These Guidelines were approved by the Commissioners Court on February 17, 2009

FY 10 Budget Guidelines

A. Introduction

The Commissioners Court supports its overall policy, mission and goals through the annual budget process. This document serves to provide the building blocks for the upcoming budget process. Against the backdrop of current economic conditions facing the community, the FY 10 budget process will be approached in a careful manner, while maintaining the County's flexibility in the light of changing economic indicators.

The Commissioners Court continues its historical commitment to a wide variety of County services and programs. This includes maintaining its infrastructure (roads, facilities, parks, and technology), providing appropriate law enforcement and justice support to County residents, addressing various social ills (such as child abuse, truancy, domestic violence, and poverty), continuing to support efficiencies in general government services, and helping to ensure that emergency functions are funded (medical, fire and public safety).

Economic forecasts indicate that Texas may remain in a recession through calendar year 2009 and possibly into calendar year 2010. This situation will require more challenging measures during the FY 10 and FY 11 budget processes than have been necessary in recent years in order to balance the budget.

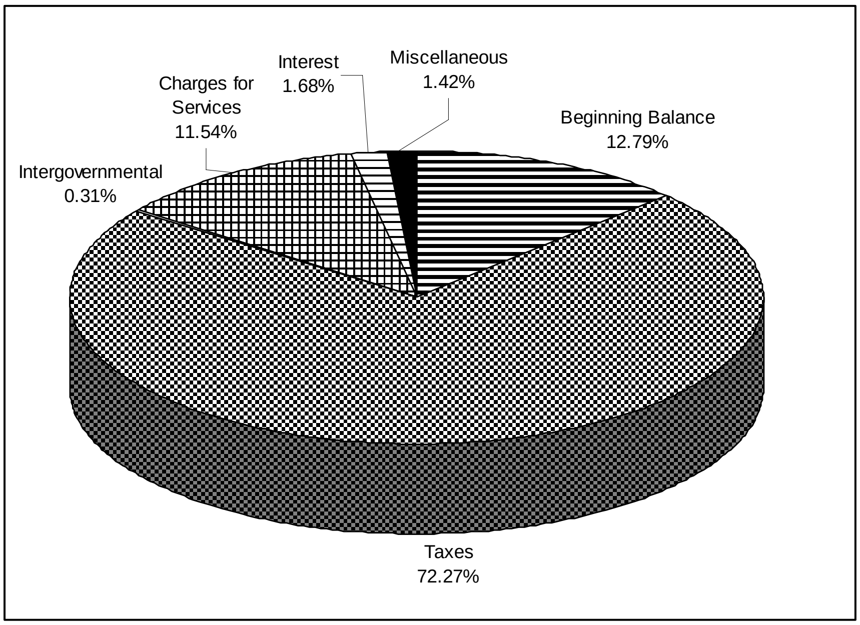
B. Background Information and Economic Summary and Forecast

Travis County's preparations for the upcoming budget cycle are made in the context of national and regional economic indicators balanced against Travis County's desire to responsibly carry out its missions and goals in FY 10 and beyond. There are many private and governmental organizations currently preparing for decreased revenue in the near future. Recently, the Comptroller for the State of Texas announced a $9 billion decrease in projected revenue for the next biennium. In addition, other urban counties such as Bexar and Dallas counties as well as the City of Austin have projected significant revenue shortfalls. Travis County will not be immune to current economic conditions.

As stated in the FY 09 Adopted Budget, the total taxable value for all Travis County property increased from $85.10 billion in the FY 08 Adopted Budget to $95.27 billion for FY 09. In addition, the new property value totaled $3.9 billion compared to new property value of $3.26 billion in FY 08. However, new property values are expected to drop substantially in FY 10 and further drop in FY 11. These projected decreases are important because under the effective tax rate calculation, only new property values result in additional tax revenue at the effective tax rate.

Since Travis County receives over 70% of its revenue from property taxes, any changes to property values and/or new construction impacts the resources available for the annual budget process.

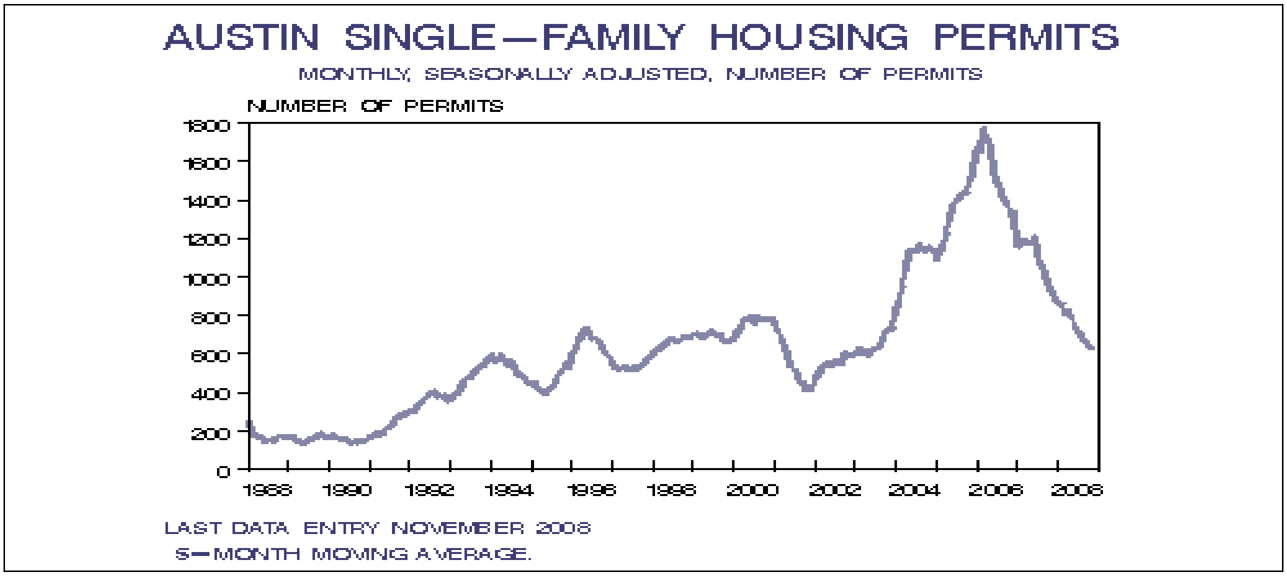
<u>Percentage of Travis County Revenue by Source – FY 09</u>



Fortunately, the County began preparations to weather uncertain economic conditions in FY 09 through the use of additional resources reserved in the Allocated and CAR Reserves as well as the continued practice of using on-going revenue for on-going expenditures. Therefore, while current projections indicate that FY 10 may include a variety of budgetary challenges, these challenges are expected to be manageable provided that departments work together in the upcoming year. Nevertheless, FY 11 is expected to provide a much more challenging environment as it is anticipated that the new construction started in prior years will have been completed and that a significantly lower amount of new construction will have started in FY 09 and FY 10, which provides the basis for FY 11 new revenue.

According to the Federal Reserve Bank of Dallas (FRB Dallas), while the Texas economy has been stronger than the overall U.S. economy, the regional economy has begun to show definite signs of weakening. More specifically, FRB

Dallas indicates that while Texas' housing inventories and foreclosures are healthier when compared to the rest of the nation, there are signs of weakness. The following graph demonstrates the recent decrease in single-family housing permit activity as an indicator of the slowing down in the residential home construction market in the greater Austin area.



http://dallasfed.org/data/data/aus1.htm

Austin single-family housing permits peaked in 2006 and sharply decreased after that point. At the high end, there were a total of 2,063 permits (January of 2006). The most recent figure available indicates 559 permits (November of 2008) issued; this represents a 73% drop.

Property Tax Impact on Homestead Owners

	Current FY 09	Projected FY 10	Difference	
			$	%
Average Homestead Value	**$282,894**	**$282,151 (est.)**	**-$743**	**-0.26%**
Average Taxable Value After All Exemptions	**$211,388**	**$211,251 (est.)**	**-$137**	**-0.06%**
Adopted/Effective Tax Rate	**$.4122**	**$.4140**	**$.0018**	**+0.44%**
Impact on Average Homestead at the Effective Tax Rate (after all exemption)	**$871.34**	**$874.58**	**$3.24**	**+0.37%**

The average individual homestead value is projected to decrease from $282,894 to $282,151 in FY 10. It is projected that the average homestead value will continue to decline for FY 11.

Given the economic information provided, the Commissioners Court is establishing the FY 10 Budget Process Guidelines and urges Elected and Appointed Officials to work together and with PBO to begin preparing their FY 10 budget plans and reduction proposals. Below are some key elements of these guidelines.

C. The Tax Rate for the FY 10 Preliminary Budget

The Court's adopted goal has been for the tax rate in the Preliminary Budget to be "at or near" the Effective Tax Rate". A tax rate within 3% of the Effective Tax Rate should be considered "near" for the purpose of the FY 10 Preliminary Budget.

D. Budget Submissions

Departments are required to submit their budgets at the Target Budget Level. This Target Budget Level represents the department's FY 09 Adopted Budget plus the annualized impact of any FY 09 increases less any one-time expenses and other reductions related to (a) the STAR Flight Business Plan, (b) Fuel, (c) Sheriff's Office Corrections Division related to reduced average daily population. Due to the current economic uncertainties, departments are also asked to supplement their budget submission with a list of proposed programmatic cuts in the event that up to 5% of their Target Budget will be unable to be funded, along with explanations of the implications of such cuts. The Commissioners Court wishes to avoid across-the-board cuts and believes that the use of departmental reduction proposals provides a more strategic approach. Departments are urged to collaborate with the Planning and Budget Office (PBO) from February through April 2009 to identify such opportunities for savings. Budget submissions are due in on April 27, 2009.

Given the unknowns regarding the length of the current downturn, all reductions should be able to be implemented for at least three years and should include a clear understanding of the proposal's impact on the program's performance measures. Departments are asked to concentrate on identifying potential proposals for programs that have service levels above any minimum required by law and should avoid any proposal that would not allow the County to meet a statute or mandated requirement. Reduction proposals should differentiate between those services that are statutorily mandated and those that are not. This approach should also highlight those services that may be mandated but for which the quality or level of service is not required by law. In addition, departments are encouraged to identify those activities that are the most essential, to help focus on functions or services that are more likely candidates for reduction. It should be noted that this strategy of identifying reductions along with the implications of such reductions is not only intended to help the County through its budget challenges in FY 10 but also to assist in dealing with similar or greater challenges expected in FY 11.

Departmental reduction proposals should be submitted in priority order in the event that an amount different than 5% is needed to balance the budget. While these cuts may or may not be needed in FY 10, departments should carefully consider their proposals since the reductions will be revisited and may be implemented in FY 11 should current assumptions on the FY 11 financial environment hold true. In the event a department is unable or unprepared to identify and prioritize a 5% cut to their FY 10 Budget Target, then PBO is directed to make such proposals, and provide departmental observations to the Commissioners Court on the impact of those savings in the PBO budget write-ups.

E. Compensation & Benefits

The Commissioners Court is committed to the County's most valuable resource, its workers. Each year, the Commissioners Court determines whether there are resources to fund a variety of employee pay adjustments. Since FY 97, there have been only two years when no compensation increases were available and one year when 1.5% was available. Every other year, at least a 3% compensation increase has been funded. In FY 09, resources were available for a 3% Cost of Living Adjustment (COLA) for all rank and file employees, with a guaranteed minimum increase of $900. The Peace Officer Pay Scale (POPS) has been stabilized through at least FY 10 for staff in the Travis County Sheriff's Office (TCSO) due to actions that were taken as part of the FY 08 Adopted Budget. In FY 09, the Commissioners Court made the policy decision to establish internal equity relationships between law enforcement job classifications within Travis County Sheriff's Office (TCSO) and Non-TCSO POPS employees in Constables' Offices, District and County Attorney's Offices, Juvenile Public Defender, and TNR. The full year cost led to an average 13.3% increase over the FY 08 non-TCSO POPS payroll. Due to all the recent increases and changes to POPS, there should be no expectation of POPS increases in the FY 10 budget (beyond any approved step increases).

Current FY 10 projected revenues do not provide any resources for increased compensation. This includes increases for rank and file employees, POPS step increases, retiree Cost of Living Adjustments (COLA) and any market salary surveys.

An employee public hearing in June will provide employees and employee groups an opportunity to comment specifically on FY 10 compensation and benefit funding proposals.

Career ladder

In recent years, departments have received additional funds for rank and file career ladder increases. While these funds have been added to departmental budgets, they have not been equally reduced from department's target budgets when a career ladder employee left the department's employment. Beginning in FY 10, departments will have the opportunity to redirect savings from career ladder vacancies, other permanent salary savings and any other resources within their target budget to internally fund departmental career ladder increases.

Benefits

While health benefits have been stable in the last three years, it is projected that there likely will be some increase in FY 10. It is assumed that any increase will be shared between the County, employees, and retirees. Additional resources for potential increases for the County have been included for planning purposes and may need to be changed once additional information from the actuary is presented in the spring. In addition, the size of the Allocated Reserve of the Employee Health Benefit Fund has been reduced through planned actions over the last several years. PBO will continue to work with Human Resources Management Department and the County Auditor's Office to budget the appropriate reserve for the fund. The reserves in this fund are moving toward being right-sized and it is unclear if any one-time surplus within the fund could be redirected for FY 10 needs.

Elected Officials' Salaries

The Citizens Advisory Committee on Elected Officials' Salaries reviewed the full complement of elected officials' salaries for FY 08. This Committee typically has made such recommendations on an annual basis. However, such a review was not completed for FY 09. Given the limited availability of resources, the Citizens Advisory Committee will not be asked to make a full review of every elected official's salary during the FY 10 budget process. Instead, elected officials' salary increases will be matched to rank and file increases for FY 10 as they were in FY 09.

F. Meeting MCE & New Needs Without New Resources

Departments will need to reprioritize within their existing resources to fund any Maintenance of Current Effort (MCE) or new needs. 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. However, these situations should be minimized. 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 rests at that organizational level. Departments should expect to accommodate workload or other MCE increases internally. The requirement to fund any new contractual or statutory obligations and other expenses related to maintaining a department's current efforts take priority over any program enhancements or expansions and should also be funded internally. Departments are urged to focus on efficiencies, increased productivity, and simplification in FY 10 rather than on budget requests for increased resources.

PBO will not be authorized to recommend any new FTE's in the Preliminary Budget other than those that are (1) internally funded on a permanent basis for existing program needs, (2) supported by new revenue (including the departmental indirect cost rate above direct costs to account for administrative support, space, and associated infrastructure costs), or (3) related to the opening of new facilities (e.g. Building 12 at Del Valle). In addition, PBO will review and make recommendations on the continuation of positions that were funded in the FY 07, FY 08 and FY 09 budgets based on the certification of additional revenue. Should it be found that revenues do not support the cost of the services as previously indicated, PBO may recommend that the programs be eliminated. PBO will work closely with the Auditor's office to ensure revenues are accounted for and validate expenditures before such actions are taken.

G. Priority Program Areas

The Commissioners Court has previously identified three Priority Program areas as the County's main priorities:

- Reducing Adult Jail and Juvenile Detention Populations, with special attention toward inmates with mental illness
- Substance Abuse
- Workforce Development (adult and youth training and new jobs)

However, given the current economic environment, any proposed expansion in these areas is expected to be prioritized and internally funded by departments. PBO expects to make funding recommendations in the Preliminary Budget regarding existing pilot programs. These recommendations will include whether these programs should have continued funding in FY 10 on a permanent or one-time basis or be discontinued.

H. Non-County Requests

As stated previously, economic conditions indicate that there will be fewer resources available for FY 10. In the event a non-County entity wishes to request new funding from the County budget, such a request will need to be coordinated through the County office in charge of the service. The request must be submitted to the relevant County office no later than **March 27** so that it can be incorporated and carefully prioritized by the department based on the merits of the proposal. Given the limited availability of resources, FY 10 proposals should, at a minimum, demonstrate one of the following:

1. The proposal leverages a County investment in order to receive a proportionally larger amount of new outside resources to address a compelling community need.

2. The proposal seeks to restore a loss of community resources that, if left unfunded, would result in a compelling and unsupportable impact to those most in need.

All county departments and offices are asked to advise any related community groups, employee groups, or other governmental or local agencies of the County's budget process, schedule, and likely financial environment for FY 10. Non-County organizations submitting a request during the current economic environment are urged to carefully consider their most critical need and how the request provides the most significant impact to the community.

Please note that the Board of Directors of the County Corporations declared a moratorium on funding any non-County capital requests.

Any request not submitted within the approved time frame will not be considered, unless there is an extraordinary and compelling reason to do so. As an example, the ability to leverage county dollars for a substantially larger amount of outside funding. The item must be submitted to the Commissioners Court as well as the relevant County office. A member of the Commissioners Court must sponsor any request submitted after the due date for it to be considered for the FY 10 budget process.

I. Non-Tax Revenue

Departments are strongly encouraged to identify reasonable ways to increase non-property tax revenue as another strategy for helping to balance the budget. Departments are specifically encouraged to review all fines and fees, especially those that have not been reviewed in several years, to ensure that they are set at appropriate amounts.

J. Unspent Balances, Salary Savings, and Zero-Based Line Items

PBO is instructed to review the last three years of unspent operating budgets that are reasonable to reduce without substantially affecting service levels. PBO is also instructed to ensure that the budget for salary savings countywide be as realistic and accurate as possible, and aligned with departments' vacancy trends. The purpose of this exercise is to "right-size" budgets, while still meeting service level demands and obligations. Departments will have an opportunity to request the replacement of some or all budget reductions through a specific budget request.

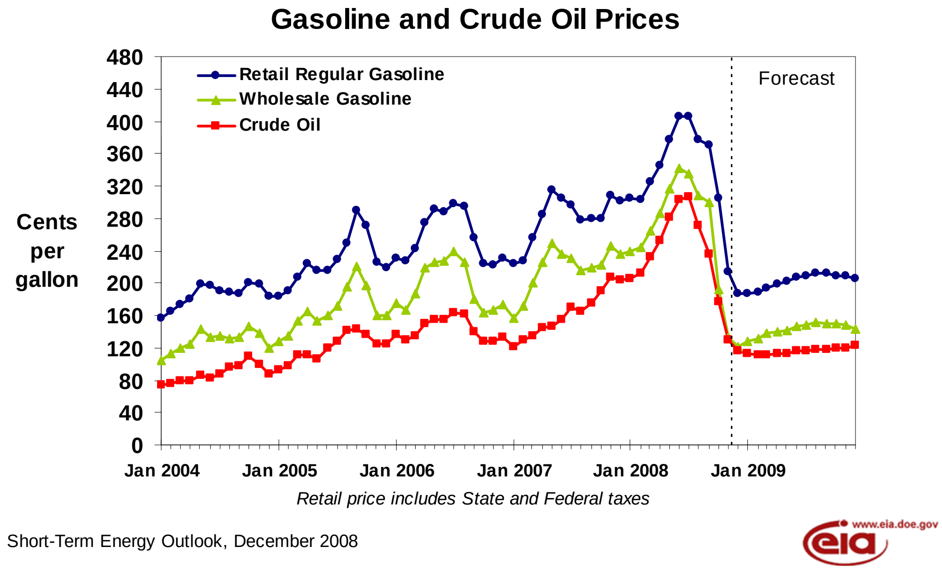
Certain critical line items should be built from the ground-up ("zero-based"), such as leases, maintenance contracts, consulting, and contributions to grants. Other line items to be zero-based may be identified as the budget process matures.

K. Sheriff's Corrections Program

PBO has been directed to adjust the Sheriff's Office Target Budget by $1,497,000 as a result of a significant reduction in jail population this year. However, PBO is further directed to continue to work with the Sheriff's Office to identify and correct any operational savings in the jail system and to "right size" FTEs and expenses within the context of the jail population change and continuing transition to the new Building 12 at the Travis County Corrections Complex (TCCC) at Del Valle. In addition, the Court and the Sheriff wish to continue the pursuit of opportunities to reduce the number of inmates in custody through speedier processing through the Criminal Courts in collaboration with the Justice System Coordinating Committee.

L. County Fuel & Utilities

Last summer, national retail gasoline prices were projected to average $3.92 in calendar year 09. However, recent reductions in the price of fuel have changed the projected expenditure outlook for FY 09. Current projections from the Energy Information Administration (EIA) indicate average national retail gasoline prices of $2.02.



Given projections by the Energy Information Agency as of the summer of 2008, it was projected that an increase of $1,329,605 to the central fuel budget was needed to stay at the same consumption level as FY 08. The FY 09 Adopted Budget included an increase of $930,724 to the countywide fuel budget in TNR as well as a Fuel Reserve of $493,121 (37% of the projected price increase). Even with the additional gallons budgeted in FY 09; TNR's central fuel budget is over funded for FY 09 and is now projected to be over funded for FY 10.

PBO is directed to reduce the Transportation and Natural Resources Department's central fuel budget by $930,724 and the Emergency Services (STAR Flight) fuel budget by $127,877. The Commissioners Court encourages departments with vehicles to continue to conserve fuel and is committed to the reduction of the County's dependence on this volatile resource.

Austin Energy has announced that its fuel charge of 3.65 cents per kilowatt-hour (kWh) will not increase for 2009. However, several buildings that were expected to come on-line mid-year in FY 09 have not yet been finished and/or occupied. In addition, the county has set a goal of a 5% reduction in kWh usage with state fiscal year 2007 as the base year. PBO is directed to work with Facilities Management Department to hold the centralized utilities budget at steady-state for FY 10.

M. Promote Efficiencies

The Commissioners Court has established an Efficiency Committee to identify county operations that can be improved and where efficiencies may be gained that will result in either cost decreases or avoided costs.

Departments are encouraged to propose any simplification of processes and procedures. Employees are encouraged to submit cost saving ideas to the County's central suggestion box on the Travis County intranet. All cost saving ideas and proposals will be reviewed and evaluated by the Efficiency Committee and recommendations will be made to the Commissioners Court.

N. Future Unknowns

There are a variety of issues that will need to be monitored throughout the FY 10 and FY 11 budget processes. Many of these issues could have an impact on the development of the budget. These include:

- New Construction estimates are still very rough;
- Unfunded mandates from the upcoming legislative session may be imposed;
- Unexpected or uncontrolled increases in indigent attorneys fees may arise;
- 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
- Energy costs continue to be volatile.

In conclusion, while Travis County has not felt the full impact of the international economic crisis. We recognize that we are not immune from further deteriorating conditions. Therefore, we ask that all departments work with PBO to proactively deal with known and unknown future economic events.