Marion County Annual Budget
Fiscal Year 2009-2010
Budget Officer's Message

Mission Statement
We serve the public to protect, promote, and enhance a positive quality of life In Marion County.

May 5, 2009

Members of the Budget Committee, Board of Commissioners and citizens of Marion County:

This year Marion County celebrates 150 years of Oregon statehood with a "150 Miles for 150 Years" commemoration. We will be linking our 20 cities with a treasure hunt tour for clues that will allow individuals and families to answer historical questions about Marion County. The cities will also be linked by a 150-mile relay beginning on June 13th and concluding on July 11th at the Marion County Fair. The Sheriff and Marion County commissioners will be participating in various legs of the relay. Marion County is a great place to live and visit; we intend to keep it that way.

The total proposed budget for Marion County is $329,683,511, which is $4,623,387 or 1.4% less than FY 2008-09. This equates to a total reduction of 73.23 positions with 33.5 layoffs. The General Fund totals $73,336,855 with a 5.3% decrease and a reduction of 31.5 positions. Reductions in the General fund account for $4.1 million of the total decrease due to the dramatic drop in revenues projected for FY 2009-10.

Economic Environment

We are dealing with a significant recession that is forcing us to make difficult choices that have affected our employees. Even last year we knew we were headed for difficult financial times. In my budget message delivered on May 13, 2008, I said:

> "With the nation's economy in a downturn, Marion County faces difficult financial issues in the future. Our Council of Economic Advisors has projected a reduction in revenues for at least the next two years and they suggest that the current economic downturn, while shallow, may last longer than those in the recent past."

Because we foresaw an economic downturn, I suggested in 2008 that "our overriding need remains to find a course that takes us to a financially manageable service level for the long-term." I recommended a hiring freeze and the establishment of a special Marion County Finance and Budget Task Force to analyze revenues and expenditures and make recommendations for a sustainable General Fund.

The Budget and Finance Task Force met on October 9th and 16th in 2008 to discuss budget forecasts for the next two years. The Task Force generated several points for consideration as Marion County prepares the FY 2009-2010 budget and plans for stability in future years. They recommended:

- Perform a detailed analysis of property tax revenue by property "type" to reflect market value declines in industrial properties.
- Use the Secure Rural Schools dollars for one-time expenditures.
- Use a smaller property tax increase because estimates may be less than the State of Oregon's estimate of 4.5% annual increases.
- Base recording fee revenues on current economic data while relying less on the use of historical trends for forecasting.
- Estimate a decline in interest revenues with a 1.5% return next year.
- Reduce contingency and ending fund balance requirements in recognition of consistent and predictable resources and expenditures and the historical trend in vacancy savings and lapsed materials and services appropriations.
- Do not use the Rainy Day Fund to balance deficits created by long-term issues, but consider it for specific one-time needs.
- Consider reductions in personnel costs (FTE) reflective of available resources in the current economy.
- Consider debt financing for capital needs due to low interest rates in next six to twelve months.
- Be cognizant of increasing costs for next year and also in the following year regarding personnel bargaining contracts.
- Consider the implications for the FY 2010-11 budget year when budget decisions are made for FY 2009-2010.

Unprecedented Rate of Decline

The national economic problems have changed the assumptions used to forecast revenues for the current year and future years. As the State of Oregon's economic forecast outlined in March 2009, "the fourth quarter (2008) was brutal to the Oregon economy." "The fourth quarter downturn has been swift with the unemployment rate in Oregon moving from 6.5% in August 2008 to 9.0 percent in December 2008." In March 2009, it reached 12.1% and in Salem it was 11.1% or 6.5% higher than the previous year.

The economy not only continued to decline, but also declined at an unprecedented rate. In fact, the decrease in the state's revenue projections between December 2008 and March 2009 (one quarter) is greater than all other forecast adjustments combined over the previous 18 months.

The General Fund

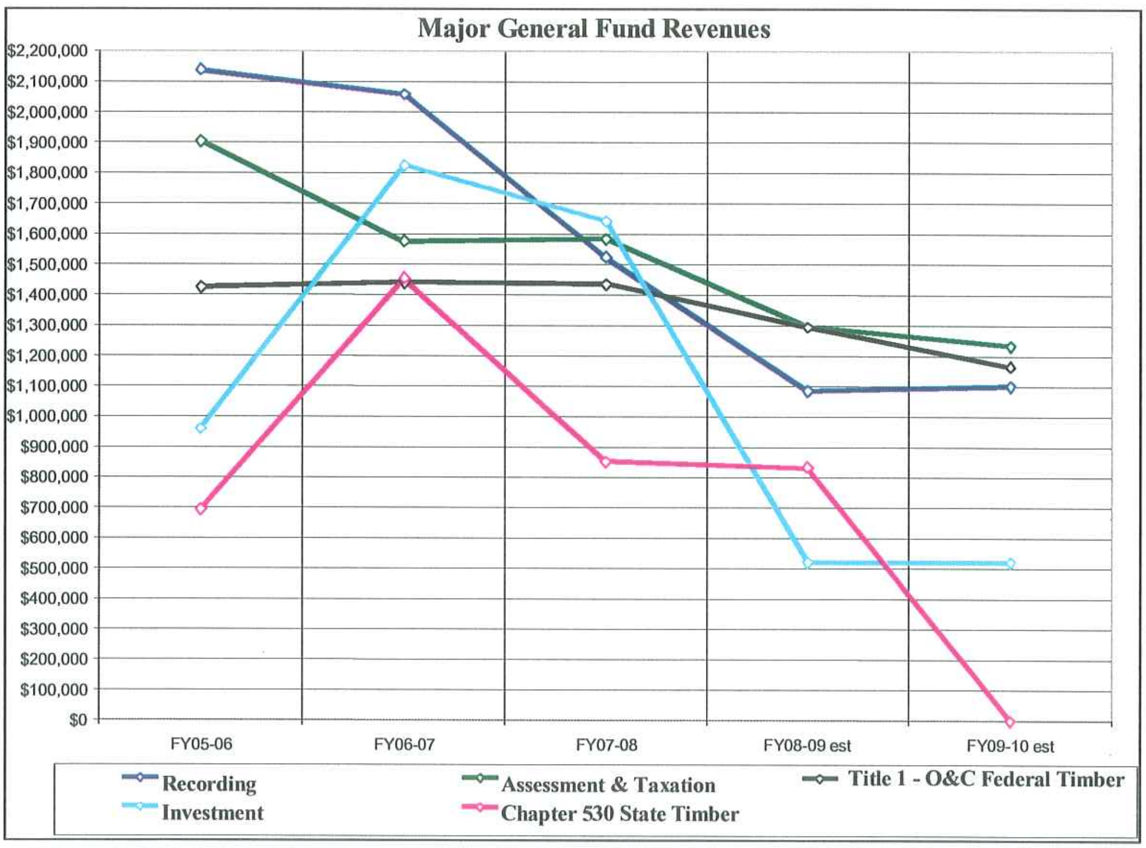
The General Fund is the general operating fund for the county. Unlike dedicated and reserve funds, the General Fund can be used for any purpose at the discretion of the budget committee. During the last five months, many of our General Fund revenue's largest sources have declined dramatically. For example:

- The rate of property tax revenue increases, which provide 72% of the General Fund, have declined every year since FY 2005-06. We estimate the largest decline will take place in FY 2010-11.

Property Tax Revenue Increases

Actual	Actual	Actual	Estimate	Estimate	Estimate
FY 2005-06	FY 2006-07	FY2007-08	FY 2008-09	FY 2009-10	FY 2010-11
6.68%	5.23%	4.47%	3.95%	3.43%	1.5%

- State Forest Rehabilitation funds declined from $1.4 million in FY 2006-07 to $1.1 million in FY 2007-08. The adopted budget for the current fiscal year was $938,682, but was adjusted in December to $657,665. Information received from the state in March further reduced this amount to $531,720. The county has been notified that timber harvests have been suspended and receipts for next year will be minimal.
- Recording Fees have declined dramatically from over $2 million in FY 2006-07 to the current fiscal year estimate of $995,000, a 50% reduction.
- Investment interest income has declined from $1.8 million in FY 2006-07 to a current year estimate of $698,000 or a 61% reduction.
- Assessment and Taxation Apportionment funds have declined from $1.6 million in FY 2006-07 to $1.3 million in the current year and $1.1 million for FY 2009-10.



Sequence of General Fund Budget Reductions—By January 2009, it became apparent that we were going to have a structural imbalance of revenues and expenditures in FY 2009-10 and particularly in FY 2010-11. Our initial forecast showed a negative General Fund balance in each of those fiscal years. Monthly forecasts thereafter, continued to highlight revenue decreasing at an alarming rate.

- In January, we asked central service and general fund departments to reduce their materials and services by 5% and their personnel services by a 2.5% vacancy savings rate in their budget requests.

- On February 17, 2009, we met with the Budget Committee and delivered the second quarter financial report. In that report we stated:

  "If current trends continue, it is estimated that there will be a shortfall in general fund property tax, recording fees, state cigarette tax, interest income, and traffic fines (Justice Courts and general fund direct). The total shortfall is estimated to be between $1.5 and $1.7 million."

- On March 5th, we met with the department heads and elected officials and outlined the county's worsening financial condition necessitating further reductions in expenditures as revenues continued to decline.

- On March 6th, we met with the Council of Economic Advisors. We learned the state was now projecting property tax collections would increase by only 3.5% statewide in FY 2009-10. Furthermore, due to the Department of Revenue revising industrial property values, the state estimate for property taxes would increase by only 1.5% statewide in 2010-11. Also, after reviewing the Marion County Assessor's report, the council concluded that a 3.5% increase was too high for Marion County. The council unanimously agreed on recommending a 3.43% increase in property taxes for FY 2009-10.

- Growth in personnel costs and losses of revenues have placed the General Fund in a non-sustainable position. An additional $3 million reduction was necessary to balance the General Fund and reduce ongoing expenditures with a total of 31.5 positions with 25 actual layoffs.

- To correct this imbalance, the Board of Commissioners agreed to forego the 2% COLA for management and unrepresented employees. Departments also were asked to reduce their budgets by an amount calculated as 5% of personal services. Even with these reductions, the ending fund balance is only at $3.5 million or $2 million less than budgeted in each of the last four years.

The county's financial policy requires a minimum General Fund ending balance of eight percent of operating revenues. The Budget and Finance Task Force had suggested that we can consider reducing that percentage and this proposed budget recommends that we do so. While the percent required can be modified by board order, it is essential to maintain some amount of net working capital from year-to-year to mitigate current and future risks, and to maintain cash flow for payroll and other monthly payments.

It is very possible that conditions may be worse than projected for FY 2010-11 and continue on into future years. For example, in FY 2011-12, PERS rates could escalate by as much as six percent of salaries or more to offset the investment losses in 2008 and 2009. Because Marion County paid its unfunded liability with PERS, we have a side account that, if necessary, could cost us even more than six percent.

State/County Shared Revenues—The state shares certain revenues with local governments and as the economy continues to decline, the State of Oregon budget shortfall projections have also been revised. Information released about potential state budget reductions can be detrimental to Marion County. For example:

Shared Revenue	FY 2009-10 Estimates
OLCC Liquor Taxes	$1,231,452
Assessment and Taxation Apportionment Grant	$1,100,000
Lottery Resources	$1,771,101
Cigarette Taxes	$301,811
911 Telephone Tax	$160,000

Should the state use shared revenues to reduce their own shortfall, it would further reduce General Fund resources by nearly $4 million. If so, budgets would need to be revised and additional personnel reductions would become necessary

Other Funds

Revenues from other sources that are dedicated to specific services or reserves are budgeted separately from the General Fund and cannot be used for general purposes. Many of these other revenues come directly from the State of Oregon through the state appropriation process and are combined with county funds to provide needed services. Some of the county's major programs are funded in this manner— funding for the Department of Children & Families, Health Department (mental health, developmental disabilities and public health), Juvenile Department and the Sheriff's "Community Corrections" program. Each of these has been or will be reduced as the state attempts to balance its budget for the 2009-11 biennium.

Dedicated funds are included in the total budget. State law or prudent financial planning requires the establishment of these funds. The county has 38 separate funds. Some of the larger dedicated funds include: the **Self Insurance Fund** used for health insurance, workers compensation, tort liability and unemployment insurance; the **Health Fund** used for Medicaid services, developmental disabilities, mental health and alcohol and drug rehabilitation services; the **Environmental Services Fund** retains funds for operation of the burner and reserves for closing landfills; and the **Public Works Fund** ("Road Fund") is constitutionally dedicated for roads. Each fund has been established to meet requirements to segregate these resources and use them for their designated functions.

The funds cannot be used for general operating purposes. It is the combined total of enterprise, reserve and general fund resources that establish the FY 2009-10 budget.

Budget Officer's FY 2009-10 Proposed Budget

Resources

	2008-09* Budget	2009-10 Proposed	% Change
General Fund			
Revenues	$66,261,270	$65,957,770	.46%
Net Working Capital	11,211,546	7,379,085	-34.18%
Total GF Resources	$77,472,816	$73,336,855	-5.34%
All Funds			
Revenues	$248,325,068	$248,599,671	.11%
Net Working Capital	85,981,830	81,083,840	-5.70%
Total Funds Resources	$334,306,898	$329,683,511	-1.38%

*Includes 2nd supplemental

Requirements

	2008-09* Budget	2009-10 Proposed	% Change
General Fund			
Expenditures	$72,020,043	$68,844,569	-4.40%
Contingency	192,203	989,367	414.75%
Ending Fund Balance	5,260,570	3,502,919	-33.41%
Total GF Resources	$77,472,816	$73,336,855	-5.34%
All Funds			
Requirements	$264,675,165	$259,979,633	-1.77%
Contingency	9,412,163	26,731,476	184.01%
Unappropriated Reserves	9,341,000	9,173,680	-1.70%
Ending Fund Balance	50,878,570	33,798,722	-33.50%
Total Funds Resources	$334,306,898	$329,683,511	-1.38%

*Includes 2nd supplemental

Strategic Priorities

The county's seven strategic priorities are: 1) Operational Efficiency and Quality Service 2) Growth and Infrastructure; 3) Public Safety; 4) Economic Development; 5) Transportation; 6) Health and Community Services; and 7) Emergency Preparedness.

Public Safety
Marion County continues its efforts to protect our citizens and their property by supporting public safety as its highest priority use for the General Fund. This proposed budget will maintain 78% of the General Fund operating budget for public safety departments. While this budget reflects a cut in public safety budgets and employees, the largest increases in General Fund budgets in the last five years have been in public safety departments.

Public Safety
FY 2009-10 Proposed Budget

	All Funds	**Total FTE**
Sheriff	**$49,908,423**	**349.25**
Juvenile	**12,015,278**	**106.52**
District Attorney	**9,758,412**	**88.43**
Justice Courts	**804,408**	**8.5**
TOTAL	**$72,486,521**	**552.7**

The **Sheriff's Office** budget totals $49,908,423 and comprises 22% of the total county operating budget. The General Fund total of $31,282,826 is a 5.6% decrease in funding that will affect the jail, work release center and enforcement for FY 2009-10. However, the Sheriff's General Fund support is 49% of total operating funds. The remainder of the budget is comprised of $14.5 million for Community Corrections for a 3.9% decrease, $1.5 million from the Traffic Team, $2.4 million in grants, and a reduction of 14.71 FTE from the General Fund. The major issue remaining for the Sheriff's Office is the state allocation for Community Corrections. While it is currently estimated to be $14.5 million, the legislature could reduce this amount. If they do, that would affect the amount of funds available for the jail and work release center operations.

The **District Attorney's** total budget is $9,758,412 of which $7,405,750 comes from the General Fund. The proposed budget is reduced by $556,414 or 5.3%. The General Fund reduction is $429,795 with an FTE loss of 2.0. While the DA is a state official responsible for prosecuting state crimes, the state provides no funding for deputy DA's and only a portion of the DA's salary.

The **Justice Courts** are budgeted to receive $804,408 from the General Fund. This would be a $32,000 reduction or 3.8%. The courts FTE would remain the same at 8.5.

The **Juvenile Department** illustrates the effect of state budget cuts on county programs. This is particularly true for a department that receives funds from more than one state agency. It also indicates why it is difficult to finish a county budget in a timely fashion during legislative session.

- December 2008—Marion County was notified that we should anticipate a 5% funding reduction for the 2007-09 biennial allocations or $99,174 (includes funding from the Oregon Youth Authority, and the State Commission on Children and Families for Juvenile Crime Prevention).

- February 2009—the Legislative Fiscal Office issued its FY 2007-09 biennium rebalance. The Oregon Youth Authority notified counties that the FY 2007-09 reduction would be 17% or a reduction of $339,533 for Marion County.
- February 25, 2009—An agreement was reached to reduce the basic and diversion funding by $168,256 for the 2009-11 biennium, and $6,000 to Individualized Services in Marion County.
- The State Commission on Children and Families proposed a reduction to the county of $129,386 or 20% in the Juvenile Crime Prevention program.
- March 13—Because of the state cuts, the department recommended: closing five shelter care beds; eliminating the COPE program; reducing the medical contract; elimination of gang contracts; and: 1 FTE Supervisor; 1 FTE Probation Officer; 1 FTE Education Advocate; Two .50 FTE Alternative Program Workers; 1 FTE Group Worker; 1 FTE Mental Health Specialist; 2 FTE Family Support Specialists; Learning Specialist reduced from 100% to 70%; 3 Family Support Specialists 100% to 80%; and a Youth Family Counselor from 50% to 20%.
- March 22—The Budget Officer's required 5% cut in General Fund resulted in a reduction of $386,487 and the closure of twenty-four detention beds as well as the elimination of 4.0 Group Workers.

Transportation and Natural Resources
The **Public Works Department** budget is $90,166,303 or 27% of the total county budget. Over half of Public Works' budget is comprised of the Environmental Services Fund and one-third goes to the Road Fund. The remainder of the budget is made up of Dog Control, $1.3 million; $2.4 million for the Surveyor; $1.4 million for Land Use Planning; and $1.9 million for Building Inspection. In addition, the appropriation for Parks is $336,550 and the appropriation for the Marion County Fair is $302,385. The Public Works total budget is being reduced by 1.9% or $1.7 million and will reduce its total FTE by 23.5 or 11% through eliminating vacant positions, layoffs and a reduction in hours.

Building Inspection's drop off of building permit requests and fee revenue is expected to continue its drop in FY 2009-10 due to the economic conditions in the county. This division has reduced 11.1 FTE through layoffs and reductions in work schedules. Land use Planning is also affected by less revenue with a reduction of 2.15 FTE. Dog Control will lose 1 FTE due to a reduction in the General Fund and a need to pay for inmate work crews. Parks takes a reduction of 1.1 FTE but will continue to build the North Santiam Trail with a grant from the Oregon Parks and Recreation Department. The Surveyor's Office also sees a reduction due to reduced economic activity. The Surveyor budget drops $500,000 and .4 of an FTE.

The solid waste fund in Public Works continues to grow from $43 million in 2006-07 to $49 million in this budget with and increase of 3.5 FTE. There is an increase in the operating budget for the waste-to-energy contracted services and a share of the installation of a new non-ferrous recovery system, the variable fan drive for better energy use and lighting upgrades.

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This budget continues the implementation of county's fleet management program in Public Works. All departments are participating in the program by leasing the vehicles assigned to the specific department. The two main goals of the program are to: 1) determine the appropriate size of the fleet; and 2) replace as many old, difficult to maintain vehicles as possible. We have already successfully eliminated 61 vehicles from the fleet in the last two years. With the vehicle lease program, county departments now will be paying for the total cost of ownership of their fleet over time.

The county road program will be receiving the benefit of the Federal Stimulus package. We are estimating $2.5 million that will be used to resurface approximately nine miles of select rural roads that meet the federal eligibility criteria, approximately two miles of urban roads along with signal replacement inside the Salem-Keizer metropolitan area. The Oregon Department of Transportation will be letting the bids for these projects so the department will not be receiving these funds directly, nor will they show up in the budget except for approximately $650,000 reimbursement for engineering design. The department will restart the chip seal program targeting 18 miles of roadway.

Health and Human Services
The **Health Department** budget totals $56,727,733 and includes a $3.5 million transfer from General Fund. It comprises 25% of the total county operating budget. This budget is $3.4 million or 5.7% less than FY 2008-09. Primarily funded through state and federal funds, the Health Department budget provides services to the mentally ill, developmentally disabled and drug addicted adults and children, services to treat communicable diseases and other public health programs. The Health Department budget provides another example of the difficulties created by a state budget in flux.

State Revenue Reduction Scenarios

	10% State Cut	20% State Cut	30% State Cut
Mental Health, Alcohol and Drug, Developmental Disabilities Programs	-$1,696,292	-$3,392,584	-$5,088,877
Public Health Services	-35,723	-71,445	-107,168
TOTAL	-$1,732,015	-$3,464,029	-$5,196,044

At a reduction of 20%, these state cuts could mean the loss of 20 or more FTE. It would mean reductions in drug treatment and prevention, community mental health programs including child and adolescent behavioral health, crisis treatment, developmental disabilities crisis case management and adult protective services. The problem is that we will not know precisely what will be cut until the state adopts its budget. Adjustments to the county budget will be made during the first supplemental budget.

The **Department of Children and Families'** budget is $2,729,391 and includes a General Fund transfer of $207,496. The budget is 17.5% less than FY 2008-09 due to state funding reductions. The department provides support for child abuse prevention including the Healthy Start, Relief Nurseries and Court Appointed Special Advocates (CASA). Once again, these are programs funded with state dollars that may be reduced as the state contemplates its budget cuts.

General Government
The budget for the **Assessor's Office** declines from $6.1 million General Fund in FY 2008-09 to $5.6 million in FY 2009-10. The Assessor has reduced his staff by eight FTE and continues to streamline his processes and reduce his costs by taking advantage of technology. He continues assessing commercial, residential and farm property and collects taxes for all units of government in Marion County. The total budget for the **County Clerk** is $2.6 million in FY 2009-10. This is a reduction of $313,096 or 10.6%. The proposed budget removes $125,000 budgeted last year for the Presidential Election and reduces one FTE. The Clerk continues to provide for all elections in Marion County, administers the Board of Property Tax Appeals, maintains a permanent record of all property transactions and archives county records. The **Treasurer's** budget continues its current service level except for a reduction in armored car services.

Central Services
Legal Counsel and the **Board of Commissioners** both reduced their budgets by 5%, as did **Business Services, Information Technology** and the **Finance Department.** However Business Services reduced 2.5 FTE and Information Technology reduced 2.0 FTE.

Non-Departmental Operations

Capital Improvement Projects—Due to the resource issues faced by Marion County, we are not recommending any new CIP projects. We will continue the projects begun in FY 2008-09 to improve the HVAC systems at the Sheriff's Work Center and the Marion County Courthouse and the Clerk's vote tally equipment.

General Fund Non-Departmental—This part of the General Fund accounts for programs and projects that are not assigned to specific departments. Payments include contributions to outside agencies working in Marion County such as OSU Extension Service, the state's water master and predatory animal programs, as well as contracted consulting services and $205,518 to continue audits of county departments. We have included $797,970 for the Marion County Business Enterprise Enhancement project (McBee) as a separate program with 3 FTE—two taken from Finance and one from IT.

During the last year, individuals from the Finance, Information Technology, Business Services and several operating departments have spent numerous hours working on revising the county's chart of accounts. It takes a major effort to align the accounting and reporting systems with the program, policy and budgeting process. We plan the change over to the new "chart" in October of 2009.

Rainy Day Fund—With the Net Working Capital projected to be $3.9 million, the proposed budget recommends maintaining the Rainy Day Fund at its current level.

Debt Service—We appropriate $3,075,088 from the General Fund for debt service. Of that amount, $1,550,588 is to pay refunding obligations totaling $17.2 million for the Courthouse Square certificates of participation (COP's). In addition, we pay $3,113,917 for two Limited Tax Pension Obligations issued by the county to provide for the county's unfunded actuarial liability with PERS.

Future Debt Obligation—Due to the low ending fund balance in the General Fund, the county will need to borrow tax revenue anticipation notes (TRANS) much earlier in the fiscal year. Although the amount of the TRANS is not known and does not need to be budgeted, interest payments must be included in the budget and we have budgeted $50,000. We have also budgeted $1,525,000 for the Courthouse, Work Release Center and Courthouse Square renovations.

The courthouse and work center renovation project is continuing into the next year. The revised cost estimates, after the technical energy audit, proved to be more than anticipated. Funding for the remaining $10 million expense will be a combination of federal stimulus money, an Environmental Services Fund loan, low interest financing from the Department of Energy and/or bonds. Annual debt service payments have been budgeted at $1,248,000.

Reserves and Contingencies

We do not propose using the Rainy Day Fund to help balance the FY 2009-10 budgets. However, we have included a larger General Fund contingency to mitigate unforeseen problems. While our unappropriated ending fund balance of $3.5 million is only 5.16% of operating revenues, the total reserves and contingencies of $8.4 million is 12.67% of adjusted General Fund resources.

2009-10 Proposed Budget
Reserves and Contingencies

Rainy Day Fund Unappropriated Reserves	$3,867,300
General Fund Contingency	989,367
General Fund Unappropriated Balance	3,502,919
Total	$8,389,586
Percent of Adjusted General Fund Resources	12.67%

Financial Policies—We adopted four financial policies in 2008. Out of those four, two are important for this year's budget. First, is the required level of reserves. We are required to have a contingency of one percent of adjusted General Fund Resources and this budget has a contingency of 1.5%. The policy also requires us to maintain a General Fund unappropriated ending fund balance of eight percent. Our balance in this budget is 5.31 %. We are recommending that the Board amend policy #490 to provide for an unappropriated ending fund balance of no less than the 5% recommended by the Government Finance Officers Association.

The second policy requires that we limit the use of the General Fund to backfill federal or state funding reductions. We have not used the General Fund to backfill federal or state reductions with this proposed budget.

Budget Document
For the last several years we have presented department budgets by program. A program budget is a policy and communications document that reflects the decisions of the Budget Committee and Board of Commissioners. Every year the budget team at Marion County looks for opportunities to improve both the budget process and the budget document. The individual department budgets have been grouped together by service sector and by department, program, and fund. Additional schedules, spreadsheets, and detailed documentation are also provided to ensure a comprehensive review of the entire budget.

We see this as a transition year. The chart of accounts conversion project has required changes in the presentation of information. Programs in the FY 2009-10 budget may not reflect the same organizational unit as in FY 2008-09 and may not show year-to-year dollar comparisons for those units.

In Closing
Our employees are the most direct link with citizens and the community at large and have a stake in our financial future. They are both the means of service delivery and the source of many service improvements and innovations. Although reductions in workforce had to be made, we also recognize how difficult this is for those who have left as well as those who remain.

While budget proposals are the responsibility of the budget officer, it would not have been possible without the able assistance of our Budget Team — Jan Fritz, Jeff White, Rich Minaker, and Jerry Woelke. I would also like to thank other members of the Finance Department staff for supporting the budget preparation. In addition, the budget staff in each department provided many hours of assistance in putting this budget together. Thanks to Hitesh Parekh for assistance with document preparation as well as Eric Reid and David Means in IT for major improvements to the BUD system.

As always, I thank the Board of Commissioners and the Budget Committee for maintaining high standards of fiscal responsibility and a commitment to serve the citizens of Marion County in a fiscally prudent manner that protects, promotes and enhances a positive quality of life.

Respectfully submitted,

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