Framing the FY 05 Budget Process

Introduction

Travis County is in reasonably good financial shape. Its finances are relatively stable and the County recently had its AAA bond rating reconfirmed by the two national credit rating agencies. The County has managed its resources carefully to navigate through some difficult economic times. This positive situation is due to County officials and employees pulling together as a team to address budget constraints while recognizing a diverse set of public service obligations. In addition, the Commissioners Court increased reserves and fund balances during better economic times in anticipation of an eventual economic downturn. These preparations, along with historically careful spending, low reliance on fluctuating income sources, adherence to a set of adopted "Financial and Budgeting Guidelines", and avoiding the use of one-time revenue for ongoing costs have all paved the way for a fundamentally sound fiscal picture as the County enters into FY 05 budget discussions. While the County still faces budgetary challenges for FY 05, it does so with officials prepared to continue their hard work to control costs, implement improved efficiencies, and meet the public demands for service.

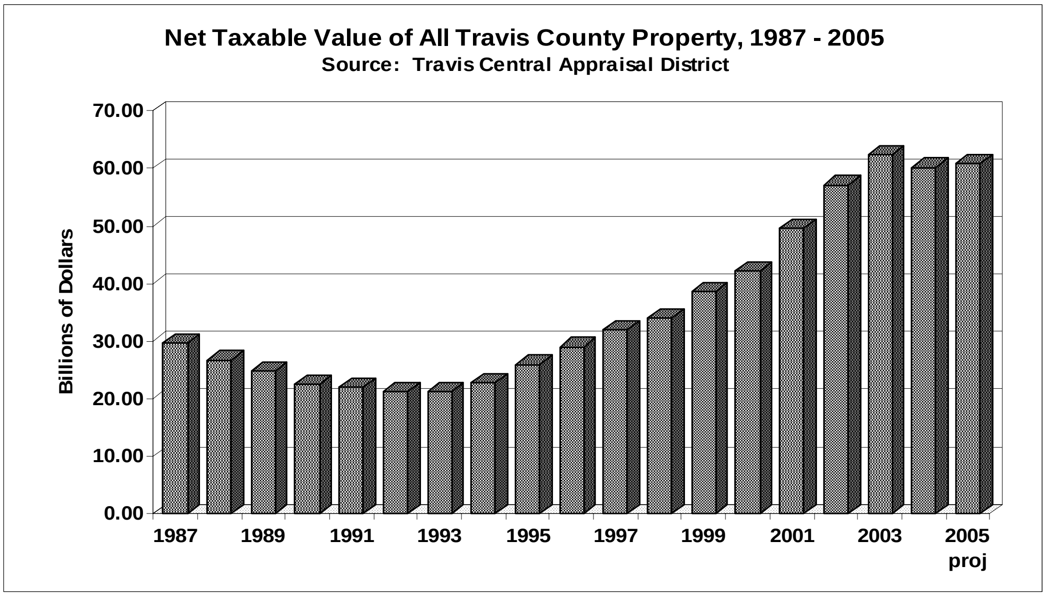
The vast majority of Travis County revenue comes from property taxes. As a result, the County has limited flexibility to meet new needs. For FY 05, departments will continue to be encouraged to: (a) look internally within their existing resources; (b) foster increased non-property tax revenue; and (c) not rely on relief from increased property taxes.

A. FY 05 Fiscal Overview

From 1992 through 2003, Travis County enjoyed an increasing property tax base and this growth helped the Commissioners Court's ability to address increased taxpayer needs and obligations. This growth ended in FY 04, consistent with national trends. The FY 04 Adopted Budget had to be balanced with a decrease in the overall property tax base, going from $62.38 billion certified in FY 03 to $60.195 billion for FY 04.

The Chief Appraiser for the Travis Central Appraisal District has estimated for FY 05 that commercial properties will once again experience a decrease in their value, totaling a decline of 4%. However, the average homestead value is estimated to remain flat. This means that once again, there will be a shifting of overall tax burden from the commercial sector to the residential sector. The existing property value base is estimated to decrease from $60.195 billion to $58.808 billion, a decline of 2.3%. It is this existing property tax base that is used to determine the Effective Tax Rate calculations. The total new construction is estimated to be $2.0 billion, for a total estimated property tax value of $60.808 billion. Overall, there is an estimated increase of $613 million, totaling 1% after new construction is included. The average homestead value is estimated to show no increase from the current $191,240.

The following graph reflects the total property tax values since 1987, and reflects the estimates summarized above for FY 05.



<u>Preliminary and Early Estimates of Property Values for FY 05</u>
Numbers Shown in Billions

Property Values:	Current Certified for FY 04	Projected FY 05	Difference	
			$	%
Residential	$29.5	$29.3	(.2)	(0.7%)
Commercial, Multifamily, Land, Personal Property	$30.695	$29.508	(1.187)	(3.9%)
FY 05 Sub-Total – For Effective Tax Rate Calculations	**-**	**$58.808**	**($1.387)**	**(2.3%)**
Preliminary Estimate of New Value	-	$2.0		
Total	**$60.195**	**$60.808**	**$.613**	**1%**

<u>Impact on Homestead Owners, Based on Early Property Value Estimates</u>
(Data from Tax Assessor-Collector, based on Appraisal District figures)

	Current for FY 04	Projected FY 05	Difference	
			$	%
Average Homestead Value	$191,240	$191,240	0	0
Value after 20% homestead exemption	$152,992	$152,992	0	0
Effective Tax Rate	$.4918	$.5041	$.0123	2.5%
Impact on Average Homestead at the Effective Tax Rate of $ .5041 (with 20% homestead exemption)	$752.41	$771.23	$18.82	2.5%

Please note that the Effective Tax Rate represents the tax rate that will result in the same tax revenue from existing properties as the year before. It is the starting point for budget discussions. The final tax rate will be set in September 2004.

The Commissioners Court is establishing the FY 05 Budget Process Guidelines as early as possible in order to allow sufficient time for the Commissioners Court and Elected and Appointed Officials to work together to prepare their FY 05 budget plans.

B. Health Benefits and Pay Increases

The following table summarizes the County's budget actions on health care and compensation increases over the last two years.

General Fund Increases for Health Care Costs and Pay Increases

	FY 03	FY 04	FY 03 + 04	FY 05
Peace Officer Pay Scale Pay Increases	2% increase ½ budgeted in '03 ($540,000) and ½ in '04, plus increases for Sheriff Law Enforcement ($693,000)	0% increase plus 1/2 of '03 increase budgeted in '04, totaling $570,000	$1,803,000	To be determined
Rank & File General Pay Increases (1)	0%	0%	$0	To be determined
Health Care Costs, all employees	$4.6 million (2)	$5.75 million	$10.35 million	
Total	**$5.83 million**	**$6.32 million**	**$12.15 million**	**To be determined**

(1) Excludes ad hoc reclassifications, "green circled" pay increases, career ladders, and other specialized market adjustments
(2) $2.3 million originally budgeted plus $2.3 million from Compensation Reserve

The table above shows that similar resources were provided to compensation and benefits in both FY 03 and FY 04 ($5.83 million and $6.32 million respectively). In addition, funding for Peace Officer Pay Scale employees was included in FY 03 and FY 04 while funding for rank and file employees was not. Should resources be available, the Preliminary Budget should be able to address this matter.

C. Future Unknowns

The Commissioners Court and departments will need to recognize throughout this FY 05 budget process that there are a wide variety of issues, trends and facts that will likely change. These include:

- Unexpected or uncontrolled expenditure growth in the Rural Medical Assistance Program, indigent attorneys fees, or Corrections Program;
- Appraisal District estimates for the taxable value of new construction and the total property tax base are still very rough and will likely change;
- Interest rates or tax collections may drop below expected levels;
- Federal or State grants may not be renewed;
- Litigation from property tax valuations may increase; and
- International unrest may have an impact on economic stability, oil and commodity prices, and/or the number of reservists on the payroll.

D. Budget Submissions

Departments should collaborate with the Planning and Budget Office (PBO) during January through May 2004 to jointly identify any budget proposals for additional resources and opportunities for savings. Budget submissions will be due in early May 2004. Departments will be required to submit their budgets at the base Target Budget Level. This Target Budget Level represents the department's FY 04 Adopted Budget plus the annualized impact of any FY 04 increases less any one-time expenses. All compensation and benefits increases should be excluded from departmental Budget Targets and addressed centrally during the FY 05 budget process.

During last year's budget process, departments were asked to supplement their budget submission in the event that up to 5% of the department's Budget Target was unable to be funded. Specific expenditures that would be candidates for reduction were identified. These budget reductions opportunities also included an explanation of the implications in the event the cuts were implemented. For FY 05, PBO will review the potential budget reductions submitted by departments last year. Some cuts were made in FY 04 and these will be highlighted to the Commissioners Court in the FY 05 budget write-ups. PBO will review cutback opportunities in the context of any cuts taken in FY 04 and in light of the impact of such reductions along with the availability of resources. Departments will be given an opportunity to update the submissions they made in FY 04 based on current circumstances, if they wish. Otherwise, PBO will review last year's submission. If it becomes necessary to implement budget cuts, this information will be considered to measure the impact of the cuts on Travis County citizens and on the department.

Departments are strongly encouraged to submit plans that increase revenues. Certification of new FY 05 revenue should increase the likelihood of pay increases and minimize the likelihood of budget reductions. Departments are encouraged to submit realistic opportunities to increase non-property tax revenues in the department. PBO is supportive of recommending a revenue proposal that can be certified for FY 05 as a means to balance the FY 05 budget.

Given the collaborative linkages among many county departments, a department's proposal may impact other departments resulting in additional savings or costs. Therefore, departments are encouraged to work with all applicable departments in the development of any budget or revenue generating proposals.

Departments are encouraged to provide early proposals for any additional resources to the Commissioners Court. This will provide an opportunity for the Court to give formal direction to PBO to include any proposals in the Preliminary Budget. Any proposals for additional resources and feedback from the Court should be completed before budgets are due in early May in order to have the desired effect. The Commissioners Court as a body is also encouraged to identify any program reductions or budget increases that it may wish to pursue.

The Commissioners Court wishes to avoid inappropriate service reductions and recognizes that choices must be made in the eventual decision about setting a tax rate.

The Court recognizes that departments know best how to deliver services, with PBO serving to facilitate departmental choices and to help conduct necessary research in support of this effort.

E. <u>Reprioritize Internally</u>

Departments are urged to focus on efficiencies, increased productivity, and simplification in FY 05 rather than on budget requests for increased resources. Departments will need to reprioritize within their existing resources to fund any new needs. If new needs emerge, departments should concentrate on identifying potential reductions within their Budget Target for activities that are not statutorily required or service levels that are above minimum levels required by law. This approach should highlight those services that may be mandated but for which the quality or level of service is not required by law.

If a department believes it needs one or more additional positions, it will have the flexibility to create an additional FTE (excluding new programmatic enhancements) if the department can find the permanent resources internally. Departments should utilize increased productivity to accomplish workload requirements. Those departments that are a part of a larger family of departments (such as in Administrative Operations or Health and Human Services) should consult with their Executive Manager since the basic budget control will rest at that organizational level. Departments should expect to accommodate workload or other Maintenance of Current Effort increases internally. The requirement to fund any new contractual or statutory obligations and other expenses related to maintaining a department's current efforts must take priority over any program enhancements or expansions.

F. <u>New FTE and the Preliminary Budget</u>

PBO will not be authorized to recommend any new FTE's in the Preliminary Budget that are not cost neutral, unless the Commissioners Court has otherwise already authorized such increases. Departments are encouraged to present specific proposals for new FTE to the Court for explicit approval before their budgets are due in May if they wish to be assured of receiving new FTE in FY 05. Otherwise, new FTE requests will be reviewed during Budget Hearings in August and Mark-up in September. In addition, officials should expect that the Preliminary Budget will exclude other programmatic enhancements outside of firm contractual obligations.

Adopted by the Commissioners Court on February 3, 2004