

T. H. A.

Memorandum Date: April 20, 2009
Meeting Date: May 5, 2009

TO: Board of County Commissioners
DEPARTMENT: Public Works / Land Management Division
PRESENTED BY: Matt Laird, Division Manager
AGENDA ITEM TITLE: Report Back on LMD Budget

I. **ISSUE**

Land Management Division FY 09/10 budget

II. **AGENDA ITEM SUMMARY**

This is an update on and discussion of the FY 09/10 Land Management Division (LMD) budget.

III. **BACKGROUND/IMPLICATIONS OF ACTION**

A. **Board Action and Other History**

On March 10, 2009, each Division Manager within the Public Works Department met with the County Administrator, Jeff Spartz, regarding the FY 09/10 budget. At this meeting, Mr. Spartz recommended that an oral report be given to the Board outlining the Land Management Division budget. Specifically, he directed that the Board be informed that the proposed budget was being balanced by including \$450,000 of general fund money.

B. **Policy Issues**

The Land Management Division (LMD) budget, Fund 570, is considered an Enterprise fund with the objective to be completely supported by user fees. However, completely supporting all services provided by LMD through fees is currently not sustainable. The policy issue is how to sustain funding for the services delivered through the Land Management Division. Should Lane County continue to increase permit fees to fully fund the operation of the LMD, or should temporary or permanent general fund support be provided to the Division to maintain a base level of service along with the existing permit fees?

C. Board Goals

Lane County Strategic Plan Goal 5

- Contribute to appropriate community development in the areas of transportation and telecommunications infrastructure, housing, growth management and land development.
 - B3: Allocate resources strategically

D. Financial and/or Resource Considerations

The Land Management Division cannot maintain its current level of service based on existing revenue. Long term general fund support will be necessary to continue operations at their current levels. Total resources are projected to decline by \$1.4 million in the next fiscal year. Consequently, even with the reduction in force, expenses will exceed revenue and leave the division with a shortfall of \$450,000. The division has already reduced personnel expenses by 50percent to the minimum level to continue current operations. Further reductions of personnel levels will leave the division incapable of providing even a minimum acceptable level of service.

No action is requested from the Board at this time. This report is an information item only. Future decisions will take place during the budget review process but should consider the following financial and resource considerations.

E. Analysis

The Land Management Division has seen declining permit revenues since the beginning of FY 08/09. In addition, the division has been faced with increased expenses, primarily County overhead rates because of Measure 37 impacts still being felt by the County and the implementation of Public Works administrative services indirect cost allocation to all PW divisions and funds.

Historically, the Board has been clear and consistent in directing the Division to keep its expenditures in line with its revenues and to operate in a more business-like fashion. Operating under these guidelines has proven to be difficult over time as the Division has consumed most of its reserves and significantly reduced its workforce. Recently, due to the loss of federal timber money, the Board requested full cost recovery for all services provided.

Based on a fee study by Maximus Inc., the Board approved fee increases in LMD to try and capture the true cost of providing service. The fee increase became effective in July of 2008. Lane County is now at the upper echelon of land use and

building permit fees, and most seem to agree that further fee increases, at this time, would not be appropriate. The fee increase captures the average cost of processing a permit, but does not capture the cost of non-permit related services and non-typical permit applications such as Delta Sand and Gravel or the Jim Gillette property.

Portions of services provided by LMD can be adequately covered with fees, for example building permit applications and inspections. Other services such as public information requests, BCC requests, development assistance, enforcement, and general land use requests are difficult to fully charge for. In addition, land use planning services and land use planning application processes would require exorbitant fees to fully recover costs. There are currently no land use planning programs that have achieved full cost recovery in the State of Oregon. A review of seven other Counties showed an average of 60 percent general fund support of land use planning programs.

In FY 08-09, LMD reduced its work force by 23 positions, roughly 50 percent of the staff. This reduction in force has left the Division with the bare minimum of staff required to provide service to Lane County residents. The personnel reductions alone were not enough, so the Division received an interfund loan from the Waste Management Division and the Board of Commissioners used gap funding to cover the remainder of the shortfall.

While revenue into the Division is declining, overhead costs and individual employee costs have continued to increase. Those costs make up 88 percent of the Division's total expenditures. Measure 37 was passed in November of 2004. Since that time it has had a significant financial impact on the County resulting in increased overhead rates charged to the Land Management Division. Since County overhead charges are based on audited numbers from 2 years prior, the Land Management Division is still feeling the affects of this costly initiative. LMD first felt the affects of M37 costs in FY 07/08 when the County overhead charge increased dramatically compared to FY 06-07. In order to balance the budget, the division began using the reserves.

In FY 09-10, the County projected overhead rates remain high. The additional charges associated with the M37 process have come during a national recession, a major decline in the construction industry, and at a time when the division can least afford it because of increased costs and drastic reductions in development activity. Simply put, the division does not have the resources to subsidize the cost of the Measure 37 processes that were implemented by Lane County.

Without general fund support, customer service in the Land Management

Division will drop to unacceptable levels. Additional personnel reductions will leave the Division without the ability to respond to the most basic requests for service. Reduced permit revenue due to the nationwide recession and increased expenses are affecting the ability of the Division to reach a balanced budget based on fee revenue alone.

Service Impact: Currently the Land Management Division is struggling to maintain customer service levels that are in line with citizen, Board, and Department expectations. Any additional reductions in personnel will result in a drastic reduction in customer service and front counter hours of operation. Having the front counter hours reduced will not be well received by the public as it will be less convenient and will lead to extended waiting periods in the lobby.

In addition to reduced hours of operation, unpaid customer service in the form of general citizen inquiries, in person and by phone, as well as development assistance to the construction, lending, and real estate industries will see significant impacts. There will likely be service impacts to paying customers in the form of extended time periods, possibly beyond state mandates, for land use, building, and sanitation review as well as delays in receiving inspections in a timely manner. Geographically, Lane County is a large county covering many miles and outlying areas. Delays in inspection services would be most apparent in those outlying areas, such as Florence, Oakridge and the communities along the McKenzie River. It would be likely that in some programs there would be only one employee serving the entire County with a rural population of approximately 100,000 people.

Without general fund support for the Land Management Division, there will be disruption to other County departments and public agencies because staffing levels will not leave the Division the capacity to participate or collaborate on any external projects of any kind. Internal to Lane County, the division will be unable to respond to Board requests for information in a timely manner. The division will only have the capacity to work on those items mandated by state law and may not even be able to meet timelines expressed by state statute. Long range goals identified by the Board will likely be delayed or not addressed as all resources will be devoted to active current projects.

f. Alternatives/Options

Although no action is requested today, there are several options for the Board to consider in the upcoming budget process

Option 1. Maintain the LMD in a capacity to provide reasonable customer service levels by providing temporary general fund support to cover the projected \$450,000 shortfall in revenue.

Option 2. Balance the LMD budget by making further reductions in LMD expenses. This option would require reductions in personnel expenses that would be equivalent to 5 FTE.

Option 3. Consider covering the \$450,000 LMD budget shortfall by a combination of LMD expense reductions and County general fund support.

Option 4. Explore covering the \$450,000 shortfall by restructuring the interfund loan to Waste Management (WM) and taking the remainder of the shortfall out of operational reserves. The WM loan payment is \$283,000 leaving the remainder of \$167,000 to be removed from reserves. NOTE: This option would not be consistent with County policy on maintaining a minimum 10 percent prudent person reserve and would reduce the operational reserve in LMD below 10 percent. In a fund that fluctuates with the economic environment, a more prudent reserve is 6 months of operational expenses.

V. TIMING / IMPLEMENTATION

No action is required at this time. The item will be discussed during the county budget review process. Whatever action the Board ultimately takes in this situation, the Public Works Department is committed to working with Land Management to conduct a thorough analysis of all Land Management costs, fees and services.

VI. RECOMMENDATION

It is recommended the Board provide temporary general fund support to the Land Management Division in FY 09/10.

VII. FOLLOW-UP

No action is required at this time. The item will be discussed during the county budget review process.

VII. ATTACHMENTS

None.