

# Multi-Year Budgeting

Washtenaw County Board of Commissioners  
Working Session  
February 21, 2013



# Agenda

- Current Approach to Budgeting
  - Long-term Financial Planning/Budget Practices
  - Monitoring and Amending the Budget
  - Past Budget Reduction Targets
  - Fund Balance Targets
  - Multi-Year Budgeting
- Restructuring Budget Practices with Incremental Changes
- Results: An Example of Restructured Budget Practice

# Long-term Financial Planning / Budget Practices

- Washtenaw County relies on long-term budgeting
  - Biennial budgets since 1994
  - Detailed line-item budget balanced through FY 2013
  - Projected budgets through FY 2015
  - Fund balance projected several years into the future
- Budget Development for 2014/2015 will extend projected budgets through FY 2017

# Monitoring the Budget

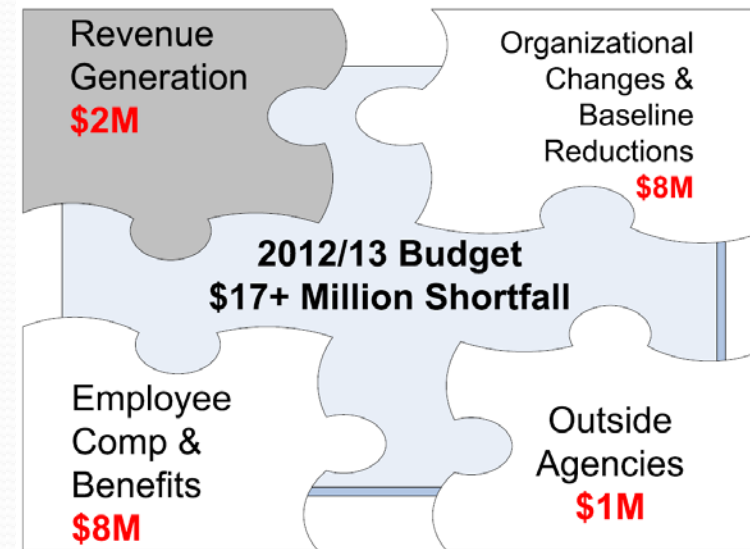
- Budgets are monitored at the department level monthly
- Budget updates are presented to the Board quarterly
- Semi-annual business meetings are held with each department

# Amending the Budget

- Board of Commissioner authorization is required for budget adjustments exceeding 10% or \$100K
- The County Administrator is authorized to approve budget adjustments up to 10% or \$100K
- Departments are authorized to make budget transfers within categories of up to \$10K

# Past Budget Reduction Targets

- 2012/13 Projected budget shortfall of over **\$17M**
- 2010/11 Recommended budget reduction target was **\$25.9M**
- 2008/09 budget amendment to reduce the adopted budget by **\$9.5M** for FY 2008 & **\$13M** for FY 2009



# Fund Balance Targets

- The Board shall plan future budgets to meet the goal of a Reserve for Subsequent Years representing at least 8.0% of GF expenditures, net of indirect costs
- The Board of Commissioner shall establish the budget with plans for increasing, over time, non-GF balances to an amount of at least 8% of total budget net of GF appropriation and indirect costs for all County departments outside of the GF, taking into consideration the impact of such reserves on outside funding

# Multi-Year Budgeting

A **CULTURE** of reinventing government service delivery exists in Washtenaw County as a result of long-term planning

*Thoughtful, planned, deliberate management*

*vs.*

*Crisis response*

- Anticipates and plans for financial challenges in advance
- Provides for a stable operating environment for programs to citizens and support of the local governmental units



# Multi-Year Budgeting

- An effective long-term plan requires leadership, teamwork and a continuum of tools
- A budget is meaningless without:
  - Meaningful analysis and realistic budgetary data which the organization accepts and acts upon
  - **Leaders who possess the political will to make the tough decisions**
  - An organizational culture committed to change and with a focus on identifying opportunities for restructuring, re-engineering and reducing

# Multi-Year Budgeting

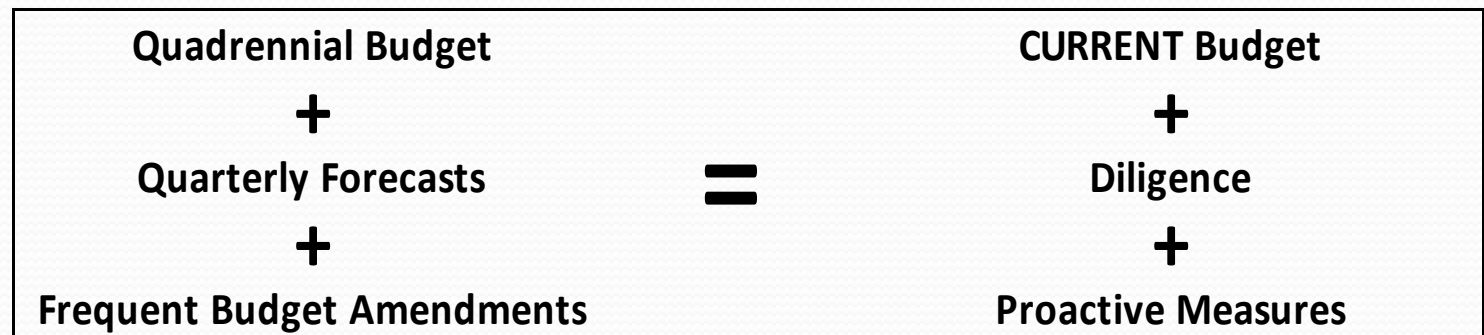
- Clear understanding of the short-term and long-term budget targets
- Frequent monitoring, progress reports and corrective action as needed
- Communications at all levels
  - Board of Commissioners
  - Elected Officials
  - Department Heads/Division Managers/Supervisors
  - Employees
  - Media
  - Citizens
  - Wall Street Analysts

# Restructuring Budget Practices



# Restructuring Budget Practices

- Extending beyond a biennial budget
- A multiple-year budget should be **CURRENT**
  - Timely and frequent budget amendments:
    - Adjust current year and subsequent years' budgets
    - Formal resolution approved by the Board



# Restructuring Budget Practices

- Budget Task Force
  - Team Members:
    - Verna McDaniel, County Administrator
    - Kelly Belknap, Finance Director
    - Jennifer Brassow, Public Health Budget & Finance Manager
    - Mary Jo Callan, Community Development Director
    - Greg Dill, Infrastructure Management Director
    - Dan Dwyer, Trial Court Administrator
    - Tina Gavalier, Budget & Financial Reporting Manager
    - Curt Hedger, Corporation Counsel
    - Diane Heidt, Human Resources/Labor Relations Director
    - Elaine Holleran, Executive Assistant to the County Administrator
    - Lisa Moutinho, Management Analyst

# Restructuring Budget Practices

- Budget Task Force
  - To meet regularly to cover compliance with mission/goals, resolve impending operational issues and develop strategic plans

# Restructuring Budget Practices

- Budget Framework Mission
  - National, state and regional uncertainties in the economic and fiscal environment must be met in...
  - A flexibility of business practices that...
    - Resolve the fiscal distress imposed on Washtenaw County
    - Without reliance on fee/tax increase for existing services
    - Without reliance on one-time budgetary transactions
    - Which places emphasis on stable services provided to the public
  - Through continuous restructuring of operations

# Restructuring Budget Practices

- Budget Framework Goals
  - Maintain essential services while minimizing involuntary separations
    - Hiring review
    - Restructuring operations
    - Attempt to fill position vacancies with existing personnel
  - Retain financial strength
    - Cash flow / balances
    - Maintain strong equity position
    - Low debt



# Working Together

In Washtenaw County, the Board of Commissioners, Elected Officials, Labor Unions, Employees **all** understand the current economic environment and continue to move in the same direction to address immediate and future budget challenges.

The County Budget Task Force will serve as the navigator for reviewing all financial impact metrics with its eye on the future through the 4 year budgeting process.

# Restructuring Budget Practices

- Attention to Fund Balance: a healthy fund balance is an essential ingredient for long-term budget flexibility and sustainability = adequate cash flow
  - Revisit Fund Balance Policy Targets and consider:
    - Long-term sustained fund balance target of \$20.6M
    - Appropriate level to fund at least 60 days of operations
    - Help offset negative cash flow (i.e. General Fund due to tax collections occurring after seven months of incurred expenses)
    - Assist buffering any unexpected downturns

# Budget Practice Examples

Current Approach to Budgeting

VS.

An Approach under a Restructured Budget Practice

## Preliminary Estimate 2014 - 2017 General Fund Budget Deficit

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Revenue Estimate	\$98,975,134	\$99,709,312	\$100,309,312	\$100,909,312
Expense Estimate	<u>\$102,909,714</u>	<u>\$104,588,810</u>	<u>\$106,865,596</u>	<u>\$110,180,709</u>
<b><i>Projected Deficit</i></b>	<b><i>(\$3,934,580)</i></b>	<b><i>(\$4,879,498)</i></b>	<b><i>(\$6,556,284)</i></b>	<b><i>(\$9,271,397)</i></b>
<b>FTE Reduction</b>	<b>45.9</b>	<b>56.9</b>	<b>76.4</b>	<b>108.1</b>

# Current Budget Practice Illustration

- The past approach has been to balance projected budget deficits over a biennial period

Biennial Budget Period Focus	Projected 2014	Projected 2015	Projected 2016	Projected 2017	Total
Projected Surplus/(Deficit)	(3,934,580)	(4,879,497)	(6,556,284)	(9,271,397)	(24,641,758)
Reduction Target for a two year focus	4,407,039	4,407,039	7,913,841	7,913,841	24,641,760
Calculated Surplus/(Deficit) after reduction	472,459	(472,458)	1,357,557	(1,357,556)	2
		(8,814,077)		(15,827,681)	

# Structural Reduction Targets

**2014 - 2017**

**\$6.88M**

**All Structural**

Revenue  
Generation  
**\$1.2M**

Operating Cost  
Reductions  
**\$2.96M**

**2014 - 2017 Budget**  
**\$6.88 Million Shortfall**

Employee  
Compensation  
& Benefits  
**\$2.62M**

Outside  
Agencies  
**\$100K**

# Restructured Budget Practice Illustration V.1

- Managing projected budget deficits becomes more manageable when extending beyond a two year focus

Quadrennial Budget Period Focus	Projected 2014	Projected 2015	Projected 2016	Projected 2017	Total
<b>Projected Surplus/(Deficit)</b>	<b>(3,934,580)</b>	<b>(4,879,497)</b>	<b>(6,556,284)</b>	<b>(9,271,397)</b>	<b>(24,641,758)</b>
Annual reduction to begin in 2014 & carried forward each year	4,000,000	4,000,000	4,000,000	4,000,000	16,000,000
Annual reduction to begin in 2015 & carried forward each year		2,880,587	2,880,587	2,880,587	8,641,760
Annual reduction to begin in 2016 & carried forward each year					-
Annual reduction to begin in 2017 & carried forward each year					-
<b>Total Reduction Targets for a four year focus</b>	<b>4,000,000</b>	<b>6,880,587</b>	<b>6,880,587</b>	<b>6,880,587</b>	<b>24,641,760</b>
<b>Calculated Surplus/(Deficit) after reduction</b>	<b>65,420</b>	<b>2,001,090</b>	<b>324,303</b>	<b>(2,390,810)</b>	<b>2</b>

# Restructured Budget Practice Illustration V.2

- Managing projected budget deficits becomes more manageable when extending beyond a two year focus

Quadrennial Budget Period Focus	Projected 2014	Projected 2015	Projected 2016	Projected 2017	Total
<b>Projected Surplus/(Deficit)</b>	<b>(3,934,580)</b>	<b>(4,879,497)</b>	<b>(6,556,284)</b>	<b>(9,271,397)</b>	<b>(24,641,758)</b>
Annual reduction to begin in 2014 & carried forward each year	4,000,000	4,000,000	4,000,000	4,000,000	16,000,000
Annual reduction to begin in 2015 & carried forward each year					-
Annual reduction to begin in 2016 & carried forward each year			4,320,880	4,320,880	8,641,759
Annual reduction to begin in 2017 & carried forward each year					-
<b>Total Reduction Targets for a four year focus</b>	<b>4,000,000</b>	<b>4,000,000</b>	<b>8,320,880</b>	<b>8,320,880</b>	<b>24,641,759</b>
<b>Calculated Surplus/(Deficit) after reduction</b>	<b>65,420</b>	<b>(879,497)</b>	<b>1,764,596</b>	<b>(950,517)</b>	<b>1</b>

# Biennial vs. Quadrennial Budgeting

- Biennial budgets require bigger reductions to be implemented sooner to balance the two year budget and makes for an extremely difficult road ahead when considering the magnitude of future projected deficits
- Quadrennial budgets maintain a focus on the future the sooner attainable savings are identified and implemented with the expectation that earlier reductions carry over into the future the projected deficits become more manageable over a longer period of time



# Next Steps & Wrap Up

- Consider restructuring budget practices
  - Provides greater stability for the organization
    - Longer union contracts periods
    - Allows for a shift for more strategic planning and policy focus
    - May improve bond rating
- Policy updates will need to be completed to align with a multi-year budget philosophy
  - Updated fund balance targets
  - Multi-year budget adjustments
  - Revolving four-year budget presentation for all financial impact decisions



# Questions/Comments