Preparing the 2017-2018 Biennial Budget:

Framework, Process and Assumptions

Clark County Budget Office

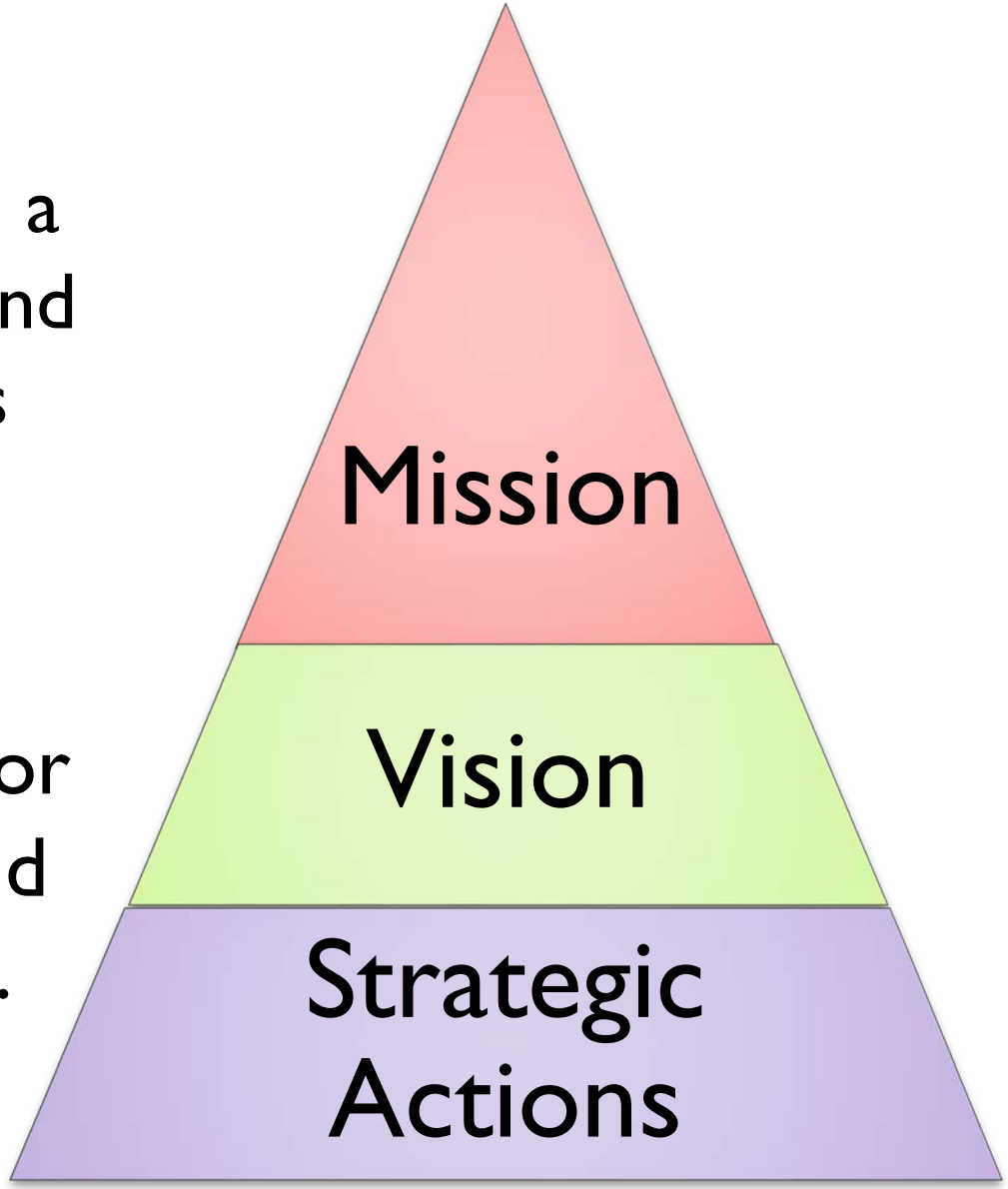
February 3, 2016 – Presented to the Clark County Council

Roadmap

- Overview of countywide vision, mission and strategic actions
- Role of the Budget Office within this framework
- County budget process overview
- Budget environment & significant fiscal issues
- New requirements / improvements in 2017-2018
- 2017-2018 budget process and assumptions

Countywide Vision, Mission and Strategic Actions

- Clark County Council adopted a Vision, Mission and Strategic Actions plan.
- Plan includes input from senior management and elected officials.



Vision

Clark County is a community with:

- safe streets, neighborhoods and structures
- healthy natural and built environments
- prosperity and well-being for a diverse population
- engaged, civil and informed citizens
- inclusion and acceptance of all people
- first-rate infrastructure
- a population and environment prepared for current and future job opportunities

Community collaboration is necessary.

Mission

We enhance the quality of life in our diverse community by providing services with integrity, openness and accountability.

Mission statements of departments and elected officials' offices support the county's mission.

Strategic Actions

The guiding document details over 30 strategic actions grouped into <u>six</u> focus areas:

- Community relationships
- Customer service
- Decision making process
- Employee relations
- Finance
- Technology

Strategic Actions

Community relationships

- Increase community understanding of available services.

Customer service

- Be consistent, accountable, courteous, timely and predictable.

Decision-making process

- Base decisions on evidence, data, research, statutes and expert counsel.

Employee relations

- Promote diversity in the workforce through culturally competent hiring and workplace practices.

Finance

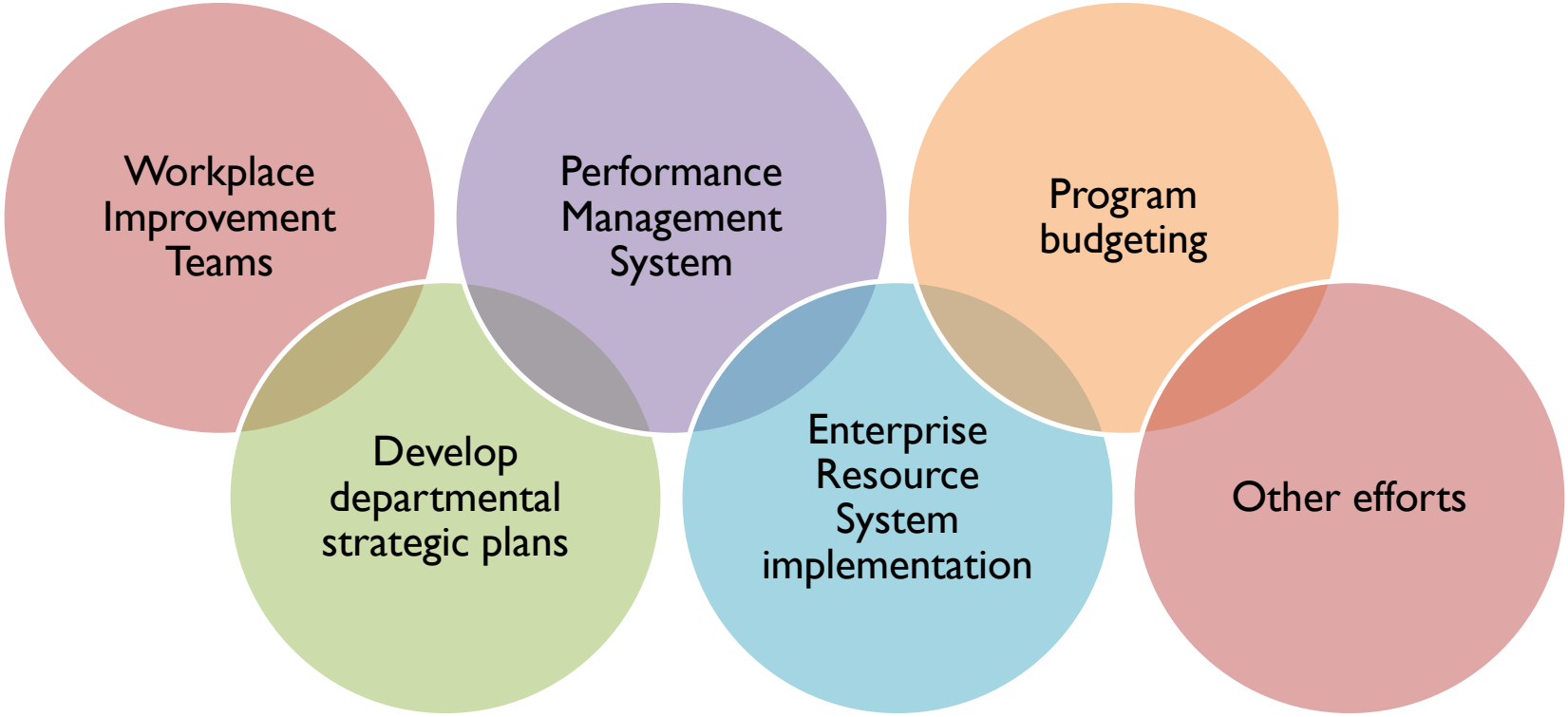
- Develop six-year programs for budget, capital, technology, other key areas; understand resources needed to fund the programs.

Technology

- Use technology to increase efficiency and effectiveness and reduce duplication and errors.

Let's Implement!

The County is undertaking several initiatives to implement the strategic actions plan.



Budget Office role

- The county budget is not a financial document but rather a guide for translating legislative intent and strategic planning into action.

- Budget Office supports the Council, County Manager and departments by providing recommendations that support legislatively approved policy outcomes and long-term financial stability.

Budget Office role within County Vision, Mission and Strategic Actions Plan

Mission

To make data-driven recommendations that support the development of a strategic, fiscally responsible, long-term County budget.

Key Performance Indicators

- ✓Customer satisfaction survey
- ✓Timeliness of budget process
- ✓ Reports to Council
- ✓Accuracy of General Fund forecast

Communication and Accountability

- The Budget Office is enhancing focus on communication and customer service by:
  - Soliciting and reviewing user feedback for incorporation into budget processes
  - Planning for upcoming budget focus group
  - Reorganizing staff roles to address new challenges and changing priorities.

Link to Strategic Plan

Budget Office is involved with implementation of several strategic actions through the following efforts:

Program Budgeting	• Project lead
Performance management system	• Team member
ERP system	• Team member
Capital planning	• Team member

2017-2018 Biennial Budget Calendar

Timeframe	Steps
January-March 2016	Finance Team led by County Manager proposes assumptions Council adopts assumptions Baseline budget development
April 8, 2016	Baseline distributed to departments
July 29, 2016	Departments submit baseline budgets and new requests
August-September 2016	Budget Office meets with departments to review submissions
October 2016	Finance Team led by County Manager reviews implications and makes recommendations to Council
Late October	Work session(s) with Council
November 1, 2016	Recommended budget is published
December 5-7, 2016	Public hearings followed by budget adoption
January 1, 2017	Budget goes into effect

Finance Team

- The advisory committee that assesses impacts of proposed policies on all aspects of finance, budget, cash and debt management. Team includes County Manager, Budget Director and representatives of Auditor and Treasurer's offices; team input helps inform County Manager's recommended budget.

Baseline Budgeting Approach

- Clark County's budget process follows state requirements specified by RCW 36.40.

- Budget is created by carrying forward existing appropriations and adding incremental changes for the new budget period.

Baseline Development Process

- Salaries and benefits:
  - Based on snapshot of staffing data in January 2016
  - Includes all settled contractual / known increases
  - Unknown increases placed in contingency based on assumptions.
- Controllables
  - Based on principle of carrying forward current budget with no incremental increases for inflation. Exception: known mandatory or contractual increases
  - One-time items removed, including short-term capital projects.
- Calculated charges, e.g., risk, indirects, technology, equipment/fleet, updated by Budget Office based on latest information.
- Revenues updated in collaboration between Budget Office and departments.

Baseline Development Process

- Departments given opportunity to update baseline expense and revenue allocation subject to following limitations:
  - Position costs can be re-distributed among payroll GL codes as long as position-related expense stays the same within a fund, and for General Fund, within a department.
  - Controllable expenses can be re-distributed among GL codes as long as total does not change within a fund, and for General Fund, within a department.
  - Calculated charge expenses can be re-distributed among GL codes as long as total does not change within a category within a fund, and for General Fund, within a category and a department.
  - Revenue forecasts are updated as needed in baseline in cooperation with Budget Office.
- All other requests to change expense or revenue baseline must be submitted separately in a decision package request.

Supplemental Processes

- Once budget is adopted, supplemental budgets provide opportunity to update appropriations throughout biennium.

- Only supplemental required by law is Mid-Biennium Review and Modification, known as "The Readopt," which addresses critical funding needs and new requests; recognizes budget-neutral items such as grants; makes technical adjustments; updates revenue forecasts, as needed.

- Three more supplementals per biennium usually are scheduled – one each spring and one in fall of biennium's last year. If needed, others are scheduled to:
  - Recognize new or additional revenue from federal, state or local sources that arose since last biennial budget
  - Recognize contract obligations negotiated since last biennial budget
  - Provide budget to meet emerging or urgent needs.

Challenges in 2017-2018 Budget

- Majority of costs associated with Enterprise Resource System (Oracle/FMS) replacement or upgrade incurred in 2017-18
  - Estimated General Fund share is $3-$5 million.
- Revenue challenges persist:
  - Departmental revenues, particularly Court and Corrections, have declined.
  - New requirements for reporting and tracking eligible expenses may necessitate a reduction in Road Fund diversion.
  - Sales tax revenues (21% of all General Fund revenues) are volatile /sensitive to the economy.
- Lawsuit settlement of $10.5 million committed $1.5 million General Fund resources annually until 2020.
- General Fund parks maintenance of $1.5 million per biennium must be restored.
- Significant unmet needs still exist in staffing levels (e.g. Sheriff's Office) and infrastructure (e.g. central precinct, jail space, parks capital repairs).

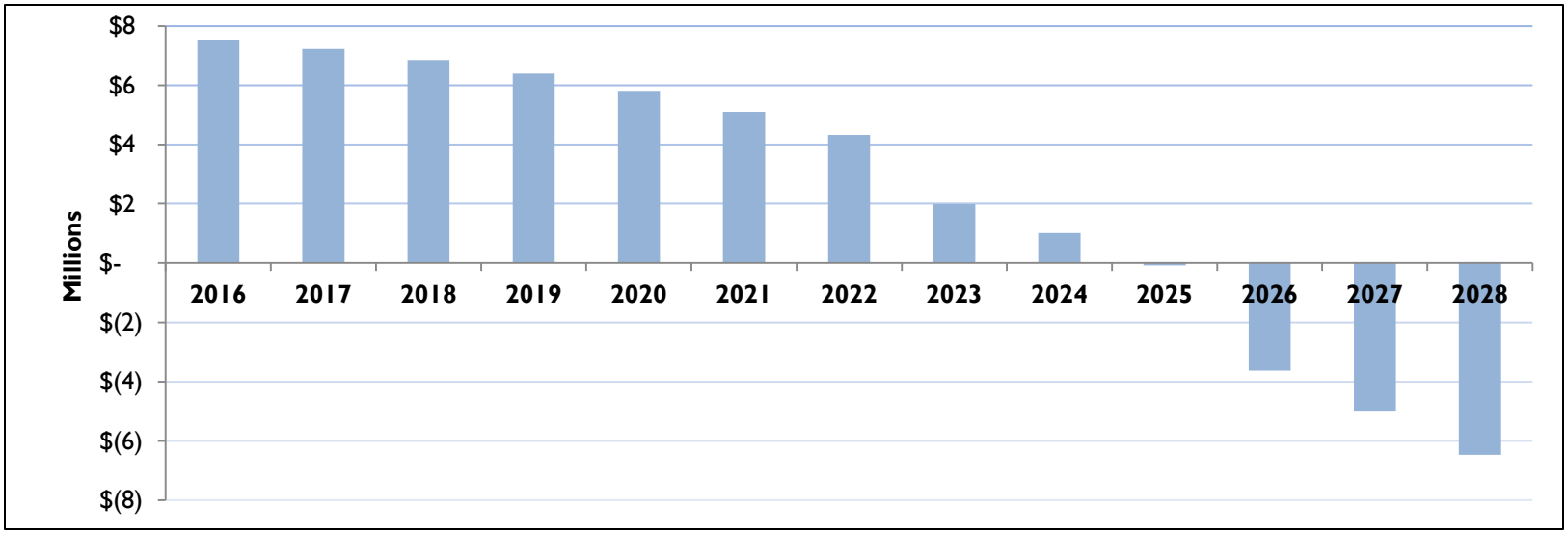
Information Technology

- Information security
  - $500K one time; $100K second year onward for support/maintenance
- Succession planning
  - $400K (2017), $400K (2018)
- Network segmentation
  - $500K one time
- Disaster recovery
  - $113K one time, $43K second year onward for support/maintenance
- Google Apps Unlimited
  - $280K one time, $200K second year onward for subscription

Funding Parks Maintenance

Greater Clark Parks District cash flow projection

- December 8, 2015



Funding Parks Maintenance

Challenges

- General Fund subsidy for parks maintenance of $1.5 million/ biennium needs to be restored to free up revenue needed for Greater Clark Parks maintenance.
- Revenue issues:
  - Elimination of park fees
  - One-time loss $1.1 million of GCPD levy funds due to pro-rationing in 2013
  - Collecting annual GCPD levy at less than full $.27 rate.

Consequences:

- Reduction in service levels including, potential elimination (or significant reduction) of General Fund volunteer efforts, ambassadors and lifeguards.
- Delayed development of remaining promised GCPD parks
- GCPD fund will go negative in 2025.

Public Health
2017-18 Budget Outlook

- Projected $1.5 million operating budget deficit
  - Sharp increases in employee benefit costs in 2016
  - Stagnant revenue sources
  - Environmental Public Health fees last adjusted in 2012
  - 80% reduction in Environmental Services support of Public Health Solid and Hazardous Waste
    - Support completely eliminated in 2019

Public Health
2017-18 Budget Outlook

- $550K-$600K of projected $1.5 million deficit would be mitigated with adjustment to Environmental Public Health fees
  - Projected EPH fees based on BOCC 2012 directive:
    - Fees based on total cost of providing the service
    - Non-fee ("greater good") work, such as foodborne illness investigations, funded by General Fund

Public Health
2017-18 Budget Outlook

- **Public Health fund balance projected to be approximately $800K below minimum target at beginning of 2017**
  - **$1.9 million reduction in 2015-16 General Fund support**

Clark County Sheriff's Office
2017-18 Budget Outlook

- Funding to cover contractual cost increases for 2017-18
  - Increases in Overtime costs due to settled labor agreements
    - DSG and COG settlements increase overtime costs by $302,000 for 2017-18
    - Pending labor settlements will increase overtime costs further
  - Increases in vendor contracts providing mandatory services
    - Inmate Medical Services – increase of up to $925,000 expected for 2017-18
    - CRESA Dispatch Services – increase of up to $235,000 expected for 2017-18
    - Inmate Food Bids – increase of up to $165,000 expected for 2017-18
    - Campus Security Services – increase of up to $85,000 expected for 2017-18
  - Up to **$1,700,000** in additional funding is needed in 2017-18 for contractual cost increases

Clark County Sheriff's Office
2017-18 Budget Outlook

- Funding to Rebuild Staffing back to 2008 Levels
  - 46 positions were lost in recession, 23.5 have been reinstated
    - Sworn positions: 24 were cut, 8 have returned
    - Corrections positions: 12 were cut, 10 have returned
    - Support positions: 10 were cut, 5.5 have returned
    - Of the 23.5 reinstated positions, 10 were funded with General Fund dollars, 11.5 with Sheriff's revenue, and 2 with other non-General Fund sources
  - **$4,800,000** in additional funding to reinstate the remaining 22.5 positions and return the Sheriff to 2008 staffing levels
    - Additional Positions are needed to address population/workload growth since 2008, plus growth since 2008 and into the future

Clark County Sheriff's Office
2017-18 Budget Outlook

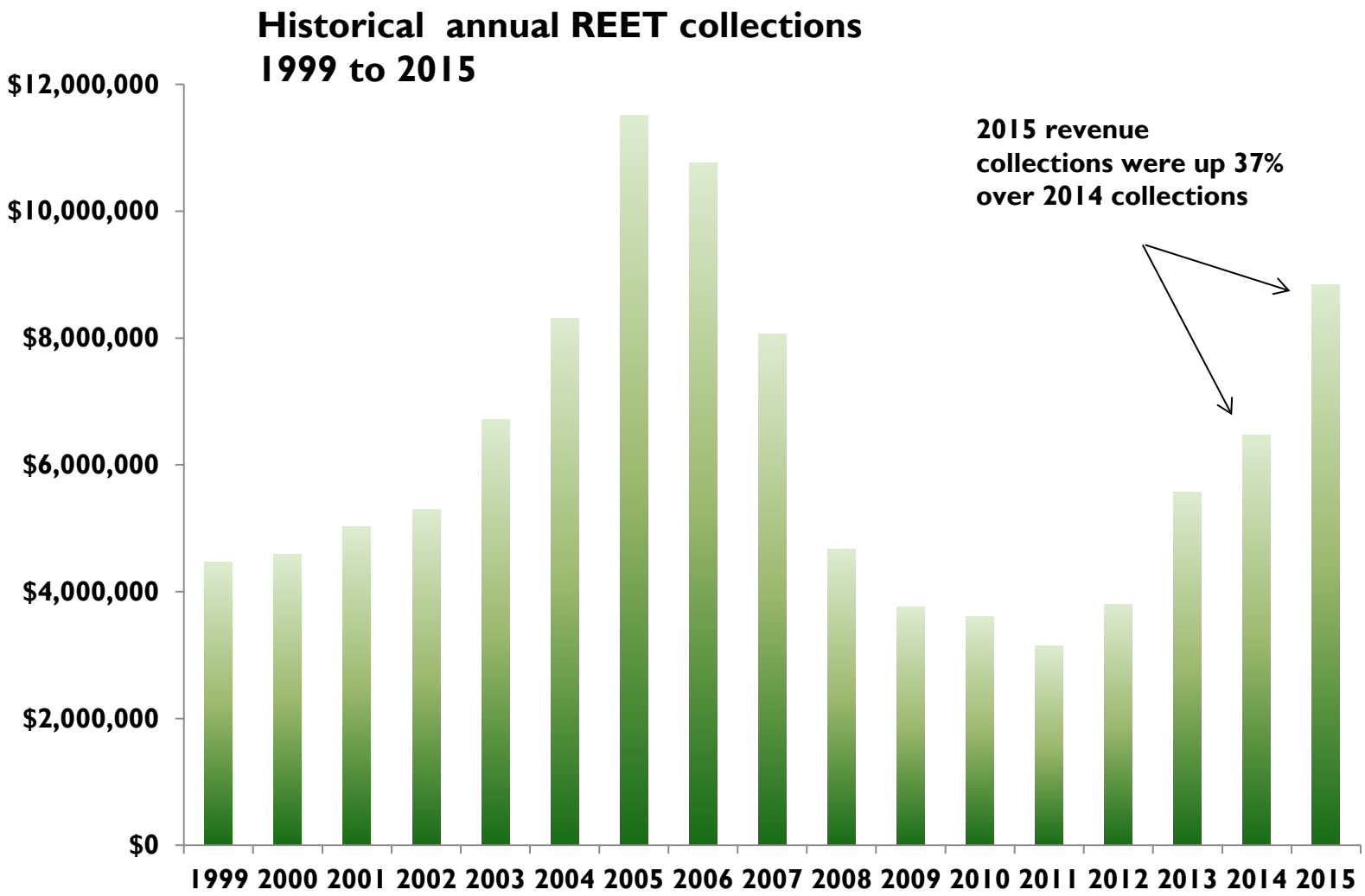
- Funding to Address Critical Infrastructure Needs
  - Central Precinct Facility Replacement (ADA , safety, service needs)
  - Marine Patrol Boathouse Replacement (ADA , safety, service needs)
    - In partnership with WA Department of Fish & Wildlife
  - Jail Expansion/Improvements (ADA, safety, Re-entry, growth)

- Funding to Address Critical Vehicle Needs
  - $800,000-$1,000,000 in additional funding to accelerate Fleet Vehicle Replacements (via Fleet Services ER&R Rates)
    - Reverse the aging of the Sheriff's vehicle fleet (provide safe, reliable, and effective vehicles for first responders)
  - $300,000 for Armored Vehicle Replacement (vehicles are failing)

Clark County Sheriff's Office
2017-18 Budget Outlook

- Other Needs and Issues
  - Over-hire Authorization for Enforcement, Corrections, and Support
    - A tool to shorten the attrition cycle and help maintain full staffing
  - Shooting Range Improvements
  - Jail Training to reduce liability and improve effectiveness
    - Annual training requirements and Crisis Intervention Team training
  - Jail improvements that improve safety and reduce suicide risks
    - Call/panic buttons, bunk replacement, vent replacement, etc.
  - Law Enforcement Headquarters Improvements
  - Public Disclosure Staffing and Workload Mitigation

REET and Debt



REET and Debt

- Real estate excise tax revenues are volatile.
- REET revenue now dedicated to debt service payments.
- Recent improvements in revenue allowed one time $240k General Fund capital parks repairs in 2015 Readopt, but needs much more extensive.

What's new in 2017-2018?

- Developing the budget without dedicated software: opportunity to document and improve business processes due to increased flexibility; increased risk of error and intensifies workload.
- Identifying program level expense, revenue and descriptive information, including performance management data when available, for the first time .
- Distinguishing between capital and operating expenses.
- Asking departments to explain use of General Fund operational subsidies and funding source for project positions.
- Requiring reduction scenarios for purpose of balancing the budget and/or re-investing in other priorities, as needed.

Purpose of Proposed Process

- The following strategic countywide actions addressed by incorporating program-level and capital project information in the 2017-2018 budget:
  - Decision making - Base decisions on evidence, data, research, statutes and expert counsel.
  - Community Relationships - Increase understanding of services available to community and costs and sources of funding for services.
  - Finance - Use strategic plans to focus funding required to meet service and capital needs.

Development of 2017-2018 budget without specialized software

- Salaries and benefits
  - Budget Office develops database that calculates FTE costs.
  - Departments are distributed "read only" files with FTE costs and position-related data elements.
  - Departments provide feedback to Budget Office with respect to changes they would like to make to FTE cost distributions; requested changes documented and made by Budget Office staff.
  - Project positions carry-forward.
- Controllables, calculated charges and revenues
  - Budget Office distributes spreadsheets to departments.
  - Departments return spreadsheets with proposed changes.
- New requests (decision packages)
  - Same format as any budget supplemental

Include program budgeting in 2017-2018 budget

- Departments assign each budget line item, e.g., positions, controllables, indirect charges, revenues, to a program name.
- Program-level information collected and published in budget:
  - A description of each department's programs and services
  - Applicable RCW's, WAC's, county policies, contract or grant language that mandates or defines program service levels
  - Program specific performance measures, if available
- Information available to public and decision makers so can better understand nature, extent and cost of county services.
- Preliminary effort already undertaken by departments in the second half of 2015.

Capital vs operations in 2017-2018 budget

- The 2017-2018 budget would introduce a distinction between capital and operating budgets. A GFOA best practice.
- Specific reporting categories could identify capital projects.
- Departments complete templates providing specific capital project information to be included in budget publication.
- February 5, 2016 meeting with budget staff and finance managers to collect feedback on process of identifying and collecting capital budget information.

Capital Planning/Budgeting

- GFOA recommends governments develop and adopt capital planning and budgeting policies to ensure:
  - All capital needs are addressed as a whole
  - Fiscal capacity is assessed comprehensively
  - Debt issuance is planned for carefully
  - Impacts on reserves and operating budgets are well understood.

- Comprehensive capital planning and budgeting process will have these advantages:
  - Focus attention on organization's goals, needs and financial capability
  - Help ensure financial stability
  - Build public awareness about capital needs of a government
  - Improve internal and external cooperation and communication
  - Avoid replication and resource waste.

Capital Planning & Major IT Projects

IT Advisory Board: Includes members of multiple departments with primary goal of determining technology project priorities.

Resources approved in FY 2015-16 Readopt

- ERP system replacement - $950,000 for Phase 1
- Telephone system replacement -$2.4 million
- Document management system - $1.1 million

Currently unfunded

- ERP system replacement (beyond initial stage)
- Information security
- Succession planning
- Network segmentation disaster recovery
- Google Apps Unlimited

Other new requirements

- The 2017-2018 budget will need to resolve gap between operational revenue and expense, while funding major needs and addressing liabilities.
  - Expense reduction scenarios could be requested from departments.
  - Reductions would only be applicable to General Fund subsidy portion of each program; excludes budget funded through dedicated revenue.
  - Reductions could be used to resolve shortfall or to reassign funding to new or different priority areas.
- Departments would be required to explain operational subsidies in baseline budgets, as well as funding sources for any projects, positions carried forward.

Revenue Assumptions

Revenue stream	Growth assumptions
REET	Moderate growth assumed (3-5% per year). Sufficient to cover debt payments and potentially address one-time general fund capital parks repairs.
Property tax	No annual increase + new construction at existing levels. Road diversion stays at current level.
Sales tax	Analyzed by sector, moderate annual growth assumed, in line with population and inflation growth (3-5%). Risk of recession to be considered.
Other revenues	Analyzed individually, updated in cooperation with departments. Might release earlier than baseline for departmental review and feedback.

Payroll assumptions

- For filled positions: use given information, e.g. existing steps, anniversary dates, actual medical and dental plan choices, actual retirement plan info.

- For vacant positions:
  - Step 1 for non-management
  - Middle step for management
  - BlueCross medical and Washington Delta dental single rates

- All employees receive one step per year if eligible + COLA as applicable.

- All known increases budgeted in payroll, all unknown increases budgeted in contingency.

Contingency assumptions

All costs unknown and/or subject to bargaining will be budgeted in contingency based on HR assumptions.

- Salary increases not yet approved/bargained and related benefit increases, e.g., retirement, payroll taxes
- Medical and dental cost increases = based on HR / actuary assumptions
- Termination payouts included in contingency.

Other benefits assumptions: retirement

- For those eligible for retirement, we use assumptions given by the State Actuary
  - PERS 1/2/3 rate is 11% through June 2017; projected to increase to 12.29% in July 2017; 2017 blended rate is 11.645%
  - PSERS rate is 11.36% through June 2017; projected to increase to 11.75% in July 2017; 2017 blended rate is 11.555%
  - LEOFF 2 rate is 8.41% through June 2017; projected to increase to 8.85% in July 2017; 2017 blended rate is 8.63%

Not eligible for retirement benefits: Project positions less than 16 months and employees who work less than 70 hours a month do not receive retirement benefits.

Other benefits assumptions

- Payroll tax rate of 7.9%
  - Social Security employer contribution 6.2%
  - Medicare 1.45%
  - Unemployment tax insurance 0.25%, reduced from 0.5%
- Life insurance, disability and industrial insurance information as received from HR, applied to salary information

Next steps

- Council work session February 3, 2016 to approve budget process, requirements and assumptions
- Baseline calculations:
  - Finalize payroll cost calculations and set up database
  - Finalize controllable baseline calculation
  - Update calculated charges
  - Preliminary revenue forecast updates
- Finalize capital budget definition and requirements
  - Templates to collect information
  - Assign reporting categories
- Finalize program budget requirements
  - Templates to collect information
  - Assign program codes if possible
- Receive Council direction once preliminary forecast is complete
- Release baseline to departments following countywide training