

## BUDGET PREPARATION, POLICY & ISSUES

This section is designed to give the reader a comprehensive understanding of the thought process behind the preparation of Washtenaw County's 2010/11 biennial budget.

- **Budget Process Overview** – Beginning on this page, a general overview of the budget process is discussed, laying out the major stages, components and timeframe for the completion of the budget. Followed are the mission, priorities and principles used in the development of the 2010/11 budget, a review of the budget documents created and the realities of the budget following adoption.
- **Business Improvement Process** – The Business Improvement Process (BIP) has transformed Washtenaw County into an organization that focuses on accomplishments, improvements and measures. A discussion of how the BIP began and how it informs budget discussions begins on page B-4.
- **The 2010/11 Planning Process** – An overview on the county's approach to business and strategic planning and how it framed the 2010/11 budget development begins on page B-9. This section outlines the major issues and the strategic initiatives underway within the county to help move the organization towards its vision of Community Impact. There is also information on the major financial constraints that had to be dealt with in the 2010/11 Budget and how they impacted the final budget (starting on page B-10 through B-18).

### BUDGET PROCESS OVERVIEW

Washtenaw County's fiscal year begins January 1 and ends December 31. Preparation for the county's biennial budget encompasses a period of over ten months every two years, with the majority of work being completed during February through November. Many factors influence the direction of the budget, most notably the economy and outside funding levels, the priorities of the Board of Commissioners, vision of the Administrator and needs of our customers. Each two year budget process is unique given the internal and external influences. Some core elements always remain, but given the severity of the projected budget deficit, the 2010/11 cycle required a different approach than what had been used in the past.

The budget process begins with a review of the financial state of the county and a determination of revenue projections. The fiscal capacity of the organization sets the stage for the entire process. Personnel cost projections are calculated and indirect service costs for user departments are developed. Information about the budget process are made available on the internal website so everyone understands the direction for the organization and what is expected of them throughout this process. Information sharing about key organizational and fiscal issues is conducted with the Board of Commissioners. Base budget reviews are held with departments for a discussion on their current operations and resource needs. Normally, the base budget assumes we maintain the current operations into the future without major adjustments or enhancements. Due to the economic realities impacting county revenue projections, scenarios for budget reductions were requested of each department head and elected official. These scenarios were then discussed to understand the impact to the employees, organization and community, with a determination made on which scenarios should be included in the Administrator's recommended budget. This review culminated into the Phase 1 Recommendation, which was then followed by an additional review of each non-mandated service and the serviceability levels of some mandated services. A final balanced recommended budget was developed and presented to commissioners in September. A public hearing is held with opportunities for citizen participation throughout the three months of budget deliberation by the Board of Commissioners. Throughout this entire process, discussions with the county's 17 different employee bargaining units ensued in an attempt to realize savings through modifications in wages and benefit levels.

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

## BUDGET MISSION, PRIORITIES & PRINCIPLES

The county has been in a mode of reducing the cost of doing business for years. However this budget cycle was unique due to the magnitude of the projected budget deficit. A balance was desired between the short-term and long-term needs of the community and the organization. A mission for the Planning Process was developed reflecting this need:

*To provide leadership to stabilize Washtenaw County communities and families in these trying economic times and to enhance our long-term prosperity through the strategic direction of the county human and financial resources.*

It was desired that the county hold true to its role as the “safety net” for vulnerable citizens, while at the same time strategically invest in the community for long-term wellness. This is a challenge with limited and declining resources, and with demands for services growing. Information sharing with the Board of Commissioners resulted in several focus areas to use to manage the budget reduction recommendations within this mission. The priorities include:

- 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

In an attempt to carry out these priorities and especially to find alternatives to save services and jobs, several budget reduction principles were laid out for the organization and used in the budget discussions:

**Revenue Growth & Reform** – *Pursue opportunities to maximize revenues to return to long-term fiscal stability*

**Reduce the Cost of Doing Business** – *Demonstrate that we are operating our programs as efficiently as possible*

**Mandated vs. Non-Mandated Services** – *Understand what we must do and what we have chosen to do to further meet customer needs*

**Community Collaboration** – *Work with private, non-profit and public organizations to maintain services to our residents*

**Organization Structure by Core Business** – *Determine the best organizational structure, including level of management to carry out our businesses*

**Employee Compensation & Benefits** – *Work with our union partners to identify ways to reduce the county costs for personnel*

## BUDGET DOCUMENTS

County Administration and the Budget Office work to ensure that there is clear and open communication during the entire budget process. Years ago these were formal documents provided to each county program leader. The county has moved to making the entire process transparent on the intranet site for all county employees to review. Much of this same information is also available during the budget process on the county’s public website, [www.eWashtenaw.org](http://www.eWashtenaw.org). The Administrator provided weekly updates with links to the key documents being generated throughout the process. The entire process is then documented in the biennial Budget Summary publication, first in a preliminary version for presentation to the Board of Commissioners as part of their budget deliberation with information based on the Administrator’s recommended budget, and then in a final form incorporating any budget modifications made by the commission in the adopted budget.

## BUDGET ADJUSTMENTS

After adoption of the budget by the Board of Commissioners, the budget resolution becomes a legal guideline for county fiscal operations. The Board adopts the budget both by fund and by fiscal activity within funds, and approves specific position modifications. The Board also sets out specific written policies/procedures/rules for a variety of operating activities such as budget adjustments, position modifications and limitations on certain line items. Adjustments to the budget can be made one of two ways: either through a Board resolution or an inter-departmental transfer. Generally, Board resolutions are necessary when a budget adjustment involves an increase or decrease in revenue or movement between county funds or organizations. The County Administrator is authorized to make adjustments in budgets not to exceed 10% of a total program or \$100,000, whichever is less, with the exception of

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.

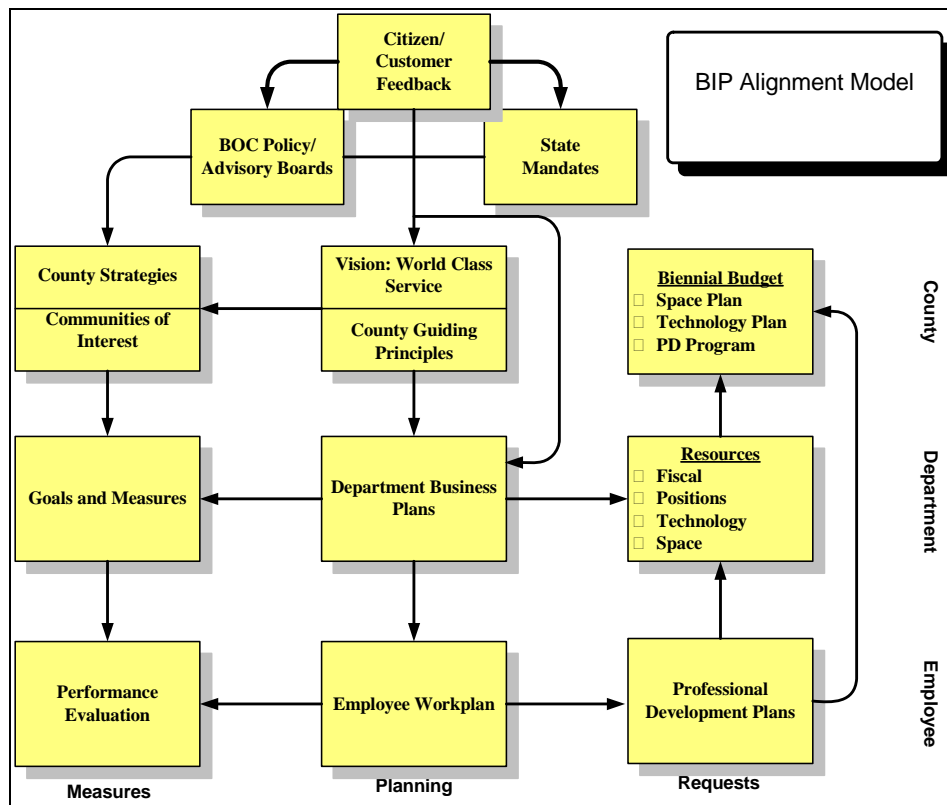
## WASHTENAW COUNTY'S STRATEGIC FRAMEWORK THE BUSINESS IMPROVEMENT PROCESS

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.



### **Diagram A – Washtenaw County Alignment Model**

This is the model used in the development of the framework for the county's budget development and biennial Planning Process. The concept that distinguishes Washtenaw County's alignment model from others is the departmental business plan and understanding the services performed and the outcomes they generate, which serves as the cornerstone of the alignment model and the budget process. Departments continuously engage with their customers, improve the provision of state mandates, and implement Board policies which then feed into the discussions about resources. These business plans include all of the county's operations and detail what is being accomplished for the customer as a result of our operations.

## **IDENTIFYING WHAT WE NEED TO DO**

The first or foremost element of the alignment model is to identify what we must do. These should be the drivers of the operating plan and resource allocation. This includes learning from our customers, understanding our legal mandates and input from the Board of Commissioners. An overview of the steps the county has taken in each of these three areas is provided below.

### **GATHERING CUSTOMER FEEDBACK**

During the past decade, Washtenaw County has transformed the way it conducts business to focus on customers. This is evident in the county's adoption of the philosophy of the balanced scorecard approach. Details on the balanced scorecard can be found on page B-10 of this section. The basic premise is that there are multiple tiers of cause and effect relationships that lead to our desired outcomes. When used in the private sector, making a profit is generally the desired result. In its role as a public service provider, it is quality customer service that is the driving force for Washtenaw County. Many initiatives have been done over the past decade to assist the organization and enhance customer service. Each department and elected office measures customer satisfaction in a different manner. Some through surveys, focus groups or advisory committees, others through a review of outcome measures and many through direct interaction with customers. Each department head and elected official brings its knowledge of the needs of the customer into the discussions for resource allocation.

In addition, the county established service area groups (formerly known as Communities of Interest) leading up to the 2004/05 budget development. The chief component of these groups is to take a comprehensive and systematic look at our common customers and the services that we provide throughout the county. Success with this requires active and established partnerships with other local units of government, the not-for-profit sector, as well as for-profit enterprises that share common customers. These efforts help to shape service delivery within the organization and to strategically re-think and nurture Washtenaw County's relationships externally. The following service area groups include several departments internally as well as external partners. For the purpose of the planning process, the question for Washtenaw County was how to best improve county government to achieve community impact externally. So while the term service area groups includes community partners, for the purpose of this document, the term refers primarily to the departments within Washtenaw County who share similar customers and/ or similar processes. The following service area groups have been established:

- Civic Infrastructure
- Economic Development
- Emergency Preparedness & Response
- Health & Human Services
- Land Use & Environment
- Public Safety & Justice
- Support Services

The service area groups should not be thought of as discrete enterprises, as they overlap in many cases. Nor should they be thought of as collectively exhaustive. Many departments have a significant customer base that is mandated in many cases but does not fit neatly in one of the above categories. These customers are just as important to the Board of Commissioners. However, service area groups serve as a useful framework to strategically re-think how county government operates. Each of the service area groups held meetings throughout the process to identify opportunities 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](http://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:

## Washtenaw County will be a world-class service provider.

This vision for Washtenaw County was established in 1998 as a challenge for what excellent public service could be. A part of this vision is driven by a need to shape our organization around our customers. That vision is a picture of any citizen walking into any county building for any reason and getting excellent service while increasing our capacity to provide services to our customers through the Internet and other modern tools.

Since 1998, this vision has evolved into a vision that goes beyond our capacity to provide services in a courteous way and being prompt and efficient in our transactions with the public, to a vision that inspires each employee to identify opportunities to change the way we do business to positively impact the community. It is a shift in a vision representing “World Class Service” to a belief that the county can create a “World Class Community”. This is a vision that understands the complexity of the issues facing our customers. And this is a vision that seeks solutions and finds them in this diverse and resource-rich community and seeks to impact the overall quality of life for all county citizens. Departments have been challenged to adjust their visions to express how they will impact quality of life for county residents.

The County Guiding Principles were extracted from this vision and provide the framework for the day-to-day operations of the county. All program outcomes in the departmental business plans must contribute to one or more of the following Guiding Principles.

### County Guiding Principles

1. **Ensure long term fiscal stability for the County.**
2. **Reduce the cost of conducting the County's business.**
3. **Enhance customer service.**
4. **Provide the necessary knowledge, skills and resources to County employees to carry out these principles.**
5. **Ensure adequate provision of mandated services.**
6. **Focus on the root causes of problems that affect the quality of life of County citizens by aggressively pursuing prevention strategies.**
7. **Provide leadership on intragovernmental, intergovernmental and intersectoral cooperation and collaboration aimed at improving services to County citizens.**

Diagram B (on the following page) illustrates how the Guiding Principles and the vision have been adapted into a balanced scorecard approach, as shown in the context of four key business perspectives. The customer perspective on the top tier reminds us the only reason we are in business is to serve the citizens of Washtenaw County and everything we do should enhance the service we provide our customers. The middle tier identifies our operations, or what we do on a day-to-day basis in order to provide customer service as well as ensure fiscal stability. The foundation of the vision, as pictured in the diagram, is to ensure the long term fiscal stability of the county and to equip employees with the necessary knowledge, skills and resources to do their jobs well.

The Guiding Principles are placed in a format consistent with the Balanced Scorecard model, developed by Robert S. Kaplan of Harvard University. This format helps identify cause and effect relationships. The arrows on the diagram represent the cause and effect relationships that exist between all of the business perspectives and, therefore, the Guiding Principles and vision. Having employees who are properly equipped leads to more efficient operations and, in turn, facilitates the county's ability to provide world-class service to our customers.

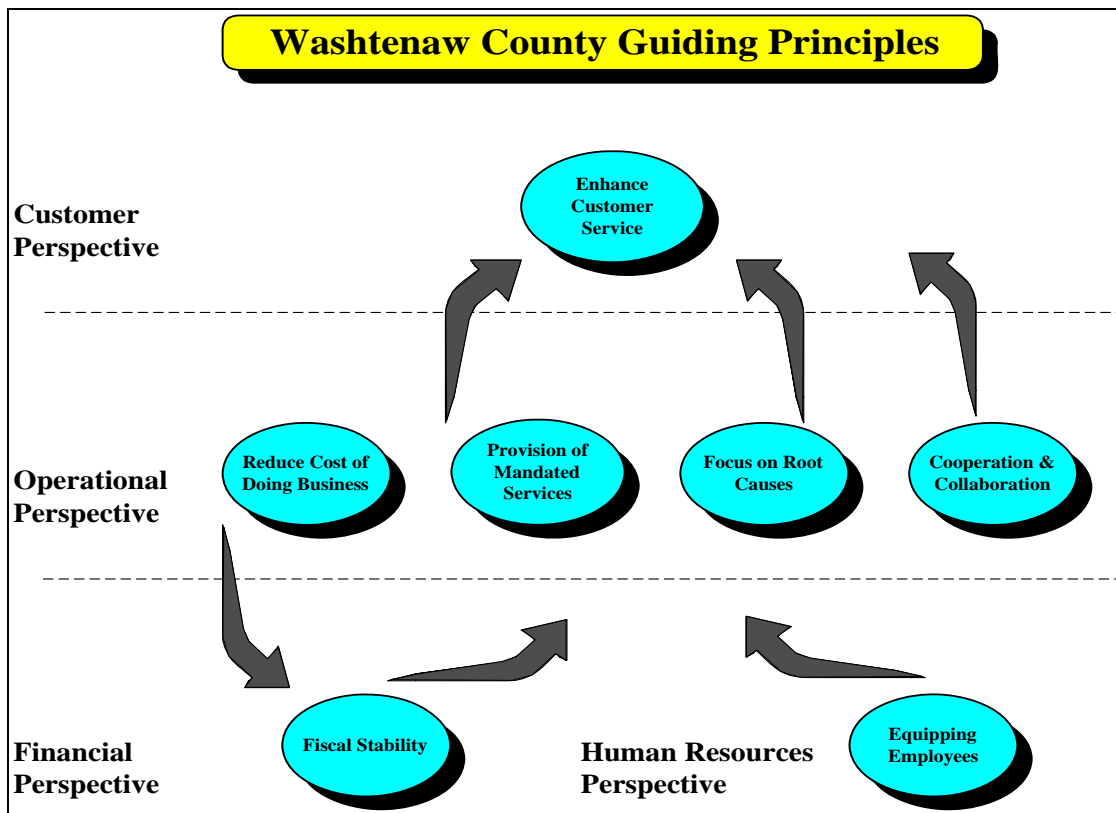


Diagram B - County Guiding Principles in the context of the Balanced Scorecard

## 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?

*Process:* What key activities do we perform to achieve our program?

*Collaboration:* What other departments or outside agencies are essential to meeting our outcomes?

*Process Output:* What is the product or result of this process?

*Output Measurement:* How will we measure this production?

*Output Target:* How much of this output do we plan to produce?

Customer outcomes, state mandates, and Board priorities are all reflected in departmental business plans. Together, these plans detail all operations within the county, estimates of what each department will produce in the foreseeable future, and how success will be measured. Departments are challenged to always keep their business plan up to date but administrative and Board review of business plans happens once every other year, as aligned with the planning cycle.

The next step following the formation of the business plan is for management to assign accountability at the individual level to ensure that tasks get implemented. The employee work plan serves this function. Washtenaw County has combined professional development planning with individual work plans to enhance the identification of development needs and to heighten the relationship between the employee and supervisor into a partnership for developing the knowledge and skills necessary to achieve the outcomes of the department. Employees in all departments will have the opportunity to create a new individual work plan annually that highlights key objectives of the job, focuses on the critical target measures and provides a basis for development of knowledge and skills for the year ahead.

The entire Planning Process leads to the development of the county biennial budget. As stated above, the planning components are critical to align the strategic direction with the county's limited resources. From the very beginning of the process, there is a strong focus on the fiscal capacity of the organization. While it is not desired for fiscal constraints to limit the strategic planning discussions, it is critical to understand the available resources when prioritizing these plans for inclusion in the budget. The fiscal capacity is updated throughout the process as new information becomes available.

## **2010/11 BUDGET DEVELOPMENT**

The magnitude of the economic downturn resulted in a focus of budget reductions for the 2010/11 budget. Attempts were made to be as strategic as possible rather than implementing across the board reductions. The county normally undertakes a layering approach to its budget development, with the departmental business plan serving as the basis for all budget discussions. This includes the development of a base budget which assumes service levels constant, followed by a discussion of service level changes to further the strategic plan of the operation and customer demand changes that have resulted over the past two years. For 2010/11, a basic assumption of service level consistency began the discussion. Then base budget discussions occurred in which scenarios for budget reductions were reviewed.

The base budget began with a carry forward of the prior year budget. The following adjustments were then made:

- Salary and Fringe Benefit line items for new 2010 salary projections
- Cost Allocation Plan (CAP)
- Fleet based on estimated costs assuming the current fleet allocation remains unchanged

A review with County Administration, Human Resources and the Budget Office took place to determine any other line item adjustments needed. This included the identification of any known changes to outside funding sources including grants. This was also the opportunity within the budget development process for requests for new infrastructure, positions and position reclassifications. In addition for 2010/11, a strategic planning exercise was incorporated into the base budget for all General Fund departments and Non-General Fund appropriations. Each department head and elected official brought a proposal to the base budget meeting explaining the potential impact if reductions in the magnitude of 5/10/20% from the 2009 operating costs, net of indirect costs, were to occur.

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.

	<b>Best</b>	<b>Target</b>	<b>Worse</b>
<b>2010</b>	-3.75%	<b>-7.5%</b>	-8%
<b>2011</b>	-3%	<b>-8.5%</b>	-10%
<b>2012</b>	-2%	<b>-5%</b>	-7%
<b>2013</b>	0%	<b>-2%</b>	-3%

The housing market is impacting the county and revenues in ways beyond just property taxes. Register of Deeds revenues have dropped substantially over the past five years. This is due to a slower market as well as lower home values. Revenues in service areas such as Building Inspection, Environmental Health and Water Resources are down due to declined levels of new construction and lower economic activity. These considerations were incorporated into their departmental budget discussions.

- **State Funding** – State Revenue Sharing shifted to a Transfer In rather than a direct payment from the State to the county when the Revenue Sharing Reserve Fund was established using the early collection of property taxes. The commitment by the State is for new State revenue to be provided to the county once our Revenue Sharing Reserve Fund is depleted. This is scheduled to occur in 2013 when a partial years worth of funding is projected to be available. The State determines the amount of funds the county can transfer each fiscal year from the Reserve Fund into the General Fund. In the past the amount would increase ~3% in accordance with inflation. The budget assumes a flat level of revenue going forward. However, the State legislators are considering possible reductions in this amount which would further reduce the county’s revenues and require additional budget modifications to be identified. All other State revenues accounted for within the county’s General Fund are assumed to be flat.
- **15<sup>th</sup> District Court Lease** – The City of Ann Arbor has leased space from the county for years to house the 15<sup>th</sup> District Court in the county’s downtown Ann Arbor courthouse. The City is underway with building a new 15<sup>th</sup> District Court space. The budget assumes this lease revenue will no longer be paid to the county. This does however open up the possibility for the county’s Trial Court – Juvenile Center to be moved downtown as outlined below and in the capital discussion.
- **Interest Earnings** – The level of interest revenue has substantially been reduced over the past few years. This is in part a reality from the reduced general fund cash flow from the shifting of property tax levy from December to July, as well as from reduced interest rates being achieved given market conditions. This impact will be further felt once the Revenue Sharing Reserve Fund is depleted. The impact on interest earnings is incorporated into the recommended budget. The county continues to monitor cash flow and is developing long-term projections and recommendations.

In addition to revenue modifications, budget adjustments to expenditures were assumed based on past spending practices and recent trends. This includes standard cost increases for employee wages and benefit costs, as well as the continuation of the county’s policy to increase the general fund appropriation for most non-general fund personnel cost increases. Also included is the need to adjust the Sheriff’s budget for the jail expansion initiative currently under construction. A brief description is provided below.

- **Employee Wages** – The original budget assumption was for salaries to increase in accordance with the county’s agreed upon labor contracts for 2010, and an assumed 3% across the board increase in 2011 based on historical averages. In addition are the impact of step increases and longevity for union employees.
- **Fringe Benefits** (health insurance, pension rates, and liability insurance) – Detailed fringe rate assumptions were calculated using past trends as a guide and recent industry information. The county re-opened its defined benefit system in 2008 which resulted in all general county employees now being part of the Washtenaw County Employee Retirement System (WCERS). To limit the county’s liability, a cost-sharing model was negotiated with the unions so the employer rate was capped at 10% with the employees contributing a starting value of 7.5%. This assisted in the potential employer cost increase within the pension system for the 2010 and 2011 budgets. Medical costs continue to be a concern for all organizations. The county is self-insured and therefore costs are based on actual usage. An estimated annual escalation factor was incorporated into the budget based on recent county trends.

- **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.

- **ACT 88:** A new millage was proposed as part of Phase 1, however the commissioners requested additional time and information before consideration. No board action was taken on this as part of Phase 1, but the item was reworked and included within Phase 2. More information is shown below.

***Department Operating Modifications Based on Scenarios for 5/10/20% Reductions –***

- Over \$6 Million in budget reductions were included as a result from department scenarios. Most departments were in the range of a 10 – 20% budget savings when compared with the 2009 budget levels, net of indirect costs. The organization implemented creative solutions to minimize the impact on services and jobs. A total of 21.75 FTE were recommended for elimination. Organizational restructurings were included within the Water Resources Office with management positions also being eliminated in the Administrator’s Office and Support Services. Approximately \$2 Million in budget reductions were implemented within Information Technology and Facilities Management. More information about the county’s capital budget allocations is contained with the Capital & Debt Service section of this publication.

***Non Union Wage and Benefit Modifications –***

- Cost savings from employee compensation and benefits was a strategy for the budget development. Originally salary increases of 2.25% were planned for 2010, with an estimated 3% increase in 2011. The Board adopted wage reductions of 3% in 2010 and 2% in 2011 for all non union staff in the Phase 1 modifications. This adopted salary reduction, however, was adjusted to eight annual furlough days for all non-union employees later in the process. Pay for performance was also cancelled for both fiscal years. In addition, premium sharing of \$50 a month as well as some increased co-pays were implemented to the medical program. Total annual savings of \$2.3 Million was estimated in the budget for 2011.

***Outside Agency Reductions –***

- Historically, Washtenaw County has invested in local nonprofits and outside agencies in order to improve the quality of lives of the community’s most vulnerable residents, while preventing more costly alternatives such as emergency room visits and hospitalization, involvement in the juvenile or adult justice systems, unemployment, exposure to violence, school failure, and lost tax revenue. The severe economic downturn has produced negative impacts on nearly every facet of our community creating a sharp increase in the demand for services, especially those provided by the array of local human service agencies. Unfortunately, this increased demand comes at the very time when Washtenaw County’s resources are being greatly curtailed.

In order to manage Washtenaw County’s dual interest in being able to maintain a balanced investment between internal, mandated services and outside non-profit agencies that reduce the demand on these mandated services and other systems of care, it was recommended within Phase 1 that a 20% funding reduction be implemented for 2010/11 and that that an integrated funding model through Community Development be adopted. The Board adopted the new integrated methodology in a separate action, however the reduced funding allocation was not enacted upon. Modifications to this funding recommendation are shown below in the Phase 2 recommended modifications.

The following priorities and target areas are planned to be eligible for funding through the Human Services and Children’s Well-being RFP.

- A. HUMAN SERVICES:** Priorities are focused on meeting basic needs for citizens and neighborhoods, and preventing or mitigating the need for costlier services such as hospitalization,

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

the county constructed a new Head Start facility which has remaining bond payments. It is therefore recommended to reduce the general fund support by a lump sum amount of \$167K with details to be identified. This reduction is not expected to result in the loss of positions or significant service levels.

- **Mental Health** – As stated above, the WCHO and CSTS reduced their general fund support by \$3M in Phase 1. However, given the anticipated personnel cost increases and the county’s previous commitment to cover those for CSTS, a significant general fund appropriation was projected. Scenarios were developed to understand the service impact of reductions up to the full elimination of general fund support to CSTS given that the county’s mandate for mental health is met through its appropriation to WCHO. Through these discussions came the recommendation to reduce general fund support, except providing the required local match for PORT and JPORT (\$432K) to retain these services. This resulted in approximately \$2.4M in total savings. WCHO and CSTS have identified cost containment efforts and revenue generation opportunities to maintain most other programming. A question remains as to if the WCHO will continue to contract with CSTS for the direct service provision of vocational services. If the WCHO chooses to contract with a different more cost effective provider for these mandated services, the county would have to eliminate 66.5 FTE. In addition, a new ruling by the Michigan State Attorney General states the county needs to provide complete funding for mental health services in the jail (increased appropriation of \$185K).
- **MSU Extension** - Many counties are struggling to retain MSU Extension in light of declining revenues. The State of Michigan has considered reductions in its support by 50%, although final funding decisions are not yet known. MSU Extension offers valuable services impacting many segments of the population. As shown above, it is recommended that the county secure a portion of MSU Extension services through the new revenue funding of ACT 88 where deemed eligible under that public act. Increases in fees for services to minimize General Fund costs are also recommended.
- **Public Health Maintenance of Effort** – Phase 1 also brought significant operating reductions for Public Health, although the county is still providing more support than what is legally required within the State Maintenance of Effort agreement. There are great uncertainties on the funding level that the State will be able to provide over the next few years given its billion dollar deficit. At the same time, Public Health service needs are at an all time high with emerging issues such as H1N1 (i.e. Swine Flu). The recommended budget includes a reduction in General Fund support by \$200K which can be sustained at least in the short-term through the use of outside revenue. It is also recommended, however, that the county increase support by \$40K to support the continuation of the Health Improvement Plan (HIP).
- **Strategic Planning** – Planning is one of the largest discretionary services within the general fund and was therefore reviewed with great sensitivity. It is recommended that the department be eliminated, but then re-created with a new focus on Economic Development and Energy. The number of positions would be reduced and an effort will be made to maximize outside revenues through grants and ACT 88. It is thought that these efforts will assist the community in creating long-term sustainability in these most vital areas. A total savings of \$600K is recommended, with \$137K of this coming through the proposed ACT 88 millage.
- **Support Services** – Support Services, or the county’s central support system which includes the core functions of HR, Finance, IT and Facilities Management, has led the way in reorganizations and budget reductions for the past decade. There is limited opportunity for further reductions without greatly jeopardizing the ability to carry-out both the mandated and necessary functions for the organization. There are a total of six recommended position reductions (5.6 FTE) made up, predominately, through current vacancies and planned retirements. Revenue enhancement is also included through collaborations with the Register of Deeds Technology Fund and the City of Ann Arbor IT Collaborative. A total projected savings of \$750K is included.
- **Professional Development** – The county has built a world-class Professional Development program that provides the critical foundation for employees to deliver world-class services. As part of Support Services, the cost savings and FTE impact for Professional Development are included above. Because of its important influence on both the character and culture of the organization, it is therefore recommended to retain the program. A focus on internal leadership academy courses will ensue, using our vast internal knowledge base to assist with the trainings. In addition, the county will pursue collaborations with community partners and investigate sole source vendor opportunities to minimize costs to help keep the county’s commitment to employee development.

- ***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.

Washtenaw County Outside Agency Allocations

Category	Agency Name	2009 Budget	2010 Adopted	2011 Adopted	% Total Reduction	Shift to Community Development
Dues/Membership	BOC Dues	10,399	10,399	10,399	0%	No
Dues/Membership	MAC Dues	20,315	20,315	20,315	0%	No
Dues/Membership	Humane Society	400,000	500,000	500,000	25%	No
Dues/Membership	Huron Riv. Water Cou.	11,892	11,892	11,892	0%	No
Dues/Membership	Riv. Raisin Watershed	8,233	8,233	8,233	0%	No
Dues/Membership	SEMCOG	175,000	175,000	175,000	0%	No
Dues/Membership	SEMCOG Water Quality	10,000	10,000	10,000	0%	No
Dues/Membership	Food Systems Economic Partners **	15,000	12,000	9,000	-40%	No
Dues/Membership	Soil Conservation	30,000	30,000	30,000	0%	No
Dues/Membership	NEW Center	35,000	28,000	21,000	-40%	No
Dues/Membership	WATS	20,000	20,000	20,000	0%	No
Dues/Membership	Area Agency on Aging	23,712	23,712	23,712	0%	No
	<b>Total Dues/Membership</b>	<b>759,551</b>	<b>849,551</b>	<b>839,551</b>		
	<b>Increase from 2009</b>		<b>90,000</b>	<b>80,000</b>		
Human Services	Dom Viol Proj Saf House	120,000	96,000	96,000	-20%	No
Human Services	Eviction Prevention	50,000	40,000	40,000	-20%	No
Human Services	Fair Housing	50,000	40,000	40,000	-20%	No
Human Services	Shelter Association	200,000	160,000	160,000	-20%	No
Human Services	United Way 211	40,000	32,000	32,000	-20%	No
Human Services	DHS Child Abuse Prevention	38,000	0	0	-100%	No
Human Services	Human Services/CWB Funding	1,263,750	1,015,000	1,015,000	-20%	Yes
Human Services	Small Business Development Center	10,000	8,000	8,000	-20%	No
	<b>Total Human Services</b>	<b>1,771,750</b>	<b>1,391,000</b>	<b>1,391,000</b>		
	<b>Savings from 2009</b>		<b>(380,750)</b>	<b>(380,750)</b>		
Special Initiative	Eastern County Econ Dev **	300,000	100,000	100,000	-67%	No
Special Initiative	Eastern County Incubator **	50,000	50,000	50,000	0%	No
Special Initiative	NS Commuter Rail *	150,000	0	0	-100%	No
Special Initiative	SPARK **	200,000	200,000	200,000	0%	No
Special Initiative	Supportive Housing Initiative	250,000	200,000	200,000	-20%	Yes
Special Initiative	Housing Contingency	160,000	110,000	110,000	-31%	Yes
	<b>Total Special Initiatives</b>	<b>1,110,000</b>	<b>660,000</b>	<b>660,000</b>		
	<b>Savings from 2009</b>		<b>(450,000)</b>	<b>(450,000)</b>		
<b>Total</b>		<b>3,641,301</b>	<b>2,900,551</b>	<b>2,890,551</b>		
<b>Total Savings from 2009 Budget</b>			<b>740,750</b>	<b>750,750</b>		

\* This money was allocated but never spent.

\*\* To be funded through ACT 88

- **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.