

BUDGET MESSAGE



LIVING WITHIN OUR MEANS

April 20, 2004

Lane County Budget Committee
Lane County, Oregon

Dear Members:

Pursuant to ORS 294.391, this constitutes the fiscal year 2004-05 Budget Message and transmittal of the Proposed Budget. The proposed FY 04-05 budget for all funds totals \$413,709,396, which is 9.74 percent less than the current FY 03-04 budget. The proposed General Fund budget for FY 04-05 is \$96,000,651. This is 4.47 percent less than FY 03-04.

The proposed budget document contains several overview sections including Financial Summaries and the General Fund Analysis, followed by detailed revenue and expenditure information divided by organizational unit (department). Important features of the budget include a new, revised format for each department. The new format describes each department's purpose, upcoming challenges and opportunities, key accomplishments, objectives, and performance measures by major operating division. Departments also describe their proposed budget allocations for each division broken down by type of expenditure, by fund, and program. We hope this new format will tell the story of County services in a clear and easy to understand way.

A major requirement of the Budget Message is to set forth any salient changes between the prior year and the coming year. This creates an opportunity to discuss many of the dynamic changes taking place in Lane County government, most of which have significant budget implications. The over-riding theme of the Fiscal Year 2004-2005 budget is living within our means. This may mean painful cuts, such as many a local family has had to make when money gets tight and expenses keep increasing. But it also strongly fulfills one of Lane County Government's primary goals: that of listening to its citizens. We are in this together.

FISCAL YEAR 2004-2005 CHALLENGES

Public Employees Retirement System

Last year's message commented that the Public Employees Retirement System was severely broken and no clear solution existed to fix it. During the recent 2003 legislative session, the legislature adopted real and meaningful reform to the PERS system. Unfortunately, by the time this corrective action was taken, the long-term rates had risen dramatically. In view of the still unrealized losses from calendar years 2001 and 2002, rates will remain quite high in the near future. Furthermore, the County's annual obligation to pay off the \$70 million dollar pension obligation bonds will continue for another 24 years. Our cumulative rate is as follows: PERS employer rate of 6.09 percent, Pension bonds 5.62 percent and employees' self-pay 6 percent.

As would be expected whenever the legislature enacts a significant change in retirement benefits, a large number of public employee unions and individuals have appealed the reform legislation. Because there is continuing uncertainty about PERS reform, the County is collecting PERS funding from departments at a

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slightly higher rate in order to create a reserve in case the legislation is invalidated. We are holding 4.66 percent in reserve, or approximately two thirds of the potential savings. We believe that at least a portion of the reforms will be sustained. In spite of the uncertainties, the current cost to Lane County and its employees for the retirement system is 22.37 percent of payroll.

Retiree Medical

Until the recent past, Lane County offered long-term employees County paid medical health insurance from the time of their retirement until their eligibility for Medicare. Many current County employees will receive this benefit upon retirement, even though the County has stopped offering it to new employees. Last year we provided background on the actuarial study showing that we need to collect 5 percent of payroll over the next 20 years to cover this obligation. We are phasing the cost collection in over three years. Last year, departments paid an additional 3 percent. For FY 04-05 that amount is 4 percent, and 5 percent in FY 05-06. The proposed budget follows this plan. The combined total for retirement benefits and retiree medical is 27.37 percent of payroll. When you combine all retirement benefits together the County pays over 28 percent of payroll for PERS, Retiree Medical, Social Security, and Medicare. Employees pay an additional 13.6 percent of payroll themselves. The total cost of retirement for Lane County employees is 41.61 percent.

Health Benefits

Lane County faces rising health care costs for its employees. Similar to most employers, annual cost increases in the health care industry including treatment, hospitalization, and prescriptions continue to rise at a far greater rate than overall inflation (the industry quotes the figure of 14-17 percent). In addition, the current Lane County work force parallels current demographics in Oregon. The baby boomers are at the point in life when their medical expenses increase due to a greater number of health issues. The net consequence is that our insurance consultant's new estimate is that our health insurance costs will increase, not by 14-17 percent, but by 27-32 percent next year. This is significantly above the 20 percent predicted in the financial forecast and used in budget preparation. If we aggressively negotiate this rate down and are able to hold the increase at 25 percent, we will have an additional cost of \$570,000, of which \$270,000 will be to the general fund.

Because approximately 60 percent of the general fund expense is personnel, double digit health insurance and retirement cost increases will lead to continuous deficits as long as revenue growth remains modest, in the 3 percent range. However, there is a positive side to this situation. One of the great realities of our work force is that they are very experienced and able to perform a huge amount of work with very lean work teams. Additionally, when times are difficult as they have been recently, our employees have forgone pay increases to preserve services. We are very pleased that all five collective bargaining units and all non-represented employees have foregone any cost of living increase in FY 03-04. What we may lose in the form of additional cost is more than recovered through the high productivity and flexibility of our work force.

Strategy to address the 04-05 General Fund deficit

To address the impending deficit, in September 2003, the Lane County Management Team met in four, half-day sessions to develop a strategy and methodology to prioritize services much as we did to prepare the FY 03-04 budget. While there was much we could agree on, ultimately we could not reach agreement on how to address the budget situation. The Management Team therefore asked the Board of Commissioners to meet in a goal-setting environment and provide direction on how to prepare the FY 04-05 budget.

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The Board met and set three major directions. The first was that Lane County government was to remain a general-purpose government. Second, Lane County government would not seek any property tax rate increases. Third, they would take last year's list of prioritized services and develop the reduction scenario. In January we met as a leadership team (department managers and the Board) with union representatives and budget committee members. While the individual Board Members' approach to reductions varied, they ultimately ended up with direction for departments to prepare across-the-board reductions in an amount large enough to provide two years of stability and provide \$500,000 that could be used by the budget committee to help ameliorate the most onerous cuts. The size of the discretionary general fund reduction was set at 9 percent. This results in a reduction in the general fund of \$4.6 million, with \$500,000 available to the budget committee for restorations.

There are several benefits to this approach. It treats all general fund departments equally, an objective sought last year but not fully met. Incentives were created for departments to become entrepreneurial, and grow revenue if possible. If successful, departments could reduce the amount of cut needed to meet budget parameters. Second, if departments could reduce expenditures they would reduce the amount of budget cuts. Lastly, there is an understanding that the mix of services funded by the General Fund, in spite of budget cuts, manages to support critical County services that are a high priority and protect the life, health, and safety of citizens.

From the perspective of needing clear direction upon which to build a very difficult budget, the Board provided this without some of the angst and stress of the prior year. It gives the organization two years of stable service, thus removing the pain of having to propose severe service reductions each year. In addition, it provides the organization time to develop plans to address the structural deficit. This will demonstrate to our citizens that we are living within our means and leave open the option of a citizen proposed revenue measure.

While the budget preparation process may have gone more smoothly, the actual reductions proposed are quite severe. Most of the department managers agree that the amount of general fund resources Lane County has available to fund services is inadequate. For example, our permanent tax rate is \$1.28 per \$1,000. The city of Eugene is over \$7. Springfield and Willamalane Park and Recreation District, when added together, total \$6.71. These are just two examples of city tax rates in Lane County. Even with the addition of funds we receive from the Secure Rural Schools and Community Self Determination Act of 2000, our tax rate amongst all Oregon counties is second lowest, 35 out of 36. (Second only to Hood River County, population 20,500, in contrast to Lane County's 329,400).

Notwithstanding this severe stress on the General Fund, Lane County as a general purpose government continues to be a very dynamic organization. We continue to have many successes, challenges and, unfortunately, failures and it is important to note them at this time.

SUCCESSSES

Lane County continues to implement the Secure Rural Schools and Community Self-Determination Act of 2000.

We are in the third, full year of implementation of this act. It has been extremely helpful to Lane County. Through this funding we are able to keep the Forest Work Camp at capacity, operate a forestland patrol, improve search and rescue services, and provide for a Juvenile Forest Work Team and support important General Fund programs.

Believe it or not, it's time to think renewal! The funding for this act ends in federal year 2006. In March, Lane County's United Front delegation visited Washington D.C. to initiate the groundwork for re-

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authorization in the next two years. It is important to remember that almost 90 percent of Lane County is forestland that we cannot assess property taxes against, and therefore limits the value of our tax base. Renewal of this act is critical to the financial health of the County.

Solid Waste Fund

This fund remains healthy. The tipping fees provide sufficient revenue to operate the rural transfer stations, Glenwood central receiving transfer station, and Short Mountain landfill. Currently we are closing one cell and opening a new one now visible from I-5. In partnership with the road fund and Secure Rural Schools via a conservation easement, the division was able to join in the acquisition of a nearby farm that is now having its wetlands restored, thus allowing the expansion to the new cell. This represents a classic Federal/County and inter-departmental win-win.

Road Fund

So long as the Secure Rural Schools Act is in effect, and with the current revenue from the state gas tax, this fund remains healthy and the Board is able to continue its urban transition program with the cities, fund community and bridge projects, or match other funding pieces to get projects done. Examples include Clear Lake Road, Dunes City; Jasper Road extension, Springfield; Stagecoach Road by the Siuslaw River, etc.

Parks

Revenue from the car rental tax, RV registration fees, and user fees keeps this division of public works going. The threat of losing moorage revenue from the closure/lowering of Fern Ridge appears to have significantly decreased. In addition the system development fee is beginning to produce funds, allowing parks to develop a capital improvement plan.

Transient Room Tax

Unlike other regions of the country, Transient Room Tax (TRT) collections remain steady. Three new opportunities/challenges are emerging here. The first two involve the state's new 1 percent statewide transient room tax enacted to fund promotion of Oregon tourism. These promotions will increase economic vitality throughout Oregon, including Lane County. Unfortunately, with a few exceptions, the new law includes a preemption of local authority to use any TRT for anything except tourism. This new exception takes away the flexibility that the County had in the past. The third opportunity developed when CVALCO (Lane County's Visitors and Convention Bureau) and the Board of Commissioners jointly sponsored a tourism summit in January 2004. A subcommittee of the Board is working on follow-up strategies. One result is the recognition that Lane County must accelerate its tourism business plans and strategies before other regions of the state seize a portion of Lane County's current business.

Video Lottery

These revenues remain stable, but with more bad news from the legislature. In order to balance the state budget the legislature froze payments to counties and over time, with inflation, this will slowly degrade the services and economic development activities currently provided by Lane County.

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Land Management

In partial response to the Land Management Task Force, the Board increased building and planning fees. As a result, the Land Management Division (LMD) is more and more independent of the general fund, receiving only \$135,025 of video lottery funds. Consequently, LMD does not face the significant reductions that general fund departments must. In addition, the proposed funding level allows the planning section to tackle several long-term land use planning tasks that are badly needed.

Strategic Planning

Government must provide efficient stewardship of the public funds and communicate the use of those funds back to the public. To that end, Lane County departments have continued to work on Performance Measures and Service Improvement Directives of the Strategic Plan. Several departments used what they had learned through developing Performance Measures to propose changes in the preparation of their department budget. The budget committee will begin to see information on Performance Measures in this budget, although the more substantive data will start to appear next year.

E-Government

As we seek ways to become more efficient and strategic, we often turn to technology. The Public Works department is taking a lead role in proposing continued funding for this effort. As healthy funds like Road, Waste Management and Corners pay the initial up-front costs; the cost-saving technology is spread at lower cost to departments with constrained budgets, as the equipment and knowledge base is already established.

One very visible way technology is benefiting citizens is the newly established webcasts of Board and Budget Committee meetings. These bring County government into many more homes, in live and archived format.

CHALLENGES/OPPORTUNITIES

Bond Rating

In October of 2003, Lane County refinanced existing debt obligations to take advantage of low interest rates. As part of this process, our bond rating service Moody's reviewed our financial condition. Unfortunately, because of declining general fund reserves, they gave us a negative outlook, indicating (at least informally) that if reserves are not restored to at least 10%, they may reduce our bond rating. Several strategies are underway to address this concern. It will be critical for the budget committee to fully understand the long-term implications if general fund reserves are reduced below proposed levels.

Fairgrounds

The external audit for FY 2002-03 revealed what those familiar with the Fairgrounds were already painfully aware of. Over the last few years the Fairgrounds has lost money. It is not able to keep up with its aging facilities. The Board of Commissioners and the Fair Board, through a joint meeting process, have been developing strategies. As this message is being prepared, a joint meeting has been scheduled to address the Fair Board's request to use a portion of TRT now dedicated for capital at the Fairgrounds for operations. We anticipate policy discussion of this issue the night the Fairgrounds' budget is presented.

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A.I.R.S (Area Information Records System)

This major conversion is underway. We already have some successes as the new corrections system is operational, and we are about to go live with Computer Aided Dispatch and Mobile Reporting. However, the next phase is in the middle of an estimated six-month delay as the software has a major glitch that must be fixed before it can be installed. Additionally, future operating costs now appear to exceed current funding levels, and a mid course correction may become necessary.

Animal Regulation Task Force

During the fall of 2003, the Board received a substantive report from its Animal Regulation Task Force. It contained many recommendations, both operational and non-operating. Some changes have already been implemented. One included increasing license fees to improve revenue. These have been adopted and are in the LCARA budget. Other recommendations include proposing ordinance changes to enact a rabies registration requirement. Still others address the need for improved facilities and new revenue. Again, the time line for addressing these recommendations will be during the FY 04-05 fiscal year.

Declining State Government

One of the practical realities of building this budget is that due to the decline in state government, significant pass-through funds have been reduced or eliminated. The defeat of Ballot Measure 28 in January 2003 meant that the reimbursement rate used to operate the psychiatric hospital was insufficient, resulting in its closure on March 31, 2004. The constrained state budget led to significant funding reductions for mental health, youth services, and prosecution. The defeat of Ballot Measure 30 on February 3, 2004 brought even more reductions to public safety. The point here, is that with a very weak state partner and our own fiscal limitations, we have no ability to back-fill state cuts, and any future declines in state funding will likely lead to further pass-through funding reductions and/or loss of state shared revenues.

FAILURES

It is extraordinary to state in a budget message that some of Lane County's programs are failing. However that is the best description for what is happening in the Public Health and Safety systems. Assuming the budget is adopted as proposed:

1. Many misdemeanor crimes will not be prosecuted.
2. Another 26 beds will be closed at the community corrections center, bringing jail bed closures to 145 since 2002.
3. Sheriff office patrol will be reduced to less than 24-hours unless virtually all of the \$500,000 available for restoration is allocated to this purpose.
4. Youth Services detention capacity will operate 32 of its 96 beds.
5. The Mental Health building will operate at about half capacity.
6. All rural public health clinics will be closed.

Local Government Revenue Constraints

With the passage of statewide constitutional property tax limitations of Ballot Measures 5 and 47/50, Lane County's ability to solve its financial problem through tax measures or even change the use of locally enacted revenues; TRT for example, is now severely constrained. In a sense we are locked in at

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the \$1.28 tax rate and there is no way to permanently increase that tax. One possible solution is to form new County Service Districts, which if approved by the voters, would have their own permanent rate. This is, in essence, what was attempted by Springfield with the Willakenzie Fire District annexation proposal. A Public Safety district is a possible option for Lane County in 2006.

Tax Measure?

In December 2003 the Board directed that there be no consideration of property tax measures in 2004. Initially this direction seemed harsh. However, there is quite a bit of logic to this direction. Let's look at why this direction makes sense. Below is a table showing public support levels from 1998 to 2002 for Lane County money measures.

Date	Measure	Issue	Yes Votes	No Votes
Nov. 3, 1998	BM 20-05	Community Safety 4 Year Levy	49.2%	50.7%
	BM 20-06	Intake Jail Unit	49.9%	50.0%
Nov. 2, 1999	BM 20-25	Community Safety Income Tax	25.9%	74%
Nov. 7, 2000	BM 20-38	4 Year Local Option Work Camp Jail	41%	58%
	BM 20-39	Jail Improvements.	38%	58%
Nov. 2002	BM 20-63	Public Health Building	39.2%	60.7%
Nov. 2002	BM 20-59	Jail Improvements Bond	39.4%	60.5%
	BM 20-60	Emergency Communication	44%	55%
	BM 20-61	Plaza Court House Entrance	17%	82%
	BM 20-62	Park Improvements Bond	38%	61%
	BM 20-65	Planetarium Bond	37%	62%

It is also interesting to note that while statewide tax increases included in Ballot Measure 28 in January of 2003 passed in Lane County, another statewide tax increase included in Ballot Measure 30 in February of 2004 failed in Lane County.

When you consider all these factors, the wisdom of the Board's decision not to seek new tax revenue is apparent. While the managers of Lane County feel strongly that there is not enough revenue to meet compelling needs for service, the citizens, through multiple opportunities, have spoken. If citizens find the service levels too low, they will let us know.

Just like a household with a limited budget and eroding purchasing power, the government will live within its means. It is time to put the best possible budget together with the available funds and provide as much service as possible. Then, to continue listening to citizen feedback as to what essential services they wish their tax dollars to provide. Lane County government belongs to its citizens.

Respectfully submitted,



William Van Vactor
Lane County Administrator