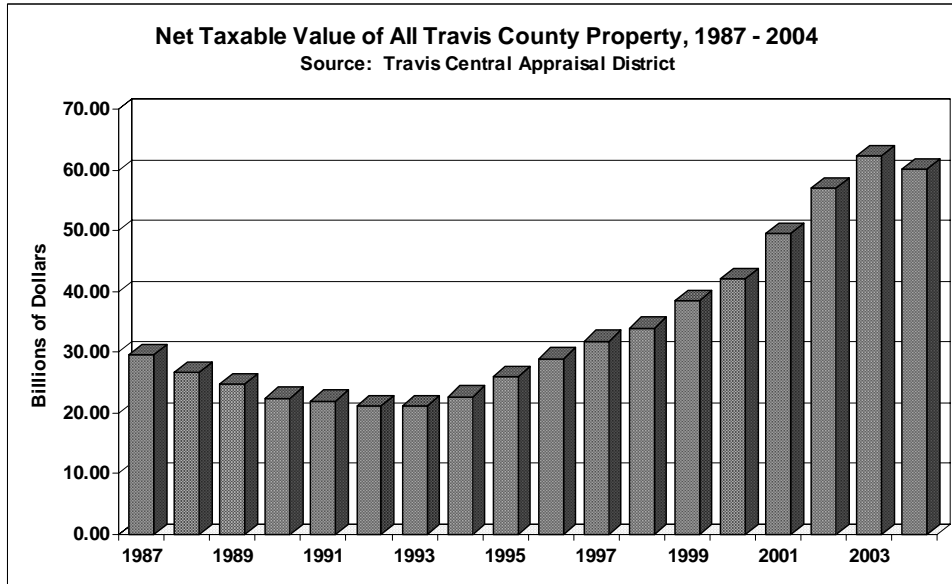


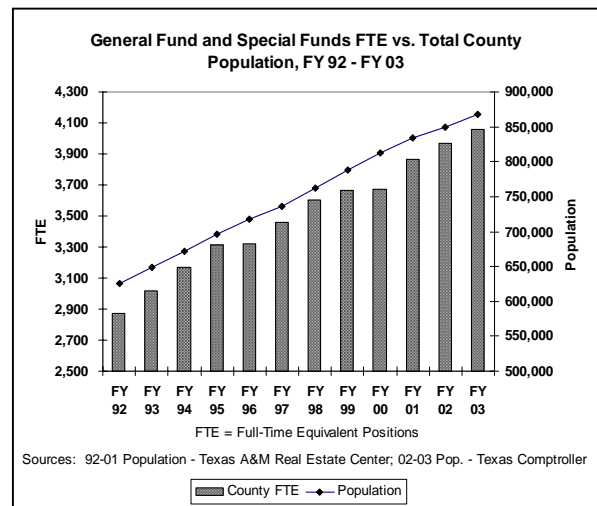
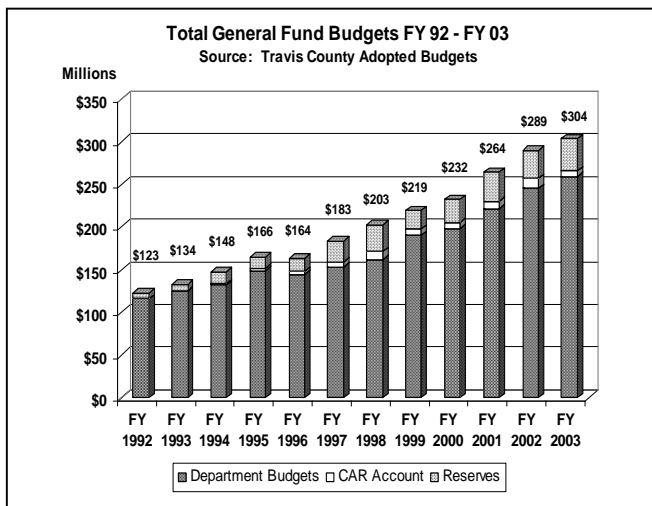
Framing the FY 04 Budget Process

A. Economic Summary and Forecast

Since 1992, Travis County has experienced annual growth in its property tax base. After annual decreases between FY 87 and FY 92, the certified property tax base has steadily increased from \$21.2 billion in FY 92 to \$62.4 billion in FY 02, as shown in the chart below.



In addition to the increased tax base, the Commissioners Court has periodically increased the tax rate above the Effective Tax Rate in order to fund necessary programs and services. The FY 03 tax rate was increased 2 cents above the FY 02 tax rate, which produced approximately \$12.5 million of additional resources. In the last 10 years, the General Fund has increased over \$ 170 million (from \$133.6 million in FY 93 to \$303.8 million in FY 03), representing an increase of 127%.



The two charts above show the changes in the General Fund, total FTE, and County population each year between FY 92 and FY 03. Since FY 92, the County's workforce has increased from 2,870 FTE to 4,055 FTE in FY 03, or about 41%. This is a 3.2% annual increase each year, and essentially matches the annual increase in population since that time (at about 39%). While County staffing levels have

increased proportionately with population growth, County budgets have increased at much higher rates. This reflects increases in compensation levels and programmatic growth. Attached is a table displaying the current adopted budgets for each County department compared to what they were five and ten years ago.

As is the case throughout the nation, this growth has now ended, with the economic recession reversing the trend of economic expansion. Mr. Art Cory, Chief Appraiser, Travis Central Appraisal District has notified Travis County that the non-residential property tax base is very likely to drop approximately 17.8%. This will result in a net drop in appraised values for non-residential property of \$6.0 billion. This decrease is partially offset by an increase in the taxable values of the average single family homestead. **The combination of these two factors equals a 3% decrease in the total property value in Travis County, which is the first such decrease in a decade.** Mr. Cory has also indicated in a December 3, 2002 memo that “it could take several years for the real estate market to recover, and we could see a further decline in the tax base during that time.”

The average individual homestead is projected to increase 2.5%. These factors are projected to potentially increase the average homestead owner’s tax bill at the Effective Tax Rate by \$79/year.

Below are tables that summarize the FY 04 projections.

Property Values Dropping for the First Time in a Decade

	Current	Projected FY 04	Difference	
			\$	%
Property Values:				
Residential	\$28.542 billion	\$29.742 billion	+1.2 billion	+4.2%
Commercial, Multifamily, Land, Personal Property	\$33.626 billion	\$27.626 billion	- 6.0 billion	-17.8%
Preliminary Estimate of New Value	-	\$3.0 billion	+3.0 billion	
Total	\$62.168 billion	\$60.368 billion	-1.8 billion	-2.9%

Property Tax Impact on Homestead Owners

	Current	Projected FY 04	Difference	
			\$	%
Average Homestead Value	\$188,534	\$193,235 (est.)	\$4,701	+2.5%
Value after 20% homestead exemption	\$150,827	\$154,588 (est.)		
Effective Tax Rate	\$.4660	\$.5058	\$.0398	+8.5%
Impact on Average Homestead at the Effective Tax Rate of \$.5058 (with 20% homestead exemption)	\$702.85	\$781.91	\$79.06	+11.2%
New FY 04 Revenue from new construction at Effective Tax Rate	-	\$14 million		

Economic forecasts indicate that Texas may remain in a recession through calendar year 2003, reflecting continuing economic weaknesses since the terrorist attacks on September 11, 2001. This situation will require more challenging measures during the FY 04 budget process than have been necessary in previous years in order to balance the budget. Therefore the Commissioners Court is establishing the FY 04 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 04 budget plans. Below are some key elements of these guidelines.

B. Budget Submissions

Departments will be required to submit their budgets at the Target Budget Level. This Target Budget Level represents the department's FY 03 Adopted Budget plus the annualized impact of any FY 03 increases less any one-time expenses. In addition, due to the drop in the tax base, departments will be asked to supplement their budget submission with a list of proposed 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. Specific expenditures that would be candidates for reduction will need to be identified. If it becomes necessary to implement budget cuts, this information will be used to measure the impact of the cuts on Travis County citizens and on the department.

Departments should collaborate with the Planning and Budget Office (PBO) during January through May 2003 to have PBO help departments cooperatively identify such opportunities for savings. Budget submissions will be due in early May 2003. There is considerable uncertainty about the FY 04 budget and the Court believes that the best way to prepare is to plan thoroughly for up to a 5% drop in resources.

Departments should concentrate on identifying potential cuts for activities that are not statutorily required or service levels that are above minimum levels required by law. Departments should identify those services that are statutorily mandated and those that are not. This approach should 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 basic and the most essential, in order to help focus on functions or services that are more likely candidates for reduction.

Departments are also strongly encouraged to identify reasonable and feasible ways to increase non-property tax revenue, as another strategy for helping to balance the budget.

PBO has been asked by the Commissioners Court to provide departments with appropriate tools and options to use during this process. 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 04 but to also assist in dealing with similar challenges expected in FY 05. The Commissioners Court wishes to avoid across-the-board cuts and believes that this

is a more strategic approach, as it allows choices to be made in the eventual decision about setting a tax rate below the Effective Tax Rate. The Court recognizes that departments know best how to accomplish a “belt tightening”, with PBO serving to facilitate departmental choices and to help conduct necessary research in support of this effort.

In the event a department is unable or unprepared to identify what steps they will take if the department had 5% less than their FY 04 Budget Target, then the Court has directed PBO to do so, and provide departmental observations to the Commissioners Court on the impact of those savings in the PBO budget write-ups.

Departments are urged to focus on efficiencies, increased productivity, and simplification in FY 04 rather than on budget requests for increased resources. This focus will help to make a transition in FY 05 as well, which could easily present even greater budgetary challenges.

C. Reprioritize Internally

Departments will need to reprioritize within their existing resources to fund any 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. Departments must utilize increased productivity generated by increased compensation levels and increased technology support 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.

D. New FTE

PBO will not be authorized to recommend any new FTE’s in the Preliminary Budget that are not cost neutral. 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.

E. Strategies for Balancing Departmental Budgets and Meeting New Needs Without New Resources

The Planning and Budget Office has been asked to provide departments with a list of ways to help facilitate balancing budgets with a 5% cut. PBO wishes to help departments identify cuts that minimize the impact to constituents.

F. Identify Unmet Funding Requests

The Court has asked PBO to provide recommendations in the Preliminary Budget on the highest priority funding requests that will inevitably remain unfunded in the

Preliminary Budget. This must be a listing of highest priority unfunded requests County-wide with appropriate rationale, according to a set of criteria to be determined. This means that the Preliminary Budget is expected to display both: (a) opportunities for budget reductions, and (b) unmet requests.

G. Non-Tax Revenue

Focus attention on non-tax revenue, such as increased collections of fines & fees.

- Commissioners Court or PBO may need to assist in getting a successful collections pilot program implemented in the Tax Assessor-Collector's Office.
- Commissioners Court or PBO may wish to provide increased opportunities to Constables and JP's to pursue increased collections.

H. Sheriff's Corrections Program

PBO is directed to work with the Sheriff's Office to identify appropriate reductions in operating expenses due to reductions in inmate populations. The Sheriff and the Commissioners Court wish to identify and correct any operational inefficiencies in the jail system and to "right size" FTE. In addition, the Court and the Sheriff wish to pursue opportunities to reduce the number of inmates in custody through speedier processing through the Criminal Courts in collaboration with the Jail Overcrowding Task Force. This special attention is necessary due to the impact that the Jail Overcrowding problem has had on all departmental budgets this year.

I. Reduce or Eliminate Bureaucracy and Promote Efficiency

Departments are encouraged to propose a simplification of processes and procedures. Employees will be encouraged to submit cost saving ideas to members of Commissioners Court. These cost saving ideas will be reviewed and a committee will be established to evaluate and recommend to the Commissioners Court proposals that when implemented will produce tangible savings. Employees submitting cost saving proposals will compete for a cash award under a process to be determined.

J. Future Unknowns

The Commissioners Court and departments will need to recognize throughout this FY 04 budget process that there are a wide variety of issues, trends and facts that will likely change. These include:

- New Construction estimates from the Appraisal District are still very rough and may go down (along with changes to the total property tax base);
- Unfunded mandates from the upcoming legislative session may be imposed;
- Unexpected or uncontrolled growth in current activities such as clients to the Rural Medical Assistance Program or indigent attorneys fees;
- 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
- War in the Middle East may have an impact on economic stability, oil and commodity prices, and/or the number of reservists on the payroll.