These Guidelines were approved by the Commissioners Court on February 23, 2010

FY 11 Budget Guidelines

A. Introduction

The Commissioners Court supports its overall policy, mission and goals for Travis County through the annual budget process. The FY 11 Budget Guidelines are written to provide departments with the direction and assistance needed to formulate their FY 11 budget submissions. Once again, as with the FY 10 budget, Travis County continues to feel the effects of the economic climate. A cooperative and prudent approach to this upcoming budget cycle will allow the County to navigate these conditions successfully.

The Commissioners Court continues its 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 Travis County residents (including fair and efficient judicial services for both Civil and Criminal cases), 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).

Current FY 11 forecasts for new construction have dropped by 40% to 60%, as compared to FY 10. This decrease translates into a reduction of $4.9 to $7.4 million of new on-going revenue from FY 10. The previous recession in FY 02 took approximately 7 years to regain the same level of new construction values as FY 02. Therefore, it is projected that Travis County will continue to feel the effects of the economic downturn in FY 11 and beyond prior to economic conditions tangibly improving. As with FY 10, departments are asked to again work with PBO to make the most of scarce resources and ensure a smooth and efficient budget process.

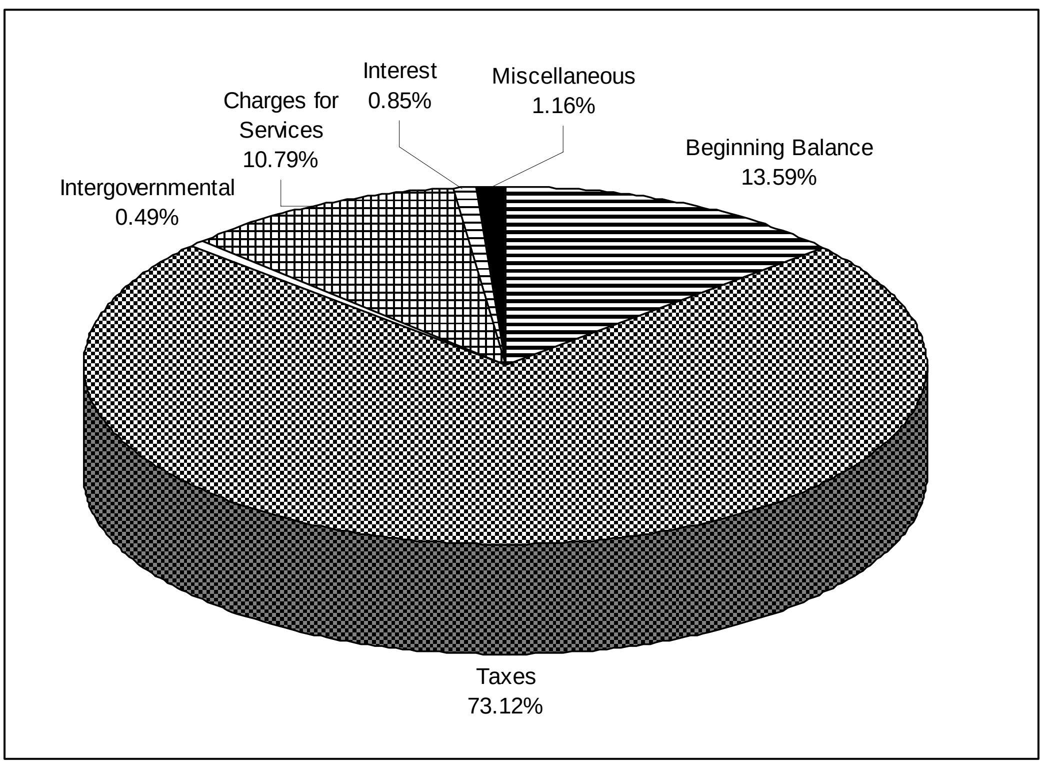
B. Background Information and Economic Summary and Forecast

The FY 11 budget cycle is framed in the context of lingering economic challenges and will be balanced against Travis County's mission and responsibilities towards its citizens. It appears that Travis County will continue to experience many of the same, if not more difficult, fiscal challenges as were experienced during the FY 10 budget process. The Comptroller for the State of Texas reports on her website that although Texas is faring better than many other states, the worldwide recession is being felt here as well. As a local example, the *Austin American Statesman* has reported that the Austin Independent School District is polling the public in anticipation of a $7.1 million shortfall for the upcoming year and is currently reducing an estimated $20 to $25 million of expenditures from the current budget. Similarly, the City of Austin increased property taxes on the average home value in 2009 by $112 due to decreased revenues where Travis County's increased property taxes amounted to an increase on the average home value of $42.26.

As stated in the FY 10 Adopted Budget, the total taxable value for all Travis County property increased from $95.27 billion in the FY 09 Adopted Budget to $98.36 billion for FY 10. In addition, the new property value totaled $2.9 billion in FY 10 compared to new property value of $3.9 billion in FY 09. Growth in new property values are expected to drop again in FY 11, as stated previously. The projected decrease in new value is important because under the effective tax rate calculation, only new property values result in additional tax revenue at the effective tax rate.

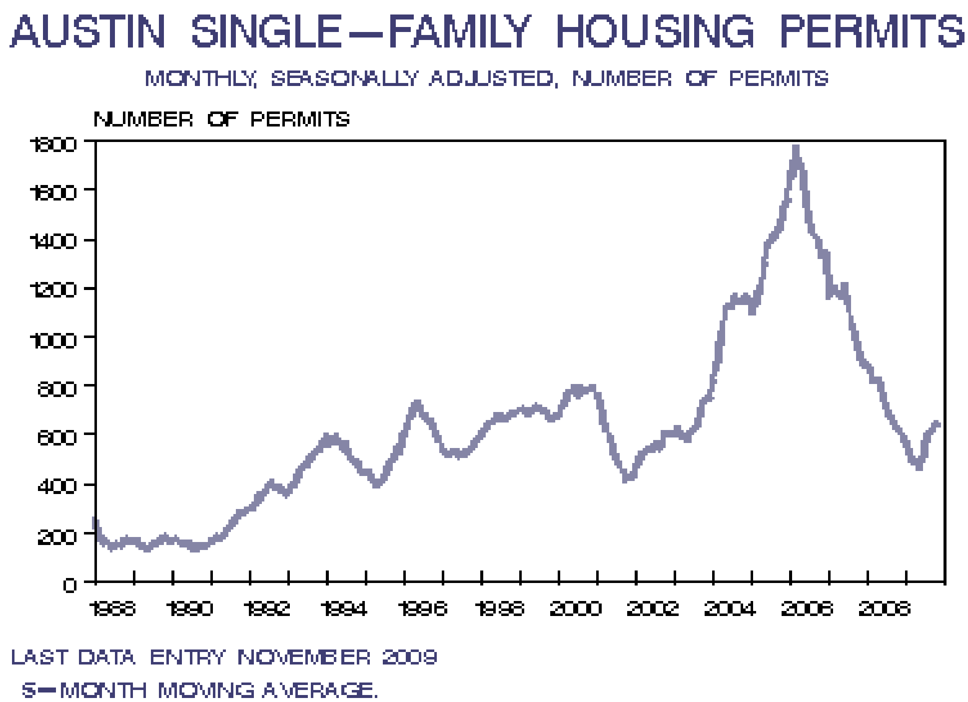
Since Travis County receives over 70% of its revenue from property taxes, any changes to new construction property values impacts the resources available for the annual budget process.

Percentage of Travis County Revenue by Source – FY 10



Fortunately, the County has maintained its commitment to prudent financial practices such as increased reserves and the continued practice of using on-going revenue for on-going expenditures. Therefore, while current projections indicate that FY 11 may include a variety of budgetary challenges, these challenges are expected to be manageable provided that departments continue to work together in the upcoming year.

According to the Federal Reserve Bank of Dallas (FRB Dallas), while Texas was able to avoid the national housing downturn for some time, home construction began to plummet in the second half of 2006. The following graph demonstrates the recent decrease in single-family housing permit activity as an indicator of the slow-down in the residential home construction market in the greater Austin area. While demand for permits is beginning to increase, it is too early to know whether this increase will be maintained.



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 2,039 permits (January of 2006). This number fell to 401 by May of 2009; this represents an 80% drop. The most recent figure available indicates 619 permits (November of 2008) issued. The Real Estate Center at Texas A & M University projects that housing will do well in the first quarter of 2010 given current incentives by the federal government, but questions if the positive trend will continue past the first quarter without government support.

Property Tax Impact on Homestead Owners

	Current FY 10	Projected FY 11	Difference $	Difference %
Average Homestead Value	**$287,732**	**$276,223 (est.)**	**-$11,509**	**-4.00%**
Average Taxable Value After 20% Homestead Exemption	**$230,186**	**$220,979 (est.)**	**-$9,207**	**-4.00%**
FY 10 Adopted/FY11 – 3% above Effective M&O plus Debt Tax Rate	**$.4215**	**$.4706**	**$.0491**	**+11.64%**
Impact on Average Homestead at 3% above the Effective M&O Tax Rate plus debt (after 20% exemption)	**$970.23**	**$1,039.92**	**$69.69**	**+7.18%**

The average individual homestead value is projected to decrease from $287,732 to $276,223 in FY 11. It is projected that the average homestead value will continue to decline for FY 12.

It is clear that Travis County will continue to face economic challenges in the upcoming year. Therefore, the Commissioners Court is adopting the following FY 11 Budget Process Guidelines and urges Elected and Appointed Officials to “hold the line” and to work together with PBO to begin preparing their FY 11 budget plans and reduction proposals. Below are some key elements of these guidelines.

C. The Tax Rate for the FY 11 Preliminary Budget

The FY 11 guidelines will include direction that the tax rate be at or near the effective M&O plus debt rate. A tax rate within 3% of the Effective M&O plus Debt Tax Rate should be considered “near” for the purpose of the FY 11 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 10 Adopted Budget plus the annualized impact of any FY 10 increases less any one-time expenses and other reductions related to pilot programs and/or programs moved from on-going to one-time funding status.

As was requested in FY 10, departments are 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 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. PBO will take into consideration reductions accepted as part of the FY 10 budget process and continued in your FY 11 Target and adjust departmental reduction amounts accordingly. Departments are urged to collaborate with the Planning and Budget Office (PBO) from February through April 2010 to identify such opportunities for savings. Budget submissions are due on April 26, 2010.

Given the unknowns regarding the length of the current downturn, all reductions should be able to be implemented for at least three years from FY 11 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. This strategy of identifying reductions along with the implications of such reductions assists the County to prioritize and efficiently allocate limited resources.

Departmental reduction proposals should be submitted in priority order in the event that an amount different than the full 5% is needed to balance the budget. While these cuts may or may not be needed in FY 11, departments should carefully consider their proposals since the reductions may be revisited and implemented in FY 12 should current economic conditions not improve. In the event a department is unable or unprepared to identify and prioritize a 5% (or 5% adjusted) cut to their FY 11 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. Due to the limited amount of resources in the FY 10 Adopted Budget, there were no compensation increases. FY 10 was a unique year given that since FY 97; there have been only three 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) was reviewed and stabilized in FY 08 for staff in the Travis County Sheriff's Office (TCSO). This included an average 11.5% increase to TCSO POPS employees as well as smaller increases to non-TCSO POPS positions. 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.

It is still too early to determine if there will be sufficient funds to provide any compensation increases in FY 11. However, if resources become available, it is the Commissioners Courts' desire that a prudent compensation increase be included in the FY 11 Preliminary Budget. Such increases would include adjustments 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 11 compensation and benefit funding proposals.

<u>Career ladders</u>
Departments are again asked 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.

<u>Benefits</u>
While health benefits have been stable over the last four years, it is possible that there could be an increase needed for FY 11. It is assumed that any increase would be shared between the County, employees, and retirees. The need for additional resources will not be determined until after discussions between the Actuary for the Health Plan and Members of the Employee Health Benefits Committee occur 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 so it is likely that one time reductions that have occurred in the recent past will likely not be continued in FY 11. 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.

Elected Officials' Salaries

The Citizens Advisory Committee on Elected Officials' Salaries reviewed the full complement of elected officials' salaries for FY 08. This Committee has made such recommendations on an annual basis in the past. However, such a review was not completed for FY 09 or FY 10. Given the limited availability of resources, the Commissioners Court will again defer a full review of every elected official's salary during the FY 11 budget process. Instead, elected officials' salary increases will be matched to rank and file increases for FY 11 as they were in FY 09. There were no increases for either rank and file employees or elected officials in FY 10.

F. Meeting MCE & New Needs Without New Resources

Departments are required 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 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 11 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. In addition, PBO will review and make recommendations on the continuation of positions that were funded in the FY 08, FY 09 and FY 10 budgets based on the certification of additional revenue. Should it be found that revenues do not support the cost of the services as previously projected, 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 11 on a permanent or one-time basis or be discontinued.

H. Non-County Requests

It is likely that economic conditions will prevent much programmatic growth in FY 11. In the event a non-County entity wishes to request new funding from the County budget, such a request will again 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 26** 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 11 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 11. 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 has 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 11 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 annually 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. Pilot Programs

The FY 10 Adopted Budget included funding for various pilot programs that have been funded on a year by year basis. These programs are reevaluated each year during the budget process for continued and appropriate funding. Requests to continue funding pilot programs must include the relevant performance measures to allow PBO to make an informed recommendation for FY 11 funding.

L. Programs Moved from On-Going to One-Time in FY 10

During the FY 10 budget process, the Commissioners Court approved moving various programs' funding from on-going to one-time status due to uncertainty related to the revenue projected to be collected by those programs. These programs have been pulled out of the FY 11 departmental target budgets and will need to be requested by the departments for consideration in FY 11.

M. Promote Efficiencies

The Commissioners Court is supportive of employees and departments identifying county operations that can be improved and where efficiencies may be gained that will result in either cost decreases or avoided costs. Departments and/or employees are therefore encouraged to propose any simplification of processes and procedures.

N. Future Unknowns

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

- New construction estimates are still very preliminary;
- Unexpected or uncontrolled increases in indigent attorneys fees and/or Sheriff's Office overtime/medical services costs may increase;
- National health care policy and its impact on local governments is still unknown;
- Employee and retiree healthcare expenditures is expected to increase;
- Tax collections may drop below expected levels;
- Federal or State grants may not be renewed;
- Continued impact of Texas Youth Commission changes and related reductions to the Juvenile Probation department are unknown;
- Litigation from property tax valuations may increase;
- Mandatory contract increases may arise; and
- Energy costs continue to be volatile.

In conclusion, Travis County departments have proven that they can work together to weather any economic conditions that occur. We again urge departments to work with PBO to proactively deal with known and unknown future economic events.