-case” scenario includes the following updated assumptions:

- Projected property tax revenues have been updated to align with the 2020 Equalization Report and held flat each year resulting in an increase in the amount of \$766K for 2021 and decreases in the amount of -\$365K for 2022 and -\$1.5M for 2023 from the adopted budgets.

- Projected federal revenues include FEMA reimbursement assumption for 50% (\$1.65M) during 2021 and 25% (\$825K) during 2022 of the total amounts requested for public assistance (application submitted on 4-30-20). The maximum FEMA reimbursement will be 75% of eligible work and expenses. The County's required local share will be 25% of the total cost of the COVID-19 response under the "best-case" scenario.
- Updated projections assume no State Revenue Sharing payments, and therefore, have been decreased by -\$7.1M each year 2021-2023. Treasury forecasters anticipate economic recovery will take at least two years.
- Clerk/Register of Deeds projected fees and services are assumed to be on budget.
- Projected fines and forfeits have been updated to align court revenues with 2019 actual amounts, a reduction of -\$113K each year.
- Projections include the Community Mental Health allocation each year to pay down the FY 2019 shortfall in alignment with the Deficit Elimination Plan and assumes no new shortfalls for FY 2020 and beyond.
- Because budgeted and planned expenditures exceed projected revenues each year there are projected General Fund shortfalls of -\$4.8M for 2021, -\$6.7M for 2022 and -\$8.7M for 2023. Expenditure reductions will need to be made to align projected expenses with revenues and balance the next 2021-2024 Quadrennial Budget. To balance the budget -\$6.74M in structural reductions need to be made under the "best-case" scenario beginning in 2021 and carried-forward into the future each year.

General Fund Budget Summary 2021-2023 "Worst-Case" Scenario:

For FY 2021-2023 "worst-case" scenario includes the following updated assumptions:

- Projected property tax revenues have been updated to align with the 2020 Equalization Report and reduced -2.5% (-\$1.1M) for 2021, -1.5% (-\$3.4M) for 2022 and held flat (-\$4.5M) for 2023 resulting in decreases each year from the adopted budgets.
- Projected federal revenues include FEMA reimbursement assumption for 25% (\$825K) for both 2021 and 2022 of the total amounts requested for public assistance (application submitted on 4-30-20). The maximum FEMA reimbursement assumed is 50% of eligible work and expenses, and there will only be so much funding available with numerous states and municipalities applying for funding. The County's required local share may be more than 50% of the total cost of the COVID-19 response under the "worst-case" scenario.
- Updated projections assume no State Revenue Sharing payments, and therefore, have been decreased by -\$7.1M each year 2021-2023. Treasury forecasters anticipate economic recovery will take at least two years.
- Clerk/Register of Deeds projected fees and services are assumed to be on budget.
- Projected fines and forfeits have been updated to align court revenues with 2019 actual amounts, a reduction of -\$113K each year.
- Projections include the Community Mental Health allocation each year to pay down the FY 2019 shortfall in alignment with the Deficit Elimination Plan and assumes no new shortfalls for FY 2020 and beyond.
- Because budgeted and planned expenditures exceed projected revenues each year there are projected General Fund shortfalls of -\$7.5M for 2021, -\$9.8M for 2022 and -\$11.7M for 2023. Expenditure reductions will need to be made to align projected expenses with revenues and balance the next 2021-2024 Quadrennial Budget. To balance the budget -\$9.67M in structural reductions need to be made under the "worst-case" scenario beginning in 2021 and carried-forward into the future each year.

General Fund Budget Summary 2021-2023 “Worst-Case” Scenario (Continued):

Category	2021 Adopted Budget	2021 Projected Budget	2022 Adopted Budget	2022 Projected Budget	2023 Adopted Budget	2023 Projected Budget	Comments
REVENUES							
40 - Taxes	78,222,744	77,093,395	79,354,537	75,956,006	80,503,308	75,956,006	Based on 2020 Equalization Report with -2.5% decrease for 2020, -1.5% for 2022 & flat for 2023;
45 - Licenses and Permits	436,665	436,665	451,317	451,317	451,317	451,317	
50 - Federal Revenue	90,800	915,800	90,800	915,800	90,800	90,800	FEMA reimbursement of 25% in 2021 and 25% in 2022 of application submission;
54 - State Revenue	11,231,362	4,153,400	11,231,362	4,153,400	11,231,362	4,153,400	Assumes no State Revenue Sharing of \$7.1M
58 - Local Revenue	1,506,915	1,506,915	1,544,452	1,544,452	1,544,452	1,544,452	
60 - Fees and Services	22,565,799	22,565,799	22,773,216	22,773,216	22,773,216	22,773,216	Clerk/ROD revenues assumed on budget;
65 - Fines and Forfeits	1,012,100	899,084	1,012,100	899,084	1,012,100	899,084	Aligned with 2019 court's net shortfalls;
66 - Interest	107,419	107,419	107,419	107,419	107,419	107,419	
67 - Other Revenue	2,087,535	2,087,535	2,096,644	2,096,644	2,096,644	2,096,644	
69 - Transfers In	8,793,023	8,793,023	8,897,825	8,897,825	9,002,699	9,002,699	
Total Revenues	126,054,362	118,559,035	127,559,672	117,795,163	128,813,317	117,075,037	
EXPENDITURES							
70 - Personal Services	79,622,620	79,622,620	80,499,406	80,499,406	81,783,713	81,783,713	
75 - Supplies	1,518,503	1,518,503	1,667,503	1,667,503	1,667,503	1,667,503	
80 - Other Svcs and Chgs	14,727,466	14,727,466	14,768,867	14,768,867	14,776,988	14,776,988	
95 - Internal Svc Chgs	204,243	204,243	333,780	333,780	306,271	306,271	
96 - Capital Outlay	88,625	88,625	88,625	88,625	88,625	88,625	
98 - Reserves	800,000	800,000	800,000	800,000	800,000	800,000	
99 - Transfers Out	29,092,905	29,092,905	29,401,491	29,401,491	29,390,217	29,390,217	
Total Expenditures	126,054,362	126,054,362	127,559,672	127,559,672	128,813,317	128,813,317	
Total Surplus/(Shortfall)		(7,495,327)		(9,764,509)		(11,738,280)	

Methods Used to Balance the Quadrennial 2020-2023 General Fund Budget

Both the current year projections and the long-term forecasts, even under the “best-case” scenarios, indicate a structural, ongoing, and compounding deficit. Currently, the projected 2020 General Budget Fund Budget for both the “best-case” or “worst-case” scenarios show ending the year in a deficit, even with the allocation of \$3.45M from fund balance (specifically the 2019 year-end surplus), as a result of the County’s required emergency response to the unexpected COVID-19 health crisis. With a projected “best-case” scenario reflecting a -\$445K net deficit and a “worst-case” scenario of -\$5M net deficit (more than what was planned in the budget -\$4.9M), it is recommended that reductions in expenses be identified to reduce these potential deficits. Failure to identify cost reductions for FY 2020 would result in the utilization of fund balance. If this was to occur the projected fund balance at 12-31-20 would be \$33.5M or 25.8% of the total budget for the “best-case” scenario or \$28.9M or 22.3% of the total budget for the “worst-case” scenario. It is not a prudent best practice to utilize fund balance for identified structural, ongoing, long-term and compounding projected deficits.

The short and long-term views on the economic impact of the COVID19 pandemic and when and what recovery may look like is mixed. While this economic downturn is not expected to last as long or be as deep as the previous recession, recovery is likely to take two years or more, and will impact the projected future budgets for at least the next three years. Solutions that address the revenue losses and that can be flexible to the actual rate of recovery are ones that need to be identified. Methods that may be considered and used to balance the 2020-2023 Quadrennial General Fund Budget include:

- Across the board reduction for all departmental budgets, outside agency allocations and appropriations to non-general fund program expenditures.

Reduction Percent	2020 Current Budget	2021 Adopted Budget	2022 Adopted Budget	2023 Adopted Budget
2%	2,591,859	2,521,087	2,551,193	2,576,266
3%	3,887,789	3,781,631	3,826,790	3,864,400
4%	5,183,718	5,042,174	5,102,387	5,152,533

- Institute a hiring freeze and layoffs or eliminate positions to reduce our largest expenditure (personal services).

GF Supported FTE (excludes elected officials)	2020 NET Projected Deficit	2021 Projected Deficit	2022 Projected Deficit	2023 Projected Deficit
Best-Case	(4.8)	(51.4)	(72.4)	(93.6)
Worst-Case	(54.0)	(80.6)	(105.0)	(126.3)

- Detailed analysis and review of all expenditures, especially, consultants/contracts and lease/rental agreements for space and parking, nonmandated appropriations and outside agency allocations as well as mandated service levels for potential reductions.
- Review all investments and increased allocations since 2015 for new or expanded programming and make reductions.
- Request economic negotiations with our collective bargaining partners for wage and fringe benefit savings.

Therefore, as the result of the current economic outlook, current year projections and long-term forecasts revealing a structural compounding deficit, budget reductions are needed to spend within our means and to continue-on the path of financial stability and sustainability. The economic situation will continue to be monitored and updated information will be shared regularly. During times of economic downturn budget decisions are difficult, but the sooner structural reductions are identified and implemented the less severe they need to be for the long-term.