



BOARD OF COMMISSIONERS

1300 NW Wall Street, Bend, Oregon
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MID YEAR BUDGET UPDATE MINUTES

9:00 AM

TUESDAY, December 10, 2024

BARNES & SAWYER ROOMS
Virtual Meeting Platform

Present were Budget Committee Members Jim Fister, Judy Trego, and (via Zoom) Krisanna Clark-Endicott; Commissioners Tony DeBone, Patti Adair and Phil Chang; County Administrator Nick Lelack; Deputy County Administrators Erik Kropp and Whitney Hale; Chief Financial Officer Robert Tintle; Budget Manager Cam Sparks; Budget Analyst Dan Kieffer; Management Analyst Laura Skundrick; Administrative Assistant Angie Powers; Internal Auditor Elizabeth Pape; Assessor Scot Langton; and (via Zoom) Piper Sandler Managing Director Carol Samuels.

This meeting was audio and video recorded and can be accessed on the Public Meeting Portal at www.deschutes.org/meetings.

CALL TO ORDER: Commissioner Adair called the meeting to order at 9:01 a.m.

OPENING COMMENTS: Commissioner DeBone noted that Jim Fister is the Chair of the Budget Committee, but Commissioner Adair is serving as Chair for today's Budget Committee meeting.

County Administrator Nick Lelack welcomed everyone to the Mid-Year Budget Update. He summarized the day's robust agenda, which includes a guest presentation on PERS. The FY26 budget planning process began in July 2024. The General Fund (GF) is structurally imbalanced with expenditures growing faster than revenues. A budget shortfall is projected by FY27 if corrective actions are not taken. Their goal is to reset the expenditure curve by lowering the projected growth rate "limited growth" and targeted "focused" savings, to ensure the financial sustainability of the County. In FY26 budget including staffing costs and increases must be reduced by \$2.5 million, and the County must reduce overall expenses by \$3 million. On December 2, the Board of Commissioners approved \$1 million in targeted savings for the GF.

On a smaller scale, the Administrative Services department must reduce expenditures by \$130,000 over FY26. Achieving this reduction can only occur by reducing by 1.0 or 0.5 FTE, and he made the difficult decision to reduce the Performance Auditor position from 1.0 FTE to 0.5 FTE, effective January 1, 2025. There will be an open 1.0 FTE in Risk Management due to the retiring Claims Coordinator, which may provide an opportunity for the impacted employee to maintain 1.0 FTE. The Audit Committee met on December 6 and made a recommendation to maintain 2.0 FTE in the Office of Internal Audit and to find the necessary cost savings elsewhere. Lelack noted the BOCC will make this decision at their meeting on December 18. Lelack noted this was a difficult and painful position and they will be looking at additional proposed targeted savings and limited growth rates in all departments.

Robert Tintle formally welcomed Cam Sparks as the County's new Budget and Financial Planning Manager. He expressed his appreciation for the continued guidance and experience in the Finance Department. He also welcomed Dan Kieffer as the new Senior Budget and Financial Planning Analyst, and recognized Laura Skundrick as the team's Budget and Financial Planning Analyst. FY26 budget planning began in July 2024. The long term financial forecast details will be discussed during this meeting. The Budget and Finance team is taking a proactive approach to address the ongoing structural balance to ensure the financial sustainability of the GF.

Tintle mentioned increased PERS rates over the past several years, as PERS is one of the County's major expenses. Carol Samuels, Managing Director from Piper Samuels, will give a presentation on PERS rates.

PUBLIC COMMENT: Daryl Parish, Audit Committee Chair, addressed the proposed budget reductions in the Office of Internal Audit and the impacts it would have on the Office. Currently, the office has 2.0 FTE, and the proposal is to cut it to 1.5 FTE, by cutting the Performance Auditor position down from 1.0 FTE to 0.5 FTE. He cited many challenges to filling a 0.5 FTE position for a specialized position such as the Performance Auditor. The need for a Performance Auditor was identified in 2016, and Deschutes County has grown substantially since then. The proportion of County staff to Audit staff was cited. The Audit work plan includes important work which identifies risk, waste, and potential savings, and this work plan would need to be cut with only 1.5 FTE. Single-person audit shops are rare in Oregon, and having a second set of eyes is crucial for collaboration. The Audit Committee passed a motion 7-0 (with one abstaining from the vote) during their special meeting on December 6, and he read the motion aloud. He also read a letter from the Audit Committee, which was sent to the Board of Commissioners, recommending they prioritize Audit by maintaining 2.0 FTE in the office.

PERS UPDATE: Tintle introduced Carol Samuels, Piper Sandler Managing Director. She was identified as a valuable partner to local governments, providing PERS knowledge and expertise. She provided a slide presentation on PERS basics for Deschutes County.

PERS rates have been rising substantially over the past several years. A chart illustrates an upward trajectory from 2005 through 2025 in which pensions are steadily rising. This trend will continue for the next two biennium, with rates rising between 3.5 and 5% in the current biennium. Additionally, projected liabilities exceed assets. Oregon PERS has \$106.4 billion in Actuarial Liabilities (AL) and \$77 billion in assets, resulting in Unfunded Actuarial Liabilities (UAL). Over the past two years, this shortfall has grown, and this is why our rates are going up.

Idiosyncrasies of PERS in the state of Oregon create some confusion. Valuation is on a calendar year (not fiscal year) basis, and valuations are presented one year after the fact. The 2023 valuation was received in October 2024. It is utilized for the biennium after it is released, July 1, 2025 through June 30, 2027.

The current rates date back to the 2021 valuation and will go through June 30, 2025. By the end of the biennium, we are paying rates based on data that is 3 years old, so the PERS system does not react to changes in circumstances in real time.

PERS takes into consideration many complex demographic assumptions and three critical financial assumptions: assumed earnings rate, amortization of UAL, payroll annual growth rate. She explained why rates are going up and why the UAL continues to grow.

There is a statewide \$29 billion shortfall, and the amortization of this UAL repayment had been 20 years but was increased to 22 years (in 2019), which increased the overall debt. She likened it to changing from a 15-year to a 30-year mortgage. Additionally, local governments underestimated what their payroll annual growth rates will be. Subsequently, Deschutes County is falling further and further behind and is not able to catch up.

Samuels described how PERS rates are determined, then provided some historical context on the creation of OPSRP ("Tier 3") in 2003. She stated this is not the County's fault but rather there is a systemic imbalance. A pie chart illustrates where the liability is contributed to, with 65% of the liabilities to retirees. She stated theoretically, the County could eliminate pensions on active employees but still not solve the financial problem because it was a result of decades of legislative decision making. There is no path to fixing it other than coming up with ways to pay for it.

Samuels spoke about steps the County can take to defray these PERS costs. Creation of a side account is one key strategy. This is an extra deposit made to PERS and is a satellite savings account which is invested with the rest of the PERS fund, earning PERS returns. PERS creates a draw down schedule. This draw down is offered as a credit to our overall PERS base rate. Deschutes County created side accounts in 2002, 2004 and 2020. Consequently, the draws from these accounts are lowering our PERS rates.

If we have cash, the Employer Incentive Fund is another option. This fund provided a 25% state match for cash-funded side accounts. This is a competitive first-come, first-served application process, opening in spring 2025.

Commissioner Chang asked about what kind of returns the County has gotten from their side accounts, and if we would we have been better off having invested this money differently. Slide 13 summarizes the County's side accounts. Deschutes County has funded three additional side accounts sent to PERS. Deschutes County borrowed money twice (\$5.4 million in 2002 and \$7 million in 2004). The County has been part of the State and Local Government Rate Pool, an actuarial pool, since around 2003. This diversifies the portfolio of employees to reduce volatility. Overall, the County has saved money (borrowed at 5.5% and earned an 8% return by paying it off).

Tintle said that for the upcoming biennium, the side accounts decreased our PERS rate by 2% representing a savings of \$15 million. Samuels said that all jurisdictions that invested in side accounts since 2002 have saved money, except those who borrowed in fall 2007. Samuels then spoke about the PERS Bonding program, providing some background. The PERS fund average return was 10.11% between 1979 and 2022 and the current borrowing rate is around 5.00%, noting that you cannot borrow on a tax-exempt basis.

Samuels then shared that changes to side accounts are on the horizon and may affect the County's 2004 side account. This account's draw down cycle ends in Dec. 2027. Because rates of return have been

underperforming and payroll has been growing faster than assumptions, we could run out of money long before Dec. 2027 and PERS may not know that until after the fact.

The 2023 valuation was just released and will set rates for the 27-29 biennium. Deschutes County's UAL is at \$4.1 million. Average payroll rates in 25-27 will increase 3.73% (T1/T2), 3.73% (OPSRP General Service) and 4.45% (OPSRP Police and Fire). Poor returns in 2022-23 and significant increases in payroll (County grew by more than 10.5% in 2023) contribute to this UAL.

Samuels noted it is important to pay attention to proposals in the legislature as these can change benefits. She cited examples from the 2024 short session. Investment earnings matter, and payroll growth matters more than many realize. It will be important to build a pension reserve as cost increases are coming.

At 10:21 a.m., Chair Fister called a 5-minute break, and the meeting was reconvened at 10:28 a.m.

Commissioner Adair noted that in 2020, the County set aside \$13 million cash in a PERS side account and asked if we would have been better off had we borrowed these funds. Tintle responded that the balance was \$16.7 million as of Dec. 2023, and these funds are being drawn down each year over a 20-year period. We are in a good position, and we have more funds in this side account than we initially invested. It's averaged a 10.11% rate of return.

FINANCE UPDATE: Cam Sparks provided a County Finance Update.

- **Property Taxes:** Sparks highlighted a table of the County's tax levies, with all districts (except 9-1-1) at the maximum authorized rates. In three years, an increase to the levy rate for 9-1-1 will be warranted. Commissioner DeBone noted the recent increase in PERS rates for Fire, Police and Emergency personnel.

Assessed value has had an average 5.5% year over year growth rate since 2015. They have budgeted for a 5.2% growth rate for FY25. Property tax revenue is coming in lower than projected, at 4.64% due largely to four key properties. Assumptions moving forward will be more conservative.

Commissioner DeBone noted UGB expansion in SE Bend on the horizon noting that urban expansions will be where growth will occur.

Scot Langton, County Assessor, provided some background information on the key properties contributing to the lower than projected property tax revenues. Assessed value growth has remained strong and consistent in the incorporated areas. The base grows at 3% annually and you must see permits increase to keep it around 5% growth.

In January he'll received permitted activity data, which is a key tool for estimation noting there are many variables for budgeting purposes.

Property tax collection amounts have grown on average 5.5% year over year since 2019, and they are budgeting for 4.7% in FY25.

- **Health Benefits Fund:** Sparks noted the Health Benefits Fund is a large portion of the County's personnel costs. Beginning in FY21, the claims history curve began to grow exponentially. Prior to COVID, The County spent down reserves but post-COVID, pent up demand due to delayed medical procedures resulted in an average increase in claims costs of 13% between FY22 and FY24.

Departmental rates increased 30% in FY24 and FY25. Employee rates increased slightly, effective January 2024.

The Board of Commissioners approved the Employee Benefits Advisory Committee's (EBAC's) recommendation resulting in savings of \$1.4 million annually plus \$800K in estimated pharmacy rebates.

The Budget and Finance team is meeting regularly with Health Benefits consultants, and they shared that expenditure growth will stabilize at between 8-9%. Responding to Trego, Tintle reported the current Health Benefits reserve balance is \$8.7 million. Hale noted that it will take some time to realize the savings from EBAC's approved recommendations. Sparks acknowledged this is a dynamic fund and they will revisit it frequently to keep tabs on any trends.

- **PERS Update:** Rates are on a biennial basis, and the new rates take effect on July 1, 2025 and are anticipated to be increased by 4.6%.

Commissioner DeBone asked about the District Attorneys, Deputy District Attorneys and 9-1-1 Operators moving into the Police and Fire OSPRP, and what the resulting fiscal impacts will be.

In FY26, these PERS increases will have an impact. This 4.6% PERS increase adds \$6.5 million in estimated additional personnel costs.

- **FY26 Budget Initiative:** Sparks summarized the FY26 budget assumptions. COLA is yet to be determined, but they are using 2.8% for preliminary modeling. A health insurance premium increase of 1.0% is assumed and an average PERS increase of 4.6% beginning July 1, 2025 is assumed.

Other FY26 budget assumptions include: assessed value growth for property taxes of 4.7%, property tax collection rate of 96%, interest earnings of 3.6% and flat Transient Room Tax (TRT) collections.

Hale shared the Board of Commissioners will engage with EBAC in early summer 2025 so that any changes can take effect prior to open enrollment in the fall of 2025.

Responding to Fister, Sparks reported the results of the wage study are yet to be received, and Hale reported the first phase results are forthcoming in spring 2025.

Responding to Trego, Tintle reported the last time the TRT rate increased was in 2014.

General Fund Long-Range Forecast: Sparks said the GF accounts for the financial operations of the County and is supported by Property Tax revenue. GF departments and GF supported

departments are summarized on the slide. The major expenditures of the GF are the DA's Office, Community Justice Juvenile, Health Services (Public Health) and the Assessor's Office.

At current expenditure growth rates, the GF will face a budget shortfall in FY27 with no action taken. The expenditure growth curve must be reset to avoid this budget shortfall. The FY 26 Budget Initiative involves implementing strategies to reset the expenditure curve and achieve financial stability in the GF by focused savings and limited expenditure growth. Additionally, to ensure a collaborative process a Budget Work Group has been convened.

The slides provide details of the Limited Growth model. Sparks summarized the assumptions. There are some unknowns, including labor union contract negotiations and the results of the wage study. On December 2, the Board of Commissioners approved \$1 million in savings to the GF. The limited growth target of 3.3% for FY26, coupled with the \$1 million in savings approved by the Board, will ensure financial sustainability over the next nine years and achieve structural balance in the GF.

Commissioner DeBone spoke to living within our means. He noted that Capital Reserve Fund is the big change here. For many years, the County has had the luxury of being able to build, remodel and maintain facilities. Fister said it is important to let the taxpayers know *how* we are achieving this reset short of utilizing hidden fees. He noted that prioritization will be important, and we must identify areas where we can cut before we cut.

Commissioner Adair shared that Deschutes County is the third largest employer in the county. Government continues to inflate, and she advocated for becoming leaner and meaner. She then acknowledged Daryl Parish's comments on maintaining Internal Audit's 2.0 FTE, noting that they do important work, and this is not the area to cut.

Krisanna Clark-Endicott shared her appreciation for the zero-based budgeting concept. The County must look at where we can cut while continuing to provide the community with essential services.

Fister shared some of his experience with budget cuts while working in the private sector. It will be important to give departments the mindset that they must have contingency plans in place should they need to cut. Commissioner DeBone noted this could be an important management exercise for planning purposes.

Commissioner Chang shared that Public Health has eliminated FTE for reproductive health services, and these types of decisions are being made daily and often the Budget Committee is not present for them. These decisions are not always made as one big dramatic process, but rather these difficult decisions are being made regularly.

Commissioner Adair and Sparks had a brief discussion regarding the CPI calculation for the annual COLA.

Lelack said that the savings they have asked departments to make will be summarized and departments will each complete a Limited Growth Impact form. At the Board of Commissioners Retreat in January, they will dive deeper into examining some concepts and impacts.

- **Transient Room Tax (TRT) Forecast:** Sparks provided a summary of TRT revenue history. Between FY23 and FY25, TRT experienced an average decrease of 2.0%. For FY25, they are projecting \$12.1 million in TRT collections. TRT is variable and difficult to project, but for FY26 they are holding it flat and keeping the projection at \$12.1 million. They will not consider any TRT special requests.

Sparks summarized a few special items related to TRT for the Board of Commissioners to consider at their meeting on December 18.

Sparks shared a table of estimated discretionary TRT transfers, the largest of which is to the Sheriff's Office.

- **Capital Reserve Forecast:** Beginning in FY26, the GF will no longer be able to contribute to the Capital Reserve Fund at past levels and the County will need to find new ways to fund capital projects.

The last large expenditure in FY27 will be for completing the District Attorney's Office remodel, in the amount of \$3.5 million.

Commissioner DeBone noted the Public Safety Campus plan is also in the queue.

- **County FTE Update:** Sparks provided a County FTE update, which shows a 2.0% average FTE growth rate since FY22. Vacancy rates have held steady at around 10% since FY22.

Fister asked why departments keep positions even though they are failing to fill them and able to operate adequately without these positions filled. The Budget and Finance team have approached departments about budgeting for vacancy savings and to think about how to restructure moving forward, to balance their budget. This will be important information for the Budget Committee to consider. Currently Health Services and the Sheriff's Office are the only departments who regularly include this information in their budgeting.

Fister said it would be helpful if the table included all County departments, not just those who have made FTE adjustments.

At 12:10 p.m., a lunch recess was called, and the meeting was reconvened at 12:40 p.m.

BUDGET CALENDAR: Sparks noted that the BOCC Retreat will take place on January 10, at which time the Board will set their goals and objectives for the year. The Elected Officials Compensation Committee will convene in February. EDCO and VCO will present at a regular BOCC meeting in April. Health Services will present during Budget Week.

Following some discussion related to Commissioner DeBone's availability, it was determined to condense Budget Week to Monday, May 12 through Wednesday, May 14, 8:30 a.m. to 5 p.m. Sparks will send out revised Outlook calendar invites to exclude Thursday, May 15.

BUDGET REVIEW COMMITTEE ROLE REVIEW: Sparks summarized the Budget Committee's roles and responsibilities. She highlighted some important reminders, citing local budget law, ORS and County

policy. She asked committee members to please direct all questions to her as Budget Manager, and she can bring others into the conversation as needed.

Sparks noted that Budget Books will be available to committee members on the Tuesday prior to Budget Week.

Responding to Fister, Hale said the transition of Deschutes.org to Deschutescounty.gov is still in process. She will reach out to IT and follow up with Fister.

2024 YEAR-END VIDEO: Hale provided background on the video “Deschutes County 2024: A Year in Review” which will be released to the public in a few weeks. She thanked Erik Breon for his work on this project. Numerous projects were highlighted, each supporting the citizens of Deschutes County. Commissioners Adair and Chang both suggested removing the portion of video showing the landfill siting, as real property negotiations are still in progress.

WRAP-UP: Lelack thanked Cam Sparks for her presentations and commended her for the quality of her report. Commissioner Adair echoed these sentiments.

ADJOURN: Being no further items to come before the Budget Committee, the Mid-Year Budget Committee meeting was adjourned at 1:03 p.m.

ELECTED OFFICIALS’ COMPS DISCUSSION:

At 1:04 p.m., Lelack convened the meeting of the Elected Officials Compensation Committee.

Hale reported there are currently vacancies for the Human Resources Director and Manager positions, and she and Erik Kropp are stepping in on an interim basis to fill these roles. The Elected Officials Compensation Committee will meet in February and March. At the first of those two meetings, the consulting firm, HR Answers, will be present to discuss their wage study and philosophy on comparables. Following some discussion by the public members of the Budget Committee, they settled on the first two-hour meeting taking place on Friday, February 21, 2025 at 9 a.m. and the second one-hour meeting taking place on March 7, 2025 at 9 a.m. Hale will send out some background information and Outlook calendar invites.

Trego expressed concerns with the cost of two additional commissioners based on today’s budget discussion, and she would like to hear from HR Answers on this topic. Fister would like a better understanding on comps to be discussed and the reasoning behind them. Hale noted that HR Answers will discuss non-local comps from other states, as well as comps for elected officials. Clark-Endicott asked for information on the roles and responsibilities on the non-local comps’ elected officials. Trego said it would be helpful for them to have a list of committees on which the current Deschutes County Commissioners committees serve. Hale said that HR Answers will provide background information and will request feedback on which direction to proceed.

Lelack understood the need to go non-local for commissioner comps, adding that it is important to find a comparable organization when looking at elected officials’ comps. Hale directed committee members to reach out to her with questions and she will coordinate with Cam Sparks.

Sparks adjourned the Elected Officials Compensation Committee meeting at 1:20 p.m.

Respectfully submitted,



Angie Powers, BOCC Administration Administrative Assistant