



### **Agenda Action Form Overview**

The budget update will give the Board of County Commissioners insight on the budget development process since the fiscal impact of COVID-19. During the BOCC Budget Retreat held on February 25, 2020, it was projected over \$14 million dollars was potentially available to address some of the \$40+ million dollars in requests. Although there were insufficient funds to address all needs, there was some financial capacity to address some of the pressing issues facing the community.

BOCC members identified areas of interest during the budget retreat for the FY 2020-21 budget development. The unranked list included potential funding to address DSS Medicaid compliance issues, public safety budget shortfalls, building maintenance, library operations, and the information technology infrastructure. Further, there was supported to address the Durham Public Schools operating and capital budgets and desire for continued investments in Pre-K initiatives. Guidance also occurred to reevaluate base budget funding to create additional capacity. Support also occurred for tax relief potential, however there was concern raised by some about the County's ability to afford the program due to revenue shortfalls.

In March 2020, the fiscal outlook shifted from potential surplus of over \$14 million, to an updated forecast of no projected new dollars. The County Manager updated the Board about the revised revenue forecast and identified some approaches that would be used to address the budget development. These guidelines included no increases to the overall budget, inflationary increases would occur through realignments of existing funds or through the reduction of services, vacant positions or other cost savings. In an effort to mitigate a potential reduction in force, merit salary increases will be evaluated in January 2021, once additional insight occurs regarding the 2021 economic outlook. Fund reserves should be used for one-time purchases. Fund balance reserves will not be used at levels higher than the current fiscal year. Further the County Manager indicated the Managers recommended budget would be developed with no tax increases.

In addition to the operating budget development, the Board will be briefed on the fiscal outlook for debt management. The County has used short-term draw-down programs for many years to fund cash flow needs of the capital improvement program. This private sector like technique has saved significant borrowing cost dollars as well as eliminated negative arbitrage. The County uses the short-term draw-down programs for General Obligation bonds and Limited Obligation Bonds. Draw-down programs are done on a variable-rate basis and taken out by long-term, fixed rate bonds - after 24 draw months and then a new draw-down program begins. This cash management approach will be essential for funding the Capital Improvement Plan as endorsed by the BOCC during the Joint BOCC/BOE meeting on February 13, 2020.

Due to COVID-19, financial markets have seen significant activity and stress. However, the County's solid financial position will allow for a planned June 2020 short-term LOBs Draw-Down to support Durham County, Durham Public Schools and DTCC related projects. Planned capital improvement projects not included in the \$75 million short-term financing over the next two years will be issued using limited obligation bonds.