

Long-Term Financial Update



April 24, 2023

Today's Topics

- Funding Sources Overview
- General Fund Forecast
- Courthouse Funding
- Transient Room Tax Forecast
- Available Funds Forecast
- Forecasted Expenditures
- Considerations
- Health Benefits Fund
- Video Lottery
- Potential Future Financial Priorities/Commitments



Purpose Statement

- ❑ **To focus on the forecasted Countywide financial position and debt service obligations prior to the Fiscal Year (FY) 2024 budget week**



Available Funding Sources for Debt and Maintenance

Available County funds for debt service and capital maintenance



Prior, current, and future years general fund



Prior, current, and current years unallocated TRT



LACTF Funds

- Funding sources for debt and capital maintenance
 - ◻ Prior and current years General Fund ~\$6.1M (includes max tax levy)
 - ◻ Future years General Fund
 - ◻ Prior and current years TRT ~\$4.2M
 - ◻ Future Years TRT
 - ◻ LACTF Funds (ARPA) \$4.6M
- All funding sources will be needed to pay debt and annual capital maintenance
- Discuss the forecasts for each funding source and countywide overall operational and debt obligations



General Fund Operational Forecast

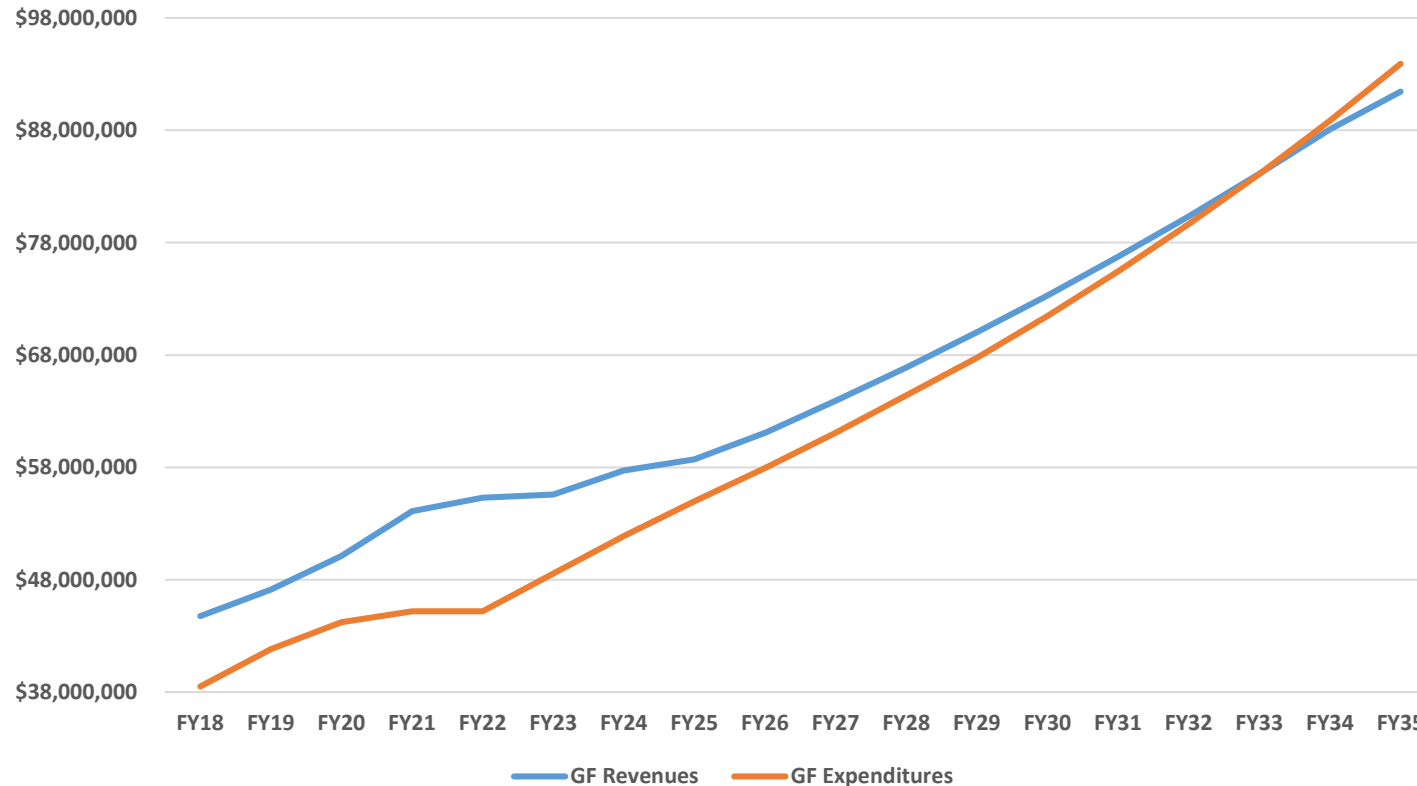
General Fund Operations

- The General Fund (GF) is made up of departments (DA, Clerk, Assessor, Veterans, Tax, Property Management, Medical Examiner) and transfers out to other departments to support their operations
- The largest transfers are to Health Services (~\$6.8M) and Community Justice Juvenile (~\$6.8M)
- The major source of revenue for the General Fund is property taxes, but it is also supported through various smaller grants and Clerk's office fees
- Departmental expenditures are the greatest cost to the fund



General Fund Operations

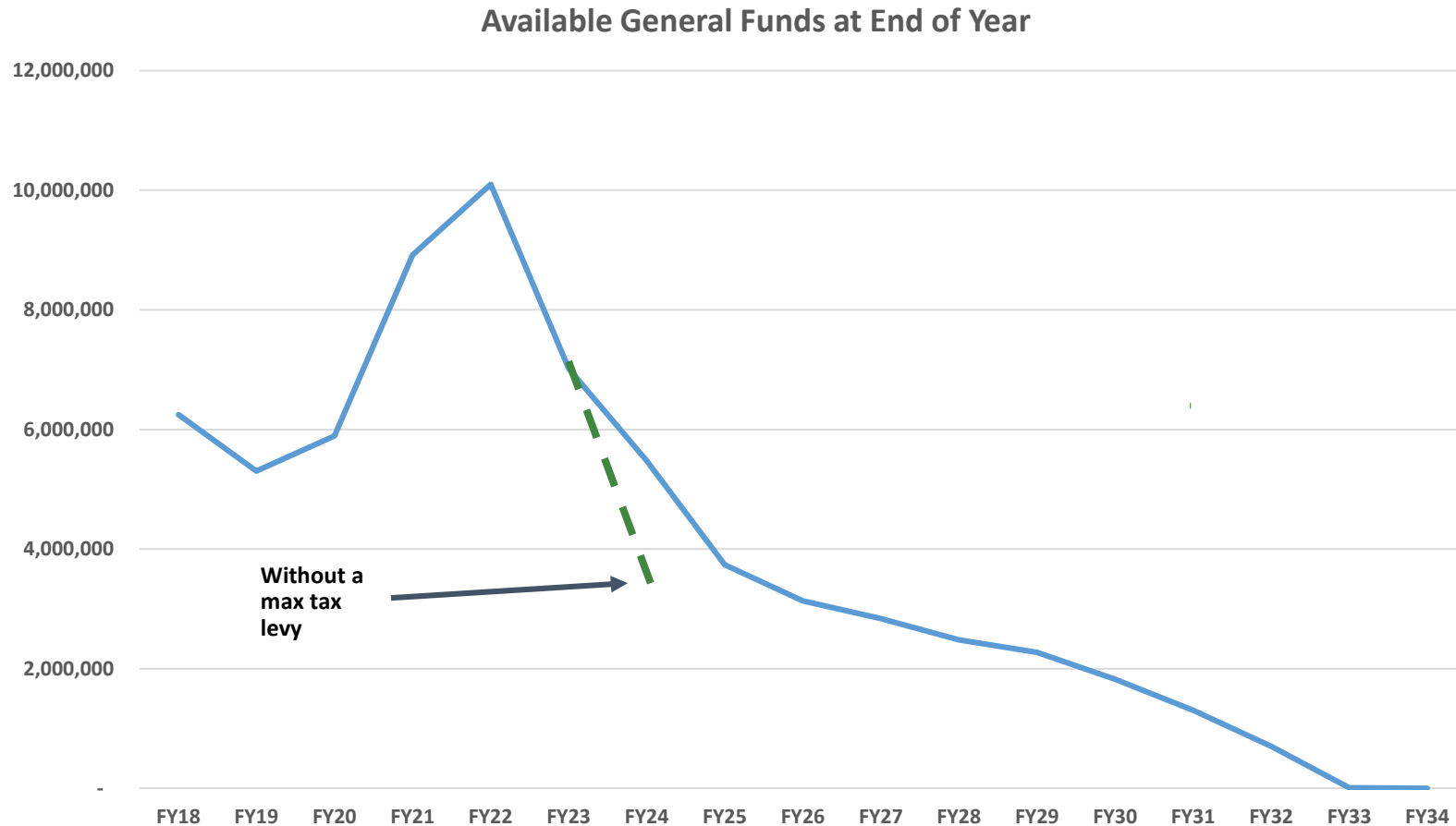
General Fund Revenue vs. Expenditure Forecast



- Assumptions are based on historical growth and expenditure rates
- Projected 4.9% year over year property tax increase (.3% above the 25-year average for urban areas in Oregon)
- Despite a projected maximum tax levy increase the gap between revenues and expenditures is decreasing dramatically



General Fund Operations

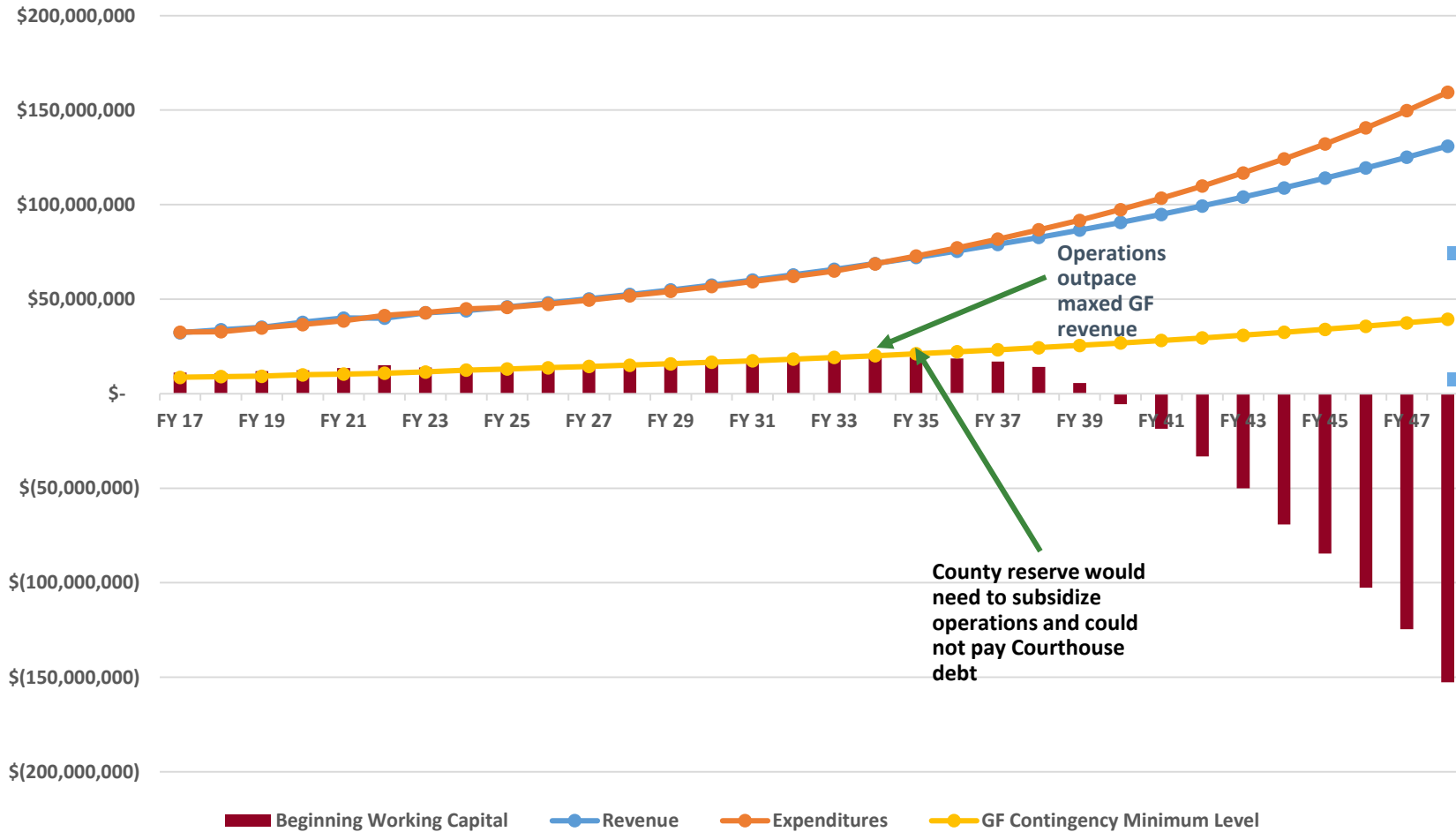


- Available General Funds at end of year represent revenue over expenditures
- Historically used for capital maintenance and projects
- Projected to decline rapidly due to max COLA's and operational growth
- The full tax levy will not substantially slow the long-term decrease in available general funds



General Fund Operations Forecast

General Fund Year over Year Balance



- By FY35 operational expenditure growth surpasses all GF revenue and the County takes on ~\$700k of unfunded operations in FY36
- By FY39 that unfunded number has grown to +\$5M
- Critical to ensure that the GF continues to have available funds so operations continue at current service levels



Declining Available General Funds - Expenditures

- 8.2%/year average expenditure growth since 2018, while only maintaining a 5.5% property tax increase over the same period
- County FTE has grown from 1,022 to 1,234 since 2018
- Personnel Increases
 - 5% step increases
 - Max bargaining unit COLA last two years
 - Bargaining for certifications and retiree health insurance
 - Health Benefits Fund increases
 - PERS
- Increased space needs due to growth and large capital expenditures paid upfront in cash
- Unforeseen emergency capital maintenance
- Supply chain issues and inflationary increases with M&S and Capital



Declining Available General Funds - Revenue



- Guaranteed revenue sources such as property taxes are not keeping up with growing expenditures
- FY24 Property tax is projected at 4.9% AV growth due to a decrease in permitting throughout the region
- FY24 Clerk's revenue is projected to be down \$1.7M since FY21 Actuals (due to higher interest rates effecting new mortgage rates)
- Assessor's revenue in FY24 is budgeted \$500k below FY22 Actuals



Courthouse Funding - No Debt Buy Down

- Construction Cost Estimate = \$40.5M
- County would issue Full Faith & Credit Bonds for \$40.5M assuming a true interest cost of 5.075% for 20 years for an annual debt service of \$3.24M and a total debt service of \$65M
- Annual Debt Service funded by:
 - Prior and current years unallocated transient room tax revenue
 - All future years unallocated transient room tax revenue
 - Prior and current years general fund
 - Future years general fund until it is depleted
 - Monitoring growth rate
- Without significant deviations from the modeled assumptions (or significant State funding) all Countywide TRT and available general funds is needed to pay courthouse debt

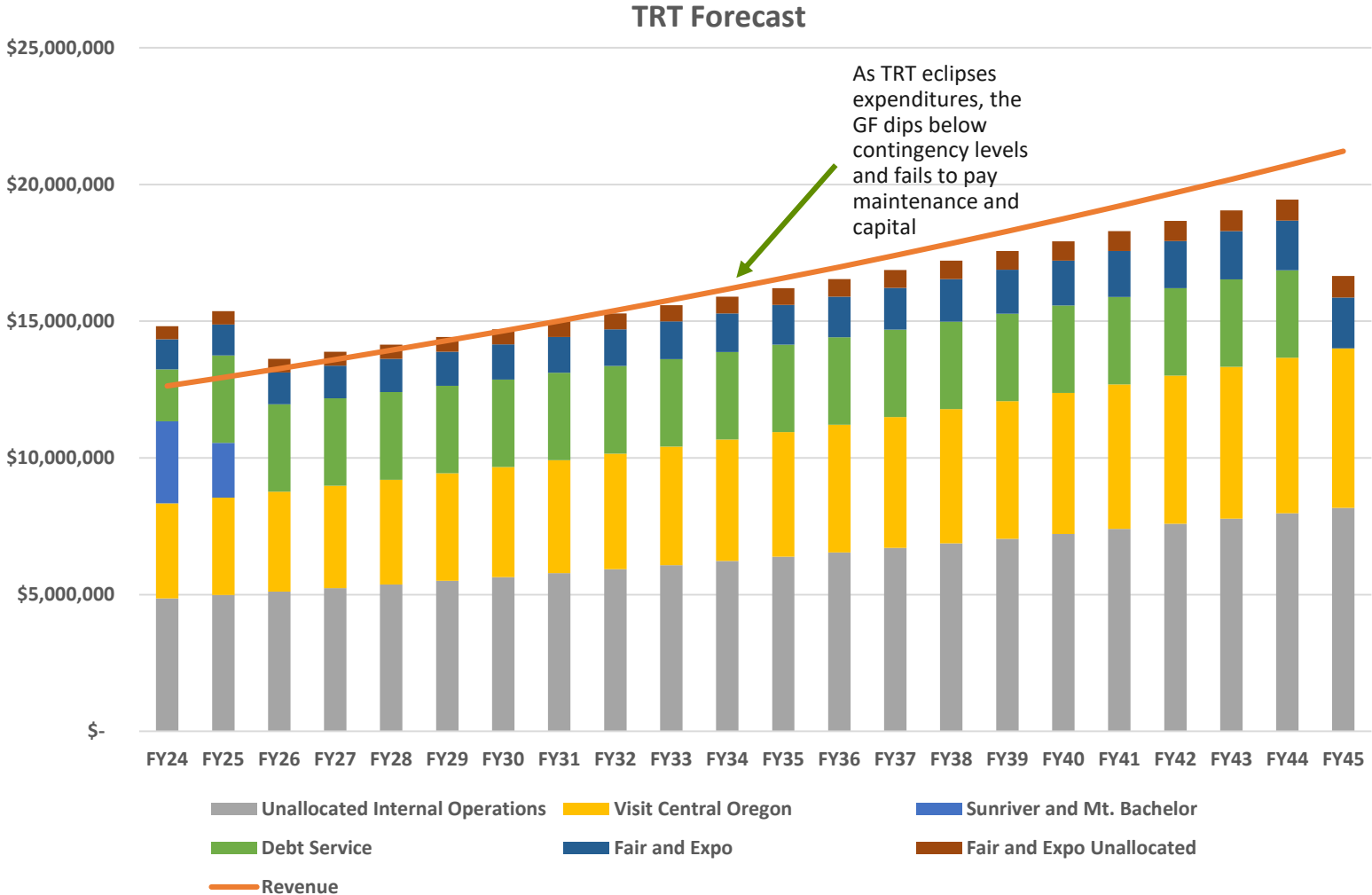


Transient Room Tax

- Transient room tax (TRT) predominantly funds tourism promotion/facilities and the provision of general government services
- TRT is broken up into three taxes
 - 6%
 - 80% unallocated, has been used to support internal operations and recently Sunriver, Mt. Bachelor and the Deschutes Trails Coalition for various projects
 - 20% allocated to tourism promotion through Visit Central Oregon
 - 1%
 - Fully allocated to Visit Central Oregon
 - New 1%
 - 70% allocated to Fair and Expo for marketing and tourism
 - 30% unallocated historically used to support Fair and Expo capital maintenance requirements
- Highly variable and difficult to forecast



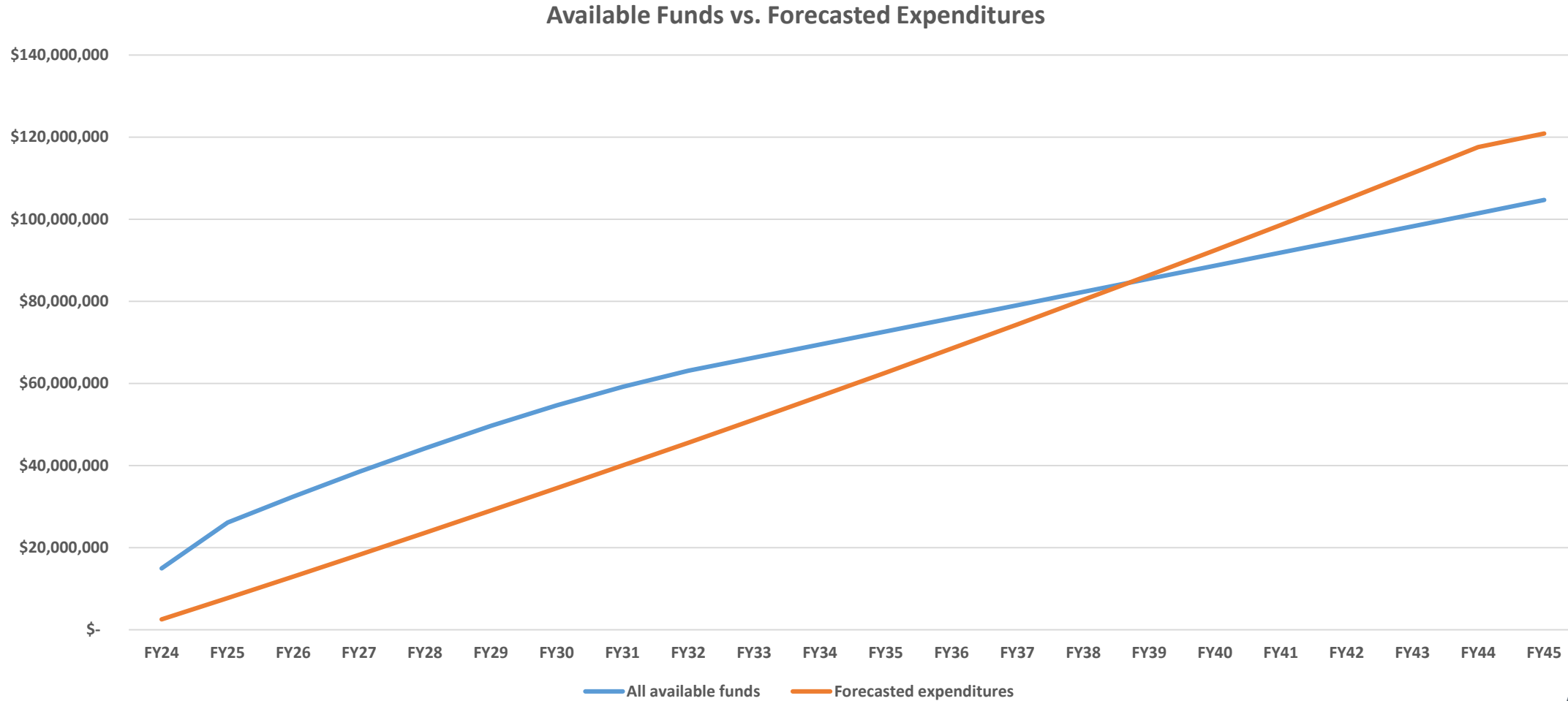
Transient Room Tax Forecast



- Assumes 2.5% revenue and expenditure growth
- Unallocated internal operations include transfer to Sheriff's Office, Health Services, Justice Court and Administrative costs
- TRT does not cover debt in the early years and will need to be covered by available general funds
- When TRT revenue surpasses expenditures, the GF is projected to have no available funds
- At this juncture TRT would need to cover other costs usually associated with available general funds such as capital maintenance and operations

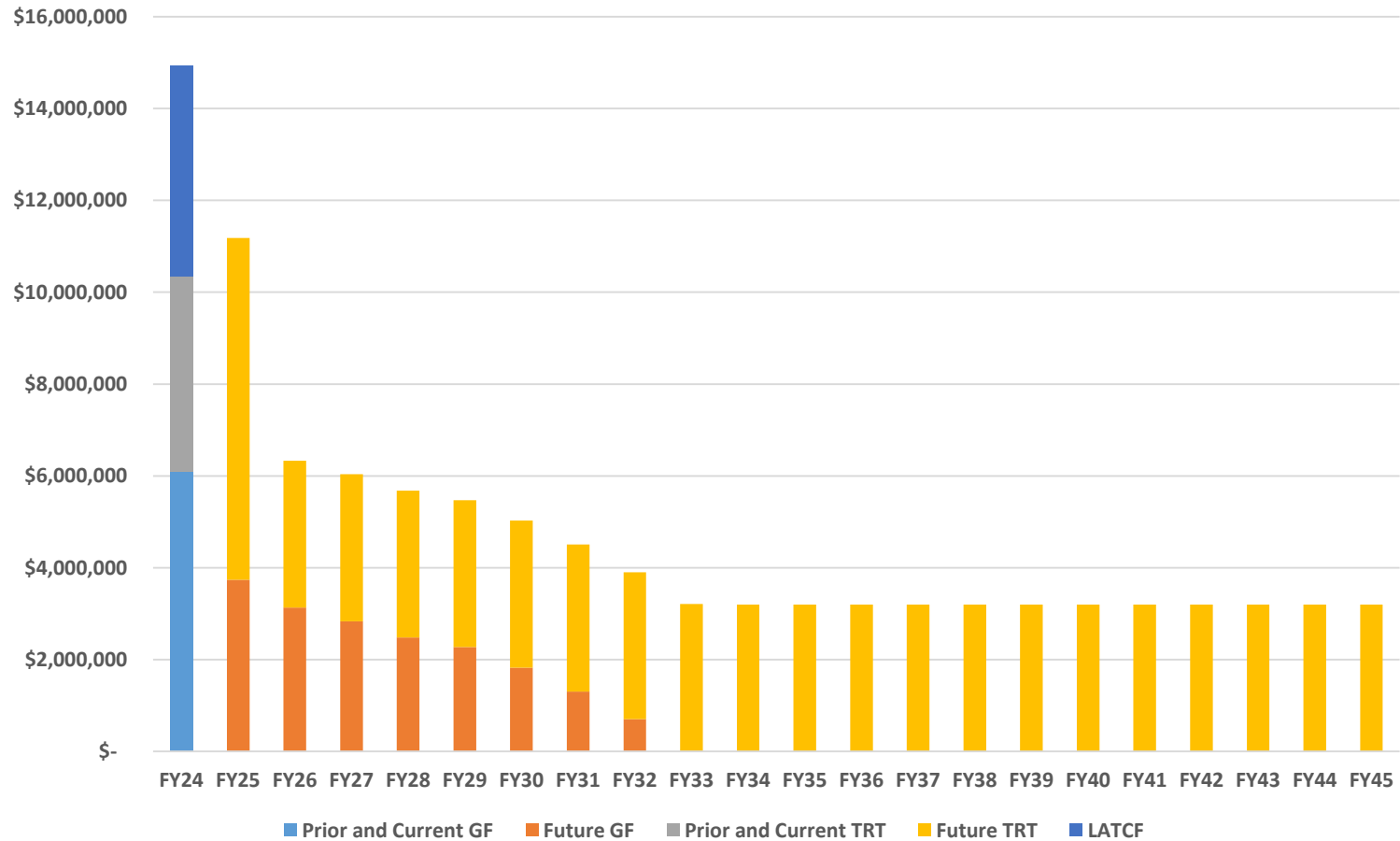


Available Funds vs. Forecasted Expenditures



Available Funds Forecast - Annual

All Source of Available Funds - Annual

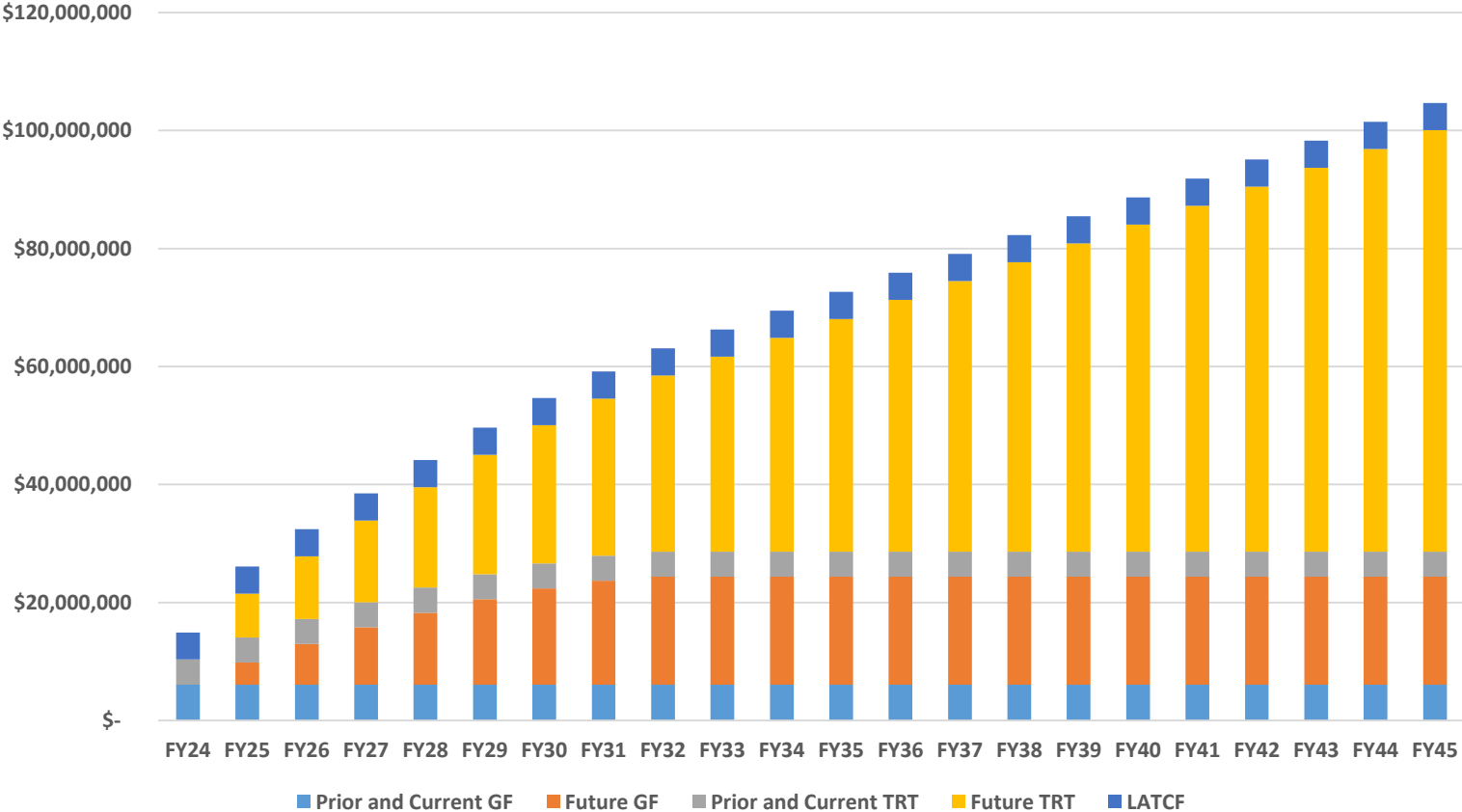


- The forecast shows available funds by source
- GF available funds is shown as funds remaining after operations but prior to coverage of annual maintenance and capital needs
- TRT available funds is shown as the remainder of funds after all expenditures less debt service payments



Available Funds Forecast - Cumulative

All Source of Available Funds Forecast Cumulative

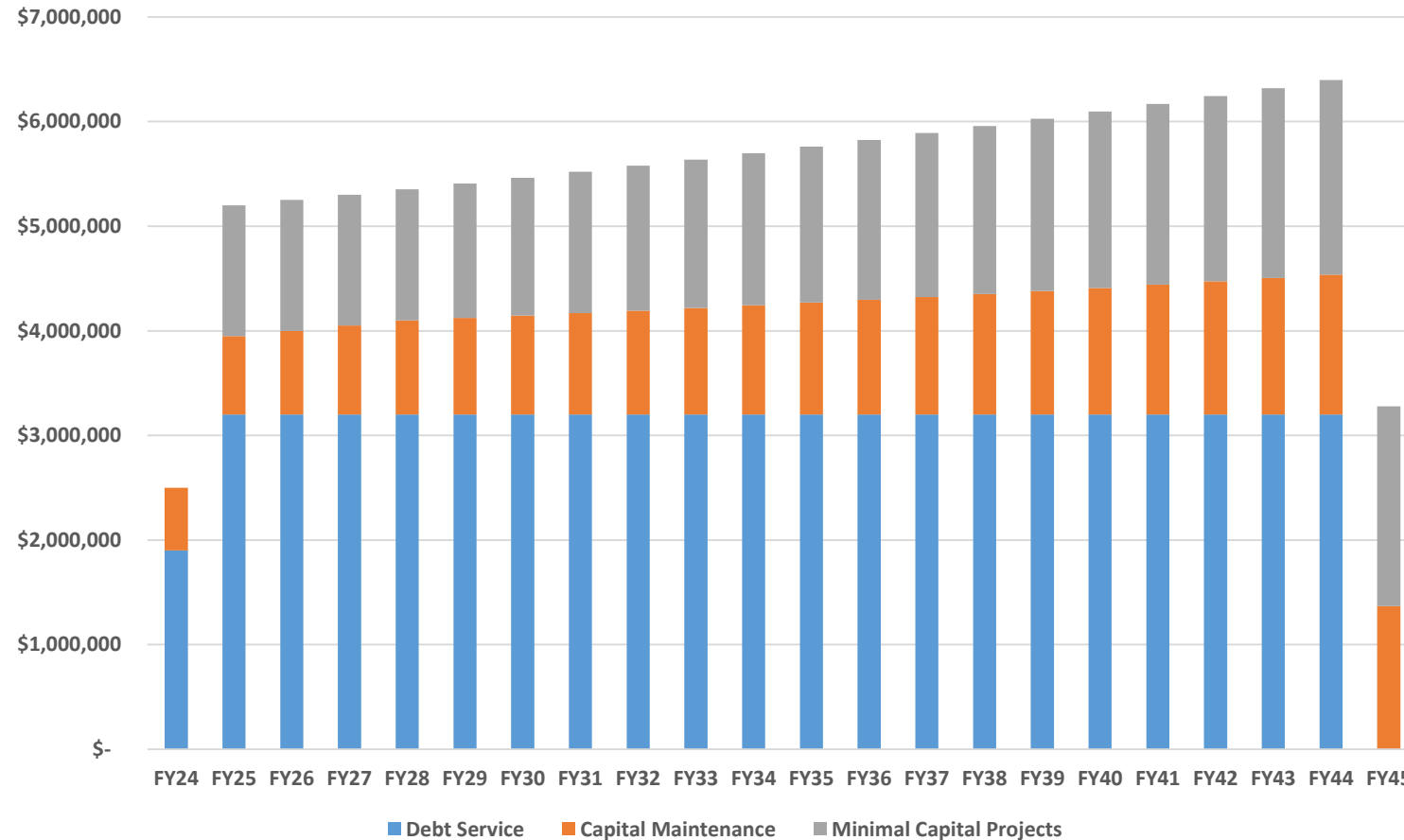


- The forecast shows available funds by source from a cumulative perspective
- All revenue sources total \$105M



Debt and Capital Expenditure Forecast - Annual

Debt and Capital Expenditures - Annual

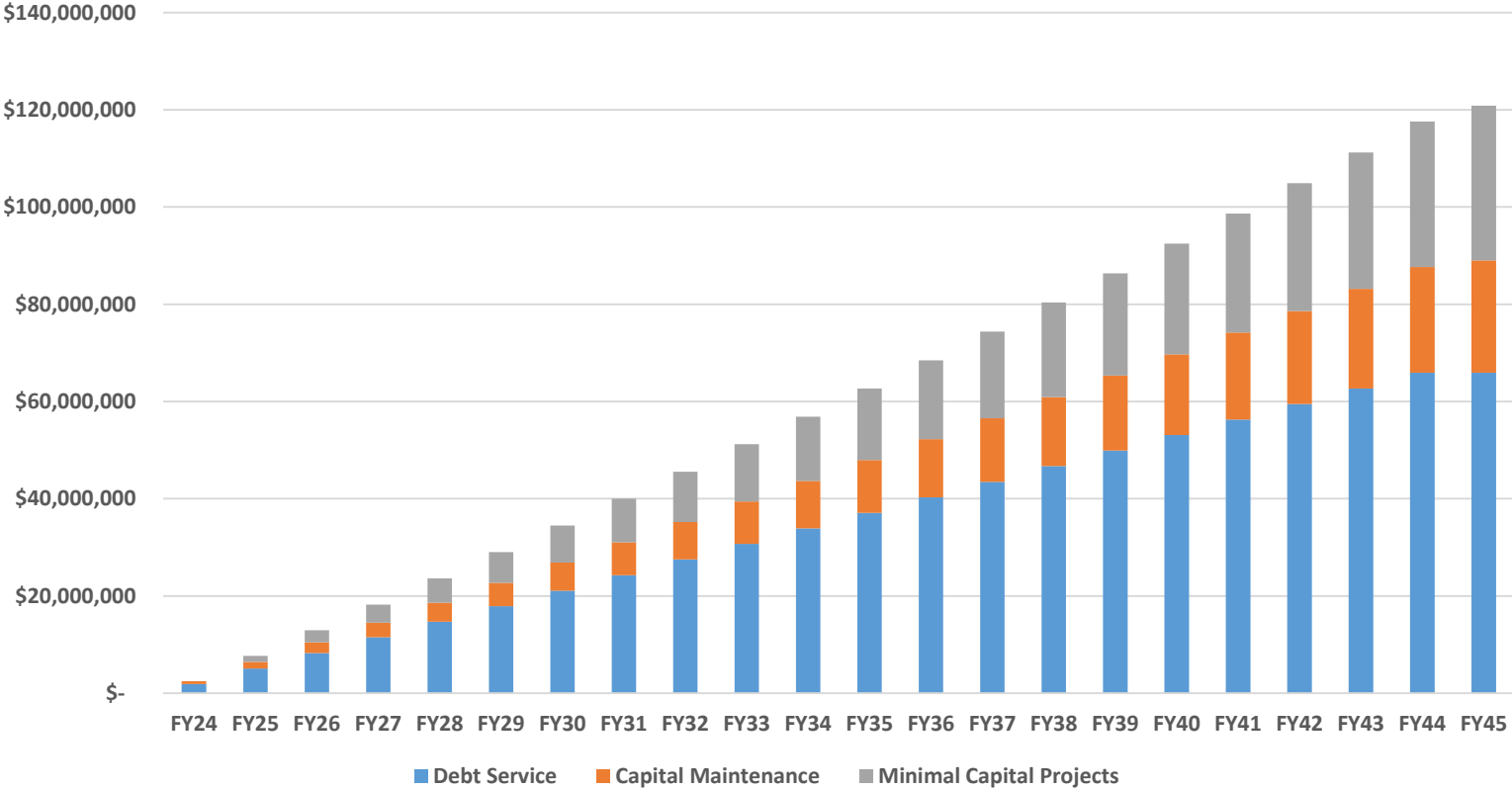


- The forecast shows the courthouse debt service and minimum capital maintenance and capital projects expenditures by year
- These are the expenditures that available funds will need to cover
- This does not include the GF unfunded operations after FY34



Debt and Capital Expenditure Forecast - Cumulative

Debt and Capital Expenditures - Cumulative

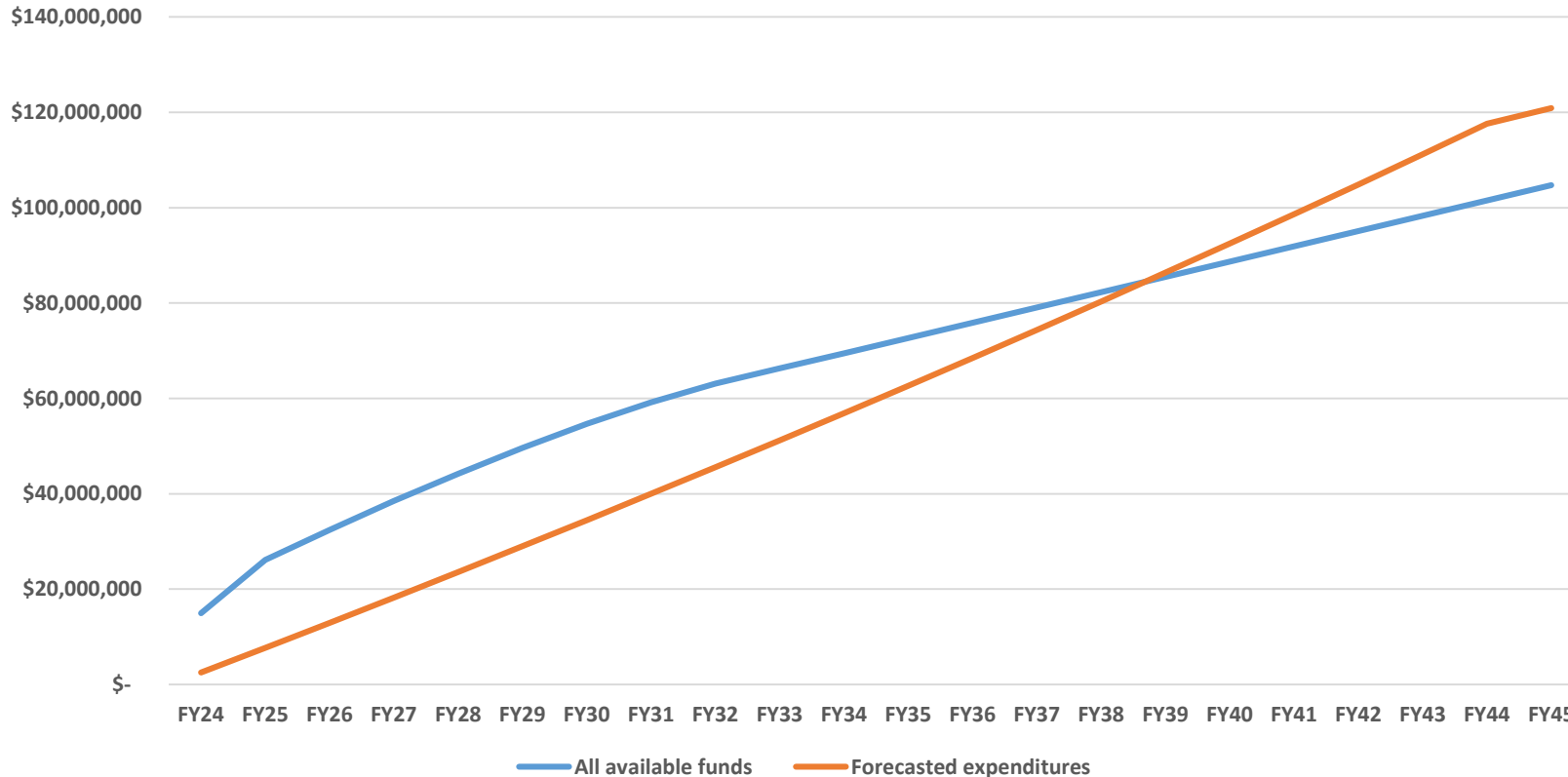


- The forecast shows the accumulation of courthouse debt service and minimum capital maintenance and capital projects expenditures
- All expenditures total \$120M
- This does not include the GF unfunded operations after FY34



Available Funds vs. Forecasted Expenditures

Available Funds vs. Forecasted Expenditures



- Overlay of cumulative funds vs. cumulative expenditures
- Available funds fail to meet debt service obligations and minimal capital needs in FY39
- This does not include the GF unfunded operations after FY34
- Without other revenue sources or a decrease in operational growth, debt and capital needs are not met



Other Future County Priorities Not Included In Projections

- Increased operational subsidies to multiple departments outside of the General Fund who are currently facing declining revenues
- The County's portion of long-term funding of the office of coordinated houselessness after FY 2025
- Stabilization Center funding
- Public safety campus improvements



Courthouse Funding - \$10M Debt Buy Down

- **Construction Cost Estimate = \$40.5M**
- **Buy down \$10M**
 - \$5.4M in General County Reserve
 - \$4.6M in LATCF funds
 - Saves ~\$6.2M in interest costs over the life of the debt service
 - Fails to meet debt service obligations beginning in FY42 without additional revenue sources or a reduction in growth expenditures
- **County would issue Full Faith & Credit Bonds for \$30M assuming a true interest cost of 5.075% for 20 years for an annual debt service of \$2.5M and a total debt service of \$49.3M**
- **Annual Debt Service funded by:**
 - Unallocated Room Tax Revenue Transfer to General County Reserve (060)
 - Remaining GF Revenue Transfer to General County Reserve (060)
 - Monitoring Growth Rate



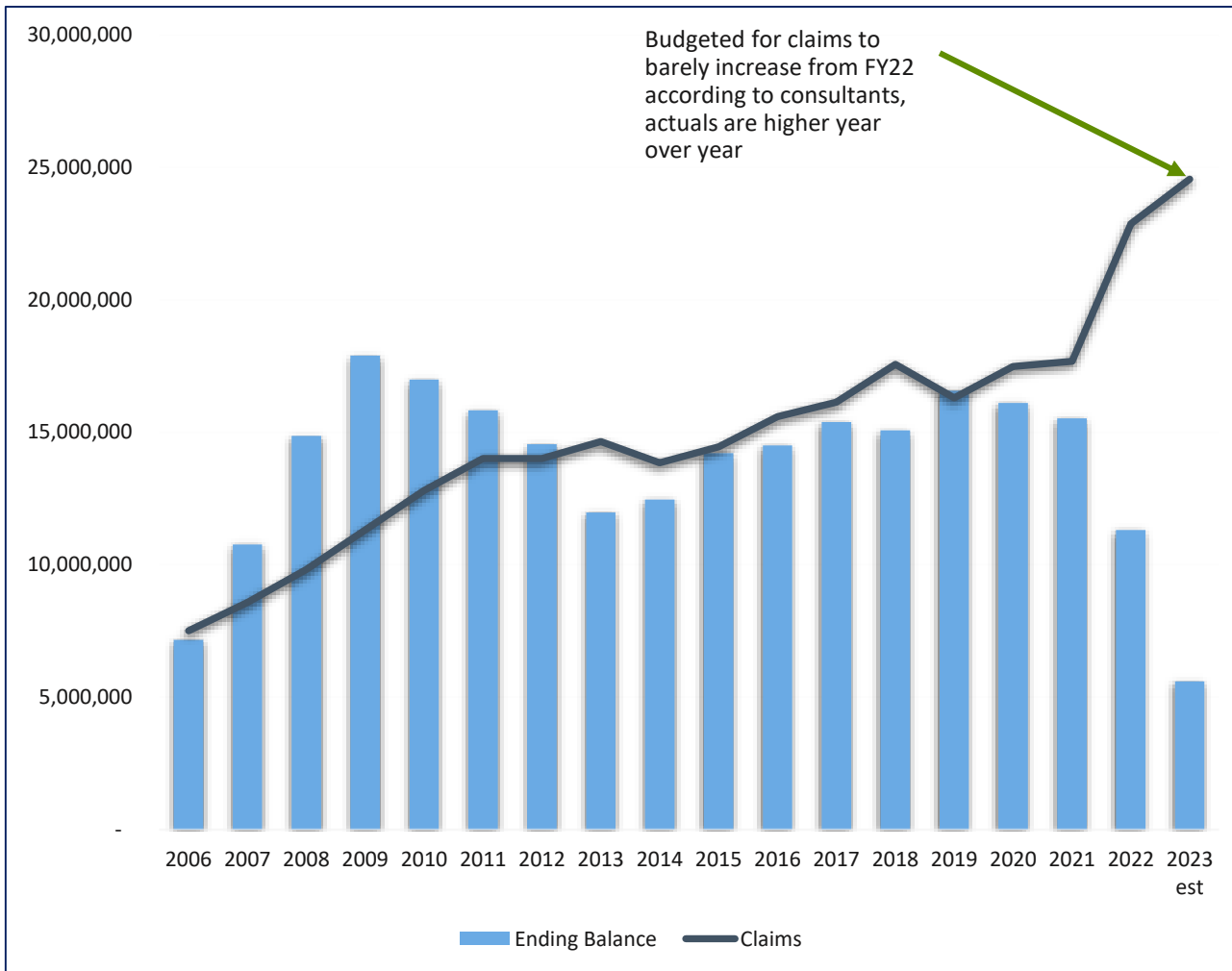
Considerations

- **Levying the County's full tax rate of \$1.2783 per \$1,000 assessed value**
- **Deferring any new TRT allocations**
- **Slowing operational growth Countywide and within the General Fund until inflation decreases and projected assessed value growth of property tax returns to higher levels**
- **Buying down \$10 million in courthouse debt to save on financing costs**
- **Considering changing revenue allocations from other sources and redirect to the General Fund and courthouse funding, such as PILT**



Health Benefits Forecast

County Health Benefits Fund

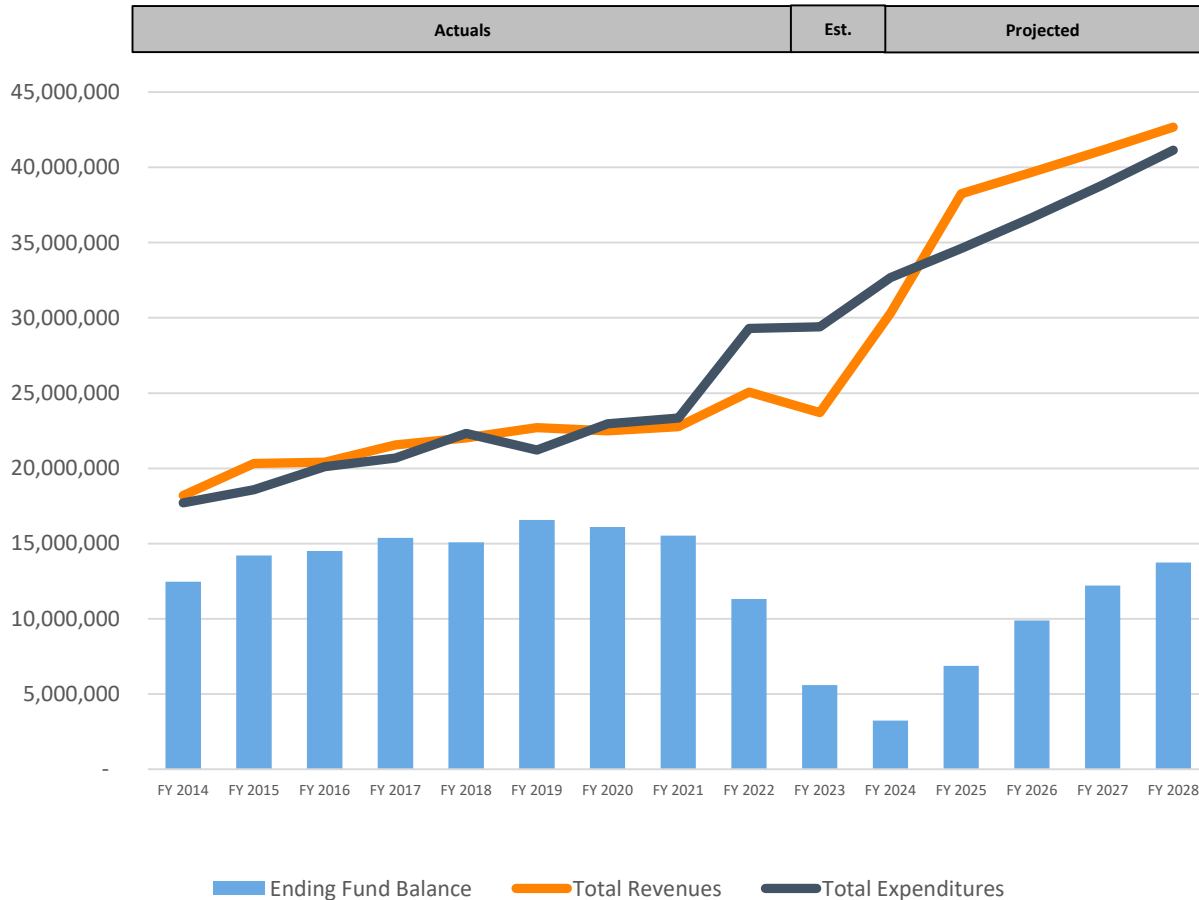


- **County strategy was to subsidize premiums to spend down reserves to align with policy (\$5-\$8M)**
- **Spent down quicker than projected**
- **Decreased the funds ending balance by ~\$4M in FY22**
- **Projected decrease by ~\$5.8M in FY23**
- **Increased rates by 11% in FY24**
- **The County needs to substantially increase rates in FY25 to meet claims costs**



County Health Benefits Fund Forecast

Health Benefits Reserve Fund (11% FY24 + 23% FY25)



- County projected FY23 claims to slightly increase from FY22 based on "Covid-19 pent up demand declining"
- Instead, FY23 claims grew and appears to be the new baseline due to rising medical costs
- Early analysis shows the County will need to raise claims by 23% in FY25 to adjust to new claims levels
- This will increase the overall pressure on the GF by +\$400k per year
- Recommend contingency should be 25% of projected claims due to ~\$6M unforeseen decrease in BWC



Closing Thoughts

- Review considerations
- Questions

