

# **BUDGET WORK SESSION**

**Delivered to the Board of County Councilors**

**July 13, 2016**

# AGENDA

- Brief quarterly update on the 2015-16 current General Fund status
- Update on the 2017-18 budget
- Budget discussion with elected officials
- Council guidance discussion

# 2015-16 GENERAL FUND OUTLOOK

## SUMMARY

### Starting point

- General Fund available, unassigned reserves were \$25.2 million at start of 2015-2016 biennium; including about \$400,000 dedicated to Sheriff's Office.

### Trends

- General Fund 2015-2016 current budget uses \$3.6 million from reserves. Expectation is only about \$500,000 will be used from fund balance, after final supplemental estimated additional expenses.

### Reserves

- General Fund 2015-2016 current projections preserve the recommended level of unassigned reserves.

### Economy

- Budget is built on cautiously optimistic forecast assumptions; positive trends continue; downside risks still significant.

# 2015-16 GENERAL FUND EXPENSE AND REVENUE TRENDS

## Payroll expenses

- Unlike prior biennia, General Fund is not anticipated to have payroll-related savings in 2015-2016.

## Non-payroll expenses “controllables”

- Some non-payroll expense savings likely will materialize; this depends on department spending and will only be known at end of biennium.

## Revenues

- Revenues are projected to be above forecast by \$5.1 million, or 1.7 percent; mostly due to one-time accounting adjustments.

## Overall trends

- Underspending in department budgets and revenue above forecast may help address pressing needs of 2016 final supplemental.

# 2015-16 GENERAL FUND REVENUE TRENDS

Sales tax receipts were \$4 million above budget in 2015, \$3.3 million of which was due to an accounting adjustment.

- ❑ Revenues previously recognized in the General Fund as transfers from other funds collecting law/justice sales taxes are now recognized in the General Fund as sales tax revenue.
- ❑ Due to a one-time adjustment to recognize sales tax earned in November and December but not received until January and February, each law/justice sales tax fund had accrued a fund balance. Closing the funds transferred fund balances to the General Fund.

All other revenues are ahead of forecast by \$1.1 million, mostly due to improved motor vehicle fee collections.

# 2015-16 GENERAL FUND EXPENSE TRENDS

Unlike prior biennia, the General Fund is not anticipated to have significant payroll-related expense savings. Total wage and benefits expenses were up \$2.7 million, or 6.8 percent, in first five months of 2016, compared with same months in 2015. The 2016 projection is \$7 million more in FTE-related expense than 2015.

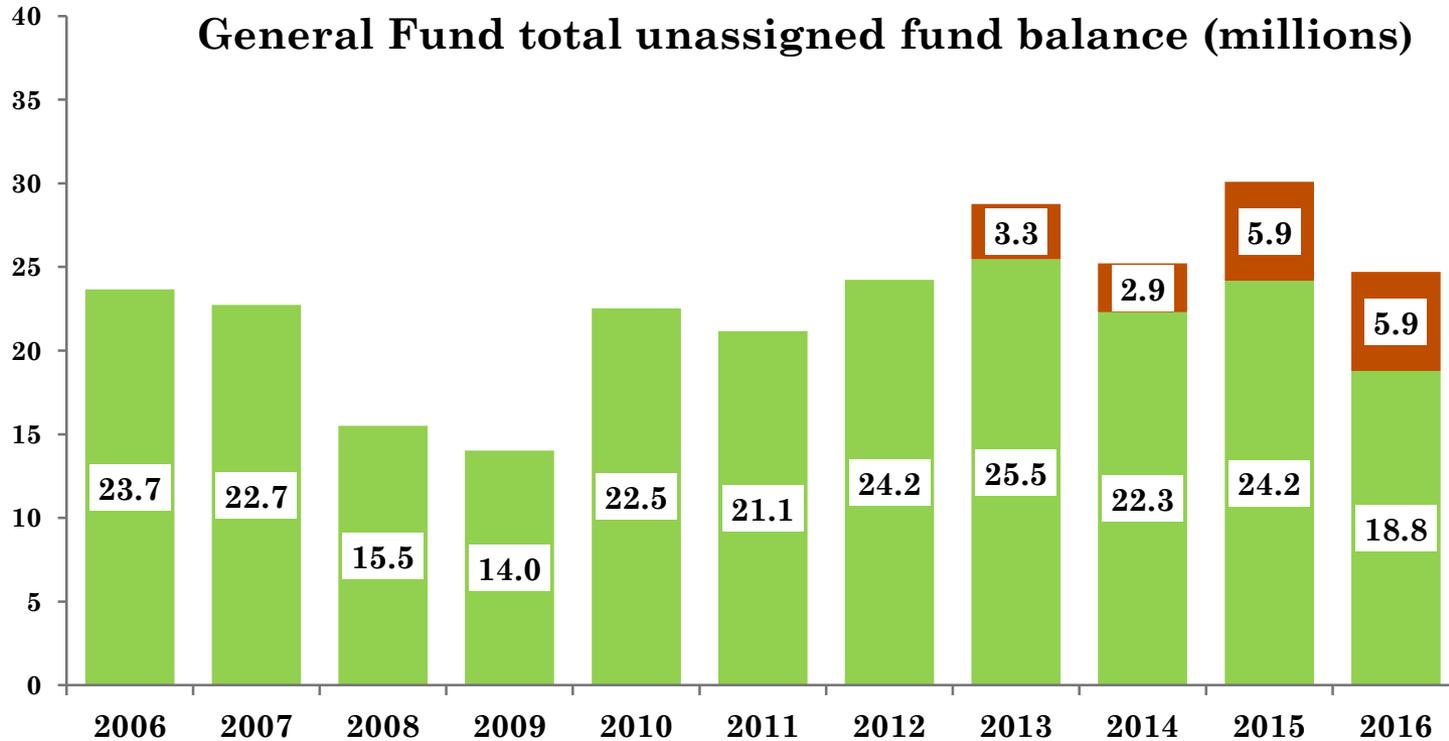
- ❑ Wage costs were up \$1.3 million, or 5.7 percent.
- ❑ PERS employer share costs were up about \$600,000, or 27 percent, due to rate increases. Additional significant rate increases will take effect in 2017.
- ❑ Medical employer costs were also up about \$600,000, or 11.2 percent.

Savings could occur in department expense budgets for non-payroll related expenses, e.g., supplies or professional services. Amount is difficult to project as departments can plan for larger purchases/reconciliations at biennium end.

# 2015-16 OUTLOOK FOR GENERAL FUND RESERVES POLICY TARGET: \$23 MILLION

Unassigned available reserves	Amount (millions)
<b>2015-2016 starting point</b> Jan. 1, 2015	<b>\$25.2</b> (of which \$0.4 represents CSO funds)
<b>2015-2016 forecasted fund balance increase</b>	<b>\$1.5</b>
<b>Projected new final supplemental expenses</b>	<b>(\$2.0)</b>
<b>2016 Year-end projection</b>	<b>\$24.7</b>

# 2015-16 OUTLOOK FOR GENERAL FUND RESERVES POLICY TARGET: \$23 MILLION



■ Unassigned Fund Balance ■ Revenue accounting adjustment

## 2015-16 OUTLOOK FOR GENERAL FUND RESERVES POLICY TARGET: \$23 MILLION

- Present day fund balance for General Fund includes \$5.9 million in one-time revenue – mostly sales tax – due to accounting adjustments required by state Auditor.
- In the absence of the accounting adjustment, General Fund total fund balance would be lower by \$5.9 million. Put another way, \$5.9 million of the General Fund reserves is due to an accounting adjustment.

# 2017-2018 BUDGET WORK SESSION

## ○ Goals for today's Work Session

- Discuss causes of the General Fund projected shortfall for 2017-2018, which is \$20 million, or 6 percent.
- For the county manager and Budget Office to receive guidance from the council regarding priorities. The feedback will serve as guidelines to assess options to address the shortfall.

# 2017-2018 BUDGET PROCESS UPDATE

- The Budget Office provided spreadsheets, forms and training materials to departments in early May 2016.
- Due date for departments to return spreadsheets with budget updates and new requests is July 29.
- Budget staff will meet with each department to discuss and clean up coding for requests in August/September. Reports should be available mid-September.

# 2017-2018 BUDGET PROCESS UPDATE

- Early summer work session is kick-off for a collaborative team approach to adopting a balanced 2017-2018 budget.
- Budget preparation is a collaboration among the council, county manager, Budget Office, Finance Team, elected officials and county departments.
- Early involvement and input from stakeholders are vital for the budget process.

# 2017-2018 BUDGET PROCESS UPDATE

- The 2017-2018 budget is being developed without budget software, which came to end of life.
- This is an opportunity to test and implement process improvements in anticipation of new budget software.
- Reports will look different for the 2017-2018 budget, with richer detail and updated information on program operations, funding sources and capital projects.

## 2017-2018 BUDGET PROCESS IMPROVEMENTS

- Capital projects identification and description
- Program budgeting, including identification of costs and funding sources
- General Fund modified, zero-based budgeting approach
- Focus group with internal customers to improve how the Budget Office facilitates the budget process

## 2017-2018 GENERAL FUND SHORTFALL

- Expense growth rate exceeds revenue growth rate.
- A gap between projected revenue and expense is a common occurrence each biennial cycle; interventions are always required to balance the budget. The \$20 million projected gap in 2017-18 is larger than usual due to specific events, such as the \$1.2 million annexation impact and \$3.3 million loss of Vancouver Police Department records contract.
- Other counties throughout the state are experiencing budget shortfalls as they look at 2017 planning.

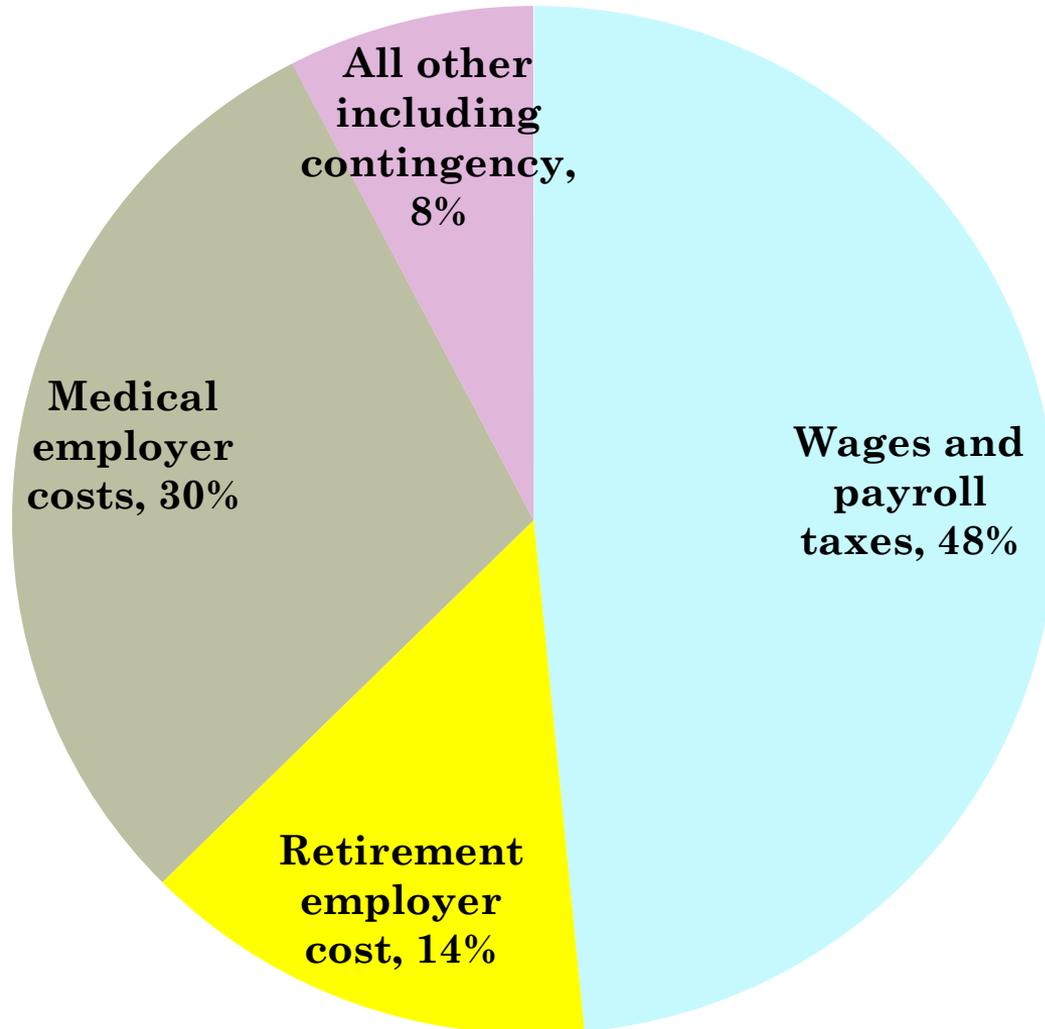
## GENERAL FUND BIENNIAL BUDGET COMPARISON (MILLIONS)

	2015-2016 forecast	2017-2018 forecast	Biennial increase	Percent Increase
Revenues	\$310.2	\$313.2	+\$3.0	+1.0
Expenses	\$308.7	\$327.9	+\$19.2	+6.2
Funding gap	+\$1.5	(\$14.7)		
Projected new expense requests	(\$2.0) Final suppl.	(\$2.0)		
VPD records revenue loss		(\$3.3)		
Restated funding gap	(\$0.5)	(\$20.0)		

## GENERAL FUND EXPENSES (MILLIONS)

Type	2015 actual	2016 forecast	2017 budget	2018 budget	Cost drivers
FTE costs	\$97.5	\$104.5	\$111.0	\$114.0	Wage increases; medical employer contributions; state-mandated retirement rate increases.
All other costs	\$49.1	\$57.6	\$51.4	\$51.5	In 2016, large one-time projects and inter-fund transfers are scheduled.  In 2017-2018, fleet replacement and repair costs are up \$1.4 million; medical jail contract is up about \$400,000.
Additional projected expenses		\$2.0	\$1.0	\$1.0	Final supplemental needs for 2015-2016, and budget needs not included in baseline for 2017-2018.
<b>Total</b>	<b>\$146.6</b>	<b>\$164.1</b>	<b>\$163.4</b>	<b>\$166.5</b>	

# GENERAL FUND 2017-2018 FTE-RELATED COST GROWTH DISTRIBUTION

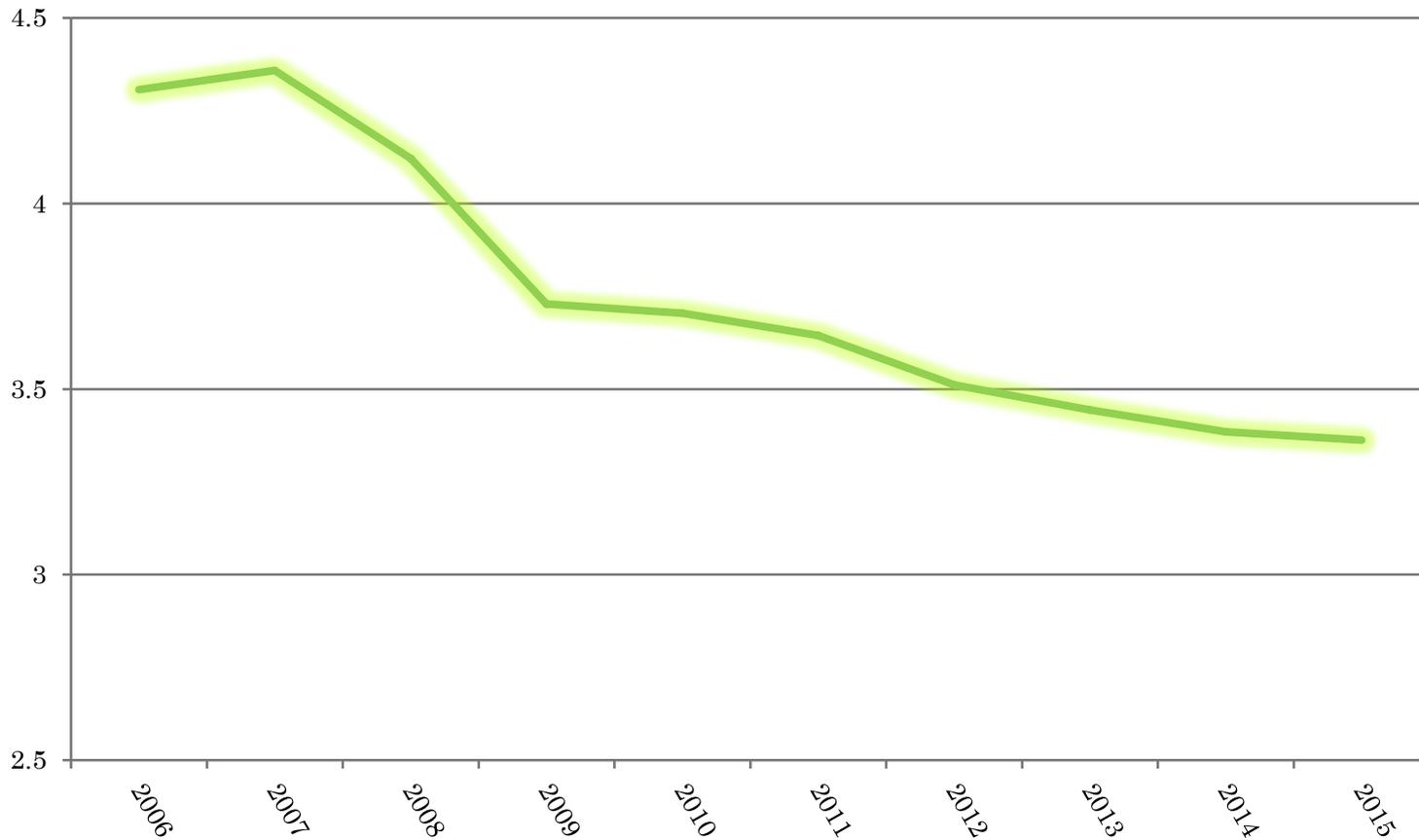


## GENERAL FUND FTE EXPENSE GROWTH

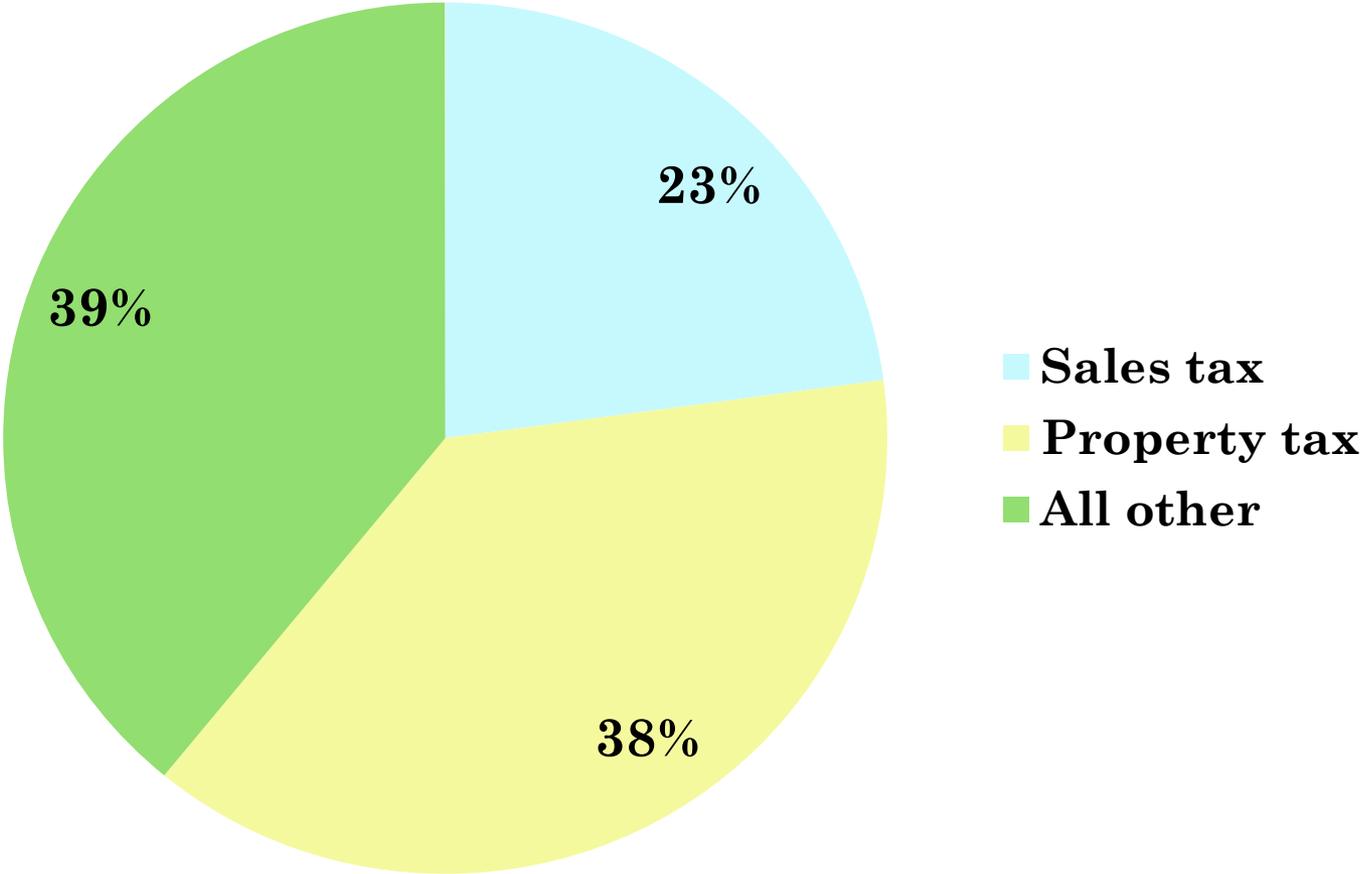
- The county has taken measures to slow growth, such as:
  - Reducing steps for wage increases from 5 percent to 2.5 percent.
  - Changing Regence plans to self-insurance to save costs.
  - Implementing employee share of healthcare costs.
  - Eliminating executive 401A plans.
  - Freezing wage raises for two consecutive years during “Great Recession.”
  
- Further interventions may be needed to slow payroll and benefit expense growth.

# CLARK COUNTY FTEs PER 1000 RESIDENTS

## Employees Per 1,000 Capita



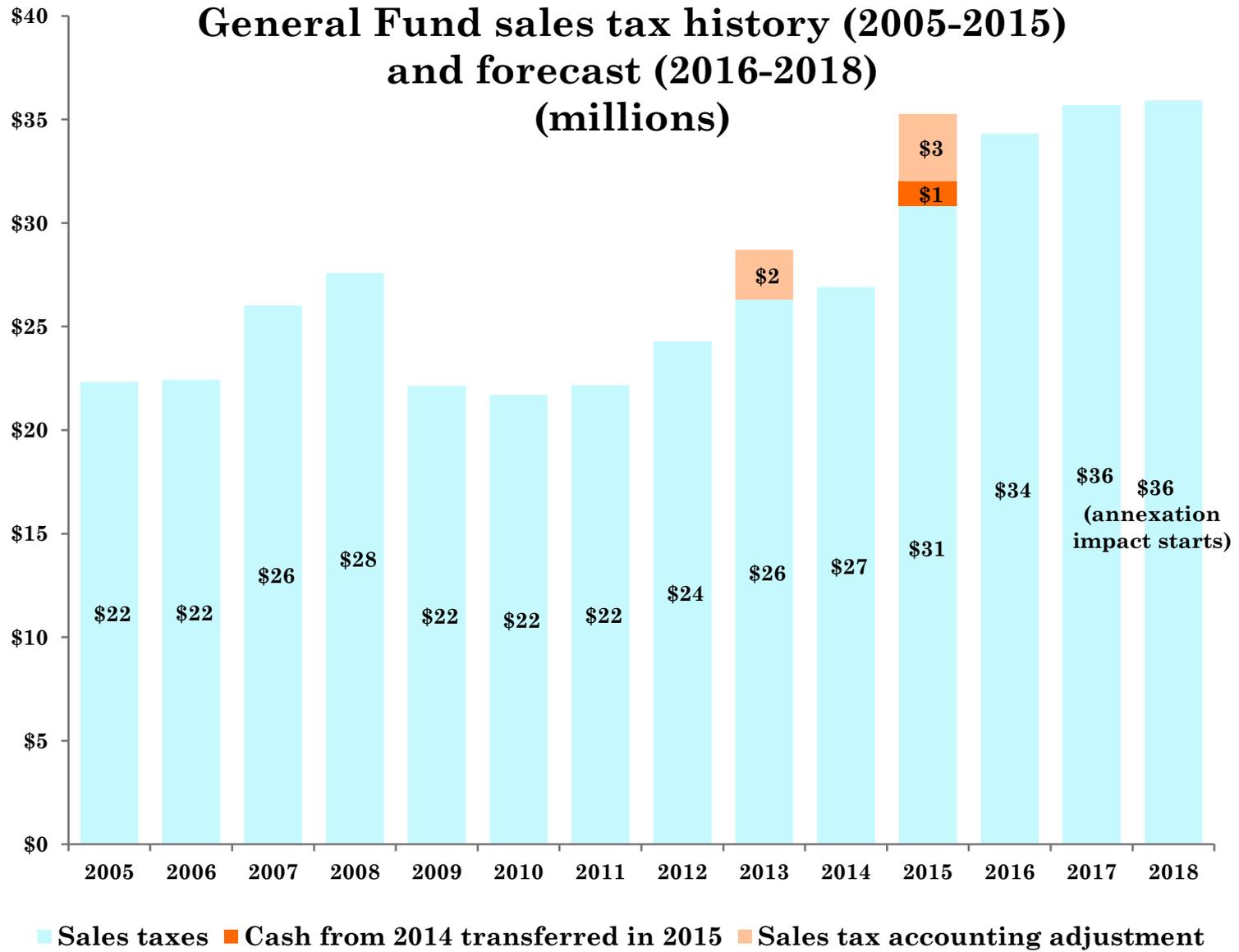
# 2017-2018 REVENUES BY TYPE



# REVENUES: SALES TAX

- Volatile and responsive to the economy; subject to “leakage” and major annexation losses.
- Grew at 11 percent annual rate in 2015; long-term growth is typically 3-4 percent per year. The additional sales tax revenue helped cover one-time infrastructure project costs and build reserves.
- Current forecast assumes 8.4 percent annual growth in 2016 and 4 percent annual growth in 2017 and 2018; however, annexation impact will start in 2018, when county will lose taxable retail sales to Vancouver.

## General Fund sales tax history (2005-2015) and forecast (2016-2018) (millions)



## GENERAL FUND SALES TAX FORECAST

### BIENNIAL COMPARISON, IN MILLIONS

Type	2015-2016	2017-2018	Percent Change
Ongoing sales tax revenue	\$65.1	\$72.8	11.8
Ongoing annexation impact (\$1.2 per year starting 2018)		-\$1.2	
One-time cash from 2014 transferred in 2015	\$1.2		
One time accounting adjustment	\$3.3		
<b>Grand Total</b>	<b>\$69.6</b>	<b>\$71.6</b>	<b>2.9</b>

# REVENUES: PROPERTY TAX

- Property tax is stable, grows with new construction and possible 1 percent annual increase.
- General Fund has not taken a 1 percent property tax increase since 2011 levy collection year.
- This has reduced General Fund revenues by an estimated \$8 million over the past five years.
- Current forecast includes growth from new construction at continued healthy levels.

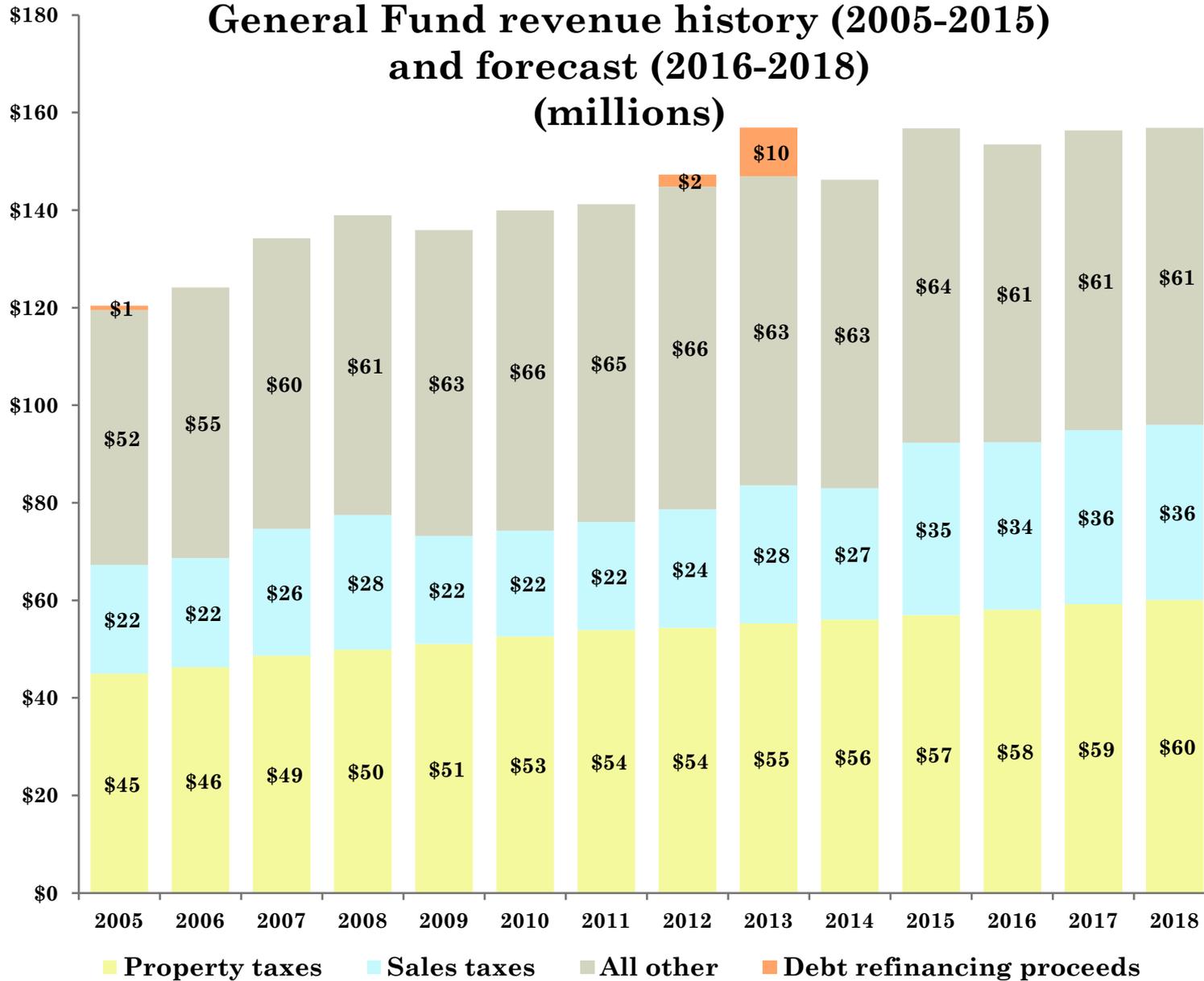
# GENERAL FUND PROPERTY TAX LEVY HISTORY

Collection Year	Levy Increase Percent	Resolution passed?
2006	1	Yes
2007	1	Yes
2008	1	Yes
2009	1	Yes
2010	1	Yes
2011	1	Yes, dedicated to public health
2012	0	Yes, 1 percent “banked”
2013	0	Yes, 1 percent “banked”
2014	0	Yes, 1 percent “banked”
2015	0	No, levy certification letter only
2016	0	No, levy certification letter only

## 2017-2018 GENERAL FUND PROPERTY TAX OPTIONS

Option	2017 revenue impact over baseline forecast	2018 revenue impact over baseline forecast	2017-2018 total revenue impact over baseline forecast	Annual impact on property tax for median priced home
0% increase over last year levy (used for forecasting 2017-2018)	\$0	\$0	\$0	\$0
1% increase over last year levy	\$0.6 million	\$1.2 million	\$1.8 million	\$3.70

## General Fund revenue history (2005-2015) and forecast (2016-2018) (millions)



# LIKELY NEW REQUESTS FOR 2017-18

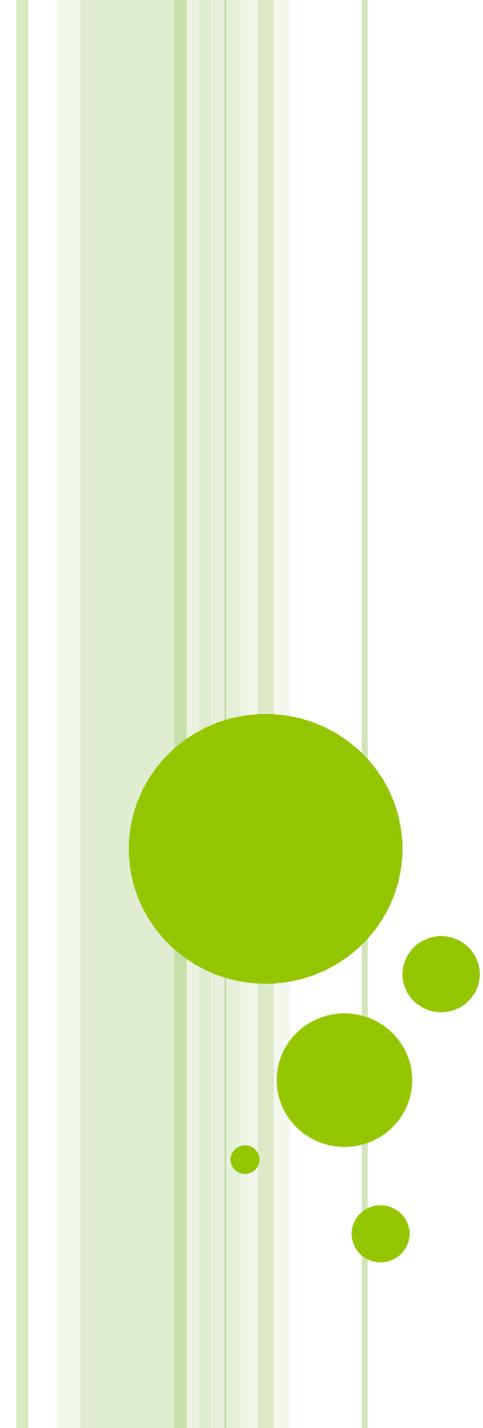
- Critical, additional funding requests for 2017-18 likely to include:
  - Indigent defense funding
  - CSO overtime to keep up with labor cost increases
  - Restore parks maintenance (\$1.5 million/biennium)
  - JAVS Superior Court cameras system replacement
  - ERP system renovation and replacement costs

# WHAT NOW?

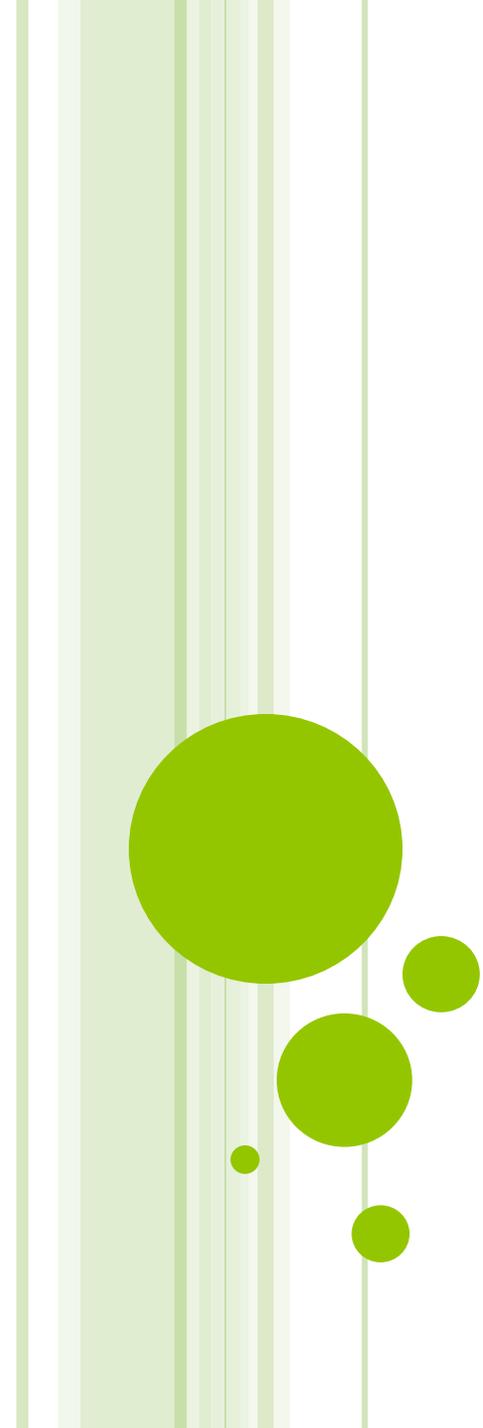
- Led by the county manager, the Finance Team is evaluating potential General Fund options to mitigate the 2017-2018 shortfall.
  - Organizational efficiencies
  - Selected reductions proposed by departments as part of the modified zero-based budgeting approach
  - Revenue enhancement options, e.g. comprehensively align fees with cost of providing services, property tax 1 percent increase, levy shift

# WHAT'S NEXT?

- County manager needs guidance from the council regarding priorities to formulate revenue and expense recommendations when preparing his proposed budget, which is published Nov. 1.
- Work sessions with council to review budget submissions and options are scheduled for Oct. 19 and Oct. 26.
- Budget staff are available to discuss any issues, concerns or suggestions with the council.
- Budget hearings are scheduled Dec. 5-7.



**COUNCIL DISCUSSION WITH  
ELECTED OFFICIALS:  
2017-2018 BUDGET**



**COUNCIL DIRECTION TO THE  
COUNTY MANAGER**