

# Financial Planning Retreat Leadership Team, Aug 2011





# Today's discussion

- We have experience planning for the future.
  - Started several years ago.
  - Good starting point, just adjust the plan.
  
- Need to refocus our efforts
  - Based on current conditions, what needs to change?
  - “We want change on our terms.”
  - Control what we can!



# Outcomes of LT discussions

1. What we did
2. Understanding the facts of where we are
3. KEY Budget Assumptions going forward
4. Criteria to guide decisions



# Maintaining Service Levels with Reduced Funding

1. The County has absorbed costs of programs funded and subsequently cut by the State and Federal Governments
2. The local funding of these programs are now subject to the Expenditure Limit
3. Future ability to maintain levels of service to offset Federal & State cuts may not be possible



# Aligning and Allocating

***Focus On:***

***From 2007***

**1. Aligning Expenditures to Available Revenues**

- Types and Sources (Risk Correlation)
- Base On-Going vs. One-Time

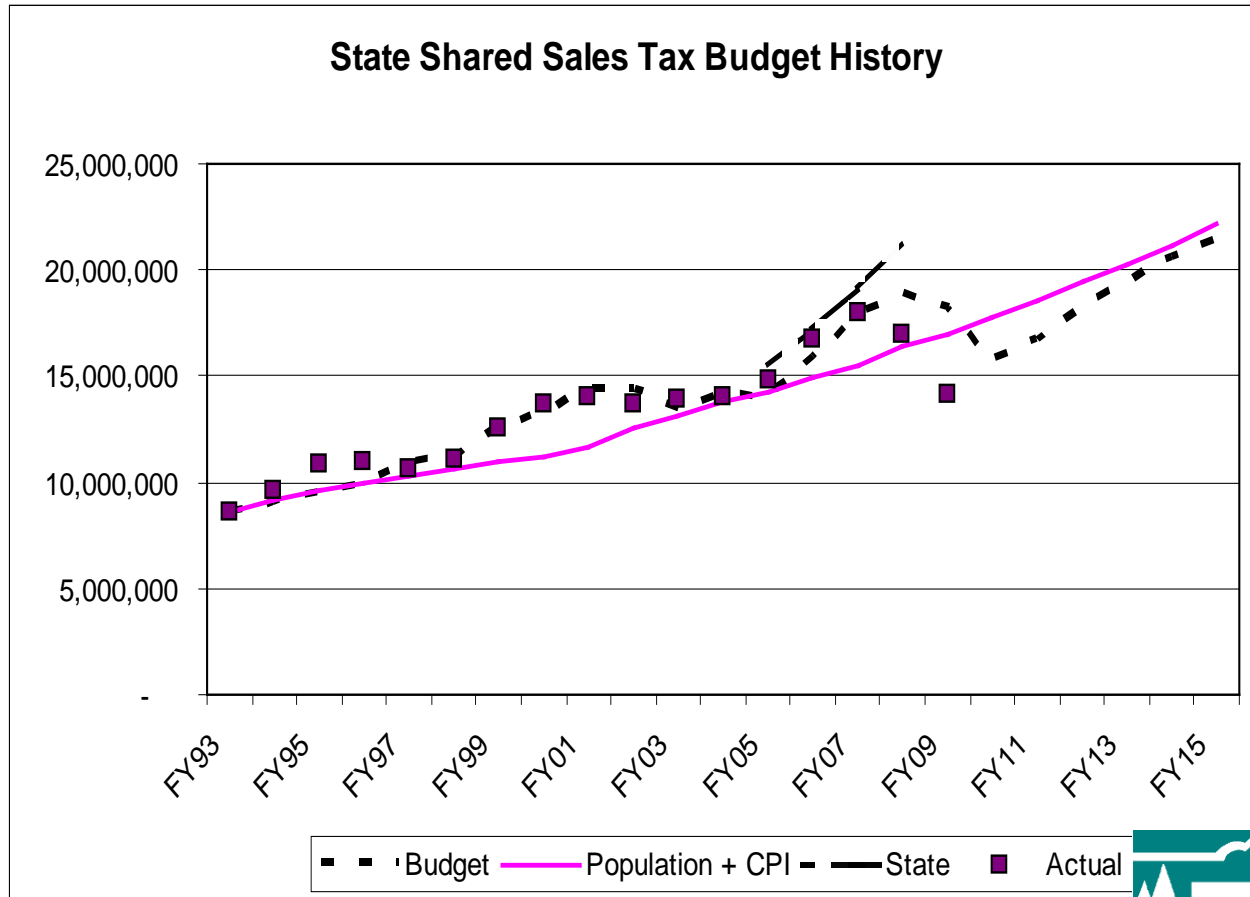
**2. Prioritize Key Expenditures Areas**  
**County-Wide *Mission Critical* Areas**

- Personnel
- Operational Infrastructure

***Quality Service Requires Quality People***



# Revenue History: Recessionary forecasts





# Outcomes of LT discussions



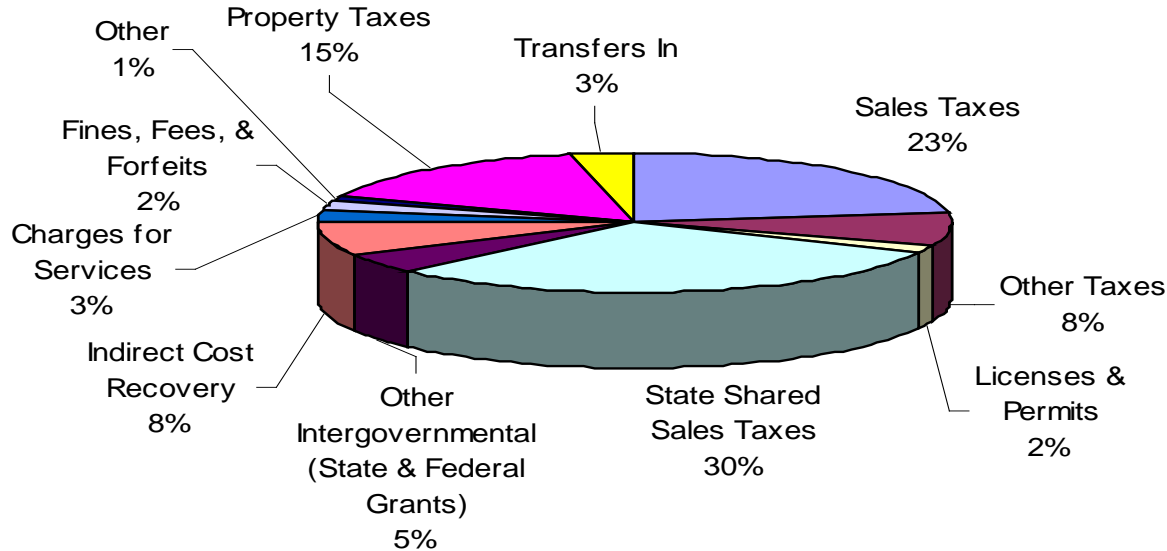
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## Where we are: refocus

- To plan for the future we need to understand the facts of our situation
- Where we are in the economic cycle
- FY12 Adopted Budget (starting point)
- FY12 plan to prepare for FY13 and beyond (next steps)

# Where we are: General Fund



State Shared Sales Taxes	\$ 15,326,750
Sales Taxes	11,398,500
Property Taxes	7,783,484
Indirect Cost Recovery	4,108,200
Other Taxes	3,917,000
Other Intergovernmental	2,265,899

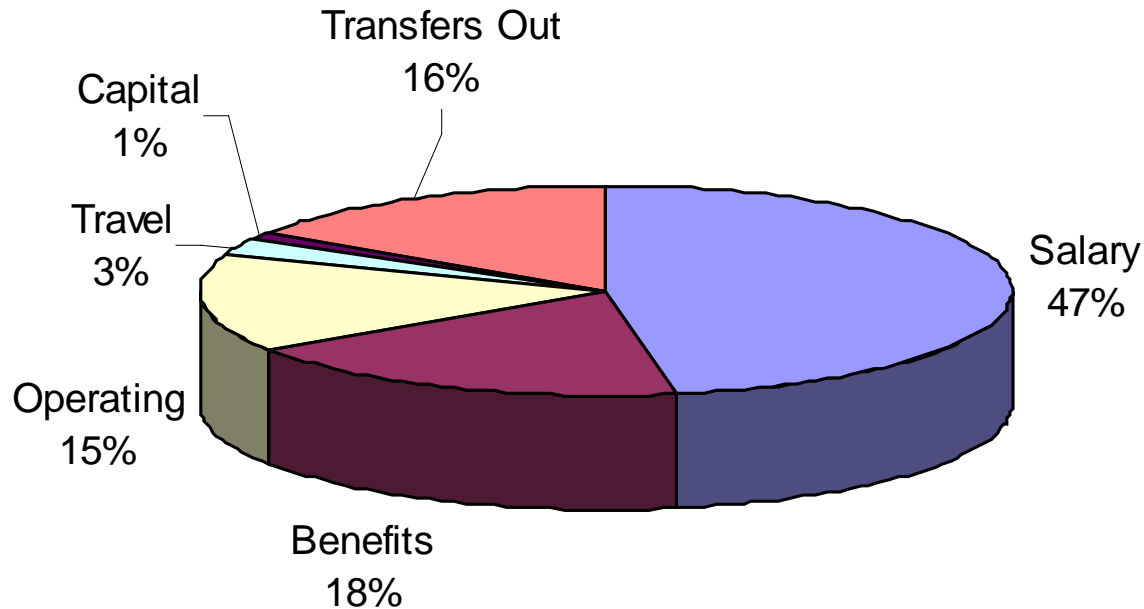
Transfers In	\$ 1,652,957
Charges for Services	1,378,052
Fines, Fees, & Forfeits	1,125,400
Licenses & Permits	892,300
Other	431,436

**FY12 Operating Revenues = \$50.3 million**

(FY11 Budgeted Operating Revenues = \$50.5 million)



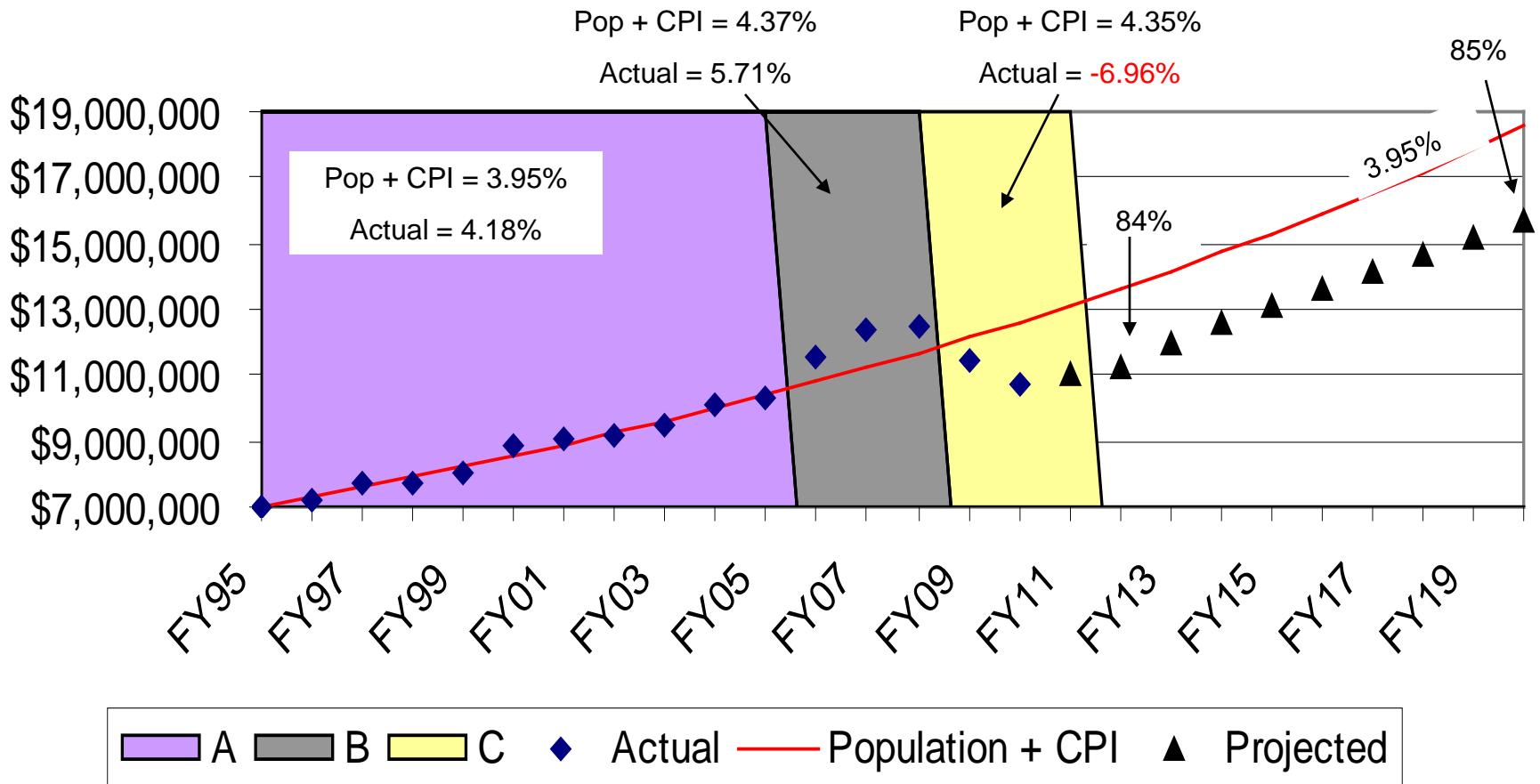
# Expenditures by Category: General Fund



- 65% of General Fund budget is direct salary & benefits
- Transfers out is 75% maintenance of effort payments (Jail District, PHSD)
- FY12 Operating Expenditures = \$52 million



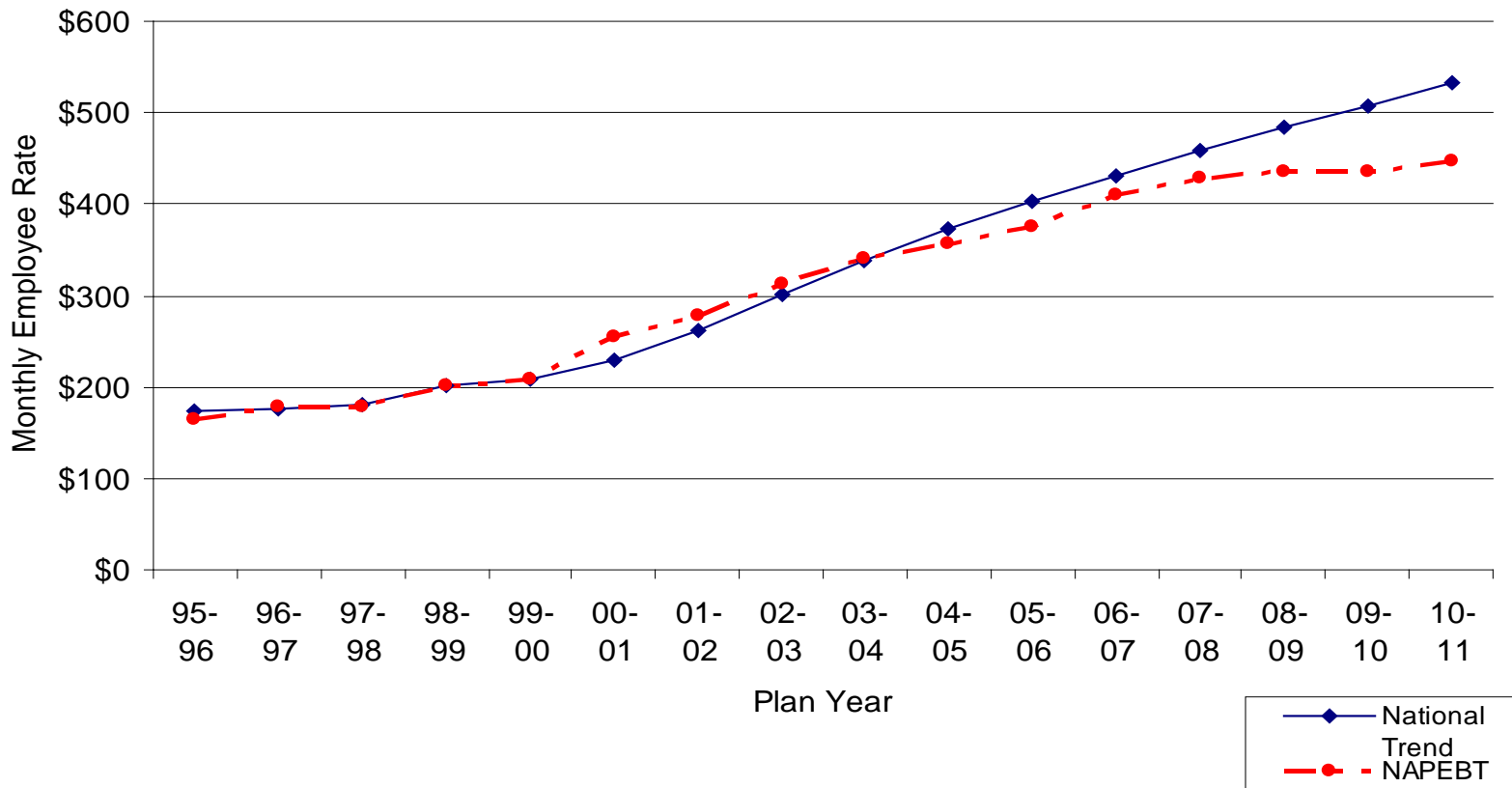
# LESSONS LEARNED: MAJOR REVENUE FORECASTING





# Benefit Costs

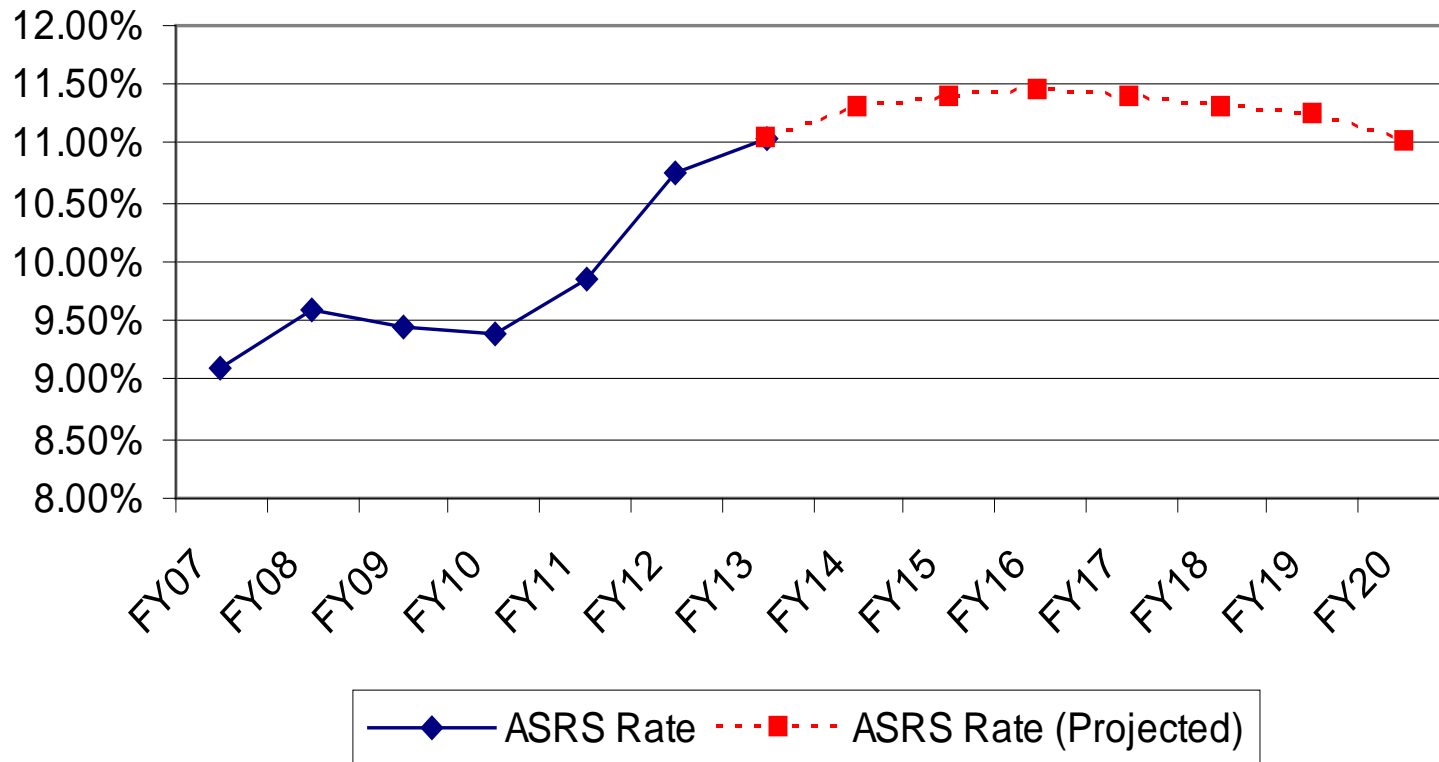
## NAPEBT Health Premium Trend versus National Health Premium Trend





# Benefit Costs

## ASRS Contribution Rates-Projected





## Summary: Where we are

- Flat budget – budgeted use of reserves
- Resume R&R with fund balance available if needed
- Implementation of long-term “roadmap” to financial sustainability over next 5 years, starting in FY13
- Begin planning in FY12
- Economic growth will not solve the structural problem as in past recessions!



# Considerations

- Major funds under pressure
- State & Feds structural deficit (leakage)
  - Expiration of temporary sales tax
- Economic growth expectations
- Expenditure growth rate
  - Faster than revenues (lines cross)
  
- **NEED SOLUTIONS**



## Solutions: Tools in our Toolbox

### ✓ **3 Prong Approach**

- Revenue Opportunities
- Reduce Programs/Services Costs
- Use of Reserves

### ✓ **Legislative Changes (Adds to 3 Prong Approach)**

- Mandates and Required Programs
- Revenue Opportunities



# Revenue Options

- TPT – transportation
- GO Bonds – FMP?
- Flood Control
- Federal Capital funding?

← **Long-term**

- Legislative changes
  - General Fund TPT authority
  - Property/TPT swap proposal
  - Parks District
  - ?????

← **Longer-term**

# Expenditure Options

- Reduce or Control level of Expenditures
  - Local Governments are service delivery organizations
  - Salary & ERE = 65% of budget
- 
- Legislative relief
    - Mandates?
    - Service delivery changes?

*Longer-term*



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# Aligning and Allocating

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*Quality Service Requires Quality People*





# Living Off Momentum?

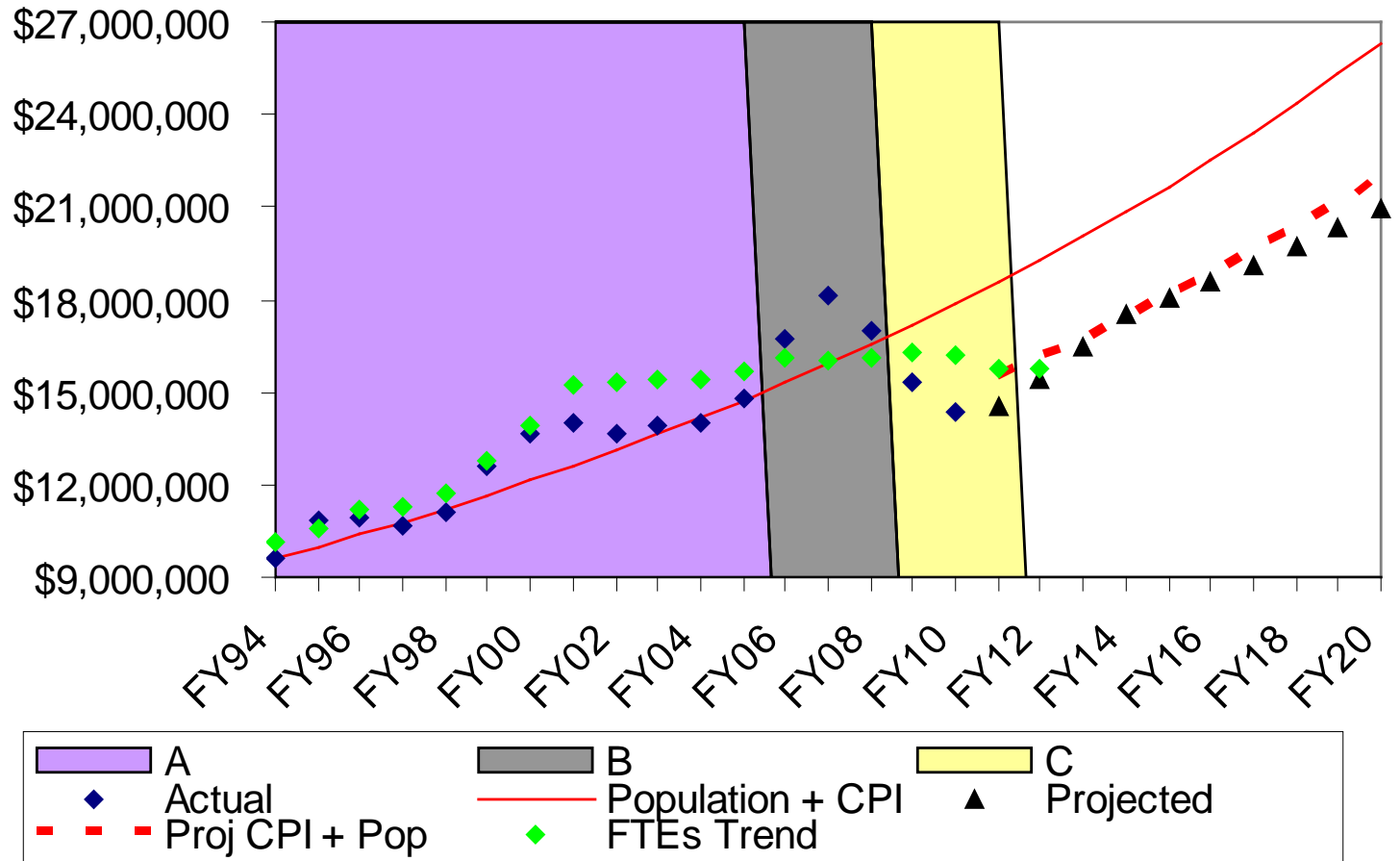
- A program that is funded at \$1 million
- What is full funding? \$1.2 million?
  - Cuts to operations, travel, etc.
- The other end of the spectrum?
  - Staff at 60% of market?
  - Windows 2000 computers?
  - How would “*stuff*” get done?



# Key Assumptions

- Mission Critical areas adopted as a priority in Financial Planning
- Compensation competing with program funding delayed the problem in the past to the point of reaction.
- Reached 26% turnover

# Vikings Chart: State Shared





# Financial Planning Trends

Many of the messages from 2007  
still ring true today!

- County's Financial Flexibility is Restricted and Constrained
- Growth in Mandated Expenditures Due to Funding Cuts
- Rising Benefits and Retirement Costs
  - Combined with frozen merit increases = Decreasing net pay for employees
- Long-Term Plan is Necessary
- Focus on "Mission Critical" areas:
  - People and Infrastructure are essential to delivering service
- Trends Continuing in FY12 and Beyond



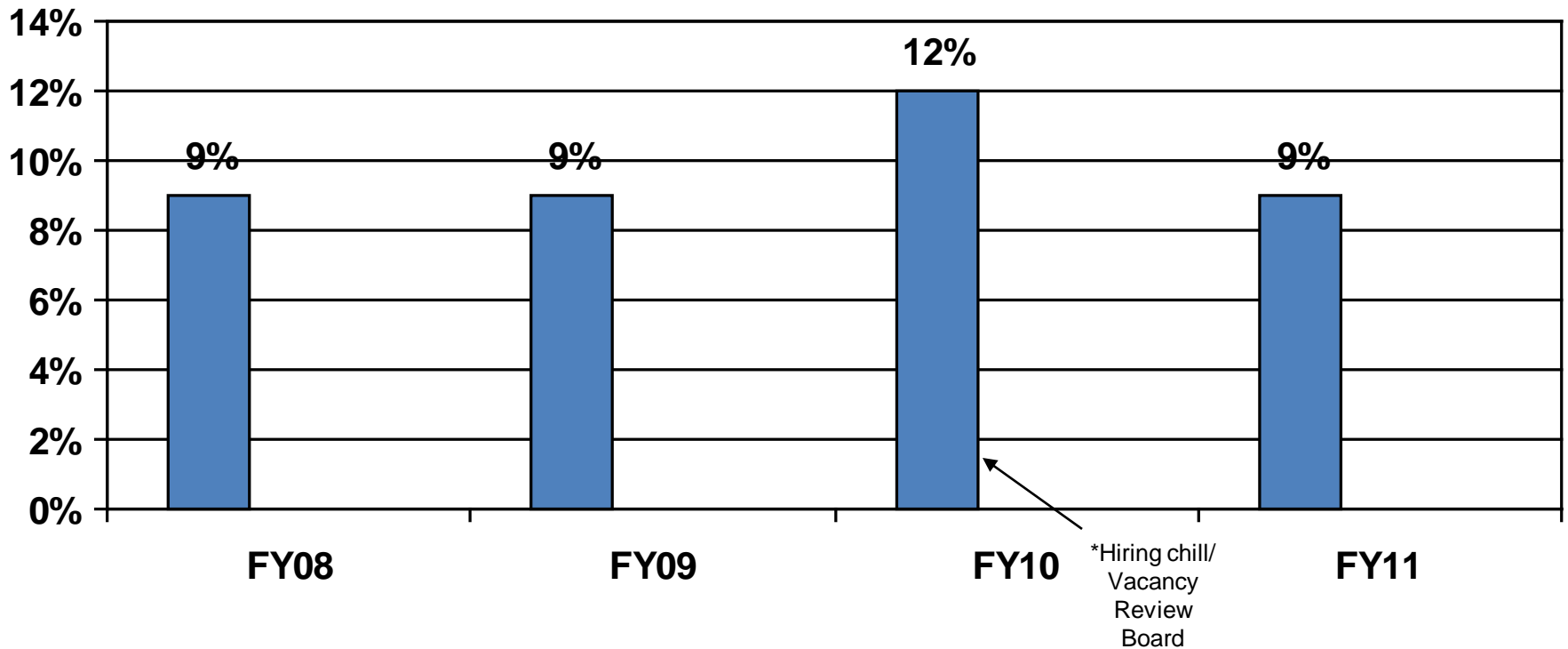
# Key Workforce Indicators/Measures

- Vacancy Rate
- Turnover Rate
- Turnover Rate Comparisons
- Employee Reasons for Leaving
- Costs of Turnover
- Impacts of Turnover



# Key Workforce Indicators/Measures

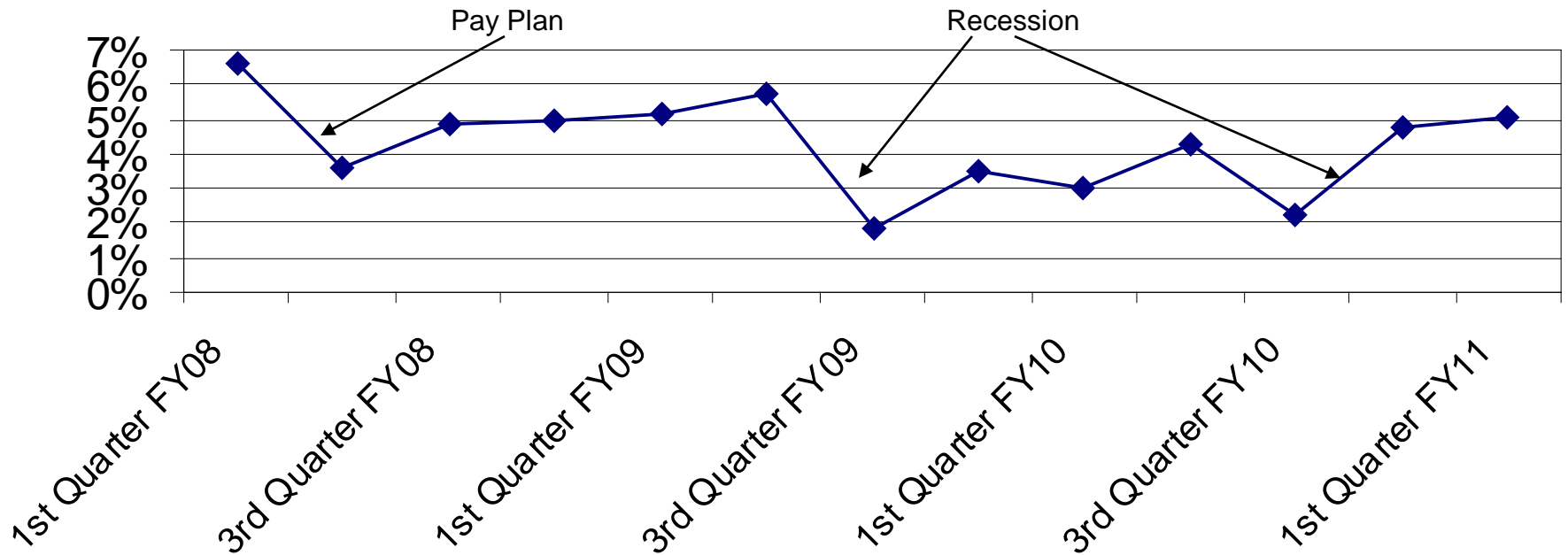
## Coconino County Vacancy Rate History





# Key Workforce Indicators/Measures

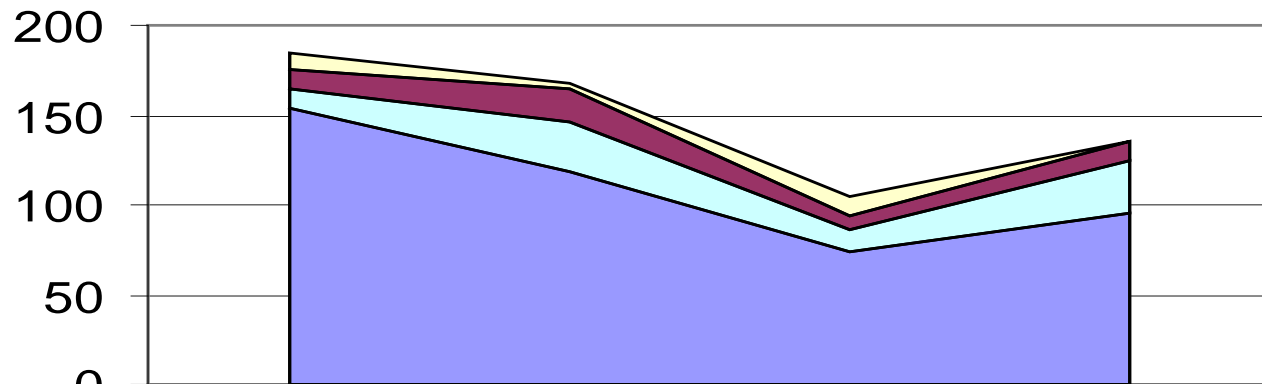
## Turnover Trends: FY08 - Present





# Key Workforce Indicators/Measures

## Actual Turnover by Category



	CY07	CY08	CY09	CY10
□ LAYOFFS	10	3	10	0
■ INVOLUNTARY	10	19	8	12
□ RETIREMENT	11	27	12	29
■ VOLUNTARY	154	119	74	95



# Key Workforce Indicators/Measures

## WHY ARE EMPLOYEES LEAVING?

- 2007 Top Reasons for Leaving: 1) Taking Another Job in the Same Market; 2) Personal Reasons; 3) Cost of Living
  - *Over 66% Rated Compensation “Poor” or “Fair”*
- 2010 Top Reasons for Leaving: 1) Job Opportunity; 2) Cost of Living/Moving out of Area
  - *82% rated compensation as “Fair” or “Poor”*



# Key Workforce Indicators/Measures

## The Costs of Turnover

- ***2007 Annual Turnover Cost: \$6.5 million***
  - *Based on Median Annual County Salary of \$37,000*
- ***2010 Annual Turnover Cost: \$4.6 million***
  - *Based on Median Annual County Salary: \$39,938*

Turnover Cost: Between 75% and 125% of Annual Salary  
Conservative Estimate Using 75% of Median Annual Salary



# National Workforce Trends

- Labor force not meeting job market needs
- 2011 median base salary projected to increase 2.8% (2010 Hay Salary Survey)
  - 98% of companies say they plan to award base pay increases in 2011 (Mercer 2010-2011 US Compensation Planning Survey)
- Private industry growth in earnings (2009) = 2.2%
- SHRM-recommended top initiatives for 2011:
  - Focus on Succession Planning and Talent Acquisition
  - Lift Pay Freezes
  - Find Innovative Approaches/Non-Monetary Rewards



# National Workforce Trends

- Although available jobs remain scarce, “if you are a top performer in a critical role, you are still valuable in the marketplace,” *CNNMoney, July 27, 2011*
- The top-performing employees—just 8% of the workforce—will see their salaries increase by an average of 4.8% next year. The weakest performers will be lucky to see anything at all. *CNNMoney, July 27, 2011*
- Impact to Coconino County turnover?
- Even with 9%+ unemployment?
- When will the impact be felt?



# County Compensation Strategy

## *Goals:*

- Improve Service to the Public
- Strengthen the Overall Workforce
- Reduce Wasted Costs of Turnover

*“Quality People = Quality Service”*



# Key Assumption Example

- Sample program – 10 fte's
- With 20% turnover
- Program is at 80% efficiency
- Minus – lost productivity to training and supervision of new employee
- Minus – lower productivity of new ee
- Same budget – 8 fte's
- Adjustment to Comp & ERE
- Program is at 80% efficiency
- No training/recruiting costs
- Retain skilled/trained workers – higher productivity



# Key Assumption Example

- Sample program – 10 fte's
- With 20% turnover
- Program is at 80% efficiency
- Minus – lost productivity to training and supervision of new employee
- Minus – lower productivity of new ee
- *Can estimate for 9 fte's*
- *Other impacts to productivity:*
  - *Workspace?*
  - *Upgraded technology?*
- *Level of Service provided?*
  - *May need LOS adjustments?*
- *May not create savings?*
- *Will not work for all programs!*



# Key Assumptions

- Basic question:




Not specifically at market, but at an appropriate level, do we consider Mission Critical Infrastructure (Compensation, workspace and technology) first, before deciding on the funding level of programs?



# Comp Plan Range of Possibilities

- Hay Study Implementation = Bring all FTEs to Minimum
  - \$1.8 Million
- Bring all FTEs to 10% UNDER market
  - \$3.2 Million
- Bring all FTEs to 5% UNDER market
  - \$5.1 Million
- Bring all FTEs to market
  - \$7.3 Million

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# Why do we have government?

- Public safety
- Public Health & welfare
- To provide services to a community that can't, won't or not efficient to be provided by business or citizens.



# Run Government like a Business?

- Profit driven vs. for the good of the community?
  - Define Profit
  - Define...good of the community
- Business – fee for service/goods
  - Who is billed?
  - Direct services received?
- Tax equity
  - School district
  - Jail district tax



# Basic Definition of Government

- Popular election of officers OR appointment (or approval of a controlling majority) by officials of one or more state or local government
- The potential dissolution by a government with the net assets reverting to a government
- Power to enact AND enforce a tax levy