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Memorandum Date: April 28, 2009
BCC Agenda Date: May 5, 2009

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

I. Issue

Financial Forecast for Land Management 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 Land Management Fund Financial Plan including a financial summary and five year projection.

III. BACKGROUND/IMPLICATIONS OF ACTION

A. Board Action and Other History

The Land Management Division (LMD) of the Public Works Department was a General Fund organization until recently. In FY 04-05 LMD was placed in a general fund “sub-fund”, where it remained until FY 07-08. As a division within the General Fund a separate financial plan was not developed for the organization until it was placed in an individual sub-fund. A Financial Plan and forecasting model was developed in FY 05-06. In FY 07-08 LMD was moved to an Enterprise Fund with the objective to be completely supported by user fees.

The Land Management Fund Financial Plan currently has twelve years of history, the current FY 08-09 budget and year to date actual revenue and expenses, 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.

In December 2008, a financial report was provided for the Board of Commissioners. In response to the nation-wide economic downturn and financial institution crisis in the first two quarters of FY 08-09 LMD revenues were under budget ranging from 30-50% in nearly all fees, and the financial forecast for the Land Management Fund projected revenue to be \$2.5 million under budget in FY

08-09 if no changes were made. Three options were developed for balancing the LMD budget including reducing revenue and expenses, reductions in employee positions, operation loans and General Fund support. The Board of Commissioners reviewed the financial forecast and determined that it was in the County's best financial interests to authorize an interfund operational loan in accordance with ORS 294.460 in the amount of \$283,000, provide General Fund support in the amount of \$475,000 and to direct the department to reduce revenue, expenses and personnel in FY 08/09 Supplemental Budget #2. In addition, the Board of Commissioners authorized \$75,000 of General Fund support and a \$50,000 grant for the population study project.

B. Policy Issues

The Land Management Division provides services to the community in the areas of housing and land development and growth management. These services are highly influenced by both local and national economies. Due to the nature of the services provided by this division, there is a significant amount of service provided to the Board of Commissioners, citizens, builders and developers that do not generate revenues. In addition to being influenced by the economy, these services also impact the local economy.

Over the years, the Board of Commissioners, County Administration and County Managers have had numerous discussions on how to best provide support for services that benefit the community and/or the economy without a revenue source to cover the cost of these services. The current economical situation brings the need to have this discussion to the forefront again.

C. Board Goals

The Board is being asked to review the Land Management Fund Financial Forecast. Two 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.*
- *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 Land Management Fund is three quarters into the second year of an economic downturn, that many are comparing to the great depression. Financial results for the past twelve years show FY 07-08 as the largest percent decrease in revenue with the exception of FY 08-09 where the first three quarters have a larger decrease in operational revenue than the entire fiscal year of FY 07-08. FY 08-09 end of year results will not be known until July or August.

Year	Operational Revenue	Revenue Growth	% Growth
FY96-97	2,263,962		
FY97-98	2,556,608	292,646	12.93%
FY98-99	3,165,400	608,792	23.81%
FY 99-00	3,192,349	26,949	0.85%
FY 00-01	2,957,201	(235,148)	-7.37%
FY 01-02	3,079,555	122,354	4.14%
FY 02-03	2,958,146	(121,409)	-3.94%
FY 03-04	3,547,545	589,399	19.92%
FY 04-05	4,436,073	888,528	25.05%
FY 05-06	4,915,142	479,069	10.80%
FY 06-07	5,228,378	313,236	6.37%
FY 07-08	4,341,004	(887,374)	-16.97%
FY 08-09	3,550,499	(790,505)	-18.21% YTD

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 was completed through the supplemental budget process in FY 08-09 for the Land Management Fund. The Land Management Proposed Budget for FY 09-10 has flat growth with the exception of Title III funding for the Firewise project.

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 Land Management Fund has 25 FTE budgeted for FY 09-10. Two unions represent over 88% of these employees – Admin-Pro 1.0 FTE (4.0%); and AFSCME 21.0 FTE (84.0%). Personnel lapse rate is factored at zero. This lapse rate includes turnover and adjustments for seasonal fluctuations. LMD is currently fully staffed and historically has very little turnover.

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 zero to match Personnel Costs.

Materials & Services Costs have seen increases for each of the last six years. The change from year to year ranges from 0.46% in FY 07-08 to 25.84% in FY 05-06. The last two years showed increases of 5.43% and 0.46%, respectively. The forecast shows an increase in the FY 09-10 budget from FY 08-09 of \$434,390, over \$390,000 of this increase is for the Title III project that was added. If the Title III project is removed from the equation the M&S growth for the Land Management fund is 2%. The division reaches the department's budget direction for zero growth when combining M&S growth with personnel services growth of -7.75%. In addition, a lapse of 3% is currently projected for FY 09-10.

Nearly 50% of the M&S budget is for indirect allocations and information systems services. The three accounts in this category are for charges assessed to the Land Management Division based on expenses from County-wide central support and administrative departments, information services and Public Works Administration services. The total for FY 09-10 is \$1,290,625 for indirect allocations. Also included in the FY 9/10 budget is \$650,869 additional materials

and services for the Title III Firewise project.

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 Land Management Fund Prudent Person Reserve is 50% due to the economical factors that directly influence activity and timing and the seasonality of work flow.

The economic downturn which began in FY 07-08 has deteriorated the reserves significantly. The reserve built up over several years to \$1,234,739 in FY 06-07. Since then decreases in revenue reduced the reserve to \$436,573 in FY 07-08. Projections estimate the reserve to be approximately \$530,000 at the end of FY 08-09, which is 10%. The reserve is increased to 12% in FY 11-12 and 2% each year after. 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 Land Management Fund and the economic fluctuations of the revenues a contingency has been established in addition to the prudent person reserve. The objective of this contingency is to improve the division's ability to respond to swings in activity due to economic influences.

Variables

Revenue in the Land Management Fund comes from three major programs: Building, Planning, and Sanitation. There are Surcharges and Fees associated with all of these programs that provide another significant revenue resource. Building permit revenues are received from residential and commercial building permit applications including new starts and remodels, including mechanical, electrical and plumbing permits. Land use applications include zoning permits, zoning certification and subdivision fees. Sanitation fees include waste system inspections and site inspections. One of the leading economic factors for these revenues is the Housing Starts economic indicators. These economic indicators are collected and projected for the U.S. and each state. The Oregon Housing Starts for FY 04-05 through FY 07-08 are in the chart below along with the projection for FY 08-09 and 09-10. These indicators are one of the factors used by the Land Management Division to plan and prepare budgets.

	Oregon Starts	Change	% Chg
FY 04-05	120.60		
FY 05-06	123.00	2.41	1.99%
FY 06-07	99.82	(23.19)	-18.85%
FY 07-08	65.40	(34.42)	-34.48%
FY 08-09	36.35	(29.05)	-44.42%
FY 09-10	32.67	(3.68)	-10.12%

There is an Administration Fee that is added to the direct service fees such as building permits, sanitation and land use applications. This fee was established to support the customer service desk and phone lines for those that are inquiring about permits and application or researching a specific property. The sharp decrease in building and land use activity has had a significant impact on the resources available to support those services without direct revenue.

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 Land Management Fund have a higher percentage of indirect charges than many departments due to the high level of County Counsel and Board of Commissioners direct time on planning and long range planning programs and projects. These costs often come two years after the work is actually completed and any associated revenues are received. In the current economic situation revenues have decreased significantly while the division is being charged for services provided two years ago.

F. Alternatives/Options

The current Land Management Fund Financial Forecast reflects declining operational revenues and increasing expenses. The FY 08-09 budget was balanced in the supplemental budget process with an operations loan of \$283,000 and General Fund support of \$475,000. The proposed FY 09-10 budget includes \$450,000 of General Fund support. The forecast does not include General Fund support in years after FY 09-10, however the ending fund balance beginning in FY 10-11 is negative.

In past years, Video Lottery resources have been utilized to provide long range planning services that were associated with economic development. This program began in FY 97-98 and continued through FY 06-07 as is shown in the chart below.

Year	Video Lottery
FY96-97	
FY97-98	117,704
FY98-99	117,704
FY 99-00	117,704
FY 00-01	117,704
FY 01-02	117,704
FY 02-03	135,025
FY 03-04	135,025
FY 04-05	129,205
FY 05-06	147,525
FY 06-07	170,000
FY 07-08	
FY 08-09	

IV. TIMING/IMPLEMENTATION

At this time the Land Management Fund is balanced with General Fund support for FY 09-10. No changes are necessary to balance the budget for the upcoming fiscal year.

V. RECOMMENDATION

Stay the course with the FY 09-10 proposed budget and provide direction to the department to review and analyze the LMD organization and prepare options for organizational and or funding changes in the future.

The Public Works department will have approximately 6 months to prepare recommendations. 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.