



Executive Summary 2013/2014 Budget Message

Budget History and Outlook

During the last two years Clark County has been involved in intense activity aimed at stabilizing and strengthening the county despite ongoing challenges in our operating environment. In 2011, the Board of County Commissioners directed an in-depth discussion to produce recommendations for cost containment for all departments through 2014. Our examination was guided by a select group of sixty employees. The work was organized as the Reconfiguration Project and the focus was on the root causes of the cost/revenue gap.

I am pleased to report we have made enough progress to recommend a budget for 2013-2014 that will maintain current operations and staffing without undue financial risk. It can be cautiously stated that the county's financial position has slightly improved since the most difficult days of the recession in 2008 and 2009. A full discussion of the multi-year Reconfiguration Project and the effect on the cost of County services is included as an addendum to this budget message.

At the onset of the "great recession" the county began a six year process to adjust to reduced revenues and increased fiscal mandates. The 2009-10 budget was adopted by the Board and repeatedly revised downward. In all, the General Fund budget was cut 22 percent, or \$62 million, from 2007-08 levels. The county eliminated 270 positions, or about 15 percent of its workforce. Through these actions the expenditure budget was reduced in order to match revenues and to begin rebuilding reserves back to recommended minimum levels. Throughout 2011 and 2012 the economy has improved slowly, although local conditions have lagged well behind national and regional indicators. As a result of downsizing in 2009 and tight controls on spending since then, Clark County has managed to hold its own, providing expected services within a delicately balanced budget environment.

Public safety remains a county priority. Since 2001, its share of the General Fund budget has increased from 58 to 66 percent. This trend is maintained in the 2013-14 budget.

Clark County Budget Highlights

For 2013-14, revenues are comparable with levels last seen in 2003. We expect modest growth in the coming biennium and recommend that tight controls on expenditures continue for the next two years. Meanwhile, we will monitor external risks including potential reductions in state and federal funding. We also will remain mindful of worldwide constraints on economic activity, including the European debt crisis and its possible effect on the local economy.

The 2013-14 budget continues most of the expenditure reductions enacted in 2009-2010. All functions of county government have been affected by the economic downturn. The county continues to face the additional challenge of state and local tax structures that make it heavily dependent on sales tax revenues and property tax revenues that are linked to new construction. Our forecast for 2013-14 calls for a slow recovery in new construction in 2013 followed by further modest improvement in 2014. Twelve years ago, the assessed value of new construction was about one billion dollars annually. It peaked at \$1.5 billion in 2007. The latest forecast is for the assessed value of new construction to be \$318 million in 2013 and \$352 million in 2014.

Overall, the budget is some 8 percent smaller than the budget for 2011-2012. This primarily is a reflection of a major reorganization in mental health programs and the retirement of revenue bonds. The result is a \$15.4 million reduction of future county liability. For example, early in 2012 the county refinanced two bond series which will save taxpayers \$4.5 million over the next 23 years. This refinancing helped the county and non-profit service providers reduce the cost of operating the county-owned Center for Community Health. Also, the county made an emergency loan and provided technical assistance to help Lifeline Connections continue critical inpatient drug and alcohol treatment services in Clark County. At last report, the non-profit treatment provider is stronger, has a new CEO, and is preparing to repay its debt to the county.

As previously noted, the major reorganization in mental health programs will change the county budget by reducing both revenue and expenses. On October 1, 2012, the county's Community Services department transferred mental health responsibilities to Southwest Washington Behavioral Health Regional Support Network, a new public agency serving Clark, Cowlitz, and Skamania counties.

The state has been shifting costs to the county, a contributing factor in making law enforcement and indigent defense among the few areas to see increases in the budget for 2013-2014. These include \$1 million for housing inmates at the county jail, plus new fees to be paid by the County for state crime lab services and officer training. An additional \$400,000 represents greater expenses for indigent defense as a result of a Washington Supreme Court ruling on maximum caseloads for contract attorneys. However, the State's financial support for indigent defense remains at previous levels.

Capital Improvement Projects

The adopted budget includes an ambitious \$48 million transportation improvement program that will enhance our county road system and boost our local economy. Future capital construction projects for Parks, Water, Stormwater and Wastewater are planned for the years beyond the 2013-14 biennium but only transportation projects, funded with a dedicated property tax and augmented by grants, have the financial capacity to be able to undertake significant projects in the near term.

Total Adopted Budget, 2013/14

2013/14 Budget Summary

Total budget, all funds	\$848,284,522
General Fund budget	\$294,933,200

2013/14 Budget Summary by Category, all funds

Salaries and Benefits	\$301,766,797
Supplies and Services	295,570,053
Transfers	112,242,637
Capital	69,964,885
Debt Service	40,624,497
Intergovernmental	<u>28,115,653</u>
Total	\$848,284,522

Conclusion

As a major service provider, employer, and customer for private sector goods and services, Clark County is committed to conservative financial management in order to maintain long-term stability. This 2013-14 budget seeks to normalize county service delivery levels within budget realities. We have maintained skilled staff with no layoffs, and remained mindful of citizen survey results as to priorities for service delivery.

Going forward, we must maintain a spirited approach to innovation and efficiency to produce sustainable budgets and operations. Success will depend upon continued dedication and collaboration from an outstanding group of elected officials, extraordinary managers, and superb staff at all levels. I look forward to working with you and our entire county team for the next biennium.

Respectfully submitted,



Bill Barron

County Administrator

ADDENDUM to 2013/14 Budget Message

Clark County Reconfiguration - Summary Report

As the economic decline became more widespread, it became clear that even with budget cuts and increased revenues the county's existing level of services would not be sustainable. The cost of providing services grows faster than the revenues that support them and the gap is not a one time "blip". Local governments in Washington State have had this inherent structural deficit since the late 1990s.

The structural imbalance had been manageable in the past because of the unusual amounts of revenue from new construction. The economic decline halted most new construction and the structural deficit became apparent. If nothing changed, the last year that revenues would exceed expenditures was projected to be in 2012. Although remaining fund balance would allow a balanced budget in 2013, by 2014 the revenues would significantly lag behind expenses and another round of major cuts would be necessary to balance the budget - unless changes could be made.

Dealing with the structural deficit required finding a new approach. In 2011, the Board of County Commissioners directed the County Administrator to produce recommendations for ways to reduce the growth rate gap. The Reconfiguration project that was created in response was composed of 60 employees who were to find ways to decrease the rate. Reconfiguration was a broad effort that took many hours during the last two years. However, much worthwhile progress has been made and as a result, the county can maintain current operations and staffing in 2013/14 without incurring undue financial risk.

The 2011/2012 Reconfiguration Effort

The overall intent of the Clark County Reconfiguration Project was to work on the root causes of the cost/revenue gap and recognize that even after the economy recovers, the structural deficit will remain.

Clark County engaged the talents of over 60 managers to lead the reconfiguration effort. The managers were divided into teams, each team addressing an area that had the potential to reduce the rate at which costs increase. Each team focused on a problem statement and proceeded to identify a proposed action that might achieve savings, avoid costs, improve productivity, result in a culture change, or produce goodwill. They were to finish their planning in time to implement a project during 2011/12, if possible. Otherwise, prepare it for implementation in 2013. They were to do this within existing resources. Teams were not given a financial target but it was widely known that a \$2 million reduction for 2013/2014 was desirable.

Reconfiguration Topics

Capital	Regulation
Incentives	Technology
Internal Services	Urban Services
Online Services	Workforce, Direct Costs
Regional Services	Workforce, Operating Environment

1.) Capital Team

Improvements to the coordination of capital expenses and capital planning, and strengthening the relationship to the county's operating budget, were the goals of this team. They developed an overall, countywide capital planning method that is updatable and integrated with the operations budget. The capital planning method will be incorporated into long term planning that occurs during 2013/14.

In considering the uses of the Real Estate Excise Tax, they recommended that the tax revenues be used for debt payments, thereby reducing pressure on the General Fund. This recommendation was adopted by the Board and had a positive effect on the 2013/14 budget process.

2.) Incentives Team

The Incentives team addressed incentives for reducing costs. They adapted an employee suggestion program that is common in the private sector and state government. It allows employees who suggest improvements that are adopted and result in measurable net savings to receive a one-time portion of the savings. The program rules exclude improvements within the employee's normal scope of work. The first suggestions were received in 2011, and financial rewards would be granted in 2013.

Additional projects are being planned. One project evaluates ways to give department heads greater authority over their budgets. The other project analyzes ways to capture and budget cost savings that result from major changes in the way services are delivered. Both of these projects create entrepreneurial incentives for department heads.

3.) Internal Services Team

Shared overhead for organizational infrastructure that pays the bills, maintains buildings, and operates computing networks makes service delivery to citizens less expensive and more efficient. The Internal Service team initiated two projects. One project created a leadership-level team to oversee communication between the service providers and the service recipients. Many recipients were not aware of how the internal service charges assigned to their budget were derived. Similarly, service providers assumed that they were providing an appropriate level of service but lacked a feedback mechanism. In the new system, service recipients and service providers will collaborate regarding the level of service, with the potential to reduce their costs.

In the second project, the Internal Service team clarified which costs were suitable to be treated as a direct charge rather than allocated as a proportional share.

4.) Online Web Services Team

The Online Web Services team's goal was to increase the awareness and availability of the county's online business services. Clark County's website is well developed and popular with users because it allows citizens to conduct business on the internet, and extends the hours of county operation without adding staff. The expansion of online services has the potential to help the county manage increasing costs. Current efforts are focused on decreasing the amount of time and expense necessary to develop online services. As a result, many departments are expanding the types of online services they provide.

5.) Regulation Team

Instead of looking at individual regulations, the Regulation team looked for changes that could be made county-wide to reduce costs. In doing so, they looked at the total cost of the advisory boards and commissions used by the county. The county gets valuable input from these commissions and boards, but in some cases they are able to be consolidated. The team estimates the annual cost of staffing each advisory group is \$62,000. A pilot project undertaken in the Department of Environmental Services plans to consolidate three boards into one in 2013.

The Regulatory team also addressed a cost that results from regulations that apply to public construction projects, requiring that the prevailing wage be paid to laborers. The county supports payment of prevailing wage. The problem is that the federal and state systems are separate and that results in more bookkeeping for contractors, the county and the state. The county is bringing the situation to the attention of other agencies around the state to resolve this issue in a way that will benefit contractors, labor and government. This project has a potential cost avoidance impact of \$85,000 per year in grant funds that could be used for construction activities instead of administrative activities. The \$85,000 per year is based on an assumption of \$20 million per year in public works projects. Similar opportunities exist in the County's weatherization and general services construction projects.

6.) Regional and Consolidation Team

The Regional and Consolidation team focused on services that might be regionalized at the discretion of the county and its municipal partners.

Regional efforts often result in better service resulting from the greater level of expertise being provided. The Regional and Consolidation team found that regionalization generally does not create a cost savings for the hosting organization, which is usually the largest service provider. The host uses some of its capacity to provide services to others. The smaller organizations tend to receive the savings from participation.

The team determined that Clark County is already broadly involved in many regionalized efforts which are beneficial to smaller communities. The Regional team created a template to guide county departments attempting future regional service, helping the county to become aware that regional projects are not likely to create net positive budget impact, although they may provide better service overall.

7.) Technology Team

The Technology team focused its efforts on newly emerging technology, to see if new technologies could decrease the rate at which county costs increase. The team looked at automatic vehicle location (AVL). They found the technology provided opportunities for

better service and reduced risk, but did not result in a cost savings or a slowing of cost increases. The cost of the new technology was nearly equal to the benefit.

The team also evaluated developments in tablet technology to see if the technology might allow employees to eliminate desktop or laptop computers. They concluded that tablets cannot replace desktops or laptops at this time, largely due to existing county software which currently lacks applications written for tablets. The team concluded, however, that this situation may change by 2015/2016 and therefore the use of tablets should continue to be evaluated.

Additionally, as a result of the team project, software designed to increase collections of outstanding fines in the Corrections Department was implemented.

8.) Urban Services Team

The Urban Services team looked at the City of Vancouver Urban Growth Area (UGA) and investigated the impact to the County of serving this area. An Urban Growth Area is the boundary between urban and rural, and legally required as a part of growth management. The Vancouver UGA is the only urbanized UGA in the state that is managed by a county government. The Urban Services team determined that the county spends approximately \$2 million more per year to serve this area than is received in area-generated revenue. However, any action to revise the current arrangement would take a long period of time.

9.) Workforce, Direct Costs Team

The Workforce Direct Costs team performed the most intensive study of salaries and benefits ever performed by the county. It compared Clark County to other jurisdictions and to regional and local businesses. They researched salaries, health care, vacation and sick day allowances, holidays and other types of leave. Overall, the analysis found that Clark County wages were comparable to both the public and private sector. Leave time was more generous than the private sector. County employees contributed less to their health care plans than other communities or the private sector. Health care costs, however, have been kept within the budgeted allocation for health care via the County's Health Care Committee, a representative group of employees who annually consider ways to adjust coverage components to stay within the amount allocated.

The Workforce Direct Costs analysis subsequently was used in labor negotiations and the county's Health Care Committee deliberations. The analysis also is being used in proposed changes to the management merit system, changes to the paid time off system, changes in performance measurement processes and changes in the attendance policy.

10.) Workforce, Operating Environment Team

Reconfiguration efforts assume that county workforces of the future will be smaller, in relative terms, than workforces of the past. The Workforce Operating Environment team surveyed county departments for issues of concern and focused on attrition and succession planning. Their project is to develop a countywide approach to workforce planning and align services with a smaller workforce. The team began their planning in 2012 and will have concepts for implementation in 2013.

Estimate of financial impact

In 2011/12, the overall financial impact of Reconfiguration projects resulted in a slowed rate of growth for operating costs, which dropped from five percent per year to four percent per year. Some teams found that their projects did not have a significant impact on the rate at which costs increased, but many of the projects had other types of beneficial effects such as the positive effect of ending speculation and providing a factual assessment.

Reconfiguration Projects for 2013/2014

Reconfiguration projects for 2013/2014 build upon the planning accomplished in 2011/2012. The commitment to managing increases in costs while also using traditional budget tools to balance the budget creates opportunities for improved decision-making. Elected officials and department heads will have greater predictability, more flexibility and improved responsiveness to community needs. Reconfiguration projects for 2013/14 include:

1. Make the capital plan a working plan with interactive models that show how decisions impact the plan. It should be updatable over time.
2. Develop workforce plans with staffing and service scenarios.
3. Link workforce planning tools to other tools that improve performance and build capacity.
4. Build performance and capacity through LEAN project management and other tools.
5. Continue the Phase 2 Employee Suggestion Team with collection and analysis of suggestions and review of results by budget office. Sunset in 2016 Incentives team to collect and analyze contributions to the Employee Suggestion Program. Results will be reviewed by the Budget Office. Team will sunset in 2016.
6. Sunset Phase 2 committees: Incentive, Internal Service, Urban Service, Regional, and Technology.