

BUDGET CALENDAR

The following shows the timeline used for the 2010/11 budget process within Washtenaw County:

Washtenaw County Budget Process 2010/11

	Feb/March	April/May	June/July	August/Sep	Oct/Nov
Financial State of County					
Summary of analysis on trends & projections	█				
Mandated vs. Discretionary Services					
Inventory of county services with cost and service impact	█				
BOC Decision on Revenue Projections & Reform Possibilities					
Review revenues in detail and decide on where to budget. Discussion long-term revenue reform possibilities.		█			
BOC Policy Discussions					
Focus on major decisions needed to incorporate in budget		█			
Community of Interest Brainstorming Sessions					
Identify options and areas of further consideration & understand impact of potential changes in other programs		█			
Base Operating & Capital Budget Development					
Assuming current services create base budget - maximizing revenues and incorporating efficiencies where possible. Recommend changes from budget reduction scenarios.			█		
BOC Adoption of Base Budget Reductions					
Implementation of round 1 reductions effective mid-year				█	
Service Modification Review					
Analyze opportunities for organizational changes				█	
Administrator's Recommended Budget					
Develop recommended budget based on BOC priorities				█	
Business Plan Development					
Determine operational strategy for retained services and measures to track success in reaching desired outcomes				█	
Ways & Means Review & Adoption					
Commissioner review of recommended budget with revisions where determined appropriate					█
BOC Review & Adoption					
Adoption no later than 12/31/09					█
Engagement with Employees & Unions	█	█	█	█	█

Unearmarked Reserves which must go to the Board of Commissioners for approval of its use. Budget monitoring is done monthly with quarterly updates to the Board of Commissioners or as needed.

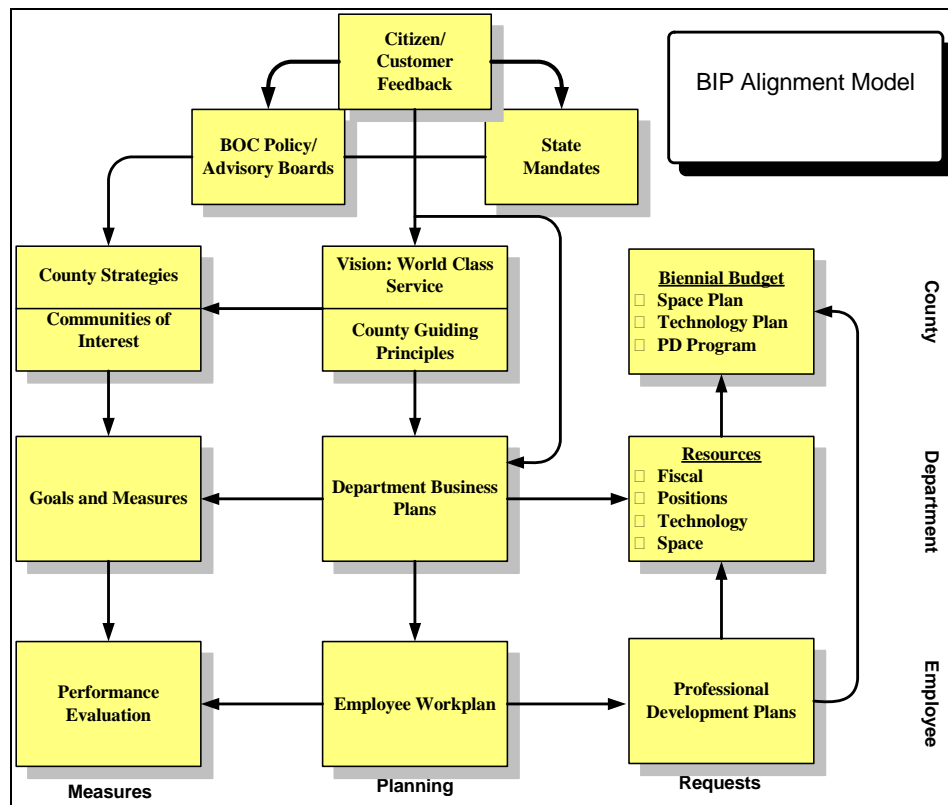
WASHTENAW COUNTY'S STRATEGIC FRAMEWORK THE BUSINESS IMPROVEMENT PROCESS

The Business Improvement Process originated during the development of the 1996/97 Budget and grew out of the need for transformation in Washtenaw County government. The purpose of the Business Improvement Process is to ensure the maximum level of efficiency and effectiveness in the provision of services to Washtenaw County residents. This is accomplished through the comprehensive alignment of resource allocation, collaborative program efforts, efficient processes, and a well-trained, well-equipped and motivated workforce.

The goals of the Business Improvement Process are to:

- Develop a budget process that ensures resource allocation based on outcomes
- Ensure county-wide alignment through the use of business plans with performance measures
- Equip the workforce by providing resources, training, direction and employee involvement
- Develop measures that support the County Guiding Principles
- Focus on customer satisfaction
- Become a learning organization that focuses on using data to drive decisions.

To accomplish these goals, to better serve customers, and to improve internal operations, the county established an alignment model. This alignment model includes all aspects of the business improvement process and ensures that any new improvement projects are supported by the direction given by the Board of Commissioners, the State of Michigan, and direct interaction with the citizens of Washtenaw County. This alignment model also helps to show how individual efforts at the employee level will advance the goals and operations at the department level and how departmental goals support organization-wide initiatives.



and to understand the impact that a change in one area had on the entire system. More information about each of the county’s service area groups including the vision and major goals can be found in the beginning of the Departmental Summaries section (section F) of this publication.

BOARD OF COMMISSIONERS

Members of the County Board of Commissioners are elected every two years and represent members of a district. The eleven commissioners collectively represent the interests of Washtenaw County’s 340,000 citizens. Board members are elected to establish policies for the county, oversee the appropriate provision of mandated services, and represent the needs and concerns of their districts.

Washtenaw County also has a variety of advisory boards and commissions that are either established by statute or are created by the Board of Commissioners to handle specific areas of expertise or are established by other elected officials or departments to advise on policy and customer service. In total, there are approximately 70 such boards, commissions, committees, and advisory councils that meet to either advise the Board on policies, advise departments on service delivery, or otherwise manage operations and resource allocation. A comprehensive list of these boards and commissions can be found on our website, www.eWashtenaw.org.

One of the Board’s mandated responsibilities is to adopt a balanced budget every year and its development is time consuming and detailed – a major commitment for the Board and the Administrator’s staff. Since 1994, Washtenaw County has produced a biennial budget that includes funding decisions and priorities for a two-year period. The benefits of this are that it encourages a long-range approach to funding decisions and it allows for greater focus in implementing Board priorities in off-cycle years. A balanced budget is proposed in the off-budget years as well, but this is usually a less intensive undertaking.

SETTING A FUTURE OF WHAT WE WANT TO ACHIEVE

COUNTY VISION AND GUIDING PRINCIPLES

Among the most important functions for the Board of Commissioners is to provide leadership and direction to Washtenaw County’s 1300+ employees. The Board sets the future by identifying what the county will achieve and establish the priorities of the community. As part of the 2010/11 planning development, the Board conducted a retreat in which commissioners reviewed prior priorities and discussed their current relevance. Members of the Board leadership assisted the County Administrator in employee Town Hall meetings as a way to listen to the organization about their needs and to help them understand the current reality. Community engagement sessions were conducted to listen to various citizen groups about their needs and the impact the county has on them and their customers. In addition, several information sessions were conducted with the Board throughout the months of February through May as another way to receive direction from the commissioners. These sessions included:

- Financial State of the County
- Revenue Projection & Reform
- Mandated & Non-Mandated Services
- Community Needs & Resource Allocation
- Employee Compensation & Benefit Levels
- Outside Agency Allocations & Integrated Funding Model
- Support to Non General Fund Programs
- Government Efficiency through Shared Services
- Reserves
- Cost Allocation Plan (CAP)

The County Administrator used the direction provided throughout these interactions when working with the organization in the budget development and in day-to-day operations. This then assists in building the culture of the organization. This leadership is captured in the county’s vision and guiding principles. The county vision states that:

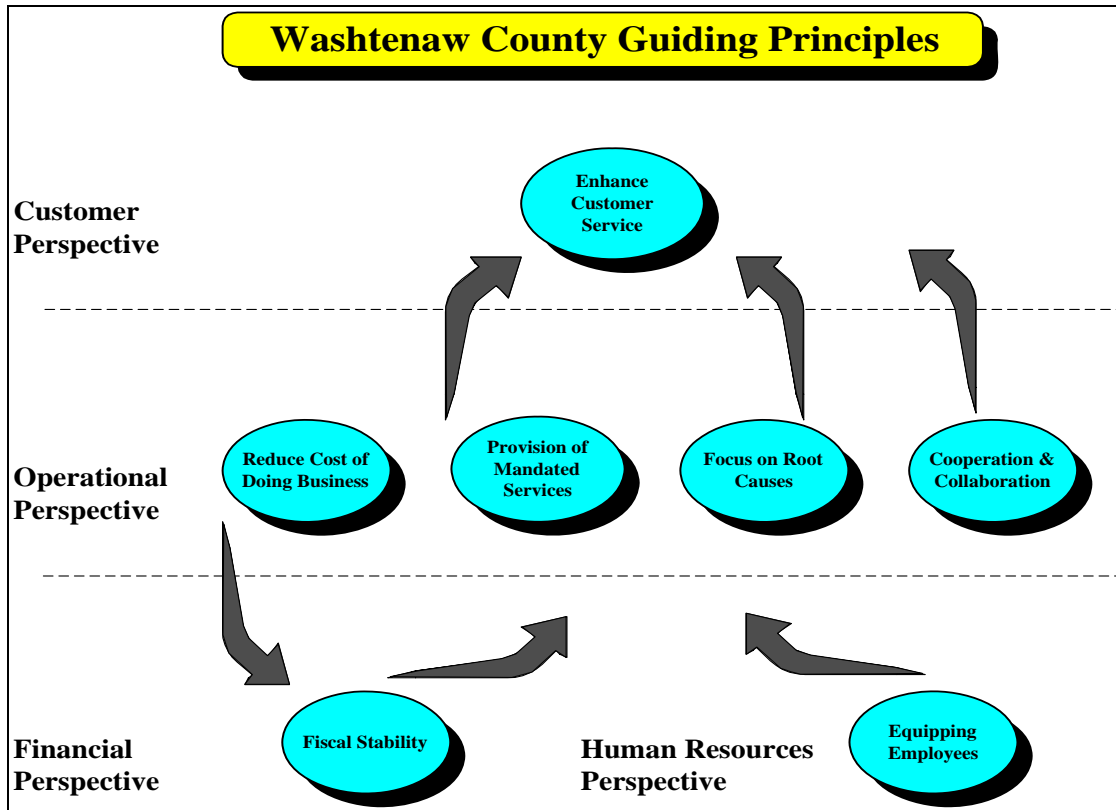


Diagram B - County Guiding Principles in the context of the Balanced Scorecard

ASSIGNING RESOURCES TO BUSINESS OPERATIONS

The cornerstone of the County alignment model is the business plan. Each department has a business plan that involves identifying the processes, outcomes, measures and data sources, timing and accountability for each program.

The county's business plans attempt to:

- Integrate strategic planning with day-to-day operations
- Help us become more customer oriented: the first question at the program level is “who are your customers?”
- Help us become results-oriented
- Ensure alignment at three levels of the organization: process, program and policy
- Provide a powerful database to manage the organization

Each element of a department’s business plan answers questions about that department’s services. The departmental business plans that appear in the Departmental Summaries section are a brief synopsis of each department’s business plan. Due to the size of the information included in business plans, only an abridged version could be provided for most departments. But each department is challenged with answering a series of questions that correspond with the terminology included:

Department Mission: Why does our department exist?

Department Vision: What does world class service look like?

Program: What are the major services we provide?

Customer: Whom is this program designed to serve? Who else benefits from this program?

Outcome: What do we hope to accomplish for our customers?

Outcome Measurement: How can we measure whether the outcomes we desire are being reached?

Outcome Target: By what standard will we measure success?

In order to provide a scenario for a reduction, it was requested that the following principles were applied in the order as shown below:

- Revenue Generation
- Reducing the Cost of Doing Business
- Organizational Restructuring including Management to Staff Reductions
- Collaborations
- Service Level Reductions in both Mandated and Non-Mandated Programs
- Elimination of Non-Mandated Programs

Modifications to employee compensation, including a modified work week, were not to be included as these change were incorporated into the discussions with the county's 17 bargaining units.

The recommendations from departments were not automatically incorporated into the final recommended budget. Rather, a strategic review of the scenarios provided by the Department Heads was completed. Departments demonstrated how the reduction would impact customer service, if it would negatively impact revenue, and if it imposed upon the legally required level of mandate. As part of this development, it was expected that each department head engage with all of their staff to identify all options to generate revenue and reduce costs.

Following the base budget development, the organization worked with Administration to review all non-mandated services and understand the impact they have on the community, the general fund contribution, the potential for other service providers to take over responsibility if the county got out of the business of the service, and the timing considerations if the program were eliminated. Other areas of review included the level of Outside Agency allocations, feasibility analysis on selling county facilities and changes in the organization structure.

Balancing the Budget

As demonstrated above in the overview of the 2010/11 Planning Process, a thorough review of the fiscal capacity of the organization was made before working with the organization on budget balancing solutions. The financial state of the county presentation included both best case and worse case revenue assumptions. The Board of Commissioners directed a conservative approach to revenue projection early in the process. As a result, several major revenue modifications were incorporated into the Administrator's 2010/11 Recommended Budget. A brief explanation is provided below.

Major Budget Issues

- ***Property Taxes and other Housing Market Adjustments*** – Many factors need to be considered when projecting property taxes for the future. Some key elements include the CPI, percentage of properties with SEV and Taxable Value equal, the projected changes in SEV in each property sector (commercial, industrial, agricultural, residential, developmental, personal property) and the level of DDAs and TIFAs. Assumptions were set for each of these key variables that resulted in estimated Taxable Value changes as shown below. For the first time since the creation of the Equalization system over 50 years ago has the property tax rate of change been a reduction from the prior fiscal year. For 2009, property tax was budgeted at a -1.5%. The actual taxable value of -2.29% was presented by our Equalization Director in April 2009. The budget target for 2010/11 was based on preliminary data for 2009 and looking at all market data available and leading indicators to estimate each property sector for 2010 through 2013. The previous two largest taxpayers in Washtenaw County are known to be removed from the future tax base. This includes Pfizer which shut their Ann Arbor operations and has since sold its property to the University of Michigan. General Motors also announced it will be shutting down its remaining county plant in 2010. A table of the best case and worse case assumptions for taxable value changes are provided for each fiscal year below. The "Target" amounts were developed following the discussion with the Board of Commissioners in February when it directed a conservative approach to our revenue projections. These are incorporated into the 2010/11 Recommended Budget and the four year budget projections.

- **Support for Non General Fund Personnel Cost Increases** – The state budget impact significantly impacted the county in 2002 and 2003 for our health and human services programs. At this time, a policy decision was made to have the general fund begin to increase its annual allocation to these programs for personnel cost increases. Prior to this time the increase in state funding would be sufficient to not require additional general fund support. The original assumption in the budget development was for these appropriations to increase in 2010 and 2011 by the estimated personnel cost growth.
- **Jail Expansion Operating Costs** – The county jail continues to be a significant impact on the county’s budget. The jail is chronically overcrowded resulting in a public safety and justice crisis, but also a major budget constraint. A space plan project is currently underway to add an additional 100+ beds in the jail. This and other efforts by the Public Safety & Justice system should help alleviate overcrowding in the future. A budget assumption of \$1.2 Million increase for 2010 and carried forward to 2011 was planned in the original budget projections.

Most of these expenditure issues are within the county’s influence to change and are therefore also part of the budget balancing solutions outlined below.

Budget Balancing Recommendations for Board Consideration

The decision making parameters of the budget development process started with the priorities outlined at the beginning of this section:

- Preserve services and jobs
- Attempt for equity in process, not equality of funding allocation
- Review Serviceability of Mandate
- Evaluate Non-Mandated Programs
- Invest in Community

The issues outlined above demonstrate significant revenue and expenditure modifications proposed for 2010/11. The financial state of the county presentation made in February 2009 demonstrated a projected \$26 Million general fund deficit incorporating the modifications outlined above and assuming past spending patterns continued into the future. The process outlined throughout this section began immediately, which resulted in two rounds of recommended budget modifications. Phase 1 was taken to the Board for consideration in June. These were primarily the result of the base budget meetings in which departments reviewed their operations and identified new revenue or cost reduction options. The Administration also made some non-departmental recommendations at this time. These recommendations, which were adopted by the Board in July unless otherwise noted, are outlined below.

Phase 1 Budget Modifications:

Revenue Enhancements –

- **Mental Health Services:** A shift in funding source for mental health services through the Washtenaw Community Health Organization and the county’s Community Support & Treatment Services resulted in over \$3 Million in savings to the general fund in Phase 1.
- **Police Services Contract Price Increase:** The Board of Commissioners adopted an extension to the Police Services Road Patrol contracts for 2010 by resolution #08-0234 with a contract price increase of 2% per deputy from the 2009 rate, as well as an extension for fiscal year 2011 by resolution #09-0114 with a contract price increase of 4% per deputy from the 2010 rate. The 2010/11 budget is established in accordance with these resolutions.
- **Miscellaneous Department Revenue Increases:** Fee adjustments in Environmental Health and Public Health were included for consideration in Phase 1. Efforts to increase revenues were supported within elected offices of Water Resources, Sheriff and Treasurer. The use of outside revenue including stimulus funding was used in some areas, including Community Development, Head Start and ETCS.

arrest or incarceration. **Priority categories include:** Housing Stability, Family Economic Stability, and Access to physical and mental health care

B. CHILDRENS WELL-BEING: Priorities are focused on preventative services, including those that prevent or mitigate the need for costlier services such as hospitalization, arrest and detention, child welfare adjudication, and school failure. **Priority categories include:** Addressing root causes and Providing a safety net (food and shelter)

The Phase 1 recommendations resulted in \$14.4 Million in reductions if fully enacted on by the Board. This left a remaining deficit of over \$12 Million. In addition, during this time it became clear that the projected deficit would need to be increased by ~\$4 Million, to a total of \$30 Million. As stated above this was based on an assumption that past expenditure patterns continue into the future. The Administrator developed a list of “Items for Consideration” that was outlined in the Phase 1 packet. These were predominately non-mandated services that needed to be evaluated. In addition was a further review of serviceability levels in mandated program areas. Essentially nothing was removed from consideration for further budget modification. Below is a listing of the final Phase 2 Recommendations.

Phase 2 Budget Modifications:

- **Administration** – Permanent elimination of the Assistant to County Administrator for Public Safety & Justice. This will further reduce the capacity within the Administrator’s Office for staff support to special projects and research initiatives. Savings of \$118,000 including the elimination of 1.0 FTE.

- **ACT 88** – This public act allows for the implementation of a tax levy for the use of economic development and agricultural promotion. This is a rare exemption to the statute and does not require voter approval. It is proposed that the Board of Commissioners adopt a levy of 0.040 mills (\$4.00 annual cost per taxpayer based on \$100,000 taxable value on property) to support the following activities that would result in general fund savings of \$603,000:
 - Ann Arbor SPARK \$200,000
 - SPARK East \$50,000
 - Eastern Leaders Group \$100,000
 - 4H Activities \$60,000
 - Horticulture \$27,000
 - Agricultural Innovation \$15,000
 - FSEP \$15,000
 - Econ Development & Energy Support \$137,000

- **Building Inspection** – Given the decline in new construction, the building inspection program has been in challenging times for some years. There was a great deal of conversation on the feasibility and impact of eliminating this program entirely, thereby turning all such services over to the State of Michigan. Thorough analysis was completed and every opportunity to raise revenue to bring the program back to sustainability was pursued. The recommendation is to maintain the program with new fees and collaboration with the County’s Employment Training & Community Services (ETCS) for Weatherization inspections, and to reduce costs through the elimination of the Mechanical Inspector and a Customer Service Specialist positions. No general funds should be necessary, with a potential for a surplus. Any surplus that does materialize will go towards repaying previous county support from its capital reserves. In addition, it is recommended that conversations continue with community partners including the City of Ann Arbor to pursue a long-term regional solution.

- **Jail Overcrowding and Expansion Initiative** – This continues to be a significant impact on the county’s budget. The jail is chronically overcrowded resulting in a public safety and justice crisis, but also a major budget constraint. The space plan project underway to add an additional 100+ beds in the jail should help alleviate overcrowding in the future. This project provided funding of \$1.2 million in 2008 (up from \$800K in 2007) for jail operations that are included in the Sheriff’s budget. The intent is for this available budget to be directed to cover associated costs with managing jail overcrowding pending the completion of the project, at which time new staff will be created using these dollars as is outlined in the adopted space plan.

- **Head Start** – Washtenaw County Head Start is a nationally recognized *program of excellence* which provides valuable services to a vulnerable segment of the community. However, this discretionary program may be performed by some other entity within the community. The financial picture gets complicated by the fact that

- ***Sheriff Corrections*** –The county knew when the decision was made to construct an expansion to the jail that new positions would need to be created. Conversations are currently ongoing with the Sheriff to determine those levels. The recommended budget includes the original assumptions of a \$1.2M cost increase beginning in 2010 which is in addition to the previously allocated \$1.5M reserve for jail overcrowding. A recommendation for modifications to the budget or staffing levels will be brought to the Board of Commissioners at a later date.

- ***Outside Agency Allocations*** – As stated above, Phase 1 included a recommended 20% reduction in funding allocation for human services allocations, but the Board did not approve at that time. Over the years the Board of Commissioners have increased the county’s allocation to local not for profits as a means to provide strategic investments into the community. A new integrated funding allocation process was adopted in July and August of this year shifting the majority of these funds to Community Development. This will provide a competitive bidding process along a set of standard community priorities. Due to the economic situation, it was recommended that the majority of these allocations be adopted with a 20% reduction in 2010 and an additional 20% reduction in 2011. The Board of Commissioners modified the recommended budget to reinstate many of the reductions recommended for 2011.

- ***Special Initiatives*** – Often grouped with the Outside Agency allocations are the county’s allocations to special initiatives that are strategic investments in and with the community. Each of these was reviewed for reduction or full elimination of funding. Those focused on economic development were deemed eligible to be included in the ACT 88 millage revenue identified above. Below is a detailed breakdown of all of the outside agency and special initiative funding recommendations for 2010 and 2011.

- **Further Reductions in Serviceability** – As stated above, nothing was taken off the table in this Phase 2 budget review. Most departments were significantly reduced in Phase 1. At the time of the Phase 1 development, conversations with the Trial Court were ongoing. The recommended budget includes a lump-sum reduction for the Trial Court which is supported by the court. The list below includes all of the modifications grouped into this category of further reductions in serviceability levels.
 - **Trial Court** – Lump Sum Reduction of \$800K in 2010 and an additional \$450K in 2011 for a total of \$1.25M. \$300K in 2011 is contingent on the Juvenile Center moving from Platt Road to the downtown Ann Arbor courthouse by January 1, 2011.
 - **Prosecuting Attorney** – Elimination of 1.0 vacant Senior Assistant Prosecuting Attorney partially reimbursed through Cooperative Reimbursement Program for total savings of \$47K
 - **Clerk** – Elimination of 2.0 vacant positions including Chief Deputy and Senior Record Management Specialist for total savings of \$150K
 - **Treasurer** - \$200K annually from property foreclosure pending a report from the Treasurer on total available balances and an increase in the county’s portion of the Accommodation Tax revenue (\$60K)
- **Juvenile Detention** –The recommended budget assumes the Juvenile Detention is not further reduced as part of Phase 2. These services are mandated, although the county does not need to be the provider of the services. It is my belief that eliminating our program and sending the youth involved to a different facility would have significant impact on the Public Safety & Justice system, as well as the youth and families involved.
- **VEBA Debt** –The county has considered issuing debt for the unfunded liability of our retiree healthcare system for the past two years. Market conditions have delayed this action and are too uncertain at this time to assume any cost savings. It is recommended that the county continue to conduct the necessary analysis and review the market conditions, as well as pending legislation by the State, to determine if and when things become favorable to proceed.
- **Retiree Health Care** – Current retirees have varying health plans including prescription coverage depending on the union contracts in place at the time of their retirement. A legal review is underway to determine if the county has any ability to modify these benefits. Any modifications would be made through discussions with retiree representatives.

Beyond the 2010/11 Budget Adoption

In sum these recommendations balance the 2010/11 biennial budget. Due to the compounding nature of property taxes and the assumed annual expenditure growth, the 2010 fiscal year had a smaller deficit than 2011. However, most of the budget solutions are recommended for implementation in 2010. This results in a projected surplus in 2010 that can be carried forward to balance 2011.

The test of this budget will be during the 2010 and 2011 fiscal years themselves. These budgets are intended to first “stop the bleeding” from the economic downturn so that we can move forward in a strategic way to develop a long-term path to wellness. However, property tax revenues for each fiscal year aren’t known now until four months into the fiscal year. The budget is based on a set of assumptions using known information during the time of development. It will be critical to closely monitor these assumptions as new information from the emerging economy continues. The challenge will continue into the future as the county is projecting sizable deficits in 2012 and 2013. The desire is for 2010 to be a strategic planning year to determine that desired long-term path to fiscal stability and to re-define Washtenaw County government.