BUDGET COMMUNITY ADVISORY PANEL

Improving Fiscal and Operational Capacity for the Long-Term

Final Report to the Tompkins County Legislature

September 1, 2009

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Introduction

In 2004, as a part of Tompkins County's response to a fiscal crisis facing counties throughout New York State, a group of nine citizens was called together by the Chair of the County's Budget and Capital Committee to provide recommendations regarding fiscal practices and policies. The Budget Community Advisory Panel, or CAP, presented its recommendations regarding both short- and long-term budget and operational measures to the County Legislature in June 2004.

In the intervening years, the County has implemented nearly all of the CAP's recommendations, including the pivotal strategic decision to begin the budget process with tax levy and spending targets.

The fiscal crises of five years ago that spawned the CAP was largely the product of public policy decisions—particularly the State's shift of Medicaid cost burdens to counties and enhancements to the statewide public employee pension program—exacerbated by the after effects of the 9/11 attacks on the state and national economy.

Today, Tompkins County faces a greater and, it is believed, longer-term challenge. In 2009, the County began to experience the effects of the most severe global economic downturn since the Great Depression. Businesses and institutions long believed to be immune from the ups and downs of the economy, including Tompkins County's largest employers, have experienced major financial setbacks and have pared back both employment and spending.

The effects of the recession have been quick to show up on the County's balance sheet. Local sales tax revenues have been in decline since late last year and are now expected to fall $2 million short of the County's 2009 budget target. As revenues are falling, human service expenses are rising as more members of our community find themselves in need of the safety net of human services that are provided in New York State by counties and a variety of non-governmental organizations as well.

The trend of rising expenses and falling revenues is not only expected to accelerate in 2010, but be jolted further by the first of what is expected to be a series of sharp increases in pension contributions—another product of the recession.

The longer-term effects of the current recession must also be acknowledged. The broad and deep recession has resulted in an extraordinary reduction in the nation's wealth over the past year. Falling property values and greatly diminished personal, corporate, and institutional investment portfolios have altered the public's ability to pay for everything from automobiles to government services.

Policy makers at every level must acknowledge that much of the wealth that has supported programs and services no longer exists.

In April of this year, the County Administrator projected that simply continuing County operations without change would require a 15% property tax increase in 2010—a

prospect the County Legislature recognized as untenable, given the financial hardships already being experienced by residents and businesses.

In June, the Legislature established a property tax levy target of 3%, requiring spending cuts of $2.4 million by County departments, wage restraint by County employees, and $1.3 million in either new revenue or applied reserves.

As one means to solicit informed input from outside government, the County Administrator, Chair of the County Legislature, and Chair of the County's Budget, Capital and Finance Committee invited several former members of the 2004 CAP and a few others to reconvene and, as before, prepare recommendations to the County aimed at addressing the fiscal challenges that promise to persist for the next several years. (See page 3 for the list of CAP members.)

The Panel met four times over the course of May through July, including an initial briefing regarding an update of progress on the CAP's 2004 report and the 2010 budget situation. Jim Dennis, Chair of the Budget, Finance, and Capital Committee chaired the meetings and provided guidance and leadership throughout the process.

The set of findings and recommendations included in this report emerged from active, respectful exchange of diverse views held by Panel members. The report has been reviewed and refined several times by the group and represents a consensus of its members.

Review of Progress Since 2004

The Panel reviewed the 2004 CAP report to determine the County's progress in implementing its recommendations.

The review found that many of the CAP's recommendations were fully implemented and have become a part of the County's standard operating procedures. Other recommendations have been incorporated in part or in the spirit rather than letter of the original recommendation. .

The establishment of tax and spending caps at the beginning of the budget process was the most significant reform proposed by the CAP. That key recommendation has been fully adopted by the County. In retrospect, the members of the current Panel find that the intent of the recommendation—to adjust spending to the level of available resources rather than the reverse—has been achieved. The target process has been respected by department heads, the County Administrator, and the Legislature and has promoted a higher level of fiscal discipline. .

Other major reforms recommended in 2004 and adopted by the County include the creation of a 20-year capital plan; a reserve policy; and work with the Tompkins County Council of Governments (TCCOG) on a number of inter-municipal cooperative agreements, most notably the health benefits consortium.

In addition, the 2004 CAP recommended the adoption of a number of performance management measures to systematically monitor and improve performance. A number of actions have been taken to fulfill this recommendation, including the Core Performance initiative and the current County Administrator's focus on developing a countywide performance measurement system. While progress has occurred, this report will recommend redoubling the County's efforts to implement this key recommendation.

An assessment undertaken in 2007 to document the status of each of the 2004 CAP recommendations is attached.

Findings Regarding the County's Current Fiscal Context

The current CAP recommendations are based on its findings and opinions about the environment within which the County must operate, and the implications that this environment has on the County's fiscal and operational capacity. Specifically, the Panel finds:

1. The economy is not likely to rebound quickly from the current recession. In fact, the recession may be a harbinger of long-term structural changes in the nation's economy.

2. As the recession continues to take a toll on the New York State budget, there is a high probability of additional immediate and future cuts in State aid to counties, schools, and local governments. The State has projected a deficit of $9 billion and $14 billion as federal stimulus funds dry up in 2011 and 2012, as well as a $3 billion deficit in the current fiscal year.

3. New York State counties are particularly vulnerable in the current downturn. As the mandated providers of human services, county expenses are rising just as their own-source revenues (particularly sales taxes) are in rapid decline and State aid payments are at risk in State budget cutting exercises.

4. The effect of the recession on the New York State Public Employees Retirement System's asset fund is profound and will drastically increase the cost of every government in New York State. Nearly all public employees (including employees of public agencies and authorities) in New York State belong to the State pension system. It is believed the State Teachers Retirement System will face similar near- and long-term pressures. In light of the dramatic decline in the holdings of the Retirement System due to the national recession, the State Division of Budget has estimated that employer contributions to the State and Local Retirement System will rise from 7% of wages in 2009, to 11.5% in 2010, to 17% in 2011, and to 24% in 2012. Published reports have indicated the State Comptroller projects the employer contribution rate to be nearly 33% in 2015 (40% for police and fire employees). Clearly, pension costs will claim substantial future resources otherwise available for direct services and programs.

5. As all local governments and schools experience rising costs and reduced local revenue and State aid, competition will intensify for property tax dollars from already over-burdened property taxpayers and for a broad variety of other sources of revenue.

6. Even moderate increases in local tax levies are likely to exceed the declining affordability of large segments of the local population

7. The current scope and level of County services are not sustainable in this new economic environment. The gap between rising expenses and stagnant or declining revenues is already too high to be closed with even a reasonable property tax increase. This gap will grow even larger over time, suggesting the following:

   - The County cannot "wait out" the recession by relying on one-time measures, such as draws on its reserves, to fill budget gaps. Given the expected long-term nature of the problem, short-term only solutions will not be effective.

   - A sustainable budget will require the elimination or reduction of non-essential and non-mandated programs and the delivery of services by a smaller County workforce. Conceivably, there may need to be a shift of some services (in part or in total) to non-governmental organizations.

   - The rapid rise of fringe benefit expenses, particularly health and pension costs, raises the prospect that public employees will increasingly enjoy a total compensation package well in excess of their peers in the private and not-for-profit sector.

   - Mandated programs must not be viewed as off-limits for cost reduction or containment strategies—efficiencies can always be found and creative new approaches need to be explored for even the most tightly-defined mandates.

Recommendations

Based on these findings and opinions—and also after reviewing the compilation of potential budget control measures that have been advanced over the past several years by legislators, administrators, department heads, and employees—the Panel recommends the following specific immediate and longer-term actions by the County under the headings of *People, Programs,* and *Partnerships*:

People. Personnel expenses remain the largest single cost within the County budget and, largely because of fringe benefit costs, are among the fastest growing items in the budget. To put the County's challenges into perspective, even if salaries are frozen for the next six years, the overall cost of compensation (salary + health benefits + pension contribution) to an average employee will go up by over $17,000, or 27%, if health costs rise by an average of 6% per year and pension costs escalate to 33% by 2015. The Panel recognizes that improvements in the national economy and continued investment by the federal government may offset somewhat these startling estimates, but the downside exposure to the County and its taxpayers remains significant.

The $17,000 increase in fringe costs would add almost $13 million to the County budget. Because state and federal reimbursement rates are generally capped, most of that cost would have to be supported with local (property and sales tax) dollars.

Therefore, if the County is to control spending, it must stabilize its total labor costs. There are only two ways to accomplish that:

1. Reduce the number of County employees by:

    - Achieving productivity/efficiency improvements
    - Identifying alternative providers
    - Reducing the scope and level of County services and programs

2. Restrain growth of compensation

    - Reducing the taxpayer-supported cost of employee health care by increasing employee contribution levels and/or reducing the cost of the health plan
    - Reducing wage and salary levels
    - Pension Plan Considerations: Pension contributions by existing employees and employers are fixed by law and cannot be locally adjusted. The change in the pension plan and structure could occur only through the creation of a new "Tier 5" plan by the State Legislature that would be applied solely to employees hired after the new "tier" was enacted.

The Panel recommends the following actions:

1. Reduction in Workforce

    - Set a goal of reducing the County workforce by 3.5%, or 27 employees, in 2010. To the maximum extent possible, achieve this goal through the management of natural attrition. This will return the general funds roster close to its 2006 level of 745 FTEs. We recognize that the federal stimulus program has as one of its major objectives for 2009 the avoidance of all but the most unavoidable reductions in employment by state and local governments, but the probability that these funds will not be renewed in the years ahead demands the County plan for the necessity of workforce reductions.

2. Implement Salary Survey

    - Conduct a local salary survey that considers wages, fringe benefits (including retiree health plan), and work schedule (i.e., contractually provided days off) of County employees and their peers in the private, institutional, and not-for-

profit sectors within Tompkins County. Use the results of this survey as a benchmark in current and future negotiations and in managing non-union compensation.

3. Productivity and Efficiency Improvements (intermediate term)

   - Participate in or duplicate the successful "Lean Office" initiative undertaken by Tompkins Cortland Community College (TC3), in which employee work groups, aided by expert facilitators, develop streamlined processes to deliver services.

   - As a part of a "Lean Office" initiative, fast-track funding for office automation and other technology that work groups find critical to achieving efficiency improvements.

   - Actively encourage County employees and members of the public to submit thoughtful suggestions for the reduction of waste and inefficiency in County operations.

4. Restrain the Growth of Compensation

   - Orient labor negotiations toward a "total compensation" approach in which the value and cost of fringe benefits are accurately quantified and recognized by all parties in the negotiation process.

   - As a part of upcoming 2010 wage negotiations, create "trainee" wage rates for new employees for the first year of their employment.

   - Review the possibility of fewer job titles with a broader scope of responsibility, allowing greater flexibility to move employees among assignments, units, and departments to coincide with workload demands, as well as to implement an intelligent attrition management plan.

   - Review current workweek levels for all employees, identifying not only areas where work weeks can be shortened, but also areas where increasing the workweek from 35 or 37.5 hours to 40 hours to address workload demands may be a more cost effective solution than hiring new employees.

   - As a part of the upcoming 2010 wage negotiations, seek adoption of a health benefits program for all new employees that would require a higher employee contribution toward the cost of care.

   - Cease the current practice of allowing senior management employees to accrue compensatory time for hours worked beyond their scheduled workweek, and to be paid for unused comp time at the termination of their employment. The change would apply to future compensatory time, allowing senior managers who have accrued comp time under current rules to maintain that balance and be paid for unused time at termination.

5. Tightly Manage Overtime Levels.

6. Service Delivery Alternatives

   - Explore expanded use of local not-for-profit agencies

   - Review cost effectiveness of services currently provided by alternative vendors; compare with cost to provide with County staff

7. Aggressively pursue reductions in non-personnel related costs through new sources, different specifications, mutually creative negotiations, etc.

Programs. As indicated earlier in this report, the Panel believes the current scope and level of services provided by the County cannot be sustained with available resources. The elimination or reduction of lower priority programs and services will be controversial, negatively affect both community members served by the programs and County employees who deliver them, potentially causing unanticipated adverse consequences.

However, the cost to maintain all existing levels of service is also high: depletion of the County's modest reserves, the drift toward mediocrity caused by successive across-the-board cuts to even the most essential projects, and property tax increases on already overburdened property taxpayers.

The Panel recommends the following actions:

1. Approach its budget review, during the course of the 2010 budget cycle, from a programmatic perspective, using its insights and the limited tools currently available to prioritize programs, and eliminate or reduce those at the lowest end of the scale.

2. Respond to reductions in targeted State aid, where possible, by reducing the service supported with that aid, rather than replacing State aid with local dollars. This may become particularly relevant soon, as the State assesses its current year finances and makes necessary budget adjustments.

3. Institute an organization-wide system of program evaluation, performance measurement, and benchmarking (intermediate term). The County currently lacks many of the tools necessary to inventory its many programs, evaluate their performance, and compare itself against peer governments—the basic management tools needed to assess and improve performance. Although efforts have been made to develop those tools, and implement them on a consistent, countywide basis, it remains a work in progress. County Administration should place its highest priority on this initiative. Recent steps, including a Legislature/Department Head Retreat to discuss the initiative and the hiring of a Program Analyst, are promising, but insufficient.

This Panel**:**

Does not view performance measures as a budget tool but, instead, as a management tool that will help assess and improve performance while also informing the Legislature and the public about County services and the relative value they provide.

Believes, however, that such a systematic monitoring of performance will result in operational improvements and efficiencies that will result in future cost savings and quality enhancements.

Recommends that the County also contact State funding agencies to determine whether useful benchmark information already exists at the State level, derived from data routinely supplied by County agencies.

Also recommends that the County investigate relevant benchmarks and excellent practices that exist in other states.

4. Establish a protocol for the review of capital projects and proposed programs that requires a "business case" to be presented to the County Administrator and Legislature that sets forth:

   - Expected costs
   - Expected benefits (both qualitative and quantitative)
   - In the case of operating programs, the criteria that will be used to evaluate success and performance in the future.

Partnerships. As was the case in 2004, the Panel encourages the County to reach out to other governments and non-government organizations in the area to explore areas of mutual interest and benefit, with the goal of providing more efficient, cost effective service to taxpayers. We are pleased to see such solid progress on the Health Benefits Coalition initiative being managed by TCCOG, and believe this may be a springboard for other cooperative efforts. We encourage the County to include area school districts, TC3, TCAT and, as appropriate, Cornell University and Ithaca College in these shared service discussions.

Conclusion

The members of the Panel recognize the laudable work that has been done by the County to reduce costs and improve services during the years since we last convened. It is heartening to see that our work did not end up on a dusty bookshelf, but served as a blueprint for a number of actions that have made the County stronger and more able to adapt to the kind of hostile environment that exists today.

We also recognize the County's efforts to articulate its challenges and alternatives to County employees, managers, and the general public. Communication during a critical

period such as this is important. In fact, we encourage the Legislature and County Administrator to do more to educate the public about the budget, the hard choices that confront us, and the logic of decisions that must be made. In addition to standard public forums, the County may consider various "new media" that have been used by other entities to communicate with community members who are not willing or able to attend public events.

We look to the County Legislature, County Administrator, and County Department Heads to continue to commit to exemplary and creative leadership in tackling these critical issues and challenges—investigating and assessing every meaningful alternative—and in seeking the best possible tradeoffs between meeting the community's needs and setting affordable tax levies and fee structures.

It is hoped that exemplary leadership now by the County Legislature, County Administrator, and County Department Heads will also encourage and inspire all other local government entities and school districts in Tompkins County to be as creative and aggressive in challenging all areas of cost and in reducing tax levies.

As we have since our last report, we commit ourselves to the same goals and stand ready to assist the County in any way possible to achieve these recommendations.