BOARD OF COMMISSIONERS

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MID YEAR BUDGET UPDATE MINUTES

1:00 PM **TUESDAY, December 12, 2023** BARNES & SAWYER ROOMS
Virtual Meeting Platform

Present were Budget Committee Members Bruce Barrett, Jim Fister and Judy Trego; Incoming Budget Committee Member Krisanna Clark-Endicott *(remote)*; Commissioners Tony DeBone, Patti Adair *(remote)*, and Phil Chang; County Administrator Nick Lelack; Deputy County Administrators Erik Kropp and Whitney Hale; Chief Financial Officer Robert Tintle; Treasurer Bill Kuhn; Budget Manager Dan Emerson; Budget Analyst Camilla Sparks; Human Resources Director Kathleen Hinman; Management Analyst Laura Skundrick; Internal Auditor Elizabeth Pape; and Administrative Assistant Angie Powers.

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

CALL TO ORDER: Chair Bruce Barrett called the mid-year budget meeting to order at 1:02 p.m.

OPENING COMMENTS: County Administrator Nick Lelack welcomed everyone to the mid-year budget update. He recognized Bruce Barrett for 17 years of service on the committee and presented him with a plaque of appreciation. Commissioners, committee members, County staff and elected officials in attendance expressed their gratitude to Bruce for his long-term service on the committee, and thanked him for serving with integrity, professionalism, and stewardship.

Robert Tintle shared some important events which have occurred since the Budget Committee last met. The County went out for the courthouse bond and met with Moody's Investor Service. Their credit opinion noted some strengths of Deschutes County in its conservative budgeting practices, solid reserve and liquidity levels, and low fixed costs. Sustained increases in reserves and liquidity could lead to an upgrade.

PUBLIC COMMENT: None presented.

Krisanna Clark-Endicott, incoming Budget Committee member, introduced herself and was present via Zoom. Also in attendance via Zoom was Commissioner Adair.

FINANCE UPDATE: Mr. Emerson greeted those in attendance. He described this mid-year budget update as a "State of the County" presentation prior to Budget updates. This is a high-level overview of the County's financial perspective and budget assumptions. He summarized the topics on the agenda. The Pre-Budget meeting will take place on April 29, 2024.

A. **General Fund (Fund 001) and Property Taxes**:

- The General Fund (GF) is made up of departments (DA's Office, Clerk, Assessor, Veterans, Tax, Property Management and Medical Examiner) and supports other departments via transfers out. Health Services, more specifically Public Health, and Juvenile Community Justice make up the bulk of transfers out.
- GF is primarily supported through current year property tax dollars, making up 84% of the GF revenue.
- Property tax levies: In FY24, the GF property tax rate increased $0.06 and levied the permanent full rate of $1.2783/$1,000 in assessed value to support vital operations at the current service level, courthouse debt service, and future capital improvements.
- Assessed value year over year has shown a 5.6% average yearly growth since 2015. The County budgeted a 4.90% growth for FY24, but actual growth has been 5.59%. Assessed value assumptions for FY25 are yet to be determined, pending a conversation with the Assessor. County best practice is to budget conservatively.
- Responding to Commissioner DeBone's question about reserve levels and the County's credit rating, Robert said that Moody's examines whether we are adhering to our policy and meeting our policy goals. They also focus on the General Fund.
- Since 2018, the County has experienced a 7.1% average per year growth in property tax collections, recognizing multiple tax levies this past year. This assumes a 96% collection rate. Robert distinguished between current year tax revenue and prior year tax revenue. He added that a recent supreme court ruling may have impacts on property tax collections and equity for foreclosed properties moving forward.
- Responding to Commissioner Chang, Dan explained that the District Attorney's office is the largest GF departmental expense, while Health Services and Community Juvenile Justice represent the bulk of transfers out. He clarified that Contingency is for cash flow purposes, while Reserves are for emergencies.
- General Fund Operations forecast: Dan explained that the graph shows that expenditures begin to exceed revenue in FY35. This graph represents a projection of historical trends and is based on basic operating costs. It does not take into consideration any salary and wage studies, emergencies, or large major projects. He asked the committee to consider what steps can be taken to slow the growth in expenditures to have an impact on the long-term forecast and avoid the FY35 cliff. Robert added that an important role for the committee is to safeguard the GF as the discretionary fund.
- Commissioner DeBone shared that he just attended the Business Oregon Leadership summit, where an overhaul of Oregon's tax structure came in #2 in a list of top priorities, based on a vote of 700 attendees. He noted that cities are in a tighter spot than counties. Long-term stability in funding for K-12 schools was another top priority.

- Shared cost agreements and grant revenues were briefly mentioned as potential means to slow the growth of expenditures in the DA's Office.
- Graphs in the meeting packet compare varying GF growth assumptions of 5.5% and 4.8%. A slower growth rate of 4.8% would save $120 million over 20 years. Choices made today that are aligned with a slower growth rate can have great impacts on fiscal stability.
- Commissioner Chang said it will be important to explore other ways in which the County can secure alternate funding services while continuing to provide necessary services to the community. Judy Trego agreed that it's important for departments to find other ways to generate additional revenue.
- Nick highlighted that Human Resources, Information Technology and Facilities departments haven't grown in proportion with other departments. These departments are creating Strategic Plans so that informed decisions can be made moving forward.

B. Transient Room Tax (Fund 160 & 170):

- The new Transient Room Tax (TRT) projections came in today, projecting $12.4 million in collections for FY24. A potential surplus will be transferred to Capital Reserves for future debt and capital needs.
- Dan summarized FY24 TRT expenditures. Notable transfers are to Fair & Expo for long-term capital needs, Visit Central Oregon (VCO), law enforcement and grants/contributions to Sunriver Service District and Mt. Bachelor.
- Robert reported that TRT was down 2.3% this year over last year. July through October are typically the largest revenue months for TRT, but this year was 10% lower than last year.
- Jim asked what's driving the TRT: occupancy or room rates? Robert shared that the County receives the TRT revenue without any occupancy rate data. Central Oregon Builder's Association (COBA) may have insight into these figures. Robert added that business room tax revenue has decreased but private room tax revenue has increased so there are multiple contributing factors.
- Commissioner Adair shared that the Wall Street Journal recently listed Mt. Bachelor as the fifth best ski resort in North America, so snow is desperately needed. Also, the Sisters Rodeo Grounds needs to make $1 million in upgrades. She's concerned that 58 average days of wildfire smoke in the summer affects tourism.
- Commissioner Chang reported that the County recently completed a Campground Feasibility Study, for a 200-300 site campground on County-owned land. This project has the potential to generate TRT. The cost is estimated at $20 million but would have a good return on investment.
- Jim encouraged the County to ask recipients of TRT and GF to justify how they're using their allocated TRT. Dan noted the contracts require adequate notice be provided should adjustments be made to TRT allocations. Nick thanked Jim for his critical thinking in bringing up this topic.
- FY25 TRT assumptions: TRT is difficult to forecast, but the current budget assumption for FY25 is $12.6 million. The assumption is a 2.5% revenue and expenditure growth, not including any additional community projects beyond the (last) payment to Sunriver of $2 million.
- Jim spoke about the volatile nature of construction costs, both labor and materials. It's important to consider whether to execute capital improvement projects now or later, taking into consideration that there's a risk that it may cost substantially more in the future.

At 2:38 p.m., Chair Barrett called a 10-minute break, and the meeting was reconvened at 2:48 p.m.

C. Capital Reserve (Fund 060) and Courthouse Update:

- Capital Reserve is used for all future debt service, such as the courthouse, and capital needs and maintenance. GF revenue above contingency is transferred into Capital Reserve annually. The projection for FY24 is a $4 million transfer from GF to capital reserves.
- The Board of Commissioners selected the option of a $20 million buy down on courthouse debt to optimize the County's fiscal health.
- Courthouse funding:
  - Cost estimate: $40.5 million, with a 10% contingency built in
  - The $20 million buy down on debt service will save $12 million in interest over the life of the debt service over the alternate option of no buy down
  - $20.5 million in full faith and credit bonds at a true interest cost of 3.93%
  - $15 million in state funds
- Dan highlighted that it's important to note that the Capital Reserve forecast does not include any major new capital projects. The Capital Reserve will pick up the GF operational deficit around FY35. TRT contributions are necessary for future debt, new capital and fiscal stability. The Capital Reserve Forecast graph in the packet shows what will occur if the County keeps the core services at the same level and does not optimize its revenue.
- Robert asked the committee to carefully consider what can be done today to prevent the steep drop off as depicted on the graph.

D. Operations Update:

- Dan shared some operational needs which may cause financial instability for certain departments. For instance, despite the maximum tax levy, the Sheriff's Office's beginning working capital came in lower than projected and presenting a balanced budget may be a challenge. A reset on the revenue or expenditures side may be needed. Given the fact that this is the County's second largest operational budget, the committee agreed that it would like to hear from them during the April 29 meeting.
- Dan shared some other examples. The Community Development Department laid off some staff members and eliminated some unfilled positions, due to decreased permit activity. Kathleen described CDD's current staffing as "right-sizing". They adopted a "grow-your-own" perspective and invested in training/certification for current staff as building inspectors are difficult to find.
- Public Health is funded differently than Behavioral Health and may also experience some financial instability. Adult P&P is experiencing decreases in one of their main funding sources as capitation is expected to decline. Community Justice Juvenile has a $6.8 million transfer out of GF. Justice Court's fees don't cover operations as these are covered out of TRT.
- An upcoming salary study with market review will be taking place. Kathleen shared that the RFP is out, and they expect bids to come in this week. For background, a classification/compensation review was completed in 2017-18. The scope of the current study is a market analysis to determine if we are competitive with our wages. Internal equity is another factor to be considered. The current study is specific to non-represented employees and AFSCME represented, accounting for approximately 700 out of the County's 1,249 employees. New biennial PERS rates and increases in health insurance rates are other important factors to take into consideration.
- Dan shared that expansions and improvements to the Clerk's Office and the public safety campus are some upcoming new capital improvement needs. If financially viable, capital improvement projects are projected to be funded through unallocated TRT.

E. Health Benefits Fund:

- The County's strategy had been to subsidize premiums, but this was spent down sooner largely due to pent up demand from COVID and inflation. Coupled with raising claims costs, this fund has experienced sharp decreases. In FY23, departmental rates were raised by 29.35% to align with costs. Employee premiums will increase from $90 to $95 (employee only) and from $90 to $116 (employee plus family) effective January 1. The last increase to employee premiums was in 2016.
- Commissioner Adair noted that Moss Adams' External Audit Report highlighted that the Employee Health Benefits Fund is decreasing sharply and quickly. Dan stated that the finance team is closely monitoring incoming claims costs. It's complicated due to a two-month lag with insurance claims.
- The Health Benefits Reserve Assumptions model shows that rates need to increase by 15% in FY25 to build up reserves. An updated reserve forecast will be provided on April 29.
- Kathleen reported that pharmacy benefits and specialty drugs have shown the largest % increase and Human Resources is evaluating the County's existing formulary for cost savings but acknowledges that member disruptions must be considered.

F. **Countywide Personnel Review and Assumptions**:

- County FTE update: The County has experienced a 4% average growth in FTE since FY20 and vacancy rates have doubled since FY20.
- Of all the departments, Health Services has experienced the greatest additions in FTEs.
- The FY25 Cost of Living Adjustment (COLA) is to be determined. Labor contracts range from 1% to 4% min/max. We're currently trending at 4.2% but Dan expects it to land under 4%.
- Four separate labor contracts will be renegotiated in two years.
- PERS Outlook: 2023-25 rates increased an average of 1.6% and the next biennium is anticipated to have 1.5-2% increases. County Finance anticipated these increases and has planned accordingly.

G. **American Rescue Plan Act (ARPA)**:

- The County has allocated all ARPA funds ($38.4 million) and expended $29.6 million thus far.

BUDGET PROCESS UPDATE

- Sheriff's Office, Health Services, Economic Development of Central Oregon (EDCO) and Visit Central Oregon (VCO) will present on April 29. The Elected Officials Compensation Committee will meet the same day, one hour prior. Nick added that the wage/salary study may have impacts on the Elected Officials Compensation Committee's findings.
- Dan shared the Budget Committee Survey Results. Results show that members do wish to hear from EDCO and VCO and be able to ask questions. Members wish to hear from all departments, regardless of whether they have changes to discuss.
- Dan noted that major funds require a five-year forecast.
- A change from last year will be to route all departmental budget inquiries via email through Finance so that all committee members receive the same information and to ensure transparency for public records.
- In response to a question from Jim, Kathleen noted that the County's Internal Auditor suggested an update to the County's Conflict of Interest Policy for staff, committee members and volunteers.
- Public committee members requested to be notified in advance of budget items going before the Board of Commissioners.

- Commissioner Adair noted the County currently has 1,249 employees and it is her hope that this number remains stable.

BUDGET CALENDAR

- Proposal for Budget Week: week prior to Memorial Day (Mon. May 20 through Thurs. May 23). Same structure as last year with all departments presenting.
- A detailed budget year calendar was included in the meeting packet.

WRAP-UP

ADJOURN: Being no further items to come before the Budget Committee, the meeting was adjourned at 4:13 p.m.

Respectfully submitted,

Angie Powers

Angie Powers, BOCC/Administration Administrative Assistant