



BOARD OF COMMISSIONERS

1300 NW Wall Street, Bend, Oregon
(541) 388-6570

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BOCC BUDGET MEETING MINUTES

11:00 AM

TUESDAY, December 13, 2022

BARNES & SAWYER ROOMS
Virtual Meeting Platform

Present were Budget Committee Members Bruce Barrett, Jim Fister and Judy Trego; Commissioners Patti Adair, Tony DeBone and Phil Chang. Also present were County Administrator Nick Lelack and Deputy County Administrators Erik Kropp and Whitney Hale; Chief Financial Officer Robert Tintle; Treasurer-Elect Bill Kuhn; County Legal Counsel David Doyle and Assistant Legal Counsel Kim Riley; Budget Manager Dan Emerson; Budget Analyst Camilla Sparks.

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

CALL TO ORDER: Chair Bruce Barrett called the mid-year budget meeting to order at 11:00 AM.

OPENING COMMENTS: County Administrator Nick Lelack welcomed everyone to the meeting. He acknowledged Judy Trego, who was just reappointed to a three-year term on the Budget Committee by the Deschutes County Board of Commissioners. Mr. Lelack then welcomed Bill Kuhn, Treasurer-Elect, and introduced the County's Chief Financial Officer, Robert Tintle and Budget Analyst Camilla Sparks. He reviewed the meeting's agenda.

Commissioner DeBone highlighted that Nick Lelack, as Budget Officer, will publish the County's annual budget. He thanked Mr. Lelack for his efforts.

Robert Tintle, Chief Financial Officer, thanked Dan Emerson and Camilla Sparks for the large amount of work they've put into this year's budget process thus far. He thanked the commissioners and the citizen members who serve on the Budget Committee.

Dan Emerson, Budget Manager, thanked the volunteer citizen budget committee members; Camilla Sparks, Budget Analyst; Laura Skundrick, Budget Analyst and ARPA Coordinator; Brenda Fritsvold, Board Executive Assistant; and the Administrative team for their assistance.

Commissioner Adair highlighted that the uncertainty of financial markets and the effects of inflation point to challenging times ahead.

Commissioner Chang commented that there is a desperate need for workforce and affordable housing in Deschutes County. He's interested in looking at how to create opportunities to find local funding sources for projects that address these issues.

PUBLIC COMMENT: None presented.

FY 2022-23 UPDATE: Mr. Emerson started the presentation on the FY 2022-23 Update, and highlighted the day's topics. The purpose of the mid-year meeting is to put a high level focus on County-wide finances and budget assumptions. Specific departmental focus will occur during Budget Week in May 2023.

Assessed Value: Consistent 5.5%/year average growth in assessed value. There has been significant growth in the market value since 2014: 30.5% growth in FY23 as compared to 13.2%/year average growth since 2014.

Tax Levies: The County Permanent Rate remained the same at \$1.22. The authorized rate is \$1.28, leaving a \$0.06 ceiling. Mr. Emerson also covered the tax levies of Sunriver Service District, Black Butte Ranch Service District, 9-1-1, County Extension/4H, Countywide Law Enforcement and Rural Law Enforcement - Sheriff's Office.

Property Tax Collections: Our actual collections are a function of our collection percentage (96% year over year) and our assessed value, which had a 5.5% growth this year.

General Fund Update (Fund 001): The General Fund is made up of multiple departments, but the largest transfers are to Health Services and Juvenile Community Justice. The ending balance is projected to be approximately \$900K higher than budgeted, due in part to a higher than projected increase in working capital at the beginning of the year and vacancy savings. Vacancy savings are balanced out due to decreased recording revenues.

Capital Reserve Update (Fund 060): Capital reserve is used for all future debt service, which is anticipated to be used for the courthouse expansion. This is one barometer of our financial health and fiscal stability. Projection is \$4.9 million transfer from general fund to capital reserves in FY23. Reserve levels have decreased over the last few years (\$12 million in 2019 and reduced to \$5.5 million currently). \$3.5 million transfer of Transient Room Tax into Capital Reserves was made in FY23 to offset the decrease in reserve levels.

Transient Room Tax History: TRT is volatile and difficult to project. There has been a 14%/year average increase since 2012. Early projection is that the County will have \$330,690 more than budgeted. As previously noted, surplus was transferred to Capital Reserve for debt and capital needs. There was a brief discussion about whether TRT appears to be returning to pre-COVID figures. Commissioner Adair pointed out inflationary effects of TRT from vacation rentals. Judy Trego shared that business owners are still trying to recover from COVID and they have valid concerns. She suggested it is important to look at TRT holistically, and this is a large part of how to track how other businesses in the rural community are doing (restaurants, retail, etc.). If hotels are full, restaurants and retail are also doing well. It's important to also look at increases in TRT due to increased occupancy.

Commissioner Chang suggested considering how TRT is used to reinvest in the components of our economy that keep TRT coming by making Deschutes County a desirable place to visit.

Judy Trego shared that there is a lot of uncertainty in the economy, coupled with inflation and it is important for the County to be fiscally-responsible by paying down debt. COVID created a lot of need in the community, and the County has a history of helping nonprofits and the business sector. Both sectors need the County's help recovering from COVID. The County has a responsibility to allocate funds and make sure Capital Reserve is healthy but must also prioritize fund allocations to the community: housing and food insecurity, affordable housing, homelessness, economic development, etc. The allocation of ARPA funds in recent

times is a good example of how the County helped the community in a time of need.

FY23 TRT Actual Expenditures: FY 2023 had \$19,267,501 in total TRT expenditures, which included the ~\$3.5 million transfer to Capital Reserves for future debt service and capital needs.

Commissioner Chang noted that he, Commissioner Adair and Commissioner DeBone recently had their annual tour of the jail. A planned overhaul of the current jail was discussed, and Commissioner Chang put that on the committee's radar as another large capital investment for which the funding source is yet to be determined (potential bond measure, etc.).

County Health Benefits Trust: The County's strategy has been to subsidize premiums to spend down reserves. However, reserves were spent down higher than projected due in large part to pent-up demand due to COVID-19. Last year, the fund's ending balance decreased by approximately \$4 million due to a spike in claims. The County will need to increase rates in the near future.

County FTE Update: Due to COVID and other factors, vacancy rates have doubled since 2019. There has been a 4% average FTE growth since 2019. Operational growth is critical to continue providing essential services to the County.

Mr. Fister said that it would be educational in the May meetings for departments to share where the vacancies exist and in which subcategories, along with hiring challenges. He asked about the County's policies on filling vacancies, and looking at fulfilling the mission with the headcount they have versus trying to grow headcount to address what they haven't been able to fill. The ability to shift personnel to address departmental needs is another important item to address. Commissioner Adair shared that the average vacancy rate County-wide is 12%.

Mr. Lelack shared that although the vacancy rate has doubled since 2019, the gap is beginning to close as the trend in recent months has been that many vacancies have filled. It is critical for departments to have an accurate estimate of FTEs in their budget for planning purposes moving forward, and it will be interesting to see vacancy rate trends moving forward.

FTE Additions by Department: A slide was shown comparing FTE additions by department FY20 through FY23. Commissioner DeBone stressed the ongoing

challenges of hiring call-takers for Deschutes County 9-1-1. A balance between overtime pay and burnout is an issue with call-takers. Commissioner Adair added that they've made the pre-employment tests easier for applicants to pass. Commissioner Chang added that these jobs are not incredibly highly-paid and housing costs are high and it doesn't balance out for recruitment and retention efforts.

American Rescue Plan Act (ARPA) Update: Deschutes County received ~\$38 million in ARPA funds from the federal government. All except ~\$400,000 (held in Fund 200) have been allocated to affordable housing, childcare, homelessness, public health and COVID prevention, food assistance, infrastructure, small business assistance grants, mental health and administration. Commissioner Adair shared that despite ARPA funds allocations toward a childcare facility at OSU-Cascades, they are not able to turn a profit. Commissioner Chang said that no matter how you look at it, childcare doesn't pencil out when it relies on tuition payments by the parent(s) and there needs to be a way for the portion of the economy who benefits from childcare to cover some of the costs. Mr. Fister posed the question of how to sustain some of these programs after the ARPA funds are expended. Commissioner Chang responded to his concern, adding that the bulk of their ARPA investments are one-time investments and there will not be a need for backfill. Mr. Emerson added that many of the ARPA expenditure line items had a five-year plan moving forward. Mr. Emerson shared that the remainder of the unspent ARPA funds must be obligated by December 2024 and must be spent by December 2026. In response to a question by Mr. Fister about interest earned, Mr. Tittle responded that any interest earned on the unspent ARPA funds in Fund 200 are allocated back within that fund and those earnings are available for any additional projects. Alternately, it can be used for the County's General Fund.

CDD Development Revenues: 8.9%/year average increase since 2017. FY23 has an estimated 1.7% decrease due to a decrease in application volume. In 2015-16, Mr. Lelack added that part of the growth between 2012 and now occurred when the City of Sisters transferred their building (not planning) program to the County, and La Pine also experienced a boom in growth.

RECESS: At the time of 12:18 p.m. the meeting went into a short recess and was reconvened at 12:37 p.m.

FY 2023-24 BUDGET ASSUMPTIONS: Mr. Emerson presented the FY 23-24 Budget Assumptions.

Assessed Value Increase: Based on lower permitting numbers and some economic indicators, the County is assuming a slight decrease to 5.45% (versus the average of 5.50% since 2014).

Cost of Living Adjustment: TBD for FY24. In general, it's based on a 12-month average (CPI for October '21-October '22 is 7.7%).

PERS Outlook: Current '21-'23 rates are in effect through FY23. 2023-2025 rates increased on average 1.6%. FY24 is the first year of the new biennial rates. Slide highlighted the FY21-23 rates versus the new FY23-25 rates which will have ~\$1.75 million impact on FY24 personnel budget. Mr. Tintle added that retiring Tier I/II employees do have an effect since new hires are typically OPSRP.

General Fund (GF) Forecast: GF Property Rate assumption is to increase \$0.06 and levy a permanent rate of \$1.2783 to support essential operations and is necessary for courthouse expansion and future capital plans. Note: This has not been brought before the Deschutes County Board of Commissioners for a vote. Commissioner Chang wants people to know that the impact on their pocket book would be negligible, and shared an example in that the increase of \$0.06/\$1,000 of assessed value on his home equates to approximately \$13 per year. Ms. Trego noted that there is property tax relief available for veterans. In response to a question by Chair Barrett, Mr. Emerson added that the \$0.06 increase equates to just under \$2 million year over year. The big difference in this year's budget over last year's budget is the courthouse expansion and increased inflationary costs.

Impact of Levying Full Tax Rate: Slide shows that the \$0.06 increase will reduce the gap between the GF transfer out to reserve and the estimated debt and capital maintenance expenditures. Mr. Tintle noted that the forecast model goes out to 2048 with and without the \$0.06 increase and the TRT contributions. With the courthouse expansion obligation, the assumptions include the \$0.06 increase *and* a TRT contribution. No contribution from the State was worked into the assumption.

Commissioner Chang asked about the interest rate assumption on the money borrowed for the courthouse expansion. Mr. Tintle responded that the rate assumption is 5.075% but the County could refinance if lower rates are available when it goes out for a bond. In response to an inquiry from Mr. Fister, Mr. Emerson

reported that the model doesn't include any other building projects; it only includes capital maintenance expenditures with inflation over 20 years and the courthouse expansion. The model has extremely conservative expenditure built into it.

Capital Reserve Forecast: This fund pays for debt and minimal capital maintenance moving forward. No new capital improvement projects are included outside of the courthouse expansion, and the \$0.06 increase is assumed. Slide shows that without an infusion of TRT, capital reserve steeply declines over time. TRT contributions will be necessary for future debt service. Mr. Kuhn asked Mr. Emerson about other capital project planning. Mr. Kropp responded that the Facilities Master Plan identifies future needs, refinement and cost estimates: what needs to be replaced and when. It staggers projects to smooth out the costs associated. Mr. Kropp added that staff recommends the \$0.06 increase due in part to the variability and unpredictability of the TRT. Mr. Lelack highlighted that due to the continued growth of the County and its staff, there will be a continued need for further expansions. The Great Resignation has had a significant impact on staffing. There are a lot of unknowns about further capital improvement needs and the associated costs.

TRT Assumptions: Mr. Emerson reiterated that TRT is variable and difficult to project. Based on a 3-year average, FY24 projection is \$12,542,000.

Mr. Lelack said that TRT has subsidized Environmental Health for restaurant inspections for some time. One question is whether to keep the TRT transfer flat or increase fees to cover costs. A bigger question is in regards to Deschutes County Sheriff's Office (DCSO). In recent times, TRT was transferred to the Sheriff's Office for the jail and has continued to increase, to an amount of \$3.6 million last year. Mr. Lelack, Mr. Tintle and Mr. Emerson met with Sheriff Nelson and his leadership team the previous day. Sheriff Nelson shared that approximately 1/3 of their services serve tourists. He had major concerns about reducing the TRT transfer from \$3.6 million back down to \$3.1 million. The Sheriff's Office plans to ask for \$4.1 million in unallocated TRT for the upcoming year. Commissioner Chang brought up the jail remodel and how to pay for it. Mr. Fister discussed whether TRT was more useful as a solution for capital expenditures or operational expenditures.

Commissioner DeBone expressed interest in having a Board work session with Environmental Health and topics for update. He'd also like to meet with Sheriff Nelson and Mr. Brundage to discuss these topics. Ms. Trego suggested gathering information from Environmental Health during this future work session on the

number of inspections that are happening, how many are not happening and what the impacts on restaurants would be with an increase in fees. These inspections are important for health, safety and liability and should theoretically pay for themselves. She's cognizant about not placing undue burden on businesses.

Commissioner Adair noted that tourists are becoming more impactful, and she used to use the figure of ¼ of DCSO services were tourist-related, particularly when asking for additional judges. Now, Sheriff Nelson has updated this to a figure of 1/3 of their activities. In regards to another matter, Commissioner Adair asked about the 9-1-1 north campus, and if 9-1-1 is expected to pay back the building purchase. This building houses 20,000 square feet, and was purchased just over two years ago and has recently undergone a remodel. Mr. Kropp reported that the current 9-1-1 building debt service is shared by 9-1-1 and OSP. Historically, it's been a "mixed bag" and is a Board decision. Commissioner Adair was interested in obtaining figures on the number of remote workers. The downtown parking analysis touched on this topic.

At 1:39 p.m., William Kuhn and Bruce Barrett left the meeting due to other schedule commitments.

RECESS: At the time of 1:47 p.m. the meeting went into a short recess and was reconvened at 1:54 p.m.

Courthouse Funding: Estimated cost of construction is \$44.5 million. County staff is proposing issuing full faith and credit bonds for the full amount assuming interest cost of 5.075% for 20 years. Some ARPA funds from the State of Oregon (OJD) can be utilized to buy down the debt. Annual debt service is proposed to be funded by increase in GF property tax rate of \$0.06, unallocated TRT and monitoring the growth rate.

Other Future County Capital Needs: Expansion of Clerk's Office, Public Safety Campus, District Attorney's Office and Health Services. Funded through unallocated TRT if viable. Commissioner Adair asked about the square footage at the north campus, the health services building on NE Courtney Drive and the La Pine Community Health Clinic. Mr. Emerson will note this as a topic of discussion in May during the Health Services department update. Fund 070 (Capital Maintenance

Needs) gets \$0.03 in property taxes funding which equates to ~\$900,000 and ~\$500,000 in GF transfer.

Health Insurance Rates: Premiums no longer cover costs so department rates will increase 11% in FY24. Employee rates haven't increased since 2016, but rates may increase in mid-FY24.

Health Benefits Reserve Forecast: Presentation slide illustrates projections between an 11% increase one time and an alternate graph showing an 11% increase in FY24 plus a 5.5% ongoing increase year over year to cover costs. Without the increases, there's a good chance there would be nothing left in reserves in FY25.

Proposed Updates to Budget Process: It has been requested that EDCO and COVA present prior to budget week at a Board meeting but will still attend during budget week. No supplementary handouts during budget meeting, so the Budget Committee would get all materials in the budget book ahead of time.

Budget Calendar: Proposed the week before Memorial Day (May 22-May 25). Last day is for deliberations. Health Services will present on Monday, May 1.

OTHER QUESTIONS: Ms. Trego thanked Mr. Emerson for today's updates. Mr. Fister asked if there is any additional comments or any additional guidance the Budget Committee would like to give staff. Commissioner Chang asked about TRT - how much is required, coupled with the projected \$0.06 increase, to be financially viable. Mr. Emerson discussed some different scenarios of how TRT can fill the gaps. Commissioner Chang asked for a chart showing how much TRT is required on an annual basis, assuming the \$0.06 increase, to keep our Capital Reserve fund in a favorable position. Mr. Emerson can provide this to Commissioner Chang. There are a lot of factors at play, including payments to Sunriver Service District for their public safety building project.

ADJOURN: Being no further items to come before the Budget Committee, the meeting was adjourned at 2:24 p.m.