

RISK MANAGEMENT SERVICE **INTEGRITY**
INDEPENDENCE KANE COUNTY BEST PRACTICES **PUBLIC ACCOUNTABILITY**
 BOARD ANALYSIS **AUDITOR**
 FINANCIAL INFORMATION **INNOVATION**

KANE COUNTY BUDGET—FY 2014

“It’s tough to make predictions,
especially about the future.”

Yogi Berra



This cover illustration depicts two fundamental truths — the creation of a balanced budget requires focus, and the challenge is not new.

AUDIT WATCH
 March 2013

Kane County
 Auditor’s Office

> Terry Hunt
 Kane County Auditor

> John Harahan
 Deputy Auditor

> Mary Herwaldt
 Administrative Officer



Inside this

Focus on Kane Co. Budget 2014	1
Budget Alerts and Comments	2-3
Theory of Zero-Base Budgeting	4
Pluses and Minuses of Zero-Base Budgeting	5
“ZBB Light” options to Zero-Based Budgeting	6
GFOA chart compares ZBB, ZLB and SLB	7
Comparative Budgets General Revenue Fund	8

If a man who cannot count finds a four leaf clover, is he lucky?



**UNAUDITED GENERAL FUND EXPENSES MORE THAN 3% OVER YTD BUDGET
THREE MONTH PERIOD ENDED FEBRUARY 28, 2013
FOR FISCAL YEAR ENDING NOVEMBER 30, 2013**

DEPARTMENT	EXPENDITURES IN EXCESS OF YTD BUDGET AS A %	NOTES
COUNTY CLERK *	4%	Elections Contractual Services

Please note: Year to date departmental transactions are calculated by combining actual expenditures and any recorded encumbrances. This report covers transactions recorded during the first three month period of the fiscal year that will end November 30, 2013. These expenditures are unaudited, and subject to change. Because of timing issues, a department is considered within budget so long as there is less than a 3% overspend as compared to the projected year to date budget. While we monitor expenses throughout the entire year. Cyclical activities, especially at such an early stage of the year can create apparent budget overages when compared to a linear budget.

For example, debt service expenditures are paid in accordance with the terms of the bond issue which will generally call for annual, or semi-annual payments of principal and accrued interest. To avoid confusion debt service will not be included on these interim reports, but will be included at year end.

Memo

* The County Clerk has already incurred expenses related to the February Consolidated Primary Election. As a result the department is 4% over budget through February. Added expenses will be incurred for the April 9th Consolidated Elections, however the department has successfully pursued HAVA grant money to help offset a portion of the extra expenses, and is projected to be well within its budget before the end of the year.



**UNAUDITED SPECIAL FUND EXPENSES MORE THAN 3% OVER YTD BUDGET
THREE MONTH PERIOD ENDED FEBRUARY 28, 2013
FOR FISCAL YEAR ENDING NOVEMBER 30, 2013**

DEPARTMENT FUND	EXPENDITURES IN EXCESS OF YTD BUDGET AS A %	NOTES
TRANSPORTATION COUNTY HIGHWAY FUND	8%	Encumbrances for Contractual Services, Commodities, and Capital
TRANSPORTATION MOTOR FUEL TAX FUND	29%	Encumbrances for Contractual Services, and Commodities
TRANSPORTATION MOTOR FUEL LOCAL OPTION FUND	7%	Encumbrances for Contractual Services, Commodities, and Capital
TRANSPORTATION TRANSPORTATION SALES TAX FUND	29%	Encumbrances for Contractual Services, and Capital
TRANSPORTATION TRANSPORTATION CAPITAL FUND	34%	Encumbrances for Contractual Services, and Capital

Please note: The same principles are applied for the departments that receive special funds, and can be misleading due in large part to the cyclical nature of the operations involved (the Transportation Department is especially affected by seasonal factors and encumbrances recorded in early months which relate to expenses for the entire year).

These expenditures cover the three months ended February 28th. They are unaudited, and subject to change. Forecasting the receipt of grant monies is sometimes imprecise which can also affect expenditure patterns on related projects. It is worth noting that these five areas were on the previous month's listing, but in each case the percentage of overspend has decreased as the year has progressed.

To avoid confusion Matching Funds will not be included on these interim reports, but will be included at year end. Similarly SSA and SBA activity will only be reported at year end.

THE UNDERLYING THEORY OF ZERO-BASE BUDGETING



In 2011 the **Government Finance Officers Association** conducted a survey of local governments addressing modern experiences and current perspectives on the subject of zero-base budgeting (ZBB). Over 400 different governmental units participated in the exercise. The findings issued in the resulting GFOA report serve as the basis for much of the information in this article.

Zero-base budgeting (ZBB) is intended to move a governmental organization away from the traditional incremental budgeting process, where last year’s budget becomes the starting point. Instead, the new budget begins at zero with the premise that past patterns of spending are no longer taken as a given.

The organization is broken down into “decision units” - those are the lowest level at which budget decisions are made. Managers in each decision unit prepare a detailed description and evaluation of all the activities they perform, including alternatives and spending plans necessary to achieve goals. Typically they include at least the following packages.

Example only

ZERO BASE BUDGETING EXAMPLE		
DECISION UNIT: SPECIAL PROGRAMS OFFICE		
DECISION PACKAGE 1: BOOKMOBILE		
PURPOSE: Provide service to remote regions served by the library. Enhance quality of life for the county’s homebound and senior citizens or citizens without access to transportation.		
LEVEL	ACTIVITY LEVEL	COST
BASE (min) 90%	25 hrs. per week	36,000
CURRENT 100%	30 hrs. per week	40,000
ENHANCED 110%	35 hrs. per week	44,000
CONSEQUENCES: Reduced funding means lower circulation rates among elderly library patrons.		
ALTERNATIVES: Van service- rejected due to insurance costs		
DECISION PACKAGE 2: IN SCHOOL PROGRAMS		
PURPOSE: To encourage library use among grade school students and to enhance existing literacy programs. This program is targeted at low-income neighborhood schools.		
LEVEL	ACTIVITY LEVEL	COST
BASE (min) 90%	8 hrs. per week	22,500
CURRENT 100%	10 hrs. per week (2 elementary schools)	25,000
ENHANCED 110%	12 hrs. per week	27,500
CONSEQUENCES: Reduced funding may affect literacy efforts and standardized test scores.		
ALTERNATIVES: After School Program at Library - rejected due to staffing and insurance costs.		

Base package—This type describes the most fundamental service needs of the decision unit’s customers and the minimum funding level required for the services to remain viable.

Current service package—This type of package describes the requirements necessary to maintain the level of service currently being provided.

Enhanced package—This package type describes the resources required to expand service beyond current levels, and can contain several different options.

In addition to detailed information regarding required resources in terms of expenditures and personnel, each decision package includes specific performance measures. ZBB requires greater involvement of mid-level managers than other budget processes, and because each department will create multiple decision packages documentation can be substantial.

Finally decision packages are collected, reviewed and ranked—first by department and then again by the budget authority. In our case that would be the **Finance Department** under the authority of the **Finance and Budget Committee**.

ADVANTAGES & DISADVANTAGES OF ZERO-BASE BUDGETING

The biggest advantage is that, in theory, ZBB provides decision makers **objective criteria** that are both rational and comprehensive. The decision packages allow for comparisons based upon perceived value, and the underlying principle of ZBB is that all spending is subject to scrutiny. ZBB moves away from simple across-the-board cuts that often fail to differentiate between the value of one service as compared to the value of another.

Another major advantage is that the detailed process itself provides upper management with **better insights** into the detailed workings of departments. Theoretically, ZBB differentiates the various service level options, the impact of different service levels on the community, and details the plans necessary to provide those services.

There are also theoretical disadvantages. Most significant is the volume of work associated with generating and reviewing the decision making packages. For an organization with the size and diversity of Kane County there would be certainly well over a thousand different packages to be developed, reviewed and ranked.

Another drawback is that managers are generally reluctant to suggest decision packages below current spending levels, and fail to reveal absolute minimum requirements to maintain current service levels. Savvy managers may also deliberately give low rankings to services with high public profile knowing those areas will not be cut, while protecting services with artificially high rankings as compared to lower value to the community.

A third disadvantage stems from the fact that ZBB is not associated with a planning process that is separate from the budget process. This results in two primary problematical implications. First, ZBB does not take account of the views and long term priorities of either the community as a whole, or the elected officials. Rather ZBB is largely driven by the managers' perceptions and preferences through the development of the decision making packages. Elected officials will still have input on final rankings, but for the most part are only reacting to staff recommendations. Second, participants in the ZBB process will necessarily be preoccupied with the development of the decision making packages and not be able to focus on opportunities to change the way service is provided.

ZERO-BASE BUDGETING IN PRACTICE



According to the GFOA study, the pure version of ZBB found in theory appears to be very rare in practice. Rather, the label of “zero base budgeting” has been applied to budgeting methods that borrow elements of pure ZBB, but do not conform to the theoretical ideal. From a practical standpoint the study found organizations who considered themselves to be using elements of ZBB tended to be in one of two major categories— either **ZERO LINE BUDGETING** or **SERVICE LEVEL BUDGETING**.

Exhibit A—Three Essential Questions of Planning and Budgeting

	PLANNING	BUDGETING
PREREQUISITE WHAT IS AFFORDABLE?	What are the community’s priorities and how can government action add value?	What programs should we fund in order to best achieve the priorities?
	How much and what quality of service does the community need from a given program?	What level of service should we fund within a program?
	Is the service provided efficiently?	For a given service level, are the requested inputs reasonable for the output we expect to receive?

What is the difference between zero line budgeting and service level budgeting? The simple answer is FOCUS. The zero line budgeting group are primarily concerned with answering the third question—are inputs reasonable given the expected output? This method intends to create greater transparency in how line-items are arrived at by requiring detailed justification of line-item requests in lieu of simply pointing to previous budgets. In contrast, the service level budgeting group are more attentive to the second question—what level of service should we fund? They are intentional about providing decision makers different levels of service and ask the decision makers to choose between the options based upon associated service level metrics, with less emphasis on detailed input estimates.

ZERO LINE ITEM BUDGETING vs SERVICE LEVEL BUDGETING



Because there are very few organization using a 100% textbook ZBB approach, the GFOA developed this chart to compare and contrast the different approaches.

Exhibit B—ZBB Typology

Textbook ZBB	Zero Line Budgeting	Service Level Budgeting
Key Features		
<ul style="list-style-type: none"> Budgets are built from the ground up. Decision units propose decision packages which describe detailed resource requirements and which budget authorities use to choose service levels. 	<ul style="list-style-type: none"> Line items require detailed justification, in some cases including unit costs and quantities. Last year’s spending is not the key reference point. Decision packages are not used. 	<ul style="list-style-type: none"> Departments develop decision-packages to allow budget authorities to choose service levels. Less emphasis on detailed examination of line-item composition.
Advantages		
<ul style="list-style-type: none"> Rational and comprehensive means for cutting budget. Gives decision makers insight into operations. Highlights entirely new ways of providing services. Engages lower-level management in budgeting. 	<ul style="list-style-type: none"> Changes conversation about costs for the better. Helps reallocate spending within departments. Engages managers in budget discussions. Can lead to efficiency gains. 	<ul style="list-style-type: none"> Decision-makers can select different service levels. Implications of cut-back decisions are very clear. Often supplemented by strategic plan. Approaches rationality and comprehensiveness of textbook ZBB.
Disadvantages		
<ul style="list-style-type: none"> Amount of work to develop decision packages. Reluctance of managers to propose decision packages that are less than current spending. Does not have a planning process that is separate from budgeting. 	<ul style="list-style-type: none"> No structured means for considering different service levels. Does not have a separate planning process. Efficiency gains are not systematic. 	<ul style="list-style-type: none"> Paperwork intensive, but less than textbook ZBB. Efficiency is not addressed directly. Loose connection between strategic plan and budgeting. Requires good performance data.

COMPARATIVE BUDGETS GENERAL FUND REVENUES AND EXPENDITURES OVERVIEW OF THE PAST THREE FISCAL YEARS

* Fiscal Year 2013 Subject to change pending further budget amendments

GENERAL FUND REVENUES—by Classification

Description	Amended Budgets—for Fiscal Years		
	2011	2012	* 2013
Property Taxes	\$31,730,000	31,863,147	31,470,802
Other Taxes	17,565,000	18,322,974	18,600,000
Licenses and Permits	423,800	432,300	456,550
Grants	347,658	564,594	515,545
Charges for Services	14,429,946	13,694,240	13,469,604
Fines	3,607,001	3,772,500	3,844,500
Reimbursements	3,485,115	4,283,036	4,626,033
Interest Revenue	162,000	125,200	125,100
Other	48,074	157,574	219,324
Transfers from Other Funds	913,738	967,962	934,415
Cash on Hand	323,394	346,838	8,826
TOTAL	\$73,035,726	74,530,365	74,270,699

GENERAL FUND EXPENDITURES—by Classification

Description	Amended Budgets—for Fiscal Years		
	2011	2012	* 2013
Personnel Services - Salaries and Wages	\$43,044,032	44,396,888	44,676,528
Personnel Services - Employee Benefits	9,261,441	9,179,232	9,009,801
Contractual Services	9,740,073	10,070,616	9,301,825
Commodities	5,660,640	5,720,143	5,271,827
Capital	755,177	721,700	742,426
Debt Service	2,348,126	2,420,479	2,487,810
Contingency and Other	634,286	243,308	1,300,520
Transfers to Other Funds	1,591,951	1,777,999	1,479,962
TOTAL	\$73,035,726	74,530,365	74,270,699

The Audit Watch is a monthly newsletter issued by the Kane County Auditor's Office containing information of interest to county officials, board members and the general public. For a free electronic subscription to the Audit Watch please contact our [Circulation Department](#). You may submit a [Letter to the Editor](#). Any letter may be modified to fit available space. Limited preferred placement advertising space may be available upon request by contacting our [Sales Department](#).