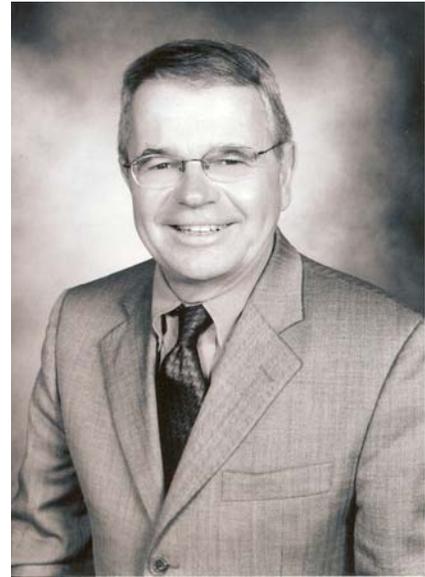




## COUNTY ADMINISTRATOR



October 5, 2005

TO: Wesley Prater, 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: 2006/2007 Budget

Once again, it is my pleasure to bring forth a plan that leads us towards our vision. In my eleven years as County Administrator, our organization has progressed beyond my expectations to meet the changing and demanding needs of our customers. We have done so by staying true to our guiding principles:

1. Fiscal Stability
2. Reduce the Cost of Doing Business
3. Enhance Customer Service
4. Equip employees with the Necessary Tools, Knowledge and Skills
5. Ensure Adequate Provision of Mandated Services
6. Focus on Root Causes
7. Provide Leadership on Intragovernmental, Intergovernmental and Intersectoral Cooperation and Collaboration Aimed at Improving Services to County Citizens

All of these principles are important to the success of Washtenaw County government; however, I believe the final principle truly sets us apart. Throughout the past several years, the budget has been challenged for many reasons. The economy has taken a downturn, State funding has been reduced, insurance costs have increased due to the disasters that have affected our country, and the cost of medical and retirement benefits continue to soar. Because of all of these factors – as well as many others not stated – the needs of our citizens have increased.

This tension between increasing community needs and diminished resources puts the County and all government agencies in a quandary. Our mission is to help and serve all our citizens, and yet that mission must be achieved within funding constraints. Washtenaw County has managed this tension by continuing to pursue new and enhanced ways of meeting the needs of our citizens. This approach demands constant evaluation, creativity, collaboration and change.

### Communities of Interest

During the 2004/05 Budget cycle, the County established Communities of Interest. The concept of Communities of Interest is centered on the customer, bringing together individuals and organizations that impact a particular service area. Identifying partners within a Community of Interest allows one to determine the strengths, weaknesses, opportunities and threats of the system as a whole. In so doing, customer service is streamlined and improved. While the Communities of Interest are continuously evolving, we have identified the following major customer focus areas:

- Health
- Housing & Homelessness
- Planning & Environment
- Children's Well-Being
- Public Safety & Justice
- Emergency Preparedness
- Civic Infrastructure (formerly Revenue & Recordkeeping)
- Support Services

These Communities have taken the vision of World Class Service from a perspective of “doing things right” to “doing the right things.” In order to position ourselves to do the right things, we must be open to change. By bringing together the individuals that make up the system, analyzing the services being provided, and evaluating the method for providing those services, we are able to identify any gaps and opportunities for improving our response to citizens' needs. These opportunities may take many forms, including but not limited to:

- ◆ Working with new community partners;
- ◆ Adapting our processes to make system connections;
- ◆ Increasing efficiency to redirect time and resources to the area of need;
- ◆ Restructuring our internal management and staff assignments; and/or
- ◆ Enhancing our infrastructure to better equip our employees to work within the system.

The organization has been extremely cooperative in evaluating and implementing such changes over the past two years. In fact, during the 2006/07 Planning Process, we realized that this type of ongoing “systems planning” has become incorporated into the culture of our organization. Business planning within the Communities of Interest is ongoing, interactive and iterative.

While each Community of Interest is at a different stage of development, each has taken great strides towards systems thinking and service improvement. These initiatives have touched every staff-person within the County, as well as many external agencies. The development and improvement of Communities of Interest have taken many hours of planning, breaking down organizational barriers, improving communication, and defining accountability. These changes disrupt the status quo, which can be uncomfortable; therefore, none of this work would be possible without every partner's singular commitment to the purpose of serving our citizens.

The list on the next page includes some of the major planning and initiatives that have been undertaken within the past few years. You will see a combination of community-wide efforts and internal restructuring. Both are critical to increasing the capacity of the community to respond to the needs of the citizens in a challenging economic environment.

**Health**

- Creation of WCHO and WHP as community collaboratives
- Formation of Health Policy Group
- Internal restructuring through shared work goals and infrastructure design
- 211 Efforts with United Way
- Redesign of space to create a Health campus for staff and customers
- Expansion of Washtenaw Health Plan and improved access to health care for citizens
- Integrated Health Information System

**Housing & Homelessness**

- 10-year plan to end homelessness
- Joint Community Development Program with City of Ann Arbor and Washtenaw County
- New members of Urban County bringing more dollars into community housing efforts
- Development of Barrier Busters to provide emergency services and focus on prevention

**Planning & Environment**

- Development of Comprehensive Plan
- Spark Initiative and potential merger with Washtenaw Development Council
- Reorganization of Planning, Environmental Health and Building Services Departments
- Multidisciplinary approach to customer service at Western County Service Center

**Children’s Well-Being**

- Continued efforts to use Not-For-Profit money to fill service delivery gaps
- Youth Development Initiative “Washtenaw Area Teens for Tomorrow”
- Juvenile Day Break Program for substance abuse rehabilitation
- Child Advocacy Center
- Building Restorative Communities
- Juvenile Drug Court
- Wrap Around Service Delivery

**Public Safety & Justice**

- Development of Criminal Justice Collaborative Council (CJCC)
- Comprehensive system review including pre-trial services, diversion, probation residential services and reintegration efforts
- System integration technology review
- 800 MHz Plan

**Emergency Preparedness**

- Integrated approach to emerging environmental issues
- Hazard Mitigation Plan
- Coordination of Homeland Security initiatives

**Civic Infrastructure**

- Evolution from Revenue & Recordkeeping to Civic Infrastructure to more broadly capture services being provided by members
- Beginnings of plan to more closely integrate customer service delivery

**Support Services**

- Integrated business model as seven departments become one
- Multiple reorganizations of management and staff to implement business model, including co-location of staff to provide more coordinated service
- Wireless Washtenaw
- Expansion of services to other local units of government
- Business continuity planning

When I look at this list of initiatives, I'm amazed at how far the organization has come in such a short time. Leadership has driven this progress, and the most important leadership has been embraced by our Board of Commissioners. The Board provides the passion, direction, and authority to create true systems change that delivers excellent service to our citizens. Empowered by the Board, individuals at multiple levels of our organization then become leaders in their own right, generating the ideas and energy necessary to bring these initiatives to fruition. This leadership, paired with hard work, will create and fulfill our vision for the community. That is my push for 2006/07 and beyond: for each staff-person and each citizen to take a leadership role in the creation of a thriving, healthy, safe, and inspirational community with the best possible quality of life. We can get there if we work together.

**2006/07 Budget**

I'm very proud of the accomplishments of the organization and the community, and I know it hasn't been an easy task. Sometimes the work can seem thankless, and it can feel as though the job is never done. Our staff struggles to balance day-to-day responsibilities with future-focused initiatives. I am troubled to know that staff can feel unsettled and fearful of losing their jobs as each change takes place.

For the 2006/07 Budget, we are positioned to take a step back, evaluate how far we have come, and refocus on where we still need to go. I believe we must continue pushing these planning efforts and working towards our vision – and I strongly feel the need to stabilize the organization and adjust to changes that have occurred. As a result, I recommend no major position modifications or internal reorganizations at this time. The major issues we have incorporated into the budget include:

- Public Safety & Justice System Initiative
- Police Services Methodology Change
- Annual Salary and Fringe Benefit Cost Increases
- Commitment to Human Services to Cover Salary and Fringe Rate Increases
- Pension Cost Increase
- Absorbing the 2005 Budget One-Time Cost Saving Measure
- Adjustment to Court Budgets
- Focus on Infrastructure

The Board of Commissioners has already responded to the most substantial budget issue this year with the Public Safety & Justice Initiative. The initiative wouldn't have been possible without the establishment of the Criminal Justice Collaborative Council (CJCC) and the ongoing engagement of CJCC members. The creation of the CJCC was made possible by the leadership of many elected and appointed officials within the Public Safety & Justice system. The CJCC's strategic plan was the most comprehensive review of the criminal justice system that I have ever witnessed. That strategic plan was not easy to create – with so many partners, each holding a different perspective and representing a different constituency within the public safety and justice system, CJCC meetings are often filled with spirited dialogue. The plan itself went through much iteration before becoming final. I believe this dialogue has highlighted CJCC members' mutual respect and enabled candid communication among them; I'm proud to say our ability to work together as a system is stronger than ever. I am confident that we are now better positioned to provide individuals assistance in turning their lives around and breaking the cycle of incarceration.

This initiative comes with a cost: approximately \$1.5 million in 2006, \$4.5 million in 2007, and ongoing annual funding of \$5.5 million beginning in 2008. This cost will be funded through a restructuring of our police service contracts with local units of government. This restructuring has never represented an attempt to eliminate police services within Washtenaw County government. Rather, the key issue is who should pay for such services; the new methodology for the gradual elimination of the subsidy the County has traditionally provided to contracting entities. Originally, the plan was to end the police services subsidy within a short time frame, enabling the redirection of those funds toward the criminal justice initiative discussed above. The Board chose instead to phase in the new methodology in order to accommodate the needs of local contracting entities. Therefore, in 2006, the methodology will remain substantially the same as in prior years, with contracting costs limited to the scheduled 6% increase. In 2007, the contracting entities will assume overtime costs associated with police services, enabling the County to realize a \$1 million savings in 2007. Finally, in 2008/09, a completely different methodology will be implemented (the “incremental cost model”), in which the local units will be responsible for paying the full cost of their police services. Enacting this initiative has strained the relationship with the local units of government, as they disagree with our philosophy of police services’ provision and the allocation of costs for the same. I am troubled and dismayed to know that the relationship between Washtenaw County and the local units of government has been damaged. I intend to work together with our local officials to shape the future of policing in this county – and to rebuild and repair the relationships among our respective organizations.

Due to the more conservative approach adopted by the Board of Commissioners in changing the police services methodology, the County has had to identify alternative ways to fund the Public Safety & Justice initiative in 2006/07. The County is realizing a larger than expected increase in Property Tax revenue due to the tax levy timing change the State implemented for Revenue Sharing. As the County moves from the December to July tax levy, we will realize the tax growth one year early. In other words, a portion of the tax growth the County would have realized from between the December 2005 tax levy (2006 budget) to the December 2006 tax levy (2007 budget) will now be realized in the 2006 fiscal year as a portion of the tax levy is in July 2006 (2006 budget). This shift provides an effective increase in property tax revenue of \$3.3 million and \$5.9 million above what the County had projected to collect in 2006 and 2007, respectively. While this revenue greatly assists the financial outlook for 2006 and 2007, we must not depend on this revenue for 2008 and beyond, as the growth rate returns to a more normal annual increase. These 2006/07 revenue increases, coupled with the use of reserves, permit the County to continue with the Public Safety & Justice initiative as planned even though the full funding was not realized.

The property tax revenue growth and other revenue sources are also offsetting the largest portion of the County budget, personal services. I firmly believe that our staff is our greatest asset and that we must always focus on guiding principle number four: equipping our employees with the tools, knowledge and resources they need to be successful. As a result, the County has continued our commitment to the 3% annual salary increase for all employees, as negotiated in the union contracts. I also recommend that the County continue its commitment to fund these salary increases, as well as other fringe rate increases, for the Human Services departments even though their funding from the State has remained flat. These commitments translate to roughly \$3.6 million in 2006.

In addition, the County continues to struggle with rising benefit costs. Human Resources and Finance have worked diligently to identify cost-containment strategies. We have been successful in many areas, including:

- Changing the medical stop loss to realize savings and reduce potential liability;
- Moving to a self-funded dental program;
- Achieving cost savings in LTD/Life Insurance by switching to a provider that can also provide the Employee Assistance Program services at a reduced rate; and
- Implementing Medicare Part D Subsidy.

While these initiatives have resulted in large savings, the costs have increased at an even greater rate. For retirement alone, the County budget will sustain an increase of approximately \$1.2 million. This amount will only keep rising if the economy and stock market continue as projected and we stay with our existing retirement plan. I expect the organization to continue working creatively in the next several years to identify the most fiscally stable means of providing good benefits – health care, retirement, and others – for our employees.

Another significant issue impacting the 2006 budget relates to the 2005 budget. As a means to balance the 2005 budget, the County implemented a one-time cost-saving measure to save approximately \$1.4 million in 2005. We did

so by changing the timing in which the County General Fund provided the Human Services departments their appropriation. Human Services departments operate on a September 30<sup>th</sup> fiscal year-end; the County delayed one quarter's payment in 2005 and established a new timeline for when these departments would receive their County funding. While this one-time measure greatly helped the 2005 budget, beginning in 2006, the County must reinstate a full annual appropriation to these departments.

The 2004/05 Budget resulted in a new working relationship between the County and the courts, as outlined in the Memorandum of Understanding, as well as led to the establishment of the Criminal Justice Collaborative Council (CJCC). As the courts are a separate branch of government that is funded by the County, they have prepared and submitted a budget request. While this request includes many cost saving measures, the Trial Court has requested a net increase in their operating budget. The net impact to the General Fund budget is an increase of \$189,787 for the Trial Court in 2006. There are many reasons for this cost increase, including a reduction of State funding, a focus on technology enhancements, miscellaneous program/personnel enhancements and general cost increases. These adjustments are included in the recommended budget. Most of the requested increase is intended to support Community Corrections due to a reduction in State funding and an increased focus on Pre-Trial services. The County commitment to Community Corrections has been significant over the past several years, providing an appropriation of over \$85K in 2005 and a commitment to waive the Cost Allocation Plan in the amount of approximately \$200K. The 2006 budget increase will bring the total County commitment to Community Corrections to \$220K, plus the continued support through waiving the CAP. This commitment is significant, but necessary to carrying out the vision of the CJCC, providing alternatives to incarceration, and securing rehabilitation options for those in need. In addition to the requested budget increase stated above, the courts have requested an increase in some statutorily required services including Attorney Fees, Jury Fees and Witness/Interpreter Fees. The County has chosen not to increase these budgets as they fluctuate significantly and are difficult to project on an annual basis. Instead, we have committed to covering any cost overages in these line items.

The final area I would like to note is relating to Infrastructure. As stated above, I believe strongly in Guiding Principle #4, equipping our employees with the necessary tools, knowledge and skills to be successful in their careers. Employees' work space, technology, and professional development impact their lives on a daily basis, which in turn impacts how successful the organization is in meeting the needs of the citizens. For 2006/07, the priorities for our infrastructure fall into three categories:

- Maintaining Existing Infrastructure
- Systems Integration
- Business Continuity

We continue to struggle with the obligation to maintain our current infrastructure while striving to advance systems integration, which typically involves additions and modifications to existing infrastructure. The primary struggle revolves around the prioritization of funding for projects within our fiscal constraints. There simply isn't enough money to do everything that is needed, so difficult decisions must be made. While I would prefer to allocate even more resources to our Infrastructure, the current economic condition of the organization cannot withstand it. I recommend that we continue with the appropriations to our capital budgets, including the 1/8<sup>th</sup> mill for building repair and maintenance.

There are other, less significant, revenue and expenditure adjustments incorporated into the 2006/07 Recommended Budget, realizing a total budget of \$97,544,832 in 2006 and \$105,421,603 in 2007. To ensure we understand the impact of our budget decisions and economic condition on the long-term fiscal stability of the County, we have prepared five-year budget projections:

WASHTENAW COUNTY MICHIGAN

	2006 Recommended Budget	2007 Recommended Budget	2008 Projected Budget	2009 Projected Budget	2010 Projected Budget
<b>REVENUES:</b>					
Taxes & Penalties	\$65,693,161	\$72,117,994	\$73,861,759	\$78,293,465	\$82,991,073
Licenses & Permits	\$123,200	\$123,200	\$126,896	\$130,703	\$134,624
State & Local Revenues	\$4,972,023	\$4,940,023	\$4,940,023	\$4,940,023	\$4,940,023
Fees & Services	\$16,670,818	\$18,157,413	\$22,970,934	\$24,173,787	\$25,760,930
Fines & Forfeits	\$1,262,100	\$1,262,100	\$1,299,963	\$1,338,962	\$1,379,131
Interest Income	\$754,400	\$754,400	\$777,032	\$800,343	\$824,353
Other Revenue	\$1,065,839	\$1,082,532	\$1,115,008	\$1,148,458	\$1,182,912
Transfers In	\$7,003,291	\$6,983,941	\$7,193,459	\$7,409,263	\$7,631,541
<b>TOTAL</b>	<b>\$97,544,832</b>	<b>\$105,421,603</b>	<b>\$112,285,075</b>	<b>\$118,235,004</b>	<b>\$124,844,586</b>
<b>EXPENDITURES:</b>					
Personal Services	\$58,621,835	\$62,514,630	\$65,637,390	\$69,113,065	\$72,781,685
Supplies	\$1,512,503	\$1,378,686	\$1,557,878	\$1,420,047	\$1,604,614
Other Svcs. & Charges	\$11,617,347	\$11,747,678	\$12,100,108	\$12,463,112	\$12,837,005
Internal Service Charges	\$1,540,364	\$1,951,958	\$2,010,517	\$2,070,832	\$2,132,957
Capital Outlay	\$14,275	\$14,275	\$14,275	\$14,275	\$14,275
Contingencies	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000
Appropriations/Transfers Out	\$23,888,508	\$27,464,376	\$30,569,944	\$32,709,533	\$34,990,624
<b>TOTAL</b>	<b>\$97,544,832</b>	<b>\$105,421,603</b>	<b>\$112,240,112</b>	<b>\$118,140,863</b>	<b>\$124,711,160</b>
<b>SURPLUS (DEFICIT)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$44,963</b>	<b>\$94,141</b>	<b>\$133,426</b>

The County has operated very deliberately over the past several years, making sound financial decisions to keep us from having to react to a crisis situation. However, the 2006/07 budget includes the use of some non General Fund reserves and the extra property tax revenue realized from the shift from a December to July tax levy as a means to stabilize the organization. The real challenge will be in 2008. This is evident by a total property tax revenue increase of \$6.4 million between fiscal years 2006 and 2007, but an increase of only \$1.7 million from 2007 to 2008. *The five year projections shown above demonstrate a good financial outlook but assume an expenditure reduction of nearly \$3 million in 2008.* This reduction will be possible through some cost saving measures that must be researched and acted upon prior to the adoption of the 2008/09 budget, including:

- Additional Police Services revenue of \$5.5 million by moving to Incremental Cost Model;
- Savings in salary, medical and pension costs through negotiated labor contracts;
- Re-evaluating the commitment to the Human Services departments for personnel costs;
- Determining if the policy to freeze/waive the Cost Allocation Plan for Human Services and County grants can continue.

**Summary**

We have accomplished a lot in the past few years, with even more exciting progress underway. Considering the difficult financial times in which we live today, the organization remains energized and focused on improving the lives of the citizens of Washtenaw County. We truly have learned to do more with less, and to think creatively about how to reinvent ourselves and government. The budget remains to be a challenge, but our sound fiscal efforts over the past ten years have positioned us to handle these cycles without much of an impact. As is outlined in our Balanced Scorecard, our operations are driven by the needs of our customers, not by fiscal constraints. It is this perspective, I believe, that will allow us to reach our vision of Community Impact through the leadership of the Board of Commissioners and carried out by the hard work of all County employees. Public service is never easy; however, it is a noble and rewarding endeavor particularly when one witnesses the result: improved quality of life for all our citizens.

