

2019-2020 Budget Preparation

Work Session presented to the Clark County Council

Presented by

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Work Session goal

County manager proposes framework to build a recommended 2019-2020 budget and receives council guidance about the process, assumptions and policy priorities.



Agenda

- Proposed biennial budget process
- 2019-2020 budget challenges
- Revenue & expense assumptions
- Council feedback / guidance



Biennial budget development

- Clark County adopts “biennial budgets with a mid-biennium review and modification for second year of biennium,” in compliance with RCW 36.40.250.
- Biennial budgeting encourages long-range planning, increases predictability, and reduces budget preparation workload for departments and offices.
- Biennium is two calendar years and starts on odd numbered years, for example, the 2019-20 biennium will begin Jan. 1, 2019 and end Dec. 31, 2020.



Roles and responsibilities

Clark County Council: county's legislative authority that implements policy by allocating funding to departments and offices.

County manager: recommends a balanced budget that follows council policy direction.

Budget Office: facilitates process by which county manager develops a recommended budget as prescribed by county charter.

Finance Team: advises the county manager about finance, budget, cash and debt management. Comprised of the county manager, budget director, Human Resources director and representatives of the Auditor's and Treasurer's offices.



Budget process values

- Communication
- Open and inclusive process
- Objectiveness
- Data-driven decision making process
- Accuracy
- Honesty
- Clear expectations



2019-2020 Budget creation stages

Early 2018: Council provides guidance for county manager. County manager sets assumptions and process for developing recommended budget.

January – August 2018: Departments and offices prepare budget submissions and meet with county manager. County manager regularly updates council.

Fall 2018: County manager finalizes recommended budget and presents it to council.

December 2018: Council reviews, amends and approves final budget.



Role of budget supplementals

- After budget adoption, supplemental budgets are used for subsequent updates.
- Only supplemental required by law is a Mid-Biennium Review and Modification, aka “Readopt,” which is the primary opportunity to amend budget to address changing circumstances.
- Three more supplementals per biennium typically are scheduled – one each spring and one in the fall of the second biennium year. The purpose is to:
 - Recognize new or additional revenue from federal, state or local sources that arose since budget adoption
 - Recognize new contract obligations negotiated since adoption
 - Provide budget to meet critical / urgent needs.



Budgeting approach

Baseline, or incremental, budgeting has been standard. Widely used by governments because it is the simplest to implement.

- Carries forward existing appropriations and adds incremental changes through new requests, known as decision packages.
- Downside is it does not provide systematic tools for decision makers to evaluate changing priorities and service levels for all of budget. To address this, per council's direction, county manager is transitioning to program budgeting.



Program budgeting transition

- Departments and offices already submitted program descriptions.
- County manager designated a Strategic Leadership Team committee composed of representatives from offices and department directors to analyze and provide input about realistic expectations for deliverables.
- Proposals to balance 2019-2020 budget will be evaluated in context of program budgets, focusing on General Fund in first iteration.

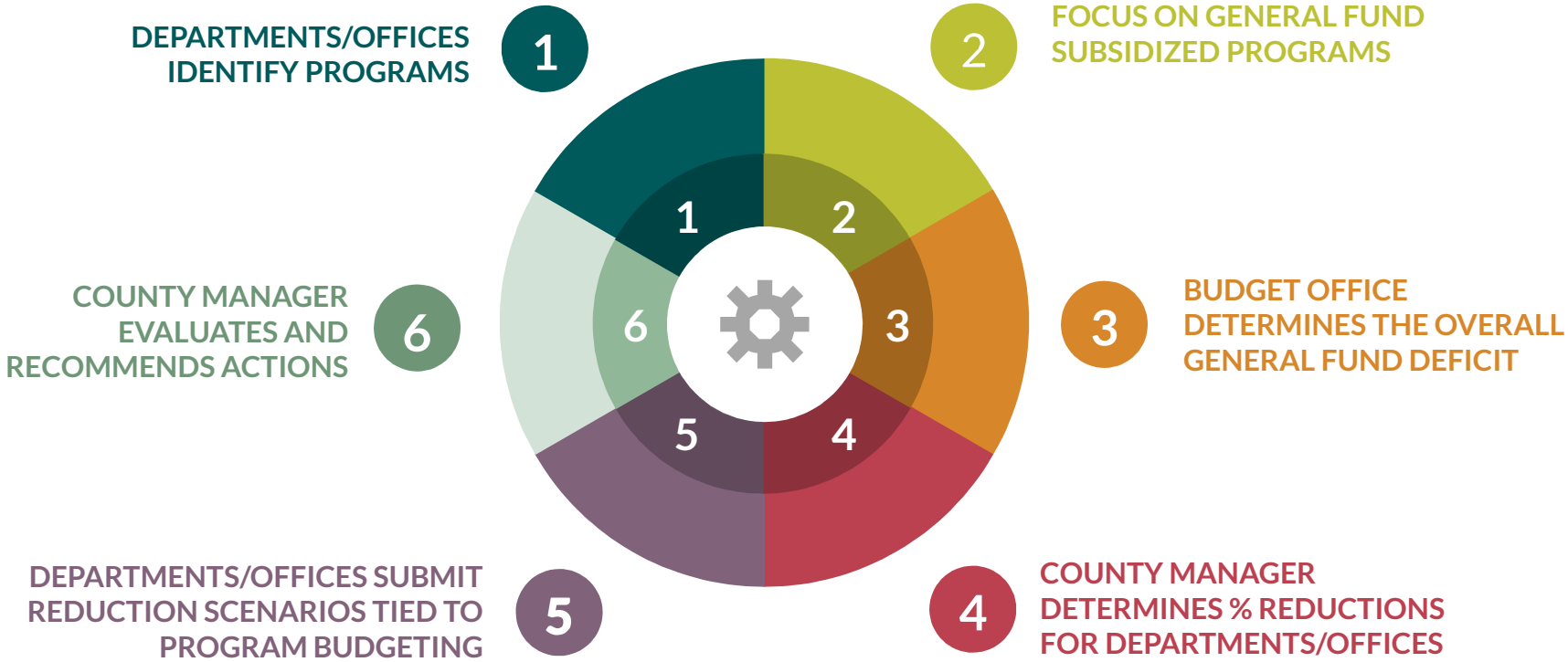


Principles for applying program budgeting

- Focus on programs receiving General Fund support
 - Total expense – dedicated revenue = General Fund support
- Apply percent reductions to amount of General Fund support for departments and offices
- Departments and offices describe impacts in program budget format:
 - Discuss mandates and service levels
 - Identify efficiencies from workforce planning, process streamlining and revenue recovery



2019-2020 General Fund budget balancing roadmap



2019-2020 General Fund challenges

- General Fund minimum reserve for 2018 increased to \$24.3 million, as calculated per county policy.
- More than minimum is desirable during peak economic times to create safeguards for downturns.
- Reserves are projected below the minimum requirement by end of 2018, following payment of a \$5.25 million legal settlement. Therefore fund balance likely not available for one-time items in 2019-2020.



General Fund challenges: fund balance (millions)

| | |
|---|------------|
| Beginning unassigned fund balance (Jan 2017) | \$ 29.4 |
| Revenue forecast, estimate, to be updated spring 2018 | \$ 321.9 |
| Expense budget* | \$ (323.3) |
| Add legal settlement | \$ (5.3) |
| Projected ending unassigned fund balance | \$ 22.7 |

*excludes \$4.2 Workday funding coming from assigned reserves set aside for the project

Department/office savings of \$2-\$4 million may help improve projected ending fund balance. Savings may be offset by loss of departmental /office revenues and additional mandatory items for 2018 spring and final supplementals.



2019-2020 General Fund challenges

- **Revenue losses:**
 - Jail Work Center : \$1.4 million per biennium
 - Clerk's Office: \$500,000 +; District Court: \$600,000 +
 - Jail revenues, state and city - unknown declines & billing delays
- **Lack of REET 1** to support facilities project costs



Proposed economic context assumptions: 2019-2020

- Probability of recession relatively low for next few years.
- Federal tax policy changes expected to stimulate growth.
- Downside risks still exist, e.g. shifts in federal monetary policy, spending cuts due to deficits, geopolitical tensions, weak global growth.
- Therefore, county manager recommends cautiously optimistic approach to economic environment.

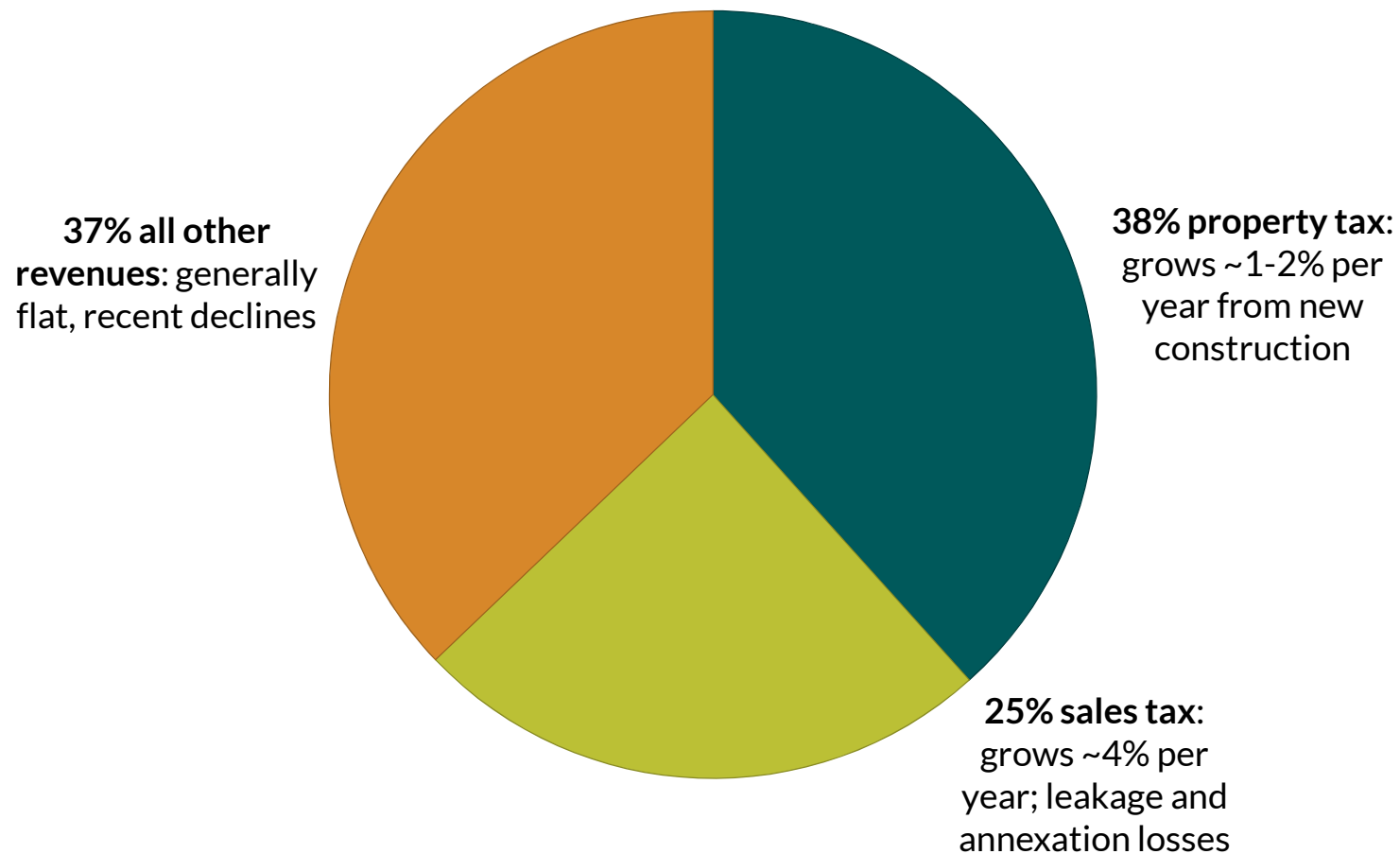


Proposed revenue assumptions

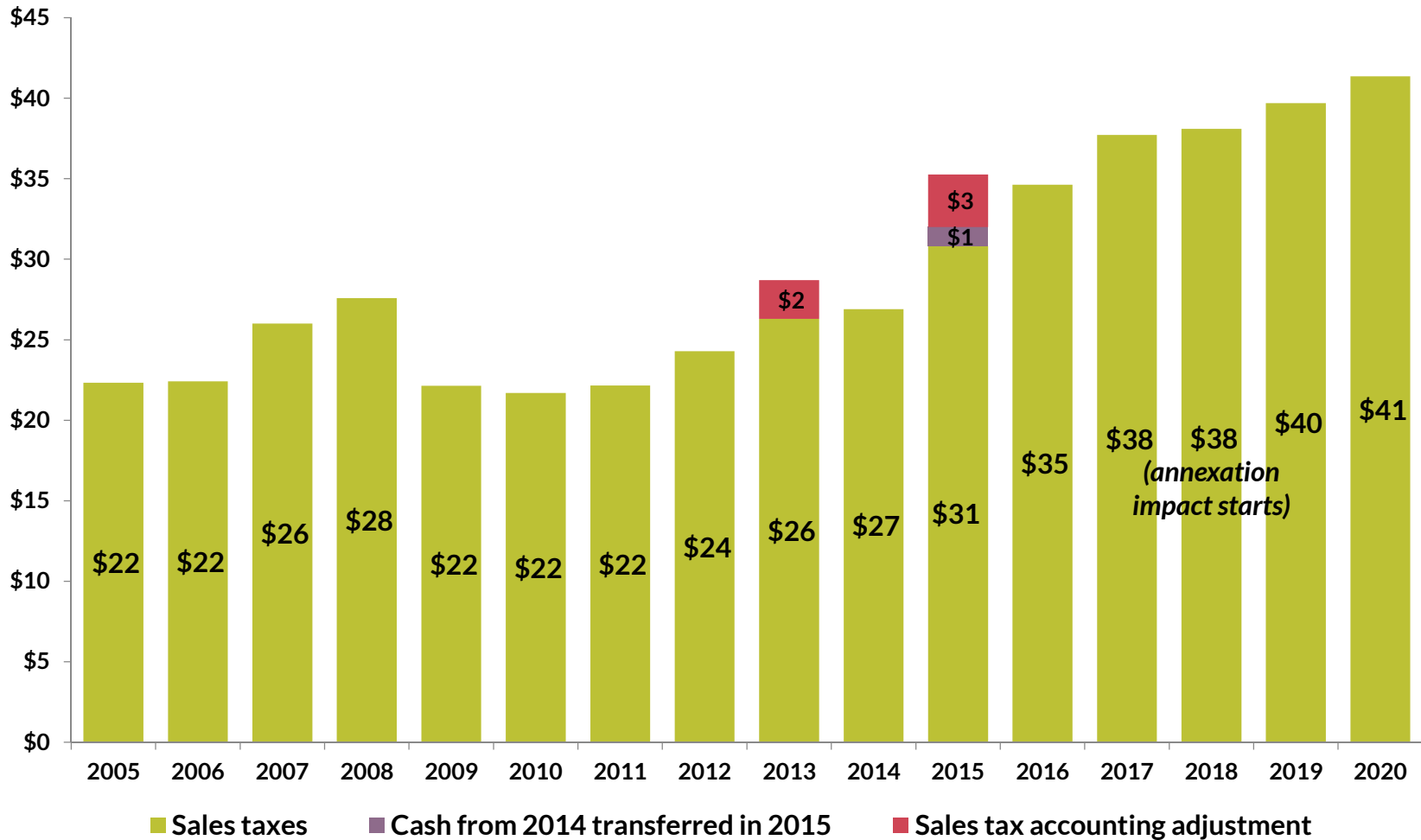
- **Property tax - stable**
 - New construction continues at current levels of activity
 - 1 percent levy growth for property taxes not included in baseline
 - Road Fund diversion continues at \$4.5 million/year
- **Sales tax - volatile**
 - Revenue growth estimated at 4.2 percent annual increase, representing 10-year historical average
- **Real estate excise tax - very volatile**
 - Revenue steady through 2021, no growth



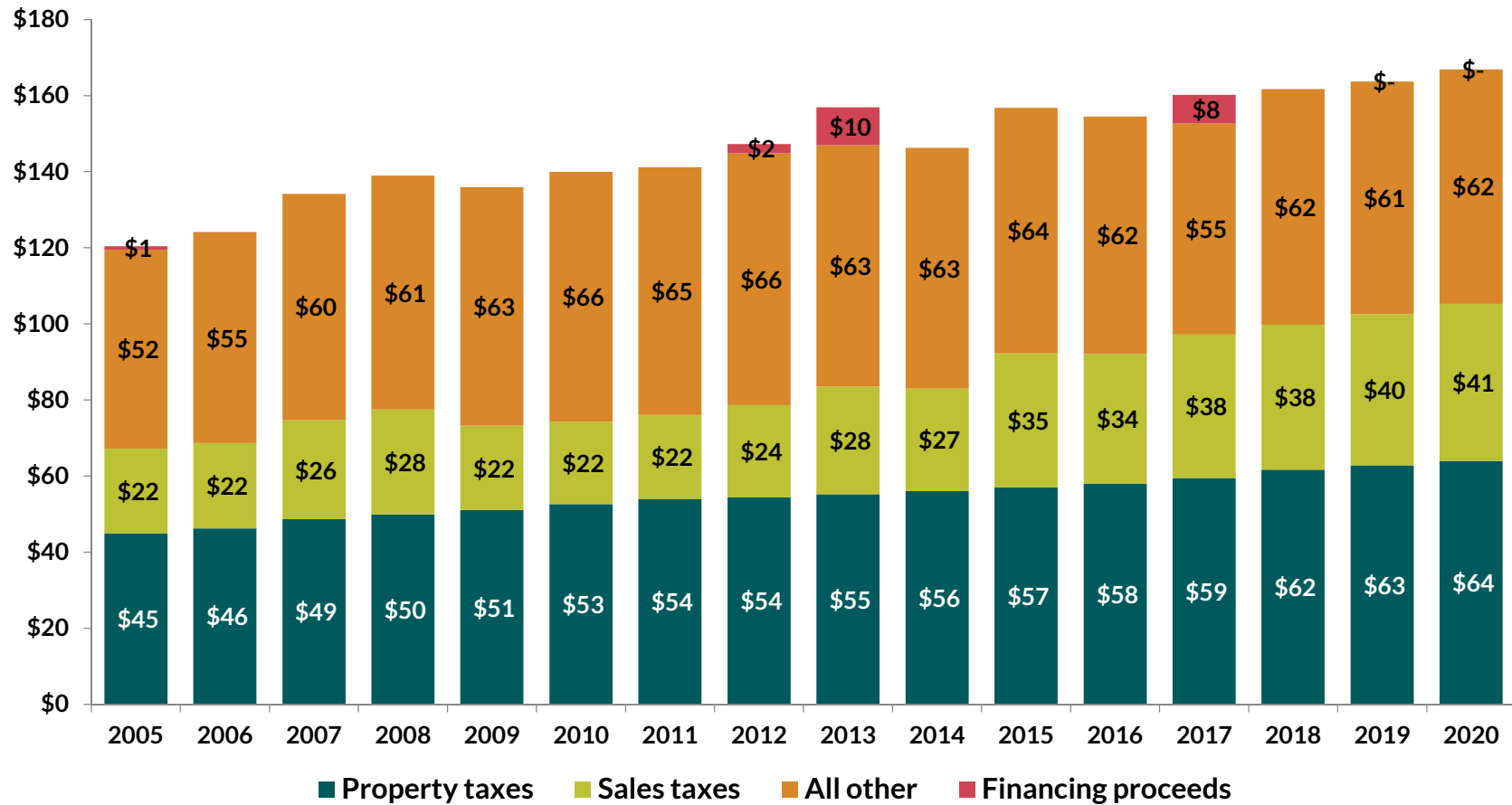
2019-2020 General Fund revenue components



General Fund sales tax: history and forecast (millions)



General Fund all revenue: history and forecast (millions)



Proposed expense assumptions: budget controls

- Budget controls historically set at department or office level for General Fund; at fund level for all other funds.
- Specific salary and benefit expenses identified in budget resolution as "regular payroll and benefits" are managed by Budget Office on behalf of county council. County manager can sign off on moving budget from payroll and benefits to non-personnel related line items subject to same budget controls above.
- County manager can sign off on moving contingency to departments and offices as needed.



Proposed expense assumptions

- Baseline budget removes one-time appropriations and carries forward ongoing costs with no increases other than known obligations.
- Known obligations include FTE-related cost increases approved by council or mandated by state, e.g. retirement; as well as calculated charges.
- Calculated charges updated by Budget Office in baseline using information from relevant departments:
 - **Fleet costs** based on approved existing capital replacement and maintenance schedules
 - **Technology replacement and repair costs** based on approved existing equipment replacement and maintenance schedules
 - **Indirect costs** calculated by Auditor's Office



Proposed expense assumptions

- To calculate cost of filled positions: use given information, including existing steps, anniversary dates, actual medical and dental plan choices, actual retirement plan info.
- To calculate cost of vacant positions:
 - Step 1 for non-management
 - Middle step for management
 - BlueCross medical and Washington Delta dental single rates
- Employees wages increase by one step per year if eligible + COLA if already approved by council.



Proposed contingency assumptions

Costs that may increase but not known at time of budgeting placed in “contingency” reserves:

1) FTE-related cost increases:

- Salary and benefit increases not yet bargained or approved; council authorizes parameters for wage assumptions
- Medical and dental employer contributions

2) Significant expected contractual increases:

- Sheriff’s Office recommends setting aside \$1.25 million for 2019-20 for medical and dental jail projected contract increases. In 2017-18, contingency includes \$0.5 million for this purpose.

Contingency also includes budget for accrued vacation and sick leave payouts that occur when employees retire or leave county.



Council feedback/guidance

- Questions / clarifications
- Council guidance regarding process, assumptions and policy priorities
- Next steps:
 - March 27 work session follow up to present preliminary forecasts for General Fund and discuss strategy to develop balanced budget
 - Discuss opportunity for elected officials to present their budget needs to council

