



COUNTY ADMINISTRATOR



September 3, 2003

TO: Leah Gunn, Chair
 Honorable Members of the Board of Commissioners
 Department And Agency Heads of the County
 Washtenaw County Employees
 Citizens of Washtenaw County

FROM: Robert E. Guenzel, County Administrator

SUBJECT: 2004/2005 Budget

I have always considered it an honor to be employed in public service, that privilege is accentuated in the times in which we now live. In hindsight, the events of the last two years have changed our world forever. Part of that change has been a profound fiscal impact on local government, which has emerged in three distinct areas.

Economy The economic downturn and stock market decline have impacted our fiscal operations in numerous ways.

- Stock market declines have increased the County’s funding obligation for our defined benefit pension plans. This trend will continue into foreseeable future.
- Michigan has two constitutional laws that limit property tax growth to the rate of inflation. For the 2004 budget the applicable inflation rate is only 1.5%.

State Budget Closely tied to economic conditions, the State of Michigan has been dealing with projected budgetary shortfalls for the past two years and again this year has reduced or held flat the funding amounts for programs at the local level. This has impacted Washtenaw County in two primary areas.

- Under Michigan law, a portion of State sales tax revenue is distributed to local governments as State Revenue Sharing. For the last two years the State has passed a budget that overrides the distribution formula for revenue sharing and has instead based revenue sharing on the previous year’s distribution. For 2004 this amount is a 3% reduction from the 2003 distribution.
- Programmatic funding levels for Health related services at the local level have either been reduced or held flat. Based on the Board of Commissioners’ strong commitment to maintaining these services, the decision was made to share the burden by covering negotiated salary and fringe benefit increases through increased General Fund appropriation.

Insurance Industry Due to the extensive settlement payments related to September 11th and the subsequent stock market performance, insurance premiums - especially those for governmental entities - have dramatically increased. Washtenaw has seen an 81% increase in liability costs over the past 3 years.

A related increase is a national trend in escalating health care insurance costs. Many national projections point to a doubling of healthcare costs over the next 4 to 5 years.

Labor Contracts An additional factor impacting our current situation is a conscious decision made during labor negotiations. We had an extremely successful bargaining process in 2002 and negotiated a five-year contract that met both employee and management needs. This contract was not without cost, however. Both parties realized that to pay for this agreement, positions would need to be eliminated.

Further, the Board of Commissioners made a commitment to this community that services provided by non-General Fund departments, primarily health related services, would not suffer because of these new contractual obligations.

In the past, these departments and programs would have received funding increases to cover inflationary costs. Without State or Federal funding increases, cost reductions would be needed to cover pay raises. We made a conscious decision to pay the costs attributable to the negotiated salary increases through General Fund appropriations to effected departments. The cost of this is approximately \$1,300,000 annually.

The cumulative effect of these factors created a stark picture: a projected \$4,000,000 General Fund shortfall, and an additional \$2,000,000 deficit outside the General Fund. Before turning my attention to the proposed 2004/05 Budget that addresses these issues, I would like to offer an historical perspective that helps to outline the rationale of our approach.

Historical Perspective

Early 1990s

During the early 1990s the County was facing continual fiscal crises characterized by:

- An operating shortfall of \$1,000,000+
- Diminishing reserves
- Neglected infrastructure (space, technology, capital)
- Entrenched bureaucracy

The standard approach was crisis management that looked at short-term fixes and further neglect of the infrastructure.

Mid 1990s

In 1995 we initiated what has become known as the Business Improvement Process. A major element of this endeavor has been to maintain a long-term perspective of fiscal operations. The mid 1990's became a time of restructuring:

- Elimination of 60 General Fund positions through restructuring
- Commitment to infrastructure
- Commitment to long-term financial projections

These were difficult times but we had specific goals. We knew that once we had dealt with some of the longstanding structural problems, we could begin to rebuild our infrastructure.

Late 1990s

These were the fiscally stable times. During these years we were able to carry out the long-term plans we'd made, and to focus on long-term stability. Some of our accomplishments were:

- Doubled reserves to meet our goal of 8% of general fund expenditures (net of indirect costs)
- Built five new buildings without additional millage
- Established a 20 year capital maintenance plan
- Developed a technology plan to build and maintain our infrastructure
- Developed a world class professional development program
- Increased our bond rating
- Expanded service delivery

As we met these goals, we also planned for the future – building an organization that could weather tough times when they arrived.

Early 2000s

Once again we are in a restructuring mode, and while we are facing many of the same financial pressures of the early 1990s, we are in much better shape to deal with them. We have a sense of urgency, not crisis. Our expanded reserves have allowed us to reduce appropriations to capital funds in 2002 and 2003, allowing us to deal with immediate issues while we make changes for 2004 and beyond.

Given the trends mentioned earlier, it is anticipated that the fiscal climate will not improve substantially over the next four to five years. For instance, even if the economy makes a rapid recovery, it will take a number of years for State funding levels to local units of government to begin increasing. The recommended 2004/05 Budget not only balances fiscal years 2004 and 2005, but it includes a framework for ensuring fiscal stability for the next ten years. The focus of this budget is to **expand capacity and reduce costs**.

Expanding Capacity and Reducing Costs

Communities of Interest

When we initiated the Business Improvement Process in our organization, one of the long-term goals was to define core business processes, and then to align programs by systems rather than simply by departments or agencies. This budget takes a huge step in that direction through the introduction of Communities of Interest. One of the chief components of this planning process, "Communities of Interest" allow us to take a very comprehensive and systematic look at the services provided throughout the County, and at the common customers who are served. Our Board of Commissioners had established a set of priorities that were used to envision the seven Communities of Interest:

- Public Safety & Justice
- Planning, Development & Environment
- Health
- Children's Well-being
- Homelessness & Housing
- Revenue & Record Keeping
- Support Services

We brought together our community partners – non-profit agencies, local units of government and other service providers within those seven "communities of interest." By looking at service provision within these communities as a system we could begin to answer "who does what best" and address duplications

and redundancies to **reduce the cost** of doing business. Further, by aligning programs and integrating them, we can also **expand capacity**.

Each Community of Interest was asked to address three major issues:

- Advancing the Board of Commissioners “Areas of Consideration”
- Cost reductions for 2004/05
- Identify long-term strategies for future integration

Areas of Consideration

Based on the input from the Communities of Interest, the Board of Commissioners discussed issues and approved strategies for the County. Nine areas of special consideration were identified:

1. Continuum of Sentencing Options
2. Mental Health Services and Corrections
3. Information and Referral
4. Comprehensive Plan
5. Access to Healthcare
6. Strengthened Relationships with Local Units of Government
7. Coordination of Services for Children
8. Treatment Options for Youthful Offenders
9. Environmental/ Public Health Regulation and Protection

Washtenaw County will concentrate its efforts on these nine issues over the course of the next few years. Each of these issue areas crosses traditional departmental boundaries, thereby requiring departments to reexamine the processes they currently use to deliver services. Most of these issues also require strengthening and coordinating relationships with other governmental units in the not-for-profit sector, and in the private sector (Guiding Principle #7). Details of specific plans around each of these initiatives can be found beginning on page B-12 of the Budget Summary.

Cost Reductions for 2004/05

Early in the 2004/05 Planning Process a set of principles were developed to guide reduction decisions.

- Maintain core/mandated services
- Minimize community impact
- Attempt to find alternative funding for State or Federal cuts
- Identify and implement administrative efficiencies
- Distribute reductions across populations and providers
- Maintain commitment to infrastructure
- Support the County Guiding Principles

These principles have been instrumental in developing a balanced budget that has minimal reductions in direct services. We have been allowed to complete this task, again, because of the fiscally responsible work we did in the late 1990s. The commitment that the Board of Commissioners made to building our infrastructure is paying off in greater efficiencies. The investments made in technology and Professional Development have provided our employees with the skills and tools necessary to do more with less. I am happy to say that the \$6 million needed to balance this budget have been secured through one or all of the following strategies:

- Identifying alternative funding sources or revenues
- Reductions in administrative costs
- Efficiencies gained across systems

Because of our commitment to reduce administrative costs first, Support Services took a leadership role in demonstrating the ability not only to reduce costs but, through increased integration, also expand capacity.

Support Services

The table below details the specific budgetary measures taken by Support Services. Most of these savings are in Information Technology. Again these savings can only be recognized because of the commitment to building our infrastructure in the late 1990s. It requires more resources to construct a building than to maintain it. In the same way, we have constructed a strong technology base and can now narrow our focus to core technologies and expanding capacity through what we already possess (page G-18).

Involvement from other Communities of Interest has allowed for significant efficiencies. A summary is presented here while a more detailed discussion is provided in the Budget Preparation section of the Budget Summary.

Position reductions	15.0 FTE	\$1,301,699
Contract / cost reductions		\$470,000
 Total:		 \$1,771,699

Health

As discussed earlier the Health community experienced the deepest impact of flattened or reduced programmatic funding levels. The commitment to cover salary and fringe benefit increases from the General Fund softened the blow somewhat but the gap was still approximately \$2,000,000. Again the commitment to technology was instrumental in that almost half of the positions eliminated were directly related to automation.

Position reductions	22.1 FTE	\$1,299,932
Contract / cost reductions		\$145,000
Alternative revenue / funding		\$523,474
 Total:		 \$1,968,406

Public Safety & Justice

The measures within this community are a combination of administrative savings as well as identifying alternative revenue sources.

Position reductions	9.6 FTE	\$1,089,352
Contract / cost reductions		\$100,000
Alternative revenue / funding		\$447,100
 Total:		 \$1,636,452

Housing & Homelessness

While no reductions were made within this community, we were able to see significant General Fund savings by securing alternative funding sources.

Alternative revenue / funding	2.7 FTE	\$174,945
Total:		\$174,945

Planning, Development & Environment

The measures within this community are primarily a result of the changing economy in that we have seen a slowdown in the construction industry. It is also a combination of administrative savings as well as fee increases.

Position reductions	15.0 FTE	\$798,186
Contract / cost reductions		\$75,000
Alternative revenue / funding		\$104,870
Total:		\$978,056

Revenue & Record Keeping

Again, while no major reductions were made within this community, we were able to see significant General Fund savings through securing alternative funding sources.

Position reductions	1.0 FTE	\$42,996
Alternative revenue / funding		\$298,034
Total:		\$341,030

Children's Well-being

Although there was little direct savings within this community there is a great deal of overlap with other communities, and thus significant involvement in expanding capacity.

Contract / cost reductions		\$30,925
Alternative revenue / funding		\$30,000
Total:		\$60,925

Long Term Strategies

This is only the beginning for Communities of Interest. As I stated earlier, the current fiscal situation is projected to continue for the foreseeable future. In order to present the balanced 5-year projection shown below, there will need to be approximately 20 position reductions in each planning cycle. In order to make these reductions without diminishing direct service, we must begin planning now to find ways to broaden the power and scope of these communities.

**Washtenaw County General Fund
5 Year Projection**

	2004 ADOPTED BUDGET	2005 ADOPTED BUDGET	2006 PROJECTED BUDGET	2007 PROJECTED BUDGET	2008 PROJECTED BUDGET
REVENUES:					
Taxes & Penalties	\$ 55,067,493	\$ 58,206,341	\$ 61,524,102	\$ 65,030,976	\$ 68,737,742
Licenses & Permits	\$ 123,200	\$ 123,200	\$ 126,896	\$ 130,703	\$ 134,624
State and Federal Revenues	\$ 10,701,412	\$ 10,629,683	\$ 10,629,683	\$ 10,629,683	\$ 10,629,683
Fees & Services	\$ 14,809,896	\$ 15,260,942	\$ 16,329,743	\$ 17,629,406	\$ 19,186,554
Fines & Forfeits	\$ 1,162,100	\$ 1,162,100	\$ 1,196,963	\$ 1,232,872	\$ 1,269,858
Interest Income	\$ 1,004,400	\$ 1,004,400	\$ 1,034,532	\$ 1,065,568	\$ 1,097,535
Other Revenue	\$ 836,084	\$ 850,218	\$ 875,725	\$ 901,996	\$ 929,056
Transfers In	\$ 903,054	\$ 903,054	\$ 930,146	\$ 958,050	\$ 986,791
TOTAL	\$ 84,607,639	\$ 88,139,938	\$ 92,647,790	\$ 97,579,254	\$ 102,971,843
EXPENDITURES:					
Personal Services	\$ 50,471,709	\$ 51,358,081	\$ 52,895,395	\$ 55,143,762	\$ 57,534,358
Supplies	\$ 1,491,317	\$ 1,298,316	\$ 1,536,057	\$ 1,337,265	\$ 1,582,138
Other Svcs. & Charges	\$ 10,361,307	\$ 10,416,039	\$ 10,728,520	\$ 11,050,376	\$ 11,381,887
Internal Service Charges	\$ 1,055,633	\$ 1,055,633	\$ 1,087,302	\$ 1,119,921	\$ 1,153,519
Capital Outlay	\$ 14,275	\$ 14,275	\$ 14,275	\$ 14,275	\$ 14,275
Reserves	\$ 1,084,435	\$ 2,114,512	\$ 2,114,512	\$ 2,114,512	\$ 2,114,512
Appropriations/Transfers Out	\$ 20,128,963	\$ 21,883,082	\$ 24,212,085	\$ 26,675,886	\$ 29,117,935
TOTAL	\$ 84,607,639	\$ 88,139,938	\$ 92,588,145	\$ 97,455,997	\$ 102,898,623
SURPLUS (DEFICIT)	\$ -	\$ -	\$ 59,644	\$ 123,257	\$ 73,220

In addition, savings equivalent to 32 positions will be needed for 2005. Discussions will begin in November 2003 to ensure that these savings occur. We will emphasize expanding conversations on systems integration within the Communities of Interest, and look further at specific County-wide issues that have potential for reductions. Many of these opportunities for greater efficiency and collaboration were generated within meetings with the Communities of Interest.

In terms of systems integration we will be looking at:

- Process reviews
- Facilities consolidation (particularly in relation to staff working in the field)
- Technology (capacity that already exists)
 - Data warehousing
 - Document imaging
 - Workflow
 - Geographic Information Systems (GIS)

County-wide operations issues that have been identified are:

- Fee-based revenues
- Reimbursement collections
- Medical cost alternatives
- Jail medical services
- Liability costs
- Grants coordination
- Use of volunteers and/or self service
- Explore public/private initiatives
- Lobby state legislature

Conclusion

Although the issues we are grappling with are complex, they are not unique to Washtenaw County. Governmental units across our nation find themselves in very similar, if not more challenging situations. We are resolved to continue our leadership role in public service, demonstrating that we can reduce costs and still expand capacity. It is difficult work but that is why we are here. If it were easy, anyone could do it.

This organization is full of such courageous people and it is to all of them that I extend my gratitude for the collaborative effort that this Recommended Budget represents. I especially want to acknowledge the leadership that continues to be demonstrated by our Director of Budget and Planning, Gordon Burger. And to those who worked so hard to compile the information contained in this document: Jennifer Watson, Damon Thompson, and Andrea Dunathan, I offer my sincere thanks.