Warren C. Evans
Wayne County Executive

July 06, 2016

Honorable Gary Woronchak, Chair
Wayne County Commission
500 Griswold, 7th Floor
Detroit, Michigan 48226

Dear Chairman Woronchak:

In accordance with Article V of the Wayne County Charter and as a requirement of the Consent Agreement between the County and the State of Michigan, attached please find my recommended two-year Comprehensive Executive Budget (budget) for fiscal year FY 2016-17 and FY 2017-18. This budget requires Wayne County Executive Branch departments and elected officials to recognize and plan carefully for the future as we move forward in turning around and improving the financial condition of the County.

While our financial position has improved since I took office, the County continues to face considerable financial structural challenges. The first priority as County Executive was to identify all of the major problems facing Wayne County. While other critical problems existed and needed to be addressed, the biggest problem was clearly the County's fiscal health. It was evident that there was little time before corrective financial actions would be too late, and bankruptcy would be unavoidable. It was so evident that the fiscally responsible leadership of the County agreed that now was definitely the time to act.

As you are aware, immediately upon taking office, I ordered an extensive review of the County's finances. In late January 2015, I publicly reported the findings, which revealed that the County's dire financial situation was far worse than previously reported. The County's ability to operate efficiently and deliver essential services to its residents was threatened by a structural deficit that averaged $50 million over the last three years – in other words, during the last three years the County spent $50 million per year more than it collected in revenues.

My administration spent the Spring of 2015 drafting what became known as the "Recovery Plan" (Plan) for Wayne County. The Plan included realistic solutions to address the County's grave financial problems. The Plan identifies and targets the root causes of the structural deficit, specifically the spiraling legacy costs of pensions, health care benefits for active employees and retirees, debt service on the partially built jail, and poor utilization of the County's real estate holdings. The Plan was released to the public on April 29, 2015 and my administration immediately went to work implementing it and incorporating it into the FY 2015-16 Budget and the Recovery Plan savings are fully integrated in the FY 2016-17 Recommended Budget.

The Plan called for a number of changes which required cooperation and shared sacrifice from all levels of County government including the Commission, Elected Officials, County employees and retirees. Last summer, the County settled a lawsuit with the largest segment of County retirees and during the final weeks of September, the County negotiated and came to agreement with all employee bargaining units with expiring contracts, except one. Using the powers granted to the CEO by the Consent Agreement between the State and the County, the CEO imposed terms on that union. The contracts were ratified by the union membership, approved by the County Commission on September 31, 2015 and implemented October 1, 2015. Major components to the agreements include:

- The five percent wage reduction included in the 2016 Adopted Budget was rescinded. Compensation for Sheriff officers and Prosecuting attorneys included pay increases in order to retain and attract employees in these categories.
- Major changes to retiree and active employees health insurance:
  - The elimination of County funded retiree health care for most of the County retirees was replaced with a monthly stipend payment to the retirees allowing them to purchase health insurance on one of the health exchange. This change was effective October 1, 2015.
  - The retiree health insurance promise for active employees was eliminated for all employees with less than 20 years of service. This change was effective 10-01-15.
  - Active employees and their dependents are now covered by a High Deductible Health Plan (HDHP) in order to reduce health costs to the County. Cost sharing of the premium increased from 20% to 25% for most employees. This change was effective 01-01-16.
  - The County provided a "bonus" of $650 (for single coverage), higher amounts for two person and family coverage The health care opt out option was eliminated.

The annualized impact of these changes is included in the 2015-16 revised Budget and the full savings are being carried forward in FY 2016-17 and FY 2017-18 Comprehensive Budget being forwarded to the legislative body for review and approval. The more significant impact is the reduction to the health care legacy costs in that it reduced the County's Other Post Employee Benefits (OPEB) liability by $854 million.

- Already earned, or accrued benefits were not affected, but major changes to future earned pension benefits were made, including but not limited to:

- o Reduction of the type of earnings included in the Average Final Compensation (AFC) used to calculate retiree's pensions in the defined benefit plan.
- o The pension multiplier has been reduced to 1.25 for benefits being accrued after October 1, 2015.
- o Employee contributions for their defined benefit plans has been increased to 6% or 7% depending on the CBA.
- o Employer match contributions to the County's Hybrid plan has been eliminated.
- o Employer match to the defined contribution plan has been fixed at 10% with employees contribution limited to 4%.

- Work rules related to Overtime have been changed or reduced.

The combined General Fund savings that the County anticipates to realize by implementing these solutions is estimated to be approximately $53.4 million on an annual basis. It eliminated the structural deficit, and reduced the County's long-term liabilities tied to legacy costs of health care benefits and pensions, and sets the stage for this upcoming budget year.

For the first time in eight years, Wayne County's fiscal year ending Sept. 30, 2015, had an available General Fund surplus of $5.7 million. This surplus was reported for the 2014-2015 fiscal year in the Comprehensive Annual Financial Report (CAFR) submitted to the State of Michigan. This surplus was the direct result of actions taken by my Administration and the County Commission.

The process to develop revenue estimates for the County changed this year. The State of Michigan and the County of Wayne signed a Consent Agreement, approved by the County Commission on August 6, 2015 as the option selected under Section 8 of Act 436 to address the County's financial emergency. Section 5 of the Consent Agreement requires the County to conduct a Revenue Estimating Conference, where the members of the conference are required to adopt an official forecast of anticipated revenues of the County. The County Executive and other County officers are required to use the current revenue forecast adopted by the committee when proposing a County budget, appropriations act, or amendment to either. The Consent Agreement designates the members of the Revenue Estimating Conference as the Chief Financial Officer, the Treasurer (or designee), and the Budget Director of the County Commission.

The first Revenue Estimating Conference met in January to establish the governing rules and again in February, 2016 at which time the members voted unanimously to adopt the initial revenue forecast for the period of FY 2015-16 through FY 2019-20. The revenues adopted by the February Conference were the basis for the FY 2016-17 and FY 2017-18 Budget. During the budget development process, Elected Offices and Departments were provide the Conference revenues by Management and Budget and were directed to use them in their budget development. Any deviation from those revenue estimates were required to be justified by the department and approved in a second Revenue Estimating Conference held in June. The revenues included in the Comprehensive Executive

Recommended Budget being forwarded to the legislative body are the result of these two conferences and were unanimously approved by the conference members.

While the County has developed a multiyear budget since 2012, the second year budget has been primarily used as a planning tool for departments and offices headed by elected officials. The Consent Agreement requires the County "to adopt and implement using Charter procedures a two-year budget for the County, including all contractual and employment agreements, effective beginning on the first day of a fiscal year beginning after the Release Date." It is anticipated that the County will qualify to be released from the Consent Agreement prior to the beginning of the fiscal year starting October 1, 2016, which is covered by the two-year budget being presented to you as the CEO Recommended 2016-17 and 2017-18 Budget. Therefore, the CEO Recommended FY 2016-17 and FY 2017-18 Budget may be the two-year budget submitted to the State Treasurer in compliance with the Consent Agreement.

In addition, the Consent Agreement stipulates "After Release Date, the County shall not amend any two-year budget adopted for the County under section 11(a) without the approval of the State Treasurer".

The Recommended Budget presented to the Commission for FY 2016-17 and FY 2017-18 certifies revenues of $1.50 billion and $1.49 billion, respectively. The recommended budget for non General Fund operations is $0.98 billion for FY 2016-17 and $0.96 billion for FY 2017-18. It includes funding for Special Revenue, Enterprise and Internal Service activities such as the County Roads and Parks operations, the Juvenile Justice System and the Delinquent Tax Revolving Fund (DTRF) programs. While some of these activities are partially subsidized by the General Fund, the majority of their revenue sources are non General Fund restricted sources.

The County's General Fund Budget is segregated into two major sources of revenue: General Fund General Purpose (GFGP) – used to fund health and welfare programs, public safety, and general government; and non GFGP – revenue generated by departments and elected offices from specific sources that cannot be used to fund other areas of General Fund expenditures.

In the current year, FY 2015-16, the County's available GFGP revenues for operations totaled $401.3 million, including $47.8 million of funding from the County's DTRF and Forfeiture Programs. The GFGP revenues, along with department specific funding from non GFGP sources (grants, charges for services and other revenue sources) which totaled $148.1 million, accounted for the General Fund's $549.3 million amended budget.

In next year's FY 2016-17 Recommended Budget, the County General Fund Budget will total $527.6 million, a decrease of $21.7 million from the FY 2015-16 amended budget. The majority of this reduction is the result of reduced transfers from the DTRF of $15.4 million. While this is a negative impact to the budget, the year to year reduction in the DTRF transfers is an indication that the there are fewer property delinquencies and County's economy is improving.

The County's General Fund will have a total of $386.2 million in FY 2016-17 of GFGP available to fund public safety, health and welfare programs and general government, a reduction of $15.0 million from the FY 2015-16 Amended budget. From this amount, the County will have to first fund its mandatory spending obligations of $74.8 million, which includes debt service payments, rent payments, amounts set aside for liability settlements, required funding to the Parks, and payments to the Detroit Wayne County Mental Health Authority (DWCMHA). The remaining $311.4 million is available to allocate among the various GFGP supported departments and offices, and includes transfers from the DTRF and Forfeiture Programs of $32.4 million in FY 2016-17 and $25.1 million in FY 2017-18. Other non GFGP revenues, primarily grants and charges, are $141.4 million in FY 2016-17 and $145.5 million in FY 2017-18. Total General Fund combined GFGP and non GFGP revenues are $527.6 million, and $530.8 million, respectively in FY 2016-17 and FY 2017-18.

Property tax collections, the County's primary source of revenue, have fallen dramatically since 2008, significantly reducing tax collection revenue. In 2008, property tax collections were $370 million. Beginning in FY 2013-14, that trend changed and property tax collections began to rebound; in the upcoming budget, we are estimating net property tax collections to be $260.0 million in FY 2016-17 and $258.6 million in FY 2017-18. While this appears to be a reduction, the reduced revenues reflect the impact of the repeal of Personal Property Taxes. The repeal of the Personal Property Tax was implemented in FY 2015-16. The State has indicated that counties and local municipalities will be made whole from this loss of revenue so $12.6 million in State reimbursement is included in this budget in both FY 2016-17 and FY 2017-18.

For the FY 2016-17 and FY 2017-18, the County expects to receive revenue sharing payments of $50.0 million which is consistent with the payments received by the County over the last few years. Court Equity payments, which are based on filing fees collected by the County's Circuit and District Courts and used to fund court operations, are to total $14.0 million, an increase from FY 2015-16. A similar continuation budgeted amount is included in the Recommended Budget for FY 2017-18.

The Recommended Budget also demonstrates my Administration's full commitment to public safety. This budget fully funds all jail and jail related operations at the current level adjusted for reductions resulting from anticipated overtime, health care and pension changes. It also included capital funding for the replacement of a a portion of the Sheriff's aging vehicle fleet. The Recommended Budget for the County Prosecutor continues the supplemental $1.0 million appropriation for rape investigations and prosecution, additional support for the warrant division and one time funding for the evaluation and resentencing of Juvenile Life Without Parole (JWOP) inmates as the result of a ruling by the U. S. Supreme Court which found life without parole sentencing unconstitutional for certain offenders. The budget funds 181 full time and part time attorneys and 101 support staff in the Prosecutor's Office. The budget for the Third Circuit Court is funded to the levels agreed to in the 2016 agreement and subsequent memorandums of understanding.

The County funds 100% of the defined contribution and the defined benefit retirement plans as determined by the independent actuary retained by the Wayne County Employee Retirement System (WCERS) adjusted for expected savings derived from the Recovery Plan.

County leadership must focus on providing true mandated services versus non mandated services during budget deliberations. It is clear that the Commission must appropriate funds sufficient to fund mandates for an Elected Officials and County government in general. The key question is "at what level must the County provide a particular service?"

We will continue to insist that each department, including those headed by elected officials, manage their expenses to available revenues. No departments or elected officials are receiving the exact level of funding that they believe they deserve as revenue sources are limited. Moreover, we must face the difficult challenge of right-sizing and streamlining all County functions, while managing the workload in a fiscally prudent and operationally sound manner. Simply stated, there is never enough GFGP revenue to support all needs. New revenues must be found.

A schedule of monthly allotments for all elected officials and departments for the fiscal year will be developed by the Department of Management and Budget (M&B) shortly after the adoption of this budget. It will be based on historical spending patterns and input from the departments and elected officials. The Schedule of Allotments will again be the basis for monthly reporting to the State Treasurer and the Commission through the Committee on Ways and Means. On or before October 15, 2016, the Commission will receive the required allotments for all departments. In the event that a department fails to submit a schedule of allotments, M&B will put one forward on behalf of the department or Elected Office, which will remain in effect until an acceptable schedule has been submitted by that department.

These budgets assume that growth in enterprise and other non-general fund supported special revenue funds must not be exceeded by spending increases. We cannot deviate from the policy of holding the line on all spending.

With the leadership and collaboration of my Administration, staff, the Commission, and other elected officials, we can and will rise to the challenge before us. Our citizens are counting on it.

Sincerely,

Warren C. Evans

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Wayne County Executive