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Memorandum Date: April 24, 2009
BCC Agenda Date: April 29, 2009

TO:	Board of County Commissioners
DEPARTMENT:	Public Works
PRESENTED BY:	Tanya Heaton, Administrative Services Manager
AGENDA ITEM TITLE:	Report Back – Road Fund Financial Plan

I. Issue

Financial Forecast for Road Fund – five years beginning with FY 09-10 Proposed Budget through FY 14-15.

II. AGENDA ITEM SUMMARY

This is an update on and discussion of the Road Fund Financial Plan including a financial summary and five year projection.

III. BACKGROUND/IMPLICATIONS OF ACTION

A. Board Action and Other History

The Public Works Department prepared a forecast for the Road Fund in the 1990's as a tool to track revenue and expenses and to project the amount of resources available for capital improvement projects. In 2006 the forecast was converted to the Road Fund Financial Plan similar to the General Fund Financial Plan. The Road Fund Financial Plan currently has ten years of history, the current FY 08-09 budget and year to date, the proposed FY 09-10 budget and projection and projections for FY 10-11 through FY 17-18. This report back will focus on the budget and projection for FY 9-10 and five years out to FY 14-15.

Financial plans for the Road Fund have been prepared and presented to the Board of Commissioners and/or the Budget Committee annually in recent past years, sometimes with a mid-year update. Discussions have included Capital Improvement Projects, Retiree Medical Reserves, PERS Bond Reserves, Seasonal Cash Flow, City/County Partnerships, Future Projects Reserve and Operational Costs.

The Board of Commissioners approved intergovernmental agreements with the Cities of Eugene and Springfield to exchange Road Fund Revenue for General

Fund Revenue in FY 08-09 in the amount of $4,750,000 for FY 08-09 and FY 09-10.

B. Policy Issues

The Secure Rural Schools and Community Self-Determination Act (SRS) of 2000 expired in 2006, was extended in 2007 for one year. In October 2008, the Emergency Economic Stabilization Act included a four-year extension with declining payments and a modified formula. This action together with organizational changes, expense reductions and land sales stabilized the Road Fund for three years - FY 08-09, FY 09-10 and FY 10-11.

Planning for FY 11-12 has begun and includes known and unknown options. Some that have been discussed recently are State Gas Tax increase, vehicle registration fees, System Development Charges, etc.

C. Board Goals

The Board is being asked to review the Road Fund Financial Forecast. Three goals from the Strategic Plan, page 13, are relevant to this review:

- *Contribute to appropriate community development in the areas of transportation and telecommunications infrastructure, housing, growth management, and land development.*

- *Protect the public's assets by maintaining, replacing or upgrading the County's investments in systems and capital infrastructure.*

- *Provide efficient and effective financial and administrative support and systems to direct-service departments.*

D. Financial and/or Resource Considerations

No action is requested from the Board of Commissioners at this time. This report is an information item only.

E. Analysis

Public Works Road Fund is entering into the second year of a three year stabilization plan made possible with the SRS four year extension approved in 2008 and significant organizational changes in recent years. Previous Road Fund personnel reductions include 10.85 FTE in FY 06-07 and 58 FTE in FY 07-08.

Reductions were made across the department in all Road Fund divisions and in the Weighmaster program in the Sheriff's Office. City/County Road Partnerships were discontinued in FY 07-08, as was the Inmate Road Crew in the Sheriff's Office.

A significant organizational change in FY 08-09 included the utilization of the County-wide MAXIMUS Indirect Allocation methodology for Public Works Administration and facility costs. This change in methodology increased the allocation of administration costs from the road fund to all other funds in the Public Works department and resulted in a savings to the Road Fund. The offset however, was significant increases in departmental overhead costs to some non-road fund divisions such as Parks, and Land Management.

Budget FY 09-10

The FY 09-10 budget is the base for the five year forecast. FY 09-10 Public Works budgets were developed with Public Works department budget direction guidelines. The department-wide budget goals and objectives are:

Budget Goals

- Stabilize Services Provided
- Minimize Reductions
- Build Reserves

Budget Objectives

- Provide current service level to citizens and customers
- Zero Growth Expenses
- Increase Operational Reserves to 15-20%
- Maintain lapse rate of 2-4%

A significant decrease in budgeted revenue and expense is planned for the FY 09-10 Road Fund Proposed Budget. The budget total of $72 million is a decrease of over $20 million, nearly 23%. The majority of this decrease is in two major areas.: 1) the one-time revenue in FY 08-09 received from SB 994 of $9.9 million will not be renewed in FY 09-10; and 2) correspondingly funding for Capital Improvement projects is budgeted in both FY 08-09 and 09-10 and is not planned to continue in future years. Also in FY 09-10 the fund balance and land sale revenue is decreasing. These decreases are shown in decreased reserves for future projects.

Forecast Assumptions

Personnel Costs include BCC approved union COLA's (Cost of Living Adjustment) for FY 09-10 and beyond depending on the bargaining units contract period. The Road Fund has 203 FTE budgeted for FY 09-10. Three unions represent over 92% of these employees – 626 88.0 FTE (43.4%); Admin-Pro 82.0 FTE (40.4%); and AFSCME 17.0 FTE (8.4%). Personnel lapse rate is factored at 3%. This lapse rate includes turnover and adjustments for seasonal fluctuations.

Health Benefits are forecasted to rise at approximately 12% in FY 10-11 and 11-12 for health, dental and vision with the balance of the benefits remaining flat. FY 12-13 is projected at 11% with the years following at 10%. The last five years health benefit cost increases have ranged from 4.21% to 25.71% with an average of 13.35%. The computation for increases include internal and external factors such as the amount of use, the local medical market, the cost of prescriptions and the rate of critical instances. The lapse rate for health benefits is 3% to match Personnel Costs.

Materials & Services Costs have seen increases for three of the last five years. The change from year to year ranges from -3.4% in FY 03-04 to an 18.0% increase in FY 04-05. The last two years showed increases of 11.2% and 9.5%, respectively. The forecast shows a slight decrease in the FY 09-10 budget from FY 08-09 in keeping with the department's budget direction for zero growth. In addition, a lapse of 12% is currently projected for FY 09-10. This lapse rate is offset with smaller lapse rates in Personnel Services, Health Benefits, and Capital Expense. Materials costs for the Road Fund are greatly influenced by petroleum costs, vehicle and equipment costs and weather events. Budgets need to include storm response and immediate road repairs. In years of calm winds, minimal ice and thaw events cost savings can be held in the reserves for future years. Spring rains can delay road work in May and June to the next fiscal year. The lapse rate is projected with the weather in mind. Current weather projections are for a dry and cold spring which should allow for May and June work to be done in FY 08-09. Winter extremes have not yet been projected for the winter of 09-10. This may change in December or January.

Capital Expense are non-construction related capital expenses. In FY 09-10 this includes completion of the Radio conversion project and equipment purchases for equipment not currently in the Fleet Replacement Program. Equipment includes two sanders, a lift gate and brush attachment. The radio project is expected to be completed in FY 09-10 and equipment costs for FY 10-11 through FY 14-15, range from $200,000 to $245,000. This equipment is to assist in maintaining roads and bridges through the Road and Bridge Maintenance division.

Contracts: CIP includes Capital Improvement Projects for Road Fund assets and infrastructure. Most projects occur in at least two fiscal years, some may slide into a third or fourth year. Some of the projects included in the FY 09-10 budget are Overlay projects, Covered Bridge Rehab and Preservation, School Zone Speed Limit Flashers, and the Harvey Road Project. In addition, the IGA with ODOT regarding the I-5 Coburg Interchange is reflected in the budget. The forecast for

FY 10-11 and beyond includes $4.5 million for overlay paving projects for road maintenance. FY 10-11 includes approximately $350,000 for FY 09-10 projects that may be completed in FY 10-11.

Reserves

Lane Manual Chapter 4 – Management Policies; 4.005 Financial and Budget Management includes the following policy regarding reserves:

> 4.010 (3) Reserve Policies:
> *Goal: To maintain adequate reserves to provide a cushion against unforeseen events and economic downturns, thus providing for stability in planning and service delivery, and to maintain a reserve level sufficient to maintain a favorable bond rating.*
> *(a) The County will establish reserve funds that can be used to reduce the impact of revenue fluctuations and provide for more stable delivery of services to Lane County citizens.*
> *(b) The County will strive to maintain a minimum of a 5% Prudent Person Reserve for all funds except the General Fund. The reserve in each fund will be reviewed annually during the budget process by the designated fund manager and associated committee.*
> *(c) The County will establish operational reserves within the General Fund and strive to maintain a reserve balance of at least 10% of General Fund operating revenues. Refer to General Fund Reserve Policy at LM 4.011 below.*
> *(d) The County will establish and budget adequate contingency reserves for all operating funds to meet unanticipated requirements during the budget year.*

Operational Reserves are calculated as a percentage of Operational Revenue. Fund Carryover/Balance is deducted from Total Revenue to calculate the amount of revenue earned or budgeted to be earned in a given fiscal year. The management policy requiring a minimum reserve of 5% essentially requires a reserve that provides operational capital for 18.25 days of operations. Business processes in Lane County do not enable a department to reduce or eliminate a service quick enough to stay within a 5% reserve in the event of a major issue or change such as the September 2008 economic crash or a storm event similar to a hurricane or earthquake. An organization as large as the Public Works Department needs a little more time to react to major influences. Therefore the department has reviewed reserve levels for each fund.

The minimum Operational (Prudent Person) Reserve is 10% for Public Works funds. The goal for FY 09-10 is 15-20%. Reserves are prudent to build to accommodate fluctuations in revenue and the economy. Many Public Works funds have expenses and revenues on different payment streams, with higher expenses occurring at different times than revenues. In addition, some revenues are received annually or quarterly. Reserves provide cash flow for seasonal operations. A 10% reserve provides 36.5 days of cash flow. The goal for the Road

Fund Prudent Person Reserve is 20%. FY 09-10 Prudent Person reserve is set at 15%. The reserve is increased to 17% in FY 10-11 and 20% in FY 11-12. See the table below for reserve levels and corresponding operational days.

Reserve Level	Operational Days	Ops Months
10%	36.5	1.22
15%	54.8	1.83
20%	73.0	2.43
25%	91.3	3.04
30%	109.5	3.65
40%	146.0	4.87
50%	182.5	6.08

Due to the services provided through the Road Fund a contingency has been established for a ***road emergency*** / catastrophic event such as a bridge failure or major slide in the amount of $2.5 million. As capital improvement projects are eliminated and maintenance and preservation services are reduced in the coming years the necessity for this reserve will increase. In today's prices, this amount will not completely cover a major bridge failure or slide event.

Retiree Medical and ***PERS Bond*** reserves have been established to pay for the retiree medical liability and PERS Bond liability when the operational costs have risen to the extent that the operational revenues can no longer support basic services. The intent is that these reserves will be tapped at the time that the payment rates are increased due to significant reductions in staff levels. Current rates for these liabilities include FTE numbers as part of the calculation. When FTE numbers decrease significantly, the rate per compensation dollar will increase proportionately.

The **Future Projects** reserve is now down to two years. The FY 9-10 FP reserve holds money for FY 10-11 and 11-12 CIP projects. In FY 10-11, the reserve holds money for FY 11-12 overlay projects. At this point in the forecast, significant reductions are needed to balance the fund in FY 11-12.

Seasonal Cash Flow reserves are based on the amount of CIP expenses. Capital Improvement projects typically occur June through September and necessitate a higher than normal expense payout for materials, contracts and extra help during those months.

Variables

Revenue in the Road Fund has three major variables: SRS; State Highway Funds and Fund Balance & Interest income. SRS was extended for a four year period with a declining scale for FY 08-09 through FY 11-12. The first three years are paid at 85% of the previous year and the fourth year is to have a new formula. The Forest Service is currently estimating that amount to be 50% of FY 10-11. This payment is received annually, usually arriving in late January or early February. State Highway fund revenues are an apportionment of revenue from four road and vehicle related fees (the Motor Vehicle Fuels Tax fees, Motor Carrier Fees, DMV Registration Fees and Road Use Assessment Fees) with distribution based on the number of motor vehicles registered in each county. This revenue is received monthly based on the previous month's collections and has been decreasing annually since FY 05-06.

Stimulus project funding for road and infrastructure projects is being processed through state programs at this time. Public Works is not currently expecting to directly receive revenues. Any match that is required will need to be prioritized with other road fund services.

Personnel costs include union settlements, estimated salary/wage adjustments and merit increase estimates along with health benefit increases described in the assumptions section. These items vary annually based on union contracts.

Materials & Services in the road fund have a higher degree of sensitivity to the economy than many departments due to the amount of materials purchased to perform maintenance and preservation activities on the roads, right of ways and bridges within the County Road System. In addition, the cost of maintaining equipment is rising.

Transfers from the road fund to the Sheriff's Office for Rural County Road Patrol began in FY 07-08 in the amount of $1.2 million. In FY 08-09 the amount was raised to $1.79 million. This transfer is linked to the SRS legislation through ORS Chapter 894, Section 4.

Note: Section 4, chapter 894, Oregon Laws 2007, provides:
Sec. 4. (2) Notwithstanding ORS 294.060 and 368.705, moneys described in ORS 294.060 (1) that are received by Lane County and deposited into its road fund may be expended for the patrolling of Lane County roads by Lane County law enforcement officials.
(3) This section is repealed on January 2, 2014.

The recent extension of SRS revenue is for FY 08-09, 09-10, 10-11 and 11-12. Each year's revenue is at a declining rate from the previous year. The forecast includes an increase for the SO transfer in FY 08-09, no change in FY 09-10 and then a decrease for FY 10-11. These amounts are variable depending on the stabilization structure adopted by the Board of Commissioners and future budget committees. The table below for shows the estimated SRS payments for the Road Fund based on the Forest Services estimate in October 2008. The transfer to the SO currently in the forecast is included for comparison.

	SRS	% Chg	SO Transfer	% Chg
FY 07-08	21,774,522		1,200,000	
FY 08-09	19,617,497	-9.91%	1,790,000	49.17%
FY 09-10	16,554,320	-15.61%	1,790,000	0.00%
FY 10-11	14,158,300	-14.47%	1,611,000	-10.00%
FY 11-12	6,886,788	-51.36%	1,449,900	-10.00%
FY 12-13	2,000,000	-70.96%	579,960	-60.00%
FY 13-14	2,020,000	1.00%	289,980	-50.00%

City/County Partnerships were provided to cities within the county for many years. Approximately $2.5 million was shared annually from FY 99-00 through FY 06-07. An additional $2.2 million was shared during the three years of FY 04-05, 05-06 and FY 06-07. During these same years the Road Fund Reserves decreased from a high of $49 million down to $36 million in FY 07-08. In those same years the CIP program went from a high of $16.8 million to $9.6 million in FY 07-08. At the same time the cost for maintenance and preservation increased. In FY 08-09 the Board of Commissioners facilitated a partnership with the cities of Eugene and Springfield for $4.75 million for the two years of FY 08-09 and 09-10. Due to the level of current revenues and reserves any future partnerships will reduce services to County Road Systems.

F. Alternatives/Options

The current Road Fund Financial Forecast reflects declining revenues and increasing expenses often diagramed in a "jaws" graph. The 2008 extension of the SRS revenue along with departmental organizational changes in FY 06-07 and FY 07-08 provided a three year stability period for FY 08-09, 09-10 and 10-11. The year of FY 11-12 shows significant operational cash flow concerns.

At the same time there are several variables yet to be determined. Will there be a change in the State Highway Funds revenues? What will happen with fuel taxes and vehicle registration fees? Will there be a change in stimulus dollars? Will design services get a contract for some of the state stimulus projects? Will there be a road swap with ODOT? On the expense side, will fuel and vehicle costs settle down and expenses flatten out?

Three years of stability are in the current forecast. If the Board directs the department to extend that stability to four or five years with the current revenues the department will need to begin reviewing its programs and services. Depending on the reduction methodology selected by the Board, reductions could occur as early as FY 10-11. Any increase in revenue sharing to other agencies or departments will shorten the stabilization time.

IV. TIMING/IMPLEMENTATION

At this time the Road Fund is considered stable for FY 09-10 and 10-11. No changes are necessary to balance the budget for the upcoming fiscal year.

V. RECOMMENDATION

Stay the course with the three year stabilization andprovide direction to the department to monitor and analyze the legislative actions in regards to state gas /fuel tax and vehicle registration fees. If the SRS formula for FY 11-12 remains as the Forest Service has currently projected and there are no changes in state gas/fuel taxes or vehicle registration fees, FY 11-12 will be the first year of a major revenue decline.

The Public Works department will have approximately 18 months to prepare for the significant revenue decline currently forecasted in FY 11-12. This will allow the director and management team time to review and analyze goals and objectives and update strategies to bring back to the County Administrator and Board of Commissioners.

VI. FOLLOW-UP

Report back to the County Administrator and Board of Commissioners in six months...

VII. ATTACHMENTS

None.