



Travis County Commissioners Court Agenda Request

Meeting Date: February 14, 2012

Prepared By/Phone Number:

Elected/Appointed Official/Dept. Head: Leroy Nellis, Acting County Executive, Planning and Budget

Commissioners Court Sponsor: Judge Samuel T. Biscoe

A handwritten signature in black ink, appearing to read "Leroy Nellis", written over the typed name in the previous block.

AGENDA LANGUAGE: Consider and take appropriate action on Fiscal Year 13 Budget Issues including the Fiscal Year 13 Budget Guidelines.

BACKGROUND/SUMMARY OF REQUEST AND ATTACHMENTS:

Please see attached documentation.

STAFF RECOMMENDATIONS: Please see attached documentation.

ISSUES AND OPPORTUNITIES: Please see attached documentation.

FISCAL IMPACT AND SOURCE OF FUNDING: Please see attached documentation.

REQUIRED AUTHORIZATIONS:

Leroy Nellis, Planning and Budget Office, (512) 854-9106

Jessica Rio, Planning and Budget Office, (512) 854-9106

Cheryl Aker, County Judge's Office, (512) 854-9555

AGENDA REQUEST DEADLINE: All agenda requests and supporting materials must be submitted as a pdf to Cheryl Aker in the County Judge's office, Cheryl.Aker@co.travis.tx.us by Tuesdays at 5:00 p.m. for the next week's meeting.



PLANNING AND BUDGET OFFICE
TRAVIS COUNTY, TEXAS

700 Lavaca Street, Suite 1560
P.O. Box 1748
Austin, Texas 78767

MEMORANDUM

TO: Commissioners Court

FROM: *Leroy Nellis*
Leroy Nellis, Acting County Executive, Planning & Budget
Jessica Rio, Assistant Budget Director *Jessica Rio*

DATE: February 7, 2012

SUBJECT: FY 13 Budget Guidelines

The annual budget process traditionally begins with the Commissioners Court's approval of the budget guidelines. This document is intended to provide Travis County departments and offices with a general framework of the upcoming budget process and give a high level financial context for the FY 13 budget process. These guidelines will be used to formulate the FY 13 Budget Manual, which is used by departments and offices in preparation of their budget submissions.

The FY 13 budget will be developed during the transition from the County's legacy H.T.E. financial system to the new SAP system. To facilitate the budget process this year, PBO will require budget submissions to reflect H.T.E. divisions and line items and then work with departments, offices and the BEFIT team to ensure proper translation into the SAP system.

PBO believes that it is prudent to proceed this year without formal submission of five percent reduction proposals. Instead, PBO will use the reduction proposals submitted as part of the FY 12 budget process in the event that such reductions are needed. If circumstances dictate that target budget reductions are required, PBO will work closely with departments and offices to evaluate these prior year proposals.

PBO recommends approval of the attached FY 13 Budget Guidelines as presented and looks forward to working with all departments throughout the budget process this year.

cc: Elected and Appointed Officials
Travis County Financial Staff

FY 13 Budget Guidelines

Introduction

The County's annual budget process provides independently elected officials and Commissioners Court departments an opportunity to evaluate and prioritize their programs and reexamine how to efficiently and effectively execute their mission and goals. Likewise, the budget process provides the Commissioners Court the best platform to illustrate its overall policy, mission and goals for Travis County. It is expected that the FY 13 budget process will again require close collaboration between the Planning & Budget Office and County offices and departments, especially as the County transitions to a new financial system. These budget guidelines are structured similarly to recent budget guidelines in an effort to minimize change in a year departments are expected to learn the new financial system. The goal for the FY 13 Budget Guidelines is to outline general countywide financial direction for the upcoming budget and to provide guidance for departments and offices in the formulation of their FY 13 budget submissions.

Travis County's Mission Statement:

For the people of Travis County, our mission is to preserve health, provide a safety net for the needy, ensure the public safety, facilitate the resolution of disputes, foster an efficient transportation system, promote recreational opportunities, and manage county resources in order to meet the changing needs of the community in an effective manner.

The Commissioners Court demonstrates its commitment to this mission by ensuring appropriate funding for emergency functions (medical, fire and public safety); addressing various social ills (such as child abuse, truancy, domestic violence, and poverty); providing appropriate law enforcement and justice support to Travis County residents (including fair and efficient judicial services for both civil and criminal cases); maintaining its infrastructure (roads, facilities, parks, and technology); and continuing to support efficiencies in general government services through the highest and best use of public funds.

This budget cycle will occur concurrent with the transition from the County's legacy H.T.E. financial system to the new SAP system. Therefore, it will be

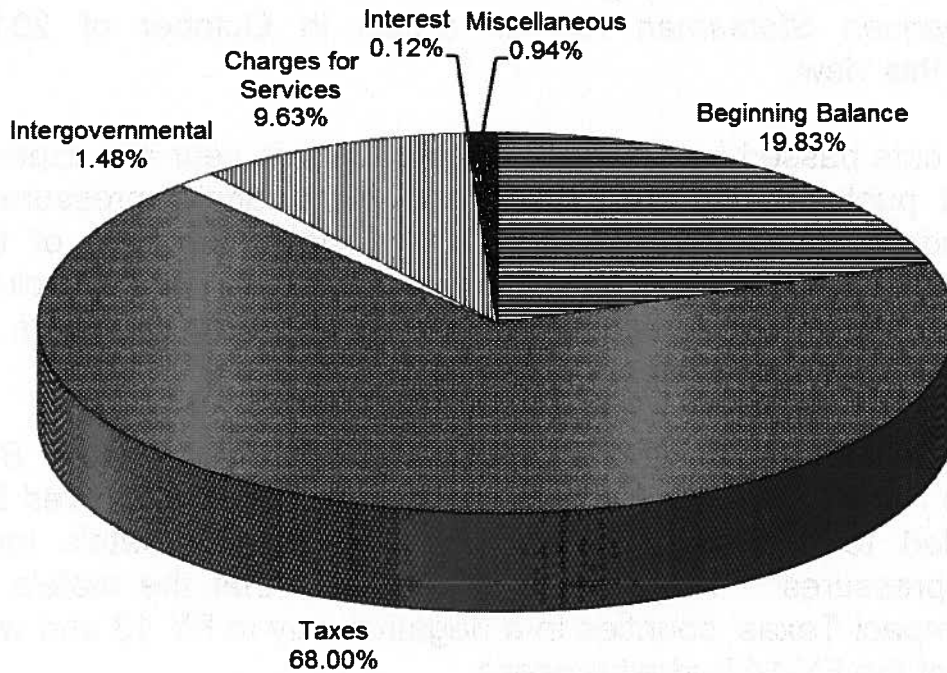
critical for PBO and departments to work together this budget cycle as everyone will be learning to navigate the new system. To facilitate the budget process this year, PBO will require budget submissions to reflect H.T.E. divisions and line items. PBO will work with the Better Enterprise Financial Information for Travis County (BEFIT) team as well as departments and offices to translate all the budget information submitted to PBO from H.T.E. to the SAP format during the summer, resulting in an SAP based FY 13 Adopted Budget.

The County has managed to deliver critical services in difficult economic times and avoid reductions in personnel. Current economic forecasts are cautiously optimistic that the country is now on a slow and steady path towards the end of this economic downturn. New construction is the only source of "new" property revenue given the effective tax rate. However, it is expected that FY 13 will see little if any increase in new construction (excluding new construction related to Samsung Austin Semiconductor which is 80% rebated back to that company). Current FY 13 forecasts for new construction are \$1.25 billion (not counting Samsung new construction). This estimate is only slightly above FY 12 new construction levels. However, it is important to note that this increase is still well below the FY 09 new construction level of \$3.97 billion. Last year, PBO indicated that FY 09 could be viewed as a baseline year prior to the current recessionary cycle that is expected to last approximately seven years. Therefore, it is projected that Travis County will continue to feel the effects of the economic downturn for the next few fiscal years prior to economic conditions slowly approaching the FY 09 new construction baseline.

Background Information and Economic Summary and Forecast

The total taxable value for all Travis County property increased from \$94.39 billion in the FY 11 Adopted Budget to \$97.05 billion for FY 12. Total taxable value for FY 13 is expected to continue to increase to approximately \$98.11 billion. As stated before, new property value (without Samsung) is projected to only be \$1.25 billion in FY 12. Since Travis County receives almost 70% of its revenue from property taxes, any changes to new construction property values significantly impacts the resources available for the annual budget process.

Percentage of FY 12 Travis County General Fund Revenue by Source



There is some good news to be found regarding the Central Texas real estate market. The *Austin American Statesman* recently published an economic forecast that projected a 5% increase in the number of new home starts and sales over 2011.¹ This projection was supported by the *Austin Business Journal*, which cited a recent residential survey from Metrostudy indicating there were 6,115 new home starts in the Austin region in 2011, approximately a 5% increase over 2010.² In addition, Austin was named one of the top ten cities “poised for greatness” in 2012 by *The Street*, which stated, “Austin continues to ride a pure blend of state jobs, University of Texas help and private-sector employment out of the recession and into some mighty comfortable economic recovery”.³

While this area is faring far better than other metropolitan areas across the Country and even throughout Texas, there is still good reason to proceed

¹ Novak, Shonda, “Austin area's 2012 economic forecast: continued growth for housing, tech sectors” *Austin American Statesman*. December 31, 2011 <http://www.statesman.com/business/austin-areas-2012-economic-forecast-continued-growth-for-2072182.html>

² Lyon, Cody, “Forecast: Positive housing trend to continue in 2012”. *Austin Business Journal*. January 12, 2012. <http://www.bizjournals.com/austin/blog/real-estate/2012/01/forecast-positive-housing-trend-to.html?page=all>

³ Notte, Jason, “10 Cities Poised For Greatness In 2012” *The Street*. January 10, 2012. <http://www.thestreet.com/story/11370864/9/10-cities-poised-for-greatness-in-2012.html>

cautiously and with an eye on modest and slow economic growth. There are a number of recent articles noting that there may still be some challenges ahead, especially given actions taken at the state level. The *Austin American Statesman* ran an article in October of 2011 that highlighted this view.

Budget cuts passed by the state Legislature this year are expected to blunt public sector job growth and put financial pressure on independent school districts around the state. Because of that, economists say, Austin's government sector — which includes school districts — could actually shrink over the next two years and become a drag on the overall economy.⁴

The recent Standard & Poor's publication, *For U.S. State Budgets, Austerity is Here to Stay*, noted "In our opinion, Texas' approved biennial budget failed to achieve structural solutions to the state's long-term budgetary pressures".⁵ Therefore, it is expected that the state's budget could still impact Texas' counties in a negative way in FY 13 and will likely be a focus of the FY 14 budget process.

These guidelines are prepared in light of current economic conditions and propose to continue Travis County's tradition of careful spending and managed growth in the tax rate to appropriately serve the area's growing population.

Property Tax Impact on Homestead Owners

	Current FY 12	Projected FY 13	Difference	
			\$	%
Average Homestead Value	\$272,931	\$271,632	-\$1,299	-0.48%
Average Taxable Value After 20% Homestead Exemption and other required adjustments	\$215,829	\$215,820	-\$9	-0.00%
FY 12 Adopted/FY13 – 3% above Effective Tax Rate	\$.4855	\$.4994	\$.0139	+2.86%
Impact on Average Homestead at 3% above the Effective Tax Rate (after 20% exemption and other required adjustments)	\$1,047.85	\$1,077.81	\$29.96	+2.86%

⁴ Gaar, Brian and Ladendorf, Kirk, "Austin's economy just doing OK". *Austin American Statesman*. October 15, 2011. <http://www.statesman.com/news/local/austins-economy-just-doing-ok-1915699.html>

⁵ Standard and Poor's. (2012, January 5). *For U.S. State Budgets, Austerity is Here to Stay*. Standard & Poor's Global Credit Portal. Page 21.

FY 13 Budget Preparation Guidance

Below are some key elements of these guidelines that will assist offices and departments in the preparation of their FY 13 budget submissions.

A. The Tax Rate for the FY 13 Preliminary Budget

The tax rate for the Preliminary Budget shall be at or near the effective tax rate. A tax rate within 3% of the Effective Tax Rate should be considered "near" for the purpose of the FY 13 Preliminary Budget.

B. Budget Submissions

Departments and offices are required to submit their budgets at the FY 13 Target Budget Level. This FY 13 Target Budget Level represents the department's FY 12 Adopted Budget plus the annualized impact of any FY 12 increases less any one-time expenses and other reductions related to pilot programs and/or programs moved from on-going to one-time funding status.

Departments and offices will **NOT** be asked to submit a list of programmatic cuts totaling 5% of their total FY 13 Target Budget. Instead, PBO will use the reduction proposals submitted as part of the FY 12 budget process in the event that such reductions are needed. The Commissioners Court continues its commitment to avoid reductions in personnel and across-the-board cuts in order to avoid reductions to County services. If circumstances dictate that target budget reductions are required then identifying and targeting specific programmatic reductions will provide a more strategic approach. In the event that PBO is required to review and make recommended reductions, the office/departments' FY 12 proposals will be considered (or FY 13 proposals if a department or office elects to re-submit or change any previous reduction proposal). Departments and Offices are always urged to collaborate with the Planning and Budget Office (PBO) to identify and implement opportunities for savings and efficiencies.

Budget submissions are due on April 23, 2012.

As stated earlier, budgets will be submitted using H.T.E. formatting (divisions, line items) with the translation to SAP occurring later in the budget process.

C. Compensation & Benefits

The FY 12 Adopted Budget includes an earmark against the General Fund Allocated Reserve for potential compensation increases. This allocation totals \$5.9 million and is reserved in the event the Commissioners Court decides to

implement some level of increase for employees in FY 12. The initial cost estimates of the market survey indicate the reserve is not sufficient to fully implement the study on an annualized basis. Implementing any recommendations midyear of FY 12 would reduce the cost in the current fiscal year, but would automatically create an FY 13 "ratchet" for the ongoing cost that is above the amount reserved. Potential increases for employees on the Peace Officer Pay Scale (POPS) as well as other employee groups not included in the Market Salary Survey will also likely have to be examined as part of the midyear FY 12 and FY 13 compensation discussions. Identification of resources for any approved compensation increases beyond the established reserve will be a high priority for the FY 13 budget process.

The Compensation Committee will present final recommendations to the Commissioners Court soon. The Commissioners Court will review the financial implications of the study and make a decision on how best to proceed.

Please note that an employee public hearing is held every June to provide employees and employee groups an opportunity to comment specifically on compensation and benefits at Travis County.

Career ladders

Departments should continue to redirect savings from career ladder vacancies, other permanent salary savings and any other resources within their target budget to internally fund departmental career ladder increases for positions in high priority programs.

Benefits

Health benefits at Travis County were stable from FY 07 to FY 10. The FY 11 budget required increases to the County, employee, and retiree share of health care contributions. Rates did not change in FY 12; however, additional funds were required for the County's contribution for new retirees anticipated to leave active employment and remain on the health plan. It is possible that there could be increases needed for FY 13 along with plan design changes. It is assumed that any increase would be shared among the County, employees, and retirees. The need for additional resources will not be determined until after discussions between the actuary for the Health Plan and members of the Employee Health Benefits Committee that will occur in the spring.

Elected Officials' Salaries

The Citizens Advisory Committee on Elected Officials' Salaries reviewed the full complement of elected officials' salaries for FY 08. Given the limited availability of resources, the Commissioners Court deferred a full review of every elected official's salary during the last four budget cycles. Instead, elected officials' salary

increases were matched to rank and file increases. In the future, HRMD will review elected officials' salaries as part of any market salary reviews of Travis County employees and advise the Court of such results so as to appropriately advertise and set these salaries as required by law. In the absence of such a review, PBO will match all elected officials not on the judicial scale to expected increases of rank and file employees as has been the practice in the last several budget cycles.

D. Meeting MCE & New Needs Without New Resources

Departments are required to reprioritize within their existing resources to fund any Maintenance of Current Effort (MCE) or new needs. If a department believes it needs additional positions, it will have the flexibility to create additional FTE to maintain current efforts or meet new, Court approved, contractual obligations or statutory requirements if the department can find the permanent resources internally.

Those departments that are a part of a larger family of departments (such as in Health and Human Services) should consult with their County Executive since the basic budget control rests at that level. Funding for new contractual or statutory obligations and other expenses related to maintaining a department's current efforts take priority over any program enhancements or expansions. Departments are urged to focus on efficiencies, increased productivity, and simplification in FY 13 rather than on budget requests for increased resources.

Given the projected limited new tax revenue due to new construction, PBO is not expected to recommend new FTE's in the Preliminary Budget other than those that meet specific criteria. To be considered for inclusion in the Preliminary Budget, FTE must be:

- (1) internally funded within a department or office on a permanent basis for high priority needs for existing programs;
- (2) related to the opening of new facilities;
- (3) related to voter approved bond programs;
- (4) related to new state or federally mandated programs;
- (5) for the continuation of long standing Commissioners Court programs; or
- (6) supported by an exceptional set of documented circumstances where PBO's analysis demonstrates that the overall benefit of the new FTE far outweighs the cost of the FTE.

Any requests for new funding for FTE that meet the above criteria will be considered in the context of all requests for additional funding countywide and available resources.

Any requests for FTE related to the implementation of SAP will be evaluated after the system is operational and requirements are more clearly defined.

In addition, PBO will review and make recommendations on the continuation of positions that were funded in the previous budget years based on the certification of additional revenue. Should it be found that revenues do not support the cost of the services as previously projected, PBO may recommend that the programs be eliminated. PBO will work closely with the Auditor's Office to ensure revenues are accounted for and validate expenditures before such actions are taken.

E. Non-County Requests

It is again likely that economic conditions will prevent much programmatic growth in FY 13. In the event a non-County entity wishes to request new funding from the County budget, such a request needs to be coordinated through the County department in charge of the service. The request must be submitted to the relevant County department no later than **March 23** so that it can be incorporated and carefully prioritized by the department based on the merits of the proposal. Given the limited availability of resources, FY 13 proposals should, at a minimum, demonstrate one of the following:

1. The proposal leverages a County investment in order to receive a proportionally larger amount of new outside resources to address a compelling community need.
2. The proposal seeks to restore a loss of community resources that, if left unfunded, would result in a compelling and unsupportable impact to those most in need.

All county departments are asked to advise any related community groups, employee groups, or other governmental or local agencies of the County's budget process, schedule, and budget guidelines that provide the context for FY 13 appropriations. Non-County organizations submitting a request during the current economic environment are urged to carefully consider their most critical need and how the request provides the most significant impact to the community.

Please note that the Board of Directors of the County Corporations has declared a moratorium on funding any non-County capital requests.

Any request not submitted within the approved time frame will not be considered by PBO for inclusion in the FY 13 Preliminary Budget, unless there is an extraordinary and compelling reason to do so. All items not meeting the established deadlines must be submitted to the Commissioners

Court, PBO and the relevant County department. A member of the Commissioners Court must sponsor any request submitted after the due date for it to be considered for the FY 13 budget process.

F. Non-Tax Revenue

Departments are strongly encouraged to identify reasonable ways to increase non-property tax revenue as another strategy for helping to balance the budget. Departments are specifically encouraged to review all fines and fees, especially those that have not been reviewed in several years, to ensure that they are set at appropriate amounts.

G. Unspent Balances, Zero-Based Line Items, and Salary Savings

PBO is instructed to annually review the last three years of unspent operating budgets that are reasonable to reduce without substantially affecting service levels. The purpose of this exercise is to “right-size” budgets, while still meeting service level demands and obligations.

Departments with certain critical line items will be asked to build the line item from the ground-up (“zero-based”), such as leases, maintenance contracts, other purchased services, consulting, and contributions to grants. Other line items to be zero-based may be identified as the budget process matures. PBO is also instructed to ensure that the budget for salary savings countywide be as realistic and accurate as possible, and aligned with departments’ vacancy trends. It is anticipated that the tighter job market will lead to additional resources being required in FY 13 for the adjustment of salary savings due to fewer anticipated vacant positions.

H. Pilot Programs

The FY 12 Adopted Budget included funding for various pilot programs that have been funded on a year by year basis. These programs are evaluated each year during the budget process for continued and appropriate funding. Requests to continue funding pilot programs must include the relevant performance measures to allow PBO to make an informed recommendation for FY 13 funding.

I. Programs Moved from On-going to One-Time in FY 13

Over the past several budget cycles, the Commissioners Court approved moving a select number of programs’ funding from on-going to one-time status due to uncertainty related to the revenue projected to be collected by those programs. Any programs moved to one-time in FY 12 have been removed from FY 13

departmental target budgets and will need to be requested by the departments for consideration in FY 13.

J. Promote Efficiencies

The Commissioners Court is supportive of employees and departments identifying county operations that can be improved and where efficiencies may be gained that will result in either cost decreases or avoided costs. Departments and/or employees are therefore encouraged to propose any initiatives that support these endeavors.

K. Future Unknowns

There are a variety of issues that could have an impact on the development of the FY 13 budget. PBO is instructed to work with departments and offices to continue monitoring these issues and keep the Commissioners Court apprised of any substantive changes. Such issues include:

- Changes in new construction estimates and/or increased litigation from property tax valuations;
- Decreases in tax collections;
- Reductions or eliminations of state and federal grant awards;
- Increases in the County's contribution for employee and retiree healthcare;
- Unanticipated costs due to the implementation of the new financial system and/or the replacement of the Justice Courts' case management system;
- Unexpected or uncontrolled increases in indigent attorneys fees and/or Sheriff's Office overtime/medical services;
- Cost increases and/or reductions to revenue related to the ongoing discussions with the City of Austin on the Central Booking Interlocal;
- Costs associated with the continued impact of state changes to the Juvenile and Adult Probation departments;
- Increased utilities rates and/or fuel; and
- Increased costs associated with other unforeseen issues such as the impact of Formula One on Travis County operations.