

Strategies for Government Efficiency

AIC Diploma Series
June 19, 2009

Gary Malone, CPA
Todd Samuelson, CPA



Where Did Our Taxes Go?

- Circuit Breaker Tax Caps
 - LSA has estimated that property tax collections will be reduced over \$500 million statewide as a result of the property tax caps when fully implemented
- Expansion of Homestead Exemption
 - New 35% homestead exemption is reducing property tax revenues from fixed rate funds, such as cumulative capital development funds, by 10% to 25%

Where Did Our Taxes Go?

- State has reported that individual income tax collections have declined by 23% for the first four months of 2009
 - County income taxes are based upon the same taxable income as the State
 - Less income tax revenues available for operating costs and capital expenditures.
 - Less income tax revenues available for property tax relief; higher property tax rates more taxes lost to property tax caps.

Where Did Our Taxes Go?

- Other economic effects
 - Trending
 - Property tax delays
 - Property tax delinquencies
- Need for strong cash reserves

Where Do We Go From Here?

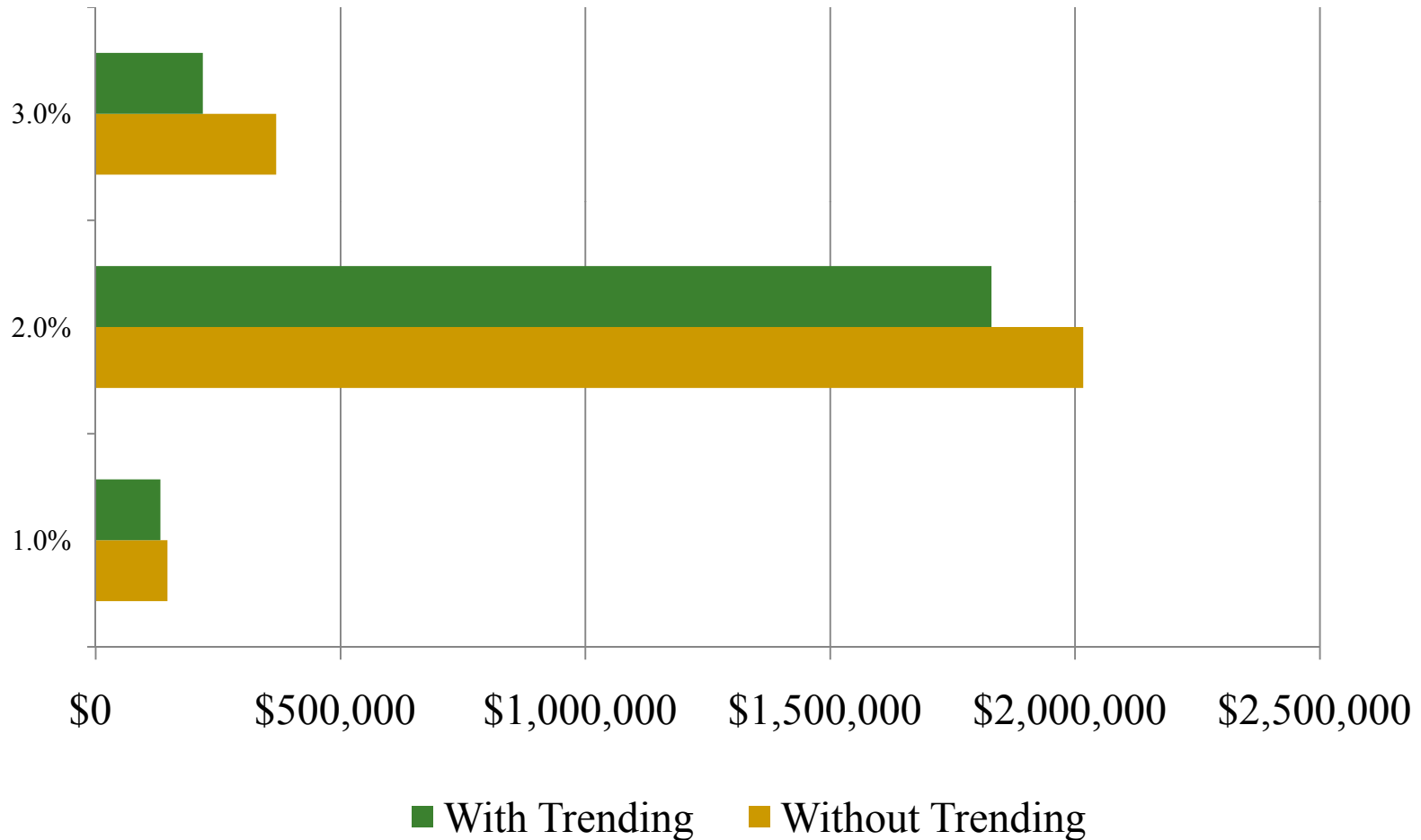
- Manage revenues efficiently
- Opportunities for cost efficiencies
- Consolidate services
- Manage your capital expenditures
- Grow your tax base

Managing Our Revenues Efficiently

- New Local Option Income Taxes
 - Replaces property taxes with income taxes, reducing the amount of property taxes lost to the property tax caps by lowering property tax levies and total tax rates
 - Provides new money for public safety when combined with property tax relief

Circuit Breaker Tax Credits

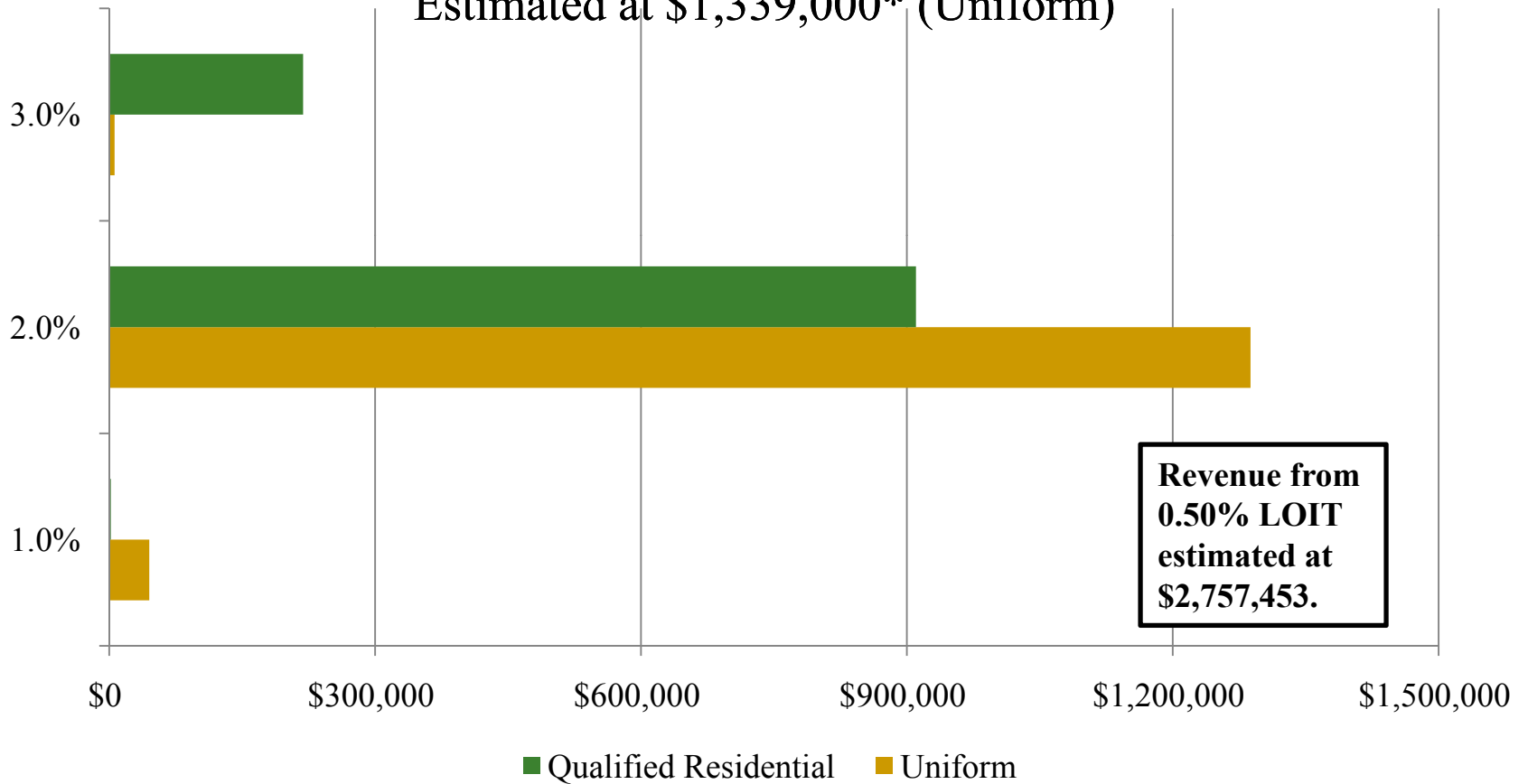
Estimated at \$2,180,000 (With Trending)
Estimated at \$2,532,000 (Without Trending)



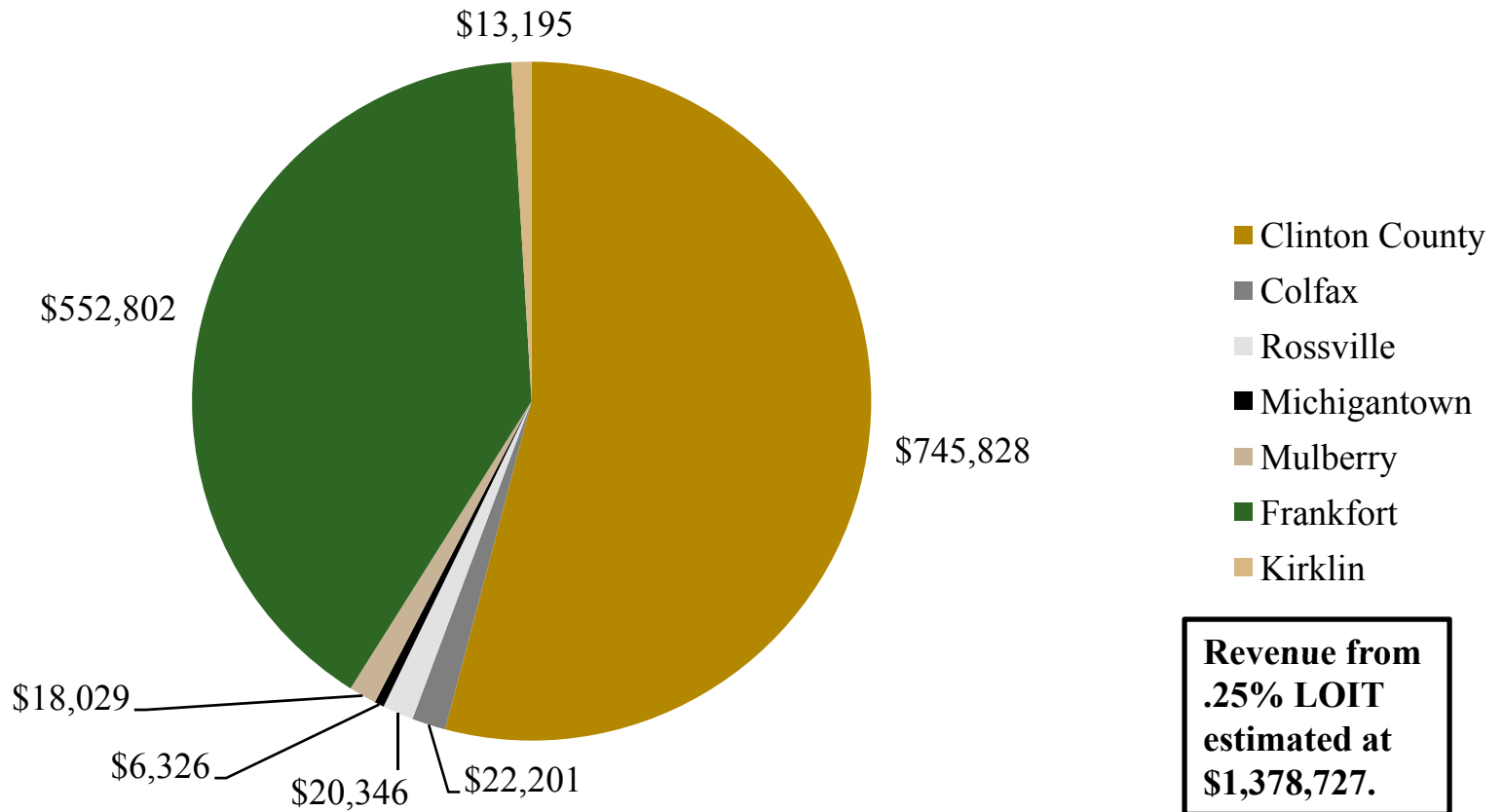
Circuit Breaker Tax Credits with a 0.50% LOIT Rate

Estimated at \$1,131,000* (Qualified Residential)

Estimated at \$1,339,000* (Uniform)



New Revenue from Public Safety LOIT



* Based upon estimated gross taxable income for 2009 of \$551,490,600.

Managing Our Revenues Efficiently

- Consider changing the mix of local income taxes
 - Changing the mix of local income taxes may increase to the total revenues available to taxing units without increasing the total income tax rate
 - HEA 1001 provided substantial property tax relief to homeowners through expanded homestead exemptions and expanded property tax caps to all property taxpayers through 2010
 - May be appropriate to reconsider property tax relief measures granted locally before 2008

Illustrative Property Tax Relief From HEA 1001

| | Before | After |
|--|-----------|-----------|
| Assessed Value | \$100,000 | \$100,000 |
| Less Homestead Deduction | (45,000) | (45,000) |
| Less Supplemental Deduction | | (19,250) |
| Less Mortgage Deduction | (3,000) | (3,000) |
| Net Assessed Value | \$52,000 | \$32,750 |
| | | |
| Effective Total Tax Rate after State PTRC and Homestead Credits (1) | \$3.50 | \$3.50 |
| Property taxes before circuit breaker | \$1,820 | \$1,146 |
| Circuit breaker credit | | (146) |
| Property taxes after circuit breaker | \$1,820 | \$1,000 |

(1) Changes in assessed value, levies, and credits resulted in little change in the total effective tax rate for many taxing districts.

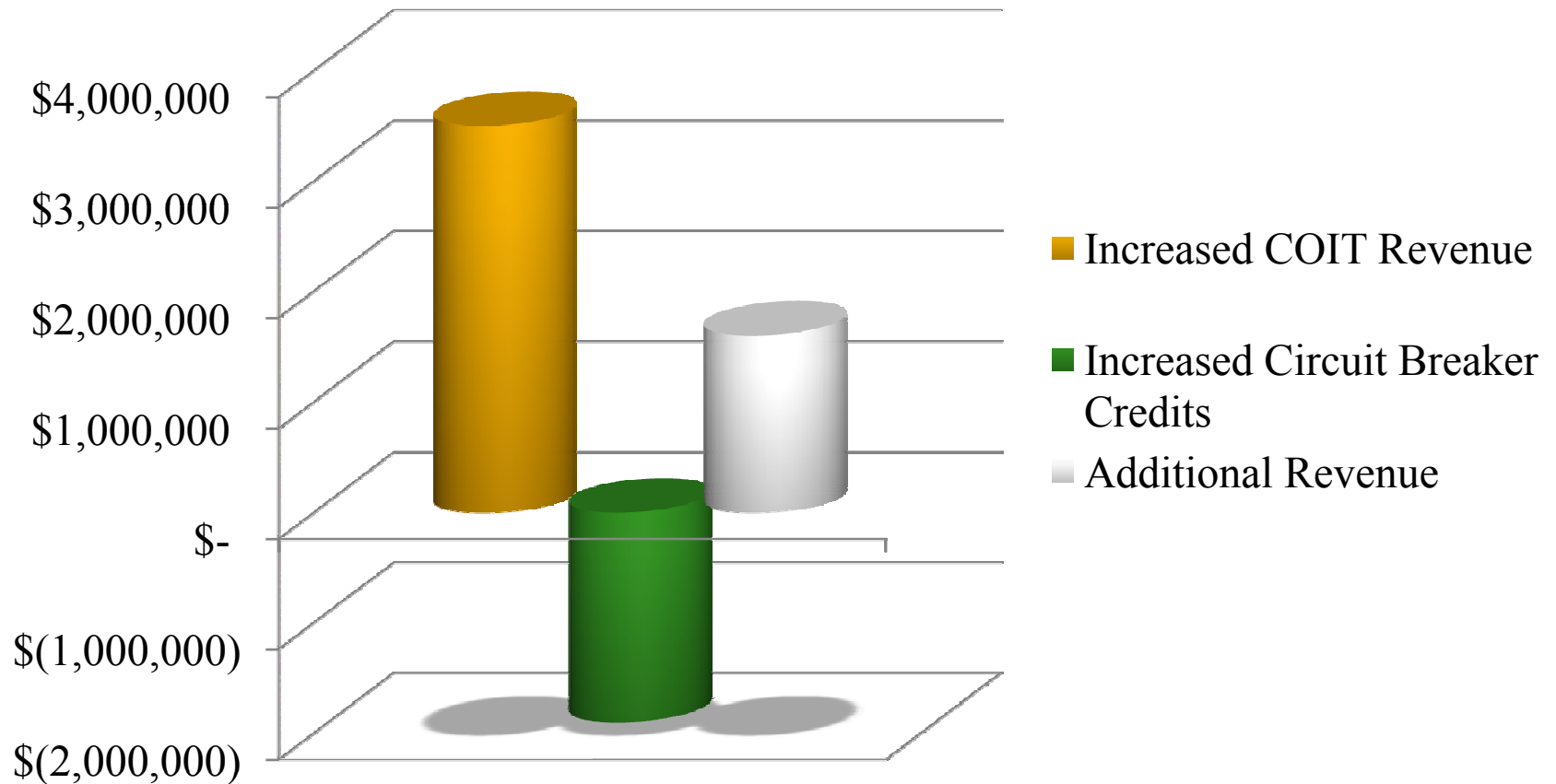
Changes to Local Income Taxes that Increase Spendable Tax Revenue Without Increasing Income Tax Rates

- ❑ Eliminating the COIT Homestead Credit will increase circuit breaker tax credits, but will provide more usable revenues
- ❑ Replacing a portion of a CAGIT tax with an EDIT tax may provide more usable tax dollars
- ❑ Shifting LOIT credits from Homestead Credits to either Qualified Residential Credits or Uniform Credits may reduce revenue loss from Circuit Breaker Tax Credits

Changes to Local Income Taxes that Increase Spendable Tax Revenue Without Increasing Income Tax Rates

- Eliminating the CEDIT inventory replacement rate used for additional homestead credits in exchange for other local option income taxes within statutory limits
 - CEDIT Maximum Rate of 0.5%
 - CEDIT and COIT Maximum Rate of 1.0%
 - CEDIT and CAGIT Maximum Rate of 1.25%
 - New LOIT taxes

Illustrative Effect of Eliminating COIT Homestead Credits



Managing Our Revenues Efficiently

- Consider User Fees to pay for Services
 - Landfill fees
 - Public safety fees
 - Storm water fees
 - Wastewater fees
 - Impact and availability fees

- Evaluate your existing banking relationships and investment policies

Opportunities for Cost Efficiency

- Costs can only be reduced by improving efficiencies, reducing the quality of services or by cutting public services
- Develop a strategic plan that identifies desired public services and the quality of service
- A strategic planning approach can provide a framework for reaching difficult decisions to reduce the quality of services, reduce the level of public services, or to increase taxes

Opportunities for Cost Efficiency

- Ideas from Other Counties
 - 4 day work weeks / summer shifts
 - Self insurance programs /wellness programs
 - Coordination of city police and county sheriff
 - Centralized purchasing
 - Energy audits
 - Managing jail capacity with judges
 - In house construction inspection

Opportunities for Cost Efficiency

- Cost of Downsizing
 - Since personnel costs represent the majority of budgets, you may need to consider downsizing or restructuring your workforce
 - Be very careful
 - Understand the net effect and avoid unintended consequences
 - Maintain your ability to deliver essential services
 - Avoid potential costly litigation

Opportunities for Cost Efficiency

- Consolidation of services with other taxing units
 - Joint purchasing opportunities with other taxing units in your county, neighboring counties and the State
 - Combining shared services, such as police, fire, ambulance and 911 dispatch services
- Consolidation may not only reduce costs, but spreads service costs over a larger tax base
 - Reduces total property tax rates, and in turn, reduces property tax revenues lost to tax caps

Manage Your Capital Needs

- Develop a capital plan that includes all major improvements and related costs expected over the next five to ten years
- Include in the analysis your current debt repayment obligations
 - May be an opportunity to refinance or restructure existing bonds
 - Scheduled bond retirements may provide a funding opportunity without using more of your current revenue

Manage Your Capital Needs

- Many long lived assets can be financed through the issuance of debt rather than current income
 - “Pay as you use” instead of “pay as you go”
- Reduces the amount of current taxes needed to pay for public infrastructure
- Bond repayment may be outside of tax caps

Grow Your Tax Base

- Growth in assessed value minimizes total property tax rates and the revenue losses associated with tax caps
- Growth in employment base helps offset the natural swings in local income tax revenues that result from shifts in the economy
- Growth of investment and employment are both necessary to provide a stable source of tax revenue

Grow Your Tax Base

- Develop an economic development strategy
- Be open to the use of financial incentives to retain and attract business, but balance their use with the public interest
 - Establish guidelines for the use of tax abatement
 - Consider a balanced approach to the use of tax increment financing
- Remember that quality of life is one of the most important factors in business location decisions

Strategic Planning and Government Efficiency



Resource and Process Evaluation

- Guiding Principles for Success
 - Communication
 - Purpose → Process → Results
 - Transparency Critical
 - Focus on Alignment
 - Laser-like focus to do the right things right
 - Understanding and agreement on purpose
 - Engagement
 - Knowledge is Key
 - Identify those with knowledge and engage

Phases of Resource and Process Evaluation

- Phase I Build the Foundation
- Phase II Conduct Organizational and Environmental Assessment
- Phase III Perform Process Analysis
- Phase IV Perform Cost Analysis
- Phase V Recommendations, Approvals and Implementation

Phase I

- Create an understanding amongst various levels of leadership
- Need to establish (and agree upon) a structure to be utilized throughout the process
- Need to initiate and maintain momentum throughout

Phase I

Establish Steering Committee

- Meet with elected officials, administration and department directors to determine who will serve on the process sponsor team
 - Team should include a cross-section of employees from different levels and departments
 - Team will approve the process, provide milestone checks and keep departments informed on the process and progress
 - Team will engage others about how they believe change can occur (what they can be a part of)
 - People embrace change with choice; they resist being changed

Phase I

Establish Task Team

- Steering Committee will determine who should serve on a team that will have the technical knowledge and experience to provide information, expertise and ideas
- This is a continuation of the idea of involvement, where people will more readily embrace change that they are part of

Phase I

Elected Officials and Teams Need to Understand Roles and Process

- To understand the process and the roles each group will play is critical
 - Meetings of the elected officials are often separate from team meetings
 - Should consider introductory remarks to the joint meeting of the Steering Committee and Task Team
 - Encouragement
 - Alignment
 - Goals and Importance of Process

Phase I

Develop a Project Scope and Purpose Statement

- Develop Consensus and Guidance
 - This will be a concise statement describing the purpose of the evaluation
 - The statement should speak powerfully, be enabling and motivating

Phase II

Review All Background Information Related to Evaluation

- Collect and organize all documents that provide background information
 - Background information will describe work activities, financial and operating challenges, operational procedures and policies, existing development plans, and strategic plans
 - Develop a general sense of environment and a more detailed understanding of the organization's plans and practices in order to provide context and recognize possible inconsistencies

Phase II

State the Current Reality

- Develop a five year projection of revenues and expenditures
- The gap between the revenues and expenditures and implications of that gap should be shared with all stakeholders including employees, the public and elected officials
 - Information communicates the reality of the situation
 - If asking people to legitimately participate in making difficult decisions, then they must believe those decisions are necessary

Phase II

Determine the Primary Customers

- Engage in a system-wide discovery about consumption of services
- By facilitating a discussion/selection process with group(s), such as the elected officials, department directors, and/or supervisors, seek agreement about the main customers of major services
- Steering Committee should prioritize the primary customers
 - For whom should the County be providing services?
 - Without this type of focus, resources will not align with the greatest needs

Phase II

Determine the Outcomes that the Customers Expect

- In addition to determining the customers and assigning them to groups, the customers will be aligned with their expectations and needs – focusing on outcomes
 - Until specific outcomes are determined, the outputs to satisfy the outcomes cannot be determined
 - Focus should be on the outcome results, not outputs
 - This information could be gathered from the community through a survey or community focus groups

Phase II

Secure Confirmation of Customers and Outcomes

- Steering Committee should review and, possibly, revise the primary customers and outcomes determined by the Task Team
 - Establishing the customers and outcomes is the foundation for all other decisions about essential services
 - There should be broad agreement from key decision makers before moving to the next stage

Milestone 1

- Confirm Expected Evaluation Outcomes
 - Broad agreement on customer lists and outcomes
- Communicate findings and decisions from previous steps
 - After the foundational elements have been agreed to, the Steering Committee should be informed of those elements as well as the next steps

Phase III

Determine What Services (Outputs) are Currently Provided

- Services should be listed showing the various services departments currently provide
- The list should include resources required in terms of people, contractual services, consumables and equipment
- Steering Committee would then review the information and seek clarification through department-based interviews

Phase III

Assess linkage: Services to Outcomes

- Task Team should evaluate the strength of the linkage between outputs and outcomes
- Begin to discuss revisions to how services are provided, levels of service, and other services to discontinue or consider

Phase III

Assess Linkage: Services to Outcomes

- For example, if the desired outcome is a rating that 70% of respondents are satisfied or very satisfied with the way that the County maintains its roads, then what actions directly link to that outcome?
 - Once this is decided, information will be more departmental and individually focused
 - This exercise begins to implement the idea of a “Logic Model” which assesses the level of inputs to achieve outputs and the types of outputs to realize the desired outcome

Phase III

Conduct Interviews Related to Service Alignment

- Interviews to gather more detail about services and costs (inputs)
 - Department Heads
 - Supervisors
- Clear consensus on actions that lead to outcomes

Milestone 2

- Communicate findings and decisions from previous steps
 - Matching outputs with outcomes is another critical milestone in the process and a good time to bring Steering Committee up to speed
 - Steering Committee can then communicate progress to various stakeholders of the process

Phase IV

Determine Costs to Provide Desired Service Levels

- Using all of the information collected, assess the cost of each service output
- The result of this process of evaluation and alignment of resources should be significant cost savings
- Evaluation and alignment of resources are critical
 - Understand matching principles
 - Sustainability and/or volatility of resources
 - Ability to react to legislative or other changes
 - Need for flexibility and reserves

Phase IV

Gather Comparable Community Data

- Identify comparable communities and accumulate external benchmark information about staffing and services
- The services will match those determined to be aligned with desired outcomes
 - While it is difficult to compare services with another community, it can provide a checkpoint to flush out unique approaches and validate current practices
- Internal benchmarking also important for ongoing evaluation, measurement and possible adjustment

Phase V

Develop Recommendations

- Steering Committee should agree and compile recommendations based on the activities leading to this point, including background and document evaluation, service level gaps/laps assessment, and cost assignment
- Using all of the information gathered in the preceding steps, begin to develop a report showing findings and recommendations

Phase V

Present Findings and Recommendations

- Discuss draft findings with elected officials before presenting to other interested parties
- Seek input, clarification, revisions as warranted
- Steering Committee make needed revisions

Milestone 3

- Ready to communicate findings and decisions from process to
 - Elected Officials
 - Department Heads/Supervisors
 - Stakeholders

Implementation

- Transition to the long-range process
- Identify/implement training as needed
- Structure for ongoing process, evaluation and improvement
- Internal/external measurements to desired outcomes
- ‘Best in Class’ focus

Questions?

- Gary Malone, CPA - Partner

Umbaugh

malone@umbaugh.com

317-465-1501

- Todd Samuelson, CPA - Partner

Umbaugh

samuelson@umbaugh.com

574-935-5178

- Umbaugh Website – www.umbaugh.com