

## County Budget Process

### Definitions:

Allocation: Certain administration and program lines are allocated to county departments by the State. The allocation is a specific dollar amount beyond which the State does not guarantee reimbursement. The actual amounts of the allocations for your county can be found in the Preliminary Allocation and County Budget Letter. All figures listed are “whole” dollars in that they comprise the state, federal and county dollars that total the maximum amount that may be reimbursed.

Appropriation: The legal act of identifying funds for specific purpose. Your commissioners act as the executive and legislative bodies for your county. The act of Appropriation gives your department the spending authority to carry out your budget. Without it, you could not legally spend money, even if your fund balance was quite large.

County Contingency: In addition to normal reimbursement, counties whose valuation has fluctuated to a point that their 20% share cannot be met without exceeding a specific statewide mill levy threshold, are eligible for county contingency payments. These payments are made monthly and may be adjusted back at close-out, depending on the county’s year end position in relation to the threshold. The payments represent 50% of those 80/20 reimbursable expenditures that are driven in excess of the mill levy threshold. The threshold is determined by the following formula:

For Fiscal Year 2000

Tv98 = total valuation for all contingency counties in 1998

Tv99 = total valuation for all ‘98 contingency counties in 1999

Mth99 = Threshold for 1999

Mth00 = Threshold for 2000

$$(Tv98 \div Tv99) \times Mth99 = Mth00$$

This formula may be found in CRS 26-1-126

EFT/EBT System: The Electronic Funds Transfer and Electronic Benefits Transfer Systems are the payment points for many expenditures made to clients and providers of county departments. Counties specifically authorize the state to pay program benefits and provider charges through this system. When an authorization is received from a county, the system either pays the noted provider by electronic funds transfer, or in the event of a client program payment, credits the client’s account. The client can then

access their account through an ATM type card. This is much less expensive than issuing warrants for these payrolls and it also avoids the work generated by advancing funds to counties, who then expend and report the expenditures to the State, in order to have the next advance adjusted by the previous month's over or under expenditure [due to / due from state].

Instead, the county authorizes the payment, the state makes the payment and then adjusts the county share of the total expenditure to the State.

Although you are only charged the county share of the expenditure, it is very important to closely monitor the total expenditures authorized in the allocated lines because if you exceed the allocation limit, you may have to cover the over expenditure with county-only funds.

Expenditure: An expenditure is made when an authorized county warrant is issued. It is the result of a single act of spending. Though not accomplished by warrant, the county share [see above] of EBT/EFT payments is adjusted by the State Division of Accounting and has the same effect as an expenditure by warrant; i.e., county money is paid to accomplish some purpose.

Our system of accounting is based on the modified accrual method. This means that an expenditure is counted as being made in the month in which the warrant is issued. By way of example: A personnel consultant draws up a merit plan for your department and delivers it to you in the month of October. She sends you a bill for \$ 1,500.00 in early November, which you pay by issuing a warrant in that amount in a November payroll. For some reason, she does not cash the warrant until December, so the funds are not drawn from the County Social Services Fund until December. This is seen as a November expenditure because the warrant was issued in that month.

Revenues: The revenue section is complicated because revenue consists of federal, state, and county dollars, each with unique characteristics. Strictly speaking, most federal and state dollars are not revenues in that they come to the department only as reimbursement to an expenditure that the department made. If the department made no expenditure, no federal or state dollars would come to the department. County revenue dollars and certain payments made by the state [e.g.: excess IV-E distribution, Parental Fee Incentives] are true revenues. Federal revenue comes to the department in two main ways: as partial reimbursement and by a pass-through method. Federal funds received by the department as pass-through do not include any state funds, but they almost always require some local county match. These funds come to the department in only a few programs, and the percent of reimbursement varies. ( See Preliminary Allocation and County Budget Letter)

Federal revenue coming to the department as a portion of program reimbursement is not identified as federal revenue but is included as a portion of what is called State Revenue or State Grants. Your budget does not separately list federal dollars in the computation of state grants that reimburse expenditures. Your accounting section may later determine the amount received for reasons not associated with the creation of your budget. The amount of state revenue that the department may obtain against a department's expenditure is dependant on one or both of two factors:

- 1] The type of expenditure. Reimbursement rates vary across different programs (See Preliminary Allocation and County Budget Letter)
- 2] A State Allocation to the department.

Revenue- County: County Revenue available to the department is appropriated by the County Commissioners and is composed of:

- 1] Delinquent property taxes
- 2] Specific ownership taxes
- 3] Penalties and interest on delinquent taxes
- 4] Non-property taxes ( sales/use)
- 5] Other government revenue
- 6] CSE Incentives and IV-E and/or parental fee distributions
- 7] Property taxes.

Property taxes assessed on county real property constitute the vast majority of county revenue available to the local department. The Board of County Commissioners determines how much property tax will be assessed in the county each year and a portion of the assessed property taxes which will be made available to the department as revenue in the department’s budget. Boards generally go through the following process: The Board determines the amount of property taxes that each department in the general county government needs in order to operate. A calculation is then made in order to determine a “mill levy”. The Board determined mill levy is then transmitted to the County Assessor who uses the mill levy figure to assess property owners the amount of property tax they will be required to pay. The mill levy is a county-wide constant ratio by class [residential, commercial...] and is applied to property of varying value, i.e.: property with higher assessed value pays more dollars in property tax. The mill levy for the department is calculated as follows: Property tax required divided by County Assessed Valuation multiplied by 1000.

Example:

$$\frac{\$ 226,024}{\$ 79,676,541} \text{ Property tax required} \\ \text{ Assessed Valuation} = .002837$$

$$.002837 \times 1000 = 2.84 \text{ mill levy}$$

A mill is 1/1000<sup>th</sup> of a dollar.

Working Balance: This is an amount of county money appropriated to meet the county share of expenditures in the first quarter of the year. During this time, taxes are not yet received, and the county might encounter a cash flow problem. The working balance is available to offset that potential problem.

**Process:**

The budgeting process, planning a year’s business and forecasting the expected expenditures and revenues underpinning that plan, is a process of proceeding from an accumulation of data on actual expenditures/revenues, to the creation of a document that

details the financial requirements to meet the plan's objectives. It is wise to have a plan that you wish to accomplish for the year and to lay it out in outline form. Once you prove that you can support that plan with the budget, the outline will become the foundation for writing your budget narrative. This budget narrative or Budget Statement is vitally important as it presents the direction your department should take, why it is good to go in that direction, the local conditions that affect the plan and the discussion of the state policy impacts on each of your line items. There is a wealth of resources available to provide information about local data or economic forecasts. A few are listed in the Preliminary Allocations and County Budget Letter. Two other excellent sources are: • The Colorado Division of Local Government in the Department of Local Affairs; • The Office of State Planning and Budget located in the Governor's Office, particularly their quarterly Economics Perspectives reports. For those with internet access, the websites are links on the homepage document; for those without access, the address, phone number and e-mail address are also on the homepage.

If you are new to the process of budget development in this state, two places to start are the current year's budget and the monthly control reports that you should be receiving from your accounting section. The current year's budget and budget message will tell you what the plan has been to date and will also show you the method that your county has used in the past.

The control reports will show you where you are in relation to this year's plan and which direction your expenditures seem to be taking.

The financial process can be broken down into tasks:

1] Record **prior year** actual [net] expenditures and authorizations. This information is transferred from your department's books/ CFMS directly to the budget form.

2] Calculate **current year-to-date actual** [net] expenditures and authorizations. This information is again available through your department's books/ CFMS or through budget control reports. It should be provided to you on request from your accounting section.

3] Calculate projected net expenditures and authorizations for the **full current fiscal year**. Check program trend-lines and also use historical data to determine if there is a seasonal variation to particular lines (e.g.: Child Care, LEAP). Will there be provider rate increases or merit pay increases with which to contend? Are you confronting lump sum payments for accumulated annual leave or retirement? Are there changes in the array of insurance premiums paid by your department?

4] Calculate projected net expenditures for **the upcoming budget year**. Starting with historical data, account for expected changes such as economic trend, alteration in production methods in the county, statutory requirements that may have passed during the previous legislative session.

Please note: There are many budgeting methods but in a line item environment, you are going to do your best to project, for one line, what you think you will spend. You may

use last year's budget as a template, or you may have more complex methods of forecasting. However you do it, it is an iterative process in that you do it for one line and then you do it for the next and so on until you have covered all lines. Most likely, you will use different methods for doing your administration budget lines than you will for doing your program lines.

5] Calculate the state revenues that will be driven by your forecasted expenditures. This will be done line-by-line using information in the Preliminary Allocation and County Budget Letter.

6] Total all of your projected expenditures and all of your projected State Grants.

7] Have your accounting section project County Contingency, if any.

8] Aggregate the other county funds [e.g.: personal property taxes] that have been made available to your department. You will be advised of the amounts, if any, through a designated section of your local government.

9] Determine, with your commissioners or with their designee, whether the county will attribute some of its Social Services Cash Fund balance to the budget as "Prior Year Surplus".

10] Add a working balance to the total expenditures to determine the total financial resources required by your department.

11] List and total Prior Year Surplus [if any], State Grants, County Contingency, Other County Revenue.

12] Subtract the total of line 11 from the total of line 10.

13] The remainder are the funds that will be raised by mill levy. There may be a small amount added to this figure for reasons such as expectation of delinquent property taxes. Again, your local officials will advise you of this figure. This amount is divided by the Assessed County Valuation and the dividend is then multiplied by 1000 to produce the mill levy.

[ \$ 450,000.00 divided by \$ 152,722,554 equals 0.003, times 1000 equals 3 mills]

The county valuation will be determined by the County Assessor

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14] The completed budget is submitted to the County Commissioners or their designee for their review and approval. Their approval is given by their appropriating the funds necessary to run your department.

## **BUDGET BUILDING FOR COUNTY DEPARTMENTS**

In his book, Simplified Governmental Budgeting<sup>1</sup>, Edward A. Lehan points out: “One must accept the fact that almost all estimates are erroneous”. This is the basis from which you should start any budget process.

You get some help along the way from Colorado’s Budget Law that stipulates that your budget must be developed in a line-item format. Lehan points out: “The tendency to aggregate the overall budget from the mass of subordinate cost centers is an important step toward an accurate total because plus and minus errors of a mass of estimates tend to cancel one another out. The whole mass of estimates thus tends toward zero variation”.

Budgeting for administration’s expenses is straightforward. You know who is on-board and what they cost both in salary and fringe benefits; you know what the salary increases for the next year will be; you know the costs of operation, space, travel, contracts [legal, etc], communication and related cost areas. Although doing the math is tedious, the facts needed to forecast in this area are readily available.

Contracts that are based on cost per hour for needed services, such as legal services vary from year to year in terms of their total cost. Ask staff to provide you with totals for the last three years. Determine if any of those years were unusual. Develop an annual average and inflate the figure by a small percentage for variation. Clearly identify that inflating for your County Board.

What has proved much more daunting to social services staff has been the forecasting of program expenditures. The problem compounds in that when program expenditures are driven by caseload increases, there is the need to forecast the additional administrative resources necessary to perform the additional work.

To address program budgeting, it is advisable to divide the task into two separate tasks:

- ] Determination of a unit cost [adjusted for any proposed increase]
- ] Estimation of the possible number of units that will be encountered in the budget year.

### **Unit Cost:**

For any given month, the total days paid divided by the number of days in that month will give you the equivalent number of kids had they all stayed for a full month of care [full-time or full-placement equivalency]. This number when divided into the net expenditures gives you the net unit cost for that placement category. This is a very powerful tool for crafting budgets and for analyzing practice in terms of cost.

Once you have determined the unit cost of the program category, you should adjust it for any change in payment rate; for instance, if you know that providers are going to be given a 2.5% increase, the net cost should be so modified. This gives you the **adjusted unit cost** that you will use in performing your budget forecast.

It may be that the program that you are working on does not provide you with a “days paid” factor. As an example, it may be that an assistance payment line is figured on a

monthly basis. In that event the unit cost is derived by a full month payment equivalency, which, when adjusted for any expected grant increase gives you your adjusted unit cost.

### **Units:**

The forecasting of program activity is the hardest part of this process. There are many factors that can affect the utilization trends of your programs. Some factors that should be considered are:

- Population – Is your county’s population trend increasing, decreasing or staying flat?
- Income – What is the baseline for your county? What are current trends?
- Economy – What is its direction and what impact will that have on your county’s personal income figures? Also, are there changes that will result in a change in the nature of the county’s workforce? Are there specific economic forces that can impact a particular program [e.g.: LEAP and the price of crude oil].
- Program – Are you or your community planning any program changes that could affect current program utilization?
- State Funding – What are the trends in the State’s ability to support programs? What impacts may those trends have on the mandates for service?<sup>2</sup>

Tracking program utilization in relation to Population, Income, and Economic strength can help you see their impact on your programs.

What you must know is what your utilization has been to date. If you don’t have that information, get it. There is no reason that your staff should not be able to get you the direct information or its proxy. The information you should be looking for is not only where you are at a recent moment, but also where you have been over time. It is really helpful if you can get monthly figures going back two years. Have this data arrayed on a graph. This will help you visualize trends and will later be helpful in presenting your budget. If you notice a direction in your program utilization, see if it relates to any trends in the factors listed above. If it does, this relationship can be used as a predictor of activity and a justification for your forecast. If there is not, the general trend of program utilization can still be used.

If your department is relatively small, it is wise to allow room for unexpected events. The arrival and decomposition of a large, troubled family can more than double a small county’s outlays for child welfare services. It is difficult to plan for such an event and it is wasteful to plan budgets annually for such extremes. It is however essential to insure that your elected officials are aware of the issue and that you and they have discussed what responsible budgetary provision should be made. This discussion will also provide all responsible parties with the fore knowledge that such events are possible and not entirely in the control of the department’s staff.

It is also wise to allow for a worse-case scenario in the forecasting of program utilization. If you have developed an estimate based on current utilization and adjusted by identified

trends, you might inflate that estimate by a small factor. This is done to allow for small errors in estimation or for unpredictable events and should be clearly identified for your elected officials.

**Projection:**

Once the adjusted unit cost and the expected utilization [number of units] is determined, the rest of the process is easy:

$$\text{Unit Cost} \text{ times } \text{Numbers of Units} = \text{Budget Projection.}$$

For discussion and expansion of the issues addressed here, please contact your field administrator.

- 1 Lehan, Edward A., Simplified Governmental Budgeting. Chicago, IL: Municipal Financial Officers Association. 1981.
- 2 State funding perspectives and many other valuable resources are described in the annual State Fiscal Year Preliminary Allocations and Budget Letter which is published by Colorado Dept. of Human Services. It is an invaluable document.

**Budget Building Addendum – Declining Revenues**

The accurate projecting of the financial requirements to support an agency's budget is difficult. It is made much more complex when there are not sufficient resources to support the agency as it currently exists.

We have just entered a budget year in which an economic downturn, state and federal tax cuts, and statutory and constitutional limits on taxing and revenues have combined to create the most significant public funding problems since the Great Depression. Directors across the State are all struggling to minimize the impact of the situation for their clients and their staff.

To address this problem:

The first task is to project the budgetary needs and all normal, available revenues to meet the projected need. Once the scope of the problem is defined [Projected needs minus available revenues], the department should pursue three courses of action.

**1] Pursue all revenues available.**

Some areas for investigation include:

- In Child Welfare, any under-expended dollars in the 80/20 portions of the block increase in value by 160% when transferred into an RTC or CHRP [Medicaid] shortfall.
- For Child Welfare, if the county is a member of the 54 Balance of State grouping, has mitigation of over expenditure been requested.
- If the shortfall is in the WORKS allocation, and no reserves are available, the State should be approached for relief under 26-2-712 (5).
- In Child Welfare, can deferred revenues [IV-E Incentives, Parent Fee Incentives] be applied to the shortfall.
- Can contracted programs be shifted from areas of deficit to areas of surplus [CW to WORKS]
- In Child Welfare and Child Care, have the maximum allowable TANF transfers been considered.
- What is the county's current amount of TANF reserves, if any.
- How can the county [legally] employ cost allocation to redirect expenditures to its advantage.
- If an administrative activity is federally claimable, and its allocation is depleted, can the county obtain 35% pass through revenue.
- Determine the incentive levels received from Child Support Enforcement activities and what level of support they can provide to your budget.

## **2] Explore areas that may reduce projected costs:**

- Establish a policy that requires a certain level of vacancy savings before any vacant position is filled.
- Establish review procedures to justify filling a position prior to any search for candidates.
- Review all contracts for non-essential services and review maintenance and other contacts for lowered service and cost levels.
- Limit discretionary operating expenses such as travel and conferences.
- If services are provided in more than one office, consideration should be given to closing the remote location [ This suggestion must be included in the third course of action, below, which involves the political arena].

- Examine all discretionary programs for costs/benefits.
- If you believe the revenue picture will improve in the next fiscal year, try to defer contract payments until that fiscal year has begun.
- Establish utilization review mechanisms for child welfare placement and CORE activities.
- If revenue increases and cost savings are not enough, consider workforce reduction..
- Once the administrative lines have been aggressively and thoroughly pursued, programs should be addressed if further savings are required.

### **3] Frame issues for decision making by your elected officials:**

- As noted above, if the closing of a remote office is being considered, it must be referred to elected officials for final decision.
- Similarly, discretionary programs may be near and dear to your elected representatives. Termination of any of these programs should be cleared by your board.
- Explain the problem to your board and determine if they want to apply local funds to support any of the areas of deficiency.

[Note: It is important to bring issues like these to your board as early as possible. Advance notice is always appreciated, reflects well on you as a manager, and delay leaves less time to address the situation: it's easier to save \$ 30,000 in ten months than it is in three].

- Insure that your County's personnel policies are up to date and clearly cover the process for lay offs, termination and Reductions in Force.
- Insure that your policies detail all forms of relief that may be available to your staff including severance pay, annual leave payouts, Unemployment Compensation, continuation of health benefits.
- Also, insure that the cost of payout does not exceed the vacancy savings that could be generated.
- Finally, if significant cuts seem inescapable, refer for decision by your board three alternative detailed scenarios, in order of increasing severity. This allows your board to visualize the impacts of the alternative solutions and make the decision that they believe best balances fiscal responsibility and human cost. Decisions on significant cuts are, at base, political decisions. Your job is to provide your board with the administrative expertise to direct and minimize negative impacts on the residents of your county.

After-word: There is a feeling often expressed by some directors that there is little that can be done to control expenditures in areas like child welfare where courts often order placements. This sense of a lack of control is without basis or merit. Control is exercised at the program/ policy level. There are many directors who have demonstrated that there are a variety of means for establishing both service-and-cost-effective programs. Your field administrator is aware of the methods employed by these directors and would be happy to discuss them with you.