



BOARD OF COMMISSIONERS

AGENDA REQUEST & STAFF REPORT

MEETING DATE: April 24, 2023

SUBJECT: Countywide Long-term Financial Forecast with Courthouse Debt Service Presentation

RECOMMENDED MOTION:

No action required.

BACKGROUND AND POLICY IMPLICATIONS:

In preparation for the Fiscal Year 2024 (FY 2024) budget week, the Deschutes County Finance Department will share a long-term financial analysis with the Board. Staff's presentation includes an overview of current and future County finances, including forecasts for key funds and future debt service obligations.

The expanding population of our County has led to a corresponding rapid increase in FTE to meet the higher demand for services. This operational growth, combined with prolonged high inflation, supply chain issues, recent decreased development activity and related revenues, increased space needs and the courthouse expansion project has increased pressure on the County's current and future resources.

General Fund

The General Fund provides resources to support a number of critical County functions. General Fund departments include District Attorney, Clerk/Elections, Assessor, Veterans' Services, Tax Office, Property Management, and Medical Examiner. General Fund transfers help support Health Services, Juvenile Justice, Adult Parole & Probation, and general County reserve including capital and maintenance. Since 2018, the General Fund departmental expenditures have grown at a rate of 8.2% each year, while the primary source of General Fund revenue, property taxes, have increased by 5.5% each year.

Coming into FY 2024, other sources of General Fund revenue, such as Clerk's fees, are declining due to inflation and higher interest rates and are budgeted at \$1.7 million less than FY 2021 actuals. Long-term forecasts for the General Fund show that if the County maintains its current rate of growth, the General Fund will be unable to fully support itself by the end of FY 2034 with the maximum tax levy. For FY 2024, assessing the County's

maximum permanent rate of 1.2783 is approximately an increase of \$1.8 million over the FY 2023 adopted rate of 1.2183, a six-cent increase per \$1,000 assessed value.

Future Debt – Courthouse Expansion

The County has a pressing capital need for the courthouse and has committed to a \$40.5 million expansion of the facility. The County will need to finance debt for this project over a period of 20 years. Including interest, the project is expected to cost \$65 million.

Unallocated Transient Room Tax (TRT) and support from the General Fund have previously been identified to pay the debt. Staff's analysis shows that unless the County reduces expenditures or receives additional revenue for the project, the General Fund and TRT funds will not be able to fully support debt payments.

Staff is recommending that the County pay down \$10 million in debt for the project upfront by utilizing a combination of TRT, General Funds, and Local Assistance and Tribal Consistency dollars. If the County buys down debt for the project and uses all future General Fund and unallocated TRT revenues additional revenue or a reduction in expenditures will be needed to meet the project's debt service obligation.

The County has requested \$25 million from the legislature to support the courthouse expansion project. Once the County knows if it will receive additional funds from the State, staff will be able to revise the forecast and determine the impact of the remaining debt service payments. However, it is likely that debt service payments will still be significant, even with the potential of additional revenue from the State.

Health Benefits Fund

The Health Benefits Fund accounts for the medical and dental insurance programs supporting employee health benefit functions including operation of the clinic, pharmacy, and wellness program. Medical claim expenditures have been higher than projected for the last two fiscal years and the County is experiencing a new baseline rate for claims receipts. In FY 2024, the County is budgeting a reduction of approximately \$6 million in beginning working capital in the Health Benefits Fund and preliminary analysis shows the departmental health insurance rate will need to be increased by 11% in FY 2024 and then 23% in FY 2025. This will increase personnel costs and retiree health insurance costs. Staff anticipates \$400,000 in additional General Fund support will be needed to cover claims costs in FY 2025. (departments)

The forecasts and projections used for this presentation include historical growth and operational expenditure rates. The models do not include future County financial needs and the costs associated with those requests. Examples include:

- 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

Staff recommends and will discuss the following options with the Board and Budget Committee during budget week:

- Increasing the County's tax rate to \$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.

BUDGET IMPACTS:

None at this time.

ATTENDANCE:

Robert Tintle – Chief Financial Officer

Dan Emerson – Budget and Financial Planning Manager